1 Pennsylvania Public Utility | Docket No: 2 R-2022-3031340 Water Commission, R-2022-3032806 Wastewater v. 3 The York Water Company 4 Evidentiary Hearing(s) Pages 117 - 167 5 Judge's Chambers Piatt Place 6 301 5th Avenue 7 Pittsburgh, PA 8 Thursday, October 6, 2022 Commencing at 9:03 a.m. 9 INDEX TO EXHIBITS Docket No. R-2022-3031340 Water, 10 R-2022-3032806 Wastewater 11 Hearing Date: October 6, 2022 12 NUMBER FOR IDENTIFICATION IN EVIDENCE For The York Water Company: 13 Exhibit YWC-1 Index of Exhibits 145\* 140 Volumes 1-9 Rate Study and Data in 14 Support of Proposed Supplement No. 143 to 15 Tariff Water-Pa PUC No. 14 140 145\* 16 Volumes 10-11 Rate Study and Data In Support of Proposed 17 Supplement No. 14 to Tariff Wastewater-Pa. 18 PUC No. 1 140 145\* Volume 12 York Water Statement 19 No. 1, Direct Testimony of Joseph T. Hand; 20 York Water Statement No. 2, Direct Testimony 21 of Mark A. Wheeler; York Water Statement 22 No. 3, Direct Testimony of Matthew 23 E. Poff; York Water Statement No. 4, 24 Direct Testimony of Daniel E. 25 \*Exhibits part of initial filing not supplied

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#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, et al.		
v. The York Water Company – Water Division		Docket Nos. R-2022-3031340, et al.
Pennsylvania Public Utility Commission, et al.	:	
	:	
V.	:	Docket Nos. R-2022-3032806, et al.
	:	
The York Water Company – Wastewater Division	:	

#### REBUTTAL TESTIMONY OF JOSEPH T. HAND

#### ON BEHALF OF

### THE YORK WATER COMPANY

Dated: September 16, 2022

#### 1 I. <u>INTRODUCTION</u>

2	Q.	State your name and business address.
3	A.	Joseph T. Hand. My business address is: 130 East Market Street, York, Pennsylvania.
4		
5	Q.	By whom are you employed?
6	A.	I am employed by The York Water Company ("York Water" or the "Company").
7		
8	Q.	State your present position with the Company.
9	А.	I am President and Chief Executive Officer.
10		
11	Q.	Are you the same Joseph T. Hand that served direct testimony in this proceeding?
12	A.	Yes.
13		
14	Q.	Please describe the purpose of your rebuttal testimony.
15	А.	The purpose of my testimony is to respond to testimony of the Office of Consumer
16		Advocate ("OCA") witnesses Morgan N. DeAngelo and Terry L. Fought regarding
17		acquisition adjustments and the Bureau of Investigation & Enforcement ("I&E") witness
18		Christopher Keller and OCA witness Dr. David S. Habr regarding management
19		effectiveness.
20		
21	II.	ACQUISITION ADJUSTMENTS
22	Q.	Does the Company agree with any acquisition adjustments proposed by these
23		witnesses?

- A. Yes. The Company has carefully re-evaluated its case after reviewing the testimony
   submitted by the parties. The Company agrees with OCA to remove the proposed positive
   acquisition adjustment for the Wrightsville system.
- I note, however, that the Company does not agree with many of the adjustments
  proposed by the parties because they would disallow recovery of legitimate costs that are
  reasonable and necessary for York Water to provide service to customers.
- 7

## 8 Q. Please describe the Company's acquisition strategy and how that relates to the 9 accounting for the acquisition adjustments claimed in this case.

10 A. The Company would like to emphasize that the adjustments attributed to its acquisitions 11 included in this filing have not involved using fair market value allowed under Section 12 1329. The Company takes note of OCA's position that purchases at fair market value may 13 not be in the public interest as they continue the upward pressure on water and wastewater 14 rates that pose significant affordability challenges for regulated water and wastewater 15 customers in Pennsylvania. The positive and negative acquisition adjustments the 16 Company has presented in this case are miniscule in comparison to the fair market value 17 premiums other investor-owned utilities are paying and recovering in rates through Section 18 1329. Challenging these acquisition adjustments generated from depreciated original cost 19 acquisitions discourages the Company from continuing to pursue this strategy. All the 20 acquisitions in this case were eligible for fair market value treatment. Had the 21 municipalities and Company used that methodology for these acquisitions, the resulting 22 valuations, and resulting total revenue requirement for both water and wastewater

operations, likely would have been higher and not subject to the challenges based upon
 Section 1327 criteria presented by OCA.

3 For example, the sellers of the West Manheim wastewater system expected to sell 4 the system at fair market value. The Company provided a bid at both fair market value and 5 at depreciated original cost. Upon being named as the successful bidder, the Company met 6 with the township officials and explained the rate implications of accepting the higher 7 price. The township officials agreed and accepted the lower price. The township sacrificed 8 some additional proceeds, and the Company sacrificed a portion of its rate base, while the 9 customers benefited. It is this commonsense approach that should be celebrated and not challenged over relatively minor amounts for small systems that require additional 10 11 financial resources and technical expertise the Company can provide. 12 A. **POSITIVE ACQUISITION ADJUSTMENTS** 13 14 1. **Felton Borough Wastewater Acquisition Adjustment** 15 **Q**. Please describe the OCA's proposed adjustments to the Company's wastewater rate

16 base and amortization expense with regards to the Felton Borough positive 17 acquisition adjustment.

# A. OCA recommends the positive acquisition adjustment for Felton Borough be removed from rate base and from amortization expense on the basis that the criteria set forth in Section 1327(a)(3) of the Code have not been met.

21

#### 22 Q. Do you agree with the proposed reduction to rate base and amortization expense?

A. No. The Company believes this positive acquisition adjustment meets the criteria in
Section 1327(a)(3) of the Code. OCA witness Fought claims the notice of violation

1 ("NOV") that included an effluent violation does not indicate Felton Borough was 2 providing inadequate service because it is not unusual for wastewater systems to get an 3 NOV that includes an effluent violation.

The Company strongly disagrees. The Company believes this NOV was indicative 4 5 of the challenges Felton Borough was having in providing safe and reliable service and 6 would result in additional and more serious violations in the future. While Felton Borough 7 was the system owner and permittee, operation and maintenance was contracted to a 8 licensed wastewater operator. During the Company's diligence period, the Company 9 identified numerous deficiencies at the treatment plant. Algae covered work platforms, 10 decant tanks were full, and influent floats indicated that flow and transfer were inoperable. 11 Each of these is a symptom of maintenance deferral and lack of attention by a contract 12 operator. These and other plant operation failures are what ultimately led to the effluent 13 violation. The plant was not being maintained, and Felton Borough did not have the 14 resources to provide adequate oversight of a contract operator. York Water does not agree 15 with Mr. Fought that usual occurrences of effluent violations may be an acceptable 16 standard.

OCA witnesses DeAngelo and Fought also claim the identified problems of inflow and infiltration ("I/I") in the 2018 Chapter 94 report should not be considered since a subsequent report identified no hydraulic or organic overloads projected for the next five years. These witnesses fail to recognize that the subsequent report was filed under the Company's ownership, and the resolution of some of the issues was due to the Company's actions. It was York Water that developed, funded, and executed the Corrective Action Plan, which included inspecting and cleaning the collection system, identifying potential

1		sources of the I/I and scheduling the needed remediation, and committing to ongoing
2		review and remediation of I/I. From my perspective, these efforts are consistent with the
3		provisions of Section 1327(4) of the Public Utility Code. Felton Borough had not made a
4		single investment in evaluating the condition of the collection system in the five years
5		preceding the sale to York Water, and the Company does not believe a similar outcome
6		would have occurred under the continued ownership by Felton Borough.
7		Accordingly, the Commission should find that this small wastewater system with a
8		recent NOV and identified I/I issues was unable to maintain adequate, efficient, safe and
9		reasonable service and facilities.
10		
11		B. NEGATIVE ACQUISITION ADJUSTMENTS
12		1. Jacobus Borough Wastewater Acquisition Adjustment
13	Q.	Please describe the OCA's proposed adjustments to the Company's wastewater rate
13 14	Q.	Please describe the OCA's proposed adjustments to the Company's wastewater rate base and amortization expense with regards to the Jacobus Borough negative
	Q.	
14	<b>Q.</b> A.	base and amortization expense with regards to the Jacobus Borough negative
14 15		base and amortization expense with regards to the Jacobus Borough negative acquisition adjustment.
14 15 16		<ul><li>base and amortization expense with regards to the Jacobus Borough negative acquisition adjustment.</li><li>OCA recommends the negative acquisition adjustment for Jacobus Borough be removed</li></ul>
14 15 16 17		<ul> <li>base and amortization expense with regards to the Jacobus Borough negative acquisition adjustment.</li> <li>OCA recommends the negative acquisition adjustment for Jacobus Borough be removed from rate base and the negative acquisition adjustment be amortized over a 10-year period</li> </ul>
14 15 16 17 18		<ul> <li>base and amortization expense with regards to the Jacobus Borough negative acquisition adjustment.</li> <li>OCA recommends the negative acquisition adjustment for Jacobus Borough be removed from rate base and the negative acquisition adjustment be amortized over a 10-year period as a reduction to operating expenses on the basis that the "substantial public interest"</li> </ul>
14 15 16 17 18 19		<ul> <li>base and amortization expense with regards to the Jacobus Borough negative acquisition adjustment.</li> <li>OCA recommends the negative acquisition adjustment for Jacobus Borough be removed from rate base and the negative acquisition adjustment be amortized over a 10-year period as a reduction to operating expenses on the basis that the "substantial public interest"</li> </ul>
14 15 16 17 18 19 20	A.	base and amortization expense with regards to the Jacobus Borough negative acquisition adjustment. OCA recommends the negative acquisition adjustment for Jacobus Borough be removed from rate base and the negative acquisition adjustment be amortized over a 10-year period as a reduction to operating expenses on the basis that the "substantial public interest" criteria set forth in Section 1327(e) of the Code have not been met.
14 15 16 17 18 19 20 21	А. <b>Q</b> .	base and amortization expense with regards to the Jacobus Borough negative acquisition adjustment. OCA recommends the negative acquisition adjustment for Jacobus Borough be removed from rate base and the negative acquisition adjustment be amortized over a 10-year period as a reduction to operating expenses on the basis that the "substantial public interest" criteria set forth in Section 1327(e) of the Code have not been met. Do you agree with the proposed reduction to rate base and amortization expense?

1 The Company was not told all the steps Jacobus Borough took to try to fill the 2 position, but the Company believes that their best efforts were fruitless based on increasing 3 demand and limited supply of qualified operators. Ultimately, they successfully filled the position by selling the system to a company that had the necessary resources to staff the 4 5 system with qualified operators and support professionals. Coincidentally, on the first 6 weekend after the Company closed on this acquisition, a severe storm and power outage 7 disrupted power to two of the sanitary lift stations. Neither lift station had a backup power 8 supply, and Company personnel responded by setting mobile generators at the lift stations 9 to keep customers in service and prevent an overflow condition. Since the Company 10 acquired the system, York Water has provided needed upgrades by adding Supervisory 11 Control and Data Acquisition System ("SCADA"), so the Jacobus Borough system could 12 be monitored at all times, and adding generators to the lift systems, so there will be no loss 13 of service due to the loss of line power. With SCADA, the Company can now calculate 14 system flows and offer an auditable summary of daily flows from the collection system to 15 the Springfield Township Treatment Facility. The Company also can remotely manage 16 pump cycles and ensure high and low flow conditions are treated accordingly. These were 17 capital improvements that Jacobus Borough was unwilling or unable to make and may have 18 resulted in inadequate service or environmental violations in the future. The Company 19 recommends that the Commission determine its acquisition of this small wastewater 20 system with limited financial resources and technical expertise was considered a matter of 21 substantial public interest.

22

#### 1 III. MANAGEMENT PERFORMANCE

- Q. Both the OCA and I&E have proposed to remove the recommended addition of 25
  basis points to the Company's cost of equity for exemplary management
  performance. Please respond to this proposal.
- 5 A. The Company does not agree with the removal of the addition to the Company's cost of 6 equity for exemplary management performance. As discussed in my direct testimony, the 7 Company's management has provided exemplary performance in various manners. I will 8 reiterate and highlight some additional examples.
- 9

#### **1.** Troubled Water and Wastewater Systems

I&E witness Keller notes that in the most recently litigated Aqua Pennsylvania base
 rate case, the Commission awarded Aqua an addition of 25 basis points for its management
 performance efforts, partly due to its help to troubled water and wastewater systems. York
 Water has a similar track record.

14 In the last 20 years, York Water has acquired many community water and 15 wastewater systems previously owned and operated by entities within the public and 16 private (private investor owned or homeowners' associations) sectors. Several of these acquisitions are reflected in amortizations presented in this case. These systems were small 17 18 and exhibited problems that would have qualified them as troubled water and wastewater 19 systems. Upon acquiring these systems, the Company made immediate improvements in 20 quality, supply, and customer service. At the same time, existing customers have received 21 the benefits of improved efficiency and the spreading of fixed costs over a larger customer 22 base. The regionalization of water and wastewater systems will allow for consistent, 23 reliable service, which, in turn, improves the economics and quality of life of the regions 24 the Company serves. The Company intends to continue to acquire systems within its

existing service area in Pennsylvania as well as adjacent areas in order to provide solutions
 to the long-term water supply and wastewater treatment requirements of an even larger
 portion of Pennsylvania.

4 York Water has also assisted its neighboring water and wastewater providers in 5 The New Oxford Municipal Authority ("NOMA") serves their times of need. 6 approximately 1,600 water customers in and around New Oxford Borough and Oxford 7 Township in Adams County, PA. In 2010, NOMA's sole water source was the South 8 Branch Conewago Creek. Recognizing their vulnerability and understanding the 9 Pennsylvania Department of Environmental Protection's emphasis to have multiple 10 sources, NOMA reached out to York Water to establish an Emergency Interconnect 11 Agreement with York Water. In 2011, York Water established a single point, finished 12 water connection with NOMA based upon the operating requirements as established by 13 NOMA and located within York Water's existing water territory. Between 2011 and 2015, 14 the interconnect was tested often, and an open line of communication existed between 15 NOMA's and York Water's operating departments. On Monday morning, June 8, 2015, a 16 fire at a chemical plant and the potential runoff from the water used to control the chemical 17 fire threatened NOMA's drinking water source. Just three hours after a request was made, 18 the interconnect was in service and supplying water to NOMA's residential and 19 commercial customers. From June 8, 2015, through August 27, 2015, York Water 20 provided over 52,300,000 gallons of water to NOMA. The interconnect was the only 21 source of water available to NOMA.

23

22

On the evening of July 5, 2019, during a severe thunderstorm, the Red Lion Water

Treatment Plant experienced a direct lightning strike. The lightning strike damaged some

1 of the electronic controls at their plant, and they were unable to process water for their customers. On the morning of July 6<sup>th</sup>, Dallastown Borough, being one of Red Lion 2 Municipal Authority's customers, reached out to York Water for assistance with their water 3 York Water immediately mobilized staff; and responded by setting up an 4 supply. 5 emergency hydrant-to-hydrant interconnect including over 600 feet of 5-inch fire hose and 6 a diesel-powered potable water pump. At the Dallastown Fire Company, York Water also 7 provided a 6,000-gallon potable water tanker and our emergency spigot style dispensing 8 system. The Dallastown customers were able to fill their own containers with water as 9 needed. During this same time, the Company reached out to the Red Lion Municipal 10 Authority and offered the services of its senior electronics technician. The technician was 11 able to assist the Red Lion staff with trouble shooting and repairing the damage, allowing 12 for a reboot of their SCADA system to get the plant back in-service.

13

#### 2. Customer-Owned Lead Service Lines

York Water has been a leader in the industry on the effort to proactively address lead customer owned service lines. The Company worked with the Commission to institute a program to replace lead customer-owned service lines to help customers address this issue sooner than other water utilities in Pennsylvania who followed the model set by the Company or waited until the completion of Act 120 of 2018, P.L. 738, No. 120 and the issuance of the Commission's final regulations promulgated pursuant to Section 1311(b)(2) of the Public Utility Code, 66 Pa. C.S. § 1311(b)(2).

21

#### **3.** Customer Service

The Company has provided its customers with a high level of customer service.
The Company has achieved significant compliance with all existing Federal and State

1 drinking water standards in its water systems in Pennsylvania by providing filtration for all 2 surface water sources and disinfection for all ground water sources as well as maintaining and safely operating all wastewater systems. The Company designs and upgrades its 3 4 distribution systems so its customers receive their water reliably. The Company can 5 demonstrate its high level of customer service through its recent residential consumer 6 complaint rate and justified residential consumer complaint rate that are lower than its 7 larger peers and the industry average as well as customer surveys that uniformly rate the 8 Company's quality and service as excellent. Dr. Habr points to perceived deficiencies in 9 the Company's customer service in the testimony of OCA witness Barbara R. Alexander 10 as a basis for not awarding the additional return on equity. I refer you to the testimony of 11 Vernon L. Bracey in York Water Statement No. 6-R for additional information rebutting 12 Ms. Alexander's claims and recommendations.

13

#### 4. Low-Income Customer Assistance

14 Since 2005, York Water has provided assistance to its low-income residential water 15 and wastewater customers. In its last base rate case, the Company voluntarily asked to 16 expand its low-income assistance program and worked to create a plan that was acceptable 17 to all the other parties. Based on the success of the expansion, the Company voluntarily 18 asked, as part of this proceeding, for an additional amount of funds to be used in assistance 19 to its low-income residential customers.

- 20
- Q. Please address I&E's and OCA's contention that York Water should not be rewarded
   for performing duties that they believe are already required as a public utility.

1 A. Essentially, I&E and OCA assert that York Water should not be recognized for the 2 initiatives described in direct testimony, including infrastructure improvement, because 3 they are either funded by customers or required by the Public Utility Code. This is not a valid reason to reject the Company's proposal in this case. The attempt to characterize 4 5 exemplary performance as something the law requires is contradicted by Section 523. The 6 legislature envisioned that utilities can achieve levels of performance that exceed the base 7 level of their legal requirements because, otherwise there would be no point in enacting 8 Section 523.

9 In PPL Electric Utilities Corporation's ("PPL Electric") 2012 base rate case, the 10 OCA also argued that "all regulated utilities are required to provide safe, adequate, 11 reasonable and efficient service as a matter of law" and "a utility must be doing more than 12 providing efficient and reasonable service in order to receive more than the indicated rate of return." Pa. PUC v. PPL Elec. Utils. Corp., Docket Nos. R-2012-2290597, et al., p. 95 13 14 (Order entered Dec. 28, 2012). Similarly, in UGI Utilities, Inc. – Electric Division's ("UGI 15 Electric") 2018 base rate case, I&E contended that no utility should reap additional rewards 16 for programs funded by customers or for meeting the Company's statutory obligation to 17 provide safe and reliable service. See Pa. PUC v. UGI Utils., Inc. - Elec. Div., Docket 18 Nos. R-2017-2640058, et al., p. 111 (Order entered Oct. 25, 2018). The Commission 19 rejected I&E's and the OCA's position in both of those rate cases, and it should do the 20 same in this case.

21

22 Q. Does this conclude your rebuttal testimony?

23 A. Yes.

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, et al.		
v. The York Water Company – Water Division		Docket Nos. R-2022-3031340, et al.
Pennsylvania Public Utility Commission, et al.	:	
	:	
V.	:	Docket Nos. R-2022-3032806, et al.
	:	
The York Water Company – Wastewater Division	:	

#### REBUTTAL TESTIMONY OF MARK. A WHEELER

#### ON BEHALF OF

### THE YORK WATER COMPANY

Dated: September 16, 2022

#### 1 I. <u>INTRODUCTION</u>

2	Q.	State your name and business address.
3	A.	Mark A. Wheeler. My business address is: 130 East Market Street, York, Pennsylvania.
4		
5	Q.	By whom are you employed?
6	A.	I am employed by The York Water Company ("York Water" or the "Company").
7		
8	Q.	State your present position with the Company.
9	A.	I am the Chief Operating Officer.
10		
11	Q.	Are you the same Mark A. Wheeler that served direct testimony in this proceeding?
12	A.	Yes. My direct testimony was York Water Statement No. 2.
13		
14	Q.	Please describe the purpose of your rebuttal testimony.
15	А.	The purpose of my testimony is to respond to portions of the testimony of the Office of
16		Consumer Advocate ("OCA") witnesses Barbara R. Alexander (OCA St. No. 5) and Terry
17		L. Fought (OCA St. No. 6), specifically regarding certain allegations and recommendations
18		about the Company's management effectiveness and customer service, low-income
19		programs, water and wastewater tariffs, line pressures and pressure surveys, and fire
20		hydrants.
21		
22	Q.	Are you sponsoring any exhibits with your rebuttal testimony?
23	А.	Yes, I am sponsoring the following:
24		• York Water Exhibit MAW-1R – OCA's answer to York Water Set III, No. 15;

2

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- York Water Exhibit MAW-2R OCA's answer to York Water Set III, No. 16; and
- York Water Exhibit MAW-3R OCA's answer to York Water Set III, No. 14.
- 3

#### 4 II. MANAGEMENT EFFECTIVENESS AND CUSTOMER SERVICE

# Q. OCA witness Alexander states that "York Water did not propose any specific performance standards for customer service with its proposed rate increase." (OCA St. No. 5, p. 3.) Please respond.

8 Ms. Alexander is correct. However, I am not aware of any requirement in the A. 9 Commission's rate filing regulations, Commission orders, or prior commitments by York 10 Water that require the Company to have proposed any specific performance standards. 11 That does not mean that York Water is not subject to any customer service standards. As a regulated public utility, the Company must provide adequate, safe, reliable, and 12 13 reasonable service. See 66 Pa. C.S. § 1501. As explained in the direct and rebuttal 14 testimony of Mr. Hand (York Water St. Nos. 1 and 1-R) and the rebuttal testimony of Mr. 15 Bracey (York Water St. No. 6-R), York Water has provided exemplary customer service. 16 Further, Mr. Bracey explains in his rebuttal testimony (York Water St. No. 6-R) why the 17 customer service standards proposed by Ms. Alexander should be rejected.

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#### 19 III. LOW-INCOME PROGRAMS

### 20 Q. OCA witness Alexander contends that York Water has not conducted any studies of 21 its customer base concerning affordability of essential utility services and/or water 22 and sewer service. (OCA St. No. 5, p. 19.) Please respond.

A. York Water remains dedicated to providing affordable service to all of its customers. The
Company's 2021 cost of water service was 37% less than the average of the other

1 Pennsylvania regulated water utilities. The Company also offers a number of low-income 2 assistance programs and is invested in the communities in which it serves. The current 3 programs that York Water has in place include its own York Water CARES program (approved by the Commission for the first time in the Company's last rate case), Low-4 5 Income Household Water Assistance Program ("LIHWAP"),<sup>1</sup> Emergency Rental Assistance Program ("ERAP"),<sup>2</sup> South Central Community Action Program ("SCCAP"),<sup>3</sup> 6 7 and the recently added Pennsylvania Homeowners Assistance Fund ("PAHAF").<sup>4</sup> The 8 Company also plans to conduct another customer survey in 2023.

9 Additionally, the Company's Gravity and Repumped rates are based on York 10 Water's longstanding rate design, under which Gravity residential customers generally pay 11 lower water rates than Repumped residential customers. Most of the residential customers 12 in the City of York pay the lower Gravity rates. This is important because the City of York has a high percentage of persons living in property as compared to the rest of the 13 Company's water service territory. Specifically, 27.7% of City of York residents are living 14 15 in poverty, compared with 11.6% nationally, based on the 2020 U.S. Census.<sup>5</sup> Moreover, 16 the percentage of residents living in poverty in the City of York is substantially higher than

<sup>&</sup>lt;sup>1</sup> LIHWAP provides qualifying low-income customers with crisis grants of up to \$2,500 for water service and up to \$2,500 for wastewater service. *See* "Water Assistance Program/LIHWAP," PENNSYLVANIA DEPARTMENT OF HUMAN SERVICES, <u>https://www.dhs.pa.gov/Services/Assistance/Pages/LIHWAP.aspx</u> (last visited Sept. 15, 2022).

<sup>&</sup>lt;sup>2</sup> ERAP provides financial assistance with rent and past due utility bills for qualified individuals who have been impacted by the COVID-19 pandemic. Community Progress Council administers the ERAP for York County. *See* "Emergency Rental Assistance," COMMUNITY PROGRESS COUNCIL, <u>https://www.yorkcpc.org/take-action/# (last visited Sept. 15, 2022).</u>

<sup>&</sup>lt;sup>3</sup> SCCAP provides financial assistance with rent and past due utility bills for qualified individuals who have been impacted by the COVID-19 pandemic. SCCAP administers the ERAP for Adams and Franklin Counties. *See* "SCCAP Relief & Resources," SCCAP, <u>https://www.sccap.org/services</u> (last visited Sept. 15, 2022).

<sup>&</sup>lt;sup>4</sup> PAHAF provides financial assistance for qualifying individuals to help them pay mortgage and housingrelated expenses, including up to \$8,000 in payments to outstanding utility debt. *See* "What's Covered," PAHAF, <u>https://pahaf.org/whats-covered/</u> (last visited Sept. 15, 2022).

<sup>&</sup>lt;sup>5</sup> "Quick Facts," U.S. CENSUS BUREAU,

https://www.census.gov/quickfacts/fact/table/yorkcitypennsylvania,US/PST045221 (last visited Sept. 15, 2022).

the percentages for the three counties in which York Water provides water services: (1)
York County – 7.1% of residents living in poverty; (2) Adams County – 8.0% of residents
living in poverty; and (3), and Franklin County – 9.4% of residents living in poverty.<sup>6</sup> As
such, York Water's lower Gravity water rates function, in and of themselves, as a sort of
low-income assistance program for many customers.

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Q. Ms. Alexander recommends that "York Water be required to implement a bill
discount program similar to that in effect for Community Utilities of Pennsylvania,"
which "provides a 35% monthly discount on the rate for the metered consumption
charge." (OCA St. No. 5, pp. 20, 26.) Do you agree with her recommendation?

11 A. No, at least not at this time. York Water has been a regular participant in low-income 12 assistance programs. The current programs that York Water has in place include its own 13 York Water Cares program (approved by the Commission for the first time in its last rate 14 case), LIHWAP, ERAP, SCCAP, and the recently added PAHAF. If it were determined 15 that this bill discount program would be beneficial for low-income customers without 16 unduly harming all other customers, York Water would be willing to investigate the 17 program's viability.

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Q. As part of this recommendation, Ms. Alexander states that "applications for
 participation in this program should be available on York Water's website" and that
 "[c]ustomers who can provide evidence of participation in existing means-tested

<sup>&</sup>lt;sup>6</sup> "Quick Facts," U.S. CENSUS BUREAU,

https://www.census.gov/quickfacts/fact/table/adamscountypennsylvania,franklincountypennsylvania,yorkcountypennsylvania,yorkcitypennsylvania,US/PST045221 (last visited Sept. 15, 2022).

income programs, such as Low Income Heating Assistance, Low Income Water
Assistance, Medicaid, Food Stamps (SNAP), or participation in the applicable electric
and natural gas Customer Assistance Programs should be automatically enrolled."
(OCA St. No. 5, p. 20.) According to Ms. Alexander, this enrollment approach would
"reduce the barrier associated with in-person appointments and the eliminate the
duplication required to show proof of income." (OCA St. No. 5, p. 20.) Please
respond.

A. If it were determined that this bill discount program would be viable as stated in the
response above, York Water would provide educational information about the program and
make program applications available on its website. And, if the Company were forced to
implement the bill discount program as part of this proceeding, York Water believes that
auto-enrollment should only be considered after the Company and stakeholders see
whether customers experience difficulties with enrolling in the bill discount program after
the program's implementation.

15

## Q. Ms. Alexander also claims that such a bill discount program "is easily programmed into the utility's billing system." (OCA St. No. 5, p. 20.) Do you agree?

A. Part of the evaluation in determining if this would be a viable program that would not
unduly harm all other customers would be in developing an estimate of the cost and time
from a technology perspective. Changes to the Company's billing systems vary widely in
the amount of time and cost to create new programming.

Notwithstanding, Ms. Alexander clarified in discovery that she was not talking
about software programming in this statement. (*See* York Water Exhibit MAW-1R.)

1 Instead, "[h]er statement on this matter is referring to the simplicity of programming a 2 discount into tariffed rate structures as compared with more complex low income 3 assistance program that would require a calculation of individual customer usage and 4 household income information." (Id.) Regardless, York Water would need to update its 5 billing system to incorporate a low-income bill discount program, as proposed by Ms. 6 Alexander, and the Company cannot develop a reasonable estimate of the time and expense 7 involved with such an update in the limited time between other parties' direct testimony 8 and York Water's rebuttal testimony.

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# Q. Ms. Alexander also says that she cannot estimate the costs of this proposed bill discount program "given the lack of demographic information maintained by York Water." (OCA St. No. 5, p. 21.) Please respond.

In discovery, Ms. Alexander stated that "suggests that York Water conduct an analysis of 13 A. 14 its customer base to estimate the number of low income customers based on a variety of 15 indicia: participation in existing low income energy and water assistance programs; a 16 review of U.S. Census data; consultation with regional and local low income advocacy 17 organizations and the delivery network for means-tested low income programs (e.g., 18 LIHEAP, Medicaid, Food Stamps); the Company's own payment and termination records; 19 and electric and gas utilities that serve York Water's customers. Another key variable is 20 the usage profile of average and low income customers." (York Water Exhibit MAW-2R.) 21 York Water simply cannot conduct this detailed analysis in the limited time 22 between other parties' direct testimony and the Company's rebuttal testimony. The

1 2 Company would, however, be willing to conduct such a study and present its results in York Water's next base rate case.

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Q. Although she does not propose a budget for her proposed bill discount program, Ms.
Alexander recommends that "York Water consult with the available agencies and
utilities with knowledge of its service territory and propose a budget for this program
in its Rebuttal Testimony." (OCA St. No. 5, p. 21.) Please respond.

A. As noted above, Ms. Alexander stated that she could not estimate the costs for the bill
discount program without demographic information and suggested that the Company
conduct a specific analysis that could be used to develop such an estimate. She also stated
that he has not performed any analysis of how many customers would qualify for such a
bill discount program in York Water's service territory. (York Water Exhibit MAW-3R.)

Again, York Water cannot conduct this detailed analysis in the limited time and determine the potential number of customers who would qualify for assistance between other parties' direct testimony and the Company's rebuttal testimony. Indeed, understanding the program's benefits, number of customers impacted, total cost, and timeline would take substantially more time to develop. However, these are critical steps to take before implementing a wide-sweeping bill discount program, so that other customers are not unduly harmed by costs of the program.

Thus, the bill discount program should only be implemented, if at all, as part of the Company's next base rate case, after York Water is able to conduct a proper analysis of the program's estimated costs, potentially eligible customers, and impact on other customers. Alternatively, if the Company is forced as part of this proceeding to implement

1 the bill discount program, the Commission should establish a regulatory asset/liability to 2 track and defer for future rate recovery the costs and expenses for the bill discount program, 3 as was done for Community Utilities of Pennsylvania's bill discount program upon which 4 Ms. Alexander based her recommendation.

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6 **O**. Ms. Alexander also recommends that York Water "document its participation in the 7 various programs funded through the American Rescue Plan Act and publicize the availab[ility] of funding to help pay for overdue water and sewer bills in order to 8 9 obtain the maximum funding to assist its low income customers and avoid 10 unnecessary bad debt expense paid by all ratepayers." (OCA St. No. 5, p. 26.) Do 11 you agree with this recommendation?

12 Yes. As noted previously, York Water is participating in the LIHWAP, ERAP, SCCAP, A. and recently added PAHAF. The Company is currently not eligible for infrastructure or 13 14 other operational programs contained within the American Rescue Plan Act. The funds 15 allocated to Pennsylvania are currently not being made available to investor-owned water 16 and wastewater utilities. As for Ms. Alexander's recommendation that York Water 17 publicize the availability of funding, the Company would be willing to provide details 18 about these programs and the availability of funding thereunder on the Company's website.

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#### IV. WATER AND WASTEWATER TARIFFS

21 Q. OCA witness Alexander makes various assertions about York Water's water and 22 wastewater tariffs. (OCA St. No. 5, pp. 21-22, 26.) Could you please summarize 23 them?

1 A. Yes. Ms. Alexander asserts that "York Water's water and wastewater tariffs are deficient 2 in identifying essential consumer protections" because while they "correctly state that Chapter 56 is incorporated by reference, the actual tariff language concerning payments 3 and termination of service contain language that does not reference customer rights for 4 5 payment arrangements, dispute resolution, medical emergency, Protection from Abuse 6 Orders, or any of the essential provisions of applicable landlord/tenant law and policies." 7 (OCA St. No. 5, p. 22.) She claims that "[t]he lack of details on these same issues in the 8 Company's training materials also supports the need for including the rights and remedies 9 of Chapter 56 in the Company's tariffs." (OCA St. No. 5, pp. 22.) As such, she 10 recommends that "York Water revise its tariffs to reflect the essential consumer protections 11 included in Chapter 56," potentially using Pennsylvania-American Water Company's tariff 12 provisions as "a useful model in this regard." (OCA St. No. 5, p. 22.)

13

#### 14 Q. Do you agree with Ms. Alexander?

A. I do not agree that the Company's water and wastewater tariffs need to restate what is
already set forth in the Commission's Chapter 56 regulations. As Ms. Alexander concedes,
"Chapter 56 is incorporated by reference" in the Company's tariffs. (OCA St. No. 5, p.
22.) Those regulations are publicly available to every customer in the Company's service
territory. From my perspective, the Company's tariffs should be focused on York Water's
specific rates and rules and conditions for service, as opposed to restating the
Commission's regulations that are already incorporated by reference.

In addition, if any of the Chapter 56 regulations set forth in the tariffs change after the tariffs become effective, York Water would have to revise the specific provisions in its

tariffs as well. Those tariff changes, however, would likely take at least 60 days to be
approved and become effective. *See* 52 Pa. Code § 53.31. Therefore, Ms. Alexander's
proposal could create customer confusion, whereby the Commission's Chapter 56
regulations state one thing while the Company's tariffs state another. Thus, in my view,
Ms. Alexander's proposal appears to be an unnecessary and unjustifiable undertaking.

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#### V. <u>LINE PRESSURES AND PRESSURE SURVEYS</u>

Q. OCA witness Fought contends that the information provided by York Water in this
base rate case is not "suitable to replace pressure surveys" because the Company has
not provided the following: (1) a complete log of all customer complaints that includes
all pressure complaints, (2) a statement that it did not receive any other pressure
complaints than the two filed with the PUC, and (3) the details and final dispositions
of the two pressure complaints filed with the PUC." (OCA St. No. 6, p. 10.) Please
respond.

15 York Water addresses all water pressure complaints, whether they be low or high water A. 16 pressure concerns. As noted in the response below, York Water's policy on water pressure 17 is more stringent than the Commission's requirements, as the Company works to ensure 18 appropriate water pressure for all of York Water's customers. As explained in Mr. 19 Bracey's rebuttal testimony (York Water St. No. 6-R), the Company is updating its Oracle 20 customer service database to log and track all customer disputes, including pressure 21 complaints. Mr. Bracey also states that a complaint log will be presented in York Water's 22 next base rate case. Furthermore, I am unaware of any other pressure complaints from 23 2019 to present other than the two informal complaints filed with the Commission in 2020, 24 which Mr. Fought referenced in his direct testimony. In both cases, the Commission's

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Bureau of Consumer Services found that the Company's line pressures were within the Commission's requirements and closed out the informal complaints.

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Q. Mr. Fought recommends that "[i]f a utility increases normal operating pressures to
exceed 125 psi in its existing mains in order to serve new customers, the utility should
be required to protect the existing customers service lines by either: (1) providing
pressure reducing valves approved for water supply with the applicable pressure, or
(2) where possible, reducing the pressures in the existing mains to less than 125 psi by
installing duel lines or a booster pump station to serve the new customers." (OCA St.
No. 6, p. 11.) Do you agree?

11 The Pennsylvania Safe Drinking Water Act regulation and the Commission's A. No. 12 regulations specify that normal static operating pressure at the curb should not be less than 25 psi and not more than 125 psi. The curb is identified as the point of connection between 13 14 the Company-owned service line and the Customer-owned service line. Pressures may 15 exceed requirements where compliance would prevent the Company from furnishing 16 adequate service or when called for under good engineering practice. 52 Pa. Code § 17 65.6(a). York Water's policy is more stringent.

18 If the existing static pressure at the curb is greater than 80 psi, York Water 19 customers are informed of the situation and pressure reducing valves are recommended to 20 be in place on their service lines. In the case of an application for service to a new 21 residential, commercial, or industrial property, York Water similarly informs applicants of 22 the anticipated static pressure at the curb. York Water policy requires the customer to

install pressure reducing valves if the normal static operating pressure is greater than 110 2 psi.

3 York Water is not aware of an instance where the Company installed a second main parallel to an existing main to serve new customers at a higher hydraulic grade (pressure), 4 5 while keeping existing customers on the lower hydraulic grade. Having parallel water 6 mains in two separate "pressure zones" would be confusing and could cause operational 7 challenges related to valve control and reconnection of existing customers, amongst other 8 concerns. Therefore, the Company disagrees with this recommendation.

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#### 10 Do you have any other observations about Mr. Fought's recommendations? **O**.

11 Yes. Mr. Fought made similar recommendations in Aqua Pennsylvania, Inc.'s ("Aqua") A. 12 2022 base rate case on behalf of the OCA. Specifically, he recommended that Aqua: (1) 13 "reduce pressures to all customers below 125 psi or be responsible for any damages 14 resulting from higher pressures"; and (2) "install pressure reducing valves for customers 15 experiencing high pressures or be responsible for damages of its fails to reduce pressures 16 to all customers below 125 psi." 2022 Pa. PUC LEXIS 161, at \*187. The Commission 17 ultimately rejected those recommendations, noting that "a few customer experiences are 18 not sufficient for the Commission to mandate operational changes on Aqua's distribution 19 system." See id. at \*189-90. I believe that the Commission should follow the same 20 approach here and reject Mr. Fought's recommendations.

21

#### 22 VI. **FIRE HYDRANTS**

23 Mr. Fought recommends that "[a]ll of the fire hydrants that cannot provide the **O**. 24 minimum fire flow of 500 gallons per minute (gpm) at 20 pounds per square inch should be marked so that they will only be used for flushing and blow-offs" and that
"[a]ny fire hydrants connected to less than 6-inch water mains should also be marked
so that they will only be used for flushing and blow-offs unless YWC can document
that they can provide the minimum fire flow." (OCA St. No. 6, p. 12.) Do you agree
with this recommendation?

6 A. York Water already meets these recommendations. York Water will not install a fire 7 hydrant that cannot meet minimum requirements of flow. The Company is in regular 8 contact with all Fire Chiefs in its certificated service territory about new fire hydrants, and 9 the local municipalities must provide a letter for installation of any new fire 10 hydrants. There have been instances in the past where York Water could not meet 11 minimum flow, and those hydrants were removed. The Company is aware of two non-12 standard fire hydrants (2 hose connection only) tapped on a 4" main that York Water 13 acquired through a system acquisition. Theses hydrants are still in place as a means to 14 flush in that area. The township in question was not interested in fire protection because it 15 was a 4" main. The local fire department is aware that these hydrants are not available for 16 fire service. The township would rely on a Tanker operation response in the event of a fire 17 in that area.

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Q. Please respond to OCA witness Fought's statement that "it is generally accepted that
(1) at least 500 gpm can be pumped from every fire hydrant and (2) if a fire company
pumps 500 gpm or more from a hydrant that cannot provide that minimum fire flow,
it may cause negative pressures that contaminate other portions of the distribution
system." (OCA St. No. 6, p. 12.)

1 A. First, every fire hydrant can produce at least 500 gpm. Second, almost all fire departments 2 within the Company's service area are using Large Diameter Hose ("LDH") for supply 3 lines. Most standard operating procedures call for the 1<sup>st</sup> in Engine to lay out a supply line 4 from the closest hydrant to the front of the structure on fire. This hose is "soft," so it will 5 only deliver what the fire hydrant can produce, which the Fire Department Pump Operator 6 can monitor on the "intake pressure" gauge on the pump panel of the Engine, prior to the 7 hose collapsing. If the fire being fought is large enough, the fire department may order a 8 second Engine to "re-pump" the supply line to the first Engine, by connecting to the 9 original fire hydrant using a "soft suction" line or a 4-way valve. In this set-up, the Fire 10 Department Pump Operator monitors the "intake pressure" from the hydrant and the "output pressure" to the 1<sup>st</sup> Engine. Again, in this situation, the hose is "soft", and will 11 12 collapse before going to a negative pressure.

As for contamination in other portions of the Distribution system, all service lines (Residential, Commercial, Industrial and Public) are fitted with backflow prevention devices, as per the Company' Cross Connection Control Policy. This makes backsiphonage remote under standard fire-fighting conditions.

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#### 18 Q. Does this conclude your rebuttal testimony?

19 A. Yes.

## **York Water Exhibit MAW-1R**

#### York Water Exhibit MAW-1R Page 1 of 2

#### Pa. PUC v. The York Water Company – Water Division Docket No. R-2022-3031340

#### Pa. PUC v. The York Water Company – Wastewater Division Docket No. R-2022-3032806

#### INTERROGATORIES, REQUESTS FOR PRODUCTION OF DOCUMENTS AND REQUESTS FOR ADMISSION ON OCA – SET III

15. Re. OCA St. No. 5, page 20. Ms. Alexander states that such a program "is easily programmed into the utility's billing system."

a. Does Ms. Alexander know the specific billing system that York Water utilizes? If so, please state her understanding of York Water's billing system.

RESPONSE: Ms. Alexander is not familiar with York Water's billing system. Her statement on this matter is referring to the simplicity of programming a discount into tariffed rate structures as compared with more complex low income assistance program that would require a calculation of individual customer usage and household income information.

b. Please explain in detail Ms. Alexander's experience and qualifications regarding software programming.

RESPONSE: Ms. Alexander does not represent herself as an expert on software programming.

c. Please explain in detail how this program is "easily programmed" into York Water's billing system.

RESPONSE: See response to Question 15(a).

d. Please produce all documents relied upon by Ms. Alexander in reaching this conclusion.

RESPONSE: Ms. Alexander has had extensive experience as documented in her C.V. attached as Exhibit BA-1 to her Direct Testimony in the development of utility low income assistance programs. Her statement was not intended to opine on York Water's billing system, but to point out that a percentage discount is easier to program in a utility tariff than more targeted bill assistance programs that require more individualized customer benefit calculations.

#### York Water Exhibit MAW-1R

Page 2 of 2

Pa. PUC v. The York Water Company – Water Division Docket No. R-2022-3031340

Pa. PUC v. The York Water Company – Wastewater Division Docket No. R-2022-3032806

#### INTERROGATORIES, REQUESTS FOR PRODUCTION OF DOCUMENTS AND REQUESTS FOR ADMISSION ON OCA – SET III

- RESPONDENT: Barbara Alexander
- DATE: September 6, 2022

# **York Water Exhibit MAW-2R**

### York Water Exhibit MAW-2R Page 1 of 1

#### Pa. PUC v. The York Water Company – Water Division Docket No. R-2022-3031340

#### Pa. PUC v. The York Water Company – Wastewater Division Docket No. R-2022-3032806

#### INTERROGATORIES, REQUESTS FOR PRODUCTION OF DOCUMENTS AND REQUESTS FOR ADMISSION ON OCA – SET III

16. Re. OCA St. No. 5, page 21. Ms. Alexander states that she cannot estimate the costs for the bill discount program "given the lack of demographic information maintained by York Water."

a. What demographic information would Ms. Alexander need to develop the estimated costs for the proposed bill discount program?

RESPONSE: Ms. Alexander suggests that York Water conduct an analysis of its customer base to estimate the number of low income customers based on a variety of indicia: participation in existing low income energy and water assistance programs; a review of U.S. Census data; consultation with regional and local low income advocacy organizations and the delivery network for means-tested low income programs (e.g., LIHEAP, Medicaid, Food Stamps); the Company's own payment and termination records; and electric and gas utilities that serve York Water's customers. Another key variable is the usage profile of average and low income customers.

b. Why is such information needed to develop the estimated costs for the proposed bill discount program?

RESPONSE: The program costs will be the sum of the number of estimated participants times the discounted rate as compared to the revenues under regular tariff rates. Additional administrative costs will also be incurred as reflected in the Company's own internal cost estimates. In order to avoid unnecessary administrative costs, Ms. Alexander recommends that the Company establish a method of automatic enrollment based on the customer's participation in a variety of existing means-tested low income programs. Finally, the costs should also include an estimate of avoided costs built into rates to collect overdue bills from low income customers.

c. Were there estimated costs developed with respect to the CUPA bill discount pilot program? If so, what were they?

RESPONSE: Ms. Alexander is not familiar with the development of the CUPA estimated costs.

RESPONDENT: Barbara Alexander

DATE: September 6, 2022

# **York Water Exhibit MAW-3R**

### York Water Exhibit MAW-3R Page 1 of 2

#### Pa. PUC v. The York Water Company – Water Division Docket No. R-2022-3031340

#### Pa. PUC v. The York Water Company – Wastewater Division Docket No. R-2022-3032806

#### INTERROGATORIES, REQUESTS FOR PRODUCTION OF DOCUMENTS AND REQUESTS FOR ADMISSION ON OCA – SET III

14. Re. OCA St. No. 5, page 20. Ms. Alexander recommends that "that "York Water be required to implement a bill discount program similar to that in effect for Community Utilities of Pennsylvania," which "provides a 35% monthly discount on the rate for the metered consumption charge."

a. Has Ms. Alexander performed any analysis of how much York Water would incur in incremental capital costs and/or expenses in order to implement her recommendation? If so, please produce such analysis and all documents relied upon by Ms. Alexander in performing that analysis.

RESPONSE: No. See Ms. Alexander's Direct Testimony, pages 19-21, in which she documented the lack of demographic data available from or evaluated by York Water in the development of its current low income programs.

- b. Has Ms. Alexander performed any analysis of how many customers would qualify for such a bill discount program in York Water's service territory? If so, please produce such analysis and all documents relied upon by Ms. Alexander in performing that analysis. If not, why not?
- RESPONSE: No. See Response to Question 14(a).
  - c. Is Ms. Alexander proposing that such a bill discount program be a "pilot program" like it is for Community Utilities of Pennsylvania ("CUPA")? If so, what would be the term of the pilot program? If not, why not?

RESPONSE: Ms. Alexander agrees that such a program could be entitled a "pilot" program but that would require the development of the evaluation criteria that would need to be gathered to determine its cost effectiveness and impacts.

d. Is Ms. Alexander proposing that York Water be granted a regulatory asset or liability related to this bill discount program, like the one granted to CUPA? If so, what would the regulatory asset or liability track for deferred rate recovery? If not, why not?

#### York Water Exhibit MAW-3R Page 2 of 2

#### Pa. PUC v. The York Water Company – Water Division Docket No. R-2022-3031340

#### Pa. PUC v. The York Water Company – Wastewater Division Docket No. R-2022-3032806

#### INTERROGATORIES, REQUESTS FOR PRODUCTION OF DOCUMENTS AND REQUESTS FOR ADMISSION ON OCA – SET III

RESPONSE: Ms. Alexander did not opine on that matter but would assume that York Water's Rebuttal Testimony will make proposals for costs and cost recovery.

RESPONDENT: Barbara Alexander

DATE: September 6, 2022

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, et al.	:	
v. The York Water Company – Water Division		Docket Nos. R-2022-3031340, et al.
Pennsylvania Public Utility Commission, et al.	:	
	:	
V.	:	Docket Nos. R-2022-3032806, et al.
	:	
The York Water Company – Wastewater Division	:	

### REBUTTAL TESTIMONY OF MATTHEW E. POFF

#### ON BEHALF OF

### THE YORK WATER COMPANY

Dated: September 16, 2022

1		I. <u>INTRODUCTION</u>
2	Q.	State your name and business address.
3	A.	Matthew E. Poff. My business address is: 130 East Market Street, York, Pennsylvania.
4		
5	Q.	By whom are you employed?
6	A.	I am employed by The York Water Company ("York Water" or the "Company").
7		
8	Q.	State your present position with the Company.
9	A.	I am Chief Financial Officer and Treasurer.
10		
11	Q.	Are you the same Matthew E. Poff that served direct testimony in this proceeding?
12	A.	Yes.
13		
14	Q.	Please describe the purpose of your rebuttal testimony.
15	A.	The purpose of my testimony is to respond to testimony of the Bureau of Investigation &
16		Enforcement ("I&E") witnesses Zachari Walker and the Office of Consumer Advocate
17		("OCA") witness Mark E. Garrett regarding the following issues:
18		<ul> <li>Payroll, Employee Benefits, and Payroll Taxes</li> </ul>
19		<ul> <li>Short Term Incentive Compensation</li> </ul>
20		<ul> <li>Long Term Incentive Compensation</li> </ul>
21		<ul> <li>Board of Directors Compensation</li> </ul>
22		o Inflation
23		• State Income Taxes

1		<ul> <li>Interest Synchronization</li> </ul>
2		• Cash Working Capital
3		o COVID-19 Expenses
4		
5	Q.	Does the Company agree with any adjustments proposed by these witnesses?
6	A.	Yes, in part. The Company has carefully re-evaluated its case after reviewing the testimony
7		submitted by the parties. The Company agrees with OCA witness Garrett's and I&E
8		witness Walker's adjustment to record a payroll vacancy adjustment of unfilled positions
9		and the related adjustment for payroll taxes and employee benefits. The Company further
10		agrees, in part, with Mr. Walker's adjustment to the Pennsylvania corporate net income tax
11		rate.
12		I note, however, that the Company does not agree with many of the adjustments
13		proposed by the parties because they would disallow recovery of legitimate costs that are
14		reasonable and necessary for York Water to provide service to customers.
15		
16	Q.	Are you sponsoring any exhibits with your rebuttal testimony?
17	A.	Yes, I am sponsoring York Water Exhibits MEP-1R through MEP-4R.
18		
19	Q.	Do you have any other preliminary matters to address in your rebuttal testimony?
20	A.	Yes. After the Company submitted its initial rate case filing, Mr. Winter left the Company.
21		Therefore, I will be adopting his direct testimony (York Water St. Nos. 5, 5W, 105, and
22		105W) and am now responsible for the exhibits he previously sponsored, which are
23		identified in his direct testimony.

2 II. **PROPOSED EXPENSE ADJUSTMENTS** 3 **Payroll, Employee Benefits, and Payroll Taxes** A. 4 Q. Please describe the proposed adjustment to the Company's payroll concerning an 5 employee vacancy adjustment. 6 A. I&E and OCA has proposed an employee vacancy adjustment on the basis that utilities, 7 like most companies, experience ongoing attrition and replacement of employee positions, 8 and it is appropriate to exclude the vacant positions. OCA proposed excluding the actual 9 claim for payroll for the five unfilled positions presented by the Company. I&E calculated 10 a vacancy rate using a weighted average of the Company's recent vacancy rate and applied 11 the vacancy rate to determine a vacancy of five positions, the same number of positions as 12 the Company reported and OCA proposed excluding in its vacancy allowance. I&E 13 calculated the reduction by applying the five positions to the average payroll per employee 14 of the Company. 15 16 Q. Do you agree with proposed adjustment? 17 A. The Company agrees that an employee vacancy allowance should be added to this claim. 18 The Company agrees with the proposed adjustment set forth by OCA to adjust based on 19 the actual claim for payroll for the five unfilled positions but only apply that adjustment to 20 the water operations as proposed by I&E. These five positions are a mix of union and 21 general and administrative positions and salaried and hourly general and administrative 22 positions. The Company believes this is a more representative position of the vacancy 23 allowance than using the average proposed by I&E that is skewed higher for senior

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1		management positions that are unlikely to be vacant. I have reduced the Company's payroll
2		expense by \$285,826 as calculated in York Water Exhibit MEP-2R. Due to the small
3		amount that would potentially be allocated to wastewater operations and the fact that
4		wastewater is not at full cost of service, the Company accepts I&E's proposal to only adjust
5		water operations for the vacancy allowance.
6		
7	Q.	Did OCA and I&E propose related adjustments to payroll taxes?
8	A.	Yes. Both OCA and I&E proposed adjustments to payroll taxes to correspond with the
9		decrease in payroll expenses from the vacancy allowance.
10		
11	Q.	Do you agree with the proposed adjustment?
12	A.	The Company agrees that a corresponding decrease in payroll taxes should be made to
13		correspond with the decrease in payroll expense from the employee vacancy allowance.
14		Similar to the proposed adjustment to payroll expense, the Company proposes to adjust
15		payroll taxes by the specifically identified amount for the five unfilled positions that are
16		included in the ratemaking claim. I have reduced the Company's payroll tax expense by
17		\$25,115, as calculated in Exhibit MEP-2R. Due to the small amount that would potentially
18		be allocated to wastewater operations and the fact that wastewater is not at full cost of
19		service, the Company accepts I&E's proposal to only adjust water operations for the
20		decrease in payroll taxes.
21		

## 22 Q. Did OCA and I&E propose related adjustments to employee benefits?

A. I&E proposed adjustments to employee benefits to correspond with the decrease in
employee count from the vacancy allowance. OCA did not propose an adjustment to
employee benefits. The I&E adjustment was based on applying the vacancy allowance to
the Company's claim for employee benefits, including 401k matching, pension
administration, 401k administration, health insurance, and other employee benefits.

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#### Q. Do you agree with the proposed adjustment?

8 The Company agrees that certain employee benefits will decrease with a decrease in A. 9 employee count from the vacancy allowance. Similar to the proposed adjustment of payroll 10 expense, the Company proposed to adjust the employee benefits by the specifically 11 identified amount for the five unfilled positions that are included in the ratemaking claim 12 for 401k matching and health insurance. None of the unfilled positions are eligible for the 13 pension plan, so no adjustment should be made for pension administration. There is no 14 claim for 401k administration in this case, so no adjustment is necessary. Other employee 15 benefits are not typically costs incurred on a per employee basis and so it is not impacted 16 by employee vacancies. I have reduced the Company's employee benefits expense by 17 \$72,734, as calculated in York Water Exhibit MEP-2R. Due to the small amount that 18 would potentially be allocated to wastewater operations and the fact that wastewater is not 19 at full cost of service, the Company accepts I&E's proposal to only adjust water operations 20 for the decrease in employee benefits.

21

Q. Please describe the other proposed adjustments to the Company's payroll from the
OCA.

1

A.

The OCA has lowered the Company's proposed increase of 5.0 percent for general and administrative employees' wages and salaries to 3.5 percent.

3

#### 4 Q. Do you agree with the OCA's proposed adjustment to payroll and payroll taxes?

A. No. The Company maintains that a 5.0 percent increase in the FTY and FPFTY is
reasonable and consistent with the general economy that continues to see low
unemployment, high inflation, and upward pressure on wage growth as well as continued
impact from the "Great Resignation." As seen on page 1 of York Water Exhibit MEP-3R,
the most recent Employment Cost Index from the U.S. Bureau of Labor Statistics shows
wages and salaries for private industry workers increased 5.7 percent for the 12-month
period ending in June 2022.

12 Factors, such as the "Great Resignation" mentioned by I&E witness Walker in his 13 testimony, excess supply of open positions in comparison to the number of available 14 workers, and compensation not keeping pace with the general economy, have created a 15 higher turnover rate for the Company and the need for a vacancy allowance proposed by 16 both OCA and I&E and accepted by the Company. These same considerations support 17 higher wage increases than the 3.5 percent the overall economy has experienced in the past. 18 Employee turnover can be costly and disruptive in terms of financial costs of employee 19 searches and training as well as the impact on company culture, productivity, and 20 engagement. Wage increases that are in line with the highly competitive current labor 21 market are necessary to retain current employees.

The Company also rejects the argument that the increase in salaries and wages for general and administrative employees should be compared to the proposed 3.5 percent

increase for union employees effective May 1, 2023. The job requirements and skills for
 the general and administrative employees are different than those for the union employees.
 Therefore, this is not a fair comparison.
 The OCA also proposed a downward adjustment to payroll taxes to reflect the
 previously discussed adjustments to the Company's salary and wage expense. If the

Commission disallows this adjustment, it should also disallow the adjustment for payroll

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#### B. <u>Short-Term Incentive Compensation</u>

taxes proposed by OCA.

# 10 Q. Please describe the proposed adjustment to the Company's short-term incentive 11 compensation from the OCA.

A. Mr. Garrett proposes to allow 50.0 percent of the short-term incentive compensation in
 rates and disallow the recovery of the other 50.0 percent. As alleged support for his
 position, Mr. Garrett devotes a substantial portion of his direct testimony pointing to the
 sharing arrangements of short-term incentive compensation between shareholders and
 ratepayers approved in other states, based on a survey of 24 western states and rulings in
 Arizona, Arkansas, Kansas, Oklahoma, Oregon, and Texas.

18

# 19 Q. Do you agree with the OCA's proposed reduction to short-term incentive 20 compensation?

A. No. The Company's short-term incentive plan has been in place since January 26, 2003.
The Company is not aware of prior base rate cases where all or a portion of the
compensation under this plan has been excluded.

1 The Commission's policy is to allow recovery of incentive compensation in rates 2 so long as the utility shows the overall amount of compensation is reasonable and that the 3 plan provides benefits to ratepayers. The Company has been purposeful to set performance 4 objectives that provide benefits to ratepayers. Some of the recent performance objectives 5 include, but are not limited to: (1) infrastructure replacements that reduce potential water 6 quality issues, increase fire flows, decrease service disruptions to customers, and decrease 7 repair costs; (2) lead service line remediation; (3) cybersecurity and emergency 8 preparedness; (4) corrosion control review; (4) customer satisfaction surveys; and (5) 9 review of service providers for potential cost savings. The current performance objectives are filed as part of Exhibit No. FIII-22, and the short-term incentive compensation included 10 11 in this base rate case is available to 43 employees consisting of senior management and 12 salaried managers of the Company.

13 Although some of the performance objectives have a financial component, it is 14 unreasonable to conclude that strong financial performance only benefits the shareholders 15 and not the ratepayers. A strong financial profile allows the Company to attract the ongoing 16 capital required to make the necessary upgrades and improvements to the system to ensure 17 a safe, adequate, and reliable supply of drinking water and to maintain proper handling and 18 disposal of wastewater. The Company's strong financial profile also allows it to maintain 19 an A- rating with Standard & Poor's that allows it to attract debt financing at the lowest 20 possible cost, which is passed along to the ratepayers. Acquisitions provide growth that 21 allows the Company to spread increased operating costs over a broader customer base that 22 lowers rate increases to each customer.

1		Critically, however, Mr. Garrett fails to state how his position comports with the
2		rulings of this Commission. Instead, as noted previously, Mr. Garrett largely bases his
3		recommendation on the policy of other jurisdictions in the western part of the country.
4		From my perspective, the Commission should reject Mr. Garrett's approach that runs
5		contrary to this Commission's established precedent.
6		The OCA also proposed a downward adjustment to payroll to reflect the previously
7		discussed adjustments to the Company's salary and wage expense. If the Commission
8		disallows this adjustment, it should also disallow the adjustment for payroll taxes proposed
9		by OCA.
10		
11	Q.	What does Mr. Garrett claim regarding net benefits to customers standard?
12	A.	Mr. Garrett argues that in utility ratemaking, a standard that requires benefits to customers
13		actually means that a "net benefit" to customers is required and not that if a utility shows
14		any benefit to ratepayers, no matter how small, the entirety of the incentive compensation
15		plan costs should be included in rates.
16		
17	Q.	Do you agree with this position regarding a net benefit to customers.
18	A.	No. The Company does not believe the standard of a net benefit to customers has been
19		applied in other Commission cases. Mr. Garrett acknowledges that he is not aware of any
20		Pa. PUC decision that has explicitly referenced a "net benefits" standard when evaluating
21		a utility company's incentive compensation recovery, as seen in York Water Exhibit MEP-
22		4R.
23		

Q.

#### Are there difficulties in directly quantifying benefits to customers?

2 In some instances, yes. Here are several examples. One of the performance objectives is A. 3 to complete a Request for Proposal process to redesign the Company's website. The website is an important point of interaction with customers, but it is difficult to assign a 4 5 dollar benefit to this important upgrade. Another performance objective is to complete a 6 Source of Supply study that is necessary for renewal of the Company's water allocation 7 permit. A third performance objective is to complete cyber-security objectives, which are 8 critical to protect the Company's operations and protect customer information. Another 9 objective is to undertake an emergency preparedness tabletop exercise. The Company will 10 undertake this exercise in cooperation with federal, state, and local officials to assess the 11 Company's Dam Emergency Action Plan during a simulated flood and risks of downstream 12 flooding. Each of these objectives is critical to York Waters operations, its customers, and 13 the community in which it serves, but it is exceedingly difficult to specifically quantify 14 these initiatives' benefits to customers.

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#### C. <u>Long-Term Incentive Compensation</u>

# 17 Q. Please describe the proposed adjustment to the Company's long-term incentive 18 compensation from the OCA.

A. Mr. Garrett proposed to disallow all long-term incentive compensation from rates. In
support of his proposal, Mr. Garrett argues that ratepayers should not bear long-term
incentive compensation because officers and directors of any corporation have legal,
fiduciary duties of loyalty and care to the corporation itself and not to the customers.
According to Mr. Garrett, these individuals are required by law to put the interest of the

1		Company first, and the interests of the Company and the interests of the customers are not
2		always the same and can be quite divergent. Mr. Garrett asserts that this divergence of
3		interests creates a situation where not every compensation cost is presumed to be a
4		necessary cost of providing utility service. In addition, Mr. Garrett claims long term
5		incentive compensation ties management compensation to the financial performance of the
6		company in alignment with the interest of the shareholders and as such shareholders should
7		solely bear this cost.
8		Notably, Mr. Garrett acknowledges that "this Commission has in the past allowed
9		stock-based compensation in rates." (OCA St. No. 1, p. 35.) However, he asks that "the
10		Commission reevaluate its position going forward" and adopt his recommendation. (OCA
11		St. No. 1, p. 35.)
12		
12 13	Q.	Do you agree with the OCA's proposed reduction to long term incentive
	Q.	Do you agree with the OCA's proposed reduction to long term incentive compensation?
13	<b>Q.</b> A.	
13 14	-	compensation?
13 14 15	-	<b>compensation?</b> No. The Company's long-term incentive plan has been in place since July 1, 2016.
13 14 15 16	-	compensation? No. The Company's long-term incentive plan has been in place since July 1, 2016. As even Mr. Garrett concedes, the Commission has recently allowed recovery of
13 14 15 16 17	-	compensation? No. The Company's long-term incentive plan has been in place since July 1, 2016. As even Mr. Garrett concedes, the Commission has recently allowed recovery of stock-based incentive compensation in rates so long as the utility provides evidence links
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> </ol>	-	compensation? No. The Company's long-term incentive plan has been in place since July 1, 2016. As even Mr. Garrett concedes, the Commission has recently allowed recovery of stock-based incentive compensation in rates so long as the utility provides evidence links the stock-based plan with benefits to customers and improved operational efficiency. The
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> <li>19</li> </ol>	-	compensation? No. The Company's long-term incentive plan has been in place since July 1, 2016. As even Mr. Garrett concedes, the Commission has recently allowed recovery of stock-based incentive compensation in rates so long as the utility provides evidence links the stock-based plan with benefits to customers and improved operational efficiency. The Company believes that its officers do consider its customers when evaluating the effects of

as well as the effects on communities in which offices or other establishments of the corporation are located.

3 The Company's long term incentive plan has four equally weighted metrics to be 4 met before a stock grant is awarded. Two of these are tied directly to customer 5 performance: (1) maintaining a three-year average Commission justified complaint rate per 6 1,000 customers of less than the Pennsylvania water utility peer group average; and (2) 7 maintaining customer rates that are less than the Pennsylvania water utility peer group 8 average. The other two metrics have a financial component, but the Company has already 9 previously stated under its testimony on short-term incentive compensation that strong 10 financial performance benefits the ratepayers as well as the shareholders.

11 Mr. Garrett again tries to support his proposal by pointing to other jurisdictions. 12 Specifically, he relies on a survey of 24 western states, a telephone survey of Illinois, 13 Kentucky, Michigan, and Wisconsin, and a decision in Indiana. Mr. Garrett does not 14 support his arguments with rulings by <u>this</u> Commission.

Mr. Garrett also attempts to counter the argument from utilities that long-term incentive compensation is part of an overall compensation package designed to attract and retain qualified personnel and that excluding this compensation places them at a competitive disadvantage. Again, he relies on a decision from Nevada, not a ruling by this Commission.

In addition, Mr. Garrett claims municipalities that do not pay long term incentive compensation are able to attract and retain the needed talent to deliver safe and reliable service, so utilities should be able to as well. This argument fails to consider that municipalities cannot offer stock-based compensation or provide analysis on the types of

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1 benefits municipal systems may offer that are different or more extensive from utilities, 2 such as pension or paid time off. A different skill set is needed to operate a regional 3 investor-owned water and wastewater regulated utility as opposed to a municipal system. 4 The Company does not compete against municipalities for talent but against other investor-5 owned utilities and public companies, which do typically pay long term incentive 6 compensation. The Company's long-term incentive compensation is paid to senior 7 management and not to middle managers or workers that have comparable positions in a 8 municipal system.

9 For these reasons, the Company strongly disagrees with Mr. Garrett's 10 recommendation that the Commission reverse its well-established approach to long-term 11 incentive compensation by partially disallowing York Water's claim.

12 The OCA also proposed a downward adjustment to payroll to reflect the previously 13 discussed adjustments to the Company's salary and wage expense. If the Commission 14 disallows this adjustment, it should also disallow the adjustment for payroll taxes proposed 15 by OCA.

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#### D. <u>Board of Directors Compensation</u>

# 18 Q. Please describe the proposed adjustments to the Company's Board of Directors 19 compensation from the OCA.

A. Mr. Garrett proposes to: (1) disallow the recovery of Board of Directors stock grants; and (2) allow 50.0 percent of the Board of Director short-term cash compensation to be included in rates and disallow the other 50.0 percent of Board of Director cash compensation. (*See* OCA St. No. 1, p. 38.) In support, Mr. Garrett argues that ratepayers

1 should not bear the full amount of Board of Directors compensation because officers and 2 directors of any corporation have legal, fiduciary duties of loyalty and care to the 3 corporation itself and not to the customers. According to Mr. Garrett, these individuals are required by law to put the interest of the Company first, and the interests of the Company 4 5 and the interests of the customers are not always the same and can be quite divergent. Mr. 6 Garrett believes that this divergence of interests creates a situation where not every 7 compensation cost is presumed to be a necessary cost of providing utility service. Instead, 8 Mr. Garrett asserts that a sharing of director compensation costs would recognize that the 9 cost of director fees provides a benefit to both shareholder and the ratepayers alike.

10

11 **Q**. Do you agree with the OCA's proposed reduction to Board of Director compensation? 12 No. First, I am advised by counsel that under the Business Corporation Law of 1988, A. 13 directors in Pennsylvania are allowed to consider the effects of any action on groups 14 affected by the action, including the corporation's shareholders, members, employees, 15 suppliers, customers, and creditors as well as the effects on communities in which offices or other establishments of the corporation are located. The Company believes that its 16 17 Board of Directors does consider its customers when evaluating the effects of its actions.

18 Second, Mr. Garrett once again relies on decisions from other jurisdictions to 19 support his recommendation. Specifically, on this issue, he points to decisions of the Public 20 Utility Commission of Nevada and the Washington Utilities and Transportation 21 Commission as support for the allocation of Board of Directors compensation between 22 shareholders and ratepayers. Mr. Garrett does not point to any decision issued by <u>this</u> 23 Commission as support for his recommendation.

1		Notably, since at least 1968, the Commission has permitted York Water to recover
2		the entirety of its board of directors' compensation through base rates and has not split the
3		costs equally between ratepayers and shareholders. See Pa. PUC v. York Water Co., 1968
4		Pa. PUC LEXIS 2, at *35 (Order entered Dec. 30, 1968) (approving the recovery of York
5		Water's claim for annual directors' fees). The Commission has even rejected a
6		disallowance of directors' fees paid to salaried officers of a public utility. See Pa. PUC v.
7		Columbia Water Co., 2009 Pa. PUC LEXIS 1423, at *53-55 (Order entered June 10, 2009).
8		Thus, from my perspective, the Commission should permit the recovery all the Company's
9		claim for board of directors' cash compensation.
10		Third, Mr. Garrett also recommends that director's compensation in the form of
11		stock grants be removed from the ratemaking claim. As previously noted in the discussion
12		of long-term incentive compensation for management, two of the four metrics are focused
13		on customers. Furthermore, as noted in both the discussion of short-term and long-term
14		incentive compensation, strong financial performance of the Company does benefit the
15		ratepayers. Accordingly, the Commission should reject Mr. Garrett's recommendation.
16		
17		E. <u>Inflation</u>
18	Q.	Please describe the proposed adjustments to the Company's inflation adjustment
19		from the I&E and OCA.
20	А.	Both I&E witness Walker and OCA witness Garrett propose the removal of the Company's
21		proposed inflation adjustment. Mr. Walker identified the amount as \$1,383,543 for water
22		operations and \$404,886 for wastewater operations, whereas Mr. Garrett identified the

amount as \$1,023,307 for water operations and \$298,363 for wastewater operations. The

1 Company made an inflation adjustment for the FTY and the FPFTY with the total inflation 2 adjustment included in the Company's ratemaking claim of \$1,023,307 for water 3 operations as presented on Exhibit No. FIII-2, page 15 and \$298,363 for wastewater 4 operations as presented on Exhibit No. FIII-2W, page 5. Mr. Garrett correctly stated the 5 Company's inflation adjustment, while Mr. Walker incorrectly combined the balances at 6 the end of the FTY and the FPFTY and misstated the Company's ratemaking claim.

Setting aside their calculations of the claims, both Mr. Walker and Mr. Garrett
argue that each expense item should be evaluated and budgeted based on its individual
merit and future known and measurable changes. According to them, blanket inflation
adjustments create a disincentive for utilities to control costs going forward.

11

#### 12 Q. Do you agree with the proposed reduction to inflation adjustment?

A. No. First, I observe that the Company has not based its ratemaking claims for operating
and maintenance expenses upon a "budget." The Company uses a build-up approach off
of its HTY actual expenses.

16 Second, I do not agree with assertion that the proposed adjustment is a blanket 17 generalized inflation adjustment. The Company's adjustment reflects the anticipated effect 18 of inflation only on operating expenses that were not specifically adjusted in this case. The 19 Company's adjustment, which is consistent with adjustments made in prior cases, is 20 conservative based on current economic conditions and completely appropriate. In fact, in 21 Pa. PUC vs. Philadelphia Suburban Water Co., 2002 Pa. PUC LEXIS 55, at \*53-54 (Order 22 entered Aug. 1, 2002), the Commission accepted the utility's general inflation adjustment, 23 finding that it was "reasonable, supported by the applicable record evidence, and consistent

with applicable precedent." The Commission also rejected the OCA's argument that "an
inflation adjustment is an issue in flux before the Commission," finding that such
pronouncement was "not accurate" and that the Commission has "consistently accepted
inflation adjustments" since the Commonwealth Court's decision in *National Fuel Gas Distribution Corp. v. Pa. PUC*, 677 A.2d 861 (Pa. Cmwlth. 1986) "where supported by
historic data demonstrating that the utility has experienced cost increases that exceed the
claimed inflation increases." *Id.* at \*54-55.

8 Here, the Company has proposed a general inflation adjustment to expenses that 9 have all historically grown at rates exceeding the requested inflation factor that the 10 Company is applying to them. For example, among other expenses falling under this 11 adjustment, overall maintenance expense has grown at an average rate of approximately 12 9.2% over the last three years, operating materials and supplies has grown at an average 13 rate of approximately 6.4% over the last three years, operating outside services has grown 14 at an average rate of approximately 17.0% over the last three years, and wastewater 15 purchased treatment has grown at an average rate of approximately 24.0% over the last 16 three years.

In contrast, OCA and I&E do not take into consideration any historical data or present economic conditions. They also fail to address the macro conditions in which the world is currently operating. Moreover, they fail to mention anything about the actual inflation rates seen over the past year or the projected inflation rates over the next few years, all of which surpass the inflation rates requested by the Company. All of the expenses that the Company are requesting be increased under the general inflation adjustment are directly and adversely impacted by inflation. As a result, the Company

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rejects this recommendation and will proceed with its sensible general inflation adjustment as filed.

3

#### 4 Q. Has the Company included a General Price Level Adjustment in the past?

5 A. Yes. In fact, the Company is not aware of any base rate case in the past decades where any 6 opposing party recommended that the entirety of York Water's general price level 7 adjustment be denied, both before and after the use of fully projected future test year. In 8 fact, in York Water's base rate case in 1992, the OCA only disputed the amount of York 9 Water's proposed general price level adjustment. See Pa. PUC v. York Water Co., 1992 10 Pa. PUC LEXIS 115, at \*86-87 (Order entered Nov. 18, 1992). Specifically, the OCA 11 recommended that the Company's general price level adjustment be adjusted using a 3.0% 12 inflation rate instead of the Company's originally-proposed 3.6% inflation rate, reasoning that "current expectations" were "a 3.0% inflation rate." Id. Ultimately, the Company 13 14 agreed with the OCA's proposal, which was adopted by the Commission. See id. at \*87. 15 Accordingly, I do not think this is the time or the case to create divergent precedent 16 regarding the Company's general price level adjustment for these types of expenses.

17

#### 18 Q. Have you reviewed the cases cited by OCA and I&E in regard to this issue?

A. I am not a lawyer, but I have reviewed these cases. Contrary to the claims, the Commission
has approved inflation adjustments, and that precedent should continue to be followed. As
noted earlier, the Commission has approved numerous other general inflation adjustments,
including in York Water's 1992 base rate case.

#### F. <u>State Income Tax Expense</u>

# Q. Please describe the proposed adjustments to the Company's state income tax expense adjustment from the I&E.

- A. I&E witness Walker has applied the impact of Pennsylvania House Bill 1342 signed into
  law as Act 53 on July 8, 2022 which lowered the current 9.99% corporate net income tax
  rate to 8.99% effective January 1, 2023 and will decrease by 0.5% each year until 2031.
  Mr. Walker recommends a weighted Pennsylvania income tax rate of 8.91% to reflect the
  Pennsylvania corporate income tax rate that will be in effect for the FPFTY.
- 9

# 10 Q. Do you agree with the I&E's proposed reduction to the Company's state income tax 11 expense adjustment?

12 Not entirely. The Company acknowledges that changes to the future Pennsylvania A. 13 corporate net income tax rate were adopted on July 8, 2022, after the base rate case was 14 filed and the new corporate net income tax rates should be applied. Therefore, the 15 Company proposes to modify its claim using the corporate net income tax rate of 8.99% 16 that will be in effect for 2023. The Company understands this rate does not factor in the 17 decrease to 8.49% that will be in effect for the final two months of the FPFTY. However, 18 the Company proposes to use the State Tax Adjustment Surcharge ("STAS") mechanism 19 to account for that decrease as it will for all future decreases, not otherwise captured in a 20 base rate case, through 2031. That will allow the Company to align the STAS with the 21 change in rate when it is effective on January 1, 2024, rather than seek to make it effective 22 on a pro rata basis on March 1, 2024, after the end of the FPFTY. This change to Mr. 23 Walker's proposal does not impact the customer rates in total but makes the administration

1		of the corporate net income tax rate changes easier to manage. The Pennsylvania corporate
2		net income tax rate of 8.99% is included in the adjustment reflected in Exhibit MEP-1R.
3		
4		G. <u>Interest Synchronization</u>
5	Q.	OCA and I&E have proposed an adjustment to interest synchronization to reflect the
6		effects of their adjustments to the Company's rate base. Do you agree with the
7		proposed adjustment?
8	A.	The Company agrees that interest synchronization should be adjusted to reflect the
9		adjustments made in its rebuttal testimony. This adjustment is reflected in York Water
10		Exhibit MEP-1R. I note that a substantial portion of OCA's interest synchronization
11		adjustment is related to its proposed use of a hypothetical capital structure. The Company
12		disagrees with the use of a hypothetical capital structure and, thus, disagrees with OCA's
13		change to interest expense related to that adjustment.
14		
15		III. PROPOSED RATE BASE ADJUSTMENTS
16		A. <u>Cash Working Capital</u>
17	Q.	Both the OCA and I&E propose to adjust cash working capital to reflect their
18		operating income adjustments. Please respond to this adjustment.
19	A.	For the operating income adjustments that the Commission does not adopt, the adjustments
20		to cash working capital should also be rejected. The Company has restated cash working
21		capital for the adjustments it has accepted, and these are reflected in York Water Exhibit
22		MEP-1R.
23		

#### IV. <u>ALLOCATION OF WASTEWATER REVENUES</u>

Q. I&E has proposed that \$844,015 of the wastewater revenue requirement be allocated
to the water rate base, and OCA has proposed that \$2,670,856 of the wastewater
revenue requirement be allocated to the water rate base. Please respond to these
proposals.

6 A. I&E's recommended allocation is based on its adjustments to rate base, operating expenses, 7 and lower return on equity ("ROE") as well as changes to the allocation from wastewater 8 to water. Specifically, I&E accepted the Company's wastewater operations cost of service 9 study but determined rates and rate structure without providing additional studies. These 10 rates and rate structure were applied to the Company's consumption analysis to determine 11 a revenue amount. The amount allocated to the water rate base was determined as the 12 difference between this calculated amount and I&E's total recommended revenue level. 13 I&E offers no specific basis for the substantial reduction in the allocation from wastewater 14 to water rates, which adds \$719,421 in additional revenues, above the Company's proposed 15 rates, to wastewater customers.

16 The OCA's recommended allocation is also based on its adjustments to rate base, 17 operating expenses, and lower ROE but kept the allocation from wastewater to water the 18 same number as proposed by the Company. OCA also accepted the Company's wastewater 19 operations cost of service study but determined the Company's allocation of revenue from 20 water to wastewater should be reduced by 25%. This proposed reduction was not 21 incorporated into the revenue requirement summary provided in the testimony of OCA 22 witness Garrett, which presented the same amount as proposed by the Company.

1		Because the Company does not agree with the adjustments to rate base, operating
2		expenses, and return, the Company cannot agree with either of these allocations. The
3		amount to be allocated from wastewater to water depends upon the adjustments that are
4		ultimately allowed in this case. Notwithstanding, if the Commission adopts any of I&E's
5		or OCA's proposed adjustments to rate base, operating expenses, and ROE, then the
6		Commission should adopt the Company's proposal as the more reasonable approach in this
7		case. The Company is committed to a rate structure without an allocation from wastewater
8		to water in line with Commission guidance in other cases, but it should be phased in rather
9		than all in one case that creates rate shock for its wastewater customers. Ms. Heppenstall
10		provides further rebuttal testimony regarding the appropriate allocation from wastewater
11		to water revenues.
12		
12 13		V. <u>COVID-19 EXPENSES</u>
	Q.	V. <u>COVID-19 EXPENSES</u> I&E has proposed that no future claims for COVID-19 related uncollectible accounts
13	Q.	
13 14	Q.	I&E has proposed that no future claims for COVID-19 related uncollectible accounts
13 14 15	Q. A.	I&E has proposed that no future claims for COVID-19 related uncollectible accounts expense or other COVID-19 related incremental expenses should be allowed in future
13 14 15 16		I&E has proposed that no future claims for COVID-19 related uncollectible accounts expense or other COVID-19 related incremental expenses should be allowed in future proceedings. Do you agree with this proposal?
13 14 15 16 17		I&E has proposed that no future claims for COVID-19 related uncollectible accounts expense or other COVID-19 related incremental expenses should be allowed in future proceedings. Do you agree with this proposal? No. The Company did not incur COVID-19 related expenses necessary for deferral
13 14 15 16 17 18		<ul> <li>I&amp;E has proposed that no future claims for COVID-19 related uncollectible accounts expense or other COVID-19 related incremental expenses should be allowed in future proceedings. Do you agree with this proposal?</li> <li>No. The Company did not incur COVID-19 related expenses necessary for deferral treatment since 2020 and has made no claim for such in this case. Unfortunately, however,</li> </ul>
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> <li>19</li> </ol>		<ul> <li>I&amp;E has proposed that no future claims for COVID-19 related uncollectible accounts expense or other COVID-19 related incremental expenses should be allowed in future proceedings. Do you agree with this proposal?</li> <li>No. The Company did not incur COVID-19 related expenses necessary for deferral treatment since 2020 and has made no claim for such in this case. Unfortunately, however, COVID-19 is ongoing. The Company cannot say for certain that it will not incur COVID-</li> </ul>
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> <li>19</li> <li>20</li> </ol>		<ul> <li>I&amp;E has proposed that no future claims for COVID-19 related uncollectible accounts expense or other COVID-19 related incremental expenses should be allowed in future proceedings. Do you agree with this proposal?</li> <li>No. The Company did not incur COVID-19 related expenses necessary for deferral treatment since 2020 and has made no claim for such in this case. Unfortunately, however, COVID-19 is ongoing. The Company cannot say for certain that it will not incur COVID-19 related expenses in the future should new variants emerge that would require</li> </ul>

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1		VI. <u>SUMMARY OF REBUTTAL POSITION</u>			
2	Q.	Have you prepared summary exhibits to reflect the Company's revised position in			
3		rebuttal?			
4	A.	Yes. The result is a base rate revenue increase of \$20,201,429 which represents \$1,456,792			
5		for wastewater and \$18,744,637 for water (including a wastewater allocation of			
6		\$2,696,796). The exhibits showing these calculations are attached as York Water Exhibit			
7		MEP-1R.			
8					
9	Q.	Does this conclude your rebuttal testimony?			
10	A.	Yes.			

# **York Water Exhibit MEP-1R**

### York Water Exhibit MEP-1R Page 1 of 6

#### THE YORK WATER COMPANY REVENUE SUMMARY

	Total Company	Water	Wastewater
Present Rate Revenues	\$ 57,804,722	\$ 53,642,460	\$ 4,162,262
Additional Revenue Requirement % Increase	\$ 20,201,429	\$ 16,047,841 29.9%	\$    4,153,588 99.8%
Wastewater Revenue Allocation	\$ -	\$ 2,696,796	\$ (2,696,796)
Proposed Revenues	\$ 78,006,151	\$ 72,387,097	\$ 5,619,054
Revenue Increase % Increase	\$ 20,201,429	\$ 18,744,637 34.9%	\$    1,456,792 35.0%

## York Water Exhibit MEP-1R Page 2 of 6

Table I - Water

	As Originally Filed	Adjustments	Revised At Present Rates	Revenue Increase	At Proposed Rates
Operating Revenues	53,642,460	0	53,642,460	16,047,841	69,690,301
Operating Expenses, Depreciation and Taxes					
Operating Expenses Depreciation Taxes Other Than Income Taxes Current State Income Taxes Current Federal Income Taxes Deferred Income Taxes ITC	23,702,383 12,960,981 1,378,995 (401,238) (622,007) 211,523 (39,126)	(365,349) (25,115) 36,394 (16,449)	23,337,034 12,960,981 1,353,880 (364,844) (638,456) 211,523 (39,126)	83,641 107,771 1,425,498 3,030,490	23,420,675 12,960,981 1,461,651 1,060,654 2,392,035 211,523 (39,126)
Total Operating Expenses, Depreciation and Taxes	37,191,512	(370,519)	36,820,993	4,647,400	41,468,393
Net Operating Income Available For Return	16,450,948	370,519	16,821,467	11,400,441	28,221,908
Rate Base	350,621,590	(136,168)	350,485,422	0	350,485,422
Rate of Return	4.69%		4.80%		8.05%

Table I - Water

#### Operating Expense Adjustments

Amortization of Acq Adj - Wrightsville Payroll vacancy allowance Employee benefits - vacancy allowance Payroll taxes - vacancy allowance		(6,789) (285,826) (72,734) (25,115)
Total		(390,464)
Income Tax Adjustments		
Operating income Add: Amort of Acq Adj - Wrightsville Interest synchronization - cost of debt Interest synchronization - rate base State tax adjustments State income tax adjustment Federal tax adjustments Federal income tax adjustment	390,464 (6,789) (428,183) 2,574 (41,933) (3,770) (38,163) (8,014)	(3,770) (8,014)
Total		(11,784)
State Income Tax Adjustment		
Proforma state taxable income State income tax adjustment Federal income tax adjustment Total	(4,016,396) 40,164 (8,434)	40,164 (8,434) 31,730
Interest Synchronization - Rate Base		
Rate base adjustments Weighted debt cost rate Interest synchronization adj Interest Synchronization - Cost of Debt	(136,168) 1.89% (2,574)	
Proforma rate base Change in weighted debt cost rate Interest synchronization adj	350,621,590 0.12% 428,183	

York Water Exhibit MEP-1R Page 4 of 6

Table I - Water

#### Rate Base Adjustments

Acq Adjustment - Wrightsville			(59,966)	
Cash working capital				
Revenue Lag Days				53.4
Payroll Payroll (Payroll Tax Withholding) Power Purchased Insurance Other Goods and Services Payroll Taxes Other Taxes Income Taxes	9,281,039 778,883 1,171,058 3,054,688 8,796,397 726,262 627,618 0	13.7 26.6 -74.3 18.1 13.7	64,967,270 10,693,648 31,199,859 (226,857,140) 159,419,914 9,971,184 (50,500,939)	
Expense Lag Days	24,435,945.65	29.0	- (1,106,205)	0.0
Net Lag Days				53.4
Cash Working Capital Requirement (24,826,410 / 365 x 53.3)			3,577,131	
Prepaid PUC, OCA and SBA Assessments			163,435	
Builders Deposits and Water Revenues Paid In Advance			(263,818)	
Interest Adjustment			(481,993)	
Adjusted Cash Working Capital			2,994,755	
As Originally Filed			3,070,957	
Adjustment			(76,202)	

## York Water Exhibit MEP-1R Page 5 of 6

Table II - Wastewater

	As Originally Filed	Adjustments	Revised At Present Rates	Revenue Increase	At Proposed Rates
Operating Revenues	4,162,262	0	4,162,262	4,153,588	8,315,850
Operating Expenses, Depreciation and Taxes					
Operating Expenses Depreciation Taxes Other Than Income Taxes Current State Income Taxes Current Federal Income Taxes Deferred Income Taxes ITC	4,229,013 933,718 43,491 (273,490) (516,042) 15,937 0	23,715 (13,534)	4,229,013 933,718 43,491 (249,775) (529,576) 15,937 0	27,894 370,899 788,509	4,229,013 933,718 71,385 121,123 258,933 15,937 0
Total Operating Expenses, Depreciation and Taxes	4,432,628	10,181	4,442,809		5,630,110
Net Operating Income Available For Return	(270,366)	(10,181)	(280,547)		2,685,740
Rate Base	33,353,950	0	33,353,950	0	33,353,950
Rate of Return	-0.81%		-0.84%		8.05%

York Water Exhibit MEP-1R Page 6 of 6

Table II - Wastewater

#### Operating Expense Adjustments

Total	0	0
Income Tax Adjustments	0	
Operating income	0	
Interest synchronization - cost of debt	(40,732)	
Interest synchronization - rate base	0	
State tax adjustments	(40,732)	
State income tax adjustment	(3,662)	(3,662)
Federal tax adjustments	(37,070)	
Federal income tax adjustment	(7,785)	(7,785)
Total		(11,447)
State Income Tax Adjustment		
Proforma state taxable income	(2,737,637)	
State income tax adjustment	27,376	27,376
Federal income tax adjustment	(5,749)	(5,749)
Total		21,627

### **York Water Exhibit MEP-2R**

#### York Water Exhibit MEP-2R Page 1 of 1

	#1	#2	#3	#4	#5	Total
Payroll Expense Factor Adjustment	\$44,154	\$49,763	\$98,895	\$66,681	\$57,633	\$317,126 0.9013 <b>\$285,826</b>
Payroll Taxes	\$3,549	\$3,978	\$7,737	\$5,272	\$4,580	\$25,115
Employee Benefits Health insurance 401k Total	\$9,646 \$4,349 \$13,995	\$10,535 \$2,198 \$12,733	\$20,178 \$7,634 \$27,811	\$571 \$5,701 \$6,272	\$9,646 \$2,276 \$11,922	\$72,734

### York Water Exhibit MEP-3R

#### York Water Exhibit MEP-3R Page 1 of 3





Transmission of material in this release is embargoed until 8:30 a.m. (ET) Friday, July 29, 2022

U.S.

USDL-22-1553

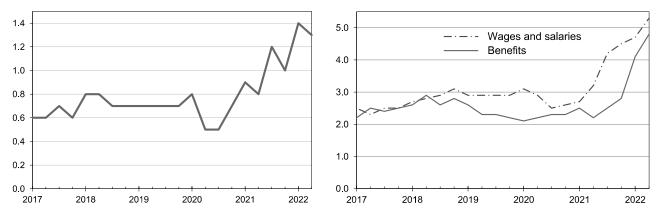
Technical information: (202) 691-6199 • ncsinfo@bls.gov • www.bls.gov/ect (202) 691-5902 • pressoffice@bls.gov Media contact:

#### **EMPLOYMENT COST INDEX - JUNE 2022**

**Compensation costs** for civilian workers increased 1.3 percent, seasonally adjusted, for the 3-month period ending in June 2022, the U.S. Bureau of Labor Statistics reported today. Wages and salaries increased 1.4 percent and benefit costs increased 1.2 percent from March 2022. (See chart 1 and tables A, 1, 2, and 3.)

#### Chart 1. Three-month percent change, seasonally adjusted, civilian workers, total compensation

Chart 2. Twelve-month percent change, not seasonally adjusted, civilian workers

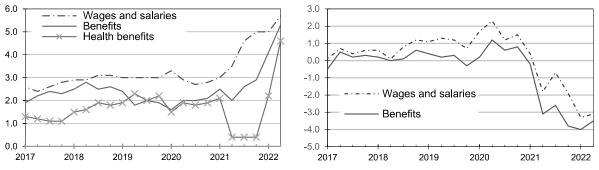


**Compensation costs** for civilian workers increased 5.1 percent for the 12-month period ending in June 2022 and increased 2.9 percent in June 2021. Wages and salaries increased 5.3 percent for the 12-month period ending in June 2022 and increased 3.2 percent for the 12-month period ending in June 2021. Benefit costs increased 4.8 percent over the year and increased 2.2 percent for the 12month period ending in June 2021. (See chart 2 and tables A, 4, 8, and 12.)

**Compensation costs** for private industry workers increased 5.5 percent over the year. In June 2021, the increase was 3.1 percent. Wages and salaries increased 5.7 percent for the 12-month period ending in June 2022 and increased 3.5 percent in June 2021. The cost of benefits increased 5.3 percent for the 12-month period ending in June 2022 and increased 2.0 percent in June 2021. Inflationadjusted (constant dollar) private wages and salaries declined 3.1 percent for the 12 months ending June 2022. Inflation-adjusted benefit costs in the private sector declined 3.5 percent over that same period. (See charts 3, 4, and tables A, 5, 9, and 12.)

#### **Updated Employment Weights**

Beginning with the December 2022 news release, the Employment Cost Index will introduce new employment weights based on the 2018 Standard Occupational Classification (SOC) system, see www.bls.gov/ncs/ect/eci-2021-fixed-weights-and-2018-soc-update.htm.



### Chart 3. Twelve-month percent change, current dollar, private industry workers

Chart 4. Twelve-month percent change, constant dollar, private industry workers

Among private industry **occupational groups**, compensation cost increases for the 12-month period ending in June 2022 ranged from 4.3 percent for natural resources, construction, and maintenance occupations to 8.0 percent for service occupations. Within **industry supersectors**, compensation cost increases ranged from 4.0 percent for construction to 7.8 percent for leisure and hospitality. (See table 5.)

**Compensation costs** for state and local government workers increased 3.4 percent for the 12-month period ending in June 2022, compared with an increase of 2.0 percent in June 2021. **Wages and salaries** increased 3.2 percent for the 12-month period ending in June 2022 and 1.6 percent a year ago. **Benefit costs** increased 3.6 percent for the 12-month period ending in June 2022. The prior year increase was 2.6 percent. (See chart 5 and tables A, 7, 11, and 12.)

Chart 5. Twelve-month percent change, not seasonally adjusted, state and local government workers

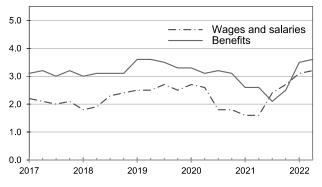


Table A	. Major	series	of	the	Employment	Cost	ndex
Percent	change	1					

Category	3-month, seasonally adjusted		12-month, not seasonally adjusted, current dollar			12-month, not seasonally adjusted, constant dollar		
	Mar. 2022	Jun. 2022	Jun. 2021	Mar. 2022	Jun. 2022	Jun. 2021	Mar. 2022	Jun. 2022
Civilian workers <sup>1</sup>								
Compensation <sup>2</sup>	1.4	1.3	2.9	4.5	5.1	-2.4	-3.7	-3.6
Wages and salaries	1.2	1.4	3.2	4.7	5.3	-2.1	-3.6	-3.5
Benefits	1.8	1.2	2.2	4.1	4.8	-3.0	-4.2	-3.9
Private Industry								
Compensation <sup>2</sup>	1.4	1.5	3.1	4.8	5.5	-2.2	-3.5	-3.3
Wages and salaries	1.3	1.6	3.5	5.0	5.7	-1.8	-3.3	-3.1
Benefits	1.9	1.3	2.0	4.1	5.3	-3.1	-4.0	-3.5
Health benefits	<u> </u>	( <del>14</del> 7)	0.4	2.2	4.6	-	( <del></del> -)	-
State and local government					~ ~ ~			
Compensation <sup>2</sup>	1.1	0.8	2.0	3.2	3.4	-3.2	-4.9	-5.2
Wages and salaries	0.9	0.7	1.6	3.1	3.2	-3.5	-5.1	-5.4
Benefits	1.5	0.9	2.6	3.5	3.6	-2.6	-4.7	-5.0

<sup>1</sup> Includes private industry and state and local government.

<sup>2</sup> Includes wages and salaries and benefits.

Note: All estimates in the table can be found in the public database at www.bls.gov/ncs/ect/data.htm. Dashes indicate data not available.

#### York Water Exhibit MEP-3R Page 3 of 3

#### **TECHNICAL NOTE**

The Employment Cost Index (ECI) measures the change in the cost of labor, free from the influence of employment shifts among occupations and industries. For information on survey concepts, coverage, methods, nonresponse adjustment, and imputation see *National Compensation Measures Handbook of Methods* at www.bls.gov/opub/hom/ncs/home.htm.

#### Sample size

Data for this reference period were collected from a probability sample of approximately 29,600 occupational observations selected from a sample of about 7,400 private industry establishments and approximately 7,700 occupational observations selected from a sample of about 1,400 state and local government establishments that provided data at the initial interview. Beginning December 2021, an additional (fourth) private industry sample is used in estimation to mitigate the impact of decreasing response rates.

#### Standard errors

To assist users in ascertaining the reliability of ECI series, standard errors of all current quarter not seasonally adjusted 3- and 12-month percent change series are also available, see www.bls.gov/ncs/ect/ectvar.htm and the database query tool at www.bls.gov/ncs/ect/data.htm. Standard errors provide users a measure of the precision of an estimate to ensure that it is within an acceptable range for their intended purpose.

#### Historical listings

Historical ECI data are available in xlsx format at www.bls.gov/ect/#tables. The continuous occupational and industry series listing uses the Standard Industrial Classification (SIC) Manual and Occupational Classification System (OCS) series from 1975 through 2005 and the North American Industry Classification System (NAICS) and Standard Occupational Classification (SOC) from 2006 to the present. It provides the official series deemed continuous after the change in classification systems. For more information on the criteria used in defining continuous series, see the article published in the *Monthly Labor Review* at www.bls.gov/opub/mlr/2006/04/art2full.pdf.

#### Employer Costs for Employee Compensation data

The costs per hour worked of compensation components are published as part of the Employer Costs for Employee Compensation (ECEC) news release. The ECEC release dates are available at www.bls.gov/schedule/news\_release/ecec.htm. Historical ECEC data are available in xlsx format at www.bls.gov/ect/#tables. Since the ECEC is calculated with current employment weights rather than the fixed weights used in computing the ECI, year-to-year changes in the cost levels usually differ from those in the ECI.

#### Fixed employment weights

For additional information on the use of fixed employment weights in computing the ECI, see www.bls.gov/opub/mlr/2016/article/introducing-2012-fixed-employment-weights-for-the-employment-cost-index.htm.

#### Additional information

Starting with the June 2022 ECI release, historical tables are available in xlsx format for constant dollar, current dollar, and continuous series, see www.bls.gov/ncs/ect/new-eci-historical-tables.htm. The 2022 ECI release dates are available on the release calendar at

www.bls.gov/schedule/news\_release/eci.htm. Subscribe to receive the BLS Economic News Release email at public.govdelivery.com/accounts/USDOLBLS/subscriber/new. If you are deaf, hard of hearing, or have a speech disability, please dial 7-1-1 to access telecommunications relay services.

### **York Water Exhibit MEP-4R**

#### York Water Exhibit MEP-4R Page 1 of 1

#### Pa. PUC v. The York Water Company – Water Division Docket No. R-2022-3031340

#### Pa. PUC v. The York Water Company – Wastewater Division Docket No. R-2022-3032806

#### INTERROGATORIES, REQUESTS FOR PRODUCTION OF DOCUMENTS AND REQUESTS FOR ADMISSION ON OCA – SET III

3. Re. OCA St. No. 1, page 18. Mr. Garrett states, "While I generally agree with this requirement, I would point out that in utility ratemaking, a standard that requires benefits to customers actually means that a 'net benefit' to customers is required. In other words, a showing of ratepayer benefit at any cost is not sufficient. Instead, the utility has the burden of showing that the cost incurred provides a net benefit to ratepayers. I do not agree that if a utility shows any benefit to ratepayers, no matter how small, the entirety of its incentive compensation plan costs should be included in rates."

a.

Question was modified by agreement of the Company and OCA as follows:

Is Mr. Garrett aware of the PaPUC previously applying the referenced "net benefit" standard when evaluating the recovery of incentive compensation in base rate cases? If so, please identify all such PaPUC decisions that Mr. Garrett relied upon in reaching that conclusion.

**<u>Response</u>**: Mr. Garrett is not aware of any Pa. PUC decision that has explicitly referenced a "net benefits" standard when evaluating a utility company's incentive compensation recovery. However, it is Mr. Garrett's experience that when a regulatory commission limits the recovery of incentive compensation (based upon compensation surveys or other standards for reasonableness), the regulatory commission effectively applies a "net benefits" standard in its analysis of the expense.

Regulatory commissions consider net benefit (cost/benefit) analysis as part of virtually every disallowance of utility costs in rate case proceedings. For example, when disallowing recovery of utility expenses such as image-building advertising, lobbying, corporate jet travel, directors' and officers' compensation and liability insurance, above-market payroll, *etc.*, regulatory commissions routinely apply "net benefits" analysis to disallow a portion of the costs. The analysis typically indicates that the net benefits to ratepayers do not justify the costs incurred, and therefore the costs are excluded from rates. See further discussion and example of such analysis in Mr. Garrett's Response to 7(a) below.

RESPONDENT: Mark Garrett

DATE: September 6, 2022

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, et al.	:	
v. The York Water Company – Water Division		Docket Nos. R-2022-3031340, et al.
Pennsylvania Public Utility Commission, et al.	:	
	:	
V.	:	Docket Nos. R-2022-3032806, et al.
	:	
The York Water Company – Wastewater Division	:	

#### REBUTTAL TESTIMONY OF VERNON L. BRACEY

#### ON BEHALF OF

#### THE YORK WATER COMPANY

Dated: September 16, 2022

#### 1 I. <u>INTRODUCTION</u>

2	Q.	State your name and business address.
3	A.	Vernon L. Bracey. My business address is: 130 East Market Street, York, Pennsylvania.
4		
5	Q.	By whom are you employed?
6	A.	I am employed by The York Water Company ("York Water" or the "Company").
7		
8	Q.	State your present position with the Company.
9	A.	I am the Vice President-Customer Service.
10		
11	Q.	Did you previously submit direct testimony in this proceeding?
12	A.	No.
13		
14	Q.	Could you please provide your educational background?
15	A.	I have a bachelor's degree in Organizational Management from Eastern University, which
16		I received in 1999.
17		
18	Q.	Could you please provide your professional experience?
19	A.	I worked for Metropolitan Edison Company in the community relations and economic
20		development departments for 15 years prior to joining York Water in 1998 as a Meter
21		Reading Manager. From 2000 until 2013, I served as Customer Service Manager for York
22		Water. Since 2013, I have held my current position as Vice President-Customer Service
23		for York Water.

1 Q. What are your responsibilities as Vice President-Customer Service for York Water? 2 My responsibilities include overseeing the call center, meter reading, and collections of the A. 3 Company. I also lead the Company's response to informal and formal complaints filed with the Pennsylvania Public Utility Commission ("Commission"). Further, I provide 4 5 monthly and annual reporting to the Commission on matters related to the Company's 6 collections activities and low-income customer assistance programs. I also guide the 7 weekly mailing of water and wastewater invoices to ensure compliance with all applicable 8 regulations.

9

#### 10 Please describe the purpose of your rebuttal testimony. Q.

11 The purpose of my testimony is to respond to portions of the testimony of the Office of A. 12 Consumer Advocate ("OCA") witnesses Barbara R. Alexander (OCA St. No. 5) and Terry 13 L. Fought (OCA St. No. 6) regarding certain allegations and recommendations about the 14 Company's customer service and low-income programs. Specifically, in the customer 15 service section, I address the OCA witnesses' allegations and recommendations concerning 16 the Company's call center performance, training of customer service representatives, the 17 Company's customer complaint procedures, payment plans, billing and service termination 18 issues, and Commission audits and investigations. I then respond to certain of Ms. 19 Alexander's low-income program allegations and recommendations in the final section of 20 my testimony.

- 21
- 22

#### **Q**. Are you sponsoring any exhibits with your rebuttal testimony?

23 A. Yes, attached to my rebuttal testimony are the following exhibits:

1 2		• York Water Exhibit VLB-1R – Copies of OCA witness Alexander's responses to York Water Set III, Nos. 11-14;
3		• York Water Exhibit VLB-2R – York Water's 2022 call center statistics;
4 5		• York Water Exhibit VLB-3R – Copy of the Wastewater and Refuse Billing Services Agreement;
6 7		• York Water Exhibit VLB-4R – Copy of the Certificate of Filing for the Wastewater and Refuse Billing Services Agreement;
8 9		• York Water Exhibit VLB-5R – Copies of York Water's Shut-Off Agreement with the City of York and Addendum;
10 11		• York Water Exhibit VLB-6R – Copies of Certificates of Filing for Shut-Off Agreement and Addendum; and
12 13		• York Water Exhibit VLB-7R – Copy of redacted bill for City of York wastewater and refuse customer.
14		
15	II.	CUSTOMER SERVICE
16	Q.	OCA witness Alexander raises several issues concerning the Company's customer
16 17	Q.	OCA witness Alexander raises several issues concerning the Company's customer service performance. (OCA St. No. 5, pp. 5-18.) Do you have any overall comments
	Q.	
17	<b>Q.</b> A.	service performance. (OCA St. No. 5, pp. 5-18.) Do you have any overall comments
17 18		service performance. (OCA St. No. 5, pp. 5-18.) Do you have any overall comments before responding to her allegations specifically?
17 18 19		<ul><li>service performance. (OCA St. No. 5, pp. 5-18.) Do you have any overall comments</li><li>before responding to her allegations specifically?</li><li>Yes. I believe Ms. Alexander is not placing the Company's performance within the right</li></ul>
17 18 19 20		<ul><li>service performance. (OCA St. No. 5, pp. 5-18.) Do you have any overall comments</li><li>before responding to her allegations specifically?</li><li>Yes. I believe Ms. Alexander is not placing the Company's performance within the right</li><li>context. York Water is not as large of a water and wastewater utility as, for example,</li></ul>
17 18 19 20 21		<ul> <li>service performance. (OCA St. No. 5, pp. 5-18.) Do you have any overall comments</li> <li>before responding to her allegations specifically?</li> <li>Yes. I believe Ms. Alexander is not placing the Company's performance within the right</li> <li>context. York Water is not as large of a water and wastewater utility as, for example,</li> <li>Pennsylvania-American Water Company ("PAWC") or Aqua Pennsylvania, Inc. ("Aqua").</li> </ul>
<ol> <li>17</li> <li>18</li> <li>19</li> <li>20</li> <li>21</li> <li>22</li> </ol>		<ul> <li>service performance. (OCA St. No. 5, pp. 5-18.) Do you have any overall comments</li> <li>before responding to her allegations specifically?</li> <li>Yes. I believe Ms. Alexander is not placing the Company's performance within the right</li> <li>context. York Water is not as large of a water and wastewater utility as, for example,</li> <li>Pennsylvania-American Water Company ("PAWC") or Aqua Pennsylvania, Inc. ("Aqua").</li> <li>The Company also is not as large as the major electric distribution companies ("EDCs")</li> </ul>
<ol> <li>17</li> <li>18</li> <li>19</li> <li>20</li> <li>21</li> <li>22</li> <li>23</li> </ol>		<ul> <li>service performance. (OCA St. No. 5, pp. 5-18.) Do you have any overall comments</li> <li>before responding to her allegations specifically?</li> <li>Yes. I believe Ms. Alexander is not placing the Company's performance within the right</li> <li>context. York Water is not as large of a water and wastewater utility as, for example,</li> <li>Pennsylvania-American Water Company ("PAWC") or Aqua Pennsylvania, Inc. ("Aqua").</li> <li>The Company also is not as large as the major electric distribution companies ("EDCs")</li> <li>and natural gas distribution companies ("NGDCs") operating in the Commonwealth.</li> </ul>
<ol> <li>17</li> <li>18</li> <li>19</li> <li>20</li> <li>21</li> <li>22</li> <li>23</li> <li>24</li> </ol>		<ul> <li>service performance. (OCA St. No. 5, pp. 5-18.) Do you have any overall comments</li> <li>before responding to her allegations specifically?</li> <li>Yes. I believe Ms. Alexander is not placing the Company's performance within the right</li> <li>context. York Water is not as large of a water and wastewater utility as, for example,</li> <li>Pennsylvania-American Water Company ("PAWC") or Aqua Pennsylvania, Inc. ("Aqua").</li> <li>The Company also is not as large as the major electric distribution companies ("EDCs")</li> <li>and natural gas distribution companies ("NGDCs") operating in the Commonwealth.</li> <li>This is important because it appears that Ms. Alexander is treating York Water like</li> </ul>

p. 7.) She then recommends that York Water be held to a customer service performance
metric that matches the major EDCs' and NGDCs' call center performance. (*See id.*, pp.
9, 24.) In discovery, Ms. Alexander noted that she "has proposed similar performance
standards" for "Pittsburgh Water and Sewer Authority, Pennsylvania American Water, and
Aqua Pennsylvania in recent rate cases." (*See* York Water Exhibit VLB-1R, Answer to
York Water Set III, No. 11(a).)

7 York Water is not comparably sized to the major EDCs, NGDCs, and water and 8 wastewater utilities. Although the Company could expand its customer service operations 9 to match those larger entities, doing so would come at a substantial increase in York 10 Water's expenses that would be passed onto the Company's ratepayers. Notably, Ms. 11 Alexander has not performed any analyses of how much incremental capital costs and 12 expenses York Water would incur if the Company were forced to implement her various 13 recommendations. (See York Water Exhibit VLB-1R, Answers to York Water Set III, Nos. 14 12-14.)

In addition, I believe York Water's customer service is among the best in the industry, which is no small feat given the Company's relative size to its counterparts in Pennsylvania. The Company has had only two sustained formal customer complaints in over 10 years and only two adverse findings by the Commission's Bureau of Consumer Service ("BCS") since 2020. I do not know of any water or wastewater utility in Pennsylvania with a better complaint track record than York Water. Thus, the Company has provided and will continue to provide exceptional customer service to its ratepayers.

Example 22 Furthermore, many facets of the Company's customer service performance were tied to York Water's billing for the City of York's wastewater service and the

1 Commission's lifting of the emergency COVID-19 termination moratorium in November 2 2020. From June 2019 until June 2022, York Water handled the billing of the City of 3 York's wastewater service pursuant to a Commission-approved billing services contract. At the direction of the City of York, York Water issued its first City of York wastewater 4 5 and refuse bills to customers in August 2020 with a due date of September 2020. Those 6 initial bills only included the current charges due and not any charges for prior billing 7 periods that the City of York held off on invoicing. Soon thereafter, in November 2020, 8 the Commission lifted its emergency COVID-19 termination moratorium. Then, in April 9 2021, the City of York directed York Water to include previous balances in the bills in 10 addition to current charges. Combined, York Water believes these factors led to a higher 11 incidence of calls and longer call durations over those time periods, stressing the 12 Company's call center performance. Around the same time that the Company considered 13 how to respond to these issues, York Water became aware of the City of York's intent to sell its wastewater system to PAWC. This was critical because if another certificated 14 15 wastewater utility were to purchase the system, that utility would bill for its own 16 wastewater service. Therefore, rather than taking certain actions that would likely be 17 reversed later after the sale of the City of York's wastewater system (such as having to hire 18 and then lay off employees), the Company awaited to see the outcome of the City's sale 19 process. That acquisition recently closed on May 27, 2022.

As noted by Ms. Alexander, the Company stopped providing the wastewater billing service in June 2022 due to PAWC's acquisition of the City of York's wastewater system. However, the call center performance has not returned to pre-2020 levels yet. This is because PAWC's acquisition of the City of York wastewater system has resulted in many

calls to York Water's customer service department, with a substantial number of customers
that are confused about the acquisition. The Company believes that customer confusion is
due, in part, to: (1) inadequate cooperation with York Water in facilitating the transition in
wastewater service billing; and (2) insufficient education by the City of York and the new
wastewater system operators about which entity is now billing them for wastewater service.

6 Such difficulties are expected to ease, however, as customers become more 7 knowledgeable about the switch in billing responsibilities from York Water to PAWC. For 8 example, I note that the average time to answer calls in July of 2022 declined over 60% 9 from the average time in April of 2022. For these reasons, York Water fully expects that 10 its call center performance will improve substantially over the coming months and return 11 to, at the very least, the levels the Company experienced before it began providing the 12 wastewater billing service to the City of York.

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#### A. CALL CENTER PERFORMANCE

Q. OCA witness Alexander alleges that that York Water's customer call center data
shows "extremely poor performance in terms of the Company's ability to answer calls
in a timely manner and avoid a significant abandonment rate (the percentage of calls
in the queue to be answered by a customer service representative that are abandoned
due to a long wait time)." (OCA St. No. 5, pp. 6-7.) Please respond.

A. Ms. Alexander bases this conclusion on her comparison of York Water's call center performance data to the major EDCs' and NGDCs' call center data. Specifically, she states that the Company's "results are not reasonable and significantly below what is reported by Pennsylvania gas and electric utilities, where the typical performance is to answer 80% of

the calls within 30 seconds with an abandonment rate at or below 4%." (OCA St. No. 5,

p. 7.)

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As I noted previously, I do not believe this is a fair and reasonable comparison. York Water is a much smaller company than the major EDCs and NGDCS and the major water and wastewater utilities operating in the Commonwealth. As such, the more appropriate comparison would be to evaluate York Water's call center performance as compared to other public utilities in Pennsylvania that are comparably sized. No such analysis was presented by Ms. Alexander.

9 In addition, as I noted previously, York Water projects that its call center 10 performance will improve in the coming months because: (1) York Water stopped 11 providing wastewater billing services for City of York wastewater customers; and (2) the 12 Company expects that the City of York wastewater customers will become more educated 13 about PAWC now being the utility responsible for billing their wastewater service.

14

15 Ms. Alexander contends that the Company's explanation for the "deterioration in call **O**. 16 center performance" being due to the collection of "non-York Water bills" is not 17 reasonable because "jurisdictional water and wastewater customers should not suffer 18 significant deterioration of customer service" due to "the Company's decision to bill 19 for and collect non-jurisdictional services." (OCA St. No. 5, pp. 8-9.) Please respond. 20 A. As I noted previously, the Company believes that its current call center performance is 21 temporary and will rebound in the coming months. Furthermore, the Company entered 22 into a billing services agreement with the City of York to streamline the monthly water and 23 wastewater billing process. The City used water consumption records from York Water to

1 issue monthly wastewater bills to their customers. They consistently experienced a billing 2 lag of 60-90 days resulting in confusion for wastewater customers and questions for York 3 Water since the billings were consumption based. Customers within the City were 4 receiving a water bill based upon current consumption, while they were also receiving 5 wastewater bills from the City reflecting water consumption from two or three months 6 prior. Through the billing services agreement, York Water fully eliminated the billing lag 7 by issuing City of York wastewater bills within a week of when the monthly water bills 8 were issued. Thus, although the billing services agreement placed additional strain on the 9 Company's customer service center, the agreement provided significant benefits to York 10 Water customers.

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Q. Ms. Alexander also asserts that the "key variable in predicting reasonable versus unreasonable call center performance is the volume of calls and the number of available call center representatives on hand to answer the calls" and that "[p]erformance can be improved with better prediction of call volume and ensuring sufficiently trained personnel are available to respond to call volume at predicted high call volume days and times." (OCA St. No. 5, pp. 7-8.) Please respond.

A. As explained previously, the Company expects that its call center performance will return
 to pre-2020 levels over the coming months. If the Company finds that its call center
 performance does not return to appropriate levels, York Water will examine appropriate
 responses, including, but not limited to, hiring additional call center employees.

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1	Q.	What is your response to Ms. Alexander's claim that "[o]ver the period of January
2		2021 through May 2022 there is no indication of the necessary changes to halt the
3		obvious trend in deterioration of performance"? (OCA St. No. 5, p. 9.)
4	А.	As explained previously, the Company's responsibility to bill for the City's wastewater
5		service ended in June of 2022. Therefore, it would have been too early to see improvements
6		in call center performance during the January 2021 through May 2022 period.
7		In addition, the call center performance data for June and July 2022 indicates that
8		York Water's performance should rebound to prior levels now that the Company stopped
9		billing for the City of York's wastewater service. Specifically, in June 2022, 26.27% of
10		calls were answered within 30 seconds, and in July 2022, 33.92% of calls were answered
11		within 30 seconds. (See York Water Exhibit VLB-2R.)
12		
13	Q.	Please respond to Ms. Alexander's assertion that York Water does not have internal
14		performance objectives for its call center, nor has the Company "conducted an
15		evaluation of its call center performance." (OCA St. No. 5, p. 8.)
16	A.	Although the Company does not have internal performance objectives for its call center,
17		York Water monitors its performance daily. Every day, I receive an auto-generated report
18		from the Company's Mixie system, which lists the customer service representatives,
19		number of inbound calls received, number of outbound calls placed, average amount of
20		
20		time to pick up calls, and average duration of their calls. Based on those reports, the
21		

1Q.In light of her concerns about the call center's performance, Ms. Alexander2recommends that "York Water be required to significantly improve its call center3performance to meet the standard performance results of answering 80% of the calls4with 30 seconds and meeting an abandonment rate of 4% or less" and that "[t]his5improvement . . . be monitored for compliance as a condition of any rate increase."6(OCA St. No. 5, p. 9; see also OCA St. No. 5, p. 24.) Do you agree?

7 No. As I have outlined above, holding York Water's call center performance to the same A. 8 level of the major EDCs and NGDCs is not fair or reasonable. Furthermore, I believe it is 9 premature to establish any such standards and monitoring requirements as part of this 10 proceeding. York Water fully expects its call center performance to improve in the coming 11 months. Additionally, from my perspective, York Water should not be subject to specific 12 customer service standards and reporting requirements to which all of its peer water and 13 wastewater utilities are not subject. If a specific call center performance metric were to be 14 established by the Commission, I believe that it should be done through the Commission 15 promulgating a regulation applicable to all regulated water and wastewater utilities, as 16 opposed to imposing a Company-specific standard in a base rate case.

17

#### 18**B.TRAINING OF CUSTOMER SERVICE REPRESENTATIVES**

Q. OCA witness Alexander raises a series of allegations and recommendations related to
the Company's training of customer service representatives. (OCA St. No. 5, pp. 1114, 16-18, 22, 24-27.) Before responding to them specifically, could you please provide
details on the training that the Company's customer service representatives undergo?
A. York Water's CSRs receive training on a wide range of topics they will encounter when
interacting with customers. The training lasts at least two full work weeks (*i.e.*, 80 hours

of training) with an experienced CSR, before the new CSR is cleared to work on their own.
The training includes how to navigate the Oracle database, online bill pay system,
telephone system, Chapter 56 of the Commission's regulations, how to respond to customer
inquiries in person, via email, and over the phone, payment agreements, assistance
programs, and collections.

- 6
- Q. Ms. Alexander claims that "York Water's training materials" do not "include any
  information on how to recognize a customer dispute or take action in response to a
  dispute." (OCA St. No. 5, p. 11.) Please respond.

10 At the conclusion of a customer interaction, CSRs ask if the customer is satisfied. If a A. 11 customer expresses dissatisfaction, the CSR is trained to identify a dispute and enter 12 appropriate notations on the customer's account in the Oracle database. In cases where the 13 customer requests to speak with a supervisor, CSRs discuss the issue with management 14 and if needed, management will engage with the customer to work on a resolution. Thus, 15 although York Water does not have written training materials on this subject, the 16 Company's CSRs are specifically trained to recognize a customer dispute and take action 17 in response to a dispute.

18

Q. Ms. Alexander recommends that "York Water be required to adopt revised and
updated training materials . . . to ensure that disputes and complaints are identified,
tracked, and evaluated on a regular basis." (OCA St. No. 5, p. 13.) Relatedly, she
recommends that "York Water be required to submit a plan that adopts explicit
training for identification, tracking, monitoring, and evaluating customer

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complaints," including an analysis of "payment arrangement disputes." (OCA St. No. 5, p. 25.) Please respond.

A. As explained previously, York Water's CSRs already receive training on this subject, and
the Company properly identifies, tracks, monitors, and evaluates customer complaints,
including payment arrangement disputes. Moreover, Ms. Alexander has not performed any
analysis of how much York Water would incur in incremental capital costs and/or expenses
in order to implement her recommendation. (*See* York Water Exhibit VLB-1R, Answer to
York Water Set III, No. 13.)

9

10Q.Ms. Alexander also claims that "York Water's training programs do not include11many key details that are important to ensure that residential customers are provided12with the rights and remedies set forth in Chapter 56," and provides some examples13like lack of instruction on customer engagement, soliciting information from14customers on income level and life circumstances, and customers' rights when they15are covered by a Protection from Abuse ("PFA") Order. (OCA St. No. 5, pp. 13-14.)16Please respond.

17 A. York Water's CSRs already receive training on how to engage with customers in-person, 18 over the phone, and via email and provide them with information about the rights and 19 remedies set forth in Chapter 56. Customers in need of a payment agreement are asked 20 their household income, expense information, and the number of persons residing in the 21 Information about the availability of emergency medical procedures is also home. 22 provided as required by the Commission's regulations. If a customer informs a CSR of the 23 existence of a PFA, CSRs will immediately restore service if it was terminated, cease shut-

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off activity if pending, note the existence of the PFA on the customer's account in Oracle, and place the customer on a new or updated payment agreement.

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Q. Ms. Alexander recommends that "York Water undertake a review and reform of its
training materials and oversight policies to ensure a proper level of detail to inform
customer service representatives and customers about the rights, remedies, and
responsibilities set forth in Chapter 56, given that "[t]he current training program is
insufficient and inadequate, particularly when considered in light of the failure to
properly identify, track and resolve customer disputes and complaints." (OCA St.
No. 5, p. 14; *see also* OCA St. No. 5, p. 25.) Do you agree?

11 A. I disagree with Ms. Alexander's claims that the current training program is "insufficient 12 and inadequate" and that the Company has failed to "properly identify, track and resolve 13 customer disputes and complaints." York Water's current CSR training program is 14 sufficient and adequate and has resulted in the Company consistently providing exemplary 15 service to its customers, as I noted previously. Moreover, as explained in the following 16 section of my rebuttal testimony, York Water properly identifies, tracks, and resolves 17 customer disputes and complaints.

Nevertheless, York Water would be willing to update its written training materials
to make clearer and more explicit the information that is currently being provided to the
CSRs through in-person training on the rights, remedies, and responsibilities set forth in
Chapter 56 of the Commission's regulations.

22

1Q.Ms. Alexander also recommends that "York Water develop training materials that2correct" alleged "deficiencies" regarding landlord/tenant issues and submit updated3and revised training materials as a condition of a rate increase ordered in this4proceeding." (OCA St. No. 5, p. 18; see also OCA St. No. 5, p. 25.) What led her to5make that recommendation?

Ms. Alexander says that she has "several concerns" with the Company's "policies to 6 A. 7 implement the rights of tenants when the property owner or landlord fails to pay the bill," 8 such as the lack of "training materials that summarize these requirements," the lack of "any 9 rules and regulations in this area" set forth in York Water's tariffs, the fact that the 10 Company is currently revising its existing practices and implementing revisions to those 11 practices, and the lack of "any explicit directive to customer call center employees to 12 require" information about the property's vacancy "as a condition of pursuing termination" at the request of a landlord. (OCA St. No. 5, p. 17.) She further states that York Water's 13 14 training materials "do not address field operations or how the technicians handle personal 15 contact with the customer or responsible adult prior to the termination of service." (OCA 16 St. No. 5, p. 17.)

17

#### 18 Q. Do you agree with Ms. Alexander's concerns and recommendation?

A. I disagree with Ms. Alexander that the Company has "deficiencies" with respect to CSR
training on landlord/tenant issues. York Water's training for CSRs includes how to address
specific circumstances when landlord/tenant issues are involved, including the Company's
requirements under the Commission's regulations and the Discontinuance of Services to

Leased Premises Act, 66 Pa. C.S. § 1521, *et seq.* Furthermore, the Company currently is updating its existing practices to ensure York Water's compliance with those requirements.

3 Notwithstanding, as noted above, York Water would be willing to update its written training materials to make clearer and more explicit the information that is currently being 4 5 provided to the CSRs through in-person training on the rights, remedies, and 6 responsibilities set forth in Chapter 56 of the Commission's regulations the Discontinuance 7 of Services to Leased Premises Act, 66 Pa. C.S. § 1521, et seq. I do not believe, however, 8 that such written materials must be submitted to the Commission as a condition of the 9 Company's proposed base rate increase. Such written training materials will take a 10 substantial amount of time to develop and finalize. The more prudent course of action 11 would be for the Company to submit the updated training materials in its next base rate 12 case for the other parties to review.

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# Q. Ms. Alexander also recommends that York Water's "training regime itself" be "reform[ed] to document how training is conducted and how ongoing compliance is audited." (OCA St. No. 5, p. 25.) Do you agree?

- A. I disagree that York Water's current CSR training process is insufficient and that the
  ongoing compliance is not adequately audited. However, as part of updating the
  Company's training materials, York Water would be willing to document how the training
  is conducted and how ongoing compliance is audited.
- 21
- 22

#### C. CUSTOMER COMPLAINT PROCEDURES

Q. OCA witness Alexander claims that "[t]racking and evaluating disputes handled by
the utility and informal or formal complaints handled by BCS are key to ensuring

1		ongoing improvements in customer service because that evaluation is likely to spot
2		the 'red flag' that indicates a systemic issue or concern that requires management's
3		attention and, in some cases, a change in policy or procedure." (OCA St. No. 5, p.
4		10.) Do you agree?
5	A.	Yes, which is why York Water does track and evaluate customer disputes and complaints,
6		although not necessarily in the manner advocated by Ms. Alexander. York Water serves
7		approximately 75,000 customers in York, Adams and Franklin counties. the Company's
8		service territory is small, and all complaints are reviewed with the appropriate Company
9		personnel to identify any systemic issues or potential changes in policies or procedures.
10		From 2019 through August 2022, York Water received approximately 236 informal
11		complaints and nine formal complaints, broken down as follows.
12		2019 – 102 informal complaints, 2 formal complaints
13		2020 – 32 informal complaints, 3 formal complaints
14		2021 – 40informal complaints, 3 formal complaints
15		2022 – 62 informal complaints, 1 formal complaint (as of September 13, 2022)
16		The Company's review and monitoring of these complaints has informed operational
17		decisions to resolve the disputes. For example, in 2020, York Water received two formal
18		complaints (Docket Nos. C-2020-3021479 and C-2020-3021066) about a water service
19		quality issue on a dead-end main along Dunkard Valley Road in York, Pennsylvania.
20		Although the Company routinely flushed the main to prevent such service issues, York
21		Water ultimately resolved the customers' disputes by installing a new 12-inch distribution
22		main, which including the installation of a blow off and hydrant tee, and by abandoning
23		the previous distribution main. Throughout the main installation process, York Water

provided written status reports so that the customers knew what was happening with the
 construction. This is just one example, but it exemplifies how York Water's internal teams
 work together to identify and resolve customer service issues and to continue providing
 customers with exceptional service.

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# Q. Ms. Alexander asserts that "York Water does not keep a data base or log of customer disputes and has never done a root cause analysis of customer complaints." (OCA St. No. 5, p. 11.) Please respond.

A. As noted previously, all complaints are reviewed with the appropriate personnel to identify
any systemic issues or potential changes in policies or procedures. As part of that process,
York Water's teams determine collectively how the Company should respond to those
complaints. Moreover, a formal root cause analysis of customer complaints is unnecessary
given the low volume of customer complaints received by York Water. If are systemic or
widespread issues are occurring, York Water would know given the small number of
complaints and the small size of its service territories.

In addition, all customer complaints are kept into the Company's records and tracked by its customer service and legal departments. Further, although the Company does not keep a formal coded spreadsheet with all customer disputes listed, York Water's wastewater team currently logs customer disputes into a coded spreadsheet. The Company also is currently developing a process within its Oracle customer service database to log and track all customer disputes. Therefore, the Company is already working to develop a comprehensive database for its customer disputes.

23

Q. Ms. Alexander speculates that "[t]he fact that York Water's policies are deficient in
 identifying customer disputes and complaints may explain why York Water's
 complaint ratio is lower compared to other Pennsylvania water utilities." (OCA St.
 No. 5, p. 13.) Please respond.

5 Ms. Alexander's statement is without merit. The complaint ratio is based on the number A. 6 of consumer complaints, not customer disputes that never get to the informal or formal 7 complaint stage. All of those consumer complaints are filed with the Commission. The 8 Company's policies for identifying customer disputes and complaints cannot mask the 9 actual number of consumer complaints filed with the Commission. In actuality, York 10 Water's complaint ratio is lower compared to other Pennsylvania water utilities because 11 the Company provides exemplary customer service and does an exceptional job of 12 resolving customer disputes before they reach the informal or formal complaint stage.

13

## Q. Ms. Alexander also claims that York Water does not "have any internal complaint (dispute) performance standards." (OCA St. No. 5, p. 12.) Please respond.

16 A. It is correct that the Company does not have any specific internal complaint (dispute) 17 performance standards. However, Ms. Alexander does not explain what these performance 18 standards should even be. And, as Ms. Alexander herself notes, York Water's complaint 19 ratio is lower compared to other Pennsylvania water utilities, and that is a product of the 20 Company's exemplary customer service and its exceptional ability to resolve customer 21 disputes before they reach the informal or formal complaint stage. As such, I do not believe 22 that internal complaint (dispute) performance standards are necessary.

23

1	Q.	Ms. Alexander recommends that "York Water be required to adopt revisions to
2		its database to ensure that disputes and complaints are identified, tracked, and
3		evaluated on a regular basis." (OCA St. No. 5, p. 13.) Do you agree?
4	A.	Yes. As I noted previously, York Water is currently updating its Oracle customer service
5		database to log and track all customer disputes. Consistent with its existing practices, the
6		Company will continue to evaluate those complaints and disputes on a regular basis with
7		the appropriate personnel.
8		
9	Q.	Ms. Alexander also recommends that York Water be required to submit "quarterly
10		reports that document improved complaint handling and analysis as a condition of
11		any rate increase." (OCA St. No. 5, p. 25.) Do you agree?
12	A.	No. As explained above, York Water adequately identifies, tracks, evaluates, and responds
13		to customer complaints. Thus, there is no reason for the Company to submit these quarterly
14		reports as a condition of any base rate increase.
15		
16	Q.	OCA witness Fought makes additional recommendations in his direct testimony
17		regarding the Company's tracking of customer complaints. (OCA St. No. 6, pp. 5-6.)
18		Could you please summarize them?
19	A.	Yes. Mr. Fought recommends that York Water, in future base rate cases, submit a
20		complaint log that: (1) includes all complaints or records of customer disputes received by
21		phone, online, and in writing (not just those filed with the Commission), and (2) submit the
22		listing of complaints in live Excel format, including providing more specific details of the
23		complaints as discussed above, and also indicating the final disposition of the complaint.

1 (OCA St. No. 6.) For the water system, he recommends that "the complaint listing include 2 the following categories so that the data can be sorted by date and location: date, location, 3 and the nature of complaint categorized as dirty water, rusty water, water taste, odor, or color, staining (of laundry or plumbing fixtures), request for water testing, customer 4 5 property damage, incomplete surface restoration, and health issues." (OCA St. No. 6, p. 6 6.) For the wastewater system, he recommends that "the complaint listing include the 7 following categories: date, location, and the nature of complaint categorized as odor, sewer 8 backups, pump station alarms, grinder pumps, sewer main breaks, customer property 9 damage, and incomplete surface restoration." (OCA St. No. 6, p. 6.)

10

#### 11 Q. Do you agree with Mr. Fought's recommendations?

A. York Water agrees to present a complaint log in its next base rate case. As I observed
 previously, the Company is currently updating its Oracle customer service database to log
 and track all customer disputes. As part of that update, the Company will be able to
 produce an Excel spreadsheet containing important information about each of the disputes,
 including customer, account number, address, date, and type of issues raised by the
 customer.

18 The level of detail recommended by Mr. Fought, however, is unnecessary, given 19 that the Company provides high quality water and wastewater service and receives a low 20 number of customer complaints. Indeed, the information recommended by Mr. Fought is 21 highly focused on water and wastewater quality issues, a pattern of which can be identified 22 in many circumstances simply with dates and locations. Moreover, water and wastewater 23 quality issues are rare on York Water's systems. York Water runs thousands of tests and

responds quickly to any claims about water or wastewater quality. In fact, of the
 approximately 236 informal complaints and nine formal complaints since 2019, very few
 involved water or wastewater quality issues.

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#### D. PAYMENT PLANS

Q. OCA witness Alexander asserts that "York Water is not able to distinguish the
various type of payment plans it has granted and has never done an analysis of
whether its payment plan policies are effective." (OCA St. No. 5, p. 14.) Please
respond.

10 The Company can distinguish the various types of payment plans offered to customers. A. 11 Customers are offered Commission payment arrangement requests, Company payment 12 arrangement requests and change in circumstance ("CIC") payment arrangement requests. 13 The type of payment plan is recorded on the individual customer's account in York Water's 14 billing system. Currently, York Water's system can produce a summary report of the total 15 number of payment plans effective on a monthly basis. Although the Company does not 16 have the current programming that allows York Water to run a summary report showing how many customers are enrolled in each type of payment plan, that does not mean that 17 18 York Water cannot "distinguish the various type[s] of payment plans that it has granted."

19

20Q.Ms. Alexander recommends that York Water "be required to reform its customer21training programs with regard to payment arrangement negotiations with customers22to undertake a more individualized approach based on the customer's circumstances23and needs" and that "[t]his reform . . . be undertaken immediately and documented

in a compliance filing as a condition of any rate increase." (OCA St. No. 5, p. 25.) Do
 you agree?
 A. The Company disagrees that its current CSR training regarding payment arrangement
 negotiations is inadequate. CSRs currently review the customer's circumstances including

income, expense, number of persons in the household, and other circumstances to arrive at

the appropriate payment terms based upon the individual customer's circumstance.

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#### E. BILLING AND SERVICE TERMINATION ISSUES

# 9 Q. Could you please clarify what billing services the Company previously and currently 10 provides to the City of York?

11 Yes. From June 2019 to June 2022, York Water billed the City of York's wastewater and A. 12 refuse charges on the Company's water service bills for customers in the City of York. 13 Such billing service was provided pursuant to a Commission-approved billing services 14 agreement. Attached as York Water Exhibits VLB-3R and 4R are copies of the agreement 15 and the Commission's Certificates of Filing evidencing its approval of the agreement. 16 However, in June 2022, PAWC closed on its acquisition of the City of York wastewater system. As such, York Water no longer provides wastewater billing service for wastewater 17 18 customers in the City of York. But, contrary to Ms. Alexander's claim in her direct 19 testimony (see OCA St. No. 5, p. 16), York Water is still handling the billing of the City 20 of York's refuse service pursuant to the Commission-approved agreement.

21

# Q. Could you please summarize OCA witness Alexander's claims about the Company's termination of service notices?

1 A. Ms. Alexander asserts that "[t]he volume of termination notices by York Water increased 2 dramatically in 2021 and again recorded a significant increase in 2022 compared to 2021," 3 noting that "over 4,500 notices were issued in January through May 2022," but "less than 4 40 actual terminations of service occurred during this timeframe." (OCA St. No. 5, p. 15.) 5 According to Ms. Alexander, "[t]his pattern" of issuing raises a number of serious 6 concerns," given that: (1) "there is no authority for any water utility to collect 'refuse' 7 charges on behalf of a municipality, and, critically, the Commission's regulations prohibit 8 termination of service for non-basic charges such as these"; (2) "the pattern of issuing 9 thousands of notices threatening termination of regulated water service every month and 10 not pursuing termination based on the 'direction of the City of York,' raises the potential 11 for noncompliance with a Chapter 56 directive that prohibits the issuance of termination 12 notices when termination is not intended to occur." (OCA St. No. 5, pp. 15-16.)

13

## 14 Q. Please respond to Ms. Alexander's claims about York Water's termination of service 15 notices.

16 Attached as York Water Exhibits VLB-5R and VLB-6R are the City of York Shut-Off A. 17 Agreement and Addendum and the Commission's Certificates of Filing evidencing its 18 approval of that Agreement. I note that York Water only issued termination notices for 19 unpaid City of York wastewater bills, which, as I am advised by counsel, is permitted under 20 the law and the Commission-approved Sewer Shut-Off Agreement. York Water was not 21 using the termination notices as a collection device, as it was simply adhering to its 22 obligations under the Sewer Shut-Off Agreement, which was reviewed and approved by 23 the Commission.

1 Additionally, the City's recordkeeping was very poor, and the City failed to seek 2 termination on some wastewater accounts for an extended period of time. This resulted in 3 a backlog of overdue terminations for delinquent wastewater service accounts.

4 Moreover, it is common for the total number of termination notices sent to be much 5 higher than the total number of terminations of service. From my review of the Company's 6 records on the number of termination notices sent and the number of actual terminations of 7 service, which Ms. Alexander references in her testimony, nothing appears to be out of the 8 ordinary. York Water customers could prevent the termination of service through a number 9 of methods, including paying the past due amount, initiating a dispute or complaint, 10 providing a medical certificate, providing evidence of a PFA, or entering into a payment 11 agreement. City of York wastewater customers also could prevent the termination of 12 service in several ways, including paying the past due amount, providing a medical 13 certificate, or providing evidence of a PFA. And, in other instances, the City of York 14 directed York Water to not follow through with the termination of service for undisclosed 15 reasons. I am advised by counsel that York Water was required to abide by the City of 16 York's direction in those instances, given that both the original Commission-approved 17 Sewer Shut-Off Agreement and the Commission-approved Addendum stated that York 18 Water shall proceed with the termination unless the customer pays the past due balance "or 19 the City of York directs otherwise." (York Water Exhibit VLB-5R) (emphasis added). 20 However, that does not mean that York Water never intended to follow through with the 21 terminations of service when the termination notices were issued. The Company always 22 intended to follow through with its obligations under the Commission-approved Sewer 23 Shut-Off Agreement.

Lastly, York Water stopped acting as the wastewater billing agent for the City of
 York as of June 2022, and the Company has not issued and will not be issuing any
 termination notices for unpaid City of York refuse bills.

4

Q. Ms. Alexander also alleges that "there is no authority for any water utility to collect
"refuse' charges on behalf of a municipality," that "the Commission's regulations
prohibit termination of service for non-basic charges such as these," and that "[t]hese
potential legal matters should be investigated further by the Commission." (OCA St.
No. 5, p. 15.) Please respond.

A. Ms. Alexander's claims are without merit. First, the Company's wastewater and refuse
billing services agreement with the City of York was reviewed and approved by the
Commission pursuant to Section 507 of the Public Utility Code. Attached as York Water
Exhibits VLB-3R and 4R are copies of the agreement and the Commission's Certificate of
Filing evidencing its approval of the agreement. If such an agreement is unlawful, I
question why the Commission would approve it in the first place.

Second, I am advised by counsel that there is nothing in the Public Utility Code or
the Commission's regulations prohibiting a water or wastewater utility from providing
non-utility services such as the refuse billing service on behalf of the City of York. Again,
if there were, the Commission would not have approved the agreement.

20 Third, Ms. Alexander fails to recognize that York Water never terminated service 21 for nonpayment of the City of York refuse charges. The Company only ever issued 22 termination notices for unpaid City of York wastewater bills at the direction of the City

1		and pursuant to the terms of the Commission-approved Sewer Shut-Off Agreement. Thus,
2		from my perspective, no Commission investigation is warranted.
3		
4	Q.	Ms. Alexander also asserts that it is not clear that York Water has "separately set
5		forth the charges from the municipality on its bills," as required by the Pennsylvania
6		Water Services Act. (OCA St. No. 5, p. 15.) Do you agree?
7	A.	No. York Water's bills separately delineate these charges. As an example, attached as
8		York Water Exhibit VLB-7R is a redacted copy of a City of York wastewater and refuse
9		customer's bill from York Water. As you can see, the City's charges for wastewater and
10		refuse service are separately set forth and identified apart from York Water's charges for
11		water service. Therefore, I consider this to be a non-issue.
12		
13	Q.	Ms. Alexander also contends that "York Water does not track whether its termination
14		notices are resolved with payment or payment plan and does not track the notices not
15		resolved but which remain eligible for termination." (OCA St. No. 5, p. 16.) Please
16		respond.
17	A.	The Company questions the need to track in a summary fashion whether termination
18		notices are resolved. The issuance of notices may be resolved by the receipt of a payment,
19		informal complaint filed by the customer, medical certificate received by the Company, or
20		a payment arrangement request. Whichever way the termination notice is resolved, the
21		resolution is reflected on the customer's account record.
22		

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#### F. OCA'S AUDIT AND INVESTIGATION RECOMMENDATIONS

Q. OCA witness Alexander recommends that the Commission "undertake an audit of
York Water's customer service operations" and that the PUC "establish a timetable
for this audit as a condition of any rate increase." (OCA St. No. 5, pp. 25-26.) Do you
agree?

A. No, such an audit is completely unjustified and unnecessary. As I have addressed
previously, Ms. Alexander's allegations about the Company's customer service operations
are unsupported. York Water has been providing and will continue to provide exemplary
customer service and, although I am not a lawyer, I believe the Company has been
complying with the applicable laws and regulations.

11

12Q.Ms. Alexander also recommends that if York Water fails to satisfy her proposed13conditions and improve its call center, training obligations, and complaint handling14performance, "[a]t a minimum, the Commission should open an investigation of15persistent failure to meet reasonable performance standards" based on the quarterly16reports that she proposes be submitted by the Company regarding the Company's17progress in meeting her recommended commitments. (OCA St. No. 5, pp. 26-27.) Do18you agree?

A. No. As explained previously, her recommended "performance standards" and quarterly
 reports should be rejected. Accordingly, any recommendation for a Commission
 investigation premised on a failure to meet those performance standards based on the
 quarterly reports should be denied as well.

23

1Q.Ms. Alexander also recommends that the Commission investigate York Water's use2of its billing and termination rights for unpaid City of York wastewater and refuse3charges and "determine the appropriate enforcement action, if any, that is4necessary." (OCA St. No. 5, p. 28.) Do you agree?

- A. No, again such a Commission investigation is unwarranted. As explained previously, Ms.
  Alexander fails to recognize that York Water was permitted under its Commissionapproved Sewer Shut-Off Agreement to issue termination notices for unpaid City of York
  wastewater bills. Moreover, the Company never issued termination notices for unpaid City
  of York refuse bills and will not do so in the future. Thus, from my perspective, this is a
  non-issue, and no such Commission investigation is justified.
- 11
- 12

#### 2 III. <u>LOW-INCOME PROGRAMS</u>

Q. OCA witness Alexander observes that there is no information about the Company's small arrears forgiveness program "on the Company's web portal where the CARES and other federally funded assistance programs are referenced." (OCA St. No. 5, p.
18.) Would the Company be willing to add such information to the referenced web portal?

# 18 A. Yes. The Company agrees to add its arrears forgiveness program on the Company's web 19 portal within the next 30 days.

- 20
- Q. When referencing the Company's CARES program, Ms. Alexander asserts that York
  Water has not analyzed the "sufficiency o[f] this program" or evaluated the "impact"
  of its CARES program on "bill payment or bill affordability," so the characterization
  of it as a "pilot" is "incorrect." (OCA St. No. 5, p. 19.) Please respond.

A. York Water was following the terms of the Commission-approved settlement from the
2018 base rate case, which characterized the program as a pilot and did not require any
evaluation of the pilot program's "impact" on bill payment or bill affordability or an
analysis of the program's "sufficiency." The Company did, as required by the settlement,
evaluate the CARES program's operation and budget and based on that evaluation,
proposed to increase the CARES program's budget.

7

8 Ms. Alexander also claims that the CARES program is "[n]ot entirely" a "reasonable **Q**. 9 approach to address the needs of York's low income customers" because: (1) it "is 10 limited to those individuals who can appear in person at only one of two social service 11 agencies in York Water's service territory, thus creating a significant barrier to 12 participation"; and (2) "this type of program does not respond to ongoing unaffordability of essential water and sewer services, particularly given the 13 14 significant rate increase proposed in this proceeding." (OCA St. No. 5, pp. 19-20.) 15 Please respond.

A. The alleged "significant barrier to participation" does not exist. During the COVID-19 pandemic when in-person interaction was limited, the Company adapted by accepting required documents directly from customers via email then forwarded those documents to the two social service agencies. The Company continues that practice currently, when needed. York Water remains committed to helping customers get the assistance they need to pay their bills. The Company's proposed increase in funding for the CARES program is reflected in the proposed base rate increase.

23

1	Q.	Ms. Alexander believes that the CARES program "is not a substitute for a program
2		that addresses the continuing mismatch between income and payments for essential
3		water and sewer services." (OCA St. No. 5, p. 20.) Do you agree?
4	A.	No. All assistance programs available to customers are designed to help align their income
5		level with their payments for water and wastewater service and to pay down any balances
6		in arrears. And, as explained by York Water witness Wheeler (York Water St. No. 2-R),
7		the Commission should reject Ms. Alexander's recommendation for a bill discount
8		program.
9		
10	Q.	Despite these claims with respect to the Company's CARES program, does Ms.
11		Alexander propose any changes to the CARES program?
12	A.	No. She recommends that the CARES program "continue at a proposed budget of
13		\$40,000." (OCA St. No. 5, p. 26.)
14		
15	Q.	Ms. Alexander also contends that it is unclear whether the Company participates as
16		an authorized vendor for all available federal or state funded programs that provide
17		grants to eligible low-income customers, noting the alleged lack of clarity around
18		York Water's participation in the PA Homeowners Assistance Program ("PAHAF").
19		(OCA St. No. 5, p. 21.) Could you please clarify?
20	A.	Effective, August 31, 2022, the Company officially completed the onboarding process to
21		be a vendor with the PAHAF program. York Water participated in the Emergency Rental
22		Assistance Program ("ERAP") and continues its participation in the Low Income Home
23		Water Assistance Program ("LIHWAP"). Specifically, York Water began a partnership

with the Community Progress Council, which administered the ERAP program, on March
18, 2021. York Water began receiving funding on April 5, 2021. Further, York Water
began a partnership with the Department of Human Services of the York County Assistance
Office, which is administering the LIHWAP program, on December 16, 2021. York Water
began receiving funding on January 24, 2022.

6

# 7 Q. Does this conclude your rebuttal testimony?

8 A. Yes.

# **York Water Exhibit VLB-1R**

# York Water Exhibit VLB-1R Page 1 of 6

#### Pa. PUC v. The York Water Company – Water Division Docket No. R-2022-3031340

#### Pa. PUC v. The York Water Company – Wastewater Division Docket No. R-2022-3032806

#### INTERROGATORIES, REQUESTS FOR PRODUCTION OF DOCUMENTS AND REQUESTS FOR ADMISSION ON OCA – SET III

11. Re. OCA St. No. 5, page 7.

a. Has Ms. Alexander performed any analysis of how York Water's percentage of calls answered in 30 seconds compares to other water utilities? If so, please produce such analysis and all documents relied upon by Ms. Alexander in performing that analysis.

RESPONSE: Ms. Alexander has not prepared such a comparative analysis. However, Ms. Alexander has evaluated call center performance for Pittsburgh Water and Sewer Authority, Pennsylvania American Water, and Aqua Pennsylvania in recent rate cases and has proposed similar performance standards. I attach my most recent testimony for those water and wastewater utilities.

b. Has Ms. Alexander performed any analysis of how York Water's percentage of calls answered in 30 seconds compares to other wastewater utilities? If so, please produce such analysis and all documents relied upon by Ms. Alexander in performing that analysis.

RESPONSE: See Response to Question 11 (a).

c. Has Ms. Alexander performed any analysis of how York Water's call abandonment rate compares to other water utilities? If so, please produce such analysis and all documents relied upon by Ms. Alexander in performing that analysis.

RESPONSE: See Response to Question 11 (a).

d. Has Ms. Alexander performed any analysis of how York Water's call abandonment rate compares to other wastewater utilities? If so, please produce such analysis and all documents relied upon by Ms. Alexander in performing that analysis.

### York Water Exhibit VLB-1R Page 2 of 6

#### Pa. PUC v. The York Water Company – Water Division Docket No. R-2022-3031340

#### Pa. PUC v. The York Water Company – Wastewater Division Docket No. R-2022-3032806

#### INTERROGATORIES, REQUESTS FOR PRODUCTION OF DOCUMENTS AND REQUESTS FOR ADMISSION ON OCA – SET III

RESPONSE: See Response to Question 11 (a).

e. Has Ms. Alexander performed any analysis of how York Water's average speed of answer compares to other water utilities? If so, please produce such analysis and all documents relied upon by Ms. Alexander in performing that analysis.

RESPONSE: See Response to Question 11(a).

f. Has Ms. Alexander performed any analysis of how York Water's average speed of answer compares to other wastewater utilities? If so, please produce such analysis and all documents relied upon by Ms. Alexander in performing that analysis.

RESPONSE: See Response to Question 11 (a).

g. Would Ms. Alexander agree that the PaPUC's Customer Service Performance Report dated September 2021 only shows data for the "major" electric distribution companies and natural gas distribution companies operating in the Commonwealth? If not, please explain in detail why and how she reached that conclusion.

**RESPONSE:** Yes.

RESPONDENT: Barbara Alexander

# York Water Exhibit VLB-1R Page 3 of 6

#### Pa. PUC v. The York Water Company – Water Division Docket No. R-2022-3031340

#### Pa. PUC v. The York Water Company – Wastewater Division Docket No. R-2022-3032806

#### INTERROGATORIES, REQUESTS FOR PRODUCTION OF DOCUMENTS AND REQUESTS FOR ADMISSION ON OCA – SET III

12. Re. OCA St. No. 5, page 9. Ms. Alexander recommends "that "York Water be required to significantly improve its call center performance to meet the standard performance results of answering 80% of the calls with 30 seconds and meeting an abandonment rate of 4% or less."

a. Has Ms. Alexander performed any analysis of how much York Water would incur in incremental capital costs and/or expenses in order to implement her recommendation? If so, please produce such analysis and all documents relied upon by Ms. Alexander in performing that analysis.

RESPONSE: No. See Response to Question 10(a).

# York Water Exhibit VLB-1R Page 4 of 6

#### Pa. PUC v. The York Water Company – Water Division Docket No. R-2022-3031340

#### Pa. PUC v. The York Water Company – Wastewater Division Docket No. R-2022-3032806

#### INTERROGATORIES, REQUESTS FOR PRODUCTION OF DOCUMENTS AND REQUESTS FOR ADMISSION ON OCA – SET III

13. Re. OCA St. No. 5, page 13. Ms. Alexander recommends that "York Water be required to adopt revised and updated training materials and revisions to its database to ensure that disputes and complaints are identified, tracked, and evaluated on a regular basis."

a. Has Ms. Alexander performed any analysis of how much York Water would incur in incremental capital costs and/or expenses in order to implement her recommendation? If so, please produce such analysis and all documents relied upon by Ms. Alexander in performing that analysis.

RESPONSE: No.

RESPONDENT: Barbara Alexander

# York Water Exhibit VLB-1R Page 5 of 6

#### Pa. PUC v. The York Water Company – Water Division Docket No. R-2022-3031340

#### Pa. PUC v. The York Water Company – Wastewater Division Docket No. R-2022-3032806

#### INTERROGATORIES, REQUESTS FOR PRODUCTION OF DOCUMENTS AND REQUESTS FOR ADMISSION ON OCA – SET III

14. Re. OCA St. No. 5, page 20. Ms. Alexander recommends that "that "York Water be required to implement a bill discount program similar to that in effect for Community Utilities of Pennsylvania," which "provides a 35% monthly discount on the rate for the metered consumption charge."

a. Has Ms. Alexander performed any analysis of how much York Water would incur in incremental capital costs and/or expenses in order to implement her recommendation? If so, please produce such analysis and all documents relied upon by Ms. Alexander in performing that analysis.

RESPONSE: No. See Ms. Alexander's Direct Testimony, pages 19-21, in which she documented the lack of demographic data available from or evaluated by York Water in the development of its current low income programs.

- b. Has Ms. Alexander performed any analysis of how many customers would qualify for such a bill discount program in York Water's service territory? If so, please produce such analysis and all documents relied upon by Ms. Alexander in performing that analysis. If not, why not?
- RESPONSE: No. See Response to Question 14(a).
  - c. Is Ms. Alexander proposing that such a bill discount program be a "pilot program" like it is for Community Utilities of Pennsylvania ("CUPA")? If so, what would be the term of the pilot program? If not, why not?

RESPONSE: Ms. Alexander agrees that such a program could be entitled a "pilot" program but that would require the development of the evaluation criteria that would need to be gathered to determine its cost effectiveness and impacts.

d. Is Ms. Alexander proposing that York Water be granted a regulatory asset or liability related to this bill discount program, like the one granted to CUPA? If so, what would the regulatory asset or liability track for deferred rate recovery? If not, why not?

# York Water Exhibit VLB-1R Page 6 of 6

#### Pa. PUC v. The York Water Company – Water Division Docket No. R-2022-3031340

#### Pa. PUC v. The York Water Company – Wastewater Division Docket No. R-2022-3032806

#### INTERROGATORIES, REQUESTS FOR PRODUCTION OF DOCUMENTS AND REQUESTS FOR ADMISSION ON OCA – SET III

RESPONSE: Ms. Alexander did not opine on that matter but would assume that York Water's Rebuttal Testimony will make proposals for costs and cost recovery.

RESPONDENT: Barbara Alexander

# **York Water Exhibit VLB-2R**

# York Water Exhibit VLB-2R Page 1 of 1

										Time to Answer : Intervals				-
	# Inbound Calls	# Answered	# Abandon ed	# Redirecte d	# Disc	% Answered	% Abandon ed	To Vmail Total	% To Vmail	Avg. Time to Answer	< 30 sec.	31-120 sec.	121-240 sec.	> 241 sec
January	4970	3709	740	508	13	74.63%	14.89%	508	10.22%	5:00	19.65%	14.69%	17.36%	48.29%
February	4476	3173	767	536	0	70.89%	17.14%	536	11.97%	6:05	17.46%	11.53%	16.01%	55.00%
March	4762	3586	697	477	2	75.30%	14.64%	476	10.00%	4:32	29.25%	15.20%	15.62%	39.93%
April	6392	3650	1608	1133	1	57.10%	25.16%	1133	17.73%	9:36	15.07%	7.84%	10.58%	66.52%
May	5402	3565	1017	818	2	65.99%	18.83%	817	15.12%	7:16	17.90%	8.53%	13.77%	59.80%
June	4897	3670	727	499	1	74.94%	14.85%	498	10.17%	4:51	26.27%	14.99%	16.35%	42.40%
July	4901	3977	531	392	1	81.15%	10.83%	391	7.98%	3:20	33.92%	18.83%	16.90%	30.35%
August														
Septembe	r													
October														
November														
December														
TOTALS	35800	25330	6087	4363	20	71.43%	16.62%	4359	11.88%	5:48	22.79%	1 <b>3.0</b> 9%	15.23%	48.90%

#### 2022 Call Center Statistics

# **York Water Exhibit VLB-3R**





# The York Water Company

October 18, 2019

Y REGEIVED 2019 OCT 21 AM 10: 18 PA PUC SEGRETARY'S BUREAU

Rosemary Chiavetta, Secretary Pennsylvania Public Utility Commission Commonwealth Keystone Building 400 North Street, 2<sup>nd</sup> Floor North P.O. Box 3265 Harrisburg, PA 17105-3265

Re: Billing and Revenue Service Agreement Between The York Water Company and City of York, PA

Dear Secretary Chiavetta:

In accordance with Section 507 of the Public Utility Code, 66 Pa. C.S. §507, The York Water Company ("York Water") is filing the enclosed Billing and Revenue Service Agreement ("Agreement") dated October 18, 2019 between York Water and the City of York, Pa. A copy of Council of the City of York Resolution No. 74 authorizing the City of York to enter into this Agreement with York Water is also enclosed. An executed original of the Agreement is enclosed.

The York Water Company and City of York have been parties to a Sewer Shut Off Agreement since September 1, 2010 as addended on March 12, 2013. The 2010 Shut Off Agreement and 2013 Addendum to Shut Off Agreement were previously filed with the Commission under Docket No. U-2010-2197661. A copy of the Certificate of Filing from Docket U-2010-2197661 is also enclosed.

Kindly certify the enclosed Agreement and return the Certificate of Filing to my attention. Should you have any questions regarding this request, please contact me directly at (717) 718-7554 or by email to <u>ith@yorkwater.com</u>.

Sincerely,

JT Hand Chief Operating Officer

Enclosures

130 EAST MARKET STREET FAX (717) 852-0058 YORK, PENNSYLVANIA 17401-1219 www.yorkwater.com RECEIVED BILLING AND REVENUE SERVICE AGREEMENT 2019 OCT 21 AM 10: 18 SECRETARY'S BUREAU This Service Agreement ("Agreement"), made this <u>18</u><sup>TM</sup> day of <u>octoBea</u>, 20,19, by and between City of York, a Municipal Corporation organized and existing under the laws of

York Water Exhibit VLB-3R

Page 2 of 21

the Commonwealth of Pennsylvania having an office for the transaction of business at 101 South George St., York, Pennsylvania 17401 (hereinafter referred to as the "City") and The York Water Company, a Pennsylvania Corporation with its principal offices at 130 East Market Street, York, Pennsylvania 17401, (hereinafter called "York Water").

WITNESSETH THAT, in consideration of the mutual promises and payments hereinafter set forth herein, the parties agree that:

1. <u>DEFINITIONS</u>. In this Agreement, the following terms shall have the following meanings:

"York Water Customer Account" (or "Customer Account") means each billing account for water service rendered to owners or occupants of real estate within the City receiving water utility service from York Water.

"Mutual Account" means each billing account that is either:

- a. a Wastewater and Refuse Customer Account that is billed on the basis of metered water consumption or estimate thereof and a York Water Customer Account with the same customer of record; or
- b. a Wastewater and Refuse Customer Account and a York Water Customer Account with the same customer of record.

"Non-Metered Wastewater and Refuse Customer Account" means each billing account for sanitary wastewater service and refuse service rendered by the City but not served by a metered water supply, or for which sewer billings are not based solely on the amount of water delivered to the premises by York Water, in accordance with schedules established by the City.

"Wastewater and Refuse Customer Account" means each billing account for sanitary wastewater and refuse service rendered by the City to persons owning or occupying real estate that is connected with and uses the City's facilities for collecting, pumping, treating and disposing of wastewater and is required by City ordinance to use the City's contract services for refuse collection.

2. <u>TERM</u>. Unless otherwise terminated pursuant to this Paragraph or Paragraphs 4.A.(3), 5.A, or 8 of this Agreement, this Agreement shall continue in full force and effect for a term of five (5) years from the date entered into above (the "Term"). This Agreement shall renew for successive (1) year terms upon the mutual written consent of both parties at least (90) days prior to the expiration of the initial term or any subsequent renewal term. Each party has the right to terminate this Agreement at the end of the initial term or at the end of any renewal term, by giving the other party written notice of termination at least ninety (90) days prior to the expiration of the initial term or any subsequent renewal term.

3. <u>SERVICES TO BE PERFORMED BY THE WATER COMPANY</u>. York Water will perform the following services, hereinafter referred to, respectively, as "Billing Services" and "Revenue Collection Services" or collectively, the "Services" for bills rendered on or after February 1, 2020 or 90 days after receipt of a certificate of filing from the Pennsylvania Public Utility Commission, whichever is later.

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A. Billing Services.

(1) <u>Customers of Record</u>. At the commencement of the Term of this Agreement, York Water will provide the City with a list of each Customer Account for water service located in the area served by the City. This list will include each customer's name, billing address, service address, and customer account number. For each account on said list, if the City designates that it provides sanitary wastewater service and refuse service to the service address shown, the account will henceforth be a Mutual Account under this Agreement, in the name of the customer of record for water utility service at said address, as shown on York Water's books and records. Notwithstanding anything else in this Paragraph, the City reserves the right to direct billing of sewer bills and/or refuse bills to a person and address as provided by the City.

(2) <u>Mutual Accounts and Non-Metered Wastewater and Refuse</u> <u>Customer Accounts – Preparation</u>. York Water will prepare bills for Mutual Accounts and Non-Metered Wastewater and Refuse Customer Accounts monthly in accordance with the water service billing periods and billing sequence established by York Water and in accordance with rates and schedules provided by the City. Mutual Account bills will be based on a flat fee as provided to York Water by the City or based upon metered water consumption based on a consumption fee as provided to York Water by the City. The refuse component will be based on a flat fee as provided to York Water by the City. Non-Metered Wastewater and Refuse Customer Accounts will be based on a flat fee as provided to York Water by the City. The refuse component will be based on a flat fee as provided to York Water by the City.

(3) <u>Mailing</u>. York Water will mail bills, postage prepaid, to all Mutual Accounts, based on billing addresses as provided by York Water. York Water will mail bills, postage prepaid, for Non-Metered Wastewater and Refuse Customer Accounts to billing addresses provided by the City.

1

(4) <u>Adjustments</u>. Adjustments to billing for reconciliation of estimated bills, over-or under-registration of water meters, for underground leaks that do not discharge into the sanitary sewer system, for faulty or inoperative meters, or an obviously incorrect meter reading or other recognized and proper adjustments which are granted to water customers by York Water, shall be accepted by the City and such adjustments for water use shall be recognized in determining the billing for wastewater service charges. Adjustments to billing which are granted to wastewater service customers by the City shall be accepted by York Water.

(5) <u>Billing Inquiries</u>. If a customer has a question about a sanitary sewer bill the customer should call York Water at (717)845-3601 or toll free at (800)750-5561 to speak with a Customer Service Representative. York Water's hours are generally Monday – Friday, 8:30 am – 5:00 pm, except on holidays. Customers may also submit billing inquiries by visiting York Water's web page at <u>www.yorkwater.com</u> and clicking on the Contact Us button or visiting York Water at 130 East Market St., York, PA. If the City has a question about services defined in this Agreement, the City should contact York Water's Chief Operating Officer at (717)718-7554.

(6) <u>Credit Balances on Final Accounts</u>. York Water will report to the City any credit balances on those Mutual Accounts and Non-Metered Wastewater and Refuse

Customer Accounts of customers who no longer receive water services from York Water and wastewater services from the City.

B. <u>Revenue Collection Services</u>.

1

(1) <u>Receipt of Funds</u>. In addition to receiving payments for Mutual Accounts and Non-Metered Wastewater and Refuse Customer Accounts by mail, York Water, or a duly authorized agent, shall receive such payments at other locations and through such other means where York Water's bills are payable.

(2) Mutual Accounts – Partial Payment and Overpayments.

(a) Unless the customer designates otherwise in writing, payments received by York Water on Mutual Accounts shall be applied first to the York Water Customer Account, then to the Wastewater Customer Account beginning with the oldest respective amounts due. Amounts applied to the Wastewater Customer Account will first be applied to refuse services, then to sewer services then to other miscellaneous fees, if applicable. A payment agreement between the customer and York Water will take precedent over this paragraph.

(b) Unless the customer designates otherwise in writing, if York Water receives an overpayment, it shall first be applied to any outstanding balance(s) on the York Water Customer Account, then to the Wastewater Customer Account. Amounts applied to the Wastewater Customer Account will first be applied to refuse services, then to sewer services then to other miscellaneous fees, if applicable. Any remaining amount will then be credited to the York Water Customer Account.

(3) <u>Transfer of Funds</u>. York Water shall remit all funds received in payment of Wastewater Customer Accounts, Non-Metered Wastewater and Refuse Customer Accounts to the City within ten (10) days following the end of the calendar month in which monies were received by York Water.

:

(4) <u>Payment by Check, Draft or Money Order</u>. To the extent that any monies collected by York Water on behalf of Wastewater and Refuse Customer Accounts or Non-Metered Wastewater and Refuse Customer Accounts are in the form of checks, drafts, or money orders, they will be accepted by York Water subject to final collection, thereof; and in the event of a failure to collect thereon, and upon notice to the City, York Water is authorized to reduce subsequent deposits made on behalf of the City to the extent that such uncollectible amounts have been previously included in deposits made on behalf of the City. The City authorizes York Water to deposit any checks, drafts, or money orders payable to the City in a York Water account for transfer pursuant to Paragraph 3(B)(3) and will execute all depository institution documentation which may be reasonably necessary to accomplish the same.

C. Exclusion of Debt Collection Services.

(1) <u>General</u>. It is expressly understood and agreed by the City and York Water that York Water is not in any way agreeing to or offering to provide debt collection services to the City for the collection of defaulted Wastewater and Refuse Customer Accounts, Non-Metered Wastewater and Refuse Customer Accounts. York Water assumes no responsibility or liability for the collection of Wastewater and Refuse Customer Accounts or Non-Metered Wastewater and Refuse Customer Accounts which are not collected in the exercise of the ordinary billing and revenue collection process under this Agreement. The City

is responsible for providing Wastewater and Refuse Customer Account and Non-Metered Wastewater and Refuse Customer Account arrearages accumulated prior to the effective date of this agreement to York Water within ten (10) days of the effective date of this agreement such that arrearages may be reflected or included in the billings made under this Agreement.

(2) Write-off of Uncollectible Accounts. York Water will provide the City with a monthly list of those customers with Wastewater and Refuse Customer Accounts and Non-Metered Wastewater and Refuse Customer Accounts with debit balances and the amounts owed by each customer. After a Wastewater and Refuse Customer Account or Non-Metered Wastewater and Refuse Customer Account customer who no longer receives wastewater services from the City is overdue by more than ninety (90) days, York Water will send notice for each such Wastewater and Refuse Customer Account or Non-Metered Wastewater and Refuse Customer Account to the City stating the final amount owed, the billing address as set forth in Paragraph 3(A)(3) of this Agreement, and that the account is more than ninety (90) days overdue. Other than providing this information, York Water will have no further obligations under this Agreement with respect to such Wastewater and Refuse Customer Account or Non-Metered Wastewater and Refuse Customer Account.

#### D. General Operation.

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(1) <u>Regular Reports</u>. York Water shall furnish the City with monthly reports detailing the customers billed, the amount billed and the usage billed, on a monthly basis. York Water shall also furnish reports detailing cash receipts, adjusting journal entries, and unpaid balances by account (collectively the "Regular Reports").

(2) <u>Correction of Billing Errors</u>. If York Water determines that a Wastewater and Refuse Customer Account or Non-Metered Wastewater and Refuse Customer Account billing was in error, York Water will issue an adjustment or a corrected billing, as appropriate, for the applicable time period or four years, whichever is shorter, except for adjustment of bills for meter errors which is governed by 52 Pa. Code §65.9.

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(3) <u>Addition or Deletion of Accounts</u>. It will be York Water's responsibility, as soon as practicable after the creation of a new York Water Customer Account, to notify the City of such new account. The City will then be responsible for determining if the York Water Customer Account is a Mutual Account to be included under this Agreement and informing York Water of that fact. Upon receiving such information from the City, York Water will begin providing Billing Services and Revenue Collection Services for Mutual Accounts.

Upon receiving notification from the City of the existence of any real estate which is connected to and using the City's facilities for collecting, pumping, treating and disposing of wastewater, but for which there is no Wastewater and Refuse Customer Account or Non-Metered Wastewater Customer Account, York Water will begin providing Billing and Revenue Collection Services for such accounts, pursuant to this Agreement. Notification will be made via email to <u>customer.service@yorkwater.com</u>.

York Water will notify the City as soon as practicable upon receiving such information that any service address for which York Water is providing Billing Services for a Wastewater and Refuse Customer Account or Non-Metered Wastewater and Refuse Customer Account is not connected to and using the City's facilities for collecting, pumping, treating and disposing of wastewater. The City will investigate and notify York Water of any

changes necessary to be made in connection with such Wastewater and Refuse Customer Account and Non-Metered Wastewater and Refuse Customer Accounts.

E. <u>Additional Services Requested</u>. If the City requests reports in addition to the Regular Reports identified under Paragraph 3(D)(1), or services in addition to the Billing and Revenue Collection Services described herein, or material changes in said Services, York Water will use its best efforts to comply with such requests within a mutually agreed upon time frame, upon agreement by the parties with respect to York Water's fee for such additional services, as set forth in Paragraph 5(B) of this Agreement ("Fees for Additional Services Requested").

#### 5. <u>PAYMENTS TO THE WATER COMPANY</u>.

#### A. <u>Per Customer Fee</u>.

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(1) <u>Amount and Services Included</u>. For Services rendered pursuant to this Agreement, other than additional services requested (as defined in Paragraph 4(E)), the City will pay to York Water a monthly fee ("Per Customer Fee") of \$2.50 for each Mutual Account that was active (i.e., the account was sent a regular, final, or disconnect bill) during the month being billed. For each Mutual Account that was active (i.e., the account was sent a regular, final, or disconnect bill) during the month being billed that is billed on the basis of metered water consumption or estimate thereof the City will pay York Water a monthly Per Customer Fee of \$2.50. For Non-Metered Wastewater and Refuse Customer Accounts, the City will pay York Water a monthly Per Customer Fee of \$2.50. On or before the twentieth day of the month following the close of the billing month, York Water will invoice the City for all Per Customer Fees earned in the preceding calendar month. With such invoice York Water will provide an accounting for all Wastewater and Refuse Customer Account and Non-Metered

Wastewater and Refuse Customer Account charges billed and collected in the preceding calendar month. Said invoice will be due and payable in thirty (30) days.

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(2) <u>Adjustments to the Per Customer Fee</u>. York Water and the City may mutually review the Per Customer Fee at regular intervals during the Term of the Agreement.

(3) <u>Adjustments to York Water Billing Procedure</u>. York Water reserves the right to change its billing procedures, including the billing frequency, as approved by the Pennsylvania Public Utility Commission ("the PUC"). In the event such changes are material in the City's reasonable opinion, the City may terminate this Agreement upon thirty (30) days of written notice. York Water shall provide the City with notice of any such change upon York Water's receipt of approval of such change by the PUC.

B. <u>Fees for Additional Services Requested</u>. Prior to incurring any costs in connection with additional services requested by the City, York Water will provide the City a written statement of the charge thereof. If the City approves such charge and York Water renders the additional services requested, York Water will invoice the City and the City will pay the mutually agreed upon fees for such additional services within thirty (30) days of receipt of the notice.

6. GENERAL OBLIGATION OF YORK WATER.

A. <u>Notice of Inability to Perform Services</u>. York Water will, as soon as practicable, notify the City of the occurrence and expected duration of any curtailment or stoppage of operations which may affect York Water's ability to perform the services under this Agreement. York Water will not be responsible for delays in performance of services or

damages if such delays or damages are solely caused by an act or omission of the City, its agents or anyone employed by the City or by any other circumstances beyond the reasonable control of York Water, its affiliated companies, or their officers, directors, agents or employees. During a period of York Water's non-performance of billing, collecting and remitting services for thirty (30) days or more, the City shall not be required to pay fees due and owing for that period; however, said fees are payable within thirty (30) days of York Water resuming performance. In the event of York Water's inability to perform under this Agreement for a period of ninety (90) days or more, the City may terminate this Agreement immediately upon written notice to York Water.

B. <u>Recovery</u>. To the extent York Water's inability to perform is the fault of others and if York Water pursues a claim from said party and recovers any sum representing the City's losses, York Water will reimburse the City pro rata from any recovery.

7. GENERAL OBLIGATIONS OF THE CITY.

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A. Wastewater and Refuse Rates.

(1) <u>City's Warranty of Wastewater and Refuse Rates</u>. The City will provide its schedule of rates to York Water for York Water's use in performing Billing Service. York Water will apply any late payment penalties included in that schedule of rates, or any other fees or penalties not based on consumptive use. The City warrants that all rates will be properly and legally in effect.

(2) <u>Change in Rates Procedure</u>. If, during the course of this Agreement, the City determines that a change in any rate or procedure is necessary, the City will be responsible for legally establishing any new rate or procedure. The City will give York

Water thirty (30) days' written notice of the effective date of any change in the City's rate or procedure for Wastewater and Refuse Customer Accounts and Non-Metered Wastewater and Refuse Customer Accounts. The City agrees to pay York Water's expenses to accommodate such changes only to the extent such changes exceed eight (8) hours of programming time. Changes which require more than eight (8) hours of programming time will require written authorization from the City. York Water shall bill the City for said expenses based on the actual hourly rate and time expended when the programming is done in-house. If York Water uses outside vendors to do the programming, York Water shall bill the City at the face amount of the invoice amount for the services rendered, and York Water will not mark up the bill.

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B. <u>City Contract Oversight Person</u>. The City will designate a contract oversight person, who will be responsible for coordinating with York Water, on behalf of the City all activities and procedures under this Agreement.

8. <u>MUTUAL CORRECTION OF ERRORS</u>. Any report, bill, data or service provided to or by the City or York Water under this Agreement which is found by the City or York Water to be in error due to a reason attributable to the other party or affiliate thereof, will be corrected by York Water or the City, without charge to the non-erring party, and, the costs of correcting the error shall be borne by the party causing the error. Upon discovery of such error, each party will promptly notify the other of its existence.

9. <u>TERMINATION</u>. In the event of any material default by either party under this Agreement, if the defaulting party fails to cure such default to the reasonable satisfaction of the non-defaulting party within forty-five (45) days of the defaulting party's receipt of written

notification of such default, the non-defaulting party shall have the right to terminate this Agreement immediately upon written notice.

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10. <u>GENERAL PROVISIOINS</u>. The following provisions will apply to the parties' performance under this Agreement:

A. <u>Limitation of Liability</u>. Notwithstanding any provision contained in this Agreement to the contrary, the aggregate liability of either party for all claims, costs, loss, damages or other potential or actual expenses which is in any way related, directly or indirectly, to the execution, performance or subject matter of this agreement, except for intentional wrongful acts and negligence of either party, its agents and employees, shall not exceed the amount of the fees paid by the City to York Water prior to such claim, regardless of the form of action employed, whether in contract, warranty, tort (including negligence) or otherwise.

B. <u>Indemnification</u>. It is expressly understood that the City shall and hereby does agree to indemnify, defend, and hold harmless York Water, its officers, directors and employees from and against any and all losses, damages, claims, liabilities and expenses (including reasonable attorney fees) to the extent suffered or incurred by York Water as a result of or arising out of, or in any way related to the action or inaction of the City, hereunder, except when arising out of the intentional wrongful acts or negligence of York Water, its agents or employees; and as limited by the provisions set forth in Paragraph 10(A).

It is further expressly understood that York Water shall and hereby does agree to indemnify, defend, and hold harmless the City, its officers, directors and employees from and against any and all losses, damages, claims, liabilities and expenses (including reasonable attorney fees) to the extent suffered or incurred by the City as a result of or arising out of, or in

any way related to the action or inaction of York Water, except when arising out of the intentional wrongful acts or negligence of the City, its agents or employees; and as limited by the provisions set forth in Paragraph 10(A).

C. <u>Notification and Notices</u>. Each party will promptly notify the other party of actions, past or anticipated which may materially affect the performance of its duties under this contract. Each party also will promptly send the other party a copy of all notices and processes received by it concerning any pending, impending or threatened claim, action or other matter which does or may affect the other party's performance of its duties. All notices provided for in this Agreement will be delivered in person, or by facsimile or electronic communication, or by First Class mail, postage prepaid, to the following addresses, or such other address as either party will designate in writing to the other party:

**To York Water** 

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C/o Chief Operating Officer The York Water Company 130 E. Market St. York, PA 17401

To City

C/o Business Manager City of York 101 South George St. York, PA 17401

D. <u>Applicable Law</u>. This Agreement has been entered into and shall be

governed by and construed and interpreted in accordance with Pennsylvania law.

E. <u>Successors and Assigns</u>. This Agreement shall not be assigned by the City

without the prior written consent of York Water nor assigned by York Water without the prior

written consent of the City. Subject to the foregoing sentence, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

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F. <u>Independent Contractor</u>. York Water will be an independent contractor and not an employee of the City for all purposes of this Agreement. York Water shall be solely responsible for the payment of all employee benefits and the payment of wages and all payroll taxes for all York Water employees.

G. <u>Merger</u>. The Agreement constitutes the entire Agreement of the parties with respect to the subject matter hereof and may be modified or amended only by a statement in writing signed by both parties hereto.

H. <u>Force Majeure</u>. Notwithstanding anything contained in this Agreement to the contrary, the parties shall not be liable for any failure or delay on their part to perform, and shall be excused from performing any of their obligations hereunder if such failure, delay or non-performance results in whole or in part from any cause beyond the reasonable control of such party, including but not limited to, any act of God, act of war, riot, fire, explosion, accident, flooding, embargo, sabotage, inability to obtain energy, materials, labor or facilities; governmental law, ordinance, rule, regulation, order of action; injunction or restraining order; labor trouble, strike, lockout or injunction or any other force majeure; this paragraph being subject to the provisions of Paragraph 6(A).

I. <u>Condition Precedent</u>. The obligations of the parties under this Agreement shall be subject to approval by the Pennsylvania Public Utility Commission.

J. <u>Waiver</u>. The failure of any party hereto at any time to enforce any of the provisions of this Agreement shall in no way constitute or be construed as a waiver of such

provisions or of any other provisions hereof, nor in any way affect the validity of, or the right thereafter, to enforce each and every provision of this Agreement.

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K. <u>Severability</u>. The invalidity or unenforceability of any particular provision of this Agreement, as determined by a court of competent jurisdiction, shall not affect the other provisions hereof, and upon such determination, this Agreement shall be construed in all respects as if such invalid or unenforceable provision was omitted.

11. <u>INSURANCE</u>. York Water shall carry at all times during the Term of this Agreement insurance in an amount and of the types customary for the industry of which York Water is a party. Notwithstanding the foregoing, and not in limitation thereof, York Water shall, at a minimum, carry:

A. Worker's compensation insurance in compliance with all applicable statutory requirements, including employer's liability in the minimum amount of \$500,000.

B. All-risk property insurance on York Water's personal property. It is understood that the aforementioned policies shall be primary to any other coverage available to the City. York Water shall have included in all policies of insurance required hereunder a waiver by the insurer of all right of subrogation against the City in connection with any loss or damage thereby insured against. York Water shall provide certificates of all coverage to the City prior to the commencement of any services hereunder and at least ten (10) days prior to each policy renewal date.

IN WITNESS WHEREOF, the parties hereto have caused these presents to be signed and attested by their proper officers and their respective seals to be hereto affixed the day and year first above written.

City:

York Water:

By:

Name: MICHAEL R HELFRICH

Title: AYOR Date: By: Name: Ń. Title: Controller Date:

By:

Name: JEFFREY R. HINES

Title: PRASIDENT AND LEO

Date: 0670BER 19 2019

Session 2019 Resolution No. 74 INTRODUCED B H. Michael Buckingham

DATE: August 20, 2019

WHEREAS, the City of York charges customers sewer rental fees and refuse collection fees for providing sewer and refuse services under Articles 933 and 951 respectively; and

Council of the City of York, PA

WHEREAS, billing and collection of sewer rental and refuse fees has been an ongoing challenge for the City due to staffing and infrastructure limitations; and

WHEREAS, the York Water Company provides billing and collection services for sewer and refuse fees for numerous surrounding municipalities; and

WHEREAS, the York Water Company currently provides water service to the entire City of York and therefore already has an established relationship with almost all the City's sewer and refuse customers; and

WHEREAS, the City and the York Water Company believe that the York Water Company can provide billing and collection services for sewer and refuse fees for the City more effectively and efficiently than the City of York can, given current staffing levels and operational systems; and

WHEREAS, the City and York Water Company believe that by partnering together the City will see an increase in customer compliance resulting in an increase in revenue for the City.

NOW, THEREFORE, BE IT RESOLVED, by the Council of the City of York, PA, that Council hereby authorizes the Mayor and Controller to enter into a Billing and Revenue Service Agreement, a copy of which is attached hereto and made a part hereof, between the City of York and the York Water Company allowing the York Water Company to perform billing and collection services for the City of York's sewer rental and refuse collection fees.

PASSED FINALLY: October 15, 2019

BY THE FOLLOWING VOTE

YEAS:	Buckingham,	Waiker ,	Nixon – 3,	,	<u> </u>
NAYS:	Washington ,	Ritter-Dickson – 2	Hunter		
ATTES Dianna	<u>^</u>	Mitchell litchell, City Clerk	Henry Hay Nixon, Presid	81 :01 MA JU U∆∃AU8 S	IS TOO EIOS PA PA SOLO OCT 21 SOLO OCT 21

# PENNSYLVANIA PUBLIC UTILITY COMMISSION

# **CERTIFICATE OF FILING**

Addendum to the agreement dated September 1, 2010 between The York Water Company and the City of York relative to the Company being authorized and required at the request and direction of the City of York to shut off the supply of water from its system to any premises in which the rentals, rates and charges for sewer, sewage or sewage treatment services supplied by the City of York that are unpaid.

#### **U-2010-2197661**

**BY THE COMMISSION:** 

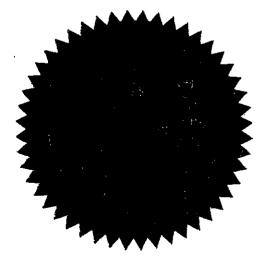
AND NOW, April 19, 2013, the Public Utility Commission certifies

that the above, captioned contract or indenture dated September 1, 2010

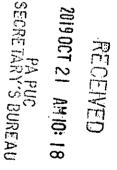
has been on file with the Commission since March 19, 2013 in accordance

with Section 507 of the Public Utility Code, 66 Pa. C.S. §507.

PENNSYLVANIA PUBLIC UTILITY COMMISSION



Rosemary Chiavetta Secretary





York Water Exhibit VLB-3R Page 21 of 21 NEOPOST FIRST-CLASS MAIL 10/18/2019 US POSTAGE \$001.45° ZIP 17401

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Rosemary Chiavetta, Secretary Pennsylvania Public Utility Commission 400 North Street, 2nd Floor North P.O. Box 3265 Harrisburg, PA 17105-3265

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# **York Water Exhibit VLB-4R**



#### COMMONWEALTH OF PENNSYLVANIA PENNSYLVANIA PUBLIC UTILITY COMMISSION 400 NORTH STREET, HARRISBURG, PA 17120

IN REPLY PLEASE REFER TO OUR FILE

November 20, 2019

U-2019-3013737

Page 1 of 2

York Water Exhibit VLB-4R

JT Hand Chief Operating Officer The York Water Company 130 E Market St. York, PA 17401

Billing and Revenue Service Agreement dated October 18, 2019 between York Water and the City of York, relative with York Water Performing the following services, hereinafter referred to, respectively, as "Billing Services" and "Revenue Collection Services" or collectively, the "Services" for bills rendered on or after February 1,2020 or 90 days after receipt of a certificate of filing whichever is later.

To Whom It May Concern:

We enclose herewith the original and one (1) copy of certificate of filing issued by this Commission in accordance with Section 507 of the Public Utility Code, 66 Pa. C.S. §507.

You should serve the enclosed copy of this certificate upon The City of York.

truly yours

Rosemary Chiavetta Secretary

RS encls. cert.mail

#### PENNSYLVANIA PUBLIC UTILITY COMMISSION

### **CERTIFICATE OF FILING**

#### U-2019-3013737

**BY THE COMMISSION:** 

AND NOW, November 20, 2019, the Public Utility Commission certifies that the above, captioned contract or indenture dated October 18, 2019, has been on file with the Commission since October 21, 2019, in accordance with Section 507 of the Public Utility Code, 66 Pa. C.S. §507.

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Kosenny hinito

Secretary

### **York Water Exhibit VLB-5R**



August 31, 2010

Ms. Rosemary Chiavetta, Secretary Pennsylvania Public Utility Commission P.O. Box 3265 Harrisburg, PA 17105-3265

Re: The York Water Company - City of York municipal agreement

Dear Secretary Chiavetta:

The York Water Company intends to enter into an agreement with the City of York to terminate water service for non-payment of sewer bills. Because this is an agreement between a public utility and a municipality, it must be certified as filed by the Pennsylvania Public Utility Commission before it can become effective.

Enclosed is an executed copy of the agreement between York Water and the City of York. I request that the Commission certify the filing of the proposed agreement and notify me of that approval.

If you need any additional information, please contact me.

Sincerel

Vernon L. Bracey Vice President-Customer Service



Enclosure

York Water Exhibit VLB-5R Page 2 of 13

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SHUT-OFF AGREEMENT SHUT-OFF AGREEMENT SHUT-OFF AGREEMENT SHUT-OFF AGREEMENT, made this 15t day of <u>September</u>, 2010, by and between the City of York. Pennsylvania having an office for the toronto of the second se City of York, Pennsylvania, having an office for the transaction of business at 50 W. King St., York, Pennsylvania (hereinafter called the "City of York") and THE YORK WATER COMPANY, a public utility corporation of the Commonwealth of Pennsylvania, with its principal place of business at 130 East Market Street, York, Pennsylvania 17401, (hereinafter call the "Water Company").

#### WITNESSETH

THAT WHEREAS, the City of York is engaged in supplying sewage service to the citizens and residents of the City of York's service area, York County, Pennsylvania; and

WHEREAS, the Water Company, a corporation as aforesaid, is the owner and operator of a water distribution system serving the customers in the aforesaid area, under the applicable Rules and Regulations of the Pennsylvania Public Utility Commission; and

WHEREAS, the Water Company is authorized and required at the request and direction of the City of York pursuant to the provisions of the Act of April 14, 2006, P.L. 85, 53 P.S. Sections 3102.501 et seq., to shut-off the supply of water from its system to any premises in which the rentals, rates and charges for sewer, sewage or sewage treatment service supplied by the City of York are unpaid and the claim or lien for such service has been assigned to the City of York.

WHEREAS, certain notice requirements relating to the shut-off of the supply of water are set forth therein and in the Act of November 26, 1978, P.L. 1255, No. 299, 68 P.S. Sections 399.1 et seq.; and

WHEREAS, both parties believe that they should enter into a written agreement specifically setting forth the duties, obligations, responsibilities and liabilities of each party to each other and such agreement is specifically authorized by subsection C of the Act of April 14, 2006, P.L. 85, 53 P.S. §3102.505.

NOW THEREFORE, in consideration of the sum of ONE DOLLAR (\$1.00) and other good and valuable consideration, and the covenants hereinafter expressed, the parties hereto do mutually agree as follows:

1. Upon written request by the City of York specifying a premises in the City of York's service area with regard to which the rentals, rates and charges for sewer, sewage or sewage treatment service shall not have been paid for a period of at least thirty days' from the due date thereof, the Water Company shall proceed to shut-off the supply of water to such premises until it is advised in writing by the City of York that all such overdue rentals, rates and charges, together with any interest thereon, have been paid or the City of York directs otherwise;

PROVIDED HOWEVER, that said written request be accompanied by a statement in writing by a responsible officer of the City of York setting forth:

- A. For any premises other than a residential building for which the landlord is the party responsible for the payment of sewer service:
  - i. that the City of York has given ten (10) days' written notice of its intention to request the Water Company to shut-off the supply of water from its system to such premises to the person liable for the payment of such rentals and charges,
  - ii. that there has been posted a written notice to this effect at the main entrance to the premises, and
  - that the City of York has not received a written statement under oath or affirmation from the person liable for the payment of the said rentals and charges stating that the said owner has a just defense to the claim or part thereof,
- B. For any residential building for which the landlord is responsible for the payment of sewer service:
  - i. that the City of York has given the landlord at least thirty-seven (37) days' written notice of the proposed termination and has given a copy of the notice to the appropriate governmental agency (the Department of Licenses and inspections of any city of the first class; the Department of Public Safety of any city of the second or third class; and the County Public Health Department in any other political subdivision).
  - ii. that the termination notice contained the following:
    - a. the amount owed the sewer system by the landlord for each affected account;
    - b. the date on or after which water service will be discontinued;
    - c. the date on or after which the City of York will notify tenants of the proposed termination of water service and their rights;
    - d. a statement of the obligation of the landlord to provide the City of York with the names and addresses of every affected tenant or to pay the amount due the City of York or make an arrangement with the City of York to pay the balance, including a statement that this list must be provided or payment or arrangement must be made within seven (7) days of receipt of the notice; and of the penalties and liability which the

landlord may incur by failure to comply (a civil penalty of not more than \$500 for each day of failure to respond, plus reasonable attorneys' fees);

- e. a statement of the right of the landlord to stay the notification of tenants by filing a petition with the Court disputing the right of the City of York to cause termination of water service,
- iii. that at least seven (7) days after notice to the landlord and at least thirty (30) days before any termination of service, each tenant was provided notice of the proposed termination of water service, the notice containing:
  - a. the date on which the notice was rendered;
  - b. the date on or after which water service will be discontinued;
  - c. a statement of the circumstance under which service to the affected tenant may be continued;
  - d. the bill for the thirty (30) day period preceding the notice to the tenants;
  - e. a statement of the statutory rights of a tenant to deduct the amount of any direct payment to the City of York from any rent payments then or thereafter due; to be protected against any retaliation by the landlord for exercising such statutory right; and to recover money damages from the landlord for any such retaliation;
  - f. a statement that the tenants may make payment to the City of York on account of nonpayment by the landlord only by check or money order drawn by the tenant to the order of the sewer system;
  - g. a telephone number at the City of York which a tenant may call for an explanation;
  - h. a statement that the information in the notice to tenants was also posted by the City of York in those common areas of the premises where it is likely to be seen by the affected tenants.
- iv. that the landlord has not paid the amount due or made an arrangement to pay the amount;
- v. that the landlord has not filed an unresolved petition with the Court disputing the right of the City of York to cause termination of the water service;
- vi. that the tenants have not exercised their rights to continued service.

AND FURTHER PROVIDED that no occupant of said premises has produced a medical certification by a physician to be seriously ill or affected with a medical condition which will be aggravated by a cessation of water service or failure to restore water service, as provided for in 52 Pa. Code §§56.11156.118,

2. The City of York shall pay to the Water Company concurrently with the delivery of the written request mentioned in Section 1, above, the sum of Fifteen Dollars (\$15.00) to cover the Water Company's cost of shutting off the water supply to each premises listed in such request. The City of York shall also pay to the Water Company, upon its request therefore, an additional charge of Fifteen Dollars (\$15.00) to cover the Water Company's cost of restoring water service to each such premises. In the event that the actual cost incurred by the Water Company in discontinuing and restoring water service to any such premises is more than Thirty Dollars (\$30.00), the City of York shall remit the actual cost thereof to the Water Company based on time, material, transportation and other fixed charges. The fees fixed hereunder may be amended from time to time as agreed by the parties hereto.

3. The City of York shall pay to the Water Company the estimated loss of water revenues resulting from each shut-off made hereunder. Such estimated loss of water revenues shall be based upon the actual period of time during which the supply of water is shut-off in each instance and the average water revenue received by the Water Company for a like period of time during the year prior to such shut-off from the class of customer involved in each instance, as determined from the books and records of the Water Company. The estimated loss of revenue shall be billed by the Water Company to the City of York periodically at the same time as the Water Company would have billed the customer if the water had not been shut-off, and the Township shall pay each such bill within thirty (30) days of receipt thereof.

4. The Water Company shall not be liable for any loss, damage or other claim asserted by the owner, person or corporation based on or arising out of the shutting off of such supply of water. The City of York shall indemnify and save harmless the Water Company, its agents, officers, servants or employees from any such loss, damage or other claim arising out of said activity pursuant to the terms of the Agreement. Notwithstanding the aforementioned language the City of York shall not be responsible for any loss, damage or claim asserted by said owner, person or corporation due to negligence on the part of the Water Company, its agents, officers, servants or employees, while performing any services for the Township pursuant to this agreement.

5. If a dispute shall arise between the parties hereto regarding any of the provisions of this Agreement, such dispute may be submitted by either of the parties to the Pennsylvania Public Utility Commission whose decision, unless reversed on appeal, shall be final.

6. The Agreement may be terminated by either of the parties hereto by then (10) days written notice given to the other party at its principal place of business.

7. The Agreement shall become effective thirty (30) days after the Water Company has filed a copy thereof with the Pennsylvania Public Utility Commission or, in the event that the said Commission grants its approval thereof,

8. The Water Company shall have the right to increase the above-referenced amount of Thirty Dollars (\$30.00) from time to time, in the event that the cost to the Water Company for performing the service hereunder increases, upon sixty (60) days' written notice to the City of York. It is further understood and agreed that the aforesaid amount of Thirty Dollars (\$30.00) for the shutting off and restoring of water service under the provisions of this Agreement shall be automatically increased to coincide with the charges for shutting off water service and restoring water service contained in the Company's tariff as on file with and approved by the Pennsylvania Public Utility Commission from time to time,

9. Notwithstanding the provision of the Agreement, it is understood and agreed by the parties hereto that the Water Company shall be required to comply with any existing regulations of the Pennsylvania Public Utility Commission relating to the notice before the termination, in addition to providing any notice that might otherwise be required under this contract or any applicable law or ordinance.

IN WITNESS WHEREOF, the parties hereto have caused these presents to be signed and attested by their proper officers the day and year first above written.

ATTEST:

**CITY OF YORK:** 

BY: Clerk Dianna Thompson, *City* Havor Mayor Robert F. Lambert, Controller

ATTEST:

THE YORK WATER COMPANY:

BY: resident

THE YORK WATER COMPANY 130 EAST MARKET STREET P. O. BOX 15089 YORK, PA 17405-7089



Rosemary Chiavetta, Secretary Pennsylvania Public Utility Commission P. O. Box 3265 Harrisburg, PA 17105-3265

1



The York Water Company

March 15, 2013

Ms. Rosemary Chiavetta, Secretary Pennsylvania Public Utility Commission P.O. Box 3265 Harrisburg, PA 17105-3265

U-2010-2197661

York Water Exhibit VLB-5R

Page 8 of 13

B-C of 13 <sup>3</sup>UI3 MAR SECRETAR ARY C SECRETAR SEC

RE: The York Water Company – City of York

**Dear Secretary Chiavetta:** 

The York Water Company intends to enter into an agreement with the City of York to provide posting services for non-payment of sewer bills. York Water already has an agreement in place to terminate water service for delinquent sewer accounts so the attached is an addendum to our existing agreement. Because this is an agreement between a public utility and a municipality, it must be certified as filed by the Pennsylvania Public Utility Commission before it can become effective.

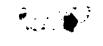
Enclosed is an executed copy of the agreement between York Water and the City of York. I request that the Commission certify the filing of the proposed agreement and notify me of that approval.

If you need any additional information please contact me at 717-718-2943 or vernonb@yorkwater.com.

Sincerely,

Vernon L. Bracev Vice President-Customer Service

Attachment



#### **ADDENDUM TO SHUT-OFF AGREEMENT**

1. This Addendum modifies and supplements the attached Shut-Off Agreement (the "Shut-Off Agreement") dated September 1, 2010.

2. The parties to the Shut-Off Agreement as modified and supplemented by this Addendum are: City of York (the "City of York") and The York Water Company (the "Water Company").

3. The parties agree that wherever there is any conflict between this Addendum and the Shut-Off Agreement, the provisions of this Addendum will control and the Shut-Off Agreement will be construed accordingly.

4. Notwithstanding any terms in the Shut-Off Agreement to the contrary, the City of York and the Water Company agree as follows:

a. Upon written request by the City of York specifying a premises in the City of York's service area with regard to which the rentals, rates and charges for sewer, sewage or sewage treatment service shall not have been paid for a period of at least thirty days' from the date thereof, the Water Company shall proceed to post for and shut-off the supply of water to such premises until it is advised in writing by the City of York that all such overdue rentals, rates and charges, together with any interest thereon, have been paid or the City of York directs otherwise.

b. The following fees apply to notice requirements relating to the shut-off of the supply of water as set forth in the Act of November 26, 1978, PL. 1255, No. 299, 68 P.S. Sections 399.1 et seq., for any premises, other than a residential building for which the landlord is the party responsible for the payment of sewer service:

request the Water Company shut-off the supply of water.	
Post at the main entrance to the premises a three (3) days written notice of the City of York's intention to request the Water Company shut-off the supply of water.	\$15.00
Post at the main entrance to the premises a forty-eight (48) hours written notice of the City of York's intention to request the Water Company shut-off the supply of water.	\$15.00

c. The following fees apply to notice requirements relating to the shut-off of the supply of water as set forth in the Act of November 26, 1978, PL. 1255, No. 299, 68 P.S. Sections 399.1 et seq., for any residential building for which the landlord is responsible for the payment of sewer service:

SECRETARY'S BUREAU PA.P.U.C. 22 HAA 91 AAH EIOS RECEIVED



Provide thirty seven (37) days written notice of the City of York's intention to request the Water Company shut-off the supply of water	
via certified and first class mail.	\$25.00
Post at the main entrance to the premises a thirty (30) days written notice of the City of York's intention to request the Water Company shut-off the supply of water.	\$15.00
supply of water.	<b>\$15.00</b>
Should tenant names be obtained during the posting of the thirty (30) days written notice, provide thirty (30) days written notice to tenants via first class mail of the City of York's intention to request the Water	
Company shut-off the supply of water.	\$15.00
Post at the main entrance to the premises a three (3) days written	
notice of the City of York's intention to request the Water Company shut-off the supply of water.	\$15.00
Should tenant names be obtained during the posting of the thirty (30) days written notice, provide a three (3) days written notice to tenants via first class mail of the City of York's intention to request the Water	
Company shut-off the supply of water.	\$15.00

5. The Water Company shall have the right to increase the above-referenced fees from time to time, in the event that the cost to the Water Company for performing the service hereunder increases, upon sixty (60) days' written notice to the City of York.

6. The Water Company will invoice the City of York and the City of York will pay the mutually agreed upon fees within thirty (30) days of receipt of the notice. Fees associated with the Shut-Off Agreement shall be paid in accordance with paragraph 2 of the Shut-Off Agreement.

ATTEST:

CITY OF YORK

Dianna Thompson, City Clerk

BY: C. Kim Bracey, N **hav**or

Robert F. Lambert, Controller

THE YORK WATER COMPANY

poth Asst. Secretary

BY:

ATTEST:

#### York Water Exhibit VLB-5R Page 11 of 13

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b. The following fees apply to notice requirements relating to the shut-off of the supply of water as set forth in the Act of November 26, 1978, PL. 1255, No. 299, 68 P.S. Sections 399.1 et seq., for any premises, other than a residential building for which the landlord is the party responsible for the payment of sewer service:

Provide ten (10) days written notice of the City of York's intention to request the Water Company shut-off the supply of water.	\$15.00
Post at the main entrance to the premises a three (3) days written notice of the City of York's intention to request the Water Company shut-off the supply of water.	\$15.00
Post at the main entrance to the premises a forty-eight (48) hours written notice of the City of York's intention to request the Water Company shut-off the supply of water.	\$15.00

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#### York Water Exhibit VLB-5R Page 12 of 13

\$25.00
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\$15.00
Ψ1 <b>2</b> .00
\$15.00
\$15.00

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ATTEST:

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CITY OF YORK

Dianna Thompson, City Clerk

BY: C. Kim Bracev, Mayor

Robert F. Lambert, Controller

THE YORK WATER COMPANY

ne<u>( Keproth</u> Asst. Secretary nne

BY: ésident



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York Water Exhibit VLB-5R



Rosemary Chiavetta, Secretary Pennsylvania Public Utility Commission P. O. Box 3265 Harrisburg, PA 17105-3265

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03/18/13

### **York Water Exhibit VLB-6R**



#### York Water Exhibit VLB-6R COMMONWEALTH OF PENNSYLVANIA Page 1 of MREPLY PENNSYLVANIA PUBLIC UTILITY COMMISSION PLEASE P.O. BOX 3265, HARRISBURG, PA 17105-3265 FILE

October 4, 2010

U-2010-2197661

VERNON L BRACEY THE YORK WATER COMPANY 130 EAST MARKET STREET PO BOX 15089 YORK PA 17405-7089

Agreement dated September 1, 2010 between The York Water Company and the City of York relative to the Company being authorized and required at the request and direction of the City of York to shut off the supply of water from its system to any premises in which the rentals, rates and charges for sewer, sewage or sewage treatment services supplied by the City of York that are unpaid and a claim or lien for such services has been assigned to the City of York.

To Whom It May Concern:

We enclose herewith the original and one (1) copy of certificate of filing issued by this Commission in accordance with Section 507 of the Public Utility Code, 66 Pa. C.S. §507.

You should serve the enclosed copy of this certificate upon the City of York.

Very truly yours,

Rosemary Chiavetta Secretary

mh encls. cert.mail

#### PENNSYLVANIA PUBLIC UTILITY COMMISSION

#### **CERTIFICATE OF FILING**

Agreement dated September 1, 2010 between The York Water Company and the City of York relative to the Company being authorized and required at the request and direction of the City of York to shut off the supply of water from its system to any premises in which the rentals, rates and charges for sewer, sewage or sewage treatment services supplied by the City of York that are unpaid and a claim or lien for such services has been assigned to the City of York.

#### U-2010-2197661

#### **BY THE COMMISSION:**

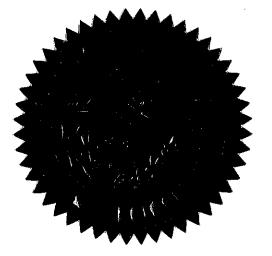
AND NOW, October 3, 2010, the Public Utility Commission certifies

that the above, captioned contract or indenture dated September 1, 2010

has been on file with the Commission since September 3, 2010 in accordance

with Section 507 of the Public Utility Code, 66 Pa. C.S. §507.

#### PENNSYLVANIA PUBLIC UTILITY COMMISSION



Rosemary Chiavetta Secretary

#### York Water Exhibit VLB-6R



COMMONWEALTH OF PENNSYLVANIA PENNSYLVANIA PUBLIC UTILITY COMMISSION P.O. BOX 3265, HARRISBURG, PA 17105-3265

Page 3 of 4 IN REPLY PLEASE REFER TO OUR FILE

April 19, 2013

U-2010-2197661

VERNON L BRACEY THE YORK WATER COMPANY 130 EAST MARKET STREET PO BOX 15089 YORK PA 17405-7089

Addendum to the agreement dated September 1, 2010 between The York Water Company and the City of York relative to the Company being authorized and required at the request and direction of the City of York to shut off the supply of water from its system to any premises in which the rentals, rates and charges for sewer, sewage or sewage treatment services supplied by the City of York that are unpaid.

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You should serve the enclosed copy of this certificate upon the City of York.

Very truly yours,

Rosemary Chiavetta Secretary

mh encls. cert.mail

#### PENNSYLVANIA PUBLIC UTILITY COMMISSION

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Addendum to the agreement dated September 1, 2010 between The York Water Company and the City of York relative to the Company being authorized and required at the request and direction of the City of York to shut off the supply of water from its system to any premises in which the rentals, rates and charges for sewer, sewage or sewage treatment services supplied by the City of York that are unpaid.

#### U-2010-2197661

**BY THE COMMISSION:** 

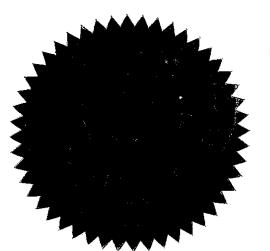
AND NOW, April 19, 2013, the Public Utility Commission certifies

that the above, captioned contract or indenture dated September 1, 2010

has been on file with the Commission since March 19, 2013 in accordance

with Section 507 of the Public Utility Code, 66 Pa. C.S. §507.

PENNSYLVANIA PUBLIC UTILITY COMMISSION



Rosemary Chiavetta Secretary

### **York Water Exhibit VLB-7R**

		Y OFK VVatel	· Exhibit VLB-7R
			Page 1 of 1
The City of York		Sanitary Sewer	and
the city of fork		Refuse Bill	
c/o The York Water Company 130 EAST MARKET ST			
YORK PA 17401			
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\*\*Payments Received information only includes payments received by York Water on or after August 11, 2020.

Effective with this bill, the City of York's Sanitary Sewer rates changed to the following: Old Minimum charge \$18.00 per month for 2057 gallons of sewer service. New Minimum charge \$18.00 per month for 1920 gallons of sewer service.

Old Monthly quantity charge per 1000 gallons: \$9.10. New Monthly quantity charge per 1000 gallons: \$9.37.

Contact York City Sewer about Sewer Services

Make all checks payable to The York Water Company

The York Water Company 130 E Market St York PA 17401 www.yorkwater.com Our Office Hours: Monday through Friday 8:30 a.m. to 5:00 p.m. Phone: 717-845-3601 Toll Free: 1-800-750-5561

Statement No. 107-R Docket No. R-2022-3031340 Witness: Paul R. Moul

#### THE YORK WATER COMPANY

**Rebuttal Testimony** 

of

Paul R. Moul, Managing Consultant P. Moul & Associates

> Concerning Fair Rate of Return

September 16, 2022

1		INTRODUCTION
2	Q.	Please state your name, occupation and business address.
3	A.	My name is Paul Ronald Moul. My business address is 251 Hopkins Road, Haddonfield,
4		New Jersey 08033-3062. I am Managing Consultant at the firm P. Moul & Associates,
5		an independent financial and regulatory consulting firm.
6	Q.	Did you previously submit testimony in this proceeding on behalf of The York
7		Water Company ("York Water" or the "Company")?
8	A.	Yes. I submitted my direct testimony, York Water Statement No. 106, on May 30, 2022.
9	Q.	What is the purpose of your rebuttal testimony?
10	A.	My rebuttal testimony responds to the direct testimony submitted by Mr. David S. Habr,
11		a witness appearing on behalf of the Office of the Consumer Advocate ("OCA"), and Mr.
12		Christopher Keller, a witness appearing on behalf of the Commission's Bureau of
13		Investigation and Enforcement ("I&E"). I will also update the Company's cost of debt for
14		the FPFTY. If I fail to address each and every issue in the testimonies of each of these
15		witnesses, it does not imply agreement with those issues. I should further note that this
16		rebuttal testimony, just like my direct testimony, applies to both the Company's water and
17		wastewater operations.
18	Q.	What are the key aspects of the rate of return issue that the Commission should
19		consider when deciding this issue in this case?
20	A.	The issues involve the Company's cost of equity and the capital structure. Mr. Keller has
21		accepted the Company's proposed capital structure ratios. Mr. Habr has opposed the
22		actual capital structure and instead proposed a hypothetical capital structure. All the
23		witnesses have accepted the embedded cost of debt for York Water.
24		The equity returns proposed by these witnesses are entirely too low to reflect the
25		risks of York Water and the prospective cost of equity. Aside from technical issues that I
26		will discuss later in my rebuttal testimony, the Commission should take into consideration

1 a rate of return that will reflect and be supportive of the Company's financial and risk 2 profile. As I explain below, the opposing parties' recommendations fail to adequately 3 consider this point and thereby understate the required cost of common equity in this 4 proceeding. The Commission should consider current trends in capital costs in setting 5 the Company's ROE and decline to accept the ROE recommendations of the other parties in this case, which are unreasonably low and would cause investor concern. My 6 recommended ROE of 11.25% continues to be a fair and reasonable ROE for the 7 Company. Messrs. Keller and Habr have not refuted my analytical approach and have 8 9 flaws in their own analyses. There are two key factors that bear on the rate of return issue in this case. Aside from technical issues that I will discuss later in my rebuttal 10 11 testimony, the Commission should take into consideration the following:

12 13

14

 A rate of return that will reflect and be supportive of the Company's financial and risk profile.

2) The management effectiveness displayed by York Water.

As I explain below, the opposing party recommendations fail to adequately consider these points and thereby understate the required cost of common equity in this proceeding.

17 Q. Please summarize the key points of your rebuttal testimony.

18 A. My key points are:

- The Company's actual capital structure falls within the range of capital structures
   of the proxy group, and should not be replaced with a hypothetical capital structure
   as proposed by Mr. Habr.
- Discounted Cash Flow (DCF) A variety of DCF results are too close to the cost
   of debt to provide a reliable measure of the cost of equity. As such, alternative
   measures should be considered, as has been Commission practice in other
   proceedings.
- 26

• A multistage DCF model, as proposed by Mr. Habr, is inappropriate for use in this

case.

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- The I&E and OCA witnesses have not refuted the accuracy of the Company's
   leverage adjustments to the DCF and beta component of the CAPM.
- A reasonable application of the Capital Asset Pricing Model ("CAPM") mandates
  using prospective yields on 30-year Treasury bonds, leverage adjusted betas,
  historical returns based on arithmetic means, and the size adjustment.
- Management effectiveness of York Water warrants an equity return above the
   midpoint of the indicated returns shown by the standard models of the cost of
   equity.

#### 10 Q. Please summarize your views regarding the OCA's cost of equity proposal.

11 Α. The Commission should set the Company's return on equity at a level that will attract 12 investment in the Company to ensure the Company's financial ability to render safe and reliable service. Applying this principle, the Commission should reject the proposals by 13 14 Messrs. Keller and Habr to cut the Company's return on common equity to 8.59% and 7.94%, respectively. Equity returns of this magnitude would be viewed by investors as 15 unsupportive of the Company's financial condition. In particular, Mr. Habr's proposed 16 return is completely unreasonable because it is much too low to allow York Water to 17 18 achieve the level of returns that meet investors' expectations. In my opinion, Mr. Habr's 19 proposal is substantially below York Water's cost of equity and, if adopted, would be of 20 serious concern to the financial community.

21 Q. What explains the substantial disparity between the recommendations of the I&E

#### and OCA witnesses and your proposed 11.25% equity return for York Water?

A. The differences between our cost of equity proposals are attributable to a number of
 factors, including, among others: (i) the determination of a reasonable Discounted Cash
 Flow (DCF) return, (ii) whether a leverage adjustment to the DCF is necessary, and (iii)
 the extent to which other methods of determining the cost of equity provide a reasonable

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measure of the appropriate cost of common equity.

#### COST OF EQUITY OVERVIEW

# Q. Is it necessary that the cost of equity set by the Commission support the Company's financial profile?

5 Α. Yes, the cost of equity set by the Commission should allow the Company to maintain its 6 financial integrity and credit quality. From a credit quality perspective, the Company's 7 actual capital structure must be used, as it provides the basis for the Company's A- bond rating by S&P. Use of a hypothetical capital structure would jeopardize that rating. At a 8 time when the cost of capital is increasing, the Commission should reject the proposal by 9 Mr. Habr to set the Company's return at 7.94%. A cost of equity return of 8.59% as 10 suggested by Mr. Keller would also be viewed by investors as unsupportive of the 11 12 Company's financial health, particularly in light of the Commission's recent cost of equity return of 10% for Agua Pennsylvania, a much larger water and wastewater utility.. Rather, 13 14 based on the factors listed below, and for technical reasons set forth later in this rebuttal testimony, the Commission should increase the return in this case above the 9.80% 15 16 equity return that was recently established in the DSIC proceeding for water utilities.

### Q. Are there additional issues that the Commission should consider when setting the Company's return?

19 A. Yes. The investment community would be very concerned if the Commission were to adopt either of the positions of the I&E or OCA. The return on equity used by the 20 Commission to set rates embodies in a single numerical value a clear signal of regulatory 21 support for the financial strength of the utilities that it regulates. Although cost allocations, 22 23 rate design issues, and regulatory policies relative to the cost of service are important 24 considerations, the opportunity to achieve a reasonable return on equity represents a direct signal to the investment community of regulatory support (or lack thereof) for the 25 26 utility's financial strength. In a single figure, the return on equity utilized to set rates provides a common and widely understood benchmark that can be compared from one company to another and is the basis by which returns on all financial assets (stocks – both utility and non-regulated, bonds, money market instruments, and so forth) can be measured. So, while varying degrees of sophistication are required to interpret the meaning of specific Commission policies on technical matters, the return on equity figure is universally understood and communicates to investors the types of returns that they can reasonably expect from an investment in utilities operating in Pennsylvania.

# Q. How does the cost of equity proposal by Messrs. Keller and Habr compare to the utility returns recently authorized by the Commission?

Α. Mr. Habr recommends a cost of equity of 7.94%. Mr. Keller opines that the cost of equity 10 11 is 8.59%. Technical disputes about methodology and data aside, the costs of equity 12 proposed by Messrs. Habr and Keller are simply not representative of the returns that the 13 Commission has been awarding. Indeed, the Commission established a 9.85% equity return for the Electric Division rate case for UGI Utilities, Inc. at Docket No. R-2017-14 2640058. Since that time, the Commission granted equity returns of 9.54% for Citizens' 15 16 Electric Company at Docket No. R-2019-3008212, 9.31% for Wellsboro Electric Company 17 at Docket No. R-2019-3008208, 9.73% for Valley Energy at Docket No. R-2019-3008209, 9.86% for Columbia Gas of Pennsylvania at Docket No. R-2020-3018835, 10.24% for the 18 19 Gas Division of PECO Energy at Docket No. R-2020-3018929, and 10.00% for Aqua 20 Pennsylvania at Docket No. R-2021-3027385.

Moreover, for purposes of setting the Distribution System Improvement Charge ("DSIC"), the Commission has set a 9.80% equity return for water utilities at Docket No. M-2022-3032405 (adopted at the Public Meeting held June 16, 2022). In the DSIC proceedings, DSIC recoveries are reconciled and therefore the 9.80% is guaranteed. In a base rate case such as this, a higher equity return is required because that return provides only an opportunity and not a guarantee for the water utilities. The rates of return on common equity proposed by Messrs. Habr and Keller are seriously deficient and will not provide York Water with the opportunity to earn its investorrequired cost of capital for the FPFTY. As explained below, this is not the time for the Commission to be reducing the Company's authorized return when there is a compelling need for capital investment to rehabilitate aging infrastructure. Indeed, the Company is committed to spend \$225 million on new property, plant and equipment over the next five years.

8

#### Q. Is there evidence that suggests that the cost of equity has been increasing?

9 A. Yes. The Commission should avoid the mistake of Mr. Habr, who takes a backward view
of interest rates, as his testimony considers only a 12-week historical average of onemonth and 30-year Treasury bond yields ended August 19, 2022. A forward-looking
assessment of the capital markets is especially relevant here because the Company's
rates will be based on a FPFTY. The trend in capital costs reinforces the need to consider
other cost of equity models, as I have done in my direct testimony, and as I discuss
elsewhere in my rebuttal testimony.

16 It is important to recognize the trends in interest rates. Accommodative policy by the FOMC has ended and higher interest rates have occurred and will continue in the 17 future. Current FOMC policy will produce even higher interest rates prospectively that 18 19 should be incorporated into the cost of equity now. Indeed, higher inflation expectations are a contributing factor that points to higher interest rates. Higher inflation today is 20 revealed by an annual inflation rate in August 2022 that moved to 8.3%, the highest rate 21 since January 1982. After the FOMC ended its bond-buying program (i.e., quantitative 22 23 easing) in March 2022, it now plans to run off its \$9 trillion asset portfolio, which will further 24 boost interest rates. Moreover, the first of several Fed Funds increases occurred on March 16, 2022, with an increase of 0.25%, and an additional 0.50% increase occurred 25 26 on May 4, 2022. A 50 basis point increase in the Fed Funds rate has not occurred since

2000. Additional increases are expected in 2022 and 2023. Indeed, the Fed Funds rate
 was increased again on June 15, 2022, when a 0.75% increase occurred and on July 27,
 2022 when another 0.75% increase occurred. These increases were the largest since
 1994.

Higher interest rates clearly point to higher capital costs prospectively, as
indicated by recent bond yield changes. The yield on 10-year Treasury bonds moved
above the 3% level on May 2, 2022, the first time since late 2018. By August 2022, the
yield on 30-year Treasury bonds moved to 3.13%, or an increase of 1.46% (or 87%) since
December 2020. Likewise, the yield on A-rated public utility bonds has increased to
4.76% in August 2022 from 2.77% in December 2020 – a 199 basis point (or 72%)
increase. I will describe the forecasts of interest rates and the trend below.

# Q. Is there additional evidence that suggests that the cost of capital has been increasing?

A. Yes. To gain a consensus view of future interest rates, I tabulated the forecasts of yields
 on 10-year Treasury notes published by a variety of well-recognized and investor influencing sources. I chose the 10-year Treasury note because it is available on a
 consistent basis across all sources. The comparisons are:

	2023	2024	2025	2026	2027
Blue Chip	3.50%	3.50%	3.40%	3.50%	3.50%
EIA	2.06%	2.32%	2.62%	2.83%	2.97%
<u>CBO</u>	2.90%	3.10%	3.20%	3.50%	3.70%

18

The general consensus is that interest rates will maintain elevated levels or increase in the future. The rising level of interest rates represents one key factor that adds to the risk of common equity. It is apparent that the trough in interest rates has passed and the forecasts show that interest rates will continue to rise in the future. Thus, a higher authorized return is warranted in the face of higher expected interest rates. The
 Commission should take the forecast trend toward higher interest rates into account when
 it sets the cost of equity for York Water.

4 Q. Has the stock market reacted to the changes in interest rates?

5 Α. Yes. The stock market entered "correction" territory in 2022 and recently approached 6 "bear" market territory. Overall market sentiment is revealed by investor-expected volatility, which provides an overall assessment of the risk that prevails in the equity 7 market. The risk associated with common stock investments is revealed by the volatility 8 of the stock market measured by the Chicago Board Options Exchange Volatility Index 9 10 ("CBOE VIX"). The CBOE VIX is based on real-time prices of options on the S&P 500 11 Index and is designed to reflect investors' consensus view of future (30-day) expected 12 stock market volatility. It is well established that greater volatility indicates higher risk, 13 which, all else equal, translates into a higher cost of equity. It is widely accepted that high readings for the CBOE VIX are often accompanied by bearish sentiment and a low CBOE 14 VIX is associated with bullish sentiment. The trading pattern of the CBOE VIX is typically 15 16 inverse to the level of stock prices. That is, the CBOE VIX increases when stock prices 17 are falling, and the CBOE VIX declines when stock prices rise. This situation is sometimes associated with increases in the cost of equity when the CBOE VIX increases 18 19 and vice versa. For 2022 to date, the CBOE VIX was 27.51. This compares with the CBOE VIX of 16.33 in 2019 prior to the beginning of the financial consequences of the 20 Pandemic. We can see that the CBOE VIX spiked upward with the beginning of the 21 22 Pandemic. The CBOE VIX has been:

Year	Average VIX
2019	16.33
2020	32.21
2021	22.42
2022 YTD	27.51

23

While volatility in the stock market has subsided since the beginning of the Pandemic in 2020, it continues to significantly exceed pre-Pandemic levels. The current level of risk 3 associated with common stocks, as revealed by the higher CBOE VIX in 2022, warrants 4 a higher equity return at this time because the higher stock market volatility signifies 5 higher risk that requires higher returns in compensation for the higher risk. Hence, the 6 risk for common equity, which translates into the cost of equity, does not support a low 7 equity return as suggested by Mr. Habr.

- 8 Q. How is the remainder of your testimony organized?
- 9 A. I will cover the issues of (i) capital structure, (ii) the weight to be given to the DCF method,
- 10 (iii) the DCF growth rate, (iv) the leverage adjustment to the DCF and CAPM methods,
- 11 (v) the CAPM method, (vi) the Risk Premium analysis, (vii) Comparable Earnings, and
- 12 (viii) management performance as part of the return on equity consideration.
- 13

#### CAPITAL STRUCTURE RATIOS

# Q. Is there a difference in the proposed capital structure ratios utilized by the rate of return witnesses in this case?

16 A. Yes. Mr. Habr is alone in advocating a hypothetical capital structure for York Water. Mr. 17 Keller has accepted the Company's proposed capital structure, as it falls within the range of capital structures of his proxy group. Mr. Habr's position, on the other hand, is clearly 18 19 contrary to long-standing Commission policy concerning capital structure ratios, articulated in the Gas Division rate case of PECO Energy-Gas Division at Docket No. R-20 2020-3018929 (Order entered June 22, 2021), where a 53.38% common equity ratio was 21 accepted. Furthermore, in the Commission's Columbia decision at Docket No. R-2020-22 23 3018835 (Order entered February 19, 2021), the Commission accepted Columbia's 24 equity ratio of 54.19% (Columbia Order, p. 118). The Commission also accepted a 53.95% common equity ratio in the Agua Pennsylvania case at Docket No. R-2021-25 26 3027385 (Order Entered May 16, 2022). The Commission's long-standing policy is to 1 accept the Company's actual capital structure for the FPFTY as long as it is within the 2 range of the capital structures employed by the barometer group companies. Moreover, in a York Water case in 1984, the Commission observed that generally hypothetical 3 4 capital structure ratios usurp the prerogative of management unless it can be 5 demonstrated that management has acted imprudently and the resulting actual capital structure ratios are atypical (1984 Pa. PUC LEXIS 61, \*85, 58 Pa. PUC 155, 187 (Pa. 6 P.U.C. January 26, 1984)). Essentially, the Commission will accept a utility's actual 7 capital structure ratios as long as they are reasonable. This is the case for York Water in 8 this case. 9

10

#### Q. What capital structure ratios does Mr. Habr propose?

A. Mr. Habr proposes a hypothetical capital structure of 48% long-term debt and 52%
 common equity for York Water without ever demonstrating that the Company's proposed
 capital structure is unreasonable. Rather, his proposed capital structure merely lowers
 the Company's revenue requirements.

In reaching his conclusion on capital structure ratios, Mr. Habr never really
substantiates his hypothetical capital structure in light of Commission policy. Mr. Habr's
approach violates Commission precedent on the use of the actual capital structure.
Under the facts of this case, the use of the York Water actual capital structure ratios
comports with Commission precedent.

Q. Is there any basis to deviate from the company's actual capital structure to set the
 rate of return in this case?

A. No. As Mr. Keller explained (see page 12 of I&E Statement No. 2), the Company's actual
 capital structure ratios (including the 54.77% common equity ratio) fall within the range of
 the proxy group. This is sufficient to meet the Commission's standard that makes the
 actual York Water capital structure appropriate in this case.

I have also verified the reasonableness of the Company's common equity ratio by
 considering the historical capital structure ratios for the Water Group and analysts'
 forecasts, which influence investor expectations. I have also compared the Company's
 proposed common equity ratio to that of the Water Group based upon forecast data widely
 available to investors from Value Line. Those ratios are:

Company	2025-2027
American States Water	48.0%
American Water Works Co.	40.0%
California Water Serv. Grp.	60.5%
Essetial Utilities	47.0%
Middlesex Water Company	57.5%
SJW Corporation	55.0%
Range:	
High	60.5%
Low	40.0%
Source: The Value Line Investm	ent Survey July 8, 202

Source: The Value Line Investment Survey, July 8, 2022

- 6 These ratios are computed based on permanent capital, excluding short-term debt. The
- 7 <u>Value Line</u> data shows that York Water has a common equity ratio for the FPFTY that is
- 8 within the range for the barometer group and that its actual capital structure has
- 9 adequate support based on Commission policy.

Q. At page 34 of OCA Statement 3, Mr. Habr refers to York Water capital structure
 being "quite fluid", with a long-term debt ratio of 46% at year-end 2020, 49% at year end 2021, and 36.8% on 6/30/2022, with "additional long-term debt for its future
 financing needs." Please respond.

A. There needs to be perspective in the context of these debt ratios. There is no uncertainty
 associated with the Company capital structure. Stock issuance and bond financings are
 necessary to support the FTY and FPFTY capital additions, which have not been
 challenged by other parties. New permanent capital is required to paydown short-term
 debt that is used initially to finance CWIP. Because of the Company's small size, long term debt and common stock issuances occur infrequently to refinance short-term debt

that provides bridge financing for capital projects until the balance of short-term debt is
 large enough to warrant the issuance long-term debt and common stock.

# Q. Are there other issues that should be considered when considering the capital structure for York Water in this case?

- 5 Α. Yes. It should be noted that York Water's small size further supports maintaining a higher equity layer in its capital structure. Mr. Keller expressed a view that a 50%-50% capital 6 structure is "optimal" (see pages 12-14 of I&E Statement No. 2). Mr. Keller also says 7 York Water faces the same regulatory risks as peers, but that statement overlooks its 8 9 small size risk. Another problem with Mr. Habr's approach is that when proposing a hypothetical debt ratio, Mr. Habr creates a mismatch between the cost of long-term debt 10 11 and his hypothetical debt ratio that he advocates. This mismatch arises because the 12 hypothetical long-term debt ratio contains more debt than the amount of long-term debt 13 that is actually outstanding for York Water.
- 14

#### COST OF DEBT

- Q. Have the changes in the debt markets warranted a revision to the Company's
   proposed cost of debt for the FPFTY?
- A. Yes. The events that I described above have caused me to propose an updated cost of
  long-term debt. That revised cost of debt is now 4.18% as shown in my Rebuttal Exhibit.
- 19 Q. How have you calculated updated cost of debt?
- A. My Rebuttal Exhibit, provides the Company's updated cost of debt for the FPFTY. I have increased the cost of the new debt issue in the FTY to 4.75% from 4.00% initially and in the FPFTY to 5.00% from 4.25% initially. As noted previously, the yield to Moody's Arated public utility bonds was 4.76% in August 2022. With increases in bond yields, the rate for 2023 would be higher. These changes increase the overall cost of long-term debt by 0.27% (4.18% - 3.91%). The overall rate of return is now 8.05% (4.18% x .4523%) +
- 26 6.16%). The Company has adjusted its revenue requirements for this change.

1

#### DISCOUNTED CASH FLOW

Q. The DCF model has been used by Mr. Keller, Mr. Habr, and you as one method to
 measure the cost of equity. What is your position concerning the usefulness of
 the DCF method?

5 Α. While the results of a DCF analysis should certainly be given weight, the use of more than one method provides a superior foundation for the cost of equity determination. 6 Since all cost of equity methods contain certain unrealistic and overly restrictive 7 assumptions, the use of more than one method will capture the multiplicity of factors that 8 9 motivate investors to commit capital to an enterprise (i.e., current income, capital appreciation, preservation of capital, level of risk bearing). The simplified DCF model 10 makes the assumption that there is a single constant growth rate, there is a constant 11 12 dividend payout ratio, that price - earnings multiples do not change, and that the price of 13 stock, earnings per share, dividends per share and book value per share all have the same growth rate. We know from experience that those assumptions are not realistic, 14 because the stock market reveals performance that is very different from the assumptions 15 of the DCF.<sup>1</sup> The use of multiple methods provides a more comprehensive and reliable 16 basis to establish a reasonable equity return for York Water. The Commission has 17 acknowledged the usefulness of other methods, such as CAPM and Risk Premium, as a 18 19 check on the reasonableness of the DCF return. I am aware that the Commission usually 20 expresses its cost of equity determination in the context of the DCF model. But the Commission also considers other methods as well. In its order entered on December 28, 21 2012, in Docket No. R-2012-2290597, the Commission stated: 22 Sole reliance on one methodology without checking the 23 validity of the results of that methodology with other cost of 24

25 equity analyses does not always lend itself to responsible 26 ratemaking. We conclude that methodologies other than

<sup>&</sup>lt;sup>1</sup> The growth rate variables shown on Schedules 8 and 9 of York Water Exhibit No. FVII show that the assumption associated with the simplified DCF model is not reasonable, because growth rates vary among variables.

- the DCF can be used as a check upon the reasonableness
   of the DCF derived equity return calculation.<sup>2</sup>
  - Similarly, in the recent Aqua Pennsylvania decision, the Commission observed:

In the 2012 PPL Order, the Commission considered PPL's 5 6 CAPM and RP methods, tempered by informed judgment, instead of DCF-only results. We conclude that 7 methodologies other than the DCF can be used as a check 8 upon the reasonableness of the DCF derived ROE 9 calculation. Historically, we have relied primarily upon the 10 11 DCF methodology in arriving at ROE determinations and 12 have utilized the results of the CAPM as a check upon the reasonableness of the DCF derived equity return. As such, 13 where evidence based on other methods suggests that the 14 DCF-only results may understate the utility's ROE, we will 15 consider those other methods, to some degree, in 16 determining the appropriate range of reasonableness for 17 our equity return determination.<sup>3</sup> 18

- 20 The Commission has acknowledged the usefulness of other methods, such as CAPM, as
- 21 a means of establishing a range of reasonable returns. Indeed, it is clear that the 22 Commission has been guided by the results of other models and other factors aside from DCF when setting the DSIC return. The Commission's selection of the rate of return on 23 equity for use in the DSIC is usually set well above the cost of equity indicated by the 24 25 DCF model alone. For example, in the Quarterly Earnings Report at Docket No. M-2022-26 3032405, the Commission set the DSIC return at 9.80% for the Water Companies, while 27 the DCF returns were 8.63% using current stock prices and 8.30% using 52-week 28 average stock prices. At the same time, the CAPM result was 9.88% for the Water
- 29 Company Barometer Group as calculated in the Commission's Quarterly Earnings Report 30 for the year ended December 31, 2021 (Docket Number M-2022-3032405), so it is clear
- 31 that the Commission used the CAPM result as an input on the reasonableness of the
- 32 DCF result.

3 4

<sup>&</sup>lt;sup>2</sup> Pennsylvania Public Utility Commission v. PPL Electric Utilities, R-2012-2290597, meeting held December 5, 2012, at 80.

<sup>&</sup>lt;sup>3</sup> Pennsylvania Public Utility Commission v. Aqua Pennsylvania, Inc., R-2021-3027385, order entered May 16, 2022, at 154-55.

- Q. Mr. Keller presents a revenue requirements calculation showing the difference
   associated with using the DCF and CAPM results (see pages 31-32 of I&E
   Statement No. 2.) What does this comparison reveal?
- A. This comparison is not relevant to this case. Neither the Company nor I&E are arguing
  for an equity return of 11.97% shown by the CAPM result and used in his table shown on
  page 32. The Commission has used the DCF and CAPM models to establish a range,
  and the authorized return would fall within that range. If any comparison can be made
  with these inputs, it would be between the midpoint of the range, i.e., 10.28% and the
  lower end of the range, i.e., 8.59%. That gap is 169 basis points. That produces a \$4.588
  million difference in revenue requirements, not the \$9.176 million Mr. Keller reports.
- Q, At pages 17-21 of I&E Statement No. 2, Mr. Keller tries to explain that the CAPM is
   less responsive than DCF to changes in the capital markets, because the CAPM
   uses historical betas and measures the return on equity indirectly. Are these
   observations adequate to ignore the results of the CAPM?
- Absolutely not. The CAPM is just as responsive to changes in capital costs as is the 15 Α. 16 DCF. Indeed, the CAPM is more responsive to the current level and trend in interest 17 rates because the risk-free rate of return reflects those factors directly. The market risk premium is also forward-looking, as it is based on a DCF type calculation for the market 18 19 total return, as proposed by Mr. Keller. And while the beta calculation is based on historical data, Value Line adjusts its historical betas for the tendency of betas to move 20 toward 1.00 on a forward-looking basis. The bottom line is the CAPM is just as response 21 to changes in capital costs as any other method. 22
- 23 Q. What form of the DCF model has been employed in this case?
- A. The constant growth form of the DCF model has been used by Mr. Keller, Mr. Habr, and
   me. Mr. Habr also offers a complex non-constant DCF model, which is not appropriate
   in the case. I will discuss in detail why his multi-stage DCF model is inappropriate in this

1 case.

# Q. Do the DCF results proposed by Mr. Keller provide a reasonable representation of the cost of equity?

A. Not in my opinion. The principal purpose of assembling a barometer group is to avoid
relying on data for a single company that may not be representative and to thereby
smooth out any abnormalities. That said, when some of the barometer group results are
unreasonable on their face, the reliability of the method being used, or the witness'
application of that method, must be questioned. As indicated below, several DCF results
used by Mr. Keller fall into that category:

Company	Average: 52 wk & Spot Yield	+	Growth	. = .	Total
American States Water Middlesex Water York Water	1.97% 1.37% 1.93%	+ + +		= = =	4.97%

10 It is a fundamental tenet of finance that the cost of equity must be higher than the cost of 11 debt by a meaningful margin to compensate for the higher risk associated with a common 12 equity investment. Yet, each of the companies listed above have DCF returns calculated 13 by Mr. Keller that fail to provide a sufficient spread over the six-month average yield of 14 4.58% on A-rated public utility bonds, or the August 2022 yield that was 4.76%. As I have 15 demonstrated in my direct testimony (York Water Statement No. 106 at pages 35-36), the 16 spread between the cost of debt and cost of equity should be 6.75% in this market environment. As such, none of the returns listed above can come close to meeting this 17 18 standard.

19

Q.

## What DCF return is indicated if the anomalous returns shown above are removed

20 from the average?

A. The average DCF return would be 10.38% (2.18% + 8.20%) prior to the leverage

22 adjustment based upon Mr. Keller's DCF calculations.

## Q. As to the DCF growth component, what financial variables should be given greatest weight when assessing investor expectations?

3 Α. The theory of the DCF holds that (1) the value of a firm's equity (i.e., share price) will grow 4 at the same rate as earnings per share with a constant P-E ratio and (2) dividend growth 5 will equal earnings growth with a constant payout ratio. Therefore, to reflect properly investor expectations within the limitations of the DCF model, earnings per share growth, 6 which is the basis for the capital gains yield and the source of dividend payments, must 7 be given greatest weight. The reason that earnings per share growth is the primary 8 9 determinant of investor expectations rests with the fact that the capital gains yield (i.e., price appreciation) will track earnings growth with a constant price earnings multiple (a 10 11 key assumption of the DCF model). It is also important to recognize that analysts' 12 forecasts significantly influence investor growth expectations. Moreover, it is instructive 13 to note that Professor Myron Gordon, the foremost proponent of the DCF model in public utility rate cases, has established that the best measure of growth for use in the DCF 14 model are forecasts of earnings per share growth.<sup>4</sup> Mr. Habr claims to have used 15 16 analysts' forecasts of earnings per share growth in his analysis, but he has altered those forecasts in a way that is different than the way that they are used by investors, as I 17 demonstrate in the table set forth below. Rather than using those forecasts directly in the 18 19 DCF, he has altered them in a way to drive down the DCF result. Had Mr. Habr used the forecasts in the manner that a reasonable investor would use them, his DCF proposal 20 21 would have been higher.

## Q. What are the DCF returns using the traditional constant growth model used by the Commission as calculated by Mr. Habr?

<sup>&</sup>lt;sup>4</sup> Gordon, Gordon & Gould, "*Choice Among Methods of Estimating Share Yield*," The Journal of Portfolio Management, Spring 1989 (included in "York Water Systems Documents Referenced in the Prepared Direct Testimony of Paul R. Moul" at page 42).

A. Those returns are shown below as revealed by Exhibits DSH-2, -3 and -4 and
 summarized below:

			Yahoo Growth Forecasts	Zacks Growth Forecasts	Value Line Growth Forecasts	Average
	F	Proxy Group DCF mean	9.67%	9.26%	8.55%	9.16%
3		These returns make no	provision for the	e leverage adjust	ment. These DO	CF-derived
4		returns are also substar	ntially understate	ed in today's mai	ket, for the rease	ons I explained
5		previously.				
6	Q.	Does Mr. Habr adopt t	hese DCF retur	ns when propo	sing his cost of	equity for
7		York Water?				
8	Α.	No. He uses a multi-sta	age DCF approa	ch to reduce his	recommendation	n for York
9		Water. I will discuss the	e infirmities of his	s multi-step DCF	returns below.	
10			MULTI-STAGE	DCF ANALYSE	<u>s</u>	
11	Q.	Mr. Habr relies upon a	n alternative ca	alculation, whic	h he describes	as the non-
12		constant form of the D	OCF model, to d	lerive his DCF r	eturn. Is this d	ata useful in
13		this case?				
14	Α.	No. As a preliminary ma	atter, Mr. Habr's	alternative non-	constant DCF m	erely provides a
15		mechanism to reduce si	gnificantly the re	esults of the trad	itional DCF mode	el that is familiar
16		to the Commission. Th	e Commission u	uses the constan	t growth DCF in	all its rate case
17		decisions that I am awa	re of and in its C	Quarterly Earning	s Report when s	setting the DCIC
18		return. Mr. Habr's prop	osal in this case	should be reject	ed.	
19	Q.	Can you demonstrate	how Mr. Habr's	s non-constant	DCF is designed	ed to lower his
20		DCF returns?				
21	A.	Yes. Mr. Habr presents	two separate n	on-constant DCI	- calculations. T	he first purports
22		to use a weighted avera	age growth rate	methodology us	ed by FERC. T	he second uses

- 1 two growth stages. Data presented below demonstrates the differences between the two
- 2 calculations and the traditional DCF results.

	Yahoo Growth Forecasts	Zacks Growth Forecasts	Value Line Growth Forecasts	Average
FERC 2-Step DCF Difference from traditional DCF	-1.15%	-0.41%	0.27%	-0.43%
Two Stage DCF Weighted Average Difference from traditional DCF	-2.36%	-1.92%	-1.10%	-1.79%

3 It is clear that the non-constant DCF returns are designed to lower the DCF returns.

4 Q. Is there anything inherently wrong with the non-constant DCF model in public

5 utility ratesetting?

A. Yes. The non-constant DCF model is not widely used in regulatory proceedings. And, I
am fairly certain that the Commission has not used a multi-stage DCF model in prior rate
cases. The basic fallacy of the non-constant DCF model rests with a set of problematic
assumptions of specifying individual cash flows that are too far out into the future to permit
a reasonable and reliable result. That is to say, the traditional way of applying the multistage DCF involves forecasts of specific future cash flow amounts.

12 Q. Please describe the flaws in Mr. Habr's hybrid non-constant DCF.

A. Mr. Habr uses GDP growth as a key input in his alternative non-constant form of the
DCF, which makes this method invalid as a measure of the cost of equity because it
relies on an incorrect assumption. Mr. Habr indicates that his method for analyzing
long-term growth rate rests on nominal GDP growth. There are many problems with his
approach. GDP growth in the DCF model is entirely misplaced. Earnings growth for a
utility, or any other company, occurs through revenue growth, net of: O&M,
depreciation, taxes, and interest. None of these factors are addressed with the GDP

20 growth forecasts. Mr. Habr is essentially developing a generic growth rate that would

1		apply to any, or all, companies, whether they are regulated or non-regulated
2		companies. However, each company has a unique company-specific growth rate. His
3		approach is simply incompatible with the basic concept of the DCF, where future cash
4		flows for each company are systematically related to one another by a constant growth
5		rate that represents a basic tenant of the single-stage DCF. It is also incompatible with
6		the use of the growth rates of a comparable barometer group of companies to meet the
7		requirement that a utility is to be permitted to earn a return equal to comparable
8		companies.
9	Q.	Mr. Habr uses his stand-alone York Water DCF based historical growth
10		performance to derive 7.94%, which is his recommendation. Is this an
11		appropriate analysis for this case?
12	A.	No. The Commission does not use single-company, stand-alone analysis when
13		applying either DCF or CAPM to set the cost of equity in rate cases. There is too much
14		potential for error in using a single company, especially based on backward-looking
15		growth, which is why the Commission uses proxy group data. The FERC and all state
16		commissions I am familiar with use proxy groups to apply the various models of the cost
17		of equity. Mr. Habr errs in this regard.
18		LEVERAGE ADJUSTMENT
19	Q.	Please respond to Mr. Keller's criticisms of your leverage adjustment.
20	Α.	In his discussion of my leverage adjustment, Mr. Keller mentions market-to-book ratios
21		("M/B"). I need to be clear that my leverage adjustment is not designed to produce any
22		particular M/B ratio. Mr. Habr also makes the error of linking my leverage adjustment to
23		the M/B ratio (see page 29 of OCA Statement No. 3. Mr. Keller offers three reasons for
24		not making a leverage adjustment. First, Mr. Keller notes that the credit rating agencies
25		assess financial risk in terms of a company's income statement in their analysis of the
26		creditworthiness of a company. I agree. But this has nothing to do with my leverage

adjustment. The credit rating agencies do not measure the market required cost of equity
 for a company. The credit rating agencies are only concerned with the interests of
 lenders. They are judging risk associated with a company's ability to make timely
 payments of principal and interest. Hence, they are not concerned with the cost of equity
 or how it is applied in the ratesetting context. While Mr. Keller's observation is correct, it
 has no relevance to my leverage adjustment.

## Q. Second, Mr. Keller also questions your leverage adjustment by reference to prior Commission orders. Please comment.

Mr. Keller points to several decisions where the Commission declined to make a leverage 9 Α. 10 adjustment – i.e., rate cases including Agua Pennsylvania, and the City of Lancaster 11 Water Department. The fact that the Commission declined to use the leverage adjustment 12 in the Aqua Pennsylvania case cited by Mr. Keller does not invalidate its use. Notably, the Commission did not repudiate the leverage adjustment in the Aqua case, but instead 13 arrived at an 11.00% return on equity for Aqua by including a separate return increment 14 for management performance. Just like an increment for management performance is 15 16 not recognized in all rate cases, so too the Commission seems to be taking a similar 17 approach to the leverage adjustment. As to the City of Lancaster decision, the situation there was quite different than the leverage adjustment that I propose in this case. 18 19 Lancaster proposed a leverage adjustment to the cost of equity measured with the Hamada formula and applied it to the DCF result, the Risk Premium result, and the CAPM. 20 While the Hamada formula plays a role in the CAPM, it is not applicable to the DCF or 21 the Risk Premium measures of the cost of equity. Hence, this distinguishes the City of 22 23 Lancaster approach to the leverage adjustment from mine in this case.

Q. Third, Mr. Keller argues that investors base their decisions on the book value debt
 and equity ratios for regulated utilities. Please respond.

1 Α. Mr. Keller contends that information presented to investors (see page 49 of I&E 2 Statement No. 2), such as that included in the Value Line reports, argues against my 3 leverage adjustment because investors base their investment decisions on book value. 4 However, the Value Line reports clearly show the market capitalization of each company 5 in his barometer group. This means that investors are well aware of the market capitalization of the water utility stocks that Mr. Keller relies upon for his analysis of the 6 cost of equity. More importantly, I fundamentally disagree that investors base their 7 decisions on book values. To the contrary, it is the future cash flows that investors expect 8 to realize that determines the price they are willing to pay for a share of common equity. 9 10 Stated differently, investors are concerned with the return that will be earned on the 11 dollars they invest (i.e., their market price) and not some accounting value of little relevance to them. The financial risk associated with the book value capital structure is 12 different from the market value of the capitalization. I clearly demonstrate this point on 13 14 Schedule 10 of York Water Exhibit FVII. Hence, the observation of Mr. Keller is misplaced because I have clearly shown the difference in financial risk and that risk difference must 15 16 be taken into account when arriving at an equity return that is applicable to the weighted 17 average cost of capital using book value weights.

Q. Mr. Habr criticized the leverage adjustment that you propose to account for the
 divergence of the financial risk associated with the market capitalization and book
 value capitalization. Please comment.

A. At pages 29-30 of OCA Statement 3, Mr. Habr never really refutes my leverage adjustment. Indeed, he says that I misapplied the Hamada formula leverage adjustment approach. First, my leverage adjustment has nothing to do with market-to-book ratios.
 Hence, Mr. Habr's arguments at pages 29-30 of OCA Statement 3 are not relevant. Second he cites to previously Commission orders regarding the leverage adjustment that I propose. I have responded to those issues above.

Q. Mr. Habr has not employed the leverage adjustment that you propose to account
 for the divergence of the financial risk associated with the market capitalization
 and book value capitalization. Please comment.

4 Α. It must be recognized that, in order to make the DCF results relevant in the ratesetting 5 context, the market-derived cost rate cannot be used without modification. The importance of the leverage modification to the DCF results was fully supported in my 6 direct testimony, wherein it was shown that the market value of the equity in the Water 7 Group's capitalization was much higher than its book value. The market value common 8 equity ratio was 74.72% compared to a book value common equity ratio 54.77%.<sup>5</sup> The 9 leverage adjustment is necessary to make the market-derived DCF results applicable in 10 the ratesetting context. Because the market-based cost rate is determined based on less 11 12 financial risk than that reflected in the ratemaking capital structure that employs book 13 values, and because increased financial risk justifies a higher return on equity, it is necessary to account for the higher financial risk that arises from the lower common 14 equity ratio measured by book value capitalization. The leverage modification that I 15 16 propose aligns the financial risk of the book value capital structure with the rate of return 17 that varies from the financial risk associated with market value.

Why is it important to recognize the leverage adjustment that you propose to Q. 18 19 account for the divergence of market capitalization and book value capitalization? As Professors Modigliani and Miller proved 50 years ago, the amount of leverage, or 20 Α. proportion of debt, in a firm's capital structure is directly related to the firm's financial risk 21 and cost of equity. A measurement of financial risk that is based on a market value 22 capitalization cannot be applied directly to book value capitalization if there is a material 23 24 difference attributed to a change in financial risk between the two. The financial risk 25 associated with a market value capitalization can be higher or lower than the financial risk

<sup>&</sup>lt;sup>5</sup> York Water Exhibit No. FVII Schedule 10, page 1.

1 associated with a book value capitalization, depending on the quantities, stated in dollars, 2 of debt and equity measured and their relative proportion to the total capitalization. Financial risk is measured as a percent of fixed-cost (i.e., senior) capital. That is to say, 3 the quantities that are used to measure financial risk account for the different quantities 4 5 of debt and equity that result from market and book valuations of capital. CAPITAL ASSET PRICING MODEL 6 7 Q. Do you have concerns regarding Mr. Keller's and Mr. Habr's applications of the 8 CAPM? Yes. Mr. Keller's CAPM analysis understates the cost of equity for a number of reasons: 9 Α. 10 (i) his use of the yield on 10-year Treasury notes, (ii) his use of historical geometric means 11 to calculate total market return, (iii) his failure to use leveraged adjusted betas, and (iv) 12 his failure to make a size adjustment. I disagree with Mr. Habr's CAPM as it relates to (i) the lack of a prospective yield on Treasury bonds, (ii) use of a non-investor-based beta, 13 (iii) the lack of a leverage adjusted beta, and (iv) the lack of a size adjustment. These 14 issues aside, it should be noted that Mr. Keller's CAPM calculation of 11.97% 15 16 demonstrates how understated his DCF result is. He wants to disregard his own CAPM, pointing out to how there is a greater spread between DCF and CAPM in this case for 17 York Water than in Agua. However, interest rates have continued to increase since the 18 19 time the record closed in the Aqua case, which confirms the current inadequacy of the DCF method. 20 Q. How does the use of the yield on 10-year Treasury notes compare with yields on 21 longer-term Treasury bonds? 22 A. The Blue Chip report dated September 1, 2022 shows this comparison. For the second 23 24 quarter of 2022, the gap was 0.11% (3.04% - 2.93%) between the yields on 30-year and 10-year Treasury obligations. For the period 2024-2028, that gap is projected at 0.30% 25

(3.8% - 3.5%) according to the June 1, 2022 Blue Chip. This shows a systematic

1 understatement of Mr. Keller's CAPM returns. This understatement can be traced to 2 extraordinary monetary policy actions taken by the FOMC to deal with the recession that 3 followed the onset of the Pandemic. Shorter-term rates, such as 10-year notes, respond 4 more to the policy initiatives of monetary officials, while long-term rates, such as 30-year bonds, are more a reflection of investor sentiment of their required returns. 5 For this reason, long-term rates, such as those revealed by 30-year Treasury bonds, should be 6 used to measure the risk-free rate of return. Accordingly, use of 30-year Treasury bond 7 projected yields would increase his CAPM result. Use of shorter-term rates, such as Mr. 8 9 Keller's 10-year Treasury Notes yields, are more susceptible to Fed policy actions.

#### 10 Q. How has Mr. Keller understated the risk-free rate of return?

11 A. The support for his risk-free rate of return is shown on his Schedule 9 of I&E Exhibit No. 12 2. There, he incorrectly gives the same weight to the yield on 10-year Treasury notes for 13 the third quarter of 2022 as he does for the entire five-year period from 2024 through 2028. This approach leads to a seriously understated risk-free rate of return. Even if 10-14 15 year rates are used, it is necessary to correct the weights assigned to the forecast data 16 presented by Mr. Keller. I have revised his forecast below, based upon Blue Chip. Moreover, Blue Chip provides higher yields on Treasury obligations as the forecasts are 17 18 extended into the future.

The resulting risk-free rate of return is 3.4% using the yield on 10-year Treasury
 Notes and 3.8% using the yield on 30-year Treasury Bonds.

Year	10-Year Treasury Yield	30-Year Treasury Yield
2022	3.2%	3.4%
2023	3.5%	3.8%
2024	3.5%	3.8%
2025	3.4%	3.8%
2026	3.5%	3.9%
2027	3.5%	3.8%
2028	3.4%	3.8%
Average	3.4%	3.8%

### 1 Q. How should these results be used in the CAPM?

A. The risk-free rate of return should be calculated with the data that I present above. The
 size adjustment of 1.02% must also be incorporated into the CAPM. I have corrected Mr.
 Keller's CAPM as indicated below using those inputs and the forecast yield on 10-year
 Treasury bond shown above:

	Rf	+	β	(	Rm	-	Rf	)+	size	=	K
Gas Group	3.40%	+	0.78	(	14.41%	-	3.40%	) +	1.02%	=	13.01%

# Q. Mr. Keller questions the need to adjust the CAPM results for size differences. Please comment.

8 Α. As a preliminary matter, it is noteworthy that CAPM provides compensation solely for 9 systematic risk, and thus York Water specific risk should be considered. Mr. Keller's 10 arguments revolve around the purported distinction between regulated utilities and 11 unregulated industrial companies. However, the Wong article that he relies upon was authored twenty (20) years ago, and employed data going back into the 1960s. 12 13 Enormous changes have occurred in the industry since the 1960s that have 14 fundamentally changed the utility business. The Wong article also noted that betas for the non-regulated companies were larger than the betas of the utilities. This, however, 15

is not a revelation, because utilities continue to have lower betas than many other
 companies. This fact does not invalidate the additional risk associated with small size.

The <u>Wong</u> article further concludes that size cannot be explained in terms of beta. Again, this should not be a surprise. Beta is not the tool that should be employed to make that determination. Indeed, beta is a measure of systematic risk and it does not provide the means to identify the return necessary to compensate for the additional risk of small size. In contrast, the famous Fama/French study (see "The Cross-Section of Expected Stock Returns," <u>The Journal of Finance</u>, June 1992) identified size as a separate factor that helps explain returns.

#### 10 Q. How does size affect the financial performance of a small company?

A. Examples of the financial consequences of external factors that can influence the
 financial performance of a small company include loss of a large customer and the effect
 of unexpected changes in expense.

## 14 Q. Mr. Habr has also performed a CAPM calculation in addition to DCF models. Are

## the results of his CAPM useful in setting the Company's equity return in this case?

16 A. No. There are a variety of problems with Mr. Habr's CAPM approach which makes it not useful in this case. First, he does not use betas that are available to investors, but instead 17 uses a "phantom" beta that invalidates his CAPM. Mr. Habr calculates "option implied 18 19 betas" that have not and could not have any influence on the types of returns investors could expect using the CAPM, as the Value Line betas do. Rather than use betas that 20 are available to, and used by, investors, Mr. Habr has manufactured his own betas that 21 are not based on empirically available data. It is well known that investors use the Value 22 Line data. There is no evidence that the betas calculated by Mr. Habr have any bearing 23 24 on investor expected returns, and in setting rates of return, that is what is relevant. Even if Mr. Habr was correct that his calculations are valid, investors simply could not have 25 26 relied on them. The Value Line data is relied upon by investors. As such, the Value Line

betas should be used directly in the cost of capital computation. To augment the <u>Value</u>
 <u>Line</u> betas with other information that investors do not use is not appropriate, regardless
 of the theoretical underpinnings of the modifications.

4

#### Q. Are there other problems with Mr. Habr's CAPM approach?

5 Α. Yes. There are several. First, Mr. Habr calculates his own betas covering the period May 2, 2022 through July 19, 2022. He should have used Value Line betas. According to 6 Schedule No. 8 of I&E Exhibit No. 2, the Value Line beta is 0.78, which compares to Mr. 7 Habr's beta of just 0.72. Second, the market premium ("Rm – Rf") used by Mr. Habr is 8 The understatement occurs because Mr. Habr employs a 9 seriously understated. geometric mean using historical returns in his CAPM, rather than the correct arithmetic 10 11 mean return.

#### 12 Q. Why is use of the geometric mean incorrect in the CAPM?

13 Α. Mr. Habr has incorrectly used the geometric mean of 6.98% in his analysis of the historical market premium (see page 25 of OCA Statement 3). Rather than the 6.98% 14 geometric mean return that Mr. Habr used, the correct arithmetic mean is 9.025%, see 15 16 page 3 of Exhibit DSH-11. The theoretical foundation of the CAPM requires that the 17 arithmetic mean be used because it conforms to the single period specification of the model and it provides a representation of all probable outcomes and has a measurable 18 19 variance. It has been established that the arithmetic mean best describes expected future returns -- the objective of the CAPM. The arithmetic mean provides the correct 20 representation of all probable outcomes and has a measurable variance. In contrast, use 21 of the geometric mean, which Mr. Habr advocates, consists merely of a rate of return 22 23 taken from two data points which would have no measurable variance (i.e., the dispersion 24 of the returns cannot be calculated with a geometric mean). So, while a geometric mean 25 will capture the growth from an initial to a terminal value, it cannot provide a reasonable 26 representation of the market premium in the context of the CAPM because the model

1		requires a single period return expectation of investors. The arithmetic mean provides
2		an unbiased estimate, provides the correct representation of all probable outcomes, and
3		has a measurable variance.
4		As stated by Ibbotson:
5 6		Arithmetic Versus Geometric Differences
7 8 9 10 11 12 13 14		For use as the expected equity risk premium in the CAPM, the arithmetic or simple difference of the arithmetic means of stock market returns and riskless rates is the relevant number. This is because the CAPM is an additive model where the cost of capital is the sum of its parts. Therefore, the CAPM expected equity risk premium must be derived by arithmetic, not geometric, subtraction.
15 16 17		Arithmetic Versus Geometric Means
17 18 19		The expected equity risk premium should always be
20		calculated using the arithmetic mean. The arithmetic mean
21		is the rate of return which, when compounded over multiple
22		periods, gives the mean of the probability distribution of
23		ending wealth valuesThis makes the arithmetic mean
24		return appropriate for computing the cost of capital. The
25 26		discount rate that equates expected (mean) future values with the present value of an investment is that investment's
20		cost of capital. The logic of using the discount rate as the
28		cost of capital is reinforced by noting that investors will
29		discount their (mean) ending wealth values from an
30		investment back to the present using the arithmetic mean,
31		for the reason given above. They will therefore require such
32		an expected (mean) return prospectively (that is, in the
33		present looking toward the future) in order to commit their
34 35		capital to the investment. (Stocks, Bonds, Bills and Inflation - 1996 Yearbook, pages 153-154
36		As such, the geometric mean should not be used in the CAPM.
37	Q.	Mr. Habr ignores the adjustment to the CAPM results for size differences. Please
38		comment.
39	Α.	On average, the Water Group is a mid-cap group, while York Water is a small-cap

1		company. Based on well-regarded research, including the famous Fama/French study, <sup>6</sup>
2		size is a separate factor that helps explain returns. The size of a firm is an unsystematic
3		risk not measured by beta, which requires separate recognition in the CAPM,
4		notwithstanding whether it is a characteristic of the relevant proxy group. A size
5		adjustment is necessary because the financial impact of changes in specific dollar
6		amounts of revenues and costs have a magnified influence on a small company because
7		there are fewer dollars over which those revenues or costs can be spread. The
8		SBBI/Morningstar Yearbook clearly demonstrates that the simple CAPM does not reflect
9		the return that is associated with small size. As Ibbotson has stated:
10 11 12 13 14 15		The security market line is based on the pure CAPM without adjusting for the size premium. Based on the risk (or beta) of a security, the expected return should fluctuate along the security market line. However, the expected returns for the smaller deciles of the NYSE/AMEX/NASDAQ lie above the line, indicating that these deciles have had returns in excess
16		of those appropriate for their systematic risk. <sup>7</sup>
16 17 18	Q.	
17	<b>Q.</b> A.	of those appropriate for their systematic risk. <sup>7</sup>
17 18		of those appropriate for their systematic risk. <sup>7</sup> What would be the resulting CAPM return for Mr. Habr's Water Group?
17 18 19		of those appropriate for their systematic risk. <sup>7</sup> What would be the resulting CAPM return for Mr. Habr's Water Group? Using Mr. Habr's 3.15% risk-free rate of return, the <u>Value Line</u> beta of 0.78 for the Water
17 18 19 20		of those appropriate for their systematic risk. <sup>7</sup> <b>What would be the resulting CAPM return for Mr. Habr's Water Group?</b> Using Mr. Habr's 3.15% risk-free rate of return, the <u>Value Line</u> beta of 0.78 for the Water Group, the 9.025% market premium, and the 1.02% size adjustment, the following result
17 18 19 20		of those appropriate for their systematic risk. <sup>7</sup> What would be the resulting CAPM return for Mr. Habr's Water Group? Using Mr. Habr's 3.15% risk-free rate of return, the <u>Value Line</u> beta of 0.78 for the Water Group, the 9.025% market premium, and the 1.02% size adjustment, the following result is indicated.
17 18 19 20 21 21		of those appropriate for their systematic risk. <sup>7</sup> What would be the resulting CAPM return for Mr. Habr's Water Group? Using Mr. Habr's 3.15% risk-free rate of return, the <u>Value Line</u> beta of 0.78 for the Water Group, the 9.025% market premium, and the 1.02% size adjustment, the following result is indicated. $Rf + B \times (Rm-Rf) + size = k$ Water Group 3.15% + 0.78 × (9.025%) + 1.02% = 11.21%
17 18 19 20 21 21	Α.	of those appropriate for their systematic risk. <sup>7</sup> What would be the resulting CAPM return for Mr. Habr's Water Group? Using Mr. Habr's 3.15% risk-free rate of return, the <u>Value Line</u> beta of 0.78 for the Water Group, the 9.025% market premium, and the 1.02% size adjustment, the following result is indicated. $Rf + \beta \times (Rm-Rf) + size = k$ Water Group 3.15% + 0.78 × (9.025%) + 1.02% = 11.21% <u>RISK PREMIUM ANALYSIS</u>
17 18 19 20 21 21		of those appropriate for their systematic risk. <sup>7</sup> What would be the resulting CAPM return for Mr. Habr's Water Group? Using Mr. Habr's 3.15% risk-free rate of return, the <u>Value Line</u> beta of 0.78 for the Water Group, the 9.025% market premium, and the 1.02% size adjustment, the following result is indicated. $Rf + B \times (Rm-Rf) + size = k$ Water Group 3.15% + 0.78 × (9.025%) + 1.02% = 11.21%
17 18 19 20 21 21	Α.	of those appropriate for their systematic risk. <sup>7</sup> What would be the resulting CAPM return for Mr. Habr's Water Group? Using Mr. Habr's 3.15% risk-free rate of return, the <u>Value Line</u> beta of 0.78 for the Water Group, the 9.025% market premium, and the 1.02% size adjustment, the following result is indicated. $Rf + \beta \times (Rm-Rf) + size = k$ Water Group 3.15% + 0.78 × (9.025%) + 1.02% = 11.21% <u>RISK PREMIUM ANALYSIS</u>

<sup>&</sup>lt;sup>6</sup> <u>See</u> Eugene F. Fama and Kenneth R. French, "*The Cross-Section of Expected Stock Returns*," The Journal of Finance, June 1992 (included in "York Water Systems Documents Referenced in the Prepared Direct Testimony of Paul R. Moul" at page 42).

<sup>&</sup>lt;sup>7</sup> 2016 SBBI Yearbook (Stocks, Bonds, Bills and Inflation), page 7-15.

1 Risk Premium method is straight-forward, understandable and has intuitive appeal because it is based on a company's own borrowing rate. The utility's borrowing rate 2 provides the foundation for its cost of equity which must be higher than the cost of debt 3 4 in recognition of the higher risk of equity. So, while Mr. Keller and Mr. Habr decline to 5 use the Risk Premium approach to measure the Company's cost of equity, it is an approach that provides a direct and complete reflection of a utility's risk and return 6 because it considers additional factors not reflected in the beta measure of systematic 7 It is particularly useful when investors expect changes in the cost of debt 8 risk. prospectively, which is currently the expectation of investors, as I have explained in York 9 Water Statement No. 106, pages 35-36. Indeed, the Risk Premium approach provides 10 11 for direct reflection of prospective interest rates in the model and therefore should be 12 given weight in determining the equity cost rate in this case.

13 **G** 

#### Q. What does Mr. Keller say about your Risk Premium analysis?

14 A. Mr. Keller makes the unfounded assertion that the Risk Premium and CAPM methods 15 should only be used as a comparison to the results of the DCF method because they do 16 not carry over from the investment decision-making process to the utility ratesetting Mr. Keller's own forecasted CAPM derives a return on equity of 11.97%, 17 process. demonstrating the inadequacy of his 8.59% DCF calculation. But he opposes this result 18 19 in his recommendation. When corrected as shown on page 24 of this rebuttal, the insufficiency of his DCF derived outcome is even more apparent. In fact, it is precisely 20 because investors consider the results of other methods that they too should be used in 21 addition to the DCF in the development of the cost of equity in this proceeding. Mr. 22 23 Keller's assertion that the Risk Premium method does not measure the current cost of 24 equity as directly as the DCF is similarly without foundation. As I explained in my direct testimony and earlier in my rebuttal testimony, we are facing the prospect of increasing 25 26 interest rates for the future. I incorporated the trend toward higher interest rates when I

developed my Risk Premium cost of equity of 11.00%. Finally, as I have shown in my
direct testimony, the risk premium is not constant, which is contrary to Mr. Keller's
assertion. Hence, my Risk Premium cost rate is fully responsive to changing market
fundamentals.

5

#### COMPARABLE EARNINGS APPROACH

6 Q. Please respond to the criticism of the Comparable Earnings approach.

7 A. The underlying premise of the Comparable Earnings method is that regulation should emulate results obtained by firms operating in competitive markets and that a utility must 8 be given an opportunity cost of capital equal to that which could be earned if one invested 9 in firms of comparable risk. For non-regulated firms, the cost of capital concept is used 10 11 to determine whether the expected marginal returns on new projects will be greater than 12 the cost of capital, i.e., the cost of capital provides the hurdle rate at which new projects can be justified, and therefore undertaken. Further, given the 10-year time frame (i.e., 13 five years historical and five years projected) considered by my study, it is unlikely that 14 the earned returns of non-regulated firms would diverge significantly from their cost of 15 16 capital.

The Comparable Earnings approach satisfies the comparability standard established in the *Hope* case. In addition, the financial community has expressed the view that the regulatory process must consider the returns that are being achieved in the non-regulated sector to ensure that regulated companies can compete effectively in the capital markets. Moreover, in a 1994 study that addressed the ROE issue, John Olson (then with Merrill Lynch) established that ROEs from non-regulated companies provide better assessment of investor requirements than those available for regulated utilities.<sup>8</sup>

<sup>&</sup>lt;sup>8</sup> "Natural Gas: The Case for ROE Reform," John E. Olson First Vice President, Merrill Lynch & Co., October 11, 1994.

1Q.But Mr. Habr states that the comparable earnings language from the <u>Bluefield</u> and2<u>Hope</u> cases are best met using the market-based common equity estimation

### 3 methods (see page 33 of OCA Statement No. 3). Is this correct?

A. No. Mr. Habr is mistaken because the DCF and CAPM methods were not envisioned for
the ratesetting process when the <u>Bluefield</u> and <u>Hope</u> decisions were issued by the
Supreme Court. Indeed only the Comparable Earnings method that I used in this case
would be aligned with the type of rate of return evidence available at that time.

8

#### YORK WATER'S MANAGEMENT PERFORMANCE

# 9 Q. How should the Commission recognize the performance of the Company's 10 management when setting its return in this case?

11 A. Mr. Hand addresses the Company's noteworthy accomplishments in his testimony. The 12 Commission should adopt a return on equity above the midpoint of the range of reasonable returns to recognize the exemplary performance of the Company's 13 management. This process has been used in other cases where the Commission added 14 25 basis points to the return in the case of West Penn Power Company, 22 basis points 15 16 to the return in the case of Agua Pennsylvania, 12 basis points to the return in the case 17 of PPL Electric Utilities, 5 basis points in UGIU – Electric Division, and 25 basis points in the most recent Aqua Pennsylvania rate case. The range for management performance 18 19 is 5 to 25 basis points. Certainly, in this case, based on the testimony of other Company witnesses, York Water is deserving of similar treatment that represents the performance 20 recognition previously utilized by the Commission in the past. I believe York Water should 21 22 receive at least this level as well.

23

### **SUMMARY**

24 Q. Please summarize your rebuttal testimony.

A. It is my opinion that the equity allowances proposed by Mr. Keller and Mr. Habr
 significantly understate the cost of common equity for York Water. In an environment of

prospectively higher interest rates and company-specific risk factors including York
 Water's operating risk and its small size, an opportunity to earn a cost of equity of 11.25%
 is reasonable for York Water after recognition of the effectiveness of the Company's
 management. Moreover, the Commission should be guided by the exemplary
 performance of the Company's management when selecting the point in the range when
 setting the Company's return in this case.

- 7 Q. Does this conclude your rebuttal testimony?
- 8 A. Yes, it does.

Rebuttal Exhibit Docket No. R-2022-3031340 Witness: Paul R. Moul

## THE YORK WATER COMPANY

### EXHIBIT

## TO ACCOMPANY

## THE REBUTTAL TESTIMONY

OF PAUL R. MOUL, MANAGING CONSULTANT P. MOUL & ASSOCIATES

## The York Water Company Calculation of the Embedded Cost of Long-Term Debt Actual at December 31, 2021

	Date of	Principal Amount	Percent to	Effective Cost	Weighted Cost
Series	Maturity	Outstanding <sup>(1)</sup>	Total	Rate	Rate
8.43%	12/18/22	\$ 7,500,000	6.26%	8.53%	0.53%
3.18%	10/01/29	12,000,000	10.01%	3.58%	0.36%
3.00%	10/01/36	10,500,000	8.76%	3.35%	0.29%
3.10%	11/01/38	14,870,000	12.41%	3.59%	0.45%
3.23%	10/01/40	15,000,000	12.51%	3.50%	0.44%
4.30%	06/01/45	10,000,000	8.34%	4.70%	0.39%
4.54%	01/31/49	20,000,000	16.69%	4.60%	0.77%
3.24%	09/30/50	30,000,000	25.03%	3.27%	0.82%
4.75%	12/01/52	-	0.00%	4.81%	0.00%
5.00%	12/01/53		0.00%	5.08%	0.00%
Total Long -T	erm Debt	\$119,870,000	100.00%		4.05%

Notes: <sup>(1)</sup> Includes current portion of long-term debt.

<sup>(2)</sup> As calculated on page 3 of this schedule.

Source of Information: Company provided data

## The York Water Company Calculation of the Embedded Cost of Long-Term Debt Estimated at February 29, 2024

	Date of	Principal Amount	Percent to	Effective Cost	Weighted Cost
Series	Maturity	Outstanding <sup>(1)</sup>	Total	Rate	Rate
8.43%	12/18/22	<u></u>	0.00%	8.53%	0.00%
		\$-			
3.18%	10/01/29	12,000,000	6.86%	3.58%	0.25%
3.00%	10/01/36	10,500,000	6.00%	3.35%	0.20%
3.10%	11/01/38	14,870,000	8.50%	3.59%	0.31%
3.23%	10/01/40	15,000,000	8.58%	3.50%	0.30%
4.30%	06/01/45	10,000,000	5.72%	4.70%	0.27%
4.54%	01/31/49	20,000,000	11.44%	4.60%	0.53%
3.24%	09/30/50	30,000,000	17.16%	3.27%	0.56%
4.75%	12/01/52	30,000,000	17.16%	4.81%	0.83%
5.00%	12/01/53	32,500,000	18.59%	5.08%	0.94%
Total Long -T	erm Debt	\$174,870,000	100.00%		4.18%

Notes: <sup>(1)</sup> Includes current portion of long-term debt.

<sup>(2)</sup> As calculated on page 3 of this schedule.

Source of Information: Company provided data

Series	Date of Issue	Date of Maturity	Principal Amount Issued	Premium/ Discount and Expense	Net Proceeds	Net Proceeds Ratio	Effective Cost Rate
8.43%	12/15/92	12/18/22	\$ 7,500,000	\$ 81,274 <sup>(2</sup>	<sup>)</sup> \$ 7,418,726	98.92%	8.53%
3.18%	05/07/08	10/01/29	12,000,000	712,585 <sup>(3</sup>	<sup>)</sup> 11,287,415	94.06%	3.58%
3.00%	10/08/19	10/01/36	10,500,000	474,801 <sup>(4</sup>	<sup>)</sup> 10,025,199	95.48%	3.35%
3.10%	10/08/19	11/01/38	14,870,000	1,004,682 <sup>(5)</sup>	<sup>)</sup> 13,865,318	93.24%	3.59%
3.23%	10/01/19	10/01/40	15,000,000	604,631 <sup>(6</sup>	<sup>)</sup> 14,395,369	95.97%	3.50%
4.30%	07/23/15	06/01/45	10,000,000	542,646 <sup>(7</sup>	<sup>)</sup> 9,457,354	94.57%	4.70%
4.54%	01/31/19	01/31/49	20,000,000	177,014	19,822,986	99.11%	4.60%
3.24%	09/30/20	09/30/50	30,000,000	162,709	29,837,291	99.46%	3.27%
4.75% <sup>(8)</sup>	12/01/22	12/01/52	30,000,000	300,000	29,700,000	99.00%	4.81%
5.00% <sup>(8)</sup>	12/01/23	12/01/53	32,500,000	325,000	32,175,000	99.00%	5.08%

#### The York Water Company Calculation of the Effective Cost of Long-Term Debt by Series

Notes: <sup>(1)</sup> The effective cost for each issue is the yield to maturity using as inputs the average term of issue, coupon rate, and net proceeds ratio.

(2) Includes the actual issuance expenses of \$18,797, \$8,424 premiums paid to redeem the 8.625% Debentures, and unamortized debt issuance expense of \$2,970 (8.625% Debentures), \$2,417 (7% YCIDA Note), \$5,504 (7.125% YCIDA Note), and \$43,162 (8.0615% Water Facility Loans) which were all redeemed with the proceeds of the 8.43% Senior Note.

<sup>(3)</sup> Includes additional issuance expenses of \$263,546 and \$449,039 remaining amortization associated with the refinancing of 2004 PEDFA Exempt Facilities Revenue Bonds, Series B of 2004, with PEDFA Exempt Facilities Revenue Bonds, Series A of 2008.

<sup>(4)</sup> Includes additional issuance expenses of \$145,997 and \$328,804 remaining amortization associated with the refinancing of 2006 YCIDA Revenue Bonds, Series 2006, with 2019 PEDFA Exempt Facilities Revenue Refunding Bonds, Series A of 2019.

<sup>(5)</sup> Includes additional issuance expenses of \$175,495 and \$829,187 remaining amortization associated with the refinancing of 2014 PEDFA Exempt Facilities Revenue Refunding Bonds, Series 2014, with 2019 PEDFA Exempt Facilities Revenue Refunding Bonds, Series B of 2019.

<sup>(6)</sup> Includes additional issuance expenses of \$112,356 and \$492,275 remaining amortization associated with the refinancing of 2010A Monthly Senior Notes, Series 2010A, with 2019 Senior Notes.

(7) Includes additional issuance expenses of \$298,297 and \$1,854 remaining amortization associated with the refinancing of 2004 PEDFA A Exempt Facilities Revenue Bonds with 2015 YCIDA Exempt Facilities

<sup>(8)</sup> Estimated.

Source of Information: Company provided data

### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

## RE: THE YORK WATER COMPANY DOCKET NO. R-2022-3031340

## REBUTTAL TESTIMONY OF CONSTANCE E. HEPPENSTALL

Line		
<u>No.</u> 1	Q.	Please state your name and business address.
2	Α.	My name is Constance E. Heppenstall My business address is 1010 Adams
3		Avenue, Audubon, Pennsylvania.
4	Q.	By whom are you employed?
5	Α.	I am employed by Gannett Fleming Valuation and Rate Consultants, LLC.
6	Q.	Are you the same Constance Heppenstall that submitted direct
7		testimony and exhibits in this case?
8	A.	Yes. I submitted Statement No. 108 and Exhibits No. FVIII, FVIII-WA and
9		FVIII-WB.
10	Q.	What is the subject of your rebuttal testimony?
11	Α.	I will address the cost of service and rate design issues raised in the direct
12		testimonies of Office of Small Business Advocate ("OSBA") witness Brian
13		Kalcic, Bureau of Investigation and Enforcement ("I&E") witness Ethan Cline,
14		and Office of Consumer Advocate ("OCA") witness Jerome Mierzwa.
15		<b>Direct Testimony of OSBA Witness Brian Kalcic</b>
16	Q.	Please address the testimony of Brian Kalcic regarding water revenue
17		allocation.
18	Α.	Even though Mr. Kalcic's allocation of Act 11 revenues among rate classes
19		was determined using a different methodology, Mr. Kalcic supports the

Company's revenue allocation as the different methodologies produce similar results. In the event of a scale back of rates, the Company agrees with his recommendation that the water class increases (except public fire) be scaled back proportionally, understanding that the scale back is dependent on the awarded wastewater revenue requirement and the final level of wastewater rates.

7

8

# Q. Please address the testimony of Brian Kalcic regarding his recommended wastewater rate increase.

- A. Mr. Kalcic recommends a higher rate increase for wastewater customers to
   mitigate the amount of Act 11 revenues recovered from water rates. He
   recommends an increase in wastewater revenue of 58.4%, equal to 1.75
   times the Company's proposed overall water increase.
- 13 Q. Do you agree with this increase?
- A. No, I do not as this large increase for wastewater customers constitutes rate
- 15 shock for the Company's customers. I observe that for wastewater
- 16 customers in Jacobus, Felton, Amblebrook, Letterkenny, and West Manheim,
- 17 this is the first rate increase since York Water's acquisition of those systems,
- and the Commission should take this into account in assessing the
- reasonableness of the Company's more gradual initial increase. The
- 20 Company recommends that the Commission approve the Company's
- 21 wastewater rate increase rather than that rate increase recommended by
- OSBA.
- 23 Q. Please discuss Mr. Kalcic' recommended scale back.

1	Α.	In case the Commission grants the Company a water revenue increase less
2		than was requested, Mr. Kalcic recommends a scale back of the class
3		increases, except Public Fire, as shown in his Exhibit BK-2W and BK-4W. In
4		as much as the Company disagrees with Mr. Kalcic's recommended
5		wastewater rates and Act 11 revenues, it disagrees with Mr. Kalcic's
6		recommendation for the scale back of both water and wastewater rates.
7		Direct Testimony of I&E Witness Ethan Cline
8	Q.	Please describe Mr. Cline's recommendation regarding the water
9		customer charge.
10	Α.	Mr. Cline agrees with the Company's calculation of direct customer costs and
11		the Company's proposed increase to customer charges.
12	Q.	Are there some inconsistencies and errors in Mr. Cline's testimony and
13		exhibits related to wastewater rates?
14	Α.	Yes. On lines 1-2 on page 10 of Mr. Cline's testimony, he recommends a
15		customer charge of \$62.50 to replace Minimum Charges 1 and 2. However,
16		in his Exhibit No. 3 which calculates revenue under I&E's proposed rates, he
17		uses a customer charge of \$80.55, much higher than the level described in
18		his testimony. Mr. Cline uses this customer charge of \$80.55, not \$62.50, to
19		calculate revenue under proposed rates and the level of the flat rate charge.
20		In fact, if a customer charge of \$62.50 is used to calculate revenue under
21		proposed rates, proposed revenue would be short by \$424,170.
22		In addition, on lines 6-9 on page 13 of his direct testimony, he
23		erroneously states that the customer charge for West Manheim customers

will be equal to the customer charge for the Minimum Charge 2 customers.
However, additional statements in his testimony (on lines 15-16 on page 14)
and the proposed rates shown in Exhibit 3 contradict this statement. I&E's
recommended customer charge for West Manheim customers, in Schedule
of Exhibit 3, is \$71.00, different than either rate for the Minimum Charge 2
of \$62.50 (from testimony) or \$80.55 (from Exhibit 3).

Finally, the "RateApp" worksheet in his workpapers shows an error in
calculating revenue for the Commercial class. He shows zero revenue for
volumes included in the original allowance, though I am sure he meant to
show revenue based on the volumetric rate of \$0.6000 per 100 gallons.
Correcting this error produces \$16,636 in additional revenue from the
Commercial class.

Q. Mr. Cline recommends a larger increase for wastewater customers in
 order to mitigate the amount of Act 11 revenues recovered from water
 rates. Please discuss.

For the same reason that I disagree with Mr. Kalcic's position, I disagree with Α. 16 17 Mr. Cline's. Both positions create rate shock for the Company's wastewater customers. In addition, Mr. Cline recommends eliminating the 4,000-gallon 18 19 usage allowance for customers in East Prospect, Lower Windsor and 20 Straban Borough (Minimum Charge1) and Jacobus Borough (Minimum Charge 2). These customers presently pay a minimum charge that includes 21 22 4,000 gallons of usage. Not only is Mr. Cline proposing to eliminate the 23 allowance so that customers pay additional for every gallon used, but he is

also, based on his exhibit, increasing the flat charge to \$80.55, over and 1 above the present minimum charged. This rate structure significantly raises 2 3 the increase for certain customers to a level much higher than the Company's proposal. For example, a customer that uses 4,000 gallons 4 under the Company's proposal, would see an increase of 28.9%. The same 5 customer under I&E's proposal would see an increase of 67.3%, over two 6 times more than the Company's proposal. However, the overall increase 7 proposed by I&E is 52%, only 50% higher than the Company's 8 9 recommendation of 35%. This large difference is due to I&E's proposed revised rate structure. 10 Q. Mr. Cline states that eliminating the allowance is in line with 11 Commission guidance in other rate cases. Please comment. 12 I agree that a rate structure without an allowance is preferable, based on all Α. 13 14 Mr. Cline's arguments. However, eliminating the allowance in one rate case constitutes unnecessary rate shock. The allowance could be reduced by half 15 in this rate case and, perhaps, eliminated in the next rate case to phase in 16 17 this change. Please describe Mr. Cline's recommendation regarding the scale back Q. 18 of rates. 19 20 Α. Mr. Cline generally agrees with the Company's scale back proposal, included in response to OCA-I-9, that, except for Public Fire Protection, all classes' 21 22 increases should be scaled back proportionally. In addition, he rightly 23 indicates that any scale back will be dependent on the level of Act 11

revenues and wastewater revenue requirement, and any scale back be
 netted against any subsidy for the Wastewater Operations. The Company
 agrees with Mr. Cline's proposed scale back methodology.

4

#### Direct Testimony of OCA Witness Jerome D. Mierzwa

## 5 Q. Please address Mr. Mierzwa's water cost allocation and rate design 6 issues.

A. Mr. Mierzwa criticizes my water cost of service allocation study as he
believes the system-wide and class extra capacity factors that the Company
used are outdated and unreasonable. He modifies the extra capacity factors
and submits an alternative cost of service study. He then recommends that
the proposed revenue distribution in this case be based on his cost of service
results. Also, he proposes to maintain the existing 5/8-inch customer charge
at \$16.25 per month.

# Q. Please explain the system-wide extra capacity factors you used in your study.

Α. The Company used the maximum day ratio of 1.52 experienced during 2010. 16 17 This is the highest ratio recorded on the system as well as the highest peak day usage on the system. Mr. Mierzwa proposes to use system maximum 18 day data from 2015 or the ratio of 1.35. Mr. Mierzwa erroneously assumes 19 20 that because the historic maximum peak used by the Company is a mere 5 years older than the one that he proposes that it should not be used. In 21 22 addition, Mr. Mierzwa proposes to use the system maximum hour data from 23 2016 or 2017 of 1.65. Again, ignoring the maximum hour ratio from 2006 of

- 1.84. A water system is designed to provide water during peak periods over
   many years, not just the peak period over the past 5 to 7 years. The historic
   peak should be used, not a more recent historic peak.
- 4

5

```
Q. Does Mr. Mierzwa have a valid complaint about the Company's use of allegedly outdated data for the class extra capacity factors?
```

6 Α. No, he does not. In York Water's 1992 rate case at Docket No. R-922168, the Office of Trial Staff ("OTS" now I&E), OCA, and the Company agreed to a 7 Stipulation with respect to issues concerning rate structure. One of the terms 8 9 and conditions contained in the Stipulation required the Company to "complete a study to investigate the feasibility and cost of preparing a study 10 of customer demands on the York Water system," within five months 11 following the conclusion of the proceeding. The Pennsylvania Public Utility 12 Commission adopted the Stipulation in its Order dated November 13, 1992. 13

14

### Q. Did the Company comply with the Stipulation?

A. Yes. In April 1993, the Company submitted a feasibility study to conduct a
 customer class demand study complete with a plan to conduct such study as
 well as an estimate of the cost.

- 18 Q. Did the OCA or OTS (I&E) respond to the feasibility study?
- A. No. The Company did not receive any response from either party.

## 20 Q. Did the Company submit any other feasibility study to conduct a 21 customer class demand study?

A. Yes. In April 2007, the Company submitted another feasibility study for a customer class demand study pursuant to the Settlement Petition in the Company's 2006 rate case at Docket No. R-00061322. The Settlement Petition included a provision where the OCA, OTS (I&E), OSBA, and the Company agreed that York Water would submit a "feasibility study to estimate the cost of a customer demand study . . ."

Q. Did the Company receive any response from any party with respect to
 the second feasibility study submitted to conduct a customer class
 demand study?

8 A. No, the Company did not.

### 9 Q. Why did the Company not simply conduct the study anyway?

Α. The Company did not consider it to be appropriate to spend several hundred 10 thousand dollars on a customer class demand study without the approval of 11 the other parties with respect to the scope and cost of the study. To do so 12 would have jeopardized the Company's ability to recover the cost of the 13 14 study. Without any response from the parties, the Company could only assume that the parties were not interested in the Company conducting the 15 study, that the parties did not consider that the cost was worthwhile, or that 16 17 the extra capacity factors used by the Company were sufficient.

Q. So now the OCA and Mr. Mierzwa want to impose their own extra
 capacity factors and use their cost allocation study for rate design?

A. Yes. After ignoring or rejecting the Company's feasibility study to conduct an update of the demand study, using actual recordings of customer class demands, Mr. Mierzwa proposes to use an alternative method to determine the class demands without the use of actual recordings.

1

### Q. What method did Mr. Mierzwa use?

A. The AWWA Manual M1 (Manual) offers an alternative approach for determining class extra capacity factors if a formal demand study is not available. This is not the preferred method for calculating extra capacity factors, but it is a method to use when no other data is available.

### 6 Q. But in York Water's case, the Company has actual measured data,

### 7 correct?

- A. Yes. The Company has data from a study conducted in the late 1970's,
  which has not been updated. However, as I explained earlier, the lack of
  more updated data is not the fault of the Company.
- **Q.** Please explain the AWWA alternative method.
- A. The alternative method described in the Manual uses monthly billing data by
   class compared to overall system peaks.

Q. Has your firm conducted any demand studies recently for Pennsylvania
 water companies?

A. Yes. For a period of three years, 2013 – 2015, we conducted a comprehensive class demand study for PAWC covering the entire state including south central Pennsylvania and submitted the results in its 2017 rate case.

## 20 Q. How do the results of that study compare to the ratios you used for 21 York Water?

A. See the table below that compares the recommended demand factors from
 OCA's direct testimony in the Company's prior rate case (2018), Docket No.

R-2018-3000019, OCA's recommendations in this case, York Water's current
 demand factors, and those from the PAWC demand study. Although there
 are some differences, I believe the results of the PAWC study track much
 more closely with the ratios I used for York Water than Mr. Mierzwa's various
 ratios from his AWWA analyses.

Comparison of Customer Demand Factors										
	Maximum Day				Maximum Hour					
Class	OCA- 2018	OCA - 2022	York Water	PAWC	OCA- 2018	OCA - 2022	York Water	PAWC		
Residential	1.60	1.70	2.50	2.00	2.65	2.80	4.50	5.00		
Commercial	1.40	1.50	1.60	2.10	2.30	2.50	3.30	4.60		
Industrial	1.35	1.45	1.50	1.50	1.80	1.95	2.70	1.70		

It is important to note that the customer demand factors recommended in this case by Mr. Mierzwa are each higher than the demand factors that OCA recommended in the Company's prior case, Docket No. R-2018-300019. If the factors are truly the historic maximum day and maximum hour ratios, they should not change as much since the prior rate case. Finally, what really matters in cost allocation is the relationship of the factors among the classes rather than the actual factors themselves.

Q. What do you conclude with respect to Mr. Mierzwa's alternative
 method, his revised cost of service study, and proposed revenue
 distribution?

A. Mr. Mierzwa has not provided any credible evidence that his alternative
 method is superior to the Company's system-wide and class extra capacity
 factors.

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6

Mr. Mierzwa's alternative method of extra capacity factors and associated cost of service study should be rejected. Further, his proposed revenue distribution should be rejected as well, because he relies on his cost of service study for his revenue distribution.

5

6

## Q. Please address the issues raised by Mr. Mierzwa concerning direct customer costs and the design of customer charges.

A. Mr. Mierzwa modifies my analysis of direct customer costs and recommends
 either no increase or a lower increase to the customer charges than the
 Company's proposal. The Company proposed an increase to the 5/8-inch
 customer charge from \$16.25 per month to \$20.71 per month. Similar
 increases were proposed for the larger meter sizes.

#### 12 Q. Please explain your analysis of customer costs.

A. On pages A-23 through A-31 of my Exhibit No. FVIII, I determined the customer costs for a 5/8-inch meter under the fully allocated basis at \$30.76 per month (p. A-23) and under the direct cost analysis at \$20.71 per month (p. A-23). The fully allocated method and the direct cost analysis support the Company's proposed 5/8-inch customer charge of \$20.71 per month.

#### 18 Q. Please explain the fully allocated method.

A. The fully allocated method determines the customer costs based on the direct costs associated with meters, service lines, customer billing, meter reading and accounting, plus an allocable portion of administrative and general (A&G) costs. This method is used in the AWWA Manual M1. It allocates a portion of A&G costs to the customer cost functions as well as a portion to the base,

11

extra capacity and fire service functions. This makes sense because most
 A&G costs do not vary with the number of customers or with the amount of
 water consumed. A&G costs support the entire operation, both customer related and usage-related.

5

#### Q. Why did you also provide a direct customer cost analysis?

A. I believe the Commission should consider the use of the fully allocated
 method to determine the appropriate level of customer charges. However, I
 understand recent Commission decisions support the use of direct customer
 costs only. If the Commission continues to rely solely on direct customer
 costs, it is important that the proper level of direct costs is determined, which
 include certain A&G expenses that are directly related to customer costs.

#### 12 Q. How did you determine the proper level of direct customer costs?

A. I followed the method used to determine the direct customer costs in the 2003 case involving Aqua Pennsylvania, Inc. ("Aqua") (formerly Pennsylvania Suburban Water Company), at Docket No. R-00038805, which was approved by the Commission. This direct customer cost methodology was reaffirmed by the Commission in the more recent PPL Electric Utilities Corporation case

18 at Docket No. R-2012-2290597, as follows:

19 Upon our consideration of the evidence of record herein, we shall adopt the ALJ's Recommendation on this issue 20 21 that PPL's compromise proposal is reasonable and should be approved. In this regard, we conclude that PPL's 22 original proposal is excessive, disregards the principle of 23 gradualism and is not reasonable. Additionally, we 24 conclude that the recommendations of I&E and the OCA 25 that the residential customer charge not be increased at all 26 27 in this proceeding are equally unreasonable as they are not based on a proper cost analysis. We further conclude 28

that the ALJ correctly recommended that, consistent with 1 Aqua, other customer-related costs are properly includable 2 in a customer charge cost analysis. We find that the I&E 3 proposed limitation of costs to only services and meters 4 excludes all other customer costs that should be included 5 in a customer charge and is unreasonably narrow. 6 7 8 This approach was even more recently reaffirmed in the Commission's recent 9 10 order involving Aqua, at Docket No. R-2021-3027385, where the Commission stated: 11 12 Upon our consideration of the evidence and record herein, we conclude that the ALJ correctly recommended that, 13 consistent with the Aqua 2004 Order, and subsequently 14 affirmed in the 2012 PPL Order, other customer-related 15 costs are properly includable in a customer cost analysis. 16 We find that the OCA proposed limitation of costs excludes 17 customer costs that should be included in a customer charge 18 and is unreasonably narrow. 19 20 Who was the witness in the 2003 Agua (Agua) case that developed the 21 Q. direct customer cost methodology? 22 Α. A member of our firm was the cost of service witness in this case. Mr. Paul 23 24 Herbert of Gannett Fleming prepared and sponsored Exhibit No. 5-R-1 in that case, which determined the proper level of direct customer costs. I further 25 note that I was Aqua's cost of service witness in the recent Aqua 2022 base 26 rate case. 27 What costs are included in the Company's direct cost analysis for York Q. 28 Water in this case? 29 Α. Consistent with Aqua, I included the direct costs for meters, service lines, 30 customer billing, meter reading and customer accounting including bad debt 31

expense. I also included an allocable portion of transmission and distribution
 supervision, employee pensions, payroll taxes and benefits, office buildings,
 furniture and equipment, computers, and transportation equipment. All of
 these items are necessary to provide customer-related services and are
 directly related to customer costs.

Q. Do you agree that bad debt expense that was omitted in the direct cost
 analyses of Mr. Mierzwa is appropriate?

8 A. No. Mr. Mierzwa omitted all the bad debt expense, which is not correct.

9 Q. Please explain your position on bad debt expense as a direct customer
 10 cost.

Α. The allocation of bad debt expense to customer classes was based on the 11 level of write-offs of bad debt (Factor 30) and is a direct customer cost 12 because the level of bad debt write-offs is very similar to the number of 13 14 customers (Factor 19) and varies with the number of customers, not usage. Excluding bad debt expense from customer charges results in 100% of this 15 expense being recovered in usage charges, which is a total disconnect to 16 17 how such costs are incurred. Including bad debt expense in usage charges would inappropriately allocate a large portion of this expense to non-18 19 residential classes with much higher consumption. Excluding any or all of 20 bad debt expense from direct customer costs should be rejected.

### 21 Q. What do you conclude with respect to fully allocated and direct 22 customer costs?

14

A. The Company's analysis of fully allocated and direct customer costs is
 consistent with *Aqua* and properly reflects the appropriate level of customer
 costs for the purposes of designing customer charges. Consideration should
 be given both to the fully allocated method and the direct customer costs.
 Thus, my revised analysis still supports the proposed customer charge of
 \$20.71 per month.

7

8

Q.

## Does Mr. Mierzwa make any adjustments to the Wastewater Cost of Service Studies presented by the Company.

A. No, he does not. However, he is recommending a change to wastewater
 revenues under proposed rates in order to lower the amount of wastewater
 revenue requirement recovered by water customers.

12 Q. Do you agree with Mr. Mierzwa's proposed wastewater rate increase?

On page 26 of his direct testimony, Mr. Mierzwa recommends Α. No. 13 14 proportionally increasing wastewater rates for each class in order to reduce the wastewater subsidy from \$2.67 million to \$2.05 million. However, his 15 analysis does not show a proportional increase by class. Overall, Mr. 16 17 Mierzwa recommends a total increase of 50.1%, 43% higher than the increase recommended by the Company of 35%. However, the Residential 18 19 class, under Mr. Mierzwa's proposed rates, shows an increase of 45.9% as 20 compared to the Company increase of 33.5%, or a 12.4% increase over the Company proposed rates. On the other hand, the Non-Residential class 21 22 shows an increase of 84.8%, under Mr. Mierzwa's proposed rates, as 23 compared to the Company's recommended increase of 48.3%, or an almost

15

1 76% increase over the Company's recommended increase. These higher 2 increases, especially the increase to the Non-Residential class, constitute 3 rate shock. As a result, the Company recommends that the Commission 4 reject Mr. Mierzwa's wastewater revenue allocations and related increases.

# Q. In addition, Mr. Mierzwa recommends that the allocation of wastewater revenues to water also include the Industrial and Private Fire classes. Do you agree?

A. I disagree based on cost causation. As the wastewater system has very few
Industrial customers and no Private Fire customers, the wastewater costs
allocated to the water customers should be allocated only to the Residential
and Commercial classes, as these are the classes that are mostly responsible
for the wastewater costs.

13

#### Q. Do you agree with Mr. Mierzwa's proposed scale back of rates?

A. In as much as I disagree with Mr. Mierzwa's revenue distribution, for both
 water and wastewater, I disagree with his recommended scale back.
 However, the Company does agree that any wastewater revenue requirement
 reduction be applied to reduce Act 11 subsidy first.

- 18 Q. Does this conclude your rebuttal testimony?
- 19 A. Yes, it does.

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, et al.	:	
v. The York Water Company – Water Division		Docket Nos. R-2022-3031340, et al.
Pennsylvania Public Utility Commission, et al.	:	
	:	
V.	:	Docket Nos. R-2022-3032806, et al.
	:	
The York Water Company – Wastewater Division	:	

#### REJOINDER TESTIMONY OF MARK A. WHEELER

#### ON BEHALF OF

#### THE YORK WATER COMPANY

Dated: October 4, 2022

#### 1 I. <u>INTRODUCTION</u>

2	Q.	State your name and business address.
3	A.	Mark A. Wheeler. My business address is: 130 East Market Street, York, Pennsylvania.
4		
5	Q.	By whom are you employed?
6	A.	I am employed by The York Water Company ("York Water" or the "Company").
7		
8	Q.	State your present position with the Company.
9	A.	I am the Chief Operating Officer.
10		
11	Q.	Did you previously submit testimony in this proceeding?
12	A.	Yes, I previously submitted direct testimony (York Water St. No. 2) and rebuttal testimony
13		(York Water St. No. 2-R) on behalf of the Company .
14		
15	Q.	Please describe the purpose of your rejoinder testimony.
16	A.	The purpose of my testimony is to respond to a portion of the surrebuttal testimony of the
17		Office of Consumer Advocate ("OCA") witness Barbara R. Alexander (OCA St. No. 5)
18		regarding her proposal for a bill discount program analysis.
19		
20	Q.	Are you sponsoring any exhibits with your rejoinder testimony?
21	A.	No.
22		

1

#### II. BILL DISCOUNT PROGRAM ANALYSIS

2 0. OCA witness Alexander notes that York Water has agreed "to develop research and 3 recommendations for a potential bill discount program based on an analysis of the 4 demographics of its customer base and the costs of such a program." (OCA St. No. 5 5-SR, p. 16.) However, instead of presenting that analysis as part of York Water's 6 next base rate case, as you recommended in your rebuttal testimony, she 7 "recommend[s] that York Water report the results of its analysis and make a 8 recommendation for a monthly discount program with cost recovery mechanism 9 within six months of the final order in this case." (OCA St. No. 5-SR, p. 16.) Please 10 respond.

11 I recommended that this analysis be presented as part of York Water's next base rate case, A. 12 as that would give the Company sufficient time to develop a complete and reliable analysis 13 of a bill discount program. Moreover, Ms. Alexander recommends that the Company 14 "make a recommendation for a monthly discount program with cost recovery mechanism 15 within six months of the final order in this case." (OCA St. No. 5-SR, p. 11.) However, 16 we do not even know what the results of that analysis will be or whether they will support 17 York Water's implementation of a bill discount program. Therefore, I believe it is 18 premature to require York Water to complete the analysis and propose a monthly discount 19 program with a cost recovery mechanism within six months of the Pennsylvania Public 20 Utility Commission's ("Commission") final order in this proceeding.

In addition, such a bill discount program should be implemented as part of a York Water base rate case, so that the cost impact on other residential customers can be thoroughly investigated and balanced against York Water's other rate proposals.

2

Furthermore, I believe it will be important that the data upon which the analysis relies not
 be stale.

3		Lastly, York Water has made several commitments in response to Ms. Alexander's
4		concerns and recommendations. The Company does not have the same level of resources
5		as larger water and wastewater utilities, such as Aqua Pennsylvania, Inc. and Pennsylvania-
6		American Water Company, that would enable York Water to complete the bill discount
7		program analysis and file a proposal with the Commission within six months of the
8		Commission's final order.
9		For those reasons, I recommend that the bill discount program analysis be presented
10		in the Company's next base rate case.
11		
12	Q.	Does this conclude your rejoinder testimony?
13	A.	Yes.

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, et al.	:	
v. The York Water Company – Water Division		Docket Nos. R-2022-3031340, et al.
Pennsylvania Public Utility Commission, et al.	:	
	:	
V.	:	Docket Nos. R-2022-3032806, et al.
	:	
The York Water Company – Wastewater Division	:	

#### REJOINDER TESTIMONY OF VERNON L. BRACEY

#### ON BEHALF OF

#### THE YORK WATER COMPANY

Dated: October 4, 2022

#### 1 I. <u>INTRODUCTION</u>

2	Q.	State your name and business address.
3	A.	Vernon L. Bracey. My business address is: 130 East Market Street, York, Pennsylvania.
4		
5	Q.	By whom are you employed?
6	A.	I am employed by The York Water Company ("York Water" or the "Company").
7		
8	Q.	State your present position with the Company.
9	A.	I am the Vice President-Customer Service.
10		
11	Q.	Did you previously submit testimony in this proceeding?
12	A.	Yes, I previously submitted rebuttal testimony and exhibits (York Water St. No. 6-R) on
13		behalf of the Company .
14		
15	Q.	Please describe the purpose of your rejoinder testimony.
16	A.	The purpose of my testimony is to respond to portions of the surrebuttal testimony of the
17		Office of Consumer Advocate ("OCA") witness Barbara R. Alexander (OCA St. No. 5)
18		regarding certain allegations and recommendations about the Company's customer service
19		and low-income programs.
20		
21	Q.	Are you sponsoring any exhibits with your rejoinder testimony?
22	A.	No.
23		

### 1 II. <u>CUSTOMER SERVICE</u>

2		A. BILLING SERVICES AGREEMENT WITH CITY OF YORK
3	Q.	OCA witness Alexander alleges that the partial payment provisions in the Company's
4		billing services agreement with the City of York "certainly would not comply with the
5		comparable Chapter 56.273 provision, which is at least impliedly applicable given the
6		contract provisions between York Water and the City of York" stating that York
7		Water will comply with the Pennsylvania Public Utility Commission's
8		("Commission") "existing regulations relating to the notice before the
9		termination." (OCA St. No. 5-SR, pp. 7-8.) Please respond.
10	A.	I am advised that Ms. Alexander's reading of Section 56.273 of the Commission's
11		regulations and the billing services agreement is wrong. Section 56.273 states, in full:
12 13 14 15 16		Payments received by a public utility without written instructions that they be applied to merchandise, appliances, special services, meter testing fees or other nonbasic charges and which are insufficient to pay the balance due for the items plus amounts billed for basic public utility service <u>shall first</u> be applied to the basic charges for residential public utility service.
17		52 Pa. Code § 56.273 (emphasis added). That is exactly what the billing services agreement
18		required. Unless a customer instructed otherwise in writing, partial payments received by
19		York Water were applied first to the Company's charges for water service (i.e., basic
20		charges for residential public utility service"), then to the City of York's refuse charges,
21		and then to the City of York's wastewater service charges. Importantly, the City of York's
22		non-jurisdictional refuse and wastewater service charges were not "basic charges for
23		residential public utility service." Therefore, Section 56.273 of the Commission's
24		regulations does not control how partial payments should be prioritized for the City of
25		York's refuse and wastewater service charges. Moreover, counsel advises me that the
26		billing services agreement's statement about the Commission's "existing regulations

relating to the notice before the termination" applying to York Water have nothing to do
with how partial payments are prioritized and applied. And even if Section 56.273 of the
Commission's did apply, the Commission approved the billing services agreement,
indicating that there was no issue with partial payments being applied first to York Water's
water service charges (a basic charge for residential public utility service), then to the City
of York's refuse charges (a non-basic charge), and lastly to the City of York's wastewater
service charges (another non-basic charge).

8

9 Q. Ms. Alexander also recommends that "York Water seek an amendment to its contract
10 to collect the City of York's refuse charges with the Commission and that such an
11 agreement reflect an obligation by York Water to disclose the refuse charges as non12 basic charges on its bills and web portal that will not threaten a customer's access or
13 maintenance of York Water regulated services and document an allocation of partial
14 payment policy in York Water's billing system." (OCA St. No. 5-SR, p. 17.) Please
15 respond.

16 A. York Water already plans to file an amendment to the billing services agreement with the 17 City of York by the end of this year. Subject to the negotiations with the City of York, 18 York Water will try to incorporate the language proposed by Ms. Alexander in the 19 agreement. However, the City of York is not a party to this case, and I am unable to state 20 at this time whether they will agree to such language being incorporated in the amended 21 billing services agreement. Nevertheless, the Company can commit to serving the statutory 22 parties with a copy of the amended billing services agreement filing, at which point they 23 can weigh in on the proposed amendment's terms and conditions.

3

1

Q. Ms. Alexander's recommendation that York Water amend its billing services
agreement with the City of York is in "response" to her prior recommendation that
the Commission investigate York Water's billing for the City of York. (OCA St. No.
5-SR, p. 17.) Do you have any comments?

- 6 A. Yes, it is unclear whether Ms. Alexander is withdrawing her request for the Commission 7 to investigate the Company's billing for the City of York still. On page 13 of her surrebuttal 8 testimony, she states that her "original recommendations" are presented "below with [her] 9 amendments and additions based on York Water's Rebuttal." (OCA St. No. 5-SR, p. 13.) 10 To the extent that Ms. Alexander is still proposing that the Commission open an 11 investigation into the Company's billing for the City of York, such proposal should be 12 denied for the reasons stated in my rebuttal testimony and in light of all of York Water's 13 commitments made in response to Ms. Alexander's recommendations.
- 14
- 15

#### **B.** TERMINATION OF SERVICE

Q. OCA witness Alexander states that she "do[es] not accept the excuse that York Water
continued to issue thousands of termination notices for York Water customers based
on the nonpayment of the City of York wastewater charges on a monthly basis when
it became obvious that the City of York then declined to pursue the actual termination
of service." (OCA St. No. 5-SR, p. 10.) Please respond.

A. York Water acted as required under its Commission-approved Sewer Shut-Off Agreement
with the City of York. I am advised by counsel that: (1) nothing in the agreement permitted
York Water to question the City of York's direction to issue the termination notices; and
(2) if the Company had refused to abide by the terms and conditions of that agreement, the

1 City of York could have pursued legal action against York Water for breach of that 2 agreement. Therefore, I believe that the Company acted reasonably by adhering to the 3 Sewer Shut-Off Agreement's requirements.

- 4
- 5

#### C. CALL CENTER PERFORMANCE

6 Q. Ms. Alexander finds it "troubling" how you stated in a discovery response that you 7 are not responsible for performing "an analysis of the incremental capital costs and 8 expenses that the Company would incur to meet an undefined 'higher standard of 9 performance at the customer call center." (OCA St. No. 5-SR, pp. 5-6.) She also 10 asserts that "[t]his is not a reasonable response of a public utility that seeks a reward 11 for 'exemplary' management performance." (OCA St. No. 5-SR, p. 6.) Please 12 respond.

A. I am Vice President-Customer Service for York Water. I do not develop the Company's
budgets, nor do I develop estimates of the Company's incremental capital costs and
expenses. Both of those responsibilities fall within the duties of the Company's Chief
Financial Officer, Matthew Poff. I note, however, that the interrogatory was directed
specifically to me, not Mr. Poff.

18

Q. As part of her amended and additional recommendations, Ms. Alexander proposes
that York Water at least "be held accountable to meet its 2020 customer call center
performance." (OCA St. No. 5-SR, p. 14, p. 14.) Does the Company agree with that
proposal?

A. Yes, but the Company will need sufficient time to ramp up its efforts to improve the call
 center's performance. There are several other commitments York Water has made in this

1 proceeding in response to Ms. Alexander's recommendations, and the Company has more 2 limited resources available compared to the larger water and wastewater utilities, such as 3 Aqua Pennsylvania, Inc. ("Aqua") and Pennsylvania-American Water Company 4 ("PAWC"). Therefore, although Ms. Alexander does not propose a timeframe for this 5 modified recommendation, I recommend that York Water be subject to this customer call 6 center performance standard beginning in 2025.

- 7
- 8

#### FOR D. TRAINING MATERIALS CUSTOMER SERVICE 9 REPRESENTATIVES

In her surrebuttal testimony, OCA witness Alexander notes that the Company "has 10 **Q**. 11 agreed to develop more detailed training materials on Chapter 56 and Act 14 policies 12 and consumer protections as well as adopt a mechanism for oversight and compliance 13 monitoring," as she suggested." (OCA St. No. 5-SR, p. 15.) Ms. Alexander now 14 proposes that the Company complete these actions "within six months of a final order 15 in this proceeding." (OCA St. No. 5-SR, p. 15.) Please respond.

16 A. As I noted previously, there are several other commitments York Water has made in this 17 proceeding in response to Ms. Alexander's recommendations, and the Company has more 18 limited resources available compared to the larger water and wastewater utilities, such as 19 Aqua and PAWC. Therefore, I recommend that York Water complete these actions within 20 two years of the Commission's final order in this proceeding.

21

22 Ms. Alexander also recommends that "[a]s part of its commitment to develop more Q. 23 detailed training materials for its customer call center and other staff, York Water 24 should make explicit its commitment to developing payment arrangements based on

	the customer's individual circumstances." (OCA St. No. 5-SR, p. 15.) Does the	
	Company agree with that recommendation?	
А.	Yes. In the Company's more detailed training materials, York Water will make explicit its	
	commitment to developing payment arrangements based on the customer's individual	
	circumstances.	
	E. CUSTOMER DISPUTE TRACKING MECHANISM	
Q.	OCA witness Alexander notes that "York Water has agreed to develop a tracking	
	mechanism for customer disputes." (OCA St. No. 5-SR, p. 14.) She now proposes	
	that "[t]his reform should be documented in a compliance filing within six months of	
	a final order in this proceeding." (OCA St. No. 5-SR, p. 14.) Please respond.	
A.	As I stated previously, there are several other commitments York Water has made in this	
	proceeding in response to Ms. Alexander's recommendations, and the Company has more	
	limited resources available compared to the larger water and wastewater utilities, such as	
	Aqua and PAWC. Therefore, I recommend that York Water submit the recommended	
	compliance filing within two years of the Commission's final order in this proceeding.	
Q.	Does this conclude your rejoinder testimony?	
	<b>Q.</b> A.	

19 A. Yes.

Statement No. 107-RJ Docket No. R-2022-3031340 Witness: Paul R. Moul

#### THE YORK WATER COMPANY

Rejoinder Testimony

of

Paul R. Moul, Managing Consultant P. Moul & Associates

> Concerning Fair Rate of Return

October 4, 2022

- 1 Q. Please state your name, occupation and business address.
- A. My name is Paul R. Moul and I am Managing Consultant at the firm P. Moul &
  Associates. My business address is 251 Hopkins Road, Haddonfield, NJ 080333062.

## Q. Mr. Moul, have you previously submitted direct and rebuttal testimony in this proceeding?

A. Yes. My direct testimony York Water Statement No. 107 was submitted with the
Company's case-in-chief on May 30, 2022 and my rebuttal testimony, York Water
Statement No. 107-R was submitted on September 16, 2022.

#### 10 Q. What is the purpose of your rejoinder testimony?

A. The York Water Company ("York Water" or the "Company") has requested that I
respond to the surrebuttal testimony presented by Mr. Christopher Keller, a witness
appearing on behalf of the Bureau of Investigation and Enforcement ("I&E"), and Mr.
David S. Habr a witness appearing on behalf of the Office of Consumer Advocate
("OCA"). If I fail to address each and every issue in the surrebuttal testimony of Mr.
Habr and Mr. Keller, it does not imply agreement with those issues.

Q. Based on your review of the surrebuttal testimony of Mr. Keller and Mr. Habr,
 do you propose any change in your recommended return for York Water in
 this proceeding?

A. No. There was nothing contained in the surrebuttal testimony of Messrs. Keller and Habr that changes my position that York Water is entitled to an 11.25% rate of return on common equity. The proposals of Messrs. Keller and Habr of 8.59% and 7.94%, respectively, are entirely too low by reference to returns set by the Commission in recent rate cases and Distribution Service Improvement Charge 1

("DSIC") proceedings that I describe in my rebuttal testimony.

### Q. At pages 3-6 of his surrebuttal, Mr. Keller provided a discussion of the DSIC return and its relevance, or lack thereof, to base rate cases. Please respond.

4 Α. Mr. Keller's argument that the DSIC rate is merely a benchmark to identify "overearning" (see page 4 of I&E Statement No. 2-SR) and that it provides an 5 6 incentive for investment in infrastructure replacement between rate cases is not relevant here. The actual collection of revenues from the DSIC can only occur if 7 earnings are below the DSIC rate. And it makes no sense that once DSIC assets 8 enter the rate base that they should be penalized with a lower return, which seems 9 10 to be Mr. Keller's position because his 8.59% equity return is well below the 9.80% DSIC rate recently set on August 4, 2022 (Docket No. M-2022-3033561). So, 11 12 although the Commission has stated that the DSIC return is not company specific and is determined on a quarterly basis (see page 178 in its Order Entered May 16, 13 2022 in Docket No. R-2021-3027385) it does provide an overall benchmark to 14 15 gauge the reasonableness of the proposed return. It is noteworthy that the 16 Commission frequently approves equity returns that exceed the DSIC returns. In 17 the UGI Electric rate case at Docket No. R-2017-2640058, the Commission set the 18 rate of return on common equity at 9.85% when the DSIC return was 9.65% for In the PPL Electric Utilities rate case at Docket No. R-2012-19 electric utilities. 20 2290597, the Commission set the return on equity at 10.40% when the DSIC return 21 was 10.20% for electric utilities. In the PECO Energy gas rate case at Docket No. 22 R-2020-3018929, the equity return was set at 10.24% when the DSIC rate was 10.20%. Mr. Keller has also acknowledged (see page 5 of I&E Statement No. 2-SR) 23 24 that the return in the Aqua Pennsylvania rate case at Docket No. R-2021-3027385

- was 10.00% when the DSIC rate was 9.80%. So, this evidence supports a higher
  return in a base rate case than the prevailing DSIC return.
- 3

4

Q. Do you agree with Mr. Keller where he states on page 4 of his surrebuttal testimony that the DSIC mechanism serves to lower a utility's risk?

5 A. No. I am aware that the Company has utilized the DSIC. The cost of capital for 6 York Water, however, is not affected by the DSIC. I say this because many of the 7 proxy group companies whose data has been used to develop the cost of equity for 8 York Water in this proceeding have at least some form of a DSIC or similar 9 infrastructure rehabilitation mechanisms. Hence, whatever the benefit of a DSIC, or 10 other regulatory mechanisms, that impact is already reflected in the market 11 evidence of the cost of equity for the proxy group.

## Q. At pages 8-10 of his surrebuttal testimony, Mr. Keller discusses the relative weight that should be assigned to the DCF. Please respond.

Α. His discussion of the weight that should be given DCF is somewhat difficult to 14 15 follow. As near as I can tell, he proposes that the CAPM should only be used as a comparison to DCF, but not as additional input. If CAPM can be used for a 16 17 comparison, I do not see how it cannot also be used as a check. The two concepts 18 seem similar to me. As I understand it, Mr. Keller is essentially arguing for exclusive weight to DCF and attaching no significance to the CAPM regardless of its result. 19 20 That is to say, his proposed equity return would be the same if he had, or had not, 21 performed a CAPM analysis. This position is contrary to the Commission's recent 22 Aqua order that established a range of equity returns using DCF and CAPM. Mr. Keller actually acknowledges that the CAPM results can be viewed as a "ceiling" of 23 the range of reasonableness of the equity return. While Mr. Keller seems troubled 24

by alternative models, there are many assumptions of the DCF model (see page 13 of York Water Statement No. 107-R), especially the constant price-earnings multiple, constant payout rate, and constant earned return, that are particularly unrealistic. My point is that all models have their strengths and weaknesses, and it is important to rely on more than one model in determining the cost of common equity.

Q. At page 10 of his surrebuttal, Mr. Keller acknowledges that the Commission
 has used the CAPM as setting the ceiling of the range of reasonableness in
 determining the return in the Aqua order. What arguments does he present
 there?

11 Mr. Keller continues to insist that DCF alone be used to set the return in this case. Α. 12 But if the CAPM evidence submitted by I&E shows that the average DCF result is 13 too low, then the Commission should consider moving to within the top half of the range of DCF returns submitted in this case. This process would preserve use of 14 DCF, but also accommodates the tendency of the DCF model to understate the 15 16 required return in this market. Mr. Keller's DCF return range is from 4.97% for 17 Middlesex Water to 12.96% for SJW Group. Since Mr. Keller's CAPM result is 18 11.97%, then it stands to reason that the top half of the range of DCF results should be used in this case, because the average DCF by itself is too low. Hence if DCF is 19 20 to be used exclusively, as argued by Mr. Keller, then the proper DCF return should 21 be 10.78% which is within the top half of the range, i.e., 8.59% + 12.96% = 21.55%22 ÷2.

Q. On pages 11-12 of his surrebuttal testimony, Mr. Keller criticizes you for
 making specific exclusions to his DCF calculations. Please respond.

1	Α.	There is just no way that the DCF returns that I listed on page 16 of my rebuttal
2		testimony can play any role in the determination of the equity return in this case.
3		Mr. Keller claims that the removal of the return for American States, Middlesex
4		Water and York Water only serves to inflate the DCF result. But an 6.74% DCF
5		return for American States, 4.97% for Middlesex Water, and 6.88% for York Water
6		cannot be useful to determine a fair return in this case. Indeed, the Middlesex DCF
7		return is about equal to a public utility bond yield, which we know cannot be correct.
8		We also know that returns of 6.74%, 4.97% and 6.88% are too low based upon the
9		other rate case decisions that I report in my rebuttal testimony.
10	Q.	At page 13 of his surrebuttal testimony, Mr. Keller claims that "financial risk
11		does not relate to the capital structure of a company." Is this correct?
12	Α.	That is definitely incorrect. The well recognized measure of a company's financial
13		risk is revealed by the balance sheet capital structure of a company. Indeed, it is
14		the balance sheet that provides the foundation for calculating the weighted average
15		cost of capital, which is the basis for a public utility's fair rate of return established in
16		rate cases. As stated in The Regulation of Public Utilities <sup>1</sup> :
17 18 19 20		"it is widely held that the cost of capital is related to a utility's capital structure. As the proportion of debt increases, "the added <i>financial risks</i> for both the debt and equity holders result in higher and higher costs for both debt and equity capital"
21 22	Q.	At pages 15-16 of I&E Statement No. 2-SR, Mr. Keller claims that the market
23		capitalization of a utility does not offer support for my leverage adjustment.
24		Please respond.
25	Α.	As a preliminary matter, Mr. Keller acknowledges that "Clearly an investor takes
26		financial risk into consideration when determining a required return." This statement

<sup>&</sup>lt;sup>1</sup>Charles F. Phillips, Jr., <u>The Regulation of Public Utilities</u> (Public Utilities Reports, Inc. 1993) 233

clearly supports my leverage adjustment, notwithstanding his statement that he
 wants to ignore the capital structure effects on financial risk. Mr. Keller cites to the
 <u>Value Line</u> reports where those amounts are related to the market value of equity
 and excludes debt. However, the Yahoo! Finance reports show that the "Enterprise
 Value" of a utility includes both its debt capital, as well the market value of equity.
 This supports the fact that investors are well aware of the market value of a utility's
 total capitalization, including both debt and equity.

Q. On page 18 of his surrebuttal testimony, Mr. Keller claims that less weight
 should be given to more distant forecasts because they are less reliable.
 Please respond.

11 A. I find his observations to conflict with his use of five-year projections of earnings 12 growth in his DCF analysis. If reliance upon five-year projections, whatever their 13 reliability, is okay for DCF purposes, then there is no reason to discount any of the 14 projections of Treasury yields when looking for the appropriate risk-free rate of 15 return in the CAPM.

Q. At page 22 of his surrebuttal testimony, Mr. Keller seems to imply that the
 evidence you used to support the size adjustment in the CAPM is not specific
 to utility stocks. Is this correct?

A. No. Mr. Keller states on page 22 that the Fama/French study is not specific to utility
stocks. But what Mr. Keller has not acknowledged is that utility stock performance
was used in the Fama/French study that makes the size adjustment relevant to
utilities, and appropriate to consider in this case. Furthermore, the article by Annie
Wong was deficient because it attempted to correlate betas with size. As
Fama/French subsequently established, beta is not the correct measure to identify

1	returns associated with the relative size of a company, either utility or non-regulated.
2	Beta measures systematic risk, and the size of a company is an unsystematic risk.
3	In addition, the size adjustment to the CAPM has been embraced by the Federal
4	Energy Regulatory Commission ("FERC"). <sup>2</sup>

Q. At pages 28-30 of his surrebuttal (I&E Statement No. 2-SR), Mr. Keller opposes
 any recognition of the Company's management performance. Please
 respond.

A. Mr. Keller asserts that a utility should not be rewarded for implementing programs
funded by ratepayers or for meeting their obligations under 66 Pa C.S.A. §1501.
The Commission has a long history of recognizing management performance (either
positively or negatively) in rate case decisions. The Commission has an Above
Average/3 ranking by RRA. If the Commission were to abandon its constructive
ratesetting approaches, such as recognition of management performance, then its
ranking by RRA would surely suffer.

## Q. What issues were contained in the surrebuttal testimony of OCA witness Habr that require a response?

A. Mr. Habr has addressed the following issues: the trend in utility stock prices, the
DSIC return rate, capital structure, the DCF return rate, results of the CAPM,
leverage adjustment, size adjustment, and management performance. On several
of these issues, i.e., the DSIC return rate, leverage adjustment, size adjustment,
and management performance, his arguments parallel those made by Mr. Keller.
My responses to them are similar to my rejoinder noted above, and hence, I will not
repeat them here.

<sup>&</sup>lt;sup>2</sup> See, e.g., Association of Businesses Advocating Tariff Equity, 171 FERC ¶61,154 (May 21, 2020).

## Q. Does Mr. Habr's narrative regarding the stock price performance by the water utility stocks address directly the fact that capital costs are higher today than formerly?

4 Α. No. Although I do not dispute the price data presented by Mr. Habr in his 5 surrebuttal testimony (see page 2 of OCA Statement 3SR), it does not change the fact that capital costs are rising. In the current "bear" market, utility stock prices 6 7 have held up better than many other sectors. Utility stocks and energy companies 8 have provided a "safe haven" in this down market in 2022. But this does not mean 9 the utility stock are immune to increased capital costs generally. Indeed, since my rebuttal testimony was filed, the FOMC acted again on September 21, 2022 to 10 increase the Fed Funds rate with a third increase of 75 basis points. The stock 11 12 market has reacted negatively, with the VIX moving to the 33.00 level in late 13 September 2022. It is noteworthy that neither Mr. Habr nor Mr. Keller has responded to overall market sentiment revealed by the VIX. Capital costs are going 14 up, not down as Mr. Habr would have us believe. 15

Q. Has Mr. Habr presented any evidence that would justify departure from the
 Commission's well-established practice of using Company's actual capital
 structure if it is reasonable?

A. No. At pages 5 and 6 of his surrebuttal testimony (OCA Statement 3-SR), Mr. Habr
 does not respond specifically to the Commission's well-established policy on capital
 structure. In fact, the Company's FPFTY capital structure complies with the
 Commission's policy that supports the use of its actual capital structure. The
 Commission has recently reiterated its capital structure position in the Order
 Entered May 16, 2022 in Docket No. R-2021-3027385, citing earlier orders in PPL

Electric Utilities (2012), Columbia Gas Pennsylvania (2021), and PECO Energy-Gas Division (2021). The range of capital structure ratios is the controlling factor that should be used to determine whether the Company's actual ratios are reasonable. The evidence presented by Mr. Keller and me supports the Company's actual 54.77% common equity ratio for the FPFTY. which is reasonable and should be accepted in this case.

## Q. Mr. Habr asserts that York Water "still has the flexibility to establish a capital structure with 48% debt and 52% common equity." (OCA Statement 3SR, p.6) Please respond.

10 Α. York Water already has issued the \$43 Million capital stock offering that is reflected 11 in its FPFTY capital structure. In order to create a capital structure with 48% debt, 12 the Company would have to issue substantially more new debt than the \$62.5 Million already reflected in the FTY and the FPFTY capital structure. But issuing 13 14 additional amounts of debt would not in itself resolve the capital structure issue as 15 proposed by Mr. Habr. Proceeds from additional proposed debt would need to be 16 utilized to either repurchase common stock or pay a special dividend in order to 17 reach Mr. Habr's hypothetical common equity ratio. Neither of those alternatives 18 make any sense because the Company has just recently issued 975,600 new common shares on April 5, 2022. The bottom line is that Mr. Habr's statement that 19 20 York Water "still has the flexibility to establish a capital structure with 48% debt and 21 52% common equity" is unrealistic.

# Q. Has Mr. Habr presented any new evidence that would justify departure from the Commission's well-established practice of using group average data and forecast earnings growth rates to calculated the DCF return?

A. No. His use of historical earnings growth and single company returns (i.e., data for
York Water alone) does not comply with long-standing Commission practice. Mr.
Habr has not provided clear justification for departing from well-established
Commission policy. Moreover, Mr. Habr has not justified that a multiple stage
should be considered, other than it provides generally lower results (see page 19 of
York Water Statement No. 107-R).

Q. Mr. Habr indicates (see page 10 of OCA Statement 3-SR) that you have
 essentially used a market-to-book ratio approach in your proposed leverage
 adjustment. Is this correct

A. Absolutely not. Market-to-book ratios play no role in my leverage adjustment. Mr.
 Habr has not shown, nor could he show, that market-to-book ratios are a component
 of the leverage adjustment that I propose.

Q. Lastly, Mr. Habr claims that you have misapplied the Risk Premium approach
 by combining a public utility bond yield with a risk premium developed from
 large company stocks. Please respond.

- A. On page 13 of his surrebuttal, Mr. Habr make this claim. But what is missing from
   his argument is the fact that public utility bonds yield today and historically have
   been higher than industrial company bond yields. The fact that public utilities pay
   more to attract debt capital than non-utilities indicates that use of large company risk
   premiums will not introduce an upward bias into the Risk Premium result. In fact,
   this approach may actually result in an understated return, because public utility
   debt is more costly than industrial company debt.
- 23 Q. Does this conclude your rejoinder testimony?
- 24 A. Yes.

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

#### RE: THE YORK WATER COMPANY DOCKET NO. R-2022-3031340

#### REJOINDER TESTIMONY OF CONSTANCE E. HEPPENSTALL

Line		
<u>No.</u> 1	Q.	Please state your name and business address.
2	A.	My name is Constance E. Heppenstall. My business address is 1010 Adams
3		Avenue, Audubon, Pennsylvania.
4	Q.	By whom are you employed?
5	Α.	I am employed by Gannett Fleming Valuation and Rate Consultants, LLC.
6	Q.	Are you the same Constance Heppenstall that submitted direct and
7		rebuttal testimony and exhibits in this case?
8	Α.	Yes. I submitted Statement Nos. 108 and 108R and Exhibits No. FVIII, FVIII-
9		WA, and FVIII-WB.
10	Q.	What is the subject of your rebuttal testimony?
11	Α.	I will address the cost of service raised in the surrebuttal testimony of Office
12		of Consumer Advocate ("OCA") witness Jerome Mierzwa.
13	Q.	Mr. Mierzwa cites page 373 of the AWWA M1 Manual, 7 <sup>th</sup> Edition that
14		demand data "over a representative number of recent years" should be
15		utilized, and Mr. Mierzwa's assumes that 7 years meets this standard.
16		Please comment.
17	Α.	First, the section of the AWWA M1 Manual referenced is Appendix A, which
18		is the section that describes the method of determining demand factors for a
19		cost of service study if a formal demand study is not available. However, in

the Company's case, a formal demand study is available to be used. Also, 1 the sentence referenced is included in the instructions on how to perform this 2 alternative calculation. These instructions cannot be construed to mean that 3 only recent years' data should be used for the system wide maximum day 4 and maximum hour demand factors. A water system is designed to supply 5 water during peak periods over the life of the system. The life of the system 6 is certainly longer than the seven years used by Mr. Mierzwa, and peak data 7 outside those seven years should not be ignored. 8

9 Q. Mr. Mierzwa's further criticizes the class demand factors that were used
 in the Company's cost of service study. Please discuss.

A. On page 5 of his surrebuttal testimony and shown on Schedule JDM-1SR, Mr. Mierzwa compares the Company's estimated maximum day demands of Residential customers as compared to the 2021 maximum day and maximum hour volumes, stating that the Residential demands used in the cost of service study are higher than the total 2021 maximum day and maximum hour volumes.

17 **Q.** 

#### Is this a fair comparison?

A. No, for two reasons. One, the maximum day and maximum hour demand factors by class represent non-coincident demand factors. Therefore, the total flow using noncoincident demand factors, by definition, would be higher than the coincident maximum day and maximum hour system-wide flow. Two, Mr. Mierzwa is comparing the Residential maximum day and maximum hour flows to the peak flow in 2021, which was not a historic peak for the

2

Company's water system. He is comparing "apples and oranges". The 1 historic peak used in allocating maximum day costs in the cost of service 2 study is 1.52 (experienced in 2010). This peak multiplied by the Company's 3 2021 average daily sendout is 308,864 100 gallons, much higher than the 4 Residential projected maximum day usage of 258,708 100 gallons. 5 In 6 addition, the historic peak used in allocating maximum hour costs in the cost of service study is 1.84 (experienced in 2006). This peak multiplied by the 7 Company's 2021 average daily sendout is 373,888 100 gallons, not the 8 amount of 319,000 claimed by Mr. Mierzwa. Again, I reiterate that the 9 noncoincident demand factors used by the Company in the cost of service 10 study are based on actual flow data and should be used in lieu of Mr. 11 Mierzwa's calculations. 12

13 Q. Does this conclude your rejoinder testimony?

14 A. Yes, it does.



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October 6, 2022

#### VIA E-MAIL

Honorable Katrina L. Dunderdale Administrative Law Judge PA Public Utility Commission Suite 220, Piatt Place 301 Fifth Avenue Pittsburgh, PA 15222

Re: Pennsylvania Public Utility Commission, *et al.* v. The York Water Company – Water Division Docket Nos. R-2022-3031340, *et al.* 

Pennsylvania Public Utility Commission, *et al.* v. The York Water Company -Wastewater Division Docket Nos. R-2022-3032806, *et al.* 

Your Honor:

The York Water Company ("York Water") respectfully submits this Errata to the Direct Testimony of Constance E. Heppenstall, York Water Statement No. 108, in the above-captioned proceeding. The Errata corrects the following:

Reference	Reads:	Should Read:
Page 8, line 8	"\$28,289,886"	"\$8,289,886"
Page 8, line 9	"\$4,162,264."	"\$4,132,184."

Enclosed is a revised page 8 for York Water Statement No. 108, which incorporates those corrections.

Copies will be provided as indicated on the Certificate of Service.

Honorable Katrina L. Dunderdale October 6, 2022 Page 2

Respectfully submitted,

Devin Ryan

DR/dmc Enclosures

cc: Rosemary Chiavetta, Secretary Certificate of Service

#### **CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

#### VIA EMAIL

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Date: October 6, 2022

Devin T. Ryan

wastewater rates. This amount is determined by subtracting the total
 proposed wastewater revenues from the total wastewater cost of service.
 The unrecovered amount or \$2,670,856 will be transferred to the water cost
 of service as part of the revenue requirement to be recovered from water
 rates.

6

# Q. Please explain Schedule H.

Α. Schedule H shows the total proposed wastewater cost of service on line 1 of 7 \$8,289,886 which comes from Exhibit No. FI-2W. Line 2 shows the 8 9 calculation of the wastewater revenues under existing rates of \$4,132,184. Line 4 shows the proposed wastewater revenues of \$5,619,009, based on a 10 35% increase to the present rates. The amount of unrecovered wastewater 11 cost of service is shown on Line 6 by subtracting the total proposed 12 wastewater revenue of \$5,619,009 from the wastewater cost of service of 13 \$8,289,886 (Line 1), or \$2,670,877. 14

# 15 Q. How was the \$2,670,877 allocated to water customers?

A. Since most wastewater customers are residential and commercial, the unrecovered wastewater cost of service is allocated to water customers in the Residential and Commercial – Gravity and Residential and Commercial -Repumped classifications, based on their respective water cost of service as shown in Factor 18. The allocation is shown on the next to the last line of Schedule D.

# Q. Refer to Schedule E of Exhibit No. FVIII and explain how you determined the maximum day and maximum hour factors entered in column 3.

- 8 -

v.

THE YORK WATER COMPANY

Docket No. R-2022-3031340 (Water) & Docket No. R-2022-3032806 (Wastewater)

**Direct Testimony** 

of

Zachari Walker

**Bureau of Investigation and Enforcement** 

**Concerning:** 

# **OPERATING AND MAINTENANCE EXPENSES**

# STATE INCOME TAX EXPENSE

**CASH WORKING CAPITAL** 

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# **INTRODUCTION**

2	Q.	PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
3	A.	My name is Zachari Walker, and my business address is Pennsylvania Public
4		Utility Commission, 400 North Street, Harrisburg, PA 17120.
5		
6	Q.	BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?
7	A.	I am employed by the Pennsylvania Public Utility Commission (Commission) in
8		the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial
9		Analyst.
10		
11	Q.	WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND?
12	A.	My education and employment background is attached as Appendix A.
13		
14	Q.	PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.
15	A.	I&E is responsible for representing the public interest in rate and other
16		proceedings before the Commission. I&E's analysis in this proceeding is based on
17		its responsibility to represent the public interest. This responsibility requires
18		balancing the interests of ratepayers, the regulated utility, and the regulated
19		community as a whole.

1	Q.	WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?
2	A.	The purpose of my direct testimony is to review the base rate filing of The York
3		Water Company (York Water or Company), and recommend adjustments to the
4		Company's proposed operating and maintenance (O&M) expenses, taxes, and
5		cash working capital (CWC) claims for the Company's proposed water and
6		wastewater rates for the fully projected future test year (FPFTY) ending
7		February 29, 2024.
8		
9	Q.	DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?
10	А.	Yes. I&E Exhibit No. 1 contains schedules that support my direct testimony.
11		
12	Q.	WHAT ARE THE TEST YEARS USED BY YORK WATER IN THIS
13		PROCEEDING?
14	А.	The Company is using the year ended December 31, 2021, as the historic test year
15		(HTY), the year ending December 31, 2022, as the future test year (FTY), and the
16		year ending February 29, 2024, as the FPFTY in the instant proceeding.
17		
18	Q.	PLEASE SUMMARIZE THE COMPANY'S REQUESTED REVENUE
19		INCREASE.
20	A.	The Company's base rate case was filed on May 27, 2022, with a total requested

1		increase of \$20,310,530 <sup>1</sup> to claimed present rate revenues of \$59,926,650 resulting
2		in an overall revenue requirement of \$80,237,180. <sup>2</sup> This represents a
3		\$16,182,882 <sup>3</sup> requested increase to claimed water operations present rate revenues
4		of \$55,764,388. <sup>4</sup> Combined with the allocated wastewater operations revenues per
5		the Act 11 provision, this results in proposed revenues of \$74,618,125 for water
6		operations. <sup>5</sup>
7		Additionally, the total requested increase represents a \$4,127,648 <sup>6</sup>
8		requested increase to claimed wastewater operations present rates revenues of
9		\$4,162,262.7 Accounting for the requested increase and the \$2,670,856 revenue
10		allocation to water operations revenues per the Act 11 provision, the result is
11		proposed revenues of \$5,619,055 for wastewater operations. <sup>8</sup>
12		
10	0	

#### 13 **Q**. PLEASE SUMMARIZE YOUR ADJUSTMENTS.

14 The following table summarizes my recommended adjustments: A.

<sup>1</sup> York Water Exhibit No. FII-2, p. 10.

<sup>2</sup> York Water Exhibit No. FII-2, p. 10. 3

York Water Exhibit No. FV-1, p. 6.

<sup>4</sup> York Water Exhibit No. FII-2, p. 10.

<sup>5</sup> York Water Exhibit No. FII-2, p. 10.

York Water Exhibit No. FV-1W, p. 6. 6

<sup>7</sup> York Water Exhibit No. FII-2, p. 10.

<sup>8</sup> York Water Exhibit No. FII-2, p. 10.

# Water Operations:

		I&E	
	Company	Recommended	I&E
	<u>Claim</u>	<u>Allowance</u>	<u>Adjustment</u>
O&M Expenses:			
Payroll Expense	\$9,176,583	\$8,812,433	(\$364,150)
Employee Benefits	\$2,351,476	\$2,265,177	(\$86,299)
General Price Level	\$1,383,543	\$0	<u>(\$1,383,543)</u>
Adjustment			
Total O&M Expense			<u>(\$1,833,992)</u>
Adjustments			
Taxes:			
Payroll Taxes	\$997,932	\$958,349	(\$39,583)
State Income Tax Expense	\$1,196,175	\$369,185	<u>(\$826,990)</u>
Total Tax Adjustments			<u>(\$866,573)</u>
Rate Base Adjustments:			
Cash Working Capital	\$3,070,957	\$2,928,071	<u>(\$142,886)</u>
Total Rate Base Adjustments			<u>(\$142,886)</u>

# Wastewater Operations:

	Company <u>Claim</u>	I&E Recommended <u>Allowance</u>	I&E <u>Adjustment</u>
O&M Expenses:			
General Price Level Adjustment	\$404,886	\$0	<u>(\$404,886)</u>
Total O&M Expense Adjustments			<u>(\$404,886)</u>
Taxes:			
State Income Tax Expense	\$136,093	<u>\$59,403</u>	<u>(\$76,690)</u>
Total Tax Adjustments			<u>(\$76,690)</u>

# 1 <u>SUMMARY OF I&E OVERALL POSITION</u>

# 2 Q. WHAT IS I&E'S TOTAL RECOMMENDED REVENUE REQUIREMENT

# **3** FOR WATER OPERATIONS PRIOR TO THE ACT 11 ALLOCATION?

- 4 A. I&E's total recommended revenue requirement for the Company's water
- 5 operations is \$60,500,064. This recommended revenue requirement represents an
- 6 increase of \$6,857,604 to the present rate revenues of \$53,642,460 prior to the Act
- 7 11 allocation. This total recommended allowance incorporates my adjustments
- 8 made in this testimony and those made in the testimony of I&E witness
- 9 Christopher Keller.<sup>9</sup>

## 10

A calculation of the I&E recommended revenue requirement is shown in the

11 table below:

York Water Company - V	Water Operations	TABL	E 1A		
R-2022-3031340		INCOME	SUMMARY		
	2/29/24		INVESTIGATION	& ENFORCEMENT	•
	Proforma	[]			]
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	53,642,460	0	53,642,460	6,857,604	60,500,064
Deductions:					
O&M Expenses	23,702,383	-1,833,992	21,868,391	35,660	21,904,051
Depreciation	12,960,981	0	12,960,981		12,960,981
Taxes, Other	1,378,995	-39,583	1,339,412	46,053	1,385,465
Income Taxes:					
Current State	-401,238	166,691	-234,547	603,732	369,185
Current Federal	-622,007	357,867	-264,140	1,296,153	1,032,013
Deferred Taxes	211,523	0	211,523		211,523
ITC	-39,126	0	-39,126		-39,126
Total Deductions	37,191,511	-1,349,017	35,842,494	1,981,598	37,824,092
	10.150.510	1 0 40 5	17 700 655	1.070.000	~~~~~
Income Available	16,450,949	1,349,017	17,799,966	4,876,006	22,675,972
Measure of Value	350,621,590	-142,886	350,478,704	0	350,478,704
Rate of Return	4.69%		5.08%		6.47%

12

9

I&E Statement No. 2.

# Q. WHAT IS I&E'S TOTAL RECOMMENDED REVENUE REQUIREMENT FOR WASTEWATER OPERATIONS PRIOR TO THE ACT 11 ALLOCATION?

A. I&E's total recommended revenue requirement for the Company's wastewater
operations is \$7,182,490. This recommended revenue requirement represents an
increase of \$3,020,233 to the present rate revenues of \$4,162,262 prior to the Act
11 allocation (adjusted for rounding in I&E's revenue requirement computation).
This total recommended allowance incorporates my adjustments made in this
testimony and those made in the testimony of I&E witness Christopher Keller.<sup>10</sup>
A calculation of the I&E recommended revenue requirement is shown in the

11 table below:

R-2022-3032806		INCOME	SUMMARY		
1-2022-0002000					
	2/29/24		INVESTIGATION	& ENFORCEMENT	-
	Proforma	[			]
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	4,162,262	-5	4,162,257	3,020,233	7,182,490
Deductions:					
O&M Expenses	4,229,013	-404,886	3,824,127	0	3,824,12 <sup>-</sup>
Depreciation	933,718	0	933,718		933,718
Taxes, Other	43,491	0	43,491	20,283	63,774
Income Taxes:					
Current State	-516,042	36,030	-480,012	539,415	59,403
Current Federal	-273,490	77,353	-196,137	323,667	127,530
Deferred Taxes	15,937	0	15,937		15,937
ITC	0	0	0		(
Total Deductions	4,432,627	-291,503	4,141,124	883,365	5,024,489
Income Available	-270,365	291,498	21,133	2,136,868	2,158,00
Measure of Value	33,353,950	0	33,353,950	0	33,353,950
Rate of Return	-0.81%		0.06%		6.47%

<sup>&</sup>lt;sup>10</sup> I&E Statement No. 2.

# Q. PLEASE SHOW THE COMPUTATION FOR THE I&E PROPOSED WASTEWATER REVENUE ALLOCATION AS SUPPORTED BY I&E WITNESS ETHAN CLINE IN I&E STATEMENT NO. 3.

# 4 A. The I&E proposed allocation adjustment as discussed by I&E witness Ethan

# 5 Cline<sup>11</sup> is summarized below in Table 2:

I&E Table 2

York Water Company
Revenue Summary
As Recommended by I&E in Direct Testimony

	То	tal Company	Water	v	/astewater
Present Rate Revenues (1)	\$	57,804,722	\$ 53,642,460	\$	4,162,262
Company Claimed DSIC & STAS (2)		2,121,928	 2,121,928		-
Total Present Rate Revenues	\$	59,926,650	\$ 55,764,388	\$	4,162,262
Additional Revenue Requirement (3)	\$	20,310,530	\$ 16,182,882	\$	4,127,648
Company Claimed Proposed Revenues	\$	80,237,180	\$ 71,947,270	\$	8,289,910
Wastewater Revenue Allocation (3)		-	 2,670,856		(2,670,856)
Company Proposed Revenues (3)	\$	80,237,180	\$ 74,618,126	\$	5,619,054
I&E Recommended Revenues - Prior to Allocation (4)	\$	67,682,554	\$ 60,500,064	\$	7,182,490
Company Claimed DSIC & STAS (2)		2,121,928	2,121,928		-
Subtotal	\$	69,804,482	\$ 62,621,992	\$	7,182,490
I&E Wastewater Revenue Allocation (5)		-	 844,015		(844,015)
I&E Recommended Revenues	\$	67,682,554	\$ 61,344,079	\$	6,338,475

York Water Exhibit Nos. FV-1, p. 6 and FV-1W, p. 6.
 York Water Exhibit No. FII-2, p. 9.
 York Water Exhibit No. FII-2, p. 10.
 I&E Table 1A and Table 1B.
 Per I&E Statement No. 3.

<sup>&</sup>lt;sup>11</sup> I&E Statement No. 3.

# 1 PAYROLL EXPENSE - WATER OPERATIONS

2	Q.	WHAT IS INCLUDED IN THE COMPANY'S CLAIM FOR PAYROLL
3		EXPENSE?
4	А.	The Company's payroll expense claim includes operations and maintenance
5		salaries and wages for union, exempt, and non-exempt employees.
6		
7	Q.	WHAT IS THE COMPANY'S CLAIM FOR THE WATER OPERATIONS
8		PAYROLL EXPENSE?
9	А.	The Company's water operations claim for payroll expense is \$9,176,583. <sup>12</sup>
10		
11	Q.	WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?
12	А.	The Company's water operations claim for payroll expense is based on the pro
13		forma payroll expense for union and non-union employees to reflect salaries and
14		hourly rates effective February 29, 2024, applied to a two-year average of regular,
15		overtime, and double time hours from the years ended December 31, 2020, and
16		December 31, 2021, projected forward to the FTY, the projected FPFTY, and the
17		pro forma FPFTY. <sup>13</sup>
18		
19	Q.	DO YOU AGREE WITH THE COMPANY'S CLAIM?

20 A. No.

<sup>&</sup>lt;sup>12</sup> York Water Exhibit No. FIII-2-40.

<sup>&</sup>lt;sup>13</sup> York Water Exhibit Nos. HIII-2-4, FIII-2-1, FIII-2-15, FIII-2-25, and FIII-2-40.

1	Q.	WHAT IS YOUR RECOMMENDATION FOR PAYROLL EXPENSE?
2	А.	I recommend an allowance of \$8,812,433, or a reduction of \$364,150 (\$9,176,583
3		- \$8,812,433) to the Company's water operations claim.
4		
5	Q.	WHAT IS THE BASIS FOR YOUR RECOMMENDATION?
6	А.	My recommendation is based on an employee vacancy adjustment for unfilled
7		positions included in the Company's claim.
8		
9	Q.	PLEASE EXPLAIN YOUR RECOMMENDED VACANCY ADJUSTMENT.
9 10	<b>Q.</b> A.	PLEASE EXPLAIN YOUR RECOMMENDED VACANCY ADJUSTMENT. My recommended vacancy adjustment is based on a weighted-average employee
10		My recommended vacancy adjustment is based on a weighted-average employee
10 11		My recommended vacancy adjustment is based on a weighted-average employee vacancy rate of $3.67\%$ [( $2.60\% \times 0.33$ ) + ( $4.20\% \times 0.67$ )] determined from the
10 11 12		My recommended vacancy adjustment is based on a weighted-average employee vacancy rate of $3.67\%$ [( $2.60\% \times 0.33$ ) + ( $4.20\% \times 0.67$ )] determined from the response to I&E-RE-7, Part B. <sup>14</sup> I calculated the weighted-average vacancy rate
10 11 12 13		My recommended vacancy adjustment is based on a weighted-average employee vacancy rate of $3.67\%$ [( $2.60\% \times 0.33$ ) + ( $4.20\% \times 0.67$ )] determined from the response to I&E-RE-7, Part B. <sup>14</sup> I calculated the weighted-average vacancy rate by multiplying the actual annual average vacancy rate by the assigned weight for

Time Period	Vacancy Rate	Weight	Weighted Vacancy Rate
2019	2.60%	0.33	0.86%
2020-2021	4.20%	0.67	<u>2.81%</u>
Weighted Average Vacancy Rate			<u>3.67%</u>

<sup>&</sup>lt;sup>14</sup> I&E Exhibit No. 1, Schedule 1, pp. 1-2.

1		The weighted average of the annual employee vacancy rate, $3.67\%$ [(2.60% x
2		$(0.33) + (4.20\% \times 0.67)$ yields 4.62 vacancies which rounds up to five [(116)
3		current employees $^{15}$ + 10 net increase of employees in FTY) $^{16}$ x 0.0367) vacant
4		positions for the FPFTY. Finally, I multiplied the vacant positions by the average
5		annual payroll, \$72,830 ( $$9,176,583 \div 126$ ), per employee which produces my
6		recommended payroll adjustment of \$364,150 (\$72,830 x 5 positions). This
7		adjustment results in my recommended payroll allowance of \$8,812,433
8		(\$9,176,583 - \$364,150).
9		
10	Q.	EXPLAIN YOUR RATIONALE FOR THE VACANCY ADJUSTMENT.
10 11	<b>Q.</b> A.	<b>EXPLAIN YOUR RATIONALE FOR THE VACANCY ADJUSTMENT.</b> The Company budgeted its payroll expense based on the employee count of 126 at
11		The Company budgeted its payroll expense based on the employee count of 126 at
11 12		The Company budgeted its payroll expense based on the employee count of 126 at the end of the FPFTY as compared to the HTY employee count of 114
11 12 13		The Company budgeted its payroll expense based on the employee count of 126 at the end of the FPFTY as compared to the HTY employee count of 114 employees, <sup>17</sup> which includes 10 anticipated additional new employees in the
11 12 13 14		The Company budgeted its payroll expense based on the employee count of 126 at the end of the FPFTY as compared to the HTY employee count of 114 employees, <sup>17</sup> which includes 10 anticipated additional new employees in the FTY. <sup>18</sup> It is unreasonable to assume that the Company will fill and maintain 100%
<ol> <li>11</li> <li>12</li> <li>13</li> <li>14</li> <li>15</li> </ol>		The Company budgeted its payroll expense based on the employee count of 126 at the end of the FPFTY as compared to the HTY employee count of 114 employees, <sup>17</sup> which includes 10 anticipated additional new employees in the FTY. <sup>18</sup> It is unreasonable to assume that the Company will fill and maintain 100% full staffing of 126 budgeted positions in the FPFTY based on its own historic

<sup>&</sup>lt;sup>15</sup> I&E Exhibit No. 1, Schedule 1, p. 4.

York Water Exhibit No. 1, Schedule 1, p. 4. I&E Exhibit No. 1, Schedule 1, p. 3. York Water Exhibit No. FIII-2-42. 

first half of the FTY, the Company experienced an overall increase to a 4.40% vacancy rate and an average vacancy rate of 3.76%.<sup>19</sup>

Time Period	Vacancy Rate	Weight	Weighted Vacancy Rate	
2019	2.60%	0.29	0.75%	
2020-2021	4.20%	0.57	2.39%	
First Half 2022	4.40%	0.14	0.62%	
Weighted Average Vacancy Rate			3.76%	

1

2

4	These historic vacancy rates support my recommended five vacant positions based
5	on an average vacancy rate of 3.67% for an adjustment to payroll expense.
6	Given the "Great Resignation," <sup>20</sup> the Company may continue to face
7	challenges to fill all positions as budgeted in the FTY and FPFTY. Additionally,
8	there will always be a certain level of normal vacancies due to retirements,
9	resignations, transfers, layoffs, etc., on a day-to-day operating basis, which are
10	unpredictable and there will always be search and placement time involved in
11	filling normal employee vacancies as well as newly added positions. Such
12	vacancies will yield an annual savings in payroll costs that must be reflected in
13	payroll expense to eliminate an unreasonable impact to ratepayers.

<sup>&</sup>lt;sup>19</sup> Weights are calculated by dividing the respective time period by 42 months (12 months + 24 months + 6 months).

<sup>&</sup>lt;sup>20</sup> https://www.investopedia.com/the-great-resignation-5199074.

1	EMI	PLOYEE BENEFITS- WATER OPERATIONS
2	Q.	WHAT IS INCLUDED IN THE COMPANY'S CLAIM FOR EMPLOYEE
3		BENEFITS EXPENSE?
4	A.	The Company's employee benefits claim includes 401k matching, pension
5		administration, 401k administration, health insurance, and other employee
6		benefits. <sup>21</sup>
7		
8	Q.	WHAT IS THE COMPANY'S WATER OPERATIONS CLAIM FOR
9		EMPLOYEE BENEFITS EXPENSE?
10	A.	The Company's water operations is claiming employee benefits expense of
11		\$2,351,476 (\$340,092 + \$229,510 + \$1,696,843 + \$85,031). <sup>22</sup>
12		
13	Q.	WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?
14	A.	The Company based its claim for employee benefits expense on budgeted 2022
15		fiscal year health, dental, and life insurance expense.
16		
17	Q.	DO YOU AGREE WITH THE COMPANY'S CLAIM?
18	A.	No.

<sup>21</sup> 

York Water Exhibit No. FIII-1, p. 7. York Water Exhibit No. FIII-1, p. 7. 22

1	Q.	WHAT IS YOUR RECOMMENDATION FOR EMPLOYEE BENEFITS
2		EXPENSE?
3	A.	I recommend an allowance of \$2,265,177, or a reduction of \$86,299 (\$2,351,476 -
4		\$2,265,177) to the Company's water operations claim.
5		
6	Q.	WHAT IS THE BASIS FOR YOUR RECOMMENDATION?
7	А.	My recommendation is based on an employee vacancy adjustment as noted in the
8		payroll expense section above. I applied the 3.67% vacancy rate to the Company's
9		claim for employee benefits to calculate my employee benefits expense
10		adjustment. The result is my recommended adjustment of \$86,299 (\$2,351,476 x
11		0.0367).
12		
13	<u>PAY</u>	ROLL TAXES- WATER OPERATIONS
14	Q.	WHAT IS THE COMPANY'S WATER OPERATIONS CLAIM FOR
15		PAYROLL TAXES?
16	А.	The Company's water operations claim is \$997,932 for payroll taxes. <sup>23</sup>
17		
18	Q.	WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?
19	A.	The Company's claim is based on the FPFTY payroll expense claim and includes
20		the social security and Medicare taxes, federal unemployment tax, and

<sup>&</sup>lt;sup>23</sup> York Water Exhibit No. FIII-2-49.

1		Pennsylvania state unemployment tax.
2		
3	Q.	DO YOU AGREE WITH THE COMPANY'S CLAIM?
4	А.	No.
5		
6	Q.	WHAT IS YOUR RECOMMENDATION FOR PAYROLL TAXES?
7	А.	I recommend an allowance of \$958,349, or a reduction of \$39,583 (\$997,932 -
8		\$958,349) to the Company's FPFTY claim.
9		
10	Q.	WHAT IS THE BASIS FOR YOUR RECOMMENDATION?
11	А.	My recommendation is based on my recommended total payroll expense
12		adjustment of \$364,150 and calculated by applying the Company's payroll tax rate
13		of 10.87% [( $$997,932^{24} \div $9,176,583^{25}$ ) x 100]. The result is my recommended
14		adjustment of \$39,583 (\$364,150 x 0.1087), a reduction to the Company's water
15		operations payroll tax claim.
16		
17	<u>GEN</u>	IERAL PRICE LEVEL ADJUSTMENT
18	Q.	BRIEFLY EXPLAIN THE NATURE OF A GENERAL PRICE LEVEL
19		ADJUSTMENT.
20	A.	A general price level adjustment is an attempt to project an estimated increase in

York Water Exhibit No. FIII-2-49. York Water Exhibit No. FIII-2-40. 

1		expenses that are inflation-sensitive, for which known and measurable changes are
2		not determined. The effect is the general price level adjustment brings the
3		inflation-sensitive expenses, not otherwise adjusted by known and measurable
4		changes, up to a projected level for ratemaking purposes.
5		
6	Q.	WHAT GENERAL PRICE LEVEL ADJUSTMENT HAS THE COMPANY
7		APPLIED TO THE UNADJUSTED O&M EXPENSES?
8	A.	The Company proposed specific expense adjustments for the known and
9		measurable changes in certain categories of FTY and FPFTY expense claims for
10		ratemaking. However, the Company applied a general price level adjustment to
11		O&M expenses that were not specifically adjusted to determine the FTY and
12		FPFTY claims. <sup>26</sup> This results in total O&M expenses in the FTY and FPFTY
13		adjusted or increased for ratemaking purposes by a total of \$1,383,543
14		$($360,236^{27} + $1,023,307^{28})$ for water operations and \$404,886 (\$106,523^{29} + \$1,023,307^{28})
15		\$298,363 <sup>30</sup> ) for wastewater operations.
16		
17	Q.	WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?
18	A.	York Water witness Matthew Hoff states the projected effect of inflation on

operating expenses not specifically adjusted was determined by applying the

<sup>&</sup>lt;sup>26</sup> York Water Statement No. 103, pp. 61, 89-90 and York Water Statement No. 103W, pp. 21-22, 24-25.
<sup>27</sup> York Water Exhibit No. FIII-2, p. 15.
<sup>28</sup> York Water Exhibit No. FIII-2, p. 15.
<sup>29</sup> York Water Exhibit No. FIII-2W, p. 5.
<sup>30</sup> York Water Exhibit No. FIII-2W, p. 5.

1		annual percent change in Consumer Price Index for All Urban Consumers (CPI-U
2		Index) between February 2021 and February 2022 of 6.4% to the total operating
3		expenses not specifically adjusted for both the FTY and the FPFTY claims. <sup>31</sup>
4		General price level adjustments are detailed in York Water Exhibit Nos. FIII-2-12,
5		FIII-2-37, FIII-2-4W, and FIII-2-28W.
6		
7	Q.	DO YOU AGREE WITH THE COMPANY'S CLAIMED GENERAL PRICE
8		LEVEL ADJUSTMENT TO THE UNADJUSTED O&M EXPENSES?
9	A.	No.
10		
11	Q.	WHAT DO YOU RECOMMEND FOR THE GENERAL PRICE LEVEL
12		ADJUSTMENT?
13	А.	Water Operations:
14		I recommend a disallowance of entire general price level adjustment of \$1,383,543
15		(\$360,236 + \$1,023,307) claimed in the FTY and FPFTY unadjusted total O&M
16		expense claims.
17		Wastewater Operations:
18		I recommend a disallowance of entire general price level adjustment of \$404,886
19		(\$106,523 + \$298,363) claimed in the FTY and FPFTY unadjusted total O&M
20		expense claims.

<sup>&</sup>lt;sup>31</sup> York Water Statement No. 103, pp. 61, 89-90 and York Water Statement No. 103W, pp. 21-22, 24-25.

**Q**.

# WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

2 A. My recommendation is based on the Company's failure to support its claim by 3 relying on an unsupported general price level adjustment. Applying a general 4 price level adjustment to the FTY and FPFTY total unadjusted O&M expense 5 claims is unreasonable and unsupported when there are several categories of 6 expenses (that may include sub-categories of expenses) within the main expense category. Additionally, applying blanket inflation rates of 6.40% across the 7 8 unadjusted expenses in all cost elements of unadjusted total O&M expenses is 9 inappropriate and unreasonably overstates the expense claims and inappropriately 10 impacts customers' rates. Each cost element is a separate expense claim, and, 11 therefore, each expense item should be evaluated and budgeted based on its 12 individual merit and future known and measurable changes. I calculated my 13 recommended allowance by removing York Water's FTY and FPFTY general price level adjustment factors applied to the unadjusted total O&M expense claim for 14 15 each business operation separately.

16

# 17 Q. DO YOU HAVE ANY ADDITIONAL SUPPORT FOR REMOVAL OF THE

18

# GENERAL PRICE LEVEL ADJUSTMENTS?

A. Yes. Recently, the Commission denied a blanket increase in the 2019 Wellsboro
 Electric Company base rate case, which applied a 3% blanket inflation adjustment
 (general price level adjustment) to the FTY expenses to estimate the FPFTY

17

1	expenses claim, and the Commission stated that,
2 3 4 5	[T]he Company did not demonstrate that making this blanket adjustment to each expense claim directly relates to the actual costs expected to be incurred in each expense account in the FPFTY. <sup>32</sup>
6	Even more recently, in Aqua Pennsylvania's 2021 base rate case, the Commission
7	denied a General Price Level Adjustment to expenses, which was neither targeted
8	nor specific. Specifically, in its Order, which adopted the portion of the
9	Administrative Law Judge's Recommended Decision that recommended denial of
10	a general inflation adjustment, the Commission stated as follows,
11 12 13 14	We also agree that allowing Aqua to apply a general inflation adjustment to a block of expenses could incentivize less accurate tracking of expenses and a less rigorous approach to controlling costs for those expenses. <sup>33</sup>
15	Considering the Commission's Orders, the Company did not meet its burden in
16	demonstrating that its proposed blanket inflation adjustment to all line items of
17	expenses contained in the service company other costs claim would meet the
18	"known and measurable" standard for increasing each expense line item in the
19	FTY and FPFTY expense claims.

Pa. PUC v. Wellsboro Electric Company at Docket No. R-2019-3008208 (Order entered April 29, 2020, p. 40). Pa. PUC v. Aqua Pennsylvania, Inc. at Docket No. R-2021-3027385 (Order entered on May 16, 2022, pp. 116-32

<sup>33</sup> 117).

#### STATE INCOME TAX EXPENSE

2	Q.	WHAT IS THE COMPANY'S CLAIM FOR STATE INCOME TAX
3		EXPENSE?
4	A.	The Company's claim for state income tax expense is \$1,196,175 for the water
5		operations <sup>34</sup> and \$136,093 for wastewater operations. <sup>35</sup>
6		
7	Q.	WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?
8	A.	The Company's state income tax expense claim is based on the existing
9		Pennsylvania corporate net income tax rate of 9.99%. <sup>36</sup>
10		
11	Q.	DO YOU AGREE WITH THE COMPANY'S CLAIM?
12	A.	No.
13		
14	Q.	WHAT DO YOU RECOMMEND FOR STATE INCOME TAX EXPENSE?
15	A.	I recommend an allowance of \$369,185 or a reduction of \$826,990 (\$1,196,175 -
16		\$369,185) to the Company's claim for water operations. I recommend an
17		allowance of \$59,403 or a reduction of \$76,690 (\$136,093 - \$59,403) to the
18		Company's claim for wastewater operations.

York Water Exhibit No. FI-2, p. 12. York Water Exhibit No. FI-2W, p. 4. York Water Exhibit No. FIV-17-10 and York Water Exhibit No. FIV-17-10W. 

**O**.

# WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. On July 8, 2022, Pennsylvania House Bill 1342 was signed into law as Act 53 of
2022. Act 53 will lower the current 9.99% corporate net income tax rate to 8.99%
for tax year 2023 and will decrease the tax rate by 0.5% each year until 2031,
when the tax rate will be 4.99%.<sup>37</sup> Therefore, I recommend a weighted
Pennsylvania income tax rate of 8.91%, as show below, to reflect the Pennsylvania
corporate income tax rate that will be in effect for the FPFTY.

Time Period	State Income Tax Rate	Weight	Weighted State Income Tax Rate
February 2023 – December 2023	8.99%	0.83	7.49%
January 2024 – February 2024	8.49%	0.17	1.42%
Weighted Average State Income Tax Rate			8.91%

8

9 This change is reflected in my recommended revenue requirement in Table 1A for

10 water operations and Table 1B for wastewater operations above<sup>38</sup> and incorporates

11 the state income tax effect of my other recommended adjustments and those of

12 I&E witness Christopher Keller.<sup>39</sup>

<sup>&</sup>lt;sup>37</sup> I&E Exhibit No. 1, Schedule 2, p. 1.

<sup>&</sup>lt;sup>38</sup> I&E Statement No. 1, pp. 5-6.

<sup>&</sup>lt;sup>39</sup> I&E Statement No. 2.

#### HOW DID YOU CALCULATE YOUR RECOMMENDED WEIGHTED 1 Q. **STATE INCOME TAX RATE?** 2

3	A.	First, I calculated the weight by dividing each time period by twelve months,
4		resulting in 0.83 (10 months $\div$ 12 months), for the ten months of the FPFTY in
5		2023, and 0.17 (2 months $\div$ 12 months), for the two months of the FPFTY in 2024.
6		Next, I multiplied the applicable state tax income rate by the respective weight
7		yielding the weighted state income tax rates: 7.49% ( $8.99\%^{40} \ge 0.83$ ) for the ten
8		months in 2023 and 1.42% ( $8.49\%^{41} \ge 0.17$ ) for the two months in 2024. Finally,
9		the sum of the weighted state income tax rates produces my recommended
10		weighted average state income tax rate of $8.91\%$ ( $7.49\% + 1.42\%$ ).
11		
12	CASI	H WORKING CAPITAL
13	Q.	WHAT IS A CASH WORKING CAPITAL (CWC) ALLOWANCE FOR
14		RATEMAKING PURPOSES?
15	A.	CWC includes the amount of funds necessary to operate a utility during the
16		interim period between the rendition of service, including the payment of related

expenses, and the receipt of revenue in payment for services rendered by the 17

18 utility.

<sup>&</sup>lt;sup>40</sup> I&E Exhibit No. 1, Schedule 2, p. 1.
<sup>41</sup> I&E Exhibit No. 1, Schedule 2, p. 1.

# Q. HOW DID THE COMPANY CALCULATE ITS CWC CLAIM?

2	A.	The Company calculated its CWC claim using a lead/lag study. A lead/lag study
3		measures the differences in time between: (1) the time services are rendered until
4		payment of those services is received; and (2) the time between the point when a
5		utility has incurred an expense and the actual payment of the expense. Stated a
6		different way, the lead/lag study measures how many days exist on average
7		between the midpoint of the service period and the date the payment is made.
8		
9	Q.	DO YOU AGREE WITH THE COMPANY'S USE OF THE LEAD/LAG
10		METHOD?
11	A.	Yes. I agree with the Company's use of the lead/lag method for CWC calculation.
12		
13	Q.	WHAT IS THE COMPANY'S CWC CLAIM?
14	A.	The Company's claim for CWC for water operations is \$3,070,957. <sup>42</sup>
15		
16	Q.	DO YOU AGREE WITH THE COMPANY'S CLAIM?
17	A.	No. I disagree with the Company's CWC claim in as much as I disagree with the

18 O&M expense claims as discussed above.

<sup>&</sup>lt;sup>42</sup> York Water Exhibit No. FV-1, p. 3.

1	Q.	WHAT IS YOUR RECOMMENDED ALLOWANCE FOR CWC?
2	А.	I recommend an allowance of \$2,928,071 <sup>43</sup> or a reduction of \$142,886
3		(\$3,070,957 - \$2,928,071) to the Company's claim.
4		
5	Q.	WHAT IS THE BASIS FOR YOUR RECOMMENDATION?
6	А.	My recommendation includes modification of the Company's claim based on my
7		recommended adjustments to O&M expenses as discussed previously in this
8		testimony as explained below.
9		
10	Q.	HOW DO YOUR PROPOSED ADJUSTMENTS, DISCUSSED ABOVE,
11		IMPACT YOUR RECOMMENDATION FOR CWC?
12	А.	All O&M adjustments that are cash-based expense claims are included in
13		determining the Company's overall CWC requirement. Therefore, CWC was
14		adjusted to reflect these recommended adjustments. To reflect my recommended
15		adjustments, I modified the Company's electronic CWC file as shown on York
16		Water Exhibit No. FV-8, p. 2 and York Water Exhibit No. FV-8-1, p. 3.44

I&E Exhibit No. 1, Schedule 3, p. 1. I&E Exhibit No. 1, Schedule 3, pp. 1-4. 

1	Q.	SUMMARIZE WHERE EACH OF THE I&E RECOMMENDED O&M	
2		EXPENSE ADJUSTMENTS ARE REFLECTED IN THE CWC	
3		COMPUTATION.	
4	A.	<u>Expense Lag Days – Payroll</u> :	
5		I recommended a payroll expense adjustment of (\$364,150) in the Expense Lag –	
6		Payroll, which is reflected as a reduction to the Payroll (a) line of the Company's	
7		Exhibit No. FV-8-1, p. 3 as shown in I&E modified Exhibit No. FV-8-1, p. 3.45	

# 8 Expense Lag Days – Other Goods and Services:

9 I recommended the following expense adjustments in the Expense Lag – Other

10 Goods and Services as an overall decrease of \$1,469,842 of the Company's

11 Exhibit No. FV-8-1, p. 3 as shown in I&E modified Exhibit No. FV-8-1, p. 3.<sup>46</sup>

Other Expenses	Reduction
Employee Benefits Expense	\$86,299
General Price Level Adjustment	<u>\$1,383,543</u>
Total	<u>\$1,469,842</u>

12

# 13 <u>Expense Lag Days – Payroll Taxes</u>:

14 I recommended a payroll tax expense adjustment of (\$39,583) in the Expense Lag

- 15 Payroll Taxes, which is reflected as a reduction to the Payroll Taxes (c) line of
- 16 the Company's Exhibit No. FV-8-1, p. 3 as shown in I&E modified Exhibit No.

17 FV-8-1, p. 3.<sup>47</sup>

<sup>&</sup>lt;sup>45</sup> I&E Exhibit No. 1, Schedule 3, p. 2.

<sup>&</sup>lt;sup>46</sup> I&E Exhibit No. 1, Schedule 3, p. 2.

<sup>&</sup>lt;sup>47</sup> I&E Exhibit No. 1, Schedule 3, p. 2.

2

# Q. DOES YOUR RECOMMENDED ALLOWANCE REPRESENT A FINAL RECOMMENDED ALLOWANCE FOR CWC?

- A. No. All adjustments to the Company's claims for revenues, expenses, taxes, and
  rate base must be consistently brought together in the Administrative Law Judge's
- 5 Recommended Decision and again in the Commission's Final Order. This
- 6 process, which is known as iteration, effectively prevents the determination of a
- 7 precise calculation until such time as all adjustments have been made to the
- 8 Company's claim.
- 9

# 10 COVID-19 RELATED EXPENSES

# 11 Q. WHAT COVID-19 RELATED DEFERRALS IS THE COMPANY

# 12 CLAIMING IN THE INSTANT PROCEEDING?

13 A. There is no expense claim made for COVID-19 related deferrals. In response to

14 I&E-RE-46, the Company stated it started tracking COVID-19 related expenses in

- 15 2020, but by the end of 2020 there were no COVID-19 related expenses incurred<sup>48</sup>
- 16

# 17 Q. DO YOU ACCEPT THAT THE COMPANY HAS MADE NO CLAIM FOR 18 COVID-19 RELATED DEFERRALS?

19 A. Yes.

<sup>&</sup>lt;sup>48</sup> I&E Exhibit No. 1, Schedule 5.

1	Q.	WHAT IS YOUR RECOMMENDATION FOR ANY POTENTIAL FUTURE
2		DEFERRAL AND RELATED AMORTIZATION OF COVID-19 RELATED
3		EXPENSES?
4	A.	The Company should not be allowed to make any future claims for COVID-19
5		related uncollectible accounts expense or other COVID-19 related incremental
6		expenses in future proceedings
7		
8	Q.	WHAT IS THE BASIS FOR YOUR RECOMMENDATION?
9	A.	While the Commission did not specify when utilities should discontinue tracking
10		COVID-19 related expenses, the May 13, 2020 Secretarial Letter states, "[the
11		creation of] a regulatory asset [is] for any incremental expenses incurred above
12		those embedded in rates". <sup>49</sup> In my opinion, the regulatory asset is intended so
13		that utilities can defer extraordinary costs not previously embedded in rates at the
14		time of the March 13 Emergency Order <sup>50</sup> so that those extraordinary costs could
15		be recovered in the next proceeding following the March 13 Emergency Order,
16		and the regulatory asset should only be tracked until the rate case is filed. In that
17		instance, future rates would allow for recovery of the incremental COVID-19
18		related extraordinary expenses incurred since the issuance of the March 13
19		Emergency Order. Since the Company incurred no COVID-19 related expenses

<sup>&</sup>lt;sup>49</sup> COVID-19 Cost Tracking and Creation of Regulatory Asset, Docket No. M-2020-3019775 (Issued May 13, 2020), p. 2.

 <sup>&</sup>lt;sup>50</sup> Public Utility Service Termination Moratorium Proclamation of Disaster Emergency-COVID-19, Docket No. M-2020-3019244 (Emergency Order ratified March 26, 2020).

1		necessary for deferral treatment since 2020, no claim has been made in the instant
2		proceeding. Any COVID-19 related expenses for the FPFTY should already be
3		included in routine expense accounts and thus not require future requests for
4		deferral treatment.
5		
6	Q.	DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?
7	A.	Yes.

# Zachari Walker

# **Professional and Educational Background**

# **Experience**:

<u>Pennsylvania Public Utility Commission</u>, Harrisburg, Pennsylvania March 2021 to Present: Fixed Utility Financial Analyst, Bureau of Investigation and Enforcement

Bridgestone Retail Operations, LLC, Nashville, Tennessee December 2014 to July 2020: Business Manager Evaluated and validated accounting entry postings. Monitored, reconciled, and corrected daily transactions and accounts. Ensured accuracy of daily reports of business and researched inaccuracies. Utilized data analysis to determine key performance indicators and corresponding trends.

# **Education/Professional Development:**

Bridging the Gap, Holly Ridge, North Carolina, 2021 Business Analyst Blueprint Training Program, 36 PD hours earned

Stevenson University, Stevenson, Maryland, 2014 Bachelor of Science, *magna cum laude*, Business Administration Concentration in Finance

# **Professional Affiliations:**

International Institute of Business Analysis (IIBA), Pickering, Ontario, Canada Active Member 2021

# **Utility-Related Trainings & Other Courses/Webinars:**

Pennsylvania Public Utility Commission Rate School 2022, January 18-February 8, 2022

Michigan State University IPU Accounting and Ratemaking Course 2021, September 14-16, 2021

NARUC Staff Subcommittee on Accounting & Finance, Spring 2021 Virtual Conference, April 6-8, 2021

# **Testimony Submitted:**

R-2022-3032369	Citizens' Electric Company of Lewisburg, PA
R-2021-3030218	UGI Utilities, Inc. – Gas Division
R-2021-3026682	City of Lancaster – Bureau of Water
R-2021-3026116	Borough of Hanover – Hanover Municipal Water Works
R-2021-3025206	Community Utilities of Pennsylvania Inc. – Water Division
R-2021-3025207	Community Utilities of Pennsylvania Inc. – Wastewater Division

# **Casework Not Requiring Testimony:**

R-2022-3032250 PECO Energy Co. – Gas Operations 1307(f)

v.

THE YORK WATER COMPANY

Docket No. R-2022-3031340 (Water) & Docket No. R-2022-3032806 (Wastewater)

**Exhibit to Accompany** 

the

**Direct Testimony** 

of

Zachari Walker

**Bureau of Investigation and Enforcement** 

**Concerning:** 

**OPERATING AND MAINTENANCE EXPENSES** 

STATE INCOME TAX EXPENSE

**CASH WORKING CAPITAL** 

## v. THE YORK WATER COMPANY - WATER DOCKET NO. R-2022-3031340

# BUREAU OF INVESTIGATION AND ENFORCEMENT INTERROGATORIES SET RE

# BUREAU OF INVESTIGATION AND ENFORCEMENT INTERROGATORY I&E-RE-7

Reference York Water Exhibit No. FIII-2-1, and York Water Exhibit No. FIII-2-1(a) concerning salaries and wages, provide the following:

A. The average salary, Company-wide, for both union and non-union employee positions for the period the twelve-month period ending 02/29/20;

B. Monthly vacancy rates for 2019, 2020, and 2021;

C. Monthly vacancy rates for 2022 year to date;

D. Benefit loading factor for 2019, 2020, and 2021;

E. List of the current vacant positions identified by union/non-union and specific job title; and

F. Total number of positions by month for 2019, 2020, 2021, and 2022 to date, broken down by full time, part time, etc.

# **RESPONDENT:**

M. E. Poff CFO

# DATE:

July 12, 2022

# **RESPONSE:**

A. The Company is interpreting the question as the twelve-month period ending 02/29/24 as opposed to 02/29/20.

# v. THE YORK WATER COMPANY - WATER DOCKET NO. R-2022-3031340

# BUREAU OF INVESTIGATION AND ENFORCEMENT INTERROGATORIES SET RE

The average salary, company-wide, for the union employee positions, including overtime, is approximately \$67,300. This is based on the twelve months ending February 29, 2024 earnings for all full time union employees.

The average salary, company-wide, for the non-union employee positions is approximately \$88,700. This is based on the twelve months ending February 29, 2024 earnings for all full time non-union employees. Non-union employees range from the highest paid senior leadership positions to the lowest paid clerical positions.

B. In 2019, the Company had an average of three positions open for a vacancy rate of approximately 2.6%.

In 2020 and 2021, the Company had an average of five positions open for a vacancy rate of approximately 4.2%.

C. To date in 2022, the Company had an average of five positions open for a vacancy rate of approximately 4.4%.

D. The Company used a benefit loading factor of 29.3% in 2019, 28.4% in 2020, and 25.9% in 2021 to allocate fringe benefits from the water operations to the wastewater operations. This would include health insurance, workers compensation, payroll taxes and 401k match.

E. The Company currently has a vacancy for a union laborer, a non-union customer service representative, a non-union Oracle engineer, a non-union IT analyst, and a non-union fixed asset clerk.

F. The total number of positions by month is presented below. All positions included are full time positions. The Company does not have any part time positions. The Company employs between eight and ten temporary workers each year.

Month	No. of Positions
January 2019	109
February 2019	108
March 2019	108
April 2019	108
May 2019	108
June 2019	107

# v. THE YORK WATER COMPANY - WATER DOCKET NO. R-2022-3031340

# BUREAU OF INVESTIGATION AND ENFORCEMENT INTERROGATORIES SET RE

July 2019	110
August 2019	109
September 2019	110
October 2019	112
November 2019	113
December 2019	113
January 2020	111
February 2020	111
March 2020	111
April 2020	111
May 2020	112
June 2020	113
July 2020	113
August 2020	113
September 2020	113
October 2020	113
November 2020	113
December 2020	113
January 2021	113
February 2021	113
March 2021	114
April 2021	114
May 2021	115
June 2021	115
July 2021	115
August 2021	115
September 2021	115
October 2021	115
November 2021	114
December 2021	114
January 2022	114
February 2022	114
March 2022	114
April 2022	114
May 2022	116

## PENNSYLVANIA PUBLIC UTILITY COMMISSION

## v. THE YORK WATER COMPANY - WATER DOCKET NO. R-2022-3031340

## BUREAU OF INVESTIGATION AND ENFORCEMENT INTERROGATORIES SET RE

June 2022	116

# kemg TaxNewsFlash

**United States** 

I&E Exhibit No. 1 Schedule 2 Page 1 of 3

## No. 2022-193 July 11, 2022

## Pennsylvania: Changes to corporate net income tax laws, other tax changes

House Bill 1342 was signed into law in Pennsylvania on July 8, 2022. The bill makes significant changes to the Commonwealth's corporate net income tax laws, as discussed below.

## Corporate net income tax rate reduction

The Commonwealth's current corporate net income tax rate is 9.99%, which is one of the highest in the country. House Bill 1342 reduces that rate incrementally to 4.99%. These rate reductions are scheduled to occur automatically and are not contingent on state tax revenues meeting or exceeding specific thresholds.

The rate is first reduced to 8.99% for the 2023 tax year—the tax year beginning on or after January 1, 2023 through December 31, 2023. The rate is further reduced as follows:

- 8.49% for tax year 2024
- 7.99% for tax year 2025
- 7.49% for tax year 2026
- 6.99% for tax year 2027
- 6.49% for tax year 2028
- 5.99% for tax year 2029
- 5.49% for tax year 2030
- 4.99% for tax years beginning January 1, 2031 and thereafter

## **KPMG observation**

Previous corporate net income rate reductions were included in bills that would also have adopted unitary combined reporting. However, unitary combined reporting is not included in this legislation.

## Sales factor changes

Under current law, specific sourcing rules apply to receipts from sales of services and receipts from sales of tangible personal property. All other receipts are sourced under the statutory income-producing activity test and

are included in the Pennsylvania sales factor numerator if the income-producing activity is performed in Pennsylvania, or if a greater proportion of the income-producing activity is performed in Pennsylvania, based on costs of performance. House Bill 1342 adopts comprehensive customer-based sourcing rules for a number of "other" types of receipts, including:

- Gross receipts from the lease or license of intangible property
- Gross receipts from sales of intangibles
- Gross receipts from the sale, redemption, maturity or exchange of securities held by a taxpayer primarily for sale to customers
- Gross receipts related to lending activities involving real property and tangible personal property
- Gross receipts received from interest, fees, and penalties from credit card holders
- Gross receipts received from interest not otherwise addressed in the revised law

Any gross receipts associated with intangible property that are not specifically addressed will be excluded from both the numerator and denominator of the sales factor. The state tax authority is directed to promulgate rules and regulations to implement the new sourcing rules, which are effective for tax years beginning after December 31, 2022.

#### **KPMG observation**

There is ongoing litigation in Pennsylvania over the application of the income-producing activity test as applied to service receipts. The *Synthes* case, currently pending before the Pennsylvania Supreme Court, involves the interpretation of the statutory income-producing activity test in years prior to 2014 before the legislature revised the law to provide that service receipts are sourced to the location where the services are delivered. In *Synthes*, the state tax authority and the taxpayer were on the same side and argued that the tax authority's market-based interpretation of the income-producing activity test, which resulted in a refund for Pennsylvania-based taxpayer, was entitled to deference. The Attorney General, however, disagreed that the tax authority's interpretation was entitled to deference. The Commonwealth Court held in favor of the taxpayer and the tax authority, the Attorney General appealed to the Pennsylvania Supreme Court, and oral arguments were held in March 2022. Although *Synthes* involves service receipts, the outcome may be instructive as to application of the income-producing service receipts for years prior to 2023.

## **Codification of economic nexus standards**

House Bill 1342 codifies Corporation Tax Bulletin 2019-04, issued post-*Wayfair*, in which the state tax authority announced that for tax years beginning on or after January 1, 2020, corporations meeting an economic nexus standard would be required to file corporate net income tax returns (unless protected under Public Law 86-272). The bulletin set forth a rebuttable presumption that a corporate taxpayer without a physical presence in Pennsylvania that had \$500,000 or more of direct or indirect gross receipts sourced to Pennsylvania from any combination of (1) gross receipts from the sale, rental, lease, or licensing of tangible personal property; (2) gross receipts from the sale of services; or (3) gross receipts from the sale or licensing of intangibles, including franchise agreements, would have a filing responsibility.

Effective for tax years beginning after December 31, 2022, House Bill 1342 codifies the rebuttable presumption that a corporation with \$500,000 or more of receipts sourced to Pennsylvania will have substantial nexus with the Commonwealth, despite the lack of a physical presence. However, an exception applies to affiliated entities domiciled in foreign nations that have entered into comprehensive income tax treaties with the United States. The treaties must provide "for the allocation of all categories of income subject to taxation, or the withholding of tax, on royalties, licenses, fees and interest for the prevention of double taxation of the respective nations' residents and the sharing of information."

#### **KPMG observation**

It is important to consider the economic nexus standard in conjunction with the revised sourcing rules that apply beginning with the 2023 tax year. A taxpayer that previously sourced receipts under the income-producing

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activity test may not have had the requisite level of receipts sourced to the Commonwealth. However, that may no longer be the case when those receipts are sourced using the new customer-based rules.

#### Sales and use tax and other tax changes

Effective January 1, 2023, House Bill 1342 requires peer-to-peer car sharing marketplace facilitators (as defined) to collect sales and use tax on facilitated shared vehicle rentals. The up-to-\$2 per day fee that applies to vehicle rentals is extended to vehicles rented as part of a peer-to-peer car sharing program. However, the Commonwealth's 2% vehicle rental tax does not apply to a shared vehicle that is rented through a peer-to-peer car sharing program. The bill also extends the computer data center sales tax exemption qualification period from 15 years to 25 years for qualified purchases of equipment installed in the computer data center.

For individual (personal) income tax purposes, effective for tax years beginning after December 31, 2022, the bill conforms the Commonwealth to the section 179 expensing provisions and the section 1031 deferral provisions. A new refundable tax credit is adopted for eligible taxpayers who receive the federal child and dependent care tax credit. Finally, the bill increases the annual cap for the research and development and film production tax credits and makes certain changes to the keystone opportunity zone provisions.

For more information, contact a KPMG State and Local Tax professional:

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I&E MODIFIED Exhibit No. FV-8 Page 2 of 2

## THE YORK WATER COMPANY DATA REQUIREMENTS OF THE PENNSYLVANIA PUBLIC UTILITY COMMISSION CASH WORKING CAPITAL REQUIREMENT FOR TWELVE MONTHS ENDING FEBRUARY 29, 2024

- 53.53 V. Valuation
- D. Water and Wastewater Utilities
- 8. Supply an exhibit supporting the claim for cash working capital requirement based on the lead-lag method.

Description (1)		Amount (2)
Pro Forma Operating Expenses and Taxes Less Uncollectible Accounts and Amortized Expenses	23,356,568	
Average DailyOperating Expenses 23,356,568 / 365	63,991	
Cash Working Capital Requirement63,991x54.4 days		3,480,981
Prepaid PUC, OCA, SBA and DPC Assessments		163,435
Builders Deposits and Water Revenues Paid In Advance		(263,818)
Interest Adjustment		(452,527)
Cash Working Capital		2,928,071

## I&E MODIFIED Exhibit No. FV-8-1 Page 3 of 4

## THE YORK WATER COMPANY DATA REQUIREMENTS OF THE PENNSYLVANIA PUBLIC UTILITY COMMISSION CASH WORKING CAPITAL REQUIREMENT LAG RELATIONSHIP BETWEEN OPERATING REVENUES AND OPERATING EXPENSES AND TAXES FOR TWELVE MONTHS ENDING FEBRUARY 29, 2024

ltem (1)	Amount (2)	Number of Days Lag (3)	Dollar Days (4)=(2)*(3)	Weighted Average Lag Days (5)
Pro Forma Operating Revenues Under Existing Rates (Sales of Water)				
Metered Repumped Residential	24,687,304	53.7	1,326,846,198	
Metered Gravity Residential	9,781,992	52.5		
Metered Repumped Commercial	6,957,041	53.7	373,913,784	
Metered Gravity Commercial	3,610,022	52.5	5 189,662,486	
Metered Repumped Industrial	3,223,353	53.7	173,242,655	
Metered Gravity Industrial	851,750	52.5	6 44,749,062	
Private Fire Service	2,019,336	53.7	108,531,425	
Public Fire Service	1,392,525	52.5	5 73,160,123	
Total Pro Forma Sales				
of Water	52,523,324		2,804,029,684	
Revenue Weighted Average Lag Days in Receipt of Revenues				53.4
Pro Forma Operating Expenses and Taxes Under Existing Rates Less Bad Debts and Amortized Expenses				
Payroll (a)	9,202,715	7.0	64,419,002	
Payroll (Payroll Tax Withholding) (c)	778,883			
Power Purchased (b)	1,171,058	26.6		
Insurance (b)	3,054,688	-74.3		1
Other Goods and				
Services (b)	7,770,228	18.1	140,822,326	
Payroll Taxes (c)	711,794			
Other Taxes (d)	667,201	-80.5		1
Income Taxes (e)	-	29.6		
Total Pro Forma Operating				

Expenses and Taxes Less

## I&E MODIFIED Exhibit No. FV-8-1 Page 3 of 4

## THE YORK WATER COMPANY DATA REQUIREMENTS OF THE PENNSYLVANIA PUBLIC UTILITY COMMISSION CASH WORKING CAPITAL REQUIREMENT LAG RELATIONSHIP BETWEEN OPERATING REVENUES AND OPERATING EXPENSES AND TAXES FOR TWELVE MONTHS ENDING FEBRUARY 29, 2024

Item (1)	Amount (2)	Number of Days Lag (3)	Dollar Days (4)=(2)*(3)	Weighted Average Lag Days (5)
Bad Debts and Amortized Expenses	23,356,568	8	(23,635,72	24)
Expense Weighted Average Lag Days in Payment of Expenses				-1.0

## I&E MODIFIED Exhibit No. FV-8-1 Page 3 of 4

## THE YORK WATER COMPANY DATA REQUIREMENTS OF THE PENNSYLVANIA PUBLIC UTILITY COMMISSION CASH WORKING CAPITAL REQUIREMENT LAG RELATIONSHIP BETWEEN OPERATING REVENUES AND OPERATING EXPENSES AND TAXES FOR TWELVE MONTHS ENDING FEBRUARY 29, 2024

	Item (1)	Amount (2)	Number of Days Lag (3)	Dollar Days (4)=(2)*(3)	Weighted Average Lag Days (5)
B A R ai	Lag Days (Difference etween Weighted verage Lag Days in eceipt of Revenues nd Weighted Average ag Days in Payment				
of	f Expenses)				54.4
(a)	Midpoint of payroll period to payday				7.0 days lag
(b)	Based on an analysis of invoices pair 2021 through December 31, 2021 (F FV-8-1(b) and FV-8-1(c).		•		
(c)	Based on an analysis of invoices paid 2021 through December 31, 2021 (F	• •			
(d)	Based on an analysis of invoices paid 2021 through December 31, 2021 (F		•		

 Based on an analysis of invoices paid during the period January 1, 2021 through December 31, 2021 (Refer to Exhibit Nos. FV-8-1(f).

## v. THE YORK WATER COMPANY - WATER DOCKET NO. R-2022-3031340

## BUREAU OF INVESTIGATION AND ENFORCEMENT INTERROGATORIES SET RE

## BUREAU OF INVESTIGATION AND ENFORCEMENT INTERROGATORY I&E-RE-46

Reference the May 27, 2022 York Water Rate Case filing. Provide the following:

A. State if the Company is tracking COVID-19 related expenses;

B. If so, identify where the tracked expenses are reflecting in the referenced filing, the amount being tracked for each expense, and over what period each is being amortized; and

C. Supporting documentation for each of the COVID-19 related expenses.

## **RESPONDENT:**

M. E. Poff CFO

## DATE:

July 12, 2022

## **RESPONSE:**

A. The Company began tracking COVID-19 related expenses in 2020, but by the end of 2020 there were no COVID-19 related expenses incurred by the Company.

B.-C. No COVID-19 related expenses are included in this rate filing.

## PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

THE YORK WATER COMPANY

Docket No. R-2022-3031340 (Water) & Docket No. R-2022-3032806 (Wastewater)

**Surrebuttal Testimony** 

of

Zachari Walker

**Bureau of Investigation and Enforcement** 

**Concerning:** 

## **OPERATING AND MAINTENANCE EXPENSES**

## STATE INCOME TAX EXPENSE

**CASH WORKING CAPITAL** 

## **TABLE OF CONTENTS**

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STATE INCOME TAX EXPENSE	15
CASH WORKING CAPITAL	17
COVID-19 RELATED EXPENSES	21

## 1 INTRODUCTION

2	Q.	PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
3	A.	My name is Zachari Walker, and my business address is Pennsylvania Public
4		Utility Commission, 400 North Street, Harrisburg, PA 17120.
5		
6	Q.	BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?
7	А.	I am employed by the Pennsylvania Public Utility Commission (Commission) in
8		the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial
9		Analyst.
10		
11	Q.	ARE YOU THE SAME ZACHARI WALKER WHO SUBMITTED I&E
12		STATEMENT NO. 1 AND I&E EXHIBIT NO. 1?
13	А.	Yes.
14		
15	Q.	WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?
16	А.	The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of
17		The York Water Company (York Water or Company) witness Matthew E. Poff
18		(York Water Statement No. 3-R).
19		
20	Q.	DOES YOUR SURREBUTTAL TESTMONY INCLUDE AN
21		ACCOMPANYING EXHIBIT?
22	A.	Yes. I&E Exhibit No. 1-SR accompanies this surrebuttal testimony. Additionally,

1		I refer to my direct testimony and its accompanying exhibit (I&E Statement No. 1
2		and I&E Exhibit No. 1).
3		
4	Q.	WHAT ARE THE TEST YEARS USED BY YORK WATER IN THIS
5		PROCEEDING?
6	А.	The Company uses the year ended December 31, 2021, as the historic test year
7		(HTY), the year ending December 31, 2022, as the future test year (FTY), and the
8		year ending February 29, 2024, as the fully projected future test year (FPFTY) in
9		the instant proceeding.
10		
11	<u>SUM</u>	IMARY OF COMPANY'S REQUEST
12	Q.	PLEASE SUMMARIZE THE COMPANY'S UPDATED REQUESTED
13		REVENUE INCREASE.
14	A.	In rebuttal testimony, York Water updated its requested revenue increase to
15		20,201,429 <sup>1</sup> for the FPFTY for water and wastewater operations.
16		This represents a \$16,047,841 <sup>2</sup> requested increase to claimed water
17		operations present rate revenues of \$53,642,460. <sup>3</sup> Combined with the claimed
18		allocated wastewater operations revenues per the Act 11 provision of \$2,696,796,
19		this results in proposed revenues of \$72,387,097 for water operations. <sup>4</sup>

<sup>1</sup> 

<sup>2</sup> 

<sup>3</sup> 

York Water Statement No. 3-R, p. 23. York Water Exhibit No. MEP-1R, p. 1. York Water Exhibit No. MEP-1R, p. 2. York Water Exhibit No. MEP-1R, p. 1. 4

1	Additionally, the total requested increase represents a \$4,153,588 <sup>5</sup>
2	requested increase to claimed wastewater operations present rates revenues of
3	\$4,162,262. <sup>6</sup> Applying the proposed Act 11 allocation, a decrease for wastewater
4	operations of \$2,696,796, produces proposed revenues of \$5,619,054 for
5	wastewater operations. <sup>7</sup>
6	

6

#### 7 PLEASE SUMMARIZE YOUR RECOMMENDED O&M ADJUSTMENTS Q.

#### 8 TO THE COMPANY'S REBUTTAL POSITION.

9 The following table summarizes my recommended adjustments: A.

#### 10 **Water Operations:**

	Company Updated <u>Claim</u>	I&E Recommended <u>Allowance</u>	I&E Updated <u>Adjustment</u>
O&M Expenses:			
General Price Level	\$1,383,543	\$0	(\$1,383,543)
Adjustment			
Total O&M Expense			<u>(\$1,383,543)</u>
Adjustments			
Rate Base Adjustments:			
Cash Working Capital	\$2,994,755	\$2,861,089	(\$133,666)
Total Rate Base Adjustments			(\$133,666)

11

<sup>5</sup> York Water Exhibit No. MEP-1R, p. 1.

York Water Exhibit No. MEP-1R, p. 1. York Water Exhibit No. MEP-1R, p. 1. 6

<sup>7</sup> 

## 1 Wastewater Operations:

	Company Updated <u>Claim</u>	I&E Recommended <u>Allowance</u>	I&E Updated <u>Adjustment</u>
O&M Expenses:			
General Price Level Adjustment	\$404,886	\$0	<u>(\$404,886)</u>
Total O&M Expense			<u>(\$404,886)</u>
Adjustments			

- 2
- 3

## 4 <u>SUMMARY OF I&E OVERALL UPDATED POSITION</u>

## 5 Q. WHAT IS I&E'S TOTAL UPDATED RECOMMENDED REVENUE

## 6 **REQUIREMENT FOR WATER OPERATIONS PRIOR TO THE ACT 11**

## 7 ALLOCATION?

- 8 A. I&E's total recommended revenue requirement for the Company's water
- 9 operations is \$61,065,324. This recommended revenue requirement represents an
- 10 increase of \$7,422,864 to the Company's claimed present rate revenues of
- 11 \$53,642,460 prior to the Act 11 allocation. This total recommended allowance
- 12 incorporates my adjustments made in this testimony and those made in the
- 13 testimony of I&E witness Christopher Keller.<sup>8</sup>
- 14 An updated calculation of the I&E recommended revenue requirement is

<sup>&</sup>lt;sup>8</sup> I&E Statement No. 2-SR.

## shown in the table below:

York Water Company - Water Operations		TABL	E 1A		
R-2022-3031340		INCOME	SUMMARY		
	2/29/24		INVESTIGATION 8	& ENFORCEMENT	
	Proforma	[			]
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	53,642,460	0	53,642,460	7,422,864	61,065,324
Deductions:					
O&M Expenses	23,337,034	-1,383,542	21,953,492	38,599	21,992,09
Depreciation	12,960,981	0	12,960,981		12,960,98
Taxes, Other	1,353,880	0	1,353,880	49,849	1,403,729
Income Taxes:					
Current State	-364,844	124,802	-240,042	659,364	419,32
Current Federal	-638,456	265,318	-373,138	1,401,761	1,028,623
Deferred Taxes	211,523	0	211,523		211,52
ITC	-39,126	0	-39,126		-39,126
Total Deductions	36,820,992	-993,422	35,827,570	2,149,573	37,977,143
Income Available	16,821,468	993,422	17,814,890	5,273,291	23,088,18
Measure of Value	350,485,422	-133,666	350,351,756	0	350,351,756
Rate of Return	4.80%		5.08%		6.59%

2

1

3

## 4 Q. WHAT IS I&E'S TOTAL UPDATED RECOMMENDED REVENUE

## 5 **REQUIREMENT FOR WASTEWATER OPERATIONS PRIOR TO THE**

## 6 ACT 11 ALLOCATION?

7 A. I&E's total recommended revenue requirement for the Company's wastewater

8 operations is \$7,223,362. This recommended revenue requirement represents an

- 9 increase of \$3,061,100 to the Company's claimed present rate revenues of
- 10 \$4,162,262 prior to the Act 11 allocation. This total recommended allowance
- 11 incorporates my adjustments made in this testimony and those made in the
- 12 testimony of I&E witness Christopher Keller.<sup>9</sup>

<sup>&</sup>lt;sup>9</sup> I&E Statement No. 2-SR.

1

2

## An updated calculation of the I&E recommended revenue requirement is

## shown in the table below:

York Water Company - Wastewater Operations TABLE 1B						
R-2022-3032806		INCOME	SUMMARY			
	2/29/24		INVESTIGATION 8	& ENFORCEMENT		
	Proforma	[			]	
	Present Rates	Adjustments	Present Rates	Allowances	Proposed	
	\$	\$	\$	\$	\$	
Operating Revenue	4,162,262	0	4,162,262	3,061,100	7,223,362	
Deductions:						
O&M Expenses	4,229,013	-404,897	3,824,116	0	3,824,116	
Depreciation	933,718	0	933,718		933,718	
Taxes, Other	43,491	0	43,491	20,557	64,048	
Income Taxes:						
Current State	-249,775	36,418	-213,357	273,345	59,988	
Current Federal	-529,576	77,423	-452,153	579,683	127,530	
Deferred Taxes	15,937	0	15,937		15,937	
ITC	0	0	0		0	
Total Deductions	4,442,808	-291,056	4,151,752	873,585	5,025,337	
Income Available	-280,546	291,056	10,510	2,187,515	2,198,025	
Measure of Value	33,353,950	0	33,353,950	0	33,353,950	
Rate of Return	-0.84%		0.03%		6.59%	

3

4

## 5 Q. PLEASE SHOW THE COMPUTATION FOR THE UPDATED I&E

## 6 **PROPOSED WASTEWATER REVENUE ALLOCATION AS SUPPORTED**

## 7 BY I&E WITNESS ETHAN CLINE IN I&E STATEMENT NO. 3-SR.

- 8 A. The updated I&E proposed allocation adjustment as discussed by I&E witness
- 9 Ethan Cline<sup>10</sup> is summarized below in Table 2:

<sup>&</sup>lt;sup>10</sup> I&E Statement No. 3-SR.

I&E Table 2

York Water Company
Revenue Summary
As Recommended by I&E in Surrebuttal Testimony

	То	tal Company	Water	V	/astewater
Present Rate Revenues (1) Company Claimed DSIC & STAS (2)	\$	57,804,722 2,121,928	\$ 53,642,460 2,121,928	\$	4,162,262
Total Present Rate Revenues	\$	59,926,650	\$ 55,764,388	\$	4,162,262
Additional Revenue Requirement (3)	\$	20,201,429	\$ 16,047,841	\$	4,153,588
Company Claimed Proposed Revenues	\$	80,128,079	\$ 71,812,229	\$	8,315,850
Wastewater Revenue Allocation (3)			 2,696,796		(2,696,796)
Company Proposed Revenues (3)	\$	78,006,151	\$ 72,387,097	\$	5,619,054
I&E Recommended Revenues - Prior to Allocation (4) Company Claimed DSIC & STAS (2)	\$	68,288,686 2,121,928	\$ 61,065,324 2,121,928	\$	7,223,362
Subtotal	\$	70,410,614	\$ 63,187,252	\$	7,223,362
I&E Wastewater Revenue Allocation (5)		-	 868,217		(868,217)
I&E Recommended Revenues	\$	68,288,686	\$ 61,933,541	\$	6,355,145

(1) York Water Exhibit No. MEP-1R

(2) York Water Exhibit No. FII-2, p. 9.

(3) York Water Exhibit No. MEP-1R. Excludes DSIC and STAS revenues.

- (4) I&E Table 1A and Table 1B. (5) Per I&E Statement No. 3-SR.
- 1

2

## 3 PAYROLL EXPENSE - WATER OPERATIONS

## 4 Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY

## 5 FOR PAYROLL EXPENSE.

6 A. I recommended an allowance of \$8,812,433, or a reduction of \$364,150

7 (\$9,176,583 - \$8,812,433) to the Company's water operations claim. My

- 8 recommended vacancy adjustment was based on a weighted-average employee
- 9 vacancy rate of 3.67%, calculated five vacant positions for the FPFTY, and the
- 10 average annual payroll of \$72,830.<sup>11</sup> I recommended this adjustment to account
- 11 for the Company not being able to fill and maintain 100% full staffing of the 126

<sup>&</sup>lt;sup>11</sup> I&E Statement No. 1, pp. 9-11.

1		budgeted FPFTY positions based on its own historic vacancy records for 2019,
2		2020, and 2021. <sup>12</sup>
3		
4	Q.	DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?
5	А.	Yes. York Water witness Matthew Poff agrees with my vacancy recommendation,
6		in part. <sup>13</sup>
7		
8	Q.	SUMMARIZE MR. POFF'S RESPONSE.
9	А.	Mr. Poff states the Company agrees that an employee vacancy adjustment should
10		be added to its claim. However, he suggests the Company's adjustment should be
11		applied to the water operations based on the actual claim for payroll for the five
12		unfilled positions. In further explanation, he opines that my recommendation is
13		skewed higher due to the inclusion of senior management position salaries that are
14		unlikely to be vacant and proposes a \$285,826 adjustment to the Company's
15		payroll expense. <sup>14</sup>
16		
17	Q.	DO YOU ACCEPT MR. POFF'S UPDATED CLAIM FOR PAYROLL
18		EXPENSE?
19	A.	Yes. Upon examination of the details outlined in Mr. Poff's rebuttal testimony as
20		summarized above, I accept the Company's proposed \$285,826 adjustment to

I&E Statement No. 1, pp. 10-11. York Water Statement No. 3-R, p. 2. York Water Statement No. 3-R, pp. 3-4. 

1		payroll expense as calculated in York Water Exhibit MEP-2R.
2		
3	EMI	PLOYEE BENEFITS - WATER OPERATIONS
4	Q.	SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY
5		FOR EMPLOYEE BENEFITS.
6	А.	I recommended an allowance of \$2,265,177, or a reduction of \$86,299
7		(\$2,351,476 - \$2,265,177) to the Company's water operations claim based on
8		applying an employee vacancy adjustment as noted in the payroll expense section
9		above to the Company's claim for employee benefits. <sup>15</sup>
10		
11	Q.	DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?
12	A.	Yes. York Water witness Matthew Poff agrees that an adjustment should be made
13		to reflect the employee vacancy adjustment to the Company's payroll claim.
14		
15	Q.	SUMMARIZE MR. POFF'S RESPONSE.
16	A.	Mr. Poff states that the Company agrees a corresponding adjustment to employee
17		benefits should be made in accordance with the adjustment made to payroll
18		expense; however, unlike my recommendation made in direct testimony, it should
19		exclude adjustments to the pension plan, 401k administration, and other employee
20		benefits as those costs do not correlate to the costs associated with the vacant

<sup>&</sup>lt;sup>15</sup> I&E Statement No. 1, p. 13.

1		positions. Accounting for these details, he proposes a reduction of \$72,734 for
2		employee benefits expense. <sup>16</sup>
3		
4	Q.	DO YOU ACCEPT MR. POFF'S UPDATED CLAIM FOR EMPLOYEE
5		BENEFITS EXPENSE?
6	A.	Yes. Upon consideration of the information provided in rebuttal testimony, I
7		accept Mr. Poff's calculated reduction of \$72,734 to the Company's claim. <sup>17</sup>
8		
9	<u>PAY</u>	<b>ROLL TAXES - WATER OPERATIONS</b>
10	Q.	SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY
11		FOR PAYROLL TAXES.
12	A.	I recommended an allowance of \$958,349, or a reduction of \$39,583 (\$997,932 -
13		\$958,349) to the Company's FPFTY claim based on applying the Company's
14		payroll tax rate of 10.87% to my recommended total payroll expense adjustment
14 15		
		payroll tax rate of 10.87% to my recommended total payroll expense adjustment
15		payroll tax rate of 10.87% to my recommended total payroll expense adjustment of \$364,150 as stated in the payroll expense section above and as shown in my

19 Yes. York Water witness Matthew Poff agrees with my recommendation, in as A.

York Water Statement 3-R, p. 5.
 York Water Exhibit MEP-2R.

<sup>18</sup> I&E Statement No. 1, p. 14.

1		much as he agrees in part with my recommendation for a payroll vacancy
2		adjustment.
3		
4	Q.	SUMMARIZE MR. POFF'S RESPONSE.
5	А.	Mr. Poff states that a corresponding decrease in payroll taxes should be made in
6		accordance with the decrease in payroll expense due to the employee vacancy
7		adjustment. He proposes to adjust payroll taxes by the specified amount for the
8		five unfilled positions as calculated in York Water Exhibit MEP-2R resulting in a
9		decrease of \$25,115 to the Company's payroll tax expense claim. <sup>19</sup>
10		
11	Q.	DO YOU ACCEPT MR. POFF'S UPDATED CLAIM FOR PAYROLL
12		TAXES?
13	A.	Yes. As stated above, I have accepted the modified calculation to account for the
14		probable vacant positions excluding senior management positions and therefore
15		the subsequent payroll tax adjustment of \$25,115 to the Company's payroll tax
16		claim.
17		
18	<u>GEN</u>	ERAL PRICE LEVEL ADJUSTMENT
19	Q.	SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY
20		FOR GENERAL PRICE LEVEL ADJUSTMENT.
21	A.	For water operations, I recommended disallowance of the entire general price level

<sup>&</sup>lt;sup>19</sup> York Water Statement No. 3-R, p. 4.

1	adjustment of \$1,383,543 (\$360,236 + \$1,023,307) claimed in the FTY and
2	FPFTY for unadjusted total O&M expense claims. <sup>20</sup>
3	For wastewater operations, I recommended disallowance of the entire
4	general price level adjustment of \$404,886 (\$106,523 + \$298,363) claimed in the
5	FTY and FPFTY for unadjusted total O&M expense claims. <sup>21</sup>
6	These recommendations were based on the Company's failure to support its
7	claim by relying on an unsupported general price level adjustment, the fact that
8	application of a general price level adjustment to the FTY and FPFTY total
9	unadjusted O&M expense claims is unreasonable and unsupported when there are
10	several categories of expenses (that may include sub-categories of expenses)
11	within the main expense category, and the application of blanket inflation rates of
12	6.40% across the unadjusted expenses in all cost elements of unadjusted total
13	O&M expenses which is inappropriate and unreasonably overstates the expense
14	claims and inappropriately impacts customers' rates. I provided further support
15	for the removal of the general price level adjustments citing two recent rate case
16	decisions in my direct testimony. <sup>22</sup>
17	

#### **DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?** 18 **Q**.

19 A. Yes. York Water witness Matthew Poff disagrees with my recommendation.

<sup>&</sup>lt;sup>20</sup> I&E Statement No. 1, p. 16.

<sup>21</sup> 

I&E Statement No. 1, p. 17. I&E Statement No. 1, pp. 17-19. 22

1

#### 0. SUMMARIZE MR. POFF'S RESPONSE.

2 Mr. Poff states that the Company has not based its ratemaking claims for O&M A. 3 expenses upon a budget, but rather uses a build-up approach starting with its HTY 4 actual expenses. The proposed adjustment, he opines, is not a blanket generalized 5 inflation adjustment, but reflects the anticipated effects of inflation only on 6 operating expenses not specifically adjusted in the rate case filing. In addition, he 7 states, the adjustment is consistent with adjustments made in prior cases and is 8 conservative based on current economic conditions. He then provides a 2002 9 Philadelphia Suburban Water Co. case as support stating the Commission accepted the utility's general inflation adjustment in that proceeding.<sup>23</sup> 10

11 He further supports the general inflation adjustment citing the Company has 12 proposed a lower rate than the rate that historical expenses have grown, such as 13 operating materials and supplies, operating outside services, and wastewater 14 purchased treatment expense. Following this, he asserts that my recommendation 15 does not take into consideration any historical data or present economic conditions 16 and that I fail to mention recent actual inflation rates or projected future inflation rates.<sup>24</sup> 17

18 Additionally, Mr. Poff opines that my recommendation creates divergent 19 precedent to the Company's 1992 base rate case regarding the Company's general price level adjustment for these types of expenses. Finally, he infers that the cases

20

<sup>23</sup> York Water Statement No. 3-R, pp. 16-17.

<sup>24</sup> York Water Statement No. 3-R, pp. 17-18.

1		cited as support to my recommendation do not illustrate the Commission's
2		disapproval of blanket inflation adjustments. <sup>25</sup>
3		
4	Q.	WHAT IS YOUR RESPONSE TO MR. POFF'S ASSERTIONS?
5	A.	As shown in my direct testimony, there are recent Commission decisions that
6		support my recommendation to disallow the Company's claim for a blanket
7		inflation increase including in Aqua Pennsylvania's 2021 base rate case
8		Commission statements such as:
9 10 11 12		Apply[ing] a general inflation adjustment to a block of expenses could incentivize less accurate tracking of expenses and a less rigorous approach to controlling costs for those expenses." <sup>26</sup>
13		The referenced 2019 Wellsboro Electric Company base rate case <sup>27</sup> and 2021 Aqua
14		Pennsylvania base rate case <sup>28</sup> demonstrate recent historic precedent based on the
15		respective companies failing to meet their burden to demonstrate the claims would
16		meet the "known and measurable" standard, which York Water has also failed to
17		do.
18		
19	Q.	DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR
20		THE GENERAL PRICE LEVEL ADJUSTMENT?

21 A. No. Considering the Commission's Orders, the Company did not meet its burden

<sup>&</sup>lt;sup>25</sup> York Water Statement No. 3-R, pp. 16-18.

<sup>&</sup>lt;sup>26</sup> I&E Statement No. 1, pp. 19-20 and Pa. PUC v. Aqua Pennsylvania, Inc. at Docket No. R-2021-3027385 (Order entered April 29, 2020), p. 40.

<sup>&</sup>lt;sup>27</sup> Pa. PUC v. Wellsboro Electric Company at Docket No. R-2019-3008208 (Order entered April 29, 2020).

<sup>&</sup>lt;sup>28</sup> Pa. PUC v. Aqua Pennsylvania, Inc. at Docket No. R-2021-3027385 (Order entered on May 16, 2022).

1		in demonstrating that its proposed blanket inflation adjustment to all line items of
2		expenses contained in the service company other costs claim would meet the
3		"known and measurable" standard for increasing each expense line item in the
4		FTY and FPFTY expense claims. Therefore, I continue to recommend a
5		disallowance of the entire general price level adjustment of \$1,383,543 for water
6		operations and \$404,886 for wastewater operations.
7		
8	<u>STA</u>	TE INCOME TAX EXPENSE
9	Q.	SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY
10		FOR STATE INCOME TAX EXPENSE.
11	A.	I recommended an allowance of \$369,185 or a reduction of \$826,990 (\$1,196,175
12		- \$369,185) to the Company's claim for water operations. Additionally, I
13		recommend an allowance of \$59,403 or a reduction of \$76,690 (\$136,093 -
14		\$59,403) to the Company's claim for wastewater operations. These
15		recommendations were based on a weighted Pennsylvania income tax rate of
16		8.91% due to the recent enactment of Act 53 of 2022. <sup>29</sup>
17		
18	Q.	DID ANY WITNESS ADDRESS YOUR RECOMMENDATION?

19 A. Yes. York Water witness Matthew Poff disagrees with my recommendation.

<sup>&</sup>lt;sup>29</sup> I&E Statement No. 1, pp. 20-22.

1 Q. SUMMARIZE MR. POFF'S RESPONSE.

2	A.	Mr. Poff states the Company recognizes the changes to the Pennsylvania income
3		rate adopted on July 8, 2022, and that the new corporate income tax rates should
4		be applied. Therefore, he asserts the Company will modify their claim to reflect
5		the 2023 income tax rate change to 8.99% while recognizing this does not
6		incorporate the decrease to 8.49% for the final two months of the FPFTY. He
7		further states that the Company proposes to use the State Tax Adjustment
8		Surcharge (STAS) mechanism to account for the decrease through 2031. Mr. Poff
9		opines this will allow alignment of the STAS with the change after the end of the
10		FPFTY. <sup>30</sup>
11		
12	Q.	DO YOU ACCEPT MR. POFF'S UPDATED STATE INCOME TAX
13		EXPENSE CLAIM?
14	A.	Yes. I acknowledge the benefit of simplicity suggested by the Company, <sup>31</sup> and
15		recognize that the difference between the Company's rebuttal position and my
16		recommendation in direct testimony is immaterial.
17		
18	Q.	HOW HAS THIS CHANGE BEEN REFLECTED IN I&E'S OVERALL
19		<b>REVENUE REQUIREMENT RECOMMENDATION?</b>
20	A.	I have accepted the Company's modification to its base rate case position using the

<sup>30</sup> 

York Water Statement No. 3-R, p. 19. York Water Statement No. 3-R, pp. 19-20. 31

1		income tax rate of 8.99% that will go into effect in 2023. This change is reflected
2		in my recommended revenue requirement in Table 1A for water operations and
3		Table 1B for wastewater operations above <sup>32</sup> and incorporates the state income tax
4		effect of my other recommended adjustments and those of I&E witness
5		Christopher Keller. <sup>33</sup>
6		
7	<u>CAS</u>	H WORKING CAPITAL
8	Q.	SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY
9		FOR CWC.
10	A.	I recommended an allowance of \$2,928,071 or a reduction of \$142,886
11		(\$3,070,957 - \$2,928,071) to the Company's claim. <sup>34</sup> My recommendation
12		included modification of the Company's claim based on my recommended
13		adjustments to O&M expenses as discussed in I&E's direct testimony.
14		
15	Q.	DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?
16	А.	Yes. York Water witness Matthew Poff disagrees with my CWC recommendation
17		based on the Company's disagreement with my recommended adjustments to
18		individual O&M expenses.

I&E Statement No. 1-SR, pp. 5-6. I&E Statement No. 2. I&E Statement No. 1, p. 23. 32

<sup>33</sup> 

<sup>34</sup> 

1	Q.	WHAT IS THE COMPANY'S UPDATED CWC CLAIM?
2	A.	York Water updated its FPFTY CWC claim from \$3,070,957 to \$2,994,755. <sup>35</sup>
3		
4	Q.	DO YOU AGREE WITH THE COMPANY'S UPDATED CWC CLAIM?
5	A.	No. However, I have an update to my recommendation for CWC based on the
6		changes described above to my O&M expense recommendations. As stated in my
7		direct testimony, all O&M adjustments that are cash-based expense claims are
8		included in determining the Company's overall CWC requirement. Therefore,
9		CWC was adjusted to reflect these recommended adjustments. To reflect my
10		recommended adjustments, I modified the Company's electronic CWC file as
11		shown on York Water Exhibit No. FV-8, p. 2 and York Water Exhibit No. FV-8-1,
12		p. 3. <sup>36</sup>
13		
14	Q.	DO YOU AGREE WITH THE COMPANY'S CLAIM?
15	A.	No. I disagree with the Company's CWC claim in as much as I disagree with the
16		O&M expense claims as discussed above.
17		
18	Q.	WHAT IS YOUR RECOMMENDED ALLOWANCE FOR CWC?
19	A.	I recommend an allowance of \$2,861,089 <sup>37</sup> or a reduction of \$133,666
20		(\$2,994,755 - \$2,861,089) to the Company's claim.

York Water Exhibit No. MEP-1R, p. 4. I&E Exhibit No. 1-SR, Schedule 1, pp. 1-3. I&E Exhibit No. 1-SR, Schedule 1, p. 1. 

1	Q.	WHAT IS THE BASIS FOR YOUR RECOMMENDATION?
2	A.	My recommendation includes modification of the Company's claim based on my
3		recommended adjustments to O&M expenses as discussed previously in this
4		testimony as explained below.
5		
6	Q.	HOW DO YOUR PROPOSED ADJUSTMENTS, DISCUSSED ABOVE,
7		IMPACT YOUR RECOMMENDATION FOR CWC?
8	A.	All O&M adjustments that are cash-based expense claims are included in
9		determining the Company's overall CWC requirement. Therefore, CWC was
10		adjusted to reflect these recommended adjustments. To reflect my recommended
11		adjustments, I modified the Company's electronic CWC file as shown on York
12		Water Exhibit No. FV-8, p. 2 and York Water Exhibit No. FV-8-1, p. 3.38
13		
14	Q.	SUMMARIZE WHERE EACH OF THE I&E RECOMMENDED O&M
15		EXPENSE ADJUSTMENTS ARE REFLECTED IN THE CWC
16		COMPUTATION.
17	A.	Expense Lag Days – Other Goods and Services:
18		I recommended an expense adjustment of \$1,383,543 in the Expense Lag – Other
19		Goods and Services, which is reflected as a reduction to the Other Goods and

<sup>&</sup>lt;sup>38</sup> I&E Exhibit No. 1-SR, Schedule 1, pp. 1-3.

1	Services (b) line of the	Company's Exhibit I	No. FV-8-1, p. 3 as shown in I&E
---	--------------------------	---------------------	----------------------------------

## 2 modified Exhibit No. FV-8-1, p. 3.<sup>39</sup>

		Other Expenses	Reduction		
		General Price Level Adjustment	<u>\$1,383,543</u>		
		Total	<u>\$1,383,543</u>		
3					
4					
5	Q.	BASED ON THE ABOVE TESTIMONY, WHAT IS YOUR UPDATED			
6		<b>RECOMMENDED ALLOWANCE FOR CWC?</b>			
7	А.	Based on reflecting the recommended adjustments as discussed above, my updated			
8		recommendation for CWC is an allowance of \$2,861,089, or a reduction of			
9		\$133,666 (\$2,994,755 - \$2,861,089) to the Company's updated claim.			
10					
11	Q.	DOES YOUR RECOMMENDED ALLOWANCE REPRE	SENT A FINAL		
12		<b>RECOMMENDED ALLOWANCE FOR CWC?</b>			
13	A.	No. All adjustments to the Company's claims for revenues, ex	penses, taxes, and		
14		rate base must be consistently brought together in the Adminis	strative Law Judge's		
15		Recommended Decision and again in the Commission's Final	Order. This		
16		process, which is known as iteration, effectively prevents the c	letermination of a		
17		precise calculation until such time as all adjustments have been	n made to the		
18		Company's claim.			

<sup>&</sup>lt;sup>39</sup> I&E Exhibit No. 1-SR, Schedule 1, p. 2.

## 1 COVID-19 RELATED EXPENSES

# Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR COVID-19 RELATED EXPENSES.

- 4 A. I recommended the Company should not be allowed to make any future claims for
- 5 COVID-19 related uncollectible accounts expense or other COVID-19 related
- 6 incremental expenses in future proceedings. The Company has made no claim in
- 7 this proceeding for COVID-19 related deferrals, and any COVID-19 related
- 8 expenses for the FPFTY should already be included in routine expense accounts
- 9 and thus not require future requests for deferral treatment.<sup>40</sup>
- 10

## 11 Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?

- 12 A. Yes. York Water witness Matthew Poff disagrees with my recommendation.
- 13

## 14 Q. SUMMARIZE MR. POFF'S RESPONSE.

- 15 A. Mr. Poff states that while the Company did not incur COVID-19 related expenses
- 16 necessary for deferral treatment since 2020, it cannot rule out that it will not incur
- 17 COVID-19 related expenses in the future and that the Company wishes to reserve
- 18 the right to make future claims for COVID-19 related expenses in future
- 19 proceedings should the need arise.<sup>41</sup>

<sup>&</sup>lt;sup>40</sup> I&E Statement No. 1, pp. 26-27.

<sup>&</sup>lt;sup>41</sup> York Water Statement No. 3-R, p. 22.

1	Q.	DO YOU AGREE WITH MR. POFF'S ASSERTIONS?
2	A.	No.
3		
4	Q.	DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?
5	A.	No. However, I have a clarification to my recommendation. I continue to
6		recommend the Company should not be allowed to make any future claims for
7		COVID-19 related uncollectible accounts expense or other COVID-19 related
8		incremental expenses in future proceedings. The exception would be that any
9		future claim for similar costs should be based on Commission action occurring
10		after the effective date of the new rates in the instant proceeding.
11		
12	Q.	DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

13 A. Yes.

## PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

THE YORK WATER COMPANY

Docket No. R-2022-3031340 (Water) & Docket No. R-2022-3032806 (Wastewater)

**Exhibit to Accompany** 

the

**Surrebuttal Testimony** 

of

Zachari Walker

**Bureau of Investigation and Enforcement** 

**Concerning:** 

**OPERATING AND MAINTENANCE EXPENSES** 

STATE INCOME TAX EXPENSE

**CASH WORKING CAPITAL** 

## I&E MODIFIED Exhibit No. FV-8 Page 2 of 2

## THE YORK WATER COMPANY DATA REQUIREMENTS OF THE PENNSYLVANIA PUBLIC UTILITY COMMISSION CASH WORKING CAPITAL REQUIREMENT FOR TWELVE MONTHS ENDING FEBRUARY 29, 2024

- 53.53 V. Valuation
- D. Water and Wastewater Utilities
- 8. Supply an exhibit supporting the claim for cash working capital requirement based on the lead-lag method.

Description (1)	Amount (2)
Pro Forma Operating Expenses and Taxes Less Uncollectible Accounts and Amortized Expense	es 23,052,403
Average DailyOperating Expenses 23,052,403 / 365	63,157
Cash Working Capital Requirement 63,157 x 54.5 days	3,443,465
Prepaid PUC, OCA, SBA and DPC Assessments	163,435
Builders Deposits and Water Revenues Paid In Advance	(263,818)
Interest Adjustment	(481,993)
Cash Working Capital	2,861,089

Page 3 of 4

## THE YORK WATER COMPANY DATA REQUIREMENTS OF THE PENNSYLVANIA PUBLIC UTILITY COMMISSION CASH WORKING CAPITAL REQUIREMENT LAG RELATIONSHIP BETWEEN OPERATING REVENUES AND OPERATING EXPENSES AND TAXES FOR TWELVE MONTHS ENDING FEBRUARY 29, 2024

Item (1)	Amount (2)	Number of Days Lag (3)	Dollar Days (4)=(2)*(3)	Weighted Average Lag Days (5)
Pro Forma Operating Revenues Under Existing Rates (Sales of Water)				
Metered Repumped Residential Metered Gravity Residential Metered Repumped Commercial	24,687,304 9,781,992 6,957,041	53.7 52.5 53.7	513,923,951 373,913,784	
Metered Gravity Commercial Metered Repumped Industrial Metered Gravity Industrial Private Fire Service	3,610,022 3,223,353 851,750 2,019,336	52.5 53.7 52.5 53.7	173,242,655 44,749,062	
Public Fire Service	1,392,525	52.5		
Total Pro Forma Sales of Water	52,523,324		2,804,029,684	
Revenue Weighted Average Lag Days in Receipt of Revenues				53.4
Pro Forma Operating Expenses and Taxes Under Existing Rates Less Bad Debts and Amortized Expenses				
Payroll (a) Payroll (Payroll Tax Withholding) (c)	9,281,039 778,883	7.0 13.7		
Power Purchased (b) Insurance (b) Other Goods and	1,171,058 3,054,688	26.6 -74.3	31,199,859	)
Services (b) Payroll Taxes (c) Other Taxes (d) Income Taxes (e)	<b>7,412,854</b> 726,262 627,618	18.1 13.7 -80.5 29.6	9,971,184	,
Total Pro Forma Operating Expenses and Taxes Less Bad Debts and Amortized Expenses	23,052,403	I	(26,180,596)	,
Expense Weighted Average Lag Days in Payment of Expenses				-1.1

I&E MODIFIED Exhibit No. FV-8-1 Page 3 of 4

THE YORK WATER COMPANY DATA REQUIREMENTS OF THE PENNSYLVANIA PUBLIC UTILITY COMMISSION CASH WORKING CAPITAL REQUIREMENT LAG RELATIONSHIP BETWEEN OPERATING REVENUES AND OPERATING EXPENSES AND TAXES FOR TWELVE MONTHS ENDING FEBRUARY 29, 2024

		Number of	Dollar	Weighted Average
Item	Amount	Days Lag	Days	Lag Days
(1)	(2)	(3)	(4)=(2)*(3)	(5)

Net Lag Days (Difference Between Weighted Average Lag Days in Receipt of Revenues and Weighted Average Lag Days in Payment of Expenses)

54.5

7.0 days lag

- (a) Midpoint of payroll period to payday
- (b) Based on an analysis of invoices paid during the period January 1, 2021 through December 31, 2021 (Refer to Exhibit Nos. FV-8-1(a), FV-8-1(b) and FV-8-1(c).
- (c) Based on an analysis of invoices paid during the period January 1, 2021 through December 31, 2021 (Refer to Exhibit Nos.FV-8-1(d).
- (d) Based on an analysis of invoices paid during the period January 1, 2021 through December 31, 2021 (Refer to Exhibit Nos. FV-8-1(e).
- (e) Based on an analysis of invoices paid during the period January 1, 2021 through December 31, 2021 (Refer to Exhibit Nos. FV-8-1(f).

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:		
V.	:	Docket No.:	R-2022-3031340
The York Water Company – Water	:		
Pennsylvania Public Utility Commission v.	: :	Docket No.:	R-2022-3032806
The York Water Company – Wastewater	:		

#### **VERIFICATION OF ZACHARI WALKER**

I, Zachari Walker, on behalf of the Bureau of Investigation and Enforcement, hereby verify that I&E Statement No. 1, I&E Exhibit No. 1, I&E Statement No. 1-SR, and I&E Exhibit No. 1-SR were prepared by me or under my direct supervision and control.

Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same if called to the stand at any evidentiary hearing held in this matter.

This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

Signed in Harrisburg, Pennsylvania, this 29th day of September, 2022.

<u>Zachari Walker</u>

Zachari Walker

#### PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

#### THE YORK WATER COMPANY

Docket No. R-2022-3031340 (Water) & Docket No. R-2022-3032806 (Wastewater)

**Direct Testimony** 

of

**Christopher Keller** 

**Bureau of Investigation & Enforcement** 

**Concerning:** 

**Rate of Return** 

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#### 1 INTRODUCTION

2	Q.	PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
3	A.	My name is Christopher Keller. My business address is Pennsylvania Public
4		Utility Commission, Commonwealth Keystone Building, 400 North Street,
5		Harrisburg, PA 17120.
6		
7	Q.	BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?
8	A.	I am employed by the Pennsylvania Public Utility Commission (Commission) in
9		the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial
10		Analyst.
11		
12	Q.	WHAT IS YOUR EDUCATION AND EMPLOYMENT BACKGROUND?
13	A.	An outline of my education and employment history is attached as Appendix A.
14		
15	Q.	PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.
16	A.	I&E is responsible for protecting the public interest in proceedings before the
17		Commission. I&E's analysis in this proceeding is based on its responsibility to
18		represent the public interest. This responsibility requires balancing the interests of
19		ratepayers, the regulated utility, and the regulated community as a whole.
20		
21	Q.	WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?
22	А.	The purpose of my testimony is to review the base rate filing of The York Water

1		Company (York Water or Company) and make recommendations regarding the
2		Company's rate of return, including capital structure, cost of long-term debt, the
3		cost of equity, and the overall fair rate of return for the fully projected future test
4		year (FPFTY) ending February 29, 2024.
5		
6	Q.	DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?
7	A.	Yes. I&E Exhibit No. 2 contains schedules that support my direct testimony.
8		
9	BAC	CKGROUND
10	Q.	WHAT IS THE GENERAL DEFINITION OF RATE OF RETURN IN THE
11		CONTEXT OF A BASE RATE CASE?
12	A.	Rate of return is one of the components of the revenue requirement formula. Rate
13		of return is the amount of revenue an investment generates in the form of net
14		income and is usually expressed as a percentage of the amount of capital invested
15		over a given period of time.
16		
17	Q.	WHAT IS THE REVENUE REQUIREMENT FORMULA?
18	А.	The revenue requirement formula used in base rate cases is as follows:
19		$RR = E + D + T + (RB \times ROR)$
20		Where:
21		RR = Revenue Requirement
22		E = Operating Expenses
23		D = Depreciation Expense

1		T = Taxes
2		RB = Rate Base
3		ROR = Overall Rate of Return
4		In the above formula, the rate of return is expressed as a percentage. The
5		calculation of that percentage is independent of the determination of the
6		appropriate rate base value for ratemaking purposes. As such, the appropriate total
7		dollar return is dependent upon the proper computation of the rate of return and
8		the proper valuation of the Company's rate base.
9		
10	Q.	WHAT CONSTITUTES A FAIR AND REASONABLE OVERALL RATE
11		OF RETURN?
11 12	A.	<b>OF RETURN?</b> A fair and reasonable overall rate of return is one that will allow the utility an
	A.	
12	A.	A fair and reasonable overall rate of return is one that will allow the utility an
12 13	A.	A fair and reasonable overall rate of return is one that will allow the utility an opportunity to recover those costs prudently incurred by all classes of capital used
12 13 14	A.	A fair and reasonable overall rate of return is one that will allow the utility an opportunity to recover those costs prudently incurred by all classes of capital used to finance the rate base during the prospective period in which its rates will be in
12 13 14 15	A.	A fair and reasonable overall rate of return is one that will allow the utility an opportunity to recover those costs prudently incurred by all classes of capital used to finance the rate base during the prospective period in which its rates will be in effect.
12 13 14 15 16	A.	A fair and reasonable overall rate of return is one that will allow the utility an opportunity to recover those costs prudently incurred by all classes of capital used to finance the rate base during the prospective period in which its rates will be in effect. The <i>Bluefield Water Works &amp; Improvements Co. v. Public Service Comm.</i>
12 13 14 15 16 17	A.	A fair and reasonable overall rate of return is one that will allow the utility an opportunity to recover those costs prudently incurred by all classes of capital used to finance the rate base during the prospective period in which its rates will be in effect. The <i>Bluefield Water Works &amp; Improvements Co. v. Public Service Comm.</i> of West Virginia, 262 U.S. 679, 692-93 (1923), and the FPC v. Hope Natural Gas

1		1.	A utility is entitled to a return similar to that being earned by other
2			enterprises with corresponding risks and uncertainties, but not as high as
3			those earned by highly profitable or speculative ventures.
4		2.	A utility is entitled to a return level reasonably sufficient to assure financial
5			soundness.
6		3.	A utility is entitled to a return sufficient to maintain and support its credit
7			and raise necessary capital.
8		4.	A fair return can change (increase or decrease) along with economic
9			conditions and capital markets.
10			
11	Q.	EXP	LAIN HOW THE OVERALL RATE OF RETURN IS
12		TRA	DITIONALLY CALCULATED IN BASE RATE PROCEEDINGS.
12 13	A.		<b>DITIONALLY CALCULATED IN BASE RATE PROCEEDINGS.</b> se rate proceedings, the overall rate of return is traditionally calculated using
	A.	In ba	
13	A.	In ba the w	se rate proceedings, the overall rate of return is traditionally calculated using
13 14	A.	In ba the w cost o	se rate proceedings, the overall rate of return is traditionally calculated using veighted average cost of capital method. To calculate the weighted average
13 14 15	A.	In ba the w cost o comp	se rate proceedings, the overall rate of return is traditionally calculated using reighted average cost of capital method. To calculate the weighted average of capital, a company's capital structure must first be determined by
13 14 15 16	A.	In ba the w cost o comp rate b	se rate proceedings, the overall rate of return is traditionally calculated using veighted average cost of capital method. To calculate the weighted average of capital, a company's capital structure must first be determined by paring the percentage of each capitalization component, which has financed
13 14 15 16 17	A.	In ba the w cost o comp rate b comp	se rate proceedings, the overall rate of return is traditionally calculated using veighted average cost of capital method. To calculate the weighted average of capital, a company's capital structure must first be determined by paring the percentage of each capitalization component, which has financed base, to total capital. Next, the effective cost rate of each capital structure
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> </ol>	A.	In ba the w cost o comp rate b comp can b	se rate proceedings, the overall rate of return is traditionally calculated using reighted average cost of capital method. To calculate the weighted average of capital, a company's capital structure must first be determined by paring the percentage of each capitalization component, which has financed pase, to total capital. Next, the effective cost rate of each capital structure ponent must be determined. The historical component of the cost rate of debt
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> <li>19</li> </ol>	A.	In ba the w cost o comp rate b comp can b The o	se rate proceedings, the overall rate of return is traditionally calculated using veighted average cost of capital method. To calculate the weighted average of capital, a company's capital structure must first be determined by paring the percentage of each capitalization component, which has financed pase, to total capital. Next, the effective cost rate of each capital structure ponent must be determined. The historical component of the cost rate of debt percentage accurately, and any future debt issuances are based on estimates.

1		corresponding effective cost rate to determine the weighted capital component cost
2		rate. The I&E table in the "I&E Position" section below demonstrates the
3		interaction of each capital structure component and its corresponding effective
4		cost rate. Finally, the sum of the weighted cost rates produces the overall rate of
5		return. This overall rate of return is multiplied by the rate base to determine the
6		return portion of a company's revenue requirement.
7		
8	<u>CON</u>	IPANY'S RATE OF RETURN CLAIM
9	Q.	WHO IS THE COMPANY'S RATE OF RETURN WITNESS?
10	A.	York Water witness Paul R. Moul is the primary witness addressing rate of return
11		(York Water Statement No. 107). Mr. Moul provided analysis for the claimed
12		capital structures, long-term debt, and cost of common equity for York Water.
13		
14	Q.	PLEASE SUMMARIZE THE COMPANY'S RATE OF RETURN CLAIM.
15	A.	Mr. Moul recommended the following rate of return for the Company for water
16		and wastewater based on its FPFTY ending February 29, 2024 (York Water
17		Exhibit No. FVII, Schedule 1, p. 1):

Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	45.23%	3.91%	1.77%
Common Equity	<u>54.77%</u>	11.25%	<u>6.16%</u>
Total	<u>100.00%</u>		<u>7.93%</u>

### Q. IS MR. MOUL UNCLEAR ABOUT THE WASTEWATER OPERATIONS CLAIM?

3	A.	Yes. Other than his reference to wastewater utilizing the same proxy group as
4		water, Mr. Moul does not specifically address wastewater nor identify the
5		wastewater docket number in his provided testimony. However, in reviewing the
6		wastewater cost of service study at proposed rates (York Water Exhibit No. FVIII-
7		WA, Schedule C), the rate of return utilized is the same as water operations, so I
8		am assuming that it was Mr. Moul's intent to recommend the same return on
9		equity, debt costs, and rate of return for wastewater that he provided in the
10		referenced water operations testimony.

11

#### 12 I&E POSITION

#### 13 Q. PLEASE SUMMARIZE YOUR RATE OF RETURN

#### 14 **RECOMMENDATION.**

15 A. I recommend the following rate of return for the Company (I&E Exhibit No. 2,

#### 16 Schedule 1):

Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	45.23%	3.91%	1.77%
Common Equity	<u>54.77%</u>	8.59%	4.70%
Total	<u>100.00%</u>		<u>6.47%</u>

#### 1 PROXY GROUP

2	Q.	WHAT IS A PROXY GROUP AS USED IN BASE RATE CASES?
3	A.	A proxy group is a set of companies that have similar traits of risk in comparison
4		to the subject utility. This group of companies acts as a benchmark for
5		determining the subject utility's rate of return in a base rate case.
6		
7	Q.	WHAT ARE THE REASONS FOR USING A PROXY GROUP?
8	A.	A proxy group's cost of equity is used as a benchmark to satisfy the long-
9		established guideline of utility regulation that seeks to provide the subject utility
10		with the opportunity to earn a return similar to that of enterprises with
11		corresponding risks and uncertainties.
12		A proxy group is typically utilized since the use of data exclusively from
13		one company may be less reliable. The lower reliability occurs because the data
14		for one company may be subject to events that can cause short-term anomalies in
15		the marketplace. The rate of return on common equity for a single company could
16		become distorted in these circumstances and would therefore not be representative
17		of similarly situated companies. Therefore, a proxy group has the effect of
18		smoothing out potential anomalies associated with a single company.

1	Q.	DO ANY OF THE CRITERIA YOU USE IN SELECTING YOUR PROXY
2		GROUP REQUIRE THAT THE COMPANIES SELECTED ARE
3		WASTEWATER UTILITIES?
4	A.	No. Few, if any, publicly held 'wastewater only' utilities exist because most water
5		companies have diversified their business to include wastewater operations.
6		Accordingly, this type of criterion produces an insufficient sample of companies
7		for my proxy group, adversely affecting the calculation of a fair cost of equity for
8		the subject utility. Additionally, as listed as one of my criteria below, Value Line
9		does not specifically cover the wastewater industry. Therefore, as is common
10		practice for wastewater utility cost of equity analyses, my proxy group consists of
11		regulated water utility companies.
12		
13	Q.	WHAT CRITERIA DID YOU USE IN SELECTING YOUR WATER
14		INDUSTRY PROXY GROUP?
15	A.	The criteria for my proxy group was designed to select companies that are
16		representative of York Water. I applied the following criteria to Value Line's
17		Water Utility company group:
18		1. Fifty percent or more of the company's revenues must be generated from
19		the regulated water utility industry.
20		2. The company's stock must be publicly traded.
21		3. Investment information for the company must be available from more than
22		one source, which includes Value Line.

1		4. The company must not be currently involved/targeted in an announced
2		material merger or acquisition.
3		5. The company must have four consecutive years of historic earnings data.
4		
5	Q.	WHAT CRITERIA DID MR. MOUL USE IN SELECTING HIS WATER
6		PROXY GROUP COMPANIES?
7	A.	Mr. Moul used the following criteria to screen utility companies for his proxy
8		group (York Water Statement No. 107. p. 11, lines 20-25):
9		1. The company must be listed in the 'Water Utility Industry' section (basic
10		and expanded) of the Value Line Investment Survey; and
11		2. The company's stock must be publicly traded.
12		

#### 13 Q. WHAT PROXY GROUP DID YOU USE IN YOUR ANALYSIS?

#### 14 A. I included the following seven companies in my proxy group:

American Water Works	AWK
American States Water Co.	AWR
California Water Services Group	CWT
Middlesex Water Co.	MSEX
SJW Group	SJW
Essential Utilities	WTRG
York Water Company	YORW

Q. WHAT PROXY GROUP DID MR. MOUL USE IN HIS ANALYSIS?

- 2 A. Mr. Moul utilized the following eight companies in his Water Group (York Water
- 3 Exhibit No. FVII, Schedule 3, p. 2):

Artesian Resources Corp.	ARTNA
American Water Works	AWK
American States Water Co.	AWR
California Water Services Group	CWT
Middlesex Water Co.	MSEX
SJW Group	SJW
Essential Utilities	WTRG
York Water Company	YORW

4

5

#### 6 Q. DO YOU AGREE WITH MR. MOUL'S WATER PROXY GROUP?

- 7 A. Not entirely. While Mr. Moul's Water Group included all seven of the companies
- 8 in my proxy group, I have excluded one of the companies he uses.
- 9

# Q. PLEASE LIST THE COMPANY MR. MOUL HAS INCLUDED THAT YOU DO NOT AND EXPLAIN WHY YOU HAVE EXCLUDED THEM FROM YOUR PROXY GROUP.

13 A. The company Mr. Moul included in his Water Group that I have excluded from

- 14 my proxy group is Artesian Resources Corporation. I excluded Artesian
- 15 Resources Corporation because no Value Line report was available for this
- 16 company; therefore, I could not measure its growth forecast and projected
- 17 dividend yield.

#### 1 <u>CAPITAL STRUCTURE</u>

2	Q.	WHAT IS A CAPITAL STRUCTURE?
3	А.	A capital structure represents how a firm has financed its rate base with different
4		sources of funds. The primary funding sources are long-term debt and common
5		equity. A capital structure may also include preferred stock and/or short-term
6		debt.
7		
8	Q.	WHAT IS THE COMPANY'S CLAIMED CAPITAL STRUCTURE?
9	A.	The Company's claimed capital structure is summarized in the table below (York
10		Water Statement No. 107, p. 2, line 4 and York Water Exhibit No. FVII,
11		Schedule 1, p. 1):

Type of Capital	Ratio
Long-Term Debt	45.23%
Common Equity	<u>54.77%</u>
Total	100.00%

- 12
- 13

#### 14 Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIMED CAPITAL

15 **STRUCTURE?** 

16 A. Mr. Moul stated that these capital structure ratios are the best approximation of the

- 17 mix of capital the Company will employ to finance its rate base during the period
- 18 that new rates are in effect (York Water Statement No. 107, p. 18, lines 19-21).

I	Q.	WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S
2		CAPITAL STRUCTURE?
3	A.	I recommend using the Company's claimed capital structure as presented in the
4		table above.
5		
6	Q.	WHAT IS THE BASIS FOR YOUR CAPITAL STRUCTURE
7		<b>RECOMMENDATION?</b>
8	A.	Although I believe a capital structure of 50% long-term debt and 50% common
9		equity is optimal when trying to balance the financial integrity of a utility as well
10		as trying to control costs to ratepayers, in this proceeding, I recommend using the
11		Company's claimed capital structure as it falls within the range of my proxy
12		group's capital structures over the past five years. The average capital structure of
13		my proxy group for the past five years consists of long-term debt ratios ranging
14		from 41.50% to 57.60% and equity ratios ranging from 42.40% to 58.05%, with a
15		five-year average of 48.08% for long-term debt and 51.85% for common equity
16		(I&E Exhibit No. 2, Schedule 2).
17		
18	Q.	WHAT IS THE COST SAVINGS TO RATEPAYERS IF THE COMPANY
19		WERE TO EMPLOY A 50/50 CAPITAL STRUCTURE COMPARED TO
20		THE COMPANY'S FILED CAPITAL STRUCTURE?
21	A.	The example below shows the cost savings to ratepayers if the Company were to

a

- 1 employ a 50% long-term debt and 50% common equity capital structure in its cost
- 2 of capital while maintaining its claimed return on equity and rate base:

		Water Company apital Structure	
Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	45.23%	3.91%	1.77%
Common Equity	54.77%	11.25%	6.16%
Total	100.00%		7.93%
		l Capital Struct	
Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	50.00%	3.91%	1.96%
Common Equity	<u>50.00%</u>	11.25%	<u>5.63%</u>
Total	<u>100.00%</u>		<u>7.59%</u>
Claimed Rate Base	*		\$350,621,590
Impact Prior to Gro (0.0034 x \$350,621		nversion Factor	\$1,192,113
Gross Revenue Conversion Factor**			1.41366456
Total Impact			\$1,685,248
1.41366456 x \$1,19	92,113		
*(York Water Exhi **(I&E Exhibit No			

In this example, if the Company were to employ a 50/50 capital structure,
the cost savings to ratepayers would be \$1,685,248. While I understand achieving
and maintaining an exact 50/50 capital structure is not truly feasible, this example
is intended to demonstrate York Water's financial security as compared to its

1		peers and show that Mr. Moul's various "add-ons" to his cost of equity
2		calculations are unnecessary.
3		
4	COS	T OF LONG-TERM DEBT
5	Q.	WHAT IS THE COMPANY'S CLAIMED COST RATE OF LONG-TERM
6		DEBT?
7	A.	The Company's claimed long-term debt cost rate is 3.91% for the FPFTY (York
8		Water Statement No. 107, p. 19, line 14).
9		
10	Q.	WHAT IS YOUR RECOMMENDATION REGARDING THE
11		COMPANY'S COST RATE OF LONG-TERM DEBT?
12	A.	I recommend using the Company's long-term debt cost rate of 3.91%.
13		
14	Q.	WHAT IS THE BASIS FOR YOUR RECOMMENDATION TO USE THE
15		COMPANY'S COST RATE OF LONG-TERM DEBT?
16	A.	The Company's cost rate of long-term debt is reasonable, as it is representative of
17		the industry. It falls within my proxy group's implied long-term debt cost range of
18		2.61% to $4.21%$ , with an average implied long-term debt cost of $3.67%$ (I&E
19		Exhibit No. 2, Schedule 4). Therefore, I recommend the Company's cost rate of
20		long-term debt be used.

#### 1 COST OF COMMON EQUITY

#### 2 <u>COMMON METHODS</u>

3	Q.	WHAT METHODS ARE COMMONLY PRESENTED BY UTILITIES IN
4		DETERMINING THE COST OF COMMON EQUITY?

A. Four methods commonly presented to estimate the cost of common equity are the
Discounted Cash Flow (DCF), the Capital Asset Pricing Model (CAPM), the Risk
Premium (RP) Method, and the Comparable Earnings (CE) Method.

8

#### 9 Q. WHAT IS THE THEORETICAL BASIS FOR THE DCF METHOD?

10 A. The DCF method is the "dividend discount model" of financial theory, which 11 maintains that the value (price) of any security or commodity is the discounted 12 present value of all future cash flows. The DCF method assumes that investors 13 evaluate stocks in the classical economic framework, which maintains that the 14 value of a financial asset is determined by its earning power, or its ability to 15 generate future cash flows.

16

#### 17 Q. WHAT IS THE THEORETICAL BASIS FOR THE CAPM?

18 A. The CAPM describes the relationship of a stock's investment risk and its market

- 19 rate of return. It identifies the rate of return investors expect so that it is
- 20 comparable with returns of other stocks of similar risk. This method hypothesizes
- 21 that the investor-required return on a company's stock is equal to the return on a
- 22 "risk free" asset plus an equity premium reflecting the company's investment risk.

1		In the CAPM, two types of risk are associated with a stock: (1) firm-specific risk
2		(unsystematic risk); and (2) market risk (systematic risk), which is measured by a
3		firm's beta. The CAPM allows for investors to receive a return only for bearing
4		systematic risk. Unsystematic risk is assumed to be diversified away, and
5		therefore, does not earn a return.
6		
7	Q.	WHAT IS THE THEORETICAL BASIS FOR THE RP METHOD?
8	А.	The theoretical basis for the RP method is a simplified version of the CAPM. The
9		RP method's theory is that common stock is riskier than debt and, thus, investors
10		require a higher expected return on stocks than bonds. In the RP approach, the
11		cost of equity is made up of the cost of debt and a risk premium. While the
12		CAPM uses the market risk premium, it also directly measures the systematic risk
13		of a company group through the use of beta. The RP method does not measure the
14		specific risk of a company.
15		
16	Q.	WHAT IS THE THEORETICAL BASIS FOR THE CE METHOD?
17	A.	The CE method utilizes the concept of "opportunity cost." This means that
18		investors will likely dedicate their capital to the investment offering the highest
19		return with similar risk to alternative investments. Unlike the DCF, CAPM, and
20		the RP methods, the CE method is not market-based and relies upon historic
21		accounting data. The most problematic issue with the CE method is determining
22		what constitutes comparable companies.

1	Q.	WHAT METHOD DO YOU RECOMMEND USING TO DETERMINE AN
2		APPROPRIATE COST OF COMMON EQUITY FOR YORK WATER?
3	А.	I recommend using the DCF method as the primary method to determine the cost
4		of common equity. I provide the results of my CAPM as a comparison, and not as
5		a check, to the DCF results. Although no one method can capture every factor that
6		influences an investor, including the results of methods that are less reliable than
7		the DCF does not make the end result more reliable or more accurate. My
8		recommendation is also consistent with the methodology historically used by the
9		Commission in base rate proceedings, even as recently as 2017, 2018, 2020, and
10		2021. <sup>1</sup>
11		
12	Q.	PLEASE EXPLAIN WHY YOU CHOSE TO USE THE DCF AS THE
13		PRIMARY METHOD IN YOUR ANALYSIS.
14	А.	I have used the DCF as the primary method for several reasons. First, the DCF is
15		appealing to investors as it is based upon the concept that the receipt of dividends
16		in addition to the expected appreciation is the total return requirement determined

17 by

by the market.<sup>2</sup> Second, the use of a growth rate and expected dividend yield are

Pa. PUC v. City of DuBois – Bureau of Water; Docket No. R-2016-2554150 (Order Entered March 28, 2017). See generally Disposition of Cost Rate Models, pp. 96-97; Pa. PUC v. UGI Utilities, Inc. – Electric Division; Docket No. R-2017-2640058 (Order Entered October 25, 2018). See generally Disposition of Cost of Common Equity, p. 119; Pa. PUC v. Wellsboro Electric Company; Docket No. R-2019-3008208 (Order Entered April 29, 2020). See generally Disposition of Primary Methodology to Determine ROE, pp. 80-81; Pa. PUC v. Citizens Electric Company of Lewisburg, PA; Docket No. R-2019-3008212 (Order Entered April 29, 2020). See generally Disposition of Cost of Common Equity, pp. 91-92. Pa. PUC v. Columbia Gas of Pennsylvania, Inc.; Docket No. R-2020-3018835 (Order Entered February 19, 2021). See generally Disposition of Cost of Common Equity, p. 131.

<sup>&</sup>lt;sup>2</sup> David C. Parcell, "The Cost of Capital – A Practitioner's Guide," 2010 Edition, p. 151.

1		also strengths of the DCF, as this recognizes the time value of money and is
2		forward-looking. Third, the use of the utilities' own, or in this case, the proxy
3		group's stock prices and growth rates directly in the calculation also causes the
4		DCF to be industry and company specific. Finally, the DCF, through the use of a
5		spot stock price when determining the dividend yield and analysts who generate
6		forecasted earnings growth rates, almost certainly takes current inflationary trends
7		into consideration, therefore, it contains the most up-to-date projected information
8		of any model. Therefore, the DCF method is the superior method for determining
9		the rate of return for the current economic market because it measures the cost of
10		equity directly.
11		
12	Q.	PLEASE EXPLAIN WHY YOU CHOSE TO USE THE CAPM AS A
12 13	Q.	PLEASE EXPLAIN WHY YOU CHOSE TO USE THE CAPM AS A COMPARISON IN YOUR ANALYSIS.
	<b>Q.</b> A.	
13		COMPARISON IN YOUR ANALYSIS.
13 14		<b>COMPARISON IN YOUR ANALYSIS.</b> I have included a CAPM analysis only as a comparison and not as a
13 14 15		<b>COMPARISON IN YOUR ANALYSIS.</b> I have included a CAPM analysis only as a comparison and not as a recommendation because while both the CAPM and the DCF include inputs that
13 14 15 16		COMPARISON IN YOUR ANALYSIS. I have included a CAPM analysis only as a comparison and not as a recommendation because while both the CAPM and the DCF include inputs that allow the results to be specific to the utility industry, the CAPM is far less
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> </ol>		COMPARISON IN YOUR ANALYSIS. I have included a CAPM analysis only as a comparison and not as a recommendation because while both the CAPM and the DCF include inputs that allow the results to be specific to the utility industry, the CAPM is far less responsive to changes in the industry than the DCF. The CAPM is based on the
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> </ol>		COMPARISON IN YOUR ANALYSIS. I have included a CAPM analysis only as a comparison and not as a recommendation because while both the CAPM and the DCF include inputs that allow the results to be specific to the utility industry, the CAPM is far less responsive to changes in the industry than the DCF. The CAPM is based on the performance of U.S. Treasury bonds and the performance of the market as
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> <li>19</li> </ol>		COMPARISON IN YOUR ANALYSIS. I have included a CAPM analysis only as a comparison and not as a recommendation because while both the CAPM and the DCF include inputs that allow the results to be specific to the utility industry, the CAPM is far less responsive to changes in the industry than the DCF. The CAPM is based on the performance of U.S. Treasury bonds and the performance of the market as measured through the S&P 500 and is company-specific only through the use of

changes in the utility industry are more likely to be accurately reflected in the
DCF, which uses the companies' actual prices, dividends, and growth rates, I have
included the results of my CAPM analysis because changes in the market, whether
as a whole or specific to the utility industry, affect the outcome of each method in
different ways. Although I have provided the results of CAPM as a comparison
and not as a check, it does have several disadvantages and should not be given
comparable weight to the DCF method.

8

#### 9 Q. EXPLAIN THE DISADVANTAGES OF THE CAPM.

10 A. The CAPM, and the RP method by virtue of its similarities to the CAPM, give 11 results that indicate to an investor what the equity cost rate should be if current 12 economic and regulatory conditions are the same as those present during the 13 historical period in which the risk premiums were determined. This is because 14 beta, which is the only company-specific variable in the CAPM model, measures 15 the *historical* volatility of a stock compared to the *historical* overall market return. 16 Reliance on historical values is especially problematic now given the recent 17 impact of the coronavirus on economic conditions. Although the CAPM and RP 18 results can be useful to investors in making rational buy and sell decisions within 19 their portfolios, the DCF method is the superior method for determining the rate of 20 return for the current economic market and measuring the cost of equity directly. 21 The CAPM and the RP methods are less reliable indicators because they measure 22 the cost of equity indirectly and risk premiums vary depending on the debt and

1		equity being compared. Also, regulators can never be certain that economic and
2		regulatory conditions underlying the historical period during which the risk
3		premiums were calculated are the same today or will be the same in the future.
4		
5	Q.	IS THERE ANY ACADEMIC EVIDENCE THAT QUESTIONS THE
6		CREDIBILITY OF THE CAPM MODEL?
7	A.	Yes. An article, "Market Place; A Study Shakes Confidence in the Volatile-Stock
8		Theory," which appeared in the New York Times on February 18, 1992,
9		summarized a CAPM study conducted by professors Eugene F. Fama and
10		Kenneth R. French. <sup>3</sup> Their study examined the importance of beta, CAPM's risk
11		factor, in explaining returns on common stock. In CAPM theory a stock with a
12		higher beta should have a higher expected return. However, they found that the
13		model did not do well in predicting actual returns and suggested the use of more
14		elaborate multi-factor models.
15		A more recent article, "The Capital Asset Pricing Model: Theory and
16		Evidence," which appeared in the Journal of Economic Perspectives, states that
17		"the attraction of the CAPM is that it offers powerful and intuitively pleasing
18		predictions about how to measure risk and the relation between expected return
19		and risk. Unfortunately, the empirical record of the model is poor - poor enough

<sup>&</sup>lt;sup>3</sup> Berg, Eric N. "Market Place; A Study Shakes Confidence in the Volatile-Stock Theory" *The New York Times*, 18 Feb 1992: *nytimes.com* Web. 23 Mar 2016.

1		to invalidate the way it is used in applications." <sup>4</sup> As a result, I conclude that the
2		CAPM's relevance to the investment decision making process does not carry over
3		into the regulatory rate setting process.
4		
5	Q.	PLEASE EXPLAIN WHY YOU HAVE CHOSEN TO EXCLUDE THE RP
6		METHOD FROM YOUR ANALYSIS.
7	A.	The RP method is excluded because it is a simplified version of the CAPM and is
8		subject to the same faults listed above. Additionally, unlike the CAPM, the RP
9		method does not recognize company-specific risk through beta.
10		
11	Q.	EXPLAIN WHY YOU HAVE CHOSEN TO EXCLUDE THE CE METHOD
12		IN YOUR ANALYSIS.
13	A.	The CE method is excluded because the choice of which companies are
14		comparable is highly subjective, and it is debatable whether historic accounting
15		values are representative of the future. Moreover, its historical usage in this
16		regulatory forum has been minimal.
17		
18	Q.	ARE THERE ANY RECENT COMMISSION ORDERS THAT DEVIATE
19		FROM THE USE OF THE DCF AS THE PRIMARY METHOD IN
20		DETERMINING A COMPANY'S RETURN ON EQUITY?
21	A.	Yes. The Commission indicated in the most recent Aqua Pennsylvania, Inc.

<sup>&</sup>lt;sup>4</sup> Fama, Eugene F. and French, Kenneth R., "The Capital Asset Pricing Model: Theory and Evidence." *Journal of Economic Perspectives* (2004): Volume 18, Number 3, pp. 25-46.

1		(Aqua) base rate case order that its method "for determining Aqua's ROE shall
2		utilize both I&E's DCF and CAPM methodologies" <sup>5</sup> and that "I&E's DCF and
3		CAPM produce a range of reasonableness for the ROE", <sup>6</sup> which deviates from
4		prior Commission practice of primarily relying on the DCF.
5		
6	Q.	SHOULD THE COMMISSION'S USE OF THE CAPM AS A CEILING
7		FOR A "RANGE OF REASONABLENESS" APPLY IN THIS
8		PROCEEDING?
9	A.	No. First, Aqua's return on equity of 10.00% is above the Distribution System
10		Improvement Charge (DSIC) authorized by the Commission of 9.80% for water
11		and wastewater utilities based on the year ended March 31, 2021, issued at the
12		Public Meeting held August 4, 2022. <sup>7</sup> Second, in a report issued by <u>Regulatory</u>
13		Research Associates, a group within S&P Global Market Intelligence, <sup>8</sup> the
14		average return on equity for water utility base rate cases that have been completed
15		during the first six months of 2022 was 9.73% and for the last twelve months
16		ended June 30, 2022 was 9.57% which are well below the 10.00% return on equity
17		authorized by the Commission for Aqua. This demonstrates the problem

<sup>&</sup>lt;sup>5</sup> *Pa. PUC v. Aqua Pennsylvania, Inc.,* Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 154 (Order entered May 16, 2022).

<sup>&</sup>lt;sup>6</sup> Pa. PUC v. Aqua Pennsylvania, Inc., Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 178 (Order entered May 16, 2022).

<sup>&</sup>lt;sup>7</sup> PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended March 31, 2022, p. 27, approved at Public Meeting on August 4, 2022 at Docket No. M-2022-3033561.

<sup>&</sup>lt;sup>8</sup> Regulatory Research Associates, "Water ROE continues upward trend based on small dataset," *S&P Global Market Intelligence*, July 28, 2022.

associated with using the CAPM as a ceiling for determining a utility's return on
 equity.

3		Finally, as explained above, the CAPM should not be used as a primary
4		method, and it should only be used as a comparison (not as a check of the DCF).
5		Also, as demonstrated below, the use of the CAPM in this proceeding would result
6		in a significant burden to ratepayers during a time of increasing levels of inflation
7		and economic decline. Therefore, I disagree with providing the CAPM
8		comparable weight to the DCF method.
9		
10	<u>SUM</u>	MARY OF THE COMPANY'S RESULTS
11	Q.	WHAT ARE THE RESULTS OF THE COMPANY'S COST OF EQUITY
11 12	Q.	WHAT ARE THE RESULTS OF THE COMPANY'S COST OF EQUITY ANALYSES?
	<b>Q.</b> A.	
12		ANALYSES?
12 13		<b>ANALYSES?</b> Mr. Moul used the DCF, CAPM, RP, and CE methods in analyzing the
12 13 14		ANALYSES? Mr. Moul used the DCF, CAPM, RP, and CE methods in analyzing the Company's cost of equity. He made several adjustments to his results, which
12 13 14 15		ANALYSES? Mr. Moul used the DCF, CAPM, RP, and CE methods in analyzing the Company's cost of equity. He made several adjustments to his results, which include consideration for size, various claimed risk factors, leverage, and

#### 1 <u>I&E RECOMMENDATION</u>

2	Q.	WHAT IS YOUR RECOMMENDED COST OF COMMON EQUITY FOR
3		YORK WATER?
4	A.	Based upon my analysis, I recommend a cost of common equity of 8.59% (I&E
5		Exhibit No. 2, Schedule 1).
6		
7	Q.	WHAT IS THE BASIS FOR YOUR RECOMMENDATION?
8	А.	My recommendation is based on the use of the DCF method. As explained above,
9		I used my CAPM result only to present to the Commission a comparison and not
10		as a check to my DCF results. My DCF analysis uses a spot dividend yield, a 52-
11		week dividend yield, and earnings growth forecasts.
12		
13		DISCOUNTED CASH FLOW
14	Q.	PLEASE EXPLAIN YOUR DCF ANALYSIS.
15	А.	My analysis employs the constant growth DCF model as portrayed in the
16		following formula:
17		$K = D_1 / P_0 + g$
18		Where:
19		K = Cost of equity
20		$D_1$ = Dividend expected during the year
21		$P_0 = Current price of the stock$
22		g = Expected growth rate

1		When a forecast of $D_1$ is not available, $D_0$ (the current dividend) must be adjusted
2		by one half of the expected growth rate to account for changes in the dividend paid
3		in period one. As forecasts for each company in my proxy group were available
4		from Value Line, no dividends were adjusted for the purpose of my analysis.
5		
6	Q.	PLEASE EXPLAIN HOW YOU DEVELOPED THE DIVIDEND YIELDS
7		USED IN YOUR DCF ANALYSIS.
8	A.	A representative dividend yield must be calculated over a time frame that avoids
9		the problems of both short-term anomalies and stale data series. For my DCF
10		analysis, the dividend yield calculation places equal emphasis on the most recent
11		spot and the 52-week average dividend yields. The following table summarizes
12		my dividend yield computations for the proxy group (I&E Exhibit No. 2,
13		Schedule 5):

Seven-Company Proxy Group	<b>Dividend Yield</b>
Spot	2.10%
52-week average	1.90%
Average	2.00%

15

## Q. WHAT INFORMATION DID YOU RELY UPON TO DETERMINE YOUR EXPECTED GROWTH RATE?

18 A. I have used five-year projected growth rate estimates from Value Line, Yahoo!

19 Finance, Zacks, and Morningstar.

1	Q.	WHAT WERE THE RESULTS OF YOUR FORECASTED EARNINGS
2		GROWTH RATES?
3	А.	The expected average growth rates for my proxy group ranged from 2.10% to
4		14.00% with an overall average of 6.59% (I&E Exhibit No. 2, Schedule 6).
5		
6	Q.	WHAT IS THE RESULT OF YOUR DCF ANALYSIS BASED ON YOUR
7		<b>RECOMMENDED DIVIDEND YIELD AND GROWTH RATE?</b>
8	А.	The results of my DCF analysis are calculated as follows (I&E Exhibit No. 2,
9		Schedule 7):
		$\begin{array}{rcrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrr$
10		0.5770 2.0070 0.5970
11		
12	Q.	DOES THE DCF ADEQUATELY FACTOR IN RECENT INFLATIONARY
13		TRENDS?
14	A.	Yes. My DCF calculation includes a spot stock price when determining the
15		dividend yield and analysts who generate forecasted earnings growth rates almost
16		certainly take inflation into consideration as well; therefore, it contains the most
17		up-to-date projected information of any model. Thus, any potential concerns that
18		the Commission should consider the overall economic climate and related inflation
19		when deciding the merits of the Company's requested base rate increase are

1		adequately covered by use of the DCF as a primary model for determining an		
2		appropriate return on equity.		
3				
4		CAPITAL ASSET PRICING MODEL		
5	Q.	PLEASE EXPLAIN YOUR CAPM ANALYSIS.		
6	A.	My analysis employs the traditional CAPM as portrayed in the following formula:		
7		$K = R_f + \beta(R_m - R_f)$		
8		Where:		
9		K = Cost of equity		
10		$R_{f}$ = Risk-free rate of return		
11		$R_m$ = Expected rate of return on the overall stock market		
12		$\beta$ = Beta measures the systematic risk of an asset		
13				
14	Q.	WHAT IS BETA AS EMPLOYED IN YOUR CAPM ANALYSIS?		
15	A.	Beta is a measure of the systematic risk of a stock in relation to the rest of the		
16		stock market. A stock's beta is estimated by calculating the linear regression of a		
17		stock's return against the return on the overall stock market. The beta of a stock		
18		with a price pattern identical to that of the overall stock market will equal one. A		
19		stock with a price movement that is greater than the overall stock market will have		
20		a beta that is greater than one and would be described as having more investment		
21		risk than the market. Conversely, a stock with a price movement that is less than		

1		the overall stock market will have a beta of less than one and would be described
2		as having less investment risk than the market.
3		
4	Q.	HOW DID YOU DETERMINE BETA FOR YOUR CAPM ANALYSIS?
5	A.	In estimating an equity cost rate for my proxy group of seven water companies, I
6		used the average of the betas for the companies as provided in the Value Line
7		Investment Survey. The average beta for my proxy group is 0.78 (I&E Exhibit
8		No. 2, Schedule 8).
9		
10	Q.	WHAT RISK-FREE RATE OF RETURN HAVE YOU USED FOR YOUR
11		FORECASTED CAPM ANALYSIS?
12	A.	I used the risk-free rate of return $(R_f)$ from the projected yield on 10-year Treasury
13		Notes. While the yield on the short-term T-Bill is a more theoretically correct
14		parameter to represent a risk-free rate of return, it can be extremely volatile. The
15		volatility of short-term T-Bills is directly influenced by Federal Reserve policy.
16		At the other extreme, the 30-year Treasury Bond exhibits more stability but is not
17		risk-free. Long-term Treasury Bonds have substantial maturity risk associated
18		with market risk and the risk of unexpected inflation. Long-term treasuries
19		normally offer higher yields to compensate investors for these risks. As a result, I
20		used the yield on the 10-year Treasury Note because it mitigates the shortcomings

1		recognized the 10-year Treasury Note as the superior measure of the risk-free rate
2		of return. <sup>9</sup>
3		The forecasted yield on the 10-year Treasury Note, as can be seen in Blue
4		Chip Financial Forecasts, is expected to be between 3.10% and 3.40% from the
5		third quarter of 2022 through the third quarter of 2023, and it is forecasted to be
6		3.50% from 2024-2028. For my forecasted CAPM analysis, I used 3.32%, which
7		is the average of all the yield forecasts I observed (I&E Exhibit No. 2,
8		Schedule 9).
9		
10	Q.	HOW DID YOU DETERMINE THE RETURN ON THE OVERALL
11		STOCK MARKET IN YOUR FORECASTED CAPM ANALYSIS?
12	A.	To arrive at a representative expected return on the overall stock market, I
13		observed Value Line's 1700 stocks and the S&P 500. Value Line expects its
14		universe of 1700 stocks to have an average yearly return of 14.47% over the next
15		three to five years based on a forecasted dividend yield of 2.00% and a yearly
16		index appreciation of 60%. The S&P 500 index is expected to have an average
17		yearly return of 14.35% over the next five years based upon Barron's forecasted
18		dividend yield of 1.55% and Morningstar's average expected increase in the S&P
19		500 index of 12.70% (I&E Exhibit No. 2, Schedule 10).

<sup>&</sup>lt;sup>9</sup> Pa. PUC v. UGI Utilities, Inc. – Electric Division; Docket No. R-2017-2640058 (Order Entered October 25, 2018). See generally Disposition of Capital Asset Pricing Model (CAPM), p. 99.

1	Q.	WHAT IS THE EXPECTED RETURN ON THE OVERALL STOCK
2		MARKET BASED ON YOUR FORECASTED ANALYSIS?
3	А.	The expected return on the overall market is 14.41% for my forecasted analysis
4		(I&E Exhibit No. 2, Schedule 10).
5		
6	Q.	WHAT IS THE COST OF EQUITY RESULT FROM YOUR CAPM
7		ANALYSIS?
8	А.	The result of my analysis is as follows (I&E Exhibit No. 2, Schedule 11):
9		$K = R_f + \beta(R_m - R_f)$
10		11.97% = 3.32% + 0.78 (14.41% - 3.32%)
11		
12	Q.	DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING YOUR
13		CAPM ANALYSIS?
14	A.	Yes. As discussed earlier in my testimony, my recommended cost of equity is
15		based upon my DCF analysis. I only present a CAPM analysis to the Commission
16		as a comparison and not for recommendation purposes as the inputs are highly
17		subjective, and other than beta, not company or industry specific. Again, it has
18		traditionally been the preference of the Commission to view both the DCF and
19		CAPM analysis in base rate proceedings.

1	Q.	IS IT NECESSARY OR APPROPRIATE TO APPLY THE CAPM WITH
2		SIMILAR WEIGHT TO THE DCF WHEN DETERMINING A SPECIFIC
3		RETURN ON EQUITY DUE TO RECENT INFLATIONARY TRENDS?
4	A.	No. My use of the DCF as a primary method in determining an appropriate return
5		on equity sufficiently takes this into consideration. As mentioned above, the DCF
6		includes a spot stock price in the dividend yield calculation and analysts who
7		generate forecasted earnings growth almost certainly take inflation into
8		consideration as well, so it contains the most up-to-date projected information of
9		any model. In other words, the inputs of the DCF capture all known economic
10		factors, including inflation.
11		
12	Q.	BASED ON THE COMPANY'S FILED RATE BASE AND CLAIMED
13		CAPITAL STRUCTURE, WHAT IS THE VALUE OF AN ADDITIONAL
14		338 BASIS POINTS TO THE COST OF EQUITY BASED ON THE
15		DIFFERENCE IN RESULTS BETWEEN YOUR CAPM ANALYSIS
16		(11.97%) AND YOUR DCF ANALYSIS (8.59%)?
17	A.	The example below illustrates the impact of 338 additional basis points to the
18		Company's cost of equity if the results of my CAPM analysis were applied to the
19		Company's filed rate base used rather than my DCF results:

The York Water Company		
Claimed Equity Percentage of Capital Structure	54.77%	
Difference in Rate on Equity between I&E CAPM and DCF Analysis		
(11.97% - 8.59% = 3.38%)	3.38%	
Additional Basis Points to Calculated Cost of Equity	338	
Claimed Rate Base*	\$350,621,590	
Impact Prior to Gross Revenue Conversion Factor (0.5477 x 0.0338 x \$350,621,590)	\$6,490,798	
Gross Revenue Conversation Factor**	1.41366456	
Total Impact	\$9,175,811	
(1.41366456 x \$6,490,798)		
*(York Water Exhibit FV-1, p. 3)		
**(I&E Exhibit No. 2, Schedule 3)		

2	In this example, an addition of 338 basis points to the cost of equity would burden
3	ratepayers to fund an additional amount of \$9,175,811. In short, it is inappropriate
4	to use the CAPM as the top end of a range as was done by the Commission in the
5	recent Aqua rate case in determining a return on equity. Contrary to the 338-basis
6	point spread in this proceeding as illustrated above, the spread between the DCF
7	and the CAPM in the Aqua case was much less substantial at 99 basis points. <sup>10</sup>
8	Any amount granted above the DCF (8.59% based on my recommendation) places
9	an inappropriate burden on ratepayers.

<sup>&</sup>lt;sup>10</sup> Pa. PUC v. Aqua Pennsylvania, Inc., Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 178 (Order entered May 16, 2022).

#### 1 CRITIQUE OF MR. MOUL'S PROPOSED COST OF EQUITY 2 **Q**. DO YOU AGREE WITH MR. MOUL'S PROPOSED COST OF 3 **EOUITY?** 4 No. I disagree with Mr. Moul's proposed cost of equity analysis for several A. 5 reasons. First, I disagree with the weights given to the results of Mr. Moul's CAPM, RP, and CE analyses in his recommendation. Second, I disagree with 6 7 certain aspects of Mr. Moul's discussion of York Water's risk. Third, I disagree 8 with his application of the DCF including the forecasted growth rate and leverage 9 adjustment he uses. Fourth, I disagree with his inclusion of a size adjustment, his 10 reliance on the 30-year Treasury Bond for his risk-free rate, and the use of a 11 double-adjusted beta in his CAPM analysis. Finally, Mr. Moul's request for an 12 additional 25 basis points for "strong management performance" is unjustified. 13 14 WEIGHTS GIVEN TO THE CAPM, RP, AND CE METHODS 15 DO YOU AGREE WITH MR. MOUL'S RELIANCE ON THE CAPM? **Q**. 16 A. No. While I am not opposed to providing the Commission the results of the 17 CAPM for a point of comparison to the results of the DCF calculation, I am 18 opposed to giving the CAPM considerable weight. For the reasons discussed 19 above, including my reference to recent Commission orders, it is not appropriate 20 to give the CAPM similar weight to the DCF as Mr. Moul has done in creating his 21 recommended cost of equity range (York Water Statement No. 107, p. 6, line 11).

1		As discussed above, the CAPM measures the cost of equity indirectly and can be
2		manipulated by the time period chosen.
3		
4	Q.	DO YOU AGREE WITH MR. MOUL'S USE OF THE RP METHOD?
5	A.	No. As explained above, the RP method is a simplified version of, and is subject
6		to the same faults as the CAPM. Further, the RP method does not recognize
7		company-specific risk through beta as does the CAPM.
8		
9	Q.	DO YOU AGREE WITH MR. MOUL'S USE OF THE CE METHOD?
10	A.	No. The companies in Mr. Moul's analysis are not utilities, and, therefore, they
11		are too dissimilar to be used in a CE analysis. The companies in Mr. Moul's CE
12		proxy group are simply not comparable to water utilities in terms of their business
13		risk or financial risk profile. Regulated water utility companies are monopolies.
14		Due to this minimal competition, utilities in general have very low business risk
15		and are able to maintain higher financial risk profiles by employing more leverage.
16		Conversely, since the companies in Mr. Moul's CE proxy group operate in an
17		unregulated competitive environment with a higher level of business risk, they
18		must maintain lower financial risk profiles by employing a smaller amount of
19		leverage. Furthermore, in his CE analysis, Mr. Moul stated, "I used 20% as the
20		point where those returns could be viewed as highly profitable and should be
21		excluded from the Comparable Earnings approach" (York Water Statement No.
22		107, p. 43, lines 9-10). It is my opinion the arbitrary use of 20% is unjustified as I

1		am unaware of any water utility company that has been awarded or regularly earns
2		a 20% return.
3		
4		RISK ANALYSIS
5	Q.	SUMMARIZE MR. MOUL'S CLAIMS REGARDING RISK FACTORS
6		THE COMPANY FACES.
7	A.	Mr. Moul described the Company's claimed risk factors in two different sub-
8		sections. In the first section, labeled "Water Utility Risk Factors," he described
9		the qualitative risk factors. In this section, Mr. Moul largely discussed the
10		business risks associated with regulatory policies along with capital intensity and
11		York Water's capital expenditure program (York Water Statement No. 107, p. 7,
12		line 10 through p. 11, line 8). In the second section of his risk analysis, labeled
13		"Fundamental Risk Analysis," he described the quantitative risk factors. In this

- 14 section, Mr. Moul discussed the Company's credit quality, as well as many
- 15 different financial metrics including size, market ratios, common equity ratio,
- 16 return on book equity, operating ratios, pre-tax interest coverage, quality of
- 17 earnings, internally generated funds, and betas (York Water Statement No. 107,
- 18 p. 11, line 9 through p. 16, line 21).

2

### Q. WHAT RISKS DOES YORK WATER FACE THAT MR. MOUL CLAIMS ARE ASSOCIATED WITH REGULATORY POLICIES?

Mr. Moul explained that the Safe Drinking Water Act (SDWA) Amendments of 3 A. 4 1996 that re-authorized the SDWA for the second time since its original passage in 5 1974, institutes policies and procedures governing water quality. The 1996 6 amendments empower the Environmental Protection Agency (EPA), along with 7 other interested parties, to develop a list of contaminants for possible regulation, 8 which must be updated every five years. From that list, the EPA must select at 9 least five contaminants and determine whether to regulate them. The EPA can 10 bypass the process and develop interim regulations for contaminants posing an 11 urgent health threat (York Water Statement No. 107, p. 7, line 11 through p. 8, line 5). 12

13

## 14 Q. WHAT IS YOUR OBSERVATION REGARDING MR. MOUL'S CLAIMED

15

#### **RISKS RESULTING FROM REGULATORY POLICIES?**

A. York Water faces the same regulatory risk as its peers contained in both my proxy
group and Mr. Moul's Water Group. In fact, Mr. Moul even stated that "most of
these regulations affect the entire water industry in contrast with certain
regulations issued pursuant to the Clean Air Act, which may impact only selected

- 20 electric utilities" (York Water Statement No. 107, p. 8, lines 1-3). Additionally,
- 21 the legislation Mr. Moul referenced was passed in 1996, so even though the
- 22 legislation carries provisions that may change regulatory requirements every five

years, by now, analysts and investors following the regulated water utility industry must certainly be well aware of this type of risk.

3

# 4 Q. WHAT ADDITIONAL BUSINESS RISKS DOES MR. MOUL CLAIM 5 AFFECT THE COMPANY?

Mr. Moul indicated lead contamination has risen to prominence as a national 6 A. 7 concern because of the drinking water crisis that garnered news media attention in 8 Flint, Michigan. He continued, enumerating additional environmental and 9 regulatory issues such as the integrity of water supply sources, threats from 10 terrorists, changing land use, and permissible levels of discharged contaminants 11 established by state and federal agencies. Further, Mr. Moul claimed the high 12 fixed costs of water utilities make earnings vulnerable to variation due to 13 fluctuation with water usage in accordance with the weather, the economy, and 14 conservation efforts (York Water Statement No. 107, p. 8, line 6 through p. 9, line 15 24). 16

#### 17 Q. WHAT IS YOUR RESPONSE TO THE ISSUES CITED BY MR. MOUL IN

#### **TERMS OF HOW THEY AFFECT THE COMPANY'S BUSINESS RISK?**

19 A. The issues referenced by Mr. Moul affect the entire water utility industry,

20 therefore, York Water faces the same exposure to these issues as do all the other
21 companies in our proxy groups. Investors voluntarily buy and hold shares of

stocks in water utility companies, indicating they are aware of these risks and the

1		returns. The cost of equity I present for York Water in this proceeding is
2		adequately measured by my proxy group, and, therefore, adequately compensates
3		investors for these risks.
4		
5	Q.	WHAT DOES MR. MOUL CLAIM REGARDING THE COMPANY'S
6		CAPITAL EXPENDITURES?
7	A.	According to Mr. Moul, the Company's net plant investment to revenue is 6.19x,
8		compared with his Water Group, which is 4.50x. Additionally, Mr. Moul outlined
9		York Water's projected capital expenditure plan for 2022-2026, which is expected
10		to total \$225,045,900. He claimed the capital expenditures over the next five
11		years will represent approximately 59% of the total depreciated plant in service at
12		December 31, 2021 (York Water Statement No. 107, p. 10, line 5 through p. 11,
13		line 2).
14		
15	Q.	WHAT IS YOUR RESPONSE TO MR. MOUL'S CLAIM REGARDING
16		RISK CREATED BY THE COMPANY'S PROJECTED CAPITAL
17		EXPENDITURES?
18	A.	High levels of capital expenditures and high capital intensity are typical of the
19		water utility industry, as every water utility faces the same issues of upgrading or
20		replacing its aging infrastructure. Also, while York Water may have a higher net
21		plant to revenue ratio than the Water Group as Mr. Moul suggested, it must be
22		recognized that capital expenditures which are used to fund plant investment are

1		passed on to ratepayers via base rates such as those claimed in the instant
2		proceeding. So, as costs for replacing infrastructure increase, York Water, as well
3		as any other company, has the option to file a base rate case at any time to address
4		revenue inadequacy due to increasing costs, infrastructure replacement, or any
5		associated issues. Base rate cases allow a utility to recover its costs and provide it
6		the <i>opportunity</i> to earn a reasonable return on capital investments. The
7		Commission also offers risk reducing mechanisms such as the Distribution System
8		Improvement Charge (DSIC) and the FPFTY to help reduce any lag in recovery of
9		infrastructure investment or other unforeseen expenditures. It is worth mentioning
10		that these mechanisms were not designed to eliminate the need for base rate cases,
11		but only to mitigate regulatory lag and support increasing infrastructure
12		replacement needs.
13		
14	Q.	WHAT HAS MR. MOUL CLAIMED REGARDING QUANTITATIVE
15		RISK FACTORS IN THE SECTION LABELED "FUNDAMENTAL RISK
16		ANALYSIS?"
17	A.	Mr. Moul stated that it is necessary to establish a company's relative risk position
18		within its industry through an analysis of quantitative and qualitative factors. Mr.
19		Moul used various financial metrics to compare York Water to the S&P Public
20		Utilities Index and his Water Group (York Water Statement No. 107, p. 11, lines
21		12-18).

# Q. WHAT IS YOUR RESPONSE TO MR. MOUL'S "FUNDAMENTAL RISK ANALYSIS?"

3 A. Two of the points he discussed, size risk and betas, have been discussed and 4 disputed elsewhere in my direct testimony. Throughout the remainder of his 5 "fundamental risk analysis," Mr. Moul made several statements to indicate that the 6 Company has no more of a risk than any other company in his Water Group. First, 7 concerning common equity ratios, he stated, "The five-year average common 8 equity ratios, based on permanent capital, were 55.2% for the Company, 51.8% for 9 the Water Group, and 41.0% for the S&P Public Utilities" (York Water Statement 10 No. 107, p. 14, lines 2-4). Mr. Moul continued by stating, "The Company is 11 proposing a 54.77% common equity ratio for the purpose of calculating its 12 weighted average cost of capital. This common equity ratio contains the same 13 degree of financial risk than [sic] shown historically for the Company. Moreover, 14 the Company's financial risk is not dissimilar to the Water Group" (York Water 15 Statement No. 107, p. 14, lines 9-13). Second, concerning return on book equity, 16 he stated, "For the five-year period, the coefficients of variation were 0.035 for the 17 Company, 0.067 for the Water Group, and 0.051 for the S&P Public Utilities. The 18 earnings variability for the Company was lower than the Water Group and S&P 19 Public Utilities" (York Water Statement No. 107, p. 14, lines 17-21). Third, 20 regarding operating ratios, Mr. Moul stated, "The five-year average operating 21 ratios were 54.7% for the Company, 70.3% for the Water Group, and 79.8% for 22 the S&P Public Utilities. The Company's lower operating ratio can be traced to its

1		high capital intensity because a larger operating margin derives from the income
2		taxes and return associated with a larger capital investment per dollar of revenue."
3		(York Water Statement No. 107, p. 14, line 24 through p. 15, line 5). Finally,
4		concerning coverage, he stated, "The five-year average interest coverage
5		(excluding Allowance for Funds Used During Construction ("AFUDC")) was 4.28
6		times for the Company, 3.93 times for the Water Group, and 2.97 times for the
7		S&P Public Utilities. The interest coverages were somewhat above, albeit fairly
8		similar, for York Water and the Water Group" (York Water Statement No. 107,
9		p. 15, lines 10-14). Therefore, York Water's coverage ratio would indicate
10		slightly lower risk.
11		While some measures Mr. Moul discussed may imply a higher risk profile
12		for the Company, he provided other more convincing measures that illustrate the
13		Company has lower risk. Overall, through his own analysis and testimony, Mr.
14		Moul substantiated that the Company has very similar risk as compared to that of
15		his Water Group.
16		
17		COST OF EQUITY ADJUSTMENTS
18		INFLATED GROWTH RATES USED IN DCF ANALYSIS
19	Q.	WHAT GROWTH RATE HAS MR. MOUL USED IN HIS DCF
20		ANALYSIS?
21	A.	Mr. Moul used a growth rate of 7.50% (York Water Statement No. 107, p. 32,
22		line 4).

### 1 Q. WHAT IS THE BASIS FOR MR. MOUL'S GROWTH RATE?

2	A.	Mr. Moul stated, "Schedule 9 shows the prospective five-year earnings per share
3		growth rates projected for the Water Group by IBES/First Call (6.00%), Zacks
4		(7.10%), and <u>Value Line</u> (7.57%)" (York Water Statement No. 107, p. 26, lines
5		13-15). The average of the growth rates from Mr. Moul's sources resulted in an
6		average growth rate of 6.89% (( $6.00\% + 7.10\% + 7.57\%$ ) ÷ 3); however, Mr. Moul
7		used a growth rate of 7.50% in his DCF analysis. Mr. Moul stated that growth
8		rates should not be established by a mathematical formulation and his growth rate
9		is reasonable as it is supported by continued infrastructure spending (York Water
10		Statement No. 107, p. 27, lines 7-14).
11		
12	Q.	DO YOU AGREE WITH MR. MOUL'S GROWTH RATE ANALYSIS?
13	A.	
	л.	No. I disagree with Mr. Moul's belief that DCF growth rates <i>should not</i> be
14	Π.	established by mathematical formulation. I believe that any alternative is
14 15	Α.	
	Λ.	established by mathematical formulation. I believe that any alternative is
15	Λ.	established by mathematical formulation. I believe that any alternative is subjective and introduces additional and unnecessary bias and should be avoided
15 16	Λ.	established by mathematical formulation. I believe that any alternative is subjective and introduces additional and unnecessary bias and should be avoided whenever possible. The use of a higher growth rate than the average of his proxy
15 16 17	Α.	established by mathematical formulation. I believe that any alternative is subjective and introduces additional and unnecessary bias and should be avoided whenever possible. The use of a higher growth rate than the average of his proxy group ignores the fact that analysts making earnings per share growth forecasts are
15 16 17 18	Λ.	established by mathematical formulation. I believe that any alternative is subjective and introduces additional and unnecessary bias and should be avoided whenever possible. The use of a higher growth rate than the average of his proxy group ignores the fact that analysts making earnings per share growth forecasts are already aware of the economic conditions and the state of the water utility
15 16 17 18 19	Λ.	established by mathematical formulation. I believe that any alternative is subjective and introduces additional and unnecessary bias and should be avoided whenever possible. The use of a higher growth rate than the average of his proxy group ignores the fact that analysts making earnings per share growth forecasts are already aware of the economic conditions and the state of the water utility industry. The reasons Mr. Moul has given for choosing a growth rate above his

# Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING THE RESULTS OF MR. MOUL'S PROJECTED GROWTH RATES?

Yes. While the five-year projected growth rates can be used in analyses, one must 3 A. 4 be aware that analysts' estimates may be biased. This bias has been observed in 5 literature. An article written by Professors Ciciretti, Dwyer, and Hasan in 2009 6 observed strong support of earnings forecasts being higher than actual earnings.<sup>11</sup> 7 In spring of 2010, McKinsey on Finance presented an article reporting that after a decade of stricter regulation analysts' forecasts are still overly optimistic.<sup>12</sup> 8 9 Analysts' estimates are an attempt to forecast future cash flows and thus 10 expected earnings growth. However, it should be kept in mind that prudent 11 judgment must be exercised as to the sustainability of forecasted growth rates with 12 respect to the base earnings. If the base year earnings are abnormally high, the 13 growth rates from which they are calculated will be biased downward. Similarly, 14 if the base year earnings are abnormally low, the growth rates from which they are 15 calculated will be biased upward. As a result, it is typically necessary to employ a 16 methodology to smooth out the abnormally high or low base year earnings. 17 In summary, since analysts' projected growth forecasts are most often

### 18 overly optimistic, there is no need to arbitrarily and non-formulaically increase the

19 estimates used in a DCF analysis.

<sup>&</sup>lt;sup>11</sup> Ciciretti, Rocco; Dwyer, Gerald R; and Iftekhan Hasan. "Investment Analysts' Forecasts of Earnings" Federal <u>Reserve Bank of St. Louis *Review*</u>, September/October 2009, 91 (5, part 2) pp. 545-67.

<sup>&</sup>lt;sup>12</sup> Goedhart, Marc J; Raj, Rishi; and Abhishek Saxena. "Equity analyst: Still too bullish" <u>McKinsey On Finance</u> Number 35 Spring 2010, pp. 14-17.

1		LEVERAGE ADJUSTMENT APPLIED TO DCF ANALYSIS
2	Q.	HAS MR. MOUL MADE ANY ADDITIONAL ADJUSTMENTS TO THE
3		RESULT OF HIS DCF ANALYSIS?
4	A.	Yes. Mr. Moul proposed a 146-basis point "leverage" adjustment to the results of
5		his DCF analysis to account for applying a market-determined cost of equity to a
6		book value capital structure (York Water Statement No. 107, p. 28, lines 6-8).
7		
8	Q.	WHAT IS FINANCIAL LEVERAGE?
9	A.	Financial leverage is the use of debt capital to supplement equity capital. A firm
10		with significantly more debt than equity is considered to be highly leveraged.
11		
12	Q.	WHAT IS A MARKET-TO-BOOK (M/B) RATIO?
12 13	<b>Q.</b> A.	WHAT IS A MARKET-TO-BOOK (M/B) RATIO? A market-to-book ratio is used to evaluate a public firm's equity value by
13		A market-to-book ratio is used to evaluate a public firm's equity value by
13 14		A market-to-book ratio is used to evaluate a public firm's equity value by comparing the market value and book value of a company's equity. One way of
13 14 15		A market-to-book ratio is used to evaluate a public firm's equity value by comparing the market value and book value of a company's equity. One way of doing this is to divide the current price per share of stock by the book value per
13 14 15 16		A market-to-book ratio is used to evaluate a public firm's equity value by comparing the market value and book value of a company's equity. One way of doing this is to divide the current price per share of stock by the book value per
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> </ol>	Α.	A market-to-book ratio is used to evaluate a public firm's equity value by comparing the market value and book value of a company's equity. One way of doing this is to divide the current price per share of stock by the book value per share. A M/B result of above one (1) is desired.
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> </ol>	Α.	A market-to-book ratio is used to evaluate a public firm's equity value by comparing the market value and book value of a company's equity. One way of doing this is to divide the current price per share of stock by the book value per share. A M/B result of above one (1) is desired. HAS MR. MOUL PROPOSED TO ADJUST THE RESULT OF HIS DCF
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> <li>19</li> </ol>	А. <b>Q</b> .	A market-to-book ratio is used to evaluate a public firm's equity value by comparing the market value and book value of a company's equity. One way of doing this is to divide the current price per share of stock by the book value per share. A M/B result of above one (1) is desired. HAS MR. MOUL PROPOSED TO ADJUST THE RESULT OF HIS DCF ANALYSIS TO RECOGNIZE HOW THE COMPANY IS LEVERAGED?

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<sup>&</sup>lt;sup>13</sup> York Water Statement No. 107, p. 31, lines 10-16.

#### 1 Q. BASED ON THE COMPANY'S FILED RATE BASE AND CLAIMED

#### 2 CAPITAL STRUCTURE, WHAT IS THE VALUE OF AN ADDITIONAL

#### **3 146 BASIS POINTS TO THE COST OF EQUITY?**

- 4 A. The example below illustrates the impact of 146 additional basis points to the
- 5 Company's cost of equity:

6

7

Claimed Equity Percentage of Capital Structure	54.779
Additional Basis Points to Calculated Cost of Equity	14
Claimed Rate Base*	\$350,621,59
Impact Prior to Gross Revenue Conversion Factor (0.5477 x 0.0146 x \$350,621,590)	\$2,803,71
Gross Revenue Conversation Factor**	1.4136645
Total Impact (1.41366456 x \$2,803,717)	\$3,963,51
*(York Water Exhibit FV-1, p. 3) **(I&E Exhibit No. 2, Schedule 3)	

8 ratepayers to fund an unwarranted additional amount of \$3,963,515.

# Q. DO YOU AGREE WITH MR. MOUL'S "LEVERAGE ADJUSTMENT" JUSTIFICATION?

A. No. Mr. Moul's adjustment is inappropriate for a couple of reasons, including the
characterization of financial risk and Commission precedent.

5

#### 6 Q. EXPLAIN HOW RATING AGENCIES ASSESS FINANCIAL RISK.

7 A. Rating agencies assess financial risk based upon a company's booked debt 8 obligations and the ability of its cash flow to cover the interest payments on those 9 obligations. The agencies use a company's financial statements for their analysis, 10 not market capital structure. The income statement reflects the financial risk of a 11 company because it represents the performance of the company over a certain 12 period of time. A change in the market value of the stock is not reflected in the 13 income statement nor is a change in market value capital structure reflected in the 14 book value capital structure unless treasury stock is purchased. It is a company's 15 financial statements that affect the market value of the stock, and, therefore, the 16 financial statements and the book value capital structure that is relied upon in an 17 analysis such as that done by rating agencies.

18

## 19 Q. HAS THE COMMISSION REJECTED THE USE OF A LEVERAGE

- 20 **ADJUSTMENT?**
- A. Yes. The following six cases are the most recent instances where the Commission
  has rejected the use of a "leverage adjustment."

1	First, in Pennsylvania Public Utility Commission v. Aqua Pennsylvania,
2	Inc., at Docket No. R-00072711 (Order Entered July 31, 2008), p. 38, the
3	Commission rejected the ALJ's recommendation for a leverage adjustment stating,
4	"[t]he fact that we have granted leverage adjustments in the past does not mean
5	that such adjustments are indicated in all cases."
6	Second, in Pennsylvania Public Utility Commission, et al v. City of
7	Lancaster – Bureau of Water, at Docket No. R-2010-2179103 (Order Entered
8	July 14, 2011), p. 79, the Commission agreed with the I&E position and stated,
9	"any adjustment to the results of the market based DCF are unnecessary and will
10	harm ratepayers. Consistent with our determination in Aqua 2008 there is no need
11	to add a leverage adjustment."
12	Third, in Pennsylvania Public Utility Commission, et al v. UGI Utilities,
13	Inc. – Electric Division, at Docket No. R-2017-2640058 (Order Entered
14	October 25, 2018), pp. 93-94, the Commission agreed with the I&E position and
15	stated, "we conclude that an artificial adjustment in this proceeding is unnecessary
16	and contrary to the public interest. Accordingly, we decline to include a leverage
17	adjustment in our calculation of the DCF cost of equity."
18	Fourth, in Pennsylvania Public Utility Commission, et. al v. Columbia Gas
19	of Pennsylvania, Inc., at Docket R-2020-3018835 (Order Entered February 19,
20	2021), pp. 137-141, the Commission adopted the ALJ's recommendation to use
21	I&E's DCF methodology, which excludes the use of a leverage adjustment.

1		Fifth, in Pennsylvania Public Utility Commission, et. al v. PECO Energy
2		Company – Gas Division, at Docket R-2020-3018929 (Order Entered June 22,
3		2021, Public Version), pp. 172-173, the Commission adopted the ALJ's
4		recommendation to use I&E's DCF methodology, which excluded PECO's
5		application of a leverage adjustment.
6		Finally, in the most recent case of Pennsylvania Public Utility Commission,
7		et. al v. Aqua Pennsylvania, Inc., at Docket R-2021-3027385 (Order Entered
8		June 22, 2021), pp. 154-155, the Commission adopted the ALJ's recommendation
9		to use I&E's DCF methodology, which excluded Aqua's application of a leverage
10		adjustment.
11		
12	Q.	SUMMARIZE YOUR RECOMMENDATION REGARDING THE
13		PROPOSED LEVERAGE ADJUSTMENT.
14	A.	I recommend that Mr. Moul's proposed 146-basis point leverage adjustment be
15		rejected because true financial risk is a function of the amount of interest expense,
16		and capital structure information provided to investors through Value Line is that
17		of book values, not market values. This demonstrates that investors base their
18		decisions on book value debt and equity ratios for the regulated utilities, and
19		therefore, no adjustment is needed. Mr. Moul's proposed adjustments serve only
20		to manipulate the DCF's market-based methodology.

# Q. DO YOU HAVE ANY FURTHER COMMENTS REGARDING MR. MOUL'S DCF CALCULATION?

A. Yes. While I am not directly disputing Mr. Moul's adjusted dividend yields, it is
important to recognize that, as cited above, the Commission has recently agreed
with I&E's DCF methodology which includes the appropriate calculation of
dividend yields. Although it is acceptable to adjust historical dividend yields as
Mr. Moul has done, it is preferable to use forecasted dividends to calculate the
dividend yields when available, such as the ones offered by Value Line that I have
employed.

10

#### 11 Q. WHAT WOULD MR. MOUL'S DCF BE WITHOUT ANY

#### 12 **ADJUSTMENTS**?

13 A. Without Mr. Moul's use of an inflated growth rate and leverage adjustment, his

14 DCF would consist of his calculated dividend yield of 1.81% and an average

- 15 growth rate of 6.89% as shown above, resulting in an 8.70% cost of equity. This
- result is well below his claimed cost of equity of 11.25% and much closer to my
  recommended cost of equity of 8.59%.
- 18

#### 19 INFLATED BETAS USED IN CAPM ANALYSIS

#### 20 Q. HOW HAS MR. MOUL INFLATED THE BETAS EMPLOYED IN HIS

#### 21 CAPM ANALYSIS?

A. Mr. Moul has used the same logic for inflating his CAPM betas from 0.77 to 1.01
that he used to enhance his DCF returns, through a financial risk or "leverage"

1		adjustment (York Water Statement No. 107, p. 37, lines 4-23). Such
2		enhancements are unwarranted for beta in a CAPM analysis for the same reasons
3		that enhancements are unwarranted for DCF results.
4		Also, if the unadjusted Value Line betas do not reflect an accurate
5		investment risk as Mr. Moul contends, the question naturally arises as to why
6		Value Line does not publish betas that are adjusted for leverage. Until this type of
7		adjustment is demonstrated in the academic literature to be valid, such leverage
8		adjusted betas in a CAPM model should be rejected. Furthermore, the
9		Commission found no basis to add leverage adjusted betas in the most recent
10		litigated Aqua Pennsylvania, Inc. base rate case. <sup>14</sup>
11		Finally, as described in my CAPM analysis above, a stock with a price
12		movement that is greater than the overall stock market will have a beta that is
13		greater than one and would be described as having more investment risk than the
14		market. Due to being regulated and the monopolistic nature of utilities, very
15		rarely do they have a beta equal to or greater than one. Therefore, in this case, to
16		apply an adjusted beta of 1.01 to the entire industry or water proxy group is
17		irrational.
18		
19		SIZE ADJUSTMENT APPLIED TO CAPM ANALYSIS
20	Q.	WHAT SIZE ADJUSTMENT HAS MR. MOUL PROPOSED?

A. Mr. Moul added 102 basis points to his CAPM indicated cost of common equity

<sup>&</sup>lt;sup>14</sup> Pa. PUC v. Aqua Pennsylvania, Inc.; Docket No. R-2021-3027385 (Order Entered May 16, 2022). See generally Disposition of Leverage Adjustment and Management Performance, pp. 166-167.

1		because he opined that as the size of a firm decreases, its ri	isk and required return
2		increases (York Water Statement No. 107, p. 39, lines 25-2	26). Mr. Moul relied
3		upon technical literature including Morningstar's Stocks, E	Bonds, Bills, and
4		Inflation Yearbook, a Fama and French study entitled "The	e Cross-Section of
5		Expected Stock Returns," and an article published in Publi	c Utilities Fortnightly
6		entitled "Equity and the Small-Stock Effect" (York Water	Statement No. 107,
7		p. 39, line 26 through p. 40, line 13).	
8			
9	Q.	BASED ON THE COMPANY'S FILED RATE BASE A	AND CLAIMED
10		CAPITAL STRUCTURE, WHAT IS THE VALUE OF	AN ADDITIONAL
11		102 BASIS POINTS TO THE COST OF EQUITY?	
12	A.	The example below illustrates the impact of 102 additional	basis points to the
13		Company's cost of equity:	
		The York Water Company	
		Claimed Equity Percentage of Capital Structure	54.77%
		Additional Basis Points to Calculated Cost of Equity	102
		Claimed Rate Base*	\$350,621,590
		Impact Prior to Gross Revenue Conversion Factor (0.5477 x 0.0102 x \$350,621,590)	\$1,958,762
		Gross Revenue Conversation Factor**	1.41366456
		Total Impact (1.41366456 x \$1,958,762)	\$2,769,032

\*(York Water Exhibit FV-1, p. 3) \*\*(I&E Exhibit No. 2, Schedule 3)

1		In this example, an addition of 102 basis points to the cost of equity would force
2		ratepayers to fund an unwarranted additional amount of \$2,769,032.
3		
4	Q.	DO YOU AGREE WITH MR. MOUL'S SIZE ADJUSTMENT?
5	A.	No. Mr. Moul's proposed size adjustment is unnecessary because the technical
6		literature he cited supporting investment adjustments related to the size of a
7		company is not specific to the utility industry; therefore, it has no relevance in this
8		proceeding.
9		
10	Q.	IS THERE ACADEMIC EVIDENCE THAT SUPPORTS YOUR
11		CONCLUSION THAT THE SIZE ADJUSTMENT FOR RISK IS NOT
11 12		CONCLUSION THAT THE SIZE ADJUSTMENT FOR RISK IS NOT APPLICABLE TO UTILITY COMPANIES?
	A.	
12	A.	APPLICABLE TO UTILITY COMPANIES?
12 13	A.	APPLICABLE TO UTILITY COMPANIES? Yes. In the article "Utility Stocks and the Size Effect: An Empirical Analysis,"
12 13 14 15 16 17 18 19 20	A.	APPLICABLE TO UTILITY COMPANIES? Yes. In the article "Utility Stocks and the Size Effect: An Empirical Analysis," Dr. Annie Wong concludes: The objective of this study is to examine if the size effect exists in the utility industry. After controlling for equity values, there is some weak evidence that firm size is a missing factor from the CAPM for the industrial but not for utility stocks. This implies that although the size phenomenon has been strongly documented for the industriales, the findings suggest that there

<sup>&</sup>lt;sup>15</sup> Dr. Annie Wong, "Utility Stocks and the Size Effect: An Empirical Analysis," Journal of Midwest Finance Association 1993, pp. 95-101.

1		to refute Dr. Wong's findings, Mr. Moul's size adjustment to his CAPM results
2		should be rejected. Additionally, and more importantly, the Commission has
3		rejected the application of a size adjustment to the CAPM cost of equity
4		calculation. <sup>16</sup>
5		
6	Q.	WHAT WOULD MR. MOUL'S CAPM RESULT BE WITHOUT THE SIZE
7		ADJUSTMENT AND INFLATED BETAS?
8	A.	Mr. Moul's CAPM result would be 10.88% without his size adjustment and
9		inflated betas which is 348 basis points lower than his originally calculated CAPM
10		result of 14.36%. The calculation is repeated below without Mr. Moul's
11		adjustments:
12		$Rf + \beta * (Rm-Rf) + size = K$
13		3.00% + 0.77 * 10.24% + 0.00% = 10.88%
14		
15		MANAGEMENT PERFORMANCE
16	Q.	WHAT IS THE COMPANY'S CLAIM REGARDING MANAGEMENT
17		PERFORMANCE.
18	A.	Mr. Moul explains that his 11.25% cost of equity recommendation includes 25
19		basis points in consideration of the Company's exemplary management
20		performance (York Water Statement No. 107, p. 6, line 17 through p. 7, line 4).
21		He relies upon the direct testimony of Company witness Joseph T. Hand (York

<sup>&</sup>lt;sup>16</sup> Pa. PUC v. UGI Utilities, Inc. – Electric Division; Docket No. R-2017-2640058 (Order Entered October 25, 2018). See generally Disposition of Capital Asset Pricing Model (CAPM), p. 100.

Water Statement No. 1.)

2

3

3	Q.	SUMMARIZE MR. HAND'S TESTIMONY REGARDING THE
4		COMPANY'S MANAGEMENT PERFORMANCE.
5	A.	Mr. Hand claims York Water is committed to providing safe, dependable, and
6		high-quality water and wastewater services that meets or exceeds customer
7		expectations (York Water Statement No. 1, p. 4, lines 13-16). He discusses the
8		Company's various achievements and other efforts such as the Company's Cash
9		Incentive Plan and recent acquisition activity (York Water Statement No. 1, p. 4,
10		line 13 through p. 23, line 5). Ultimately, Mr. Hand concludes that York Water is
11		superior in its overall effectiveness and provides exceptional service to its
12		customers at an exceptional value, which should be recognized in the Company's
13		return on equity (York Water Statement No. 1, p. 23, lines 7-11).
14		
15	Q.	DO YOU AGREE WITH THE COMPANY'S CLAIMS REGARDING AN
16		ROE ADJUSTMENT FOR MANAGEMENT PERFORMANCE?
17	A.	No. First, many of the topics presented by the Company witnesses fall within the
18		categories of reliability, customer service obligation, and safety that are required
19		of every public utility company under 66 Pa C.S.A. §1501. The Company passes
20		capital expenditures to its ratepayers via base rates, or it can utilize a DSIC for
21		capital expenditure recovery. Further, if the Company is effective at controlling
22		operating and maintenance costs, those savings should flow through to ratepayers

1		and/or investors. These savings would likely be offset by the addition of basis
2		points for management performance as ratepayers would have to fund the
3		additional costs. This defeats the purpose of any cost cutting measures to benefit
4		ratepayers, and at the worst possible time when the impacts of the COVID-19
5		pandemic have combined with economic decline and inflation to create a perfect
6		storm of hardship to ratepayers.
7		
8	Q.	ARE YOU AWARE OF ANY OTHER COMPANIES THAT HAVE
9		<b>RECEIVED ADDITIONAL BASIS POINTS IN RECOGNITION OF</b>
10		MANAGEMENT PERFORMANCE?
11	A.	Yes. In the most recent litigated Aqua base rate case, the Commission awarded
12		Aqua an addition of 25 basis points for its management performance efforts. <sup>17</sup>
13		However, it is important to recognize that this addition was based specifically on
14		Aqua rescuing troubled water and wastewater systems at the Commission's
15		request. In this proceeding, the Commission stated the following: <sup>18</sup>
16 17 18 19		We specifically recognize Aqua's efforts and willingness to quickly provide emergency aid to various water and wastewater systems that needed substantial improvement. Aqua has often provided this emergency aid on short notice
20		and at the request of the Commission or other parties to protect
21 22		the public from egregious health and safety threats and to protect the Commonwealth's drinking water resources from
23		catastrophic damage.

<sup>&</sup>lt;sup>17</sup> Pa. PUC v. Aqua Pennsylvania, Inc., Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 168-173 (Order entered May 16, 2022).

 <sup>&</sup>lt;sup>18</sup> Pa. PUC v. Aqua Pennsylvania, Inc., Docket Nos. R-2021-3027385 & R-2021-3027386, p. 169 (Order entered May 16, 2022).

1	Q.	DOES THE COMMISSION'S PAST ISSUANCE OF ADDITIONAL
2		EQUITY POINTS TO RECOGNIZE MANAGEMENT PERFORMANCE
3		MEAN THAT YORK WATER SHOULD ALSO RECEIVE AN ADJUSTED
4		<b>RETURN ON EQUITY?</b>

5	A.	No. The issuance of equity points to recognize management performance must
6		always be done on a case-by-case basis. The situation in the Aqua case was very
7		specific to the company rescuing troubled water and wastewater systems and
8		preventing health and safety concerns regarding drinking water. While I
9		understand the Commission's intention in that proceeding, I&E disagreed with
10		awarding additional equity points to recognize management performance in that
11		proceeding and disagree here for the reasons explained above.

#### 13 Q. BASED ON THE COMPANY'S FILED RATE BASE AND CLAIMED

#### 14 CAPITAL STRUCTURE, WHAT IS THE VALUE OF AN ADDITIONAL 25

- 15 **BASIS POINTS TO THE COST OF EQUITY?**
- 16 A. The example below illustrates the impact of 25 additional basis points to the

17 Company's cost of equity:

		The York Water Company	
		Claimed Equity Percentage of Capital Structure	54.77%
		Additional Basis Points to Calculated Cost of Equity	25
		Claimed Rate Base*	\$350,621,590
		Impact Prior to Gross Revenue Conversion Factor (0.5477 x 0.0025 x \$350,621,590)	\$480,089
		Gross Revenue Conversation Factor**	1.41366456
		Total Impact (1.41366456 x \$480,089)	\$678,685
1		*(York Water Exhibit FV-1, p. 3) **(I&E Exhibit No. 2, Schedule 3)	
2		In this example, an addition of 25 basis points to the cost of	equity would force
3		ratepayers to fund an unwarranted additional amount of \$67	8,685.
4			
5	Q.	WHAT IS YOUR RECOMMENDATION REGARDING	G THE
6		CONSIDERATION OF 25 ADDITIONAL BASIS POIN	TS FOR THE
7		COMPANY'S MANAGEMENT PERFORMANCE?	
8	A.	Ultimately, for any company, true management effectivenes	s is earning a higher
9		return through its efficient use of resources and cost cutting	measures. The greater
10		net income resulting from cost savings and true efficiency in	n management and
11		operations is available to be passed on to shareholders. Yor	k Water, or any utility
12		should not be awarded additional basis points for doing wha	t they are required to

	do in order to provide adequate, efficient, safe, and reasonable service under 66 Pa
	C.S.A. §1501.
<u>OVE</u>	RALL RATE OF RETURN RECOMMENDATION
Q.	WHAT IS THE COMPANY'S PROPOSED OVERALL RATE OF
	RETURN?
A.	The Company's proposed overall rate of return is 7.93% (York Water Statement
	No. 107, p. 2, line 4).
Q.	WHAT IS I&E'S RECOMMENDED OVERALL RATE OF RETURN?
A.	I recommend an overall rate of return for the Company of 6.47% (I&E Exhibit
	No. 2, Schedule 1).
Q.	DO YOU HAVE ANY FINAL COMMENTS REGARDING THE
	<b>COMPANY'S PROPOSED RETURN ON EQUITY?</b>
A.	Yes. First, a report issued by <u>Regulatory Research Associates, a group within</u>
	S&P Global Market Intelligence, <sup>19</sup> illustrates that while the return on equity for
	water utilities may be trending upward in 2022, York Water's 11.25% requested
	return on equity is a significant 168 basis points higher than the average return on
	equity of 9.57% of nationwide water utility rate cases for the past twelve months
	Q. A. Q. A.

<sup>&</sup>lt;sup>19</sup> Regulatory Research Associates, "Water ROE continues upward trend based on small dataset," S&P Global Market Intelligence, July 28, 2022.

1	ended June 30, 2022 and 179 basis points higher than the average return on equity
2	of 9.46% of nationwide water utility rate cases for 2021.
3	Second, when asked, Mr. Moul indicated he was unaware if any water
4	utilities throughout the United States were granted a Commission authorized
5	return of 11.25% or higher cost of common equity in the past two years (I&E
6	Exhibit No. 2, Schedule 12).
7	Third, as discussed earlier in my testimony, York Water's requested return
8	on common equity is 145 basis points higher than the Commission's approved
9	DSIC rate of 9.80% <sup>20</sup> for water and wastewater companies. My understanding is
10	that the DSIC rate is designed to encourage its use and to incentivize accelerated
11	pipeline replacement and infrastructure upgrades to bring the existing aging
12	infrastructure closer to meeting safety and reliability requirements in between base
13	rate filings. Additionally, the DSIC rate establishes a benchmark above which a
14	utility company is considered "overearning." To recommend a cost of equity that
15	is above the DSIC rate in this base rate proceeding is inappropriate and not in the
16	public interest.
17	Finally, while I am aware of the rising costs of capital due to the after-
18	effects of the pandemic and the increasing levels of inflation, I believe it is
19	important not to overburden ratepayers. While the economy is in decline, York

<sup>&</sup>lt;sup>20</sup> PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended December 31, 2021, p. 27, approved at Public Meeting on June 16, 2022 at Docket No. M-2022-3032405.

1	Water is requesting a record return on equity to apply to its equity heavy capital
2	structure. As detailed in the various charts above, the effect of Mr. Moul's
3	adjustments to the market-determined cost of common equity are an enormous
4	burden to ratepayers and are completely unwarranted and unnecessary. Although
5	they are not cumulative, the impact to ratepayers of each of the disputed
6	adjustments is summarized as follows:

Adjustment	Total Impact
Leverage Adjustment	\$3,963,515
Size Adjustment	\$2,769,032
Management Adjustment	\$678,685

8

### 9 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

10 A. Yes.

#### Professional and Educational Experience Christopher Keller

#### **Professional Experience**

January 2014 to Present Fixed Utility Financial Analyst Pennsylvania Public Utility Commission, Harrisburg, Pennsylvania Bureau of Investigation & Enforcement

September 2008 to January 2014 Insurance Company Financial Analyst Pennsylvania Insurance Department, Harrisburg, Pennsylvania Bureau of Licensing & Financial Analysis

#### **Education and Training**

FAI Utility Finance and Accounting for Financial Professionals, Boston, MA May 21-23, 2014

York College of Pennsylvania, York, Pennsylvania Master of Business Administration, Finance Concentration, 2008 Bachelor of Science, Accounting, 2006

#### **Testimony Submitted**

I have testified and/or submitted testimony in the following proceedings:

- Docket No. R-2022-3032300 Valley Energy, Inc. (ROR)
- Docket No. R-2022-3031704 Borough of Ambler Water Department (ROR)
- Docket No. R-2022-3032242 UGI Utilities, Inc. Gas Division (1307(f))
- Docket No. R-2022-3031211 Columbia Gas of Pennsylvania, Inc. (ROR)
- Docket No. A-2021-3026132 Aqua Pennsylvania Wastewater, Inc. Acquisition of the Wastewater Collection and Conveyance System Assets of East Whiteland Township (1329)
- Docket No. P-2021-3030012 Metropolitan Edison Company (DSP)
- Docket No. P-2021-3030013 Pennsylvania Electric Company (DSP)
- Docket No. P-2021-3030014 Pennsylvania Power Company (DSP)
- Docket No. P-2021-3030021 West Penn Power Company (DSP)
- Docket No. R-2021-3026116 Borough of Hanover Water (ROR)
- Docket No. R-2021-3025206 Community Utilities of Pennsylvania Water Division (ROR)
- Docket No. R-2021-3025207 Community Utilities of Pennsylvania Wastewater Division (ROR)
- Docket No. R-2021-3025652 UGI Utilities, Inc. Gas Division (1307(f))

#### Professional and Educational Experience Christopher Keller

#### **Testimony Submitted (Continued)**

I have testified and/or submitted testimony in the following proceedings:

- Docket No. R-2021-3024750 Duquesne Light Company (O&M and ROR)
- Docket No. R-2021-3024296 Columbia Gas of Pennsylvania, Inc. (ROR)
- Docket No. R-2020-3018929 PECO Energy Company Gas Division (ROR)
- Docket No. P-2020-3020914 Twin Lakes Utilities, Inc. (529 Proceeding)
- Docket No. R-2020-3018835 Columbia Gas of Pennsylvania, Inc. (ROR)
- Docket No. R-2020-3019680 UGI Utilities, Inc. (1307(f))
- Docket No. P-2020-3019356 PPL Electric Utilities Corporation (DSP)
- Docket No. R-2019-3015162 UGI Utilities, Inc. Gas Division (ROR)
- Docket No. R-2019-3010955 City of Lancaster Sewer Fund (O&M)
- Docket No. R-2019-3009647 UGI Utilities, Inc. Gas Division (1307(f))
- Docket No. R-2018-3006818 Peoples Natural Gas Company LLC (O&M)
- Docket No. R-2018-3000124 Duquesne Light Company (O&M)
- Docket No. R-2018-3001631 UGI Central Penn Gas, Inc. (1307(f))
- Docket No. R-2018-3001632 UGI Penn Natural Gas, Inc. (1307(f))
- Docket No. R-2018-3001633 UGI Utilities, Inc. (1307(f))
- Docket No. R-2018-2645938 Philadelphia Gas Works (1307(f))
- Docket No. P-2017-2637855 Metropolitan Edison Company (DSP)
- Docket No. P-2017-2637857 Pennsylvania Electric Company (DSP)
- Docket No. P-2017-2637858 Pennsylvania Power Company (DSP)
- Docket No. P-2017-2637866 West Penn Power Company (DSP)
- Docket No. R-2017-2602627 UGI Central Penn Gas, Inc. (1307(f))
- Docket No. R-2017-2602638 UGI Utilities, Inc. (1307(f))
- Docket No. R-2017-2586783 Philadelphia Gas Works (O&M)
- Docket No. R-2017-2587526 Philadelphia Gas Works (1307(f))
- Docket No. I-2016-2526085 Delaware Sewer Company (529 Proceeding)
- Docket No. R-2016-2531550 Citizens' Electric Company (O&M)
- Docket No. R-2016-2531551 Wellsboro Electric Company (O&M)
- Docket No. R-2016-2537349 Metropolitan Edison Company (CWC and CAP)
- Docket No. R-2016-2537352 Pennsylvania Electric Company (CWC and CAP)
- Docket No. R-2016-2537355 Pennsylvania Power Company (CWC and CAP)
- Docket No. R-2016-2537359 West Penn Power Company (CWC and CAP)
- Docket No. R-2016-2543311 UGI Central Penn Gas, Inc. (1307(f))
- Docket No. R-2015-2518438 UGI Utilities, Inc. Gas Division (CWC and USP)
- Docket No. P-2015-2511333 Metropolitan Edison Company (DSP)
- Docket No. P-2015-2511351 Pennsylvania Electric Company (DSP)
- Docket No. P-2015-2511355 Pennsylvania Power Company (DSP)

#### Professional and Educational Experience Christopher Keller

#### **Testimony Submitted (Continued)**

- Docket No. P-2015-2511356 West Penn Power Company (DSP)
- Docket No. R-2015-2468056 Columbia Gas of Pennsylvania, Inc. (O&M)
- Docket No. P-2014-2404341 Delaware Sewer Company (529 Investigation)
- Docket No. R-2014-2452705 Delaware Sewer Company (O&M)
- Docket No. R-2014-2428304 Borough of Hanover Water (O&M)
- Docket No. R-2014-2419774 Wellsboro Electric Company (Customer Choice Support Charge)
- Docket No. R-2014-2420279 UGI Central Penn Gas, Inc. (1307(f))

#### Assisted with the Following Cases

- Docket No. R-2017-2631441 Reynolds Water Company (ROR)
- Docket No. R-2016-2580030 UGI Penn Natural Gas, Inc. (ROR)
- Docket No. R-2014-2462723 United Water Pennsylvania (CWC)
- Docket No. R-2014-2428742 West Penn Power Company (CWC)
- Docket No. R-2014-2428743 Pennsylvania Electric Company (CWC)
- Docket No. R-2014-2428744 Pennsylvania Power Company (CWC)
- Docket No. R-2014-2428745 Metropolitan Edison Company (CWC)
- Docket No. R-2013-2397353 Pike County Light & Power Company (Gas) (O&M)
- Docket No. R-2013-2397237 Pike County Light & Power Company (Electric) (O&M)

#### PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

#### THE YORK WATER COMPANY

Docket No. R-2022-3031340 (Water) & Docket No. R-2022-3032806 (Wastewater)

**Exhibit to Accompany** 

the

**Direct Testimony** 

of

**Christopher Keller** 

**Bureau of Investigation & Enforcement** 

**Concerning:** 

**Rate of Return** 

I&E	Exhibit	No. 2
Sch	edule 1	

	I& Summary of C	—	
Type of Capital	Ratio	Cost Rate	Weighted Cos
	The York Wat	er Company	
Long-Term Debt	45.23%	3.91%	1.77%
Common Equity	54.77%	8.59%	4.70%
Total	100.00%		6.47%

				C	Conital Stand					hedule 2	
				roxy Group	Capital Structure						
American Mater Marks	2021		2020		2019		2018		2	017	Average
American Water Works	\$ 10,424.000	58.82%	\$ 9,414.000	59.33%	\$ 8,733.000	58.79%	\$ 7,576.000	56.37%	\$ 6,498.0	00 54.68%	57.60%
Long-term Debt Preferred Stock	\$ 10,424.000	0.00%	\$ 9,414.000	0.00%	\$ 8,733.000	0.00%	\$ 7,576.000	0.00%	\$ 0,498.0	- 0.00%	0.00%
Common Equity	- 7,298.000	41.18%	- 6,454.000	40.67%	- 6,121.000	41.21%	- 5,864.000	43.63%	5,385.0		42.40%
Common Equity	17,298.000	100.00%	15.868.000	100.00%	14.854.000	100.00%	13.440.000	43.63%	11.883.0		100.00%
	17,722.000	100.0078	15,808.000	100.0078	14,854.000	100.0078	13,440.000	100.0076	11,005.0	100.0078	100.00%
American States Water Co											
Long-term Debt	595.596	46.47%	584.184	47.66%	492.735	45.03%	376.587	40.28%	321.0	37.73%	43.43%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%		- 0.00%	0.00%
Common Equity	685.947	53.53%	641.673	52.34%	601.530	54.97%	558.223	59.72%	529.9	62.27%	56.57%
	1,281.543	100.00%	1,225.857	100.00%	1,094.265	100.00%	934.810	100.00%	850.9	984 100.00%	100.00%
California Water Service Group											
Long-term Debt	1,069.395	47.59%	794.968	46.32%	799.682	50.63%	710.027	49.30%	515.7		47.30%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%		- 0.00%	0.00%
Common Equity	1,177.594	52.41%	921.344	53.68%	779.906	49.37%	730.157	50.70%	693.4		52.70%
	2,246.989	100.00%	1,716.312	100.00%	1,579.588	100.00%	1,440.184	100.00%	1,209.2	255 100.00%	100.00%
Middlesex Water Co											
Long-term Debt	310.887	45.67%	278.286	44.41%	236.509	42.05%	152.851	37.83%	139.0	37.51%	41.50%
Preferred Stock	2.084	0.31%	2.084	0.33%	2.084	0.37%	2.433	0.60%		133 0.66%	0.45%
Common Equity	367.726	54.02%	346.208	55.25%	323.792	57.57%	248.787	61.57%	229.3		58.05%
··· · · · · · · · · · · · · · · · · ·	680.697	100.00%	626.578	100.00%	562.385	100.00%	404.071	100.00%	370.6		100.00%
SJW Group											
Long-term Debt	1,492.935	59.07%	1,287.580	58.40%	1,283.597	59.05%	431.424	32.67%	431.0		51.48%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%		- 0.00%	0.00%
Common Equity	1,034.519	40.93%	917.160	41.60%	889.984	40.95%	889.312	67.33%	463.2		48.52%
	2,527.454	100.00%	2,204.740	100.00%	2,173.581	100.00%	1,320.736	100.00%	894.3	801 100.00%	100.00%
Essential Utilities											
Long-term Debt	5.827.734	52.92%	5,563.386	54.29%	2,954.972	43.23%	2,398.464	54.41%	2,007.3	753 50.63%	51.10%
Preferred Stock	5,027.754	0.00%	5,505.500	0.00%	2,554.572	0.00%	2,350.404	0.00%	2,007.1	- 0.00%	0.00%
Common Equity	5,184.450	47.08%	4,683.877	45.71%	3,880.860	56.77%	2,009.364	45.59%	1,957.6		48.90%
1.4	11,012.184	100.00%	10,247.263	100.00%	6,835.832	100.00%	4,407.828	100.00%	3,965.3		100.00%
York Water Company											
Long-term Debt	138.869	47.64%	123.573	46.31%	94.535	41.33%	93.328	42.51%	90.0		44.16%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%		- 0.00%	0.00%
Common Equity	152.622	52.36%	143.252	53.69%	134.185	58.67%	126.195	57.49%	119.4		55.84%
	291.491	100.00%	266.825	100.00%	228.720	100.00%	219.523	100.00%	209.5	503 100.00%	100.00%
Five-Year Average Capital Structure	40.000			F7 C00/		44 5001					
Long-term Debt	48.08%		Maximum	57.60%	Minimum	41.50%					
Preferred Stock	0.06%			42 4007		50.050					
Common Equity	51.85%		Minimum	42.40%	Maximum	58.05%					

I&E Exhibit No. 2

51.85% 100.00% Common Equity Minimum 42.40% Maximum

Source: Compustat (S&P Global Market Intelligence - Data Management Solutions) Yearly data updates typically provided late April of each year (data in millions)

#### **Gross Revenue Conversion Factor**

			Filing
1	Operating Revenue	1	
2	Less: Uncollectibles	0.0052	Exhibit No. FIII-2-18
3	Income Before State Taxes	0.9948	Line 1 - Line 2
4	State Income Tax Effect Rate	0.0999	Exhibit No. FIV-17-10
5	Less: State Income Tax	0.09938052	Line 3 x Line 4
6	Income Before Federal Taxes	0.89541948	Line 3 - Line 5
7	Federal Income Tax Effect Rate	0.21	Exhibit No. FIV-17-10
8	Less: Federal Tax @ 21%	0.18803809	Line 6 x Line 7
9	Adjusted Operating Income	0.70738139	Line 1 - (Line 2 + Line 5 + Line 8)
10			
11	Gross Revenue Convestion Factor	1.41366456	1 + ((1 - Line 9) / Line 9)

		2021	I&E Exhibit No. 2 Schedule 4
	Interest Charges	Long-Term Debt	Debt Cost
American Water Works	\$ 413.00	\$ 10,424.00	3.96%
American States Water Co	22.83	595.60	3.83%
California Water Service Group	44.98	1,069.40	4.21%
Middlesex Water Co	8.11	310.89	2.61%
SJW Group	58.76	1,492.94	3.94%
Essential Utilities	207.71	5,827.73	3.56%
York Water Company	4.93	138.87	3.55%
	Range:	Low High	2.61% 4.21%
		Average -	3.67%

Source:

Compustat (S&P Global Market Intelligence - Data Management Solutions) Yearly data updates typically provided late April of each year (data in millions)

I&E Exhibit No. 2 Schedule 5

		Divi	dend Yields of Seve	en Company Proxy G	roup		
Company	American Water Works	American States Water Co	California Water Service Group	Middlesex Water Co	SJW Group	Essential Utilities	York Water Company
Symbol	AWK	AWR	CWT	MSEX	SJW	WTRG	YORW
Div	2.80	1.65	1.08	1.25	1.52	1.25	0.83
52-wk low	142.36	74.77	49.84	80.48	57.17	42.03	38.10
52-wk high	189.65	103.77	72.08	121.43	73.69	53.93	53.77
Spot Price	150.56	78.64	53.88	83.41	61.88	45.75	40.26
Spot Div Yield	1.86%	2.10%	2.00%	1.50%	2.46%	2.73%	2.06%
52-wk Div Yield	1.69%	1.85%	1.77%	1.24%	2.32%	2.61%	1.81%
Average	1.77%	1.97%	1.89%	1.37%	2.39%	2.67%	1.93%

	Average
Spot Div Yield	2.10%
52-wk Div Yield	1.90%
Average	2.00%

Source: Barrons Value Line June 10, 2022 April 8, 2022

			-	(	Schedule	6
Five-Year Growt	h Estimate Fored	cast for Pro	oxy Group	o (Actual)		
		Yahoo	Zacks	Morningstar	Value Line	Average
<u>Company</u>	<u>Symbol</u>			Source		
American Water Works American States Water Co California Water Service Group Middlesex Water Co SJW Group Essential Utilities York Water Company	AWK AWR CWT MSEX SJW WTRG YORW	8.30% 4.40% 11.70% 2.70% 9.80% 6.80% 4.90%	8.10% NA NA NA 6.10% NA	7.80% 4.40% 2.10% NA 7.90% 7.20% NA	7.50% 5.50% 6.50% 4.50% 14.00% 10.00% 5.00%	7.93% 4.77% 6.77% 3.60% 10.57% 7.53% 4.95%
•						0.500/

# Average

6.59%

I&E Exhibit No. 2

### Sources date:

(From Internet) June 10, 2022 and April 8, 2022

# Expected Market Cost Rate of Equity

5-Year Forecasted Growth Rates

	Time Period	Adjusted Dividend Yield (1)	Growth Rate (2)	Expected Return on Equity (3=1+2)
(1)	<b>52-Week Average</b> Ending: June 10, 2022	1.90%	6.59%	8.49%
(2)	Spot Price Ending: June 10, 2022	2.10%	6.59%	8.69%
(3)	Average:	2.00%	6.59%	8.59%

Sources: Value Line April 8, 2022 Barrons June 10, 2022

I&E Exhibit No. 2 Schedule 8

Company	<u>Beta</u>
American Water Works	0.85
American States Water Co	0.65
California Water Service Group	0.65
Middlesex Water Co	0.70
SJW Group	0.80
Essential Utilities	0.95
York Water Company	0.85
Average beta for CAPM	0.78

# Source:

Value Line April 8, 2022

#### I&E Exhibit No. 2 Schedule 9

Risk-Free Rate <u>Treasury note 10-yr Note</u>	<u>Yield</u>
3Q 2022	3.10
4Q 2022	3.20
1Q 2023	3.30
2Q 2023	3.40
3Q 2023	3.40
2024-2028	3.50
Average	3.32

Source:

Blue Chip June 1, 2022

# Required Rate of Return on Market as a Whole Forecasted

	Dividend <u>Yield</u>	+	Growth <u>Rate</u>	=	Expected Market <u>Return</u>
Value Line Estimate	2.00%		12.47%	(a)	14.47%
S&P 500	1.65%	(b)	12.70%		14.35%
Average Expected Mark	et Return			=	14.41%

(a) ((1+60%)^.25) -1) Value Line forecast for the 3 to 5 year index appreciation is 60%

(b) S&P 500 dividend yield multiplied by half the S&P 500 growth rate

(b) 1.55% \* ((1+12.70%/2)) = 1.65%

### Sources:

S&P 500 Growth Rate (Morningstar)	6/10/2022	12.70%
S&P 500 Dividend Yield (Barrons)	6/3/2022	1.55%
Value Line Dividend Yield	6/10/2022	2.00%
Value Line Appreciation Yield	6/10/2022	60.00%

# CAPM with Forecasted Return

Re	Required return on individual equity security
----	---

Rf Risk-free rate

**Rm** Required return on the market as a whole

Be Beta on individual equity security

**Re =** Rf+Be(Rm-Rf)

14.41
0.78
11.97

Sources: Value Line April 8, 2022 Blue Chip June 1, 2022

#### PENNSYLVANIA PUBLIC UTILITY COMMISSION

#### v. THE YORK WATER COMPANY - WATER DOCKET NO. R-2022-3031340

I&E Exhibit No. 2 Schedule 12

# BUREAU OF INVESTIGATION AND ENFORCEMENT INTERROGATORIES SET RR

# BUREAU OF INVESTIGATION AND ENFORCEMENT INTERROGATORY I&E-RR-6-D

Reference York Water Statement No. 107, page 43, lines 18-19:

A. State whether Mr. Moul is aware of any water utilities throughout the United States that have been granted a Commission authorized 11.25% or higher cost of common equity in the past two years.

B. If the response to Part A is yes, state which company/companies have been authorized such cost of common equity and in what jurisdiction.

# **RESPONDENT:**

P. R. Moul P. Moul & Associates

# DATE:

June 27, 2022

### **RESPONSE:**

A. Mr. Moul has not researched this issue.

B. See the response to (A) above.

# PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

# THE YORK WATER COMPANY

Docket No. R-2022-3031340 (Water) & Docket No. R-2022-3032806 (Wastewater)

**Surrebuttal Testimony** 

of

**Christopher Keller** 

**Bureau of Investigation & Enforcement** 

**Concerning:** 

**Rate of Return** 

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# 1 INTRODUCTION OF WITNESS

2	Q.	PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
3	A.	My name is Christopher Keller. My business address is Pennsylvania Public
4		Utility Commission, Commonwealth Keystone Building, 400 North Street,
5		Harrisburg, PA 17120.
6		
7	Q.	BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?
8	A.	I am employed by the Pennsylvania Public Utility Commission (Commission) in
9		the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial
10		Analyst.
11		
12	Q.	ARE YOU THE SAME CHRISTOPHER KELLER WHO IS
13		<b>RESPONSIBLE FOR THE DIRECT TESTIMONY CONTAINED IN I&amp;E</b>
14		STATEMENT NO. 2 AND THE SCHEDULES IN I&E EXHIBIT NO. 2?
15	A.	Yes.
16		
17	Q.	WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?
18	A.	The purpose of my surrebuttal testimony is to address statements made by The
19		York Water Company (York Water or Company) witness Paul R. Moul (York
20		Water Statement No. 107-R) and Office of Consumer Advocate (OCA) witness
21		Dr. David S. Habr (OCA Statement No. 3R) in their rebuttal testimony regarding
22		rate of return topics including the cost of common equity and the overall fair rate

1		of return, which will be applied to the Company's rate base. I will also address the
2		Company's management performance claim discussed by Mr. Moul and Company
3		witness Joseph T. Hand (York Water Statement No. 1-R).
4		
5	Q.	DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN
6		ACCOMPANYING EXHIBIT.
7	A.	No, however, I will refer to my direct testimony and exhibit in this surrebuttal
8		testimony (I&E Statement No. 2 and I&E Exhibit No. 2).
9		
10	Q.	DID THE COMPANY PROVIDE AN UPDATE TO ITS RATE OF
11		<b>RETURN CLAIM?</b>
12	A.	Yes. The Company provided an update to its cost of long-term debt. The
13		Company is now requesting a cost of long-term debt of 4.18% to reflect the cost of
14		new issues of long-term debt in the future test year (FTY) and the fully projected
15		future test year (FPFTY) (York Water Statement No. 107-R, p. 12, lines 20-22).
16		The Company's update to its cost of long-term debt produces an increase of 0.27%
17		(4.18% - 3.91%) to its initial claim of 3.91% (York Water Statement No. 107-R, p.
18		12, lines 23-25). Below is the Company's updated rate of return claim (York
19		Water Statement No. 107-R, p. 12, lines 25-26):
		Type of Capital Datio Cost Data Weighted Cost Data

Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	45.23%	4.18%	1.89%
Common Equity	<u>54.77%</u>	11.25%	<u>6.16%</u>
Total	100.00%		8.05%

# 1 SUMMARY OF MR. MOUL'S REBUTTAL TESTIMONY 2 **Q**. SUMMARIZE MR. MOUL'S RESPONSE TO YOUR 3 **RECOMMENDATIONS MADE IN DIRECT TESTIMONY.** 4 Mr. Moul disputes my recommendations regarding my reliance on and application A. 5 of the DCF method and the disallowance of his leverage adjustments to the DCF 6 and beta of his CAPM. Further, Mr. Moul disagrees with the appropriate risk-free 7 rate to use and my exclusion of a size adjustment in my CAPM analysis, my 8 disagreement with his use of the Risk Premium (RP) and Comparable Earnings 9 (CE) methods, and my recommended disallowance of additional basis points for 10 management performance. Finally, Mr. Moul compares the DSIC rate determined 11 by the Commission in the Quarterly Earnings Reports (QERs) to the rates 12 calculated using market data. 13 14 **DSIC RATE** 15 **Q**. SHOULD THE COMMISSION CONSIDER THE AUTHORIZED DSIC 16 **RATE ESTABLISHED IN THE QUARTERLY EARNINGS SUMMARY** 17 **REPORTS AS AN APPROPRIATE MEASURE TO DETERMINE THE** 18 **COST OF EQUITY IN THIS PROCEEDING?** 19 No. Mr. Moul's comparison between the I&E recommended return on equity in A.

20 this proceeding and the Company's DSIC rate (York Water Statement No. 107-R,

- 21 p. 4) is misguided. The DSIC rate is designed to encourage its use and to
- 22 incentivize accelerated pipeline replacement and infrastructure upgrades to bring

1	the existing aging infrastructure closer to meeting safety and reliability
2	requirements in between base rate filings. To suggest the cost of equity must be at
3	or above the DSIC rate in this base rate proceeding is inappropriate and not in the
4	public interest. Additionally, the DSIC rate establishes a benchmark above which
5	a utility company is considered "overearning." As such, the DSIC rate does not
6	serve as a proper measurement of a subject utility's cost of equity in a rate case
7	proceeding since the DSIC rate is routinely higher than any return on equity
8	approved in such base rate proceedings. In fact, 66 Pa. C.S. § 1358(b)(3) states
9	the following:
10 11 12 13 14 15	The distribution system improvement charge shall be reset at zero if, in any quarter, data filed with the commission in the utility's most recent annual or quarterly earnings report show that the utility will earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the distribution system improvement charge.
16	Finally, the DSIC mechanism serves to lower a utility's risk because it
17	reduces the lag time in the recovery of a company's capital outlays. DSIC
18	spending requires preapproval of eligible plant via a Long-Term Infrastructure
19	Improvement Plan so there is little question as to the prudence of those

1	Q.	ARE THERE ANY INSTANCES YOU ARE AWARE OF WHERE THE
2		COMMISSION GRANTED A RETURN ON EQUITY THAT WAS
3		HIGHER THAN THE MOST RECENTLY PUBLISHED DSIC RATE?
4	A.	Yes. In the recent Aqua Pennsylvania, Inc. (Aqua) base rate case the Commission
5		awarded that company a return on equity of 10.00%, <sup>1</sup> which was higher than the
6		most recently published DSIC rate for water and wastewater utilities of 9.80%. <sup>2</sup>
7		This was due to the Commission granting 25 basis points for management
8		effectiveness, <sup>3</sup> which caused the return on equity to go from 9.75% to 10.00%.
9		
10	Q.	ARE THERE ANY POTENTIAL PROBLEMS WITH AWARDING A
10 11	Q.	ARE THERE ANY POTENTIAL PROBLEMS WITH AWARDING A RETURN ON EQUITY THAT IS EQUAL TO OR HIGHER THAN THE
	Q.	
11	<b>Q.</b> A.	RETURN ON EQUITY THAT IS EQUAL TO OR HIGHER THAN THE
11 12		RETURN ON EQUITY THAT IS EQUAL TO OR HIGHER THAN THE DSIC RATE?
11 12 13		<b>RETURN ON EQUITY THAT IS EQUAL TO OR HIGHER THAN THE DSIC RATE?</b> Yes. First, it removes incentive for utilities to use the DSIC mechanism between
11 12 13 14		RETURN ON EQUITY THAT IS EQUAL TO OR HIGHER THAN THE DSIC RATE? Yes. First, it removes incentive for utilities to use the DSIC mechanism between rate filings and may encourage the more frequent filing of base rate cases.
11 12 13 14 15		RETURN ON EQUITY THAT IS EQUAL TO OR HIGHER THAN THE DSIC RATE? Yes. First, it removes incentive for utilities to use the DSIC mechanism between rate filings and may encourage the more frequent filing of base rate cases. Second, it may encourage litigation as opposed to settlement of cases, since

<sup>&</sup>lt;sup>1</sup> *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 178 (Order entered May 16, 2022).

<sup>&</sup>lt;sup>2</sup> PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended March 31, 2022, approved at Public Meeting on August 4, 2022 at Docket No. M-2022-3033561.

<sup>&</sup>lt;sup>3</sup> *Pa. PUC v. Aqua Pennsylvania, Inc.,* Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 178 (Order entered May 16, 2022).

1		Therefore, in my opinion, the DSIC rate should generally be an incentive
2		rate that is higher than a return on equity percentage granted in a rate proceeding,
3		and I am anticipating that the recent Commission decision is not indicative of "the
4		new normal."
5		
6	<u>CAP</u>	ITAL STRUCTURE
7	Q.	SUMMARIZE DR. HABR'S REBUTTAL TESTIMONY REGARDING
8		YOUR CAPITAL STRUCTURE RECOMMENDATION.
9	A.	Dr. Habr disagrees with my acceptance of the Company's capital structure and
10		asserts that his capital structure recommendation of 52% common equity and 48%
11		debt should be used because the Company's debt ratio has decreased from $49.0\%$
12		to 36.8%. Dr. Habr states this is due to the Company using the issuance of
13		common stock in April 2022 to pay off \$29.32 million in long-term debt as
14		opposed to refinancing its long-term debt by issuing new long-term debt, which
15		would have maintained its debt to equity capital structure. Dr. Habr believes that
16		customers should not have to pay higher rates due to excess common equity in its
17		capital structure based on the Company's choice to pay off long-term debt through
18		the issuance of more costly common stock. Finally, Dr. Habr references the
19		Company's second quarter 10-Q where it notes that its debt ratio is between 46%
20		and 50% which has been historically acceptable by the Commission (OCA
21		Statement No. 3R, p. 1, line 10 through p. 2, line 7).

2

# Q. WHAT IS YOUR RESPONSE TO DR. HABR'S REBUTTAL TESTIMONY REGARDING CAPITAL STRUCTURE?

3 A. My position remains unchanged from the arguments made in my direct testimony. 4 The Company's claimed capital structure falls within the range of my proxy 5 group's capital structure over the past five years, which differs from Dr. Habr's 6 proxy group since he excluded the Company from his proxy group. The average 7 capital structure of my proxy group for the past five years consists of long-term 8 debt ratios ranging from 41.50% to 57.60% and equity ratios ranging from 42.40% 9 to 58.05%, with a five-year average of 48.08% for long-term debt and 51.85% for 10 common equity (I&E Exhibit No. 2, Schedule 2). I would note that although I 11 accepted the Company's claimed capital structure based on comparison to my 12 proxy group, I did discuss the substantial cost to ratepayers resulting from the 13 Company's equity heavy capital structure (I&E Statement No. 2, pp. 12-14). 14

15 **DISCOUNTED CASH FLOW** 

# 16 Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING 17 YOUR DCF ANALYSIS.

A. Mr. Moul agrees that the results of a DCF analysis should be given weight but
disagrees with my approach. Mr. Moul also disagrees with my results based on
the outcomes of certain individual companies and my recommendation to reject
his leverage adjustment (York Water Statement No. 107-R, pp. 13-24).

### EXCLUSIVE USE OF THE DCF

# 2 Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING 3 YOUR USE OF THE DCF.

4 Mr. Moul explains that the use of more than one method provides a superior A. 5 foundation for the cost of equity determination. Mr. Moul claims that the use of more than one method will capture the multiplicity of factors that motivate 6 7 investors to commit their capital to a particular enterprise. Finally, Mr. Moul 8 states that my comparison of my DCF results to my CAPM results when 9 determining the impact to ratepayers is not relevant and proceeds to recalculate the 10 impact to ratepayers by using the average of my DCF and CAPM results and comparing this to my DCF results as he asserts that if there was to be a 11 12 comparison, it would be between the average of my DCF results and my CAPM 13 results being compared to my DCF results (York Water Statement No. 107-R, pp. 14 13-16). 15 16 WERE ANY METHODS OTHER THAN THE DCF EMPLOYED IN YOUR **Q**. 17 **ANALYSIS?** 18 A. Yes. Although my recommendation was based on the results of my DCF analysis, 19 I also employed the CAPM as a comparison. For the reasons discussed in my 20 direct testimony, the DCF method is the most reliable (I&E Statement No. 2, pp. 21 17-19). Although no one method can capture every factor that influences an

22 investor, including the results of methods less reliable than the DCF does not make

1		the end result more reliable or more accurate. As a result, I stand by my method
2		of using the DCF with a CAPM comparison, which is consistent with the
3		methodology historically used by the Commission in base rate proceedings, even
4		as recently as 2017, 2018, 2020, and 2021. <sup>4</sup>
5		
6	Q.	DOES THE DCF ADEQUATELY FACTOR IN RECENT INFLATIONARY
7		TRENDS?
8	А.	Yes. As stated in my direct testimony, my DCF calculation includes a spot stock
9		price when determining the dividend yield and analysts who generate forecasted
10		earnings growth rates almost certainly take inflation into consideration as well;
11		therefore, it contains the most up-to-date projected information of any model. In
12		other words, the inputs of the DCF capture all known economic factors, including
13		inflation. Thus, any potential concerns that the Commission should consider the
14		overall economic climate and related inflation when deciding the merits of the
15		Company's requested base rate increase are adequately covered by use of the DCF
16		as a primary model for determining an appropriate return on equity (I&E
17		Statement No. 2, p. 26, lines 12-19).

Pa. PUC v. City of DuBois – Bureau of Water; Docket No. R-2016-2554150 (Order Entered March 28, 2017). See generally Disposition of Cost Rate Models, pp. 96-97; Pa. PUC v. UGI Utilities, Inc. – Electric Division; Docket No. R-2017-2640058 (Order Entered October 25, 2018). See generally Disposition of Cost of Common Equity, p. 119; Pa. PUC v. Wellsboro Electric Company; Docket No. R-2019-3008208 (Order Entered April 29, 2020). See generally Disposition of Primary Methodology to Determine ROE, pp. 80-81; Pa. PUC v. Citizens Electric Company of Lewisburg, PA; Docket No. R-2019-3008212 (Order Entered April 29, 2020). See generally Disposition of Cost of Common Equity, pp. 91-92. Pa. PUC v. Columbia Gas of Pennsylvania, Inc.; Docket No. R-2020-3018835 (Order Entered February 19, 2021). See generally Disposition of Cost of Common Equity, p. 131. Pa. PUC v. PECO Energy Company – Gas Division; Docket No. R-2020-3018929 (Order Entered June 22, 2021). See generally Disposition of Return of Rate on Common Equity, p. 171.

1	Q.	DO YOU AGREE WITH USING THE AVERAGE OF YOUR DCF AND
2		CAPM RESULTS TO DETERMINE THE IMPACT TO RATEPAYERS?
3	A.	No. My calculation was to demonstrate the impact to ratepayers of using the
4		CAPM as the top end of a range in determining a return on equity because the
5		Commission used I&E's CAPM results as a ceiling for a "range of
6		reasonableness" in determining the return on equity in the 2021 Aqua base rate
7		case. <sup>5</sup> Additionally, Mr. Moul's average of my DCF and CAPM results of 10.28%
8		is still inappropriate as it is above the recently published DSIC rate authorized by
9		the Commission of 9.80% <sup>6</sup> for water and wastewater utilities based on a period
10		ended March 31, 2022. This demonstrates the problem associated with using the
11		CAPM in determining a utility's return on equity and would result in a significant
12		burden to ratepayers during a time of increasing levels of inflation and economic
13		decline. Therefore, I believe that the CAPM should not be used as a primary
14		method, and it should only be used as a comparison to the DCF (and not as a
15		check of the DCF) for the reasons I have stated in this testimony and in my direct
16		testimony.

<sup>&</sup>lt;sup>5</sup> *Pa. PUC v. Aqua Pennsylvania, Inc.,* Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 178 (Order entered May 16, 2022).

<sup>&</sup>lt;sup>6</sup> PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended March 31, 2022, approved at Public Meeting on August 4, 2022 at Docket No. M-2022-3033561.

1		<b>EVALUATING THE DCF BASED ON INDIVIDUAL RESULTS</b>
2	Q.	SUMMARIZE MR. MOUL'S RESPONSE IN REBUTTAL TESTIMONY
3		REGARDING THE RESULTS OF YOUR DCF.
4	A.	Mr. Moul explains that when some results are unreasonable on their face, the
5		reliability of or the witness' application of that method must be questioned. He
6		points to the results of three companies in my proxy group and claims that they
7		fall into the category of unreasonableness. Mr. Moul attempts to support his
8		theory by arguing that the spread between the cost of debt and the cost of equity is
9		6.75% (York Water Statement No. 107-R, p. 16).
10		
11	Q.	WHAT IS YOUR RESPONSE TO MR. MOUL'S ATTEMPT TO
12		DISAGGREGATE YOUR RESULTS?
13	A.	Mr. Moul derives his suggested 6.75% spread from his RP analysis (York Water
13 14	A.	Mr. Moul derives his suggested 6.75% spread from his RP analysis (York Water No. 107, p. 36, lines 3-5). However, I have refuted the use of the RP method both
	A.	
14	A.	No. 107, p. 36, lines 3-5). However, I have refuted the use of the RP method both
14 15	A.	No. 107, p. 36, lines 3-5). However, I have refuted the use of the RP method both in my direct testimony (I&E Statement No. 2, p. 15, line 2 through p. 23, line 8),
14 15 16	A.	No. 107, p. 36, lines 3-5). However, I have refuted the use of the RP method both in my direct testimony (I&E Statement No. 2, p. 15, line 2 through p. 23, line 8), and again in this surrebuttal testimony, as it is an inferior method for calculating
14 15 16 17	A.	No. 107, p. 36, lines 3-5). However, I have refuted the use of the RP method both in my direct testimony (I&E Statement No. 2, p. 15, line 2 through p. 23, line 8), and again in this surrebuttal testimony, as it is an inferior method for calculating the cost of common equity. Further, the 8.59% result of my DCF analysis offers a
14 15 16 17 18	A.	No. 107, p. 36, lines 3-5). However, I have refuted the use of the RP method both in my direct testimony (I&E Statement No. 2, p. 15, line 2 through p. 23, line 8), and again in this surrebuttal testimony, as it is an inferior method for calculating the cost of common equity. Further, the 8.59% result of my DCF analysis offers a 4.41% margin over the claimed 4.18% cost of debt (8.59% - 4.18% = 4.41%). My
14 15 16 17 18 19	A.	No. 107, p. 36, lines 3-5). However, I have refuted the use of the RP method both in my direct testimony (I&E Statement No. 2, p. 15, line 2 through p. 23, line 8), and again in this surrebuttal testimony, as it is an inferior method for calculating the cost of common equity. Further, the 8.59% result of my DCF analysis offers a 4.41% margin over the claimed 4.18% cost of debt (8.59% - 4.18% = 4.41%). My recommended cost of equity is more than double, or 206% higher that the

1		associated with a common equity investment" (York Water Statement No. 107-R,
2		p. 16, lines 10-12).
3		
4		LEVERAGE ADJUSTMENT
5	Q.	SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING
6		HIS RECOMMENDED LEVERAGE ADJUSTMENT.
7	A.	First, Mr. Moul clarifies that his "leverage adjustment" is not a traditional
8		"market-to-book" ratio adjustment. Next, he states that credit rating agencies do
9		not measure the market-required cost of equity for a company, nor are they
10		concerned with how it is applied in the rate-setting context. Instead, credit rating
11		agencies are only concerned with the interests of lenders and the timely payment
12		of interest and principal by utilities. Mr. Moul then questions two of the six prior
13		Commission Orders that I reference in my direct testimony. Finally, Mr. Moul
14		disagrees with my assertion that investors base their decisions on book value
15		capitalization (York Water Statement No. 107-R, pp. 20-22).
16		
17	Q.	HAVE YOU CLAIMED THAT MR. MOUL'S ADJUSTMENT IS A
18		MARKET-TO-BOOK RATIO ADJUSTMENT?
19	А.	No. As I stated in my direct testimony, Mr. Moul does not propose to change the
20		capital structure of the utility (a leverage adjustment), nor does he propose to
21		apply the market-to-book ratio to the DCF model (a market-to-book adjustment)
22		(I&E Statement No. 2, p. 44, line 20 through p. 45, line 3).

# Q. WHAT IS YOUR RESPONSE TO MR. MOUL'S REBUTTAL

#### 2

# **TESTIMONY CONCERNING CREDIT RATING AGENCIES?**

A. Mr. Moul has supported my argument that his proposed leverage adjustment is not
needed by stating that the credit rating agencies are only concerned with the timely
payment of interest and principal by utilities (York Water Statement No. 107-R, p.
21). Mr. Moul's stated need for the leverage adjustment is based on his assertion
that the difference between the book value capital structure and his market value
capital structure causes a financial risk difference (York Water Statement No. 107,

9 p. 28).

10 Financial risk does relate to the capital structure of a company, but it is 11 created by the financing decisions (the use of debt or equity) and the amount of leverage or debt a company chooses to finance its assets. Financial risk and the 12 13 book value capital structure of a company are represented in the income statement, 14 part of what is evaluated by rating agencies. Mr. Moul agrees with me that credit 15 rating agencies use a company's financial statements in their analysis to assess 16 financial risk and determine creditworthiness (York Water Statement No. 107-R, 17 p. 20).

18

# Q. SUMMARIZE MR. MOUL'S RESPONSE TO YOUR REFERENCING PRIOR COMMISSION ORDERS.

A. Mr. Moul refers to the discussion in my direct testimony where I point to six
 recent cases (Aqua Pennsylvania, Inc.'s 2007 base rate case, City of Lancaster –

1		Bureau of Water's 2010 base rate case, UGI Utilities, Inc. – Electric Division's
2		2017 base rate case, Columbia's 2020 base rate case, PECO Energy Company –
3		Gas Division's 2020 base rate case, and Aqua Pennsylvania, Inc.'s 2021 base rate
4		case) where the Commission has rejected a "leverage adjustment." Mr. Moul
5		addresses only two of the six recent cases I discussed in my direct testimony. He
6		claims that the adjustment proposed in the City of Lancaster case was much
7		different than what he is proposing in this proceeding. Additionally, Mr. Moul
8		explains that even though the Commission declined to make a "leverage
9		adjustment" in the 2007 Aqua Pennsylvania case, it does not invalidate its use.
10		Further, Mr. Moul states, "Notably, the Commission did not repudiate the leverage
11		adjustment in the Aqua case, but instead arrived at an 11.00% return on equity for
12		Aqua by including a separate return increment for management performance."
13		(York Water Statement No. 107-R, p. 21).
14		
15	Q.	WHAT IS YOUR RESPONSE TO MR. MOUL'S REBUTTAL
16		TESTIMONY REGARDING THE REFERENCED PRIOR COMMISSION
17		ORDERS IN YOUR DIRECT TESTIMONY?
18	A.	In this proceeding, Mr. Moul is recommending a 146-basis point "leverage
19		adjustment." To be clear, the Commission did in fact refuse to accept the leverage
20		adjustment in the 2007 Aqua base rate case by stating "we reject the ALJ's

1		recommendation to allow a 65 basis point leverage adjustment." <sup>7</sup> The
2		management performance points awarded to Aqua in the 2007 base rate case were
3		case-specific and in no way related to the proposed leverage adjustment.
4		Regarding the City of Lancaster case, the Commission did not reject the leverage
5		adjustment based on the manner in which it was calculated, but rather, the
6		Commission stated, "the ALJ's recommendation is in error as any adjustment to
7		the results of the market based DCF as we have previously adopted are
8		unnecessary and will harm ratepayers."8
9		
10	Q.	WHAT IS YOUR RESPONSE TO MR. MOUL'S ASSERTION THAT
11		INVESTORS DO NOT BASE THEIR DECISIONS ON BOOK VALUE,
11 12		INVESTORS DO NOT BASE THEIR DECISIONS ON BOOK VALUE, BUT RATHER THE RETURN THEY WILL EARN ON THE DOLLARS
12	A.	BUT RATHER THE RETURN THEY WILL EARN ON THE DOLLARS
12 13	A.	BUT RATHER THE RETURN THEY WILL EARN ON THE DOLLARS THEY INVEST?
12 13 14	A.	<b>BUT RATHER THE RETURN THEY WILL EARN ON THE DOLLARS</b> <b>THEY INVEST?</b> Mr. Moul's assertion that an investor is concerned with the return earned on
12 13 14 15	A.	<b>BUT RATHER THE RETURN THEY WILL EARN ON THE DOLLARS THEY INVEST?</b> Mr. Moul's assertion that an investor is concerned with the return earned on dollars invested and "not some accounting value of little relevance to them,"
12 13 14 15 16	A.	<b>BUT RATHER THE RETURN THEY WILL EARN ON THE DOLLARS</b> <b>THEY INVEST?</b> Mr. Moul's assertion that an investor is concerned with the return earned on dollars invested and "not some accounting value of little relevance to them," (York Water Statement No. 107-R, p. 22) is unsupported. Clearly an investor
12 13 14 15 16 17	A.	<b>BUT RATHER THE RETURN THEY WILL EARN ON THE DOLLARS</b> <b>THEY INVEST?</b> Mr. Moul's assertion that an investor is concerned with the return earned on dollars invested and "not some accounting value of little relevance to them," (York Water Statement No. 107-R, p. 22) is unsupported. Clearly an investor takes financial risk into consideration when determining a required return. In

<sup>7</sup> 

*Pa. PUC v. Aqua Pennsylvania, Inc.*; Docket No. R-00072711, pp. 38-39 (Order entered July 31, 2008). *Pa. PUC v. City of Lancaster – Bureau of Water*; Docket No. R-2010-2179103, p. 79 (Order entered July 14, 8 2011).

1		shares outstanding multiplied by the current price. A market value capital
2		structure refers to the ratio of market debt to market equity, which is not included
3		in Value Line's reports. Therefore, Mr. Moul's contention that Value Line
4		includes market capitalization data does not offer any support for his leverage
5		adjustment.
6		
7	Q.	HAS MR. MOUL'S RESPONSE IN REBUTTAL TESTIMONY
8		CONCERNING HIS PROPOSED LEVERAGE ADJUSTMENT CAUSED
9		YOU TO CHANGE YOUR RECOMMENDATION?
10	А.	No. For the reasons discussed above, I continue to recommend that Mr. Moul's
11		leverage adjustment be rejected.
12		
13	<u>CAP</u>	TTAL ASSET PRICING MODEL
14	Q.	SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING
15		YOUR APPLICATION OF THE CAPM.
16	А.	Mr. Moul opines that my CAPM analysis understates the cost of equity for several
17		reasons, including my use of the yield on 10-year Treasury Notes for my risk-free
18		rate, my alleged use of geometric mean to calculate my total market return, failure
19		to use leverage adjusted betas, and rejection of his size adjustment (York Water
20		Statement No. 107-R, p. 24). Each of these topics are discussed in more detail
21		below.

# **<u>RISK-FREE RATE</u>**

2	Q.	SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING
3		YOUR USE OF THE YIELD ON THE 10-YEAR U.S. TREASURY NOTE.
4	A.	Mr. Moul claims that by using the 10-year Treasury Note, I introduced a
5		systematic understatement of CAPM returns that can be traced to extraordinary
6		monetary policy actions to deal with the recession created by the pandemic. He
7		opines that his use of the yield on a 30-year U.S. Treasury Bond is more
8		appropriate than my use of the yield on a 10-year Treasury Note because 30-year
9		bonds are "more a reflection of investor sentiment of their required returns" and
10		are also less susceptible to Federal policy actions (York Water Statement No.
11		107-R, p. 24, line 23 through p. 25, line 9).
12		
13	Q.	DO YOU AGREE WITH MR. MOUL THAT USING THE YIELD OF A 30-
14		YEAR U.S. TREASURY BOND IS MORE APPROPRIATE DUE TO A
15		LONGER-TERM BOND BEING LESS SUSCEPTIBLE TO FEDERAL
16		POLICY ACTIONS?
17	А.	No. As stated in my direct testimony, I chose the 10-year Treasury Note which
18		balances the shortcomings of the short-term T-Bill and the 30-year Treasury Bond.
19		Although long-term Treasury Bonds have less risk of being influenced by federal
20		policies, they have substantial maturity risk associated with the market risk. In
21		addition, long-term Treasury Bonds bear the risk of unexpected inflation. As
22		such, my choice of a 10-year Treasury Note is more appropriate (I&E Statement
22		such, my choice of a 10-year measury Note is more appropriate (itel Statement

1		No. 2, pp. 28-29). Further, as also pointed out in my direct testimony, the
2		Commission has agreed with I&E and recognized the 10-year Treasury Note as the
3		superior measure of the risk-free rate of return. <sup>9</sup>
4		
5	Q.	SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING
6		YOUR RISK-FREE RATE USED IN THE CAPM FORMULA.
7	A.	Mr. Moul opines that I have incorrectly given weight to the yield on the 10-year
8		Treasury Note for the third quarter of 2022 as I do for the entire five-year period
9		encompassing 2024 to 2028. Then, Mr. Moul incorrectly recalculates the risk-free
10		rate by averaging the 10-year treasury yield forecasts by year from 2022 through
11		2028 to inflate my calculated risk-free rate of 3.32% to 3.40% (York Water
12		Statement No. 107-R, p. 25, lines 10-20).
13		
14	Q.	DO YOU AGREE WITH MR. MOUL'S ANALYSIS OF YOUR RISK-FREE
15		RATE?
16	А.	No. Mr. Moul's new calculation proposes to give equal weight to each separate
17		year from 2022 to 2028. The flaw with this approach is that the further out into
18		the future one forecasts, the less reliable and more speculative the estimates
19		become; therefore, to give the less reliable estimates equal weight would not be
20		prudent. It is more appropriate to weight the quarters and years as I have done in

<sup>&</sup>lt;sup>9</sup> *Pa. PUC v. UGI Utilities, Inc. – Electric Division;* Docket No. R-2017-2640058 p. 99 (Order entered October 25, 2018).

1		my direct testimony (I&E Exhibit No. 2, Schedule No. 9). My calculation
2		provides a more accurate estimation of the risk-free rate during the FPFTY, as the
3		further out one forecasts, the less reliable the information becomes.
4		
5		FORECASTED MARKET RETURN
6	Q.	SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING
7		YOUR RECOMMENDED FORECASTED MARKET RETURN.
8	А.	Mr. Moul simply mentions my "use of historical geometric means to calculate
9		total market return" (York Water Statement No. 107-R, p. 24).
10		
11	Q.	DID YOU USE THE HISTORICAL GEOMETRIC MEAN TO
12		CALCULATE YOUR TOTAL MARKET RETURN?
	A.	No. I did not use historical performance of the market, nor did I use the
13		No. 1 did not use instorical performance of the market, nor did 1 use the
13 14		geometric mean to calculate my appropriate market return. As stated in my
14		geometric mean to calculate my appropriate market return. As stated in my
14 15		geometric mean to calculate my appropriate market return. As stated in my direct testimony, to arrive at a representative expected return on the overall
14 15 16		geometric mean to calculate my appropriate market return. As stated in my direct testimony, to arrive at a representative expected return on the overall stock market, I observed Value Line's 1700 stocks and the S&P 500.
14 15 16 17		geometric mean to calculate my appropriate market return. As stated in my direct testimony, to arrive at a representative expected return on the overall stock market, I observed Value Line's 1700 stocks and the S&P 500. Value Line expects its universe of 1700 stocks to have an average yearly
14 15 16 17 18		geometric mean to calculate my appropriate market return. As stated in my direct testimony, to arrive at a representative expected return on the overall stock market, I observed Value Line's 1700 stocks and the S&P 500. Value Line expects its universe of 1700 stocks to have an average yearly return of 14.47% over the next three to five years based on a forecasted
14 15 16 17 18 19		geometric mean to calculate my appropriate market return. As stated in my direct testimony, to arrive at a representative expected return on the overall stock market, I observed Value Line's 1700 stocks and the S&P 500. Value Line expects its universe of 1700 stocks to have an average yearly return of 14.47% over the next three to five years based on a forecasted dividend yield of 2.00% and a yearly index appreciation of 60%. The S&P

1		which resulted in an arithmetic mean of 14.41% (I&E Statement No. 2, p.
2		29, lines 10-19 and I&E Exhibit No. 2, Schedule 10).
3		
4		LEVERAGED BETAS
5	Q.	SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING
6		THE USE OF LEVERAGE-ADJUSTED BETAS.
7	А.	Mr. Moul simply mentions my "failure to use leverage adjusted betas" (York
8		Water Statement No. 107-R, p. 24). He does not offer an explanation beyond what
9		he argued in his direct testimony.
10		
11	Q.	IS THE USE OF LEVERAGE-ADJUSTED BETAS IN CAPM ANALYSES
11 12	Q.	IS THE USE OF LEVERAGE-ADJUSTED BETAS IN CAPM ANALYSES APPROPRIATE?
	<b>Q.</b> A.	
12		APPROPRIATE?
12 13		<b>APPROPRIATE?</b> No. As stated in my direct testimony, Mr. Moul's adjustment only serves to
12 13 14		APPROPRIATE? No. As stated in my direct testimony, Mr. Moul's adjustment only serves to inflate the result of his CAPM analysis. Enhancements such as leverage adjusted
12 13 14 15		APPROPRIATE? No. As stated in my direct testimony, Mr. Moul's adjustment only serves to inflate the result of his CAPM analysis. Enhancements such as leverage adjusted betas are unwarranted in CAPM analyses for the same reasons that enhancements
12 13 14 15 16		APPROPRIATE? No. As stated in my direct testimony, Mr. Moul's adjustment only serves to inflate the result of his CAPM analysis. Enhancements such as leverage adjusted betas are unwarranted in CAPM analyses for the same reasons that enhancements are unwarranted for DCF results. Until this type of adjustment is demonstrated in
12 13 14 15 16 17		APPROPRIATE? No. As stated in my direct testimony, Mr. Moul's adjustment only serves to inflate the result of his CAPM analysis. Enhancements such as leverage adjusted betas are unwarranted in CAPM analyses for the same reasons that enhancements are unwarranted for DCF results. Until this type of adjustment is demonstrated in academic literature to be valid, such leverage-adjusted betas in a CAPM should be

<sup>&</sup>lt;sup>10</sup> Pa. PUC v. Aqua Pennsylvania, Inc.; Docket No. R-2021-3027385 (Order Entered May 16, 2022). See generally Disposition of Leverage Adjustment and Management Performance, pp. 166-167.

will have a beta that is greater than one and would be described as having more 1 2 investment risk than the market. Due to being regulated and the monopolistic 3 nature of utilities, very rarely do they have a beta equal to or greater than one. 4 Therefore, in this case, to apply an adjusted beta of 1.00 to the entire industry or 5 water proxy group is irrational (I&E Statement No. 2, pp. 50-51). 6 7 SIZE ADJUSTMENT 8 О. SUMMARIZE YOUR DIRECT TESTIMONY REGARDING A SIZE 9 ADJUSTMENT. 10 A. In direct testimony, I stated that Mr. Moul's 102 basis point CAPM size 11 adjustment is unnecessary because none of the technical literature he cited in his 12 direct testimony supporting investment adjustments related to the size of a 13 company is specific to the utility industry. I also presented an article by Dr. Annie 14 Wong that demonstrated there is no need to make an adjustment for the size of a 15 company in utility rate regulation. Finally, I noted that the Commission has 16 rejected the application of a size adjustment to the CAPM cost of equity 17 calculation where it agreed that the same literature the Company cites is not 18 specific to the utility industry (I&E Statement No. 2, pp. 51-54). 19 20 **Q**. SUMMARIZE MR. MOUL'S RESPONSE IN REBUTTAL TESTIMONY 21 **REGARDING A SIZE ADJUSTMENT.** 22 Mr. Moul states that enormous changes have occurred in the industry since the A.

1		article "Utility Stocks and the Size Effect: An Empirical Analysis" by Dr. Annie
2		Wong was published. He also references the Fama/French study, "The Cross-
3		Section of Expected Stock Returns," to illustrate that his size adjustment is a
4		separate factor from beta that helps explain systematic risk and returns.
5		Additionally, Mr. Moul opines that external factors, such as loss of larger
6		customers and unexpected changes in expenses, can affect the financial
7		performance of a small company (York Water Statement No. 107-R, pp. 26-27).
8		
9	Q.	DOES THE FAMA/FRENCH STUDY REFUTE DR. WONG'S ARTICLE?
10	A.	No. As stated in my direct testimony, Dr. Wong's article presents evidence that
11		although a size effect may exist for industrial stocks, it does not exist for utility
12		stocks (I&E Statement No. 2, pp. 53-54). As the Fama/French study is not
13		specific to utility stocks, it does not adequately demonstrate that a size effect exists
14		in the utility industry. In addition, the size effect that exists for industrial stocks
15		varies to such an extent that it is difficult to predict. The difficulty in predicting
16		the effect of size is demonstrated in the variance from year to year of the
17		measurement of difference between the annual returns on the large and small-
18		capitalization stocks of the NYSE/AMEX/NASDAQ in the Ibbotson Stocks,
19		Bonds, Bills & Inflation: 2015 Yearbook. As stated on page 100 of the SBBI
20		Yearbook,
21 22 23		While the largest stocks actually declined in 2001, the smallest stocks rose more than 30%. A more extreme case occurred in the depression-recovery year of 1933, when the difference

1 2 3 4 5 6		between the first and 10th decile returns was far more substantial. The divergence in the performance of small- and large- cap stocks is evident. In 30 of the 89 years since 1926, the difference between the total returns of the largest stocks (decile 1) and the smallest stocks (decile 10) has been greater than 25 percentage points.
7		Page 109 states,
8 9 10 11 12 13		In four of the last 10 years, large-capitalization stocks (deciles 1-2 of NYSE/AMEX/NASDAQ) have outperformed small-capitalization stocks (deciles 9-10). This has led some market observers to speculate that there is no size premium. But statistical evidence suggests that periods of underperformance should be expected.
14		Page 112 states,
15 16 17 18		Because investors cannot predict when small-cap returns will be higher than large-cap returns, it has been argued that they do not expect higher rates of return for small stocks.
19	Q.	DOES THE TIME WHICH HAS ELAPSED SINCE AN ARTICLE WAS
20		WRITTEN NECESSARILY INVALIDATE ITS RESULTS?
21	A.	No. Although Mr. Moul states that enormous changes have occurred in the
22		industry since the 1960s, he presents no evidence that these "changes" have
23		caused the need for a size adjustment. To the contrary, Dr. Wong's study
24		demonstrated that one does not need to be made in the regulated utility industry.
25		As stated in my direct testimony, absent any credible article to refute Dr. Wong's
26		findings, Mr. Moul's size adjustment to his CAPM results should be rejected.

1	Q.	ARE MR. MOUL'S CONCERNS REGARDING THE IMPACT OF
2		LOSING LARGE CUSTOMERS OR UNEXPECTED INCREASES IN
3		EXPENSES VALID?
4	A.	No. Regulated utility companies have the option to file a base rate case to address
5		declining revenues and to recover the increasing costs of doing business in
6		addition to emergency rate relief provisions for large unforeseen impacts. In
7		contrast, non-utility businesses that may be significantly impacted by events of
8		this nature due to small operating size do not have these opportunities.
9		Additionally, while a smaller utility may pay higher prices for services and
10		materials just due to volume buying power, the actual costs are part of the revenue
11		requirement presented by that company, so to increase the return to account for the
12		potential size disadvantage would only further unfairly burden ratepayers who are
13		already likely paying higher utility bills to recover the higher operating costs.
14		
15	Q.	MR. MOUL HAS RECALCULATED YOUR CAPM RESULTS. DO YOU
16		AGREE WITH HIS RECALCULATION?
17	A.	No. Mr. Moul's recalculation is incorrect for a couple of reasons. He used an
18		inaccurate risk-free rate and an unnecessary size adjustment, as stated in both my
19		direct testimony and above. Because of these factors, a recalculation of my
20		CAPM results is imprudent and any recalculation provided by Mr. Moul of my
21		CAPM results is unreliable and unnecessary.

I	Q.	WHAT IS YOUR RECOMMENDATION REGARDING MR. MOUL'S
2		SIZE ADJUSTMENT?
3	А.	I continue to recommend that his use of the 1.02% size adjustment be disallowed
4		in calculating the CAPM.
5		
6	Q.	DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING YOUR
7		CAPM ANALYSIS?
8	А.	Yes. My recommended cost of equity is primarily based upon my DCF analysis
9		for the reasons explain above and in my direct testimony. I present a CAPM
10		analysis to the Commission for comparison, not recommendation purposes as the
11		inputs are highly subjective, and other than beta, not company or industry specific.
12		Again, it has traditionally been the preference of the Commission to view both the
13		DCF and CAPM analysis in base rate proceedings.
14		
15	<u>RISI</u>	<u>K PREMIUM</u>
16	Q.	SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING
17		THE RP METHOD.
18	А.	Mr. Moul opines that the RP approach should be given serious consideration
19		because it is straight-forward, understandable, and uses a company's own
20		borrowing rate. He claims it provides a direct and complete reflection of a
21		utility's risk and return. Mr. Moul also states that I make an unfounded assertion

.

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....

1		that the RP method does not measure the current cost of equity as directly as the
2		DCF (York Water Statement No. 107-R, pp. 30-32).
3		
4	Q.	DO YOU AGREE WITH MR. MOUL THAT THE RP METHOD
5		PROVIDES A DIRECT AND COMPLETE REFLECTION OF A
6		UTILITY'S RISK AND RETURN?
7	А.	No. The RP method produces an indirect measure when compared to the DCF
8		method.
9		
10	Q.	PLEASE COMMENT ON THE INDIRECT MEASURE OF THE RP
11		METHOD VERSUS THE MORE DIRECT MEASURE OF THE DCF
12		METHOD.
13	A.	Mr. Moul claims that my statement that the RP method does not measure the
14		current cost of equity as directly as the DCF is without foundation. In my direct
15		testimony, I have clearly illustrated how the two measures are different (I&E
16		Statement No. 2, p. 14, line 1 through p. 23, line 8). The main reason is that the
17		RP method determines the rate of return on common equity indirectly by
18		observing the cost of debt and adding to it an equity risk premium. The DCF
19		measures equity more directly through the stock information (using equity
20		information), whereas the RP method measures equity indirectly using debt
21		information.

### 1 <u>COMPARABLE EARNINGS</u>

## 2 Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING 3 THE CE METHOD.

- A. Mr. Moul claims that using the CE method satisfies the comparability standard
  established in the *Hope* case (York Water Statement No. 107-R, p. 32, lines 1718). Additionally, he states, "...the financial community has expressed the view
  that the regulatory process must consider the returns that are being achieved in the
  non-regulated sector to ensure that regulated companies can compete effectively in
- 9 the capital markets" (York Water Statement No. 107-R, p. 32, lines 18-21).
- 10

# 11 Q. DO YOU AGREE THAT COMPANIES USED BY MR. MOUL IN HIS CE 12 METHOD ARE COMPARABLE TO YORK WATER?

A. No. As stated in my direct testimony, the companies in Mr. Moul's analysis are
not utilities, and therefore, are too disparate to use in a CE analysis (I&E

15 Statement No. 2, pp. 34-35). For example, the criteria Mr. Moul uses to choose

16 the companies in his CE group results in the selection of companies such as Altria

17 Group Inc., Hanover Insurance Group Inc., Motorola Solutions Inc., Quest

18 Diagnostics, and Western Union Company. All these companies operate in

19 industries very different from a utility company and operate under varying degrees

- 20 of regulation. Also, most, if not all, of the companies Mr. Moul uses in his
- 21 analysis are not monopolies in the sense that utilities are. This means that they
- have significantly more competition and would require a higher return for the

1		added risk. Further, the CE method should be excluded because it is entirely
2		subjective as to which companies are comparable and it is debatable whether
3		historic accounting returns are representative of the future.
4		
5	MAN	AGEMENT PERFORMANCE POINTS
6	Q.	SUMMARIZE MR. MOUL'S AND MR. HAND'S REBUTTAL
7		TESTIMONY REGARDING MANAGEMENT PERFORMANCE POINTS.
8	A.	Mr. Moul continues to advocate for an unspecified amount of additional basis
9		points to the cost of equity by relying on the testimony of Mr. Hand. Mr. Moul
10		also provides an unspecified West Penn Power's rate case, Aqua's 2007 base rate
11		case, PPL Electric's 2012 rate case, UGI Electric's 2017 rate case, and Aqua's
12		2021 rate case as examples of when the Commission granted increases for
13		management performance (York Water Statement No. 107-R, p. 33, lines 8-22).
14		Mr. Hand lists a variety of York Water's performance indicators such as the
15		acquisition of troubled water and wastewater systems, addressing customer-owned
16		lead service lines, exemplary customer service, and their assistance to its low-
17		income residential customers. Similar to Mr. Moul, Mr. Hand also provides PPL
18		Electric's 2012 rate case and UGI Electric's 2017 rate case as examples of when
19		the Commission granted increases for management performance (York Water
20		Statement No. 1-R, pp. 8-11).

### 1 **O**. WHAT IS YOUR RESPONSE TO THE COMPANY'S REBUTTAL 2 **TESTIMONY REGARDING THE CONSIDERATION OF ADDITIONAL** 3 **BASIS POINTS FOR MANAGEMENT PERFORMANCE?** 4 As discussed in greater detail in my direct testimony, I maintain that York Water, A. 5 or any utility company for that matter, should not reap additional rewards for programs funded by ratepayers or for meeting their obligations under 66 Pa C.S.A. 6 7 §1501 (I&E Statement No. 2, p. 54, line 15 through p. 59, line 2). 8 Also, while I am aware that under 66 Pa C.S.A. §523 the Commission shall 9 consider a utility's performance, it is not mandatory that the Commission grant 10 additional points. Moreover, I continue to assert that for any company, true strong 11 management performance is earning a higher return through its efficient use of 12 resources and cost cutting measures. The greater net income resulting from cost 13 savings and true efficiency in management and operations is available to be passed 14 on to shareholders. Additionally, it is nonsensical to support the idea that since 15 ratepayers fund the initiatives and accomplishments Mr. Hand mentions, 16 ratepayers should then in turn fund a higher equity return for York Water's 17 investors. Therefore, I continue to recommend that any addition of basis points to 18 the cost of equity for management performance be disallowed.

### 1 **O**. DOES THE COMMISSION'S PAST ACCEPTANCE OF ADDITIONAL 2 EQUITY POINTS TO RECOGNIZE MANAGEMENT PERFORMANCE 3 MEAN THAT YORK WATER SHOULD ALSO RECEIVE AN ADJUSTED 4 **RETURN ON EQUITY?**

5 A. No. West Penn Power's, Aqua's 2007, and PPL Electric's 2012 rate cases were 6 more than ten years ago, and obviously should have no bearing on the current 7 proceeding. The 2017 UGI Electric rate case and the 2021 Aqua base rate case are 8 irrelevant to the determination of whether York Water should be granted 9 additional basis points to its cost of equity for management performance as 10 management performance is something that is very specific to each individual 11 utility. Therefore, what the Commission has historically decided in this regard, and the management performance of other utilities, has no bearing on whether 12 13 York Water should receive a higher return on equity to recognize its management 14 performance.

15

16 HAS YOUR RECOMMENDATION REGARDING THE COMPANY'S **Q**.

#### 17 **REQUEST FOR ADDITIONAL BASIS POINTS REGARDING ITS**

18 **MANAGEMENT PERFORMANCE CHANGED?** 

19 No. I continue to recommend that any additional basis points for management A. 20 performance be rejected.

## 1 OVERALL RATE OF RETURN

2	Q.	HAS YOUR OVERALL RATE OF RETURN RECOMMENDATION
3		CHANGED FROM YOUR DIRECT TESTIMONY?
4	A.	Yes. While I continue to support each recommendation made in I&E Statement
5		No. 2 regarding the Company's return on equity, I am updating my
6		recommendation to reflect the Company's update to its cost of long-term debt
7		from 3.91% to 4.18% (York Water Statement No. 107-R, p. 12), which results in a
8		weighted cost of debt of 1.89% or an increase of $0.12\%$ (1.89% - 1.77%) to the
9		Company's original claim.
10		
11	Q.	WHAT IS YOUR OVERALL RATE OF RETURN RECOMMENDATION?
12	А.	I recommend the following rate of return for the Company for water and
13		wastewater:
14		

Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	45.23%	4.18%	1.89%
Common Equity	<u>54.77%</u>	8.59%	4.70%
Total	100.00%		6.59%

15

### 16 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

17 A. Yes.

### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:		
V.	:	Docket No.:	R-2022-3031340
The York Water Company – Water	:		
Pennsylvania Public Utility Commission v.	:	Docket No.:	R-2022-3032806
The York Water Company – Wastewater	:		

### VERIFICATION OF CHRISTOPHER KELLER

I, Christopher Keller, on behalf of the Bureau of Investigation and Enforcement, hereby verify that I&E Statement No. 2, I&E Exhibit No. 2 and I&E Statement No. 2-SR, were prepared by me or under my direct supervision and control.

Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same if called to the stand at any evidentiary hearing held in this matter.

This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

Signed in New Cumberland, Pennsylvania, this 6th day of October, 2022.

/s/ Christopher Keller \_\_\_\_\_\_ Christopher Keller

### PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

### THE YORK WATER COMPANY

### Docket Nos. R-2022-3031340 and R-2022-3032806

**Direct Testimony** 

of

### Ethan H. Cline

**Bureau of Investigation and Enforcement** 

**Concerning:** 

Cost Allocation Rate Design Scale back of Rates

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## 1 INTRODUCTION

2	Q.	PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
3	А.	My name is Ethan H. Cline. My business address is Pennsylvania Public Utility
4		Commission, 400 North Street, Harrisburg, PA 17120.
5		
6	Q.	BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?
7	А.	I am employed by the Pennsylvania Public Utility Commission in the Bureau of
8		Investigation and Enforcement ("I&E") as a Fixed Utility Valuation Engineer.
9		
10	Q.	WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT EXPERIENCE?
11	А.	An outline of my education and employment experience is attached as Appendix A.
12		
13	Q.	PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.
14	А.	I&E is responsible for representing the public interest in rate and other
15		proceedings before the Commission. I&E's analysis in this proceeding is based on
16		its responsibility to represent the public interest. This responsibility requires the
17		balancing of the interests of ratepayers, the utility company, and the regulated
18		community as a whole.
19		
20	Q.	WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?
21	А.	The purpose of my testimony is to evaluate the York Water Company's ("York
22		Water" or "Company") request for an annual increase in operating revenue of

1		approximately \$18,853,738 in water rates and \$1,456,792 in wastewater rates and
2		an allocation of \$2,670,856 from wastewater customers to water customers in the
3		Fully Projected Future Test Year ("FPFTY") ending February 29, 2024 (York
4		Water Ex. FII-2, p. 10). My testimony will address issues related to the cost
5		allocation and rate design of the water and wastewater operations of the Company.
6		
7	Q.	DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?
8	A.	Yes. I&E Exhibit No. 3 contains schedules relating to my testimony.
9		
10	ACT	<u>C11 ALLOCATION</u>
11	Q.	IS YORK WATER PROPOSING TO SHIFT SOME OF THE
12		WASTEWATER REVENUE REQUIREMENT FROM WASTEWATER
13		CUSTOMERS TO WATER CUSTOMERS IN THIS FILING?
14	A.	Yes. York Water is proposing to allocate \$2,670,856 of its wastewater revenue
15		requirement to water customers (York Water Ex. No. FVIII-WA, Sch. A).
16		
17	Q.	DOES THE PUBLIC UTILITY CODE PERMIT YORK WATER TO
18		PRESENT ITS REVENUE REQUIREMENT ON A COMBINED WATER
19		AND WASTEWATER BASIS AND TO ALLOCATE A PORTION OF
20		THE WASTEWATER REVENUE REQUIREMENT TO ITS COMBINED
21		WATER AND WASTEWATER CUSTOMERS?
22	A.	Yes. However, York Water may only do so if allocating a portion of the

1		wastewater revenue requirement to its combined water and wastewater customers
2		is in the public interest. Historically, Section 1311(c) of the Code required a
3		utility that provides more than one type of utility service segregate the property
4		used and useful in providing each type of service for ratemaking purposes.
5		However, Act 11, which was signed into law by Governor Tom Corbett on
6		February 14, 2012, amended that section of the Code and now exempts a utility
7		that provides water and wastewater service from this requirement. Section
8		1311(c) of the Code states:
9 10 11 12 13 14 15 16 17 18 19 20 21 22		Segregation of propertyWhen any public utility furnishes more than one of the different types of utility service, the commission shall segregate the property used and useful in furnishing each type of such service, and shall not consider the property of such public utility as a unit in determining the value of the rate base of such public utility for the purpose of fixing base rates. A utility that provides water and wastewater service shall be exempt from this subsection upon petition of a utility to combine water and wastewater revenue requirements. The commission, when setting base rates, after notice and an opportunity to be heard, may allocate a portion of the wastewater revenue requirement to the combined water and wastewater customer base if in the public interest.
23	Q.	DOES ACT 11 SPECIFY HOW RATES SHOULD BE DETERMINED OR
24		WHAT PORTION OF A COMPANY'S WASTEWATER REVENUE
25		REQUIREMENT SHOULD BE ALLOCATED TO ITS COMBINED
26		WATER AND WASTEWATER CUSTOMERS?
27	А.	No. Act 11 does not specify how the Commission should determine rates or

28 dictate the amount of revenue that should be allocated or shifted, leaving the

1		Commission wide latitude in applying this provision of Act 11. However, it is
2		important to remember that Section 1311(c) does state that it must be in the public
3		interest for the utility to allocate a portion of the wastewater revenue requirement
4		to the combined water and wastewater customer base.
5		
6	Q.	WHY IS YORK WATER PROPOSING TO SHIFT SOME OF THE
7		WASTEWATER REVENUE REQUIREMENT FROM WASTEWATER
8		CUSTOMERS TO WATER CUSTOMERS IN THIS FILING?
9	A.	York Water indicated on pages 10-11 of York Water Statement No. 103 that it
10		believes that a 99.2% increase to wastewater customers is not reasonable at this
11		time and that it instead limited the increase to wastewater customers to 35% and
12		allocated the remaining revenue requirement of \$2.7 million to water customers.
13		
14	Q.	WHAT IS THE RATE IMPACT OF THE COMPANY'S PROPOSED
15		ALLOCATION OF THE WASTEWATER OPERATIONS' REVENUE
16		<b>REQUIREMENT TO WATER OPERATIONS CUSTOMERS?</b>
17	A.	The Company states that the allocation of \$2.7 million will increase the average
18		residential water bill by approximately 4.8% (York Water St. No. 103, p. 11).
19		
20	Q.	DID THE COMPANY PROVIDE ANY SUPPORT FOR WHY IT LIMITED
21		THE WASTEWATER INCREASE TO 35%?
22	A.	The Company indicated on pages 10-11 of York Water Statement No. 103 that the

1		35% increase is more than the increase for the water customers and will move
2		wastewater customers toward cost of service.
3		
4	Q.	DO YOU AGREE THAT DISTRIBUTING A PORTION OF THE
5		<b>REVENUE REQUIREMENT FOR WASTEWATER OPERATIONS</b>
6		ACROSS WATER CUSTOMERS IS PERMISSIBLE IN THIS
7		PROCEEDING?
8	A.	In general, yes as this allocation is consistent with Act 11. However, I do not
9		agree that the amount of wastewater operations revenue requirement the Company
10		has proposed to allocate to the water operations is either in the public interest or
11		that it represents a reasonable approach.
12		
13	Q.	WHY DO YOU DISAGREE WITH THE AMOUNT OF REVENUE
14		REQUIREMENT THAT THE COMPANY PROPOSES TO ALLOCATE
15		FROM WASTEWATER OPERATIONS TO WATER OPERATIONS?
16	A.	In its response to I&E-RS-1-D (WW), attached as I&E Ex. No. 3, Sch. 1, the
17		Company indicated that it limited the increase to wastewater rates to 35% to avoid
18		rate shock but did not provide any studies, analysis, supporting back-up
19		information, nor any Commission Orders to support its proposal.

2

### Q. WHAT WASTEWATER OPERATIONS REVENUE REQUIREMENT **ALLOCATION ARE YOU RECOMMENDING?**

3 A. I am recommending a wastewater operations revenue requirement allocation of 4 \$844,015. The \$844,015 allocation is the difference between the \$6,338,475 in 5 revenues generated by my rate proposals, as discussed below and shown on I&E 6 Exhibit No. 3, Schedule 7, and I&E's total recommended revenue level as 7

described by Zachari Walker on page 7 of I&E Statement No. 1.

8

### 9 **Q**. BY RECOMMENDING A REDUCTION TO THE AMOUNT OF SUBSIDY, 10 ARE YOU PRIORITIZING THE PUBLIC INTEREST OF A SINGLE 11 **GROUP OVER THE WHOLE?**

### 12 Not at all. I am recommending a limit to the amount of subsidy, not remove it A. 13 completely. Therefore, wastewater operations customers continue to benefit from 14 a lower increase in rates which continues the promotion of positive public policies 15 by no increasing wastewater rates to a level that would recover the full cost of 16 providing wastewater service. Additionally, my rate recommendation 17 significantly moves wastewater rates towards consolidation into a single tariff 18 which aligns with the Commission's policy of consolidation and regionalization. 19 Therefore, my recommended reduction in wastewater operations revenue 20 requirement allocation is reasonable and in the public interest.

### 1 WASTEWATER OPERATIONS

2	Q.	PLEASE DESCRIBE THE WASTEWATER OPERATIONS.
3	A.	As described on p. 4 of York Water Statement No. 1, York Water provides
4		wastewater services in the Boroughs of East Prospect, Felton, Jacobus, and West
5		York, in the Townships of East Manchester, Lower Windsor, and West Manheim
6		in York County, Pennsylvania, in the Township of Letterkenny in Franklin
7		County, Pennsylvania, and in the Township of Straban in Adams County,
8		Pennsylvania.
9		
10	Q.	WHERE ARE THE WASTEWATER OPERATIONS RATES
11		SUMMARIZED?
12	A.	The present York Water WW Operations rates are summarized on York Water
13		Exhibit FVIII-WA, Schedule G.
14		
15	Q.	WHAT RATE STRUCTURE CHANGES AND RATE INCREASES ARE
16		PROPOSED BY THE COMPANY?
17	A.	The Company's proposed rate structure changes and rate increases are described
18		in its response to OCA-VI-3 (I&E Ex. No. 3, Sch. 2). York Water's present and
19		proposed rates are shown on York Water Exhibit FVIII-WA, Schedule F. First,
20		the Company is proposing to maintain the 4,000-gallon minimum allowance in the
21		minimum charge for all customers other than West Manheim customers. It is
22		proposing to consolidate Minimum Charge 1, currently \$62.50 per month and

1		Minimum Charge 2, currently \$55.00 per month and increase those rates to \$80.55
2		per month. York Water is proposing to consolidate usage rates 1 and 2 and
3		increase those usage rates to \$0.7012 per hundred gallons. Finally, the Company
4		has four unmetered rates under present rates and is proposing to consolidate
5		Unmetered Rate 1, Unmetered Rate 3, and Unmetered Rate 4 and increase those
6		rates to \$80.55 per month. Unmetered Rate 2 is not being consolidated as this
7		monthly charge is paid by West York customers who were recently acquired, and
8		rates were capped at two times the average increase, or 70%, which resulted in an
9		increase to \$55.61 per month for residential customers and \$68.71 per month for
10		commercial customers (York Water St. No. 108, p. 15).
11		
12	Q.	DID THE COMPANY PROVIDE A COSS FOR THE WASTEWATER
12 13	Q.	DID THE COMPANY PROVIDE A COSS FOR THE WASTEWATER OPERATIONS IN THIS FILING?
	<b>Q.</b> A.	
13		<b>OPERATIONS IN THIS FILING?</b>
13 14		<b>OPERATIONS IN THIS FILING?</b> Yes. The Company provided a Wastewater Operations Cost of Service Study
13 14 15		OPERATIONS IN THIS FILING? Yes. The Company provided a Wastewater Operations Cost of Service Study ("COSS") attached as York Water Exhibit FVIII-WA. The Company also
13 14 15 16		OPERATIONS IN THIS FILING? Yes. The Company provided a Wastewater Operations Cost of Service Study ("COSS") attached as York Water Exhibit FVIII-WA. The Company also provided a COSS for wastewater operations excluding West Manheim, as was
13 14 15 16 17		OPERATIONS IN THIS FILING? Yes. The Company provided a Wastewater Operations Cost of Service Study ("COSS") attached as York Water Exhibit FVIII-WA. The Company also provided a COSS for wastewater operations excluding West Manheim, as was
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> </ol>	A.	OPERATIONS IN THIS FILING? Yes. The Company provided a Wastewater Operations Cost of Service Study ("COSS") attached as York Water Exhibit FVIII-WA. The Company also provided a COSS for wastewater operations excluding West Manheim, as was required in the Company's acquisition order, as York Water Exhibit FVIII-WB.
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> <li>19</li> </ol>	A.	OPERATIONS IN THIS FILING? Yes. The Company provided a Wastewater Operations Cost of Service Study ("COSS") attached as York Water Exhibit FVIII-WA. The Company also provided a COSS for wastewater operations excluding West Manheim, as was required in the Company's acquisition order, as York Water Exhibit FVIII-WB.

1		Wastewater Operations (York Water Ex. FVIII-WA, Sch. A).
2		
3	Q.	BASED UPON THE COMPANY'S PROPOSED RATES, HOW MUCH
4		REVENUE IS GENERATED UNDER PROPOSED RATES IN THE
5		WASTEWATER OPERATIONS IN THE FPFTY?
6	А.	Under FPFTY proposed rates, the Company will receive \$5,619,009 million in
7		proposed revenue from the Wastewater Operations (York Water Ex. FVIII-WA,
8		Sch. A).
9		
10	Q.	WHAT IS THE DIFFERENCE BETWEEN THE COST TO PROVIDE
11		SERVICE AND THE REVENUE THAT IS PRODUCED UNDER
12		PROPOSED RATES IN THE FPFTY?
13	А.	The difference is \$2,670,877 (\$8,289,886 - \$5,619,009). The \$2,670,877 is
14		approximately the amount the Company is proposing to recover from water
15		customers described above.
16		
17	Q.	WHAT DO YOU RECOMMEND THAT WILL PARTIALLY ELIMINATE
18		THE REVENUE SHORTFALL?
19	A.	My recommended rates and rate structure for the wastewater operations are shown
20		on I&E Ex. No. 3, Sch. 3, column D. My recommendations regarding the West
21		Manheim rates are described further below. Regarding the Wastewater Operations
22		rates, I recommend that the minimum charges be transitioned to a more traditional

1		customer charge, consolidated from Minimum Charges 1 and 2 into a single
2		customer charge, and set at \$62.50 per month. I recommend that the 4,000-gallon
3		allowance be eliminated and the Consumption Rates 1 and 2 be consolidated and
4		increased to \$0.6000 per hundred gallons. I recommend the Flat Rate Charges 1,
5		3, and 4 be consolidated and increased to \$99.00 per month. Finally, I recommend
6		the Flat Rate Charge 2 be increased to \$56.00 per month for residential customers
7		and \$69.00 per month for commercial customers.
8		
9	Q.	HAS THE COMMISSION TRANSITIONED AWAY FROM A WATER
10		ALLOWANCE WHEN DESIGNING WATER AND WASTEWATER
10 11		ALLOWANCE WHEN DESIGNING WATER AND WASTEWATER RATES?
	A.	
11	A.	RATES?
11 12	A.	<b>RATES?</b> Yes. As early as 1993, at which time I&E was known as the Office of Trial Staff
11 12 13	A.	RATES? Yes. As early as 1993, at which time I&E was known as the Office of Trial Staff ("OTS"), OTS recommended that the Lemont Water Company's water allowance
11 12 13 14	A.	RATES? Yes. As early as 1993, at which time I&E was known as the Office of Trial Staff ("OTS"), OTS recommended that the Lemont Water Company's water allowance and minimum charge should be reduced and eventually totally eliminated. The
<ol> <li>11</li> <li>12</li> <li>13</li> <li>14</li> <li>15</li> </ol>	A.	RATES? Yes. As early as 1993, at which time I&E was known as the Office of Trial Staff ("OTS"), OTS recommended that the Lemont Water Company's water allowance and minimum charge should be reduced and eventually totally eliminated. The Commission agreed with this recommendation. <sup>1</sup> More recently in the 2007 Total

<sup>&</sup>lt;sup>1</sup> Pennsylvania Public Utility Commission v. Lemont Water Co., 1994 WL 175097, at \*26-28 (Pa.P.U.C., 1993).

 <sup>&</sup>lt;sup>2</sup> Pennsylvania Public Utility Commission v. Total Environmental Solutions, Inc. – Treasure Lake Water Division, Docket No. R-00072495, et al., Order entered July 30, 2008, pp. 110-113.

Therefore, my recommendation to remove the usage allowance is consistent with Commission precedent.

3

2

# 4 Q. IN ADDITION TO PRIOR COMMISSION DECISIONS, ARE THERE 5 POLICY REASONS WHY YORK WATER SHOULD TRANSITION 6 FROM ITS MINIMUM CHARGE?

7 A. Yes. York Water's current rate structure requires customers to pay for a defined 8 number of gallons of water, regardless of whether they use water or not. This can 9 be a detriment to low usage customers and a disincentive to conservation efforts 10 because if a customer uses less than the allowance in any month, that customer's 11 wastewater bill is based upon the full allowance amount, and not the wastewater 12 produced. In contrast, billing customers' usage through volumetric rates allows 13 customers to fully reap the benefits of any conservation measures they choose to 14 implement and gives low usage customers a better means of controlling their bills. 15 In this way, customers are not only given clear and direct price signals, but they 16 are also empowered to respond to those signals by controlling their usage.

17

### 18 Q. HOW MUCH DOES THE AVERAGE BILL FOR RESIDENTIAL

### 19 CUSTOMER INCREASE UNDER YOUR RATE PROPOSAL?

A. My recommended usage rate proposal increases the present average residential bill
 for a Minimum Rate 1 Wastewater customer from \$62.50 per month to \$98.43 per
 month, which is an increase of \$35.93 per month or 57.5% from York Water's

1		present rates (I&E Ex. No. 3, Sch. 4, line 5). My recommended usage rate
2		proposal increases the present average residential bill for a Minimum Rate 2
3		Wastewater customer from \$62.50 per month to \$98.85 per month, which is an
4		increase of \$36.35 per month or 58.2% from York Water's present rates (I&E Ex.
5		No. 3, Sch. 5, line 6).
6		
7	Q.	WHY DO YOU RECOMMEND A USAGE RATE OF \$0.6000 PER
8		HUNDRED GALLONS?
9	А.	As I stated above, I am recommending that the 4,000-gallon usage allowance be
10		eliminated. As a result, customers at the 4,000-gallon per month usage level or
11		less will experience a higher percentage increase to their average bills than if the
12		allowance is maintained and the proposed usage rate is approved. Therefore, my
13		recommended usage rate of \$0.6000 per hundred gallons, which is less than the
14		Company's proposed usage rate of \$0.7012, reduces the total bill for all customers
15		including low usage customers.
16		
17	Q.	HOW DID YOU DETERMINE YOUR RECOMMENDED FLAT RATES?
18	А.	My recommended \$99.00 per month flat rate for the consolidated Flat Rates 1, 3,
19		and 4 was determined by rounding the average bill for a Minimum Charge 2, or
20		\$98.85 per month, customer to the nearest dollar. My recommended Flat Rate
21		Charge 2 rates of \$56.00 per month for residential customers and \$69.00 per
22		month for commercial customers are simply the Company's proposed rates,

1		rounded to the nearest dollar for simplicity and ease of understanding on the
2		customer bills.
3		
4	Q.	DOES YOUR RECOMMENDATION ALLOW FOR OTHER RATE
5		ZONES TO BE COMBINED WITH RATE ZONE 1?
6	A.	Yes. As I describe below, if the Commission approves my rates and rate structure
7		recommendations, the customer charge and first block usage rate for the West
8		Manheim customers will be equal to the rates paid by a Minimum Charge 2
9		wastewater customers.
10		
11		WEST MANHEIM TOWNSHIP WASTEWATER OPERATIONS
12	Q.	WHEN DID YORK WATER REQUEST APPROVAL TO PURCHASE THE
13		WEST MANHEIM TOWNSHIP SYSTEM?
14	А.	York Water completed the acquisition of the West Manheim Township ("West
15		Manheim") on December 30, 2021 and began operating the system on January 2,
16		2022 (York Water Statement No. 1, p. 20).
17		
18	Q.	WHAT ARE THE PRESENT RATES AND AVERAGE BILL FOR A WEST
19		MANHEIM NON-LOW-INCOME CUSTOMER?
20	А.	Under present rates, the average West Manheim non-low-income residential
21		customers that uses 3,335 gallons per month is \$62.00 per month (I&E Ex. No. 3,
22		Sch. 6, line 6). All bills are based upon a customer charge of \$55.00 per month

1		and a three-block usage rate of \$0.2000 per hundred gallons for the first 3,500
2		gallons, \$1.000 per hundred gallons for the next 3,500 gallons, and \$1.2500 per
3		hundred gallons for all usage over 7,000 gallons (York Water, Ex. FVIII-WA,
4		Sch. F).
5		
6	Q.	WHAT INCREASE DID THE COMPANY PROPOSE WITH RESPECT TO
7		WEST MANHEIM RATES?
8	A.	The Company proposed to decrease the West Manheim customer charge to \$52.50
9		per month and increase the first block usage charge to \$0.7012 per hundred
10		gallons while maintaining usage rates for the next two usage blocks (York Water,
11		Ex. FVIII-WA, Sch. F).
12		
13	Q.	WHAT RATES AND ALLOWANCE DO YOU RECOMMEND FOR WEST
14		MANHEIM?
15	A.	I recommend that the West Manheim residential customer charge be increased to
16		\$71.00 per month (I&E Ex. No. 3, Sch. 3, col. D, line 3). I further recommend
17		that first block usage rate be increased to \$0.6000 per hundred gallons, which is
18		equal to the consolidated total wastewater usage rate described above. I agree that
19		the second block usage rate should remain at \$1.000 per hundred gallons.
20		However, I recommend the third block usage rate be reduced from \$1.2500 per
21		hundred gallons to \$1.000 per hundred gallons and eliminated (I&E Ex. No. 3,
22		Sch. 3, col. D, lines 11-13). My recommendation moves the West Manheim rates

1		to or closer to the total Wastewater rates and will generate revenue to reduce the
2		overall subsidy needed to operate the wastewater systems. Finally, this
3		recommendation will make it easier to consolidate wastewater rates in York
4		Water's next base rate case.
5		
6	Q.	WHAT WILL BE THE AVERAGE INCREASE FOR THE WEST
7		MANHEIM NON-LOW-INCOME CUSTOMERS?
8	A.	Under my proposed rates, the average bill for a non-low-income customer will
9		increase from \$62.00 per month to \$91.01 per month which is an increase of
10		\$29.01 per month or 46.79% (I&E Ex. No. 3, Sch. 6, line 6).
11		
12	Q.	DID THE COMMISSION RECENTLY DETERMINE THAT IT IS
13		REASONABLE TO INCREASE THE RATES AND THE AVERAGE BILL
14		FOR CUSTOMERS ACQUIRED THROUGH THE SECTION 1329
15		PROCESS GREATER THAN THE COMPANY PROPOSED FOR THAT
16		SYSTEM?
17	A.	Yes. In Aqua's 2021 base rate case, the Commission adopted I&E's rate design
18		recommendation that produced such a result. In its Order, the Commission
19		expressly acknowledged that factors other than affordability and gradualism
20		should be considered in rate design. The Commission indicated that business
21		challenges, required repairs and investments in distribution systems (including
22		newly acquired water and wastewater distribution systems) and the high costs of

1		maintaining a distribution system necessary to provide safe, and reliable water and
2		wastewater service were among the many other factors reflected in the rate
3		increase. Importantly, the Commission also recognized the need to consider cost
4		causation, as in its rejection of Aqua's rate design proposal, the Commission noted
5		that it did not bear a "reasonable relationship" to Aqua's cost of serving
6		wastewater customers (PA PUC v. Aqua, R-2021-3027385 et al., pp. 264-265
7		(Order entered May 16, 2022).
8		
9	Q.	SHOULD THE BENEFITS TO WEST MANHEIM BALANCE THE
10		HIGHER PERCENTAGE INCREASE FOR THESE CUSTOMERS THAN
11		THE COMPANY PROPOSED IN WEST MANHEIM?
12	A.	Yes. Though the West Manheim system was not acquired through the Section
13		1329 process, the principles espoused by the Commission regarding acquired
14		systems still apply. Specifically, the benefits to the West Manheim customers
15		balance the large increase customers will experience to recover the investment in
16		West Manheim by York Water.
17		
18	Q.	WHAT LEVEL OF SUBSIDY WILL WASTEWATER OPERATIONS
19		RECEIVE IF YOUR RATE RECOMMENDATIONS ARE APPROVED BY
20		THE COMMISSION?
21	A.	As I described above, increasing the Wastewater operations rates to the levels I
22		recommend reduces the subsidy coming from York Water Operations by

1		approximately \$719,566 from approximately \$2,670,856 million to approximately
2		\$1,951,290 (I&E Ex. No. 3, Sch. 7, col. B, line 5). This does not include the
3		additional reduction to the subsidy based on I&E's adjustments to the Company's
4		requested revenue requirement.
5		
6	<u>CUS</u>	TOMER COST ANALYSIS
7	Q.	WHAT IS A CUSTOMER COST ANALYSIS AND HOW IS IT USED?
8	A.	A customer cost analysis is a part of a cost of service study that is used to
9		determine the appropriate fixed customer charges for the various classes and meter
10		sizes. It includes customer costs only.
11		
12	Q.	WHY IS IT NECESSARY TO PERFORM A CUSTOMER COST
13		ANALYSIS?
14	A.	A fixed customer charge represents the revenue that the Company is guaranteed to
15		receive each month, regardless of the level of usage. As acknowledged in the
16		seventh edition of the American Water Works Association M1 Manual, there is a
17		tradeoff between revenue stability from a high customer charge, and affordability
18		and conservation from a low customer charge and higher usage rates. <sup>3</sup>

<sup>&</sup>lt;sup>3</sup> AWWA Manual of Water Supply Practices M1 Principles of Water Rates, Fees, Charges, Seventh Edition. pp. 154-155.

### WATER OPERATIONS – CUSTOMER COSTS

# 2 Q. DID THE COMPANY PREPARE A CUSTOMER COST ANALYSIS TO 3 SUPPORT INCREASING THE CUSTOMER CHARGES?

- 4 A. Yes. The Company provided two customer cost analyses for the FPFTY in York
  5 Water Exhibit FVIII, RS1-j Attachment. The results of first cost analysis, shown
  6 on page 1 of 9 of the attachment, includes all costs being allocated to the customer
  7 cost function and results in a unit cost of \$30.76 per month.
- 8 Additionally, the Company provided a second customer cost analysis that 9 relies on the allocation of costs more directly applicable to customers. The result

of the more direct customer cost analysis is \$20.71 per month per customer in the

11 FPFTY (York Water Ex. FVIII, RS1-j, Attachment, p. 1 of 9).

12

10

### 13 Q. WHICH CUSTOMER COST ANALYSIS DID YORK WATER USE TO

### 14 **DETERMINE ITS PROPOSED CUSTOMER CHARGES?**

- A. The proposed 5/8-inch customer charge is \$20.71 which is equal to the monthly
  cost determined in the direct customer cost analysis (York Water Ex. FVIII, Sch.
- 17

I).

18

### 19 Q. DO YOU AGREE THAT CUSTOMER CHARGES SHOULD BE

### 20 DETERMINED BASED ON THE RESULTS OF THE DIRECT

- 21 CUSTOMER COST ANALYSIS?
- 22 A. Yes. The Commission has traditionally relied on customer cost analyses based on

1		direct cost allocations. Therefore, it is reasonable to continue to reject the "fully
2		allocated" customer cost analysis provided by Ms. Heppenstall and base the
3		customer charges instead on the direct cost customer cost analysis provided by the
4		Company.
5		
6	WA]	TER CUSTOMER CHARGES
7	Q.	IS YORK WATER PROPOSING TO INCREASE ALL OF ITS
8		CUSTOMER CHARGES?
9	A.	Yes. The Company is proposing to increase the 5/8-inch customer charge from
10		\$16.25 per month to \$20.71 per month, which is equal to an approximately 27.4%
11		increase. The Company is also proposing to increase the customer charges for
12		meter sizes larger than 5/8-inch by approximately the same percent increase as the
13		5/8-inch meter as shown on York Water FVIII, Schedule I.
14		
15	Q.	WHAT IS THE BASIS FOR THE COMPANY'S PROPOSED \$20.71 PER
16		MONTH CUSTOMER CHARGE FOR A 5/8-INCH RESIDENTIAL
17		CUSTOMER?
18	A.	The basis for the \$20.71 per month 5/8-inch customer charge is the Company's
19		customer cost analysis, as described above.

1	Q.	WHAT DO YOU RECOMMEND REGARDING THE COMPANY'S
2		PROPOSED CUSTOMER CHARGE?
3	A.	As I describe below, I recommend the proposed customer charges be included in
4		any scale back of rates.
5		
6	<u>SCA</u>	LE BACK OF RATES
7	Q.	WHAT IS A SCALE BACK OF RATES?
8	A.	If the Commission grants an increase less than the amount the Company requested,
9		the Company's proposed rates would be reduced, or scaled back, to produce the
10		revenue requirement allowed by the Commission.
11		
12	Q.	DID THE COMPANY INDICATE ITS PREFERRED SCALE BACK
13		METHODOLOGY?
14	A.	Yes. In its response to OCA-I-9, attached as I&E Exhibit No. 3, Schedule 8, the
15		Company stated that "[w]ith the exception of Public Fire Protection, all classes'
16		increases should be scaled-back proportionately to the originally proposed
17		increases."
18		
19	Q.	DO YOU AGREE WITH THE COMPANY'S SCALE BACK PROPOSAL?
20	A.	Generally, yes. I agree that all classes' increases should be scaled back
21		proportionately to the originally proposed increases, apart from the Public Fire

1		Protection classes. However, as I describe below, additional steps are required to
2		determine the appropriate scale back of rates.
3		
4	Q.	WHAT IS THE FIRST STEP THAT MUST BE COMPLETED IN ANY
5		SCALE BACK OF RATES?
6	А.	The first step that must be completed in any scale back is to determine the revenue
7		requirements and scale backs of the wastewater operations.
8		
9	Q.	WHY MUST THE WASTEWATER OPERATIONS REVENUE
10		REQUIREMENT AND SCALE BACK BE DETERMINED PRIOR TO THE
11		APPLICATION OF A SCALE BACK TO WATER OPERATIONS RATES?
12	А.	The wastewater operations revenue requirement must be set first because that will
13		determine the amount of revenue requirement that must be allocated to Water
14		Operations. Once the wastewater to water allocation is determined, then the full
15		Water Operations revenue requirement will be known, and those rates can be scaled
16		back.
17		
18	Q.	WHAT DO YOU RECOMMEND IF THE COMMISSION GRANTS LESS
19		THAN THE FULL INCREASE FOR THE WASTEWATER
20		OPERATIONS?
21	А.	I recommend that any scale back be netted against the subsidy the Commission
22		determines for the Wastewater Operations. For example, under my rate structure

1		recommendation, if the total Wastewater Operations scale back is \$1.95 million,
2		there would be no scale back to any Wastewater Operations rates because the
3		Wastewater Operations are receiving a subsidy of \$2.0 million (I&E Ex. No. 3,
4		Sch. 7, Column B). However, if the scale back is \$3.0 million, I recommend
5		usage rates be reduced by approximately \$1.0 million (\$3.0 - \$2.0) to account for
6		the lower Wastewater Operation revenue requirement ordered by the Commission.
7		
8		WATER OPERATIONS RATE SCALE BACK
9	Q.	WHAT OVERALL PERCENTAGE INCREASES HAS THE COMPANY
10		PROPOSED FOR EACH WATER CUSTOMER CLASS?
11	A.	As shown on York Water Exhibit No. FVIII, Schedule A, the Company is proposing
12		the following increases for each class in the FPFTY:
13		Residential
14		o Gravity 36.1%,
15		• Repumped 32.7%,
16		Commercial
17		o Gravity 45.8%,
18		• Repumped 43.7%,
19		• Industrial
20		• Gravity 45.5%,
21		$\circ$ Repumped 40.5%,
22		• Private Fire
23		o Gravity 35.7%,
24		• Repumped 25.1%,

1		• Public Fire
2		o Gravity 20.8%,
3		$\circ$ Repumped 18.2%.
4		
5	Q.	SHOULD THE CUSTOMER CHARGES BE INCLUDED IN ANY SCALE
6		BACK?
7	A.	Yes. The customer charges should be included in any scale back of rates.
8		
9	Q.	WHY DO YOU RECOMMEND THAT THE CUSTOMER CHARGES BE
10		INCLUDED IN ANY SCALE BACK?
11	A.	Because the \$20.71 per month 5/8 <sup>th</sup> inch customer charge proposed by the Company
12		is based upon the direct customer cost, any reduction in any of the ratemaking inputs
13		by the Commission would reduce the inputs used in the customer cost analysis that
14		was used to determine the $20.71$ per month $5/8^{\text{th}}$ inch customer charge. To be
15		consistent, I also recommend the other larger meter sized customer charges be scaled
16		back since the Company proposed that they be increased the same 27.4%.
17		
18	Q.	WHAT DO YOU RECOMMEND IF THE COMMISSION GRANTS AN
19		INCREASE THAT IS LESS THAN THE FULLY REQUESTED INCREASE
20		FOR WATER OPERATIONS AND REDUCES THE CUSTOMER
21		CHARGES?
22	A.	If the Commission grants an increase less than the fully requested increase, I

1		recommend the customer charges and usage rates be decreased proportional to the
2		increase proposed by the Company so that the increase by class is proportional to
3		what the Company proposed to produce the revenue level the Commission approves.
4		
5	Q.	DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?
6	A.	Yes.

### ETHAN H. CLINE

### PROFESSIONAL EXPERIENCE AND EDUCATION

### **EXPERIENCE:**

### 03/2009 - Present Bureau of Investigation and Enforcement, Pennsylvania Public Utility Commission -Harrisburg, Pennsylvania

<u>Fixed Utility Valuation Engineer</u> – Assists in the performance of studies and analyses of the engineering-related areas including valuation, depreciation, cost of service, quality and reliability of service as they apply to fixed utilities. Assists in reviewing, comparing and performing analyses in specific areas of valuation engineering and rate structure including valuation concepts, original cost, rate base, fixed capital costs, inventory processing, excess capacity, cost of service, and rate design.

### 06/2008 – 09/2008 Akens Engineering, Inc. - Shiremanstown, Pennsylvania

<u>Civil Engineer</u> – Responsible, primarily, for assisting engineers and surveyors in the planning and design of residential development projects

### 10/2007 – 05/2008 J. Michael Brill and Associates - Mechanicsburg, Pennsylvania

<u>Design Technician</u> – Responsible, primarily, for assisting engineers in the permit application process for commercial development projects.

01/2006 – 10/2007 CABE Associates, Inc. - Dover, Delaware

<u>Civil Engineer</u> – Responsible, primarily, for assisting engineers in performing technical reviews of the sewer and sanitary sewer systems of Sussex County, Delaware residential development projects.

### **EDUCATION:**

<u>Pennsylvania State University</u>, State College, Pennsylvania Bachelor of Science; Major in Civil Engineering, 2005

- Attended NARUC Rate School, Clearwater, FL
- Attended Society of Depreciation Professionals Annual Conference and Training

### **TESTIMONY SUBMITTED:**

I have testified and/or submitted testimony in the following proceedings:

- 1. Clean Treatment Sewage Company, Docket No. R-2009-2121928
- 2. Pennsylvania Utility Company Water Division, Docket No. R-2009-2103937
- 3. Pennsylvania Utility Company Sewer Division, Docket No. R-2009-2103980
- 4. UGI Central Penn Gas, Inc., 1307(f) proceeding, Docket No. R-2010-2172922
- 5. PAWC Clarion Wastewater Operations, Docket No. R-2010-2166208
- 6. PAWC Claysville Wastewater Operations, Docket No. R-2010-2166210
- 7. Citizens' Electric Company of Lewisburg, Pa, Docket No. R-2010-2172665
- 8. City of Lancaster Bureau of Water, Docket No. R-2010-2179103
- 9. Peoples Natural Gas Company LLC, Docket No. R-2010-2201702
- 10. UGI Central Penn Gas, Inc., Docket No. R-2010-2214415
- 11. Pennsylvania-American Water Company, Docket No. R-2011-2232243
- 12. Pentex Pipeline Company, Docket No. A-2011-2230314
- 13. Peregrine Keystone Gas Pipeline, LLC, Docket No. A-2010-2200201
- 14. Philadelphia Gas Works 1307(f), Docket No. R-2012-2286447
- 15. Peoples Natural Gas Company LLC, Docket No. R-2012-2285985
- 16. Equitable Gas Company, Docket Nos. R-2012-2312577, G-2012-2312597
- 17. City of Lancaster Sewer Fund, Docket No. R-2012-2310366
- 18. Peoples TWP, LLC 1307(f), Docket No. R-2013-2341604
- 19. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2013-2361763
- 20. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2013-2361764
- 21. Joint Application, Docket Nos. A-2013-2353647, A-2013-2353649, A-2013-2353651
- 22. City of Dubois Bureau of Water, Docket No. R-2013-2350509
- 23. The Columbia Water Company, Docket No. R-2013-2360798
- 24. Pennsylvania American Water Company, Docket No. R-2013-2355276
- 25. Generic Investigation Regarding Gas-on-Gas Competition, Docket Nos. P-2011-227868, I-2012-2320323
- 26. Philadelphia Gas Works 1307(f), Docket No. R-2014-2404355
- 27. Pike County Light and Power Company (Gas), Docket No. R-2013-2397353
- 28. Pike County Light and Power Company (Electric), Docket No. R-2013-2397237
- 29. Peoples Natural Gas Company LLC 1307(f), Docket No. R-2014-2403939
- 30. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2014-2420273
- 31. UGI Utilities, Inc. Gas Division 1307(f), Docket No. R-2014-2420276
- 32. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2014-2420279
- 33. Emporium Water Company, Docket No. R-2014-2402324
- 34. Borough of Hanover Hanover Municipal Water, Docket No. R-2014-2428304
- 35. Philadelphia Gas Works 1307(f), Docket No. R-2015-2465656
- 36. Peoples Natural Gas Company LLC 1307(f), Docket No. R-2015-2465172
- Peoples Natural Gas Company Equitable Division 1307(f), Docket No. R-2015-2465181
- 38. PPL Electric Utilities Corporation, Docket No. R-2015-2469275
- 39. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2015-2480934
- 40. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2015-2480937

- 41. UGI Utilities, Inc. Gas Division 1307(f), Docket No. R-2015-2480950
- 42. UGI Utilities, Inc. Gas Division, Docket No. R-2015-2518438
- 43. Joint Application of Pennsylvania American Water, et al., Docket No. A-2016-2537209
- 44. UGI Utilities, Inc. Gas Division 1307(f), Docket No. R-2016-2543309
- 45. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2016-2543311
- 46. City of Dubois Company, Docket No. R-2016-2554150
- 47. UGI Penn Natural Gas, Inc., Docket No. R-2016-2580030
- 48. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2017-2602627
- 49. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2017-2602633
- 50. UGI Utilities, Inc. Gas Division 1307(f), Docket No. R-2017-2602638
- 51. Application of Pennsylvania American Water Company Acquisition of the Municipal Authority of the City of McKeesport, Docket No. A-2017-2606103
- 52. Pennsylvania American Water Company, Docket No. R-2017-2595853
- Pennsylvania American Water Company Lead Line Petition, Docket No. P-2017-2606100
- 54. UGI Utilities, Inc. Electric Division, Docket No. R-2017-2640058
- 55. Peoples Natural Gas Company, LLC Peoples and Equitable Division 1307(f), Docket Nos. R-2018-2645278 & R-2018-3000236
- 56. Peoples Gas Company, LLC 1307(f), Docket No. R-2018-2645296
- 57. Columbia Gas of Pennsylvania, Inc., Docket No. R-2018-2647577
- 58. Duquesne Light Company, Docket No. R-2018-3000124
- 59. Suez Water Pennsylvania, Inc., Docket No. R-2018-3000834
- 60. Application of Pennsylvania American Water Company Acquisition of the Municipal Authority of the Township of Sadsbury, Docket No. A-2018-3002437
- 61. The York Water Company, Docket No. R-2018-3000006
- 62. Application of SUEZ Water Pennsylvania, Inc. Acquisition of the Water and Wastewater Assets of Mahoning Township, Docket Nos. A-2018-3003517 and A-2018-3003519
- 63. Pittsburgh Water and Sewer Authority, Docket Nos. R-2018-3002645 and R-2018-3002647
- 64. Joint Application of Aqua America, Inc. et al., Acquisition of Peoples Natural Gas Company LLC, et al., Docket Nos. A-2018-3006061, A-2018-3006062, and A-2018-3006063
- 65. Implementation of Chapter 32 of the Public Utility Code Regarding Pittsburgh Water and Sewer Authority, Docket Nos. M-2018-2640802 and M-2018-2640803
- 66. Philadelphia Gas Works 1307(f), Docket No. R-2019-3007636
- 67. People Natural Gas Company, LLC, Docket No. R-2018-3006818
- 68. Application of Pennsylvania American Water Company Acquisition of the Steelton Borough Authority, Docket No. A-2019-3006880
- 69. Application of Aqua America, Inc. et al., Acquisition of the Wastewater System Assets of the Township of Cheltenham, Docket No. A-2019-3006880
- 70. Philadelphia Gas Works, Docket No. R-2019-3009016
- 71. Wellsboro Electric Company, Docket No. R-2019-3008208
- 72. Valley Energy, Inc., Docket No. R-2019-3008209
- 73. Citizens' Electric Company of Lewisburg, Pa, Docket Non. R-2019-3008212
- 74. Application of Aqua America, Inc. et al., Acquisition of the Wastewater System Assets of the East Norriton Township, Docket No. A-2019-3009052

- 75. Peoples Natural Gas Company, LLC 1307(f), Docket No. R-2020-3017850
- 76. Peoples Gas Company, LLC 1307(f), Docket No. R-2020-3017846
- 77. Philadelphia Gas Works, Docket No. R-2020-3017206
- 78. Pittsburgh Water and Sewer Authority, Docket Nos. R-2020-3017951 et al.
- 79. Columbia Gas of Pennsylvania, Docket No. R-2020-3018835
- 80. Pennsylvania America Water Company, Docket Nos. R-2020-3019369 and R-2020-3019371
- 81. PECO Energy Company Gas Division, Docket No. R-2020-3019829
- 82. PGW 1307(f), Docket No. R-2021-3023970
- 83. Peoples Natural Gas Company, LLC 1307(f), Docket No. R-2021-3023965
- 84. Peoples Gas Company, LLC 1307(f), Docket No. R-2021-3023967
- 85. UGI Utilities, Inc. Electric Division, Docket No. R-2021-3023618
- 86. Columbia Gas of Pennsylvania, Inc., Docket No. R-2021-3024926
- 87. Duquesne Light Company, Docket No. R-2021-3024750
- 88. UGI Utilities, Inc. Gas Division 1307(f), Docket No. R-2021-3025652
- 89. Pittsburgh Water and Sewer Authority, Docket Nos. R-2021-3024773 et al.
- 90. Application of Aqua America Wastewater, Inc. et al., Acquisition of the Wastewater System Assets of Lower Makefield Township, Docket No. A-2021-3024267
- 91. Aqua Pennsylvania Water, Inc. and Aqua Pennsylvania Wastewater, Inc., Docket Nos. R-2021-3027385 and R-2021-3027386
- 92. Application of Pennsylvania-American Water Company for Acquisition of the Wastewater Collection and Treatment System Assets of the York City Sewer Authority, Docket No. A-2021-3024681
- 93. City of Lancaster Bureau of Water, Docket No. R-2021-3026682
- 94. Application of Aqua America Wastewater, Inc. et al., Acquisition of the Wastewater System Assets of East Whiteland Township, Docket No. A-2021-30246132
- 95. UGI Utilities, Inc. Gas Division, Docket No. R-2021-3030218
- 96. Peoples Natural Gas Company, LLC 1307(f), Docket No. R-2022-3030661
- 97. Columbia Gas of Pennsylvania, Inc., Docket No. R-2022-3031211
- 98. UGI Utilities, Inc. Gas Division 1307(f), Docket No. R-2022-3032242
- 99. Pennsylvania American Water Company, Docket Nos. R-2022-3031672 and R-2022-3031673

## PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

# THE YORK WATER COMPANY

#### Docket Nos. R-2022-3031340 and R-2022-3032806

**Exhibit to Accompany** 

the

**Direct Testimony** 

of

## Ethan H. Cline

**Bureau of Investigation and Enforcement** 

**Concerning:** 

Cost Allocation Rate Design Scale back of Rates

#### PENNSYLVANIA PUBLIC UTILITY COMMISSION

# THE YORK WATER COMPANY - WASTEWATER DOCKET NO. R-2022-3032806

#### BUREAU OF INVESTIGATION AND ENFORCEMENT INTERROGATORIES SET RS

# BUREAU OF INVESTIGATION AND ENFORCEMENT INTERROGATORY I&E-RS-1-D

Reference York Exhibit FII-2, page 10 showing present and proposed revenue for both water and wastewater. Provide the following:

A. An explanation as to why the increase to wastewater customers is limited to 35%.

B. All studies, analysis, or supporting back-up information that 35% is the highest increase that should apply to wastewater revenue.

C. Any Commission order or prior specific agreements approved by the Commission that limits the increase to 35%.

#### **RESPONDENT:**

M. E. Poff CFO

#### DATE:

June 29, 2022

#### **RESPONSE:**

- A. The increase to wastewater customers was established at 35% to move the rates toward reflecting full cost of service but limiting it to avoid rate shock that would be associated with reflecting full cost of service.
- B. The Company has no studies, analysis, or supporting back-up information to provide.
- C. The Company is not aware of any orders or agreements that limits the increase to 35%.

#### Pennsylvania Public Utility Commission

#### v. The York Water Company Docket Nos. R-2022-3031340 (Water) R-2022-3032806 (Wastewater)

#### Office of Consumer Advocate Interrogatories Set VI

#### **OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET VI, NO. 3**

Reference Exhibit No. FV111-WA, Schedule G:

- a. Please explain why York is not consolidating Minimum Charge 1 and Minimum Charge 2 customers;
- b. Please explain why York is not proposing to reduce the Rate 1 and Rate 2 minimum allowances;
- c. Please explain why York is not proposing movement toward the consolidation of Customer Charge, Rate 1, and Rate 2 customer rates; and
- d. Please explain why York is proposing to maintain 4 separate unmetered rates.

#### **RESPONDENT:**

M. E. Poff CFO

#### DATE:

July 14, 2022

#### **RESPONSE:**

a. Minimum Charge 1 and Minimum Charge 2 customers have been consolidated for tariff purposes.

b. The existing tariff has a 4,000 gallon minimum for Rate 1 and Rate 2, and the Company does not believe that needs to be reduced.

c. The proposed rate structure has made considerable progress towards consolidation of various customer rates and will continue to be evaluated for further consolidation in future base rate cases.

# Pennsylvania Public Utility Commission v.

The York Water Company Docket Nos. R-2022-3031340 (Water) R-2022-3032806 (Wastewater)

#### Office of Consumer Advocate Interrogatories Set VI

d. They are listed as four rates, but there are only two different rates. Unmetered Rate 1, Unmetered Rate 3, and Unmetered Rate 4 have been consolidated for tariff purposes. Unmetered Rate 2 has not been consolidated, as the rates adopted by the Company were low and raising them to match the other unmetered rate would create a significantly high increase.

#### THE YORK WATER COMPANY WASTEWATER OPERATIONS COMPARISON OF PRESENT AND PROPOSED BASE RATES R-2022-3032806

					I&E	
		Present		Proposed		
		Base Rate		Base Rate	Proposed	Percent
	Charges	Per Month	Increase	Per Month	Allowance	Increase
	(A)	(B)	(C)	(D)	(E)	(F)
	FIXED CHARGES					
1	Minimum Charge 1	\$62.50	\$18.05	80.55	-	28.9%
2	Minimum Charge 2	\$55.00	\$25.55	\$80.55	-	46.5%
3	Customer Charge - WM	\$55.00	\$16.00	\$71.00	-	29.1%
4	Flat Rate Charge 1	\$62.50	\$36.50	\$99.00		58.4%
5	Flat Rate Charge 2 - Res.	\$32.71	\$23.29	\$56.00		71.2%
6	Flat Rate Charge 2 - Com.	\$40.42	\$28.58	\$69.00		70.7%
7	Flat Rate Charge 3	\$79.50	\$19.50	\$99.00		24.5%
8	Flat Rate Charge 4	\$45.00	\$54.00	\$99.00		120.0%

#### **CONSUMPTION CHARGES:**

	Rate Block, 100 Gallons	Present Rate		Proposed Rate	
	Per Month	Per 100 gallons		Per 100 gallons	
	(1)	(2)		(3)	
9	Over 4,000 Gallons - Rate 1	\$0.2500	\$0.3500	\$0.6000	140.0%
10	Over 4,000 Gallons - Rate 2	\$0.5000	\$0.1000	\$0.6000	20.0%
11	First 3,500 gallons - WM	\$0.2000	0.4000	\$0.6000	200.0%
12	Next 3,500 gallons - WM	\$1.0000	\$0.0000	\$1.0000	0.0%
13	Over 7,000 gallons - WM	\$1.2500	-\$0.2500	\$1.0000	-20.0%

#### THE YORK WATER COMPANY WASTEWATER OPERATIONS COMPARISON OF BILLS UNDER PRESENT AND PROPOSED RATES MINIMUM CHARGE 1 - MONTHLY MINIMUM CONSUMPTION UNDER PROPOSED RATES

	BILLS UNDER						
Line	CONSUMPTION	PRESENT	PROPOSED	INCR	EASE		
No.	GALLONS	RATES	RATES	AMOUNT	PERCENT		
	(A)	(B)	(C)	(D)	(E)		
1	0	\$62.50	\$80.55	\$18.05	28.9%		
2	1,000	\$62.50	\$86.55	\$24.05	38.5%		
3	2,000	\$62.50	\$92.55	\$30.05	48.1%		
5	2,980	\$62.50	\$98.43	\$35.93	57.5%		
6	3,000	\$62.50	\$98.55	\$36.05	57.7%		
7	4,000	\$62.50	\$104.55	\$42.05	67.3%		
8	5,000	\$65.00	\$110.55	\$45.55	70.1%		
9	6,000	\$67.50	\$116.55	\$49.05	72.7%		
10	7,000	\$70.00	\$122.55	\$52.55	75.1%		
11	8,000	\$72.50	\$128.55	\$56.05	77.3%		
12	9,000	\$75.00	\$134.55	\$59.55	79.4%		
13	10,000	\$77.50	\$140.55	\$63.05	81.4%		
14	11,000	\$80.00	\$146.55	\$66.55	83.2%		
15	12,000	\$82.50	\$152.55	\$70.05	84.9%		
16	13,000	\$85.00	\$158.55	\$73.55	86.5%		
17	14,000	\$87.50	\$164.55	\$77.05	88.1%		
18	15,000	\$90.00	\$170.55	\$80.55	89.5%		
19	16,000	\$92.50	\$176.55	\$84.05	90.9%		
20	17,000	\$95.00	\$182.55	\$87.55	92.2%		
21	18,000	\$97.50	\$188.55	\$91.05	93.4%		
22	19,000	\$100.00	\$194.55	\$94.55	94.5%		
23	20,000	\$102.50	\$200.55	\$98.05	95.7%		
24	30,000	\$127.50	\$260.55	\$133.05	104.4%		
25	40,000	\$152.50	\$320.55	\$168.05	110.2%		
26	50,000	\$177.50	\$380.55	\$203.05	114.4%		
27	60,000	\$202.50	\$440.55	\$238.05	117.6%		
28	70,000	\$227.50	\$500.55	\$273.05	120.0%		
29	80,000	\$252.50	\$560.55	\$308.05	122.0%		
30	90,000	\$277.50	\$620.55	\$343.05	123.6%		
31	100,000	\$302.50	\$680.55	\$378.05	125.0%		

\*Average residential monthly consumption of 2,980 gallons.

#### THE YORK WATER COMPANY WASTEWATER OPERATIONS COMPARISON OF BILLS UNDER PRESENT AND PROPOSED RATES MINIMUM CHARGE 2 - MONTHLY MINIMUM CONSUMPTION UNDER PROPOSED RATES

		BILLS I	JNDER		
Line	CONSUMPTION	PRESENT	PROPOSED	INCR	EASE
No.	GALLONS	RATES	RATES	AMOUNT	PERCENT
	(A)	(B)	(C)	(D)	(E)
1	0	\$62.50	\$80.55	\$18.05	28.9%
2	1,000	\$62.50	\$86.55	\$24.05	38.5%
3	2,000	\$62.50	\$92.55	\$30.05	48.1%
4	3,000	\$62.50	\$98.55	\$36.05	57.7%
6	3,050	\$62.50	\$98.85	\$36.35	58.2%
7	4,000	\$62.50	\$104.55	\$42.05	67.3%
8	5,000	\$67.50	\$110.55	\$43.05	63.8%
9	6,000	\$72.50	\$116.55	\$44.05	60.8%
10	7,000	\$77.50	\$122.55	\$45.05	58.1%
11	8,000	\$82.50	\$128.55	\$46.05	55.8%
12	9,000	\$87.50	\$134.55	\$47.05	53.8%
13	10,000	\$92.50	\$140.55	\$48.05	51.9%
14	11,000	\$97.50	\$146.55	\$49.05	50.3%
15	12,000	\$102.50	\$152.55	\$50.05	48.8%
16	13,000	\$107.50	\$158.55	\$51.05	47.5%
17	14,000	\$112.50	\$164.55	\$52.05	46.3%
18	15,000	\$117.50	\$170.55	\$53.05	45.1%
19	16,000	\$122.50	\$176.55	\$54.05	44.1%
20	17,000	\$127.50	\$182.55	\$55.05	43.2%
21	18,000	\$132.50	\$188.55	\$56.05	42.3%
22	19,000	\$137.50	\$194.55	\$57.05	41.5%
23	20,000	\$142.50	\$200.55	\$58.05	40.7%
24	30,000	\$192.50	\$260.55	\$68.05	35.3%
25	40,000	\$242.50	\$320.55	\$78.05	32.2%
26	50,000	\$292.50	\$380.55	\$88.05	30.1%
27	60,000	\$342.50	\$440.55	\$98.05	28.6%
28	70,000	\$392.50	\$500.55	\$108.05	27.5%
29	80,000	\$442.50	\$560.55	\$118.05	26.7%
30	90,000	\$492.50	\$620.55	\$128.05	26.0%
31	100,000	\$542.50	\$680.55	\$138.05	25.4%

\*Average residential monthly consumption of 3,050 gallons.

#### THE YORK WATER COMPANY

#### COMPARISON OF BILLS UNDER PRESENT AND PROPOSED RATES ALL CUSTOMER CLASSES - MONTHLY MINIMUM CONSUMPTION UNDER PROPOSED RATES

	BILLS UNDER						
Line	CONSUMPTION	PRESENT	PROPOSED	INCR	EASE		
No.	GALLONS	RATES*	RATES	AMOUNT	PERCENT		
	(A)	(B)	(C)	(D)	(E)		
1	0	\$55.00	\$71.00	\$16.00	29.09%		
2	1,000	\$57.00	\$77.00	\$20.00	35.09%		
3	2,000	\$59.00	\$83.00	\$24.00	40.68%		
4	3,000	\$61.00	\$89.00	\$28.00	45.90%		
6	3,335	\$62.00	\$91.01	\$29.01	46.79%		
7	4,000	\$67.00	\$97.00	\$30.00	44.78%		
8	5,000	\$77.00	\$107.00	\$30.00	38.96%		
9	6,000	\$87.00	\$117.00	\$30.00	34.48%		
10	7,000	\$97.00	\$127.00	\$30.00	30.93%		
11	8,000	\$109.50	\$137.00	\$27.50	25.11%		
12	9,000	\$122.00	\$147.00	\$25.00	20.49%		
13	10,000	\$134.50	\$157.00	\$22.50	16.73%		
14	11,000	\$147.00	\$167.00	\$20.00	13.61%		
15	12,000	\$159.50	\$177.00	\$17.50	10.97%		
16	13,000	\$172.00	\$187.00	\$15.00	8.72%		
17	14,000	\$184.50	\$197.00	\$12.50	6.78%		
18	15,000	\$197.00	\$207.00	\$10.00	5.08%		
19	16,000	\$209.50	\$217.00	\$7.50	3.58%		
20	17,000	\$222.00	\$227.00	\$5.00	2.25%		
21	18,000	\$234.50	\$237.00	\$2.50	1.07%		
22	19,000	\$247.00	\$247.00	\$0.00	0.00%		
23	20,000	\$259.50	\$257.00	-\$2.50	-0.96%		
24	30,000	\$384.50	\$357.00	-\$27.50	-7.15%		
25	40,000	\$509.50	\$457.00	-\$52.50	-10.30%		
26	50,000	\$634.50	\$557.00	-\$77.50	-12.21%		
27	60,000	\$759.50	\$657.00	-\$102.50	-13.50%		
28	70,000	\$884.50	\$757.00	-\$127.50	-14.41%		
29	80,000	\$1,009.50	\$857.00	-\$152.50	-15.11%		
30	90,000	\$1,134.50	\$957.00	-\$177.50	-15.65%		
	100,000	\$1,259.50	\$1,057.00	-\$202.50	-16.08%		

\*Average residential monthly consumption of 3,335 gallons.

THE YORK WATER COMPANY WASTEWATER OPERATIONS COMPARISON OF COST OF SERVICE WITH REVENUES UNDER PRESENT AND PROPOSED RATES FOR THE TWELVE MONTHS ENDED FEBRUARY 29, 2024

crease	Percent		Increase	(11)	53.0%	46.7%	52.3%	0.0%	52.3%
Proposed Increase			Amount	(10)	\$ 1,968,839	207,372	2,176,211	0	\$ 2,176,211
	osed Rates		Percent	(H)	89.7%	10.3%	100.0%		
	Revenues, Proposed Rates			(G)	\$ 5,682,543	651,071	6,333,614	4,861	\$ 6,338,475
	sent Rates	1	Percent	(F)	89.3%	10.7%	100.0%		
	Revenues, Present Rates		Amount	(E)	\$ 3,713,704	443,699	4,157,403	4,861	\$ 4,162,264
			Percent	(D)	89.7%	10.3%	100.0%		
vice	Amount to be	Recovered Under	Proposed Rates	(C)	\$ 5,682,543	\$ 651,092	6,333,635	4,861	\$ 6,338,496
Cost of Service	:	Contrib. From	Water Rates	(B)	\$ 1,252,102	\$ 699,288	1,951,390	0	\$ 1,951,390
		Amount	(Schedule B)	(A)	\$ 6,934,645	1,350,380	8,285,025	4,861	\$ 8,289,886
	Customer		Classification		Residential	2 Non-Residential	Total Sales	Other Revenues	<b>a</b>
	:	Line	No.		1 Res	2 Non	3 Tc	4 Oth	5 Total

#### Pennsylvania Public Utility Commission v. The York Water Company Docket Nos. R-2022-3031340 (Water) R-2022-3032806 (Wastewater)

#### Office of Consumer Advocate Interrogatories Set I

#### OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET I, NO. 3

What is the Company's proposal with respect to the scale-back of rates in the event that the Commission authorizes an increase that is less than the requested increase?

#### **RESPONDENT:**

M. E. Poff CFO

#### DATE:

June 23, 2022

#### **RESPONSE:**

With the exception of Public Fire Protection, all classes' increases should be scaled-back proportionately to the originally proposed increases.

I&E Statement No. 3-SR Witness: Ethan H. Cline

# PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

## THE YORK WATER COMPANY

#### Docket Nos. R-2022-3031340 and R-2022-3032806

**Surrebuttal Testimony** 

of

## Ethan H. Cline

**Bureau of Investigation and Enforcement** 

**Concerning:** 

Cost Allocation Rate Design Scale back of Rates

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# 1 INTRODUCTION

2	Q.	PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
3	А.	My name is Ethan H. Cline. My business address is Pennsylvania Public Utility
4		Commission, 400 North Street, Harrisburg, PA 17120.
5		
6	Q.	BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?
7	А.	I am employed by the Pennsylvania Public Utility Commission in the Bureau of
8		Investigation and Enforcement ("I&E") as a Fixed Utility Valuation Engineer.
9		
10	Q.	ARE YOU THE SAME ETHAN H. CLINE THAT SUBMITTED I&E
11		STATEMENT NO. 3 AND I&E EXHIBIT NO. 3 ON AUGUST 19, 2022?
12	А.	Yes.
13		
14	Q.	WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?
15	А.	The purpose of my surrebuttal testimony is to respond to the rebuttal testimony
16		submitted on behalf of York Water Company ("York Water" or "Company") by
17		Constance E. Heppenstall (York Water St. No. 108-R). I will also address the
18		rebuttal testimony submitted on behalf of the Office of Small Business Advocate
19		("OSBA") by witness Brian Kalcic (OSBA St. No. 1-R) and the rebuttal testimony
20		submitted on behalf of the Office of Consumer Advocate ("OCA") by witness
21		Jerome Mierzwa (OCA St. No. 4R).

1	Q.	DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN EXHIBIT?
2	A.	Yes. My exhibit for this testimony is attached as I&E Exhibit No. 3-SR, but I will
3		also refer to my direct testimony and exhibits as identified above.
4		
5	COF	RECTIONS
6	Q.	WERE THERE ANY ERRORS IDENTIFIED IN YOUR DIRECT
7		TESTIMONY?
8	A.	Yes. As indicated by York Water witness Heppenstall, there were two errors in
9		my direct testimony and one error in the supporting spreadsheet to my Exhibit that
10		was provided in discovery. Specifically, Ms. Heppenstall referenced two
11		inconsistencies between the customer charge listed on pages 10 and 13 of I&E St.
12		No. 3 and a miscalculation of a volumetric rate in the documentation provided in
13		support of I&E Ex. No. 3.
14		
15	Q.	PLEASE IDENTIFY THE CORRECTIONS TO YOUR DIRECT
16		TESTIMONY.
17	A.	First, the customer charge listed on page 10 of I&E St. No. 3 should be \$80.55 per
18		month, not $62.50$ per month, to match the $80.55$ per month shown on I&E Ex.
19		No. 3, Sch. 3. Second, on page 12 of I&E St. No. 3, only the first block usage rate
20		for the West Manheim will match I&E's recommended usage rate for the main
21		division. Third, I have provided a corrected revenue summary which increases the
22		non-residential revenue under proposed rates by \$16,638 from \$207,372 to

1		\$224,010 (I&E Ex. No. 3-SR, Sch. 1). This schedule replaces I&E Ex. No. 3, Sch.
2		7 provided with my direct testimony. I will discuss how this correction affects my
3		proposed wastewater rate structure and Act 11 allocation below.
4		
5	ACT	<u>11 ALLOCATION</u>
6	Q.	IS YORK WATER PROPOSING TO SHIFT SOME OF THE
7		WASTEWATER REVENUE REQUIREMENT FROM WASTEWATER
8		CUSTOMERS TO WATER CUSTOMERS IN THIS FILING?
9	A.	Yes. York Water is proposing to allocate \$2,670,856 of its wastewater revenue
10		requirement to water customers (York Water Ex. No. FVIII-WA, Sch. A).
11		
12	Q.	DOES THE PUBLIC UTILITY CODE PERMIT YORK WATER TO
13		PRESENT ITS REVENUE REQUIREMENT ON A COMBINED WATER
14		AND WASTEWATER BASIS AND TO ALLOCATE A PORTION OF
15		THE WASTEWATER REVENUE REQUIREMENT TO ITS COMBINED
16		WATER AND WASTEWATER CUSTOMERS?
17	A.	Yes. However, York Water may only do so if allocating a portion of the
18		wastewater revenue requirement to its combined water and wastewater customers
19		is in the public interest (I&E St. No. 3, pp. 2-3).

1	Q.	DID YOU DISAGREE WITH THE AMOUNT OF REVENUE
2		REQUIREMENT THAT YORK WATER PROPOSES TO ALLOCATE
3		FROM WASTEWATER OPERATIONS TO WATER OPERATIONS?
4	А.	Yes. I disagreed with the Company's proposed allocation of \$2,670,856 in
5		revenue requirement from wastewater operations to water operations. The
6		Company indicated that it limited the increase to wastewater rates to 35% to avoid
7		rate shock but did not provide any studies, analysis, supporting back-up
8		information, nor any Commission Orders to support its 35% limit (I&E St. No. 3,
9		p. 5).
10		
11	Q.	WHAT WASTEWATER OPERATIONS REVENUE REQUIREMENT
12		ALLOCATION DID YOU RECOMMEND?
13	A.	I recommended a wastewater operations revenue requirement allocation of
14		\$844,015 (I&E St. No. 3, p. 5).
15		
16	Q.	DO YOU WISH TO REVISE YOUR RECOMMENDATION
17		CONCERNING THE SUBSIDY BEING PROVIDED TO WASTEWATER
18		OPERATIONS?
19	A.	Yes. Based on the updated I&E recommended revenue requirement for
20		wastewater operations of \$7,223,362, discussed by I&E witness Walker in I&E St.
21		No. 1-SR, and the corrections described above I am recommending that the

1		wastewater operations revenue requirement allocation be increased by \$24,202
2		from \$844,015 to \$868,217.
3		
4	WAS	STEWATER OPERATIONS
5	Q.	PLEASE DESCRIBE THE WASTEWATER OPERATIONS.
6	A.	As described on page 4 of York Water Statement No. 1, York Water provides
7		wastewater services in the Boroughs of East Prospect, Felton, Jacobus, and West
8		York, in the Townships of East Manchester, Lower Windsor, and West Manheim
9		in York County, Pennsylvania, in the Township of Letterkenny in Franklin
10		County, Pennsylvania, and in the Township of Straban in Adams County,
11		Pennsylvania.
12		
13	Q.	WHERE ARE THE WASTEWATER OPERATIONS RATES
14		SUMMARIZED?
15	A.	The present York Water WW Operations rates are summarized on York Water
16		Exhibit FVIII-WA, Schedule G.
17		
18	Q.	WHAT RATE STRUCTURE CHANGES AND RATE INCREASES ARE
19		PROPOSED BY THE COMPANY?
20	А.	The Company's proposed rate structure changes and rate increases are described
21		in its response to OCA-VI-3 (I&E Ex. No. 3, Sch. 2). York Water's present and
22		proposed rates are shown on York Water Exhibit FVIII-WA, Schedule F. First,

1		the Company is proposing to maintain the 4,000-gallon minimum allowance in the
2		minimum charge for all customers other than West Manheim customers. It is
3		proposing to consolidate Minimum Charge 1, currently \$62.50 per month and
4		Minimum Charge 2, currently \$55.00 per month and increase those rates to \$80.55
5		per month. York Water is proposing to consolidate usage rates 1 and 2 and
6		increase those usage rates to \$0.7012 per hundred gallons. Finally, the Company
7		has four unmetered rates under present rates and is proposing to consolidate
8		Unmetered Rate 1, Unmetered Rate 3, and Unmetered Rate 4 and increase those
9		rates to \$80.55 per month. Unmetered Rate 2 is not being consolidated as this
10		monthly charge is paid by West York customers who were recently acquired, and
11		rates were capped at two times the average increase, or 70%, which resulted in
12		those unmetered rates increasing to \$55.61 per month for residential customers
13		and \$68.71 per month for commercial customers (York Water St. No. 108, p. 15).
14		
15	Q.	DID THE COMPANY PROVIDE A COSS FOR THE WASTEWATER
16		OPERATIONS IN THIS FILING?
17	A.	Yes. The Company provided a Wastewater Operations Cost of Service Study
18		("COSS") attached as York Water Exhibit FVIII-WA. The Company also
19		provided a COSS for wastewater operations excluding West Manheim, as was

20 required in the Company's acquisition order, as York Water Exhibit FVIII-WB.

1	Q.	WHAT IS THE DIFFERENCE BETWEEN THE COST TO PROVIDE
2		SERVICE AND THE REVENUE THAT IS PRODUCED UNDER
3		PROPOSED RATES IN THE FPFTY?
4	A.	The difference is \$2,670,877 (\$8,289,886 – \$5,619,009). The \$2,670,877 is
5		approximately the amount the Company is proposing to recover from water
6		customers described above.
7		
8	Q.	WHAT DID YOU RECOMMEND THAT WILL PARTIALLY ELIMINATE
9		THE REVENUE SHORTFALL?
10	A.	My recommended rates and rate structure for the wastewater operations are shown
11		on I&E Ex. No. 3, Sch. 3, column D. My recommendations regarding the West
12		Manheim rates are described further below. Regarding the Wastewater Operations
13		rates, I recommended that the minimum charges be transitioned to a more
14		traditional customer charge, consolidated from Minimum Charges 1 and 2 into a
15		single customer charge, and set at \$80.55 <sup>1</sup> per month. I recommended that the
16		4,000-gallon allowance be eliminated and the Consumption Rates 1 and 2 be
17		consolidated and increased to \$0.6000 per hundred gallons. I recommend the Flat
18		Rate Charges 1, 3, and 4 be consolidated and increased to \$99.00 per month.
19		Finally, I recommend the Flat Rate Charge 2 be increased to \$56.00 per month for

<sup>&</sup>lt;sup>1</sup> Per the correction described above.

1		residential customers and \$69.00 per month for commercial customers (I&E St.
2		No. 3, pp. 9-10).
3		
4	Q.	DID ANY PARTIES OPPOSE YOUR PROPOSED RATE
5		<b>RECOMMENDATION?</b>
6	A.	Yes. York Water witness Heppenstall and OCA witness Mierzwa each opposed
7		my proposed rate recommendation for wastewater customers for similar reasons.
8		First, both parties raised concerns regarding rate shock and the percent increase of
9		my proposed rates. Both parties also raised concerns regarding my proposal to
10		remove the 4,000-gallon usage allowance for Consumption Rates 1 and 2.
11		
12	Q.	WHAT SUPPORT DID MS. HEPPENSTALL PROVIDE THAT YOUR
13		RECOMMENDED WASTEWATER RATE INCREASE WOULD CAUSE
14		RATE SHOCK?
15	A.	The only support provided by Ms. Heppenstall is the fact that my recommended
16		increase in rates is higher than the Company's proposed increase and is also larger
17		than the overall increase (York Water St. No. 108-R, p. 5).
18		
19	Q.	DO YOU AGREE THAT YOUR PROPOSED RATE RECOMMENDATION
20		WOULD CAUSE RATE SHOCK TO WASTEWATER CUSTOMERS?
21	A.	No. While it is true that my proposed rate recommendation is higher than what the
22		Company proposed, Ms. Heppenstall provided no support for her claim that my

1		recommendation will cause rate shock. Furthermore, as stated in my direct
2		testimony, the Commission recently recognized the need to consider cost
3		causation. In its rejection of Aqua's rate design proposal in its 2021 base rate
4		case, the Commission noted that it did not bear a "reasonable relationship" to
5		Aqua's cost of serving wastewater customers (I&E St. No. 3, pp. 15-16). My
6		recommendation regarding the wastewater rates moves those customers more fully
7		towards recovering their cost of service.
8		
9	Q.	WHAT IS THE BASIS FOR MR. MIERZWA'S OPPOSITION TO YOUR
10		WASTEWATER PROPOSED RATE RECOMMENDATION?
11	A.	The basis for Mr. Mierzwa's opposition to my proposed wastewater rate
12		recommendation is based on the comparison of the increase for residential
13		customers compared to the increase for non-residential customers as shown on
14		I&E Exhibit No. 3, Schedule 7, column 11 (OCA St. No. 4R, pp. 7-8).
15		
16	Q.	PLEASE RESPOND TO MR. MIERZWA'S CONCERNS REGARDING
17		YOUR RECOMMENDATION.
18	A.	As described above, the 46.7% increase shown for the non-residential customers
19		on I&E Exhibit No. 3, Schedule 7, column 11 was incorrect. The corrected
20		increases shown on I&E Exhibit No. 3-SR, Schedule 1, column 11 are a 53.0%
21		increase for the residential customers and a 50.5% increase for non-residential

1		customers. Since the corrected percentages increase are now comparable, I
2		believe that this correction will address Mr. Mierzwa's above stated concerns.
3		
4	Q.	DO YOU WANT TO CHANGE YOUR RECOMMENDATION
5		REGARDING THE PROPOSED WASTEWATER RATES AND ACT 11
6		ALLOCATION?
7	А.	No. I continue to recommend an updated Act 11 allocation increase of \$868,217
8		and the proposed rates shown on I&E Exhibit No. 3, Schedule 3.
9		
10		WEST MANHEIM TOWNSHIP WASTEWATER OPERATIONS
11	Q.	WHAT ARE THE PRESENT RATES AND AVERAGE BILL FOR A WEST
12		MANHEIM NON-LOW-INCOME CUSTOMER?
13	A.	Under present rates, the average West Manheim non-low-income residential
14		customers that uses 3,335 gallons per month is \$62.00 per month (I&E Ex. No. 3,
15		Sch. 6, line 6). All bills are based upon a customer charge of \$55.00 per month
16		and a three-block usage rate of \$0.2000 per hundred gallons for the first 3,500
17		gallons, \$1.000 per hundred gallons for the next 3,500 gallons, and \$1.2500 per
18		hundred gallons for all usage over 7,000 gallons (York Water, Ex. FVIII-WA,
19		Sch. F).

# Q. WHAT INCREASE DID THE COMPANY PROPOSE WITH RESPECT TO WEST MANHEIM RATES?

A. The Company proposed to decrease the West Manheim customer charge to \$52.50
per month and increase the first block usage charge to \$0.7012 per hundred
gallons while maintaining usage rates for the next two usage blocks (York Water,
Ex. FVIII-WA, Sch. F).

7

# 8 Q. WHAT RATES AND ALLOWANCE DID YOU RECOMMEND FOR

# 9 **WEST MANHEIM?**

10 A. I recommended that the West Manheim residential customer charge be increased 11 to \$71.00 per month. I further recommended that first block usage rate be 12 increased to \$0.6000 per hundred gallons, which is equal to the consolidated total 13 wastewater usage rate described above. I agree that the second block usage rate 14 should remain at \$1.000 per hundred gallons. However, I recommended the third 15 block usage rate be reduced from \$1.2500 per hundred gallons to \$1.000 per 16 hundred gallons and eliminated. My recommendation moves the West Manheim 17 rates to or closer to the total wastewater rates and will generate revenue to reduce 18 the overall subsidy needed to operate the wastewater systems. Finally, this 19 recommendation will make it easier to consolidate wastewater rates in York 20 Water's next base rate case (I&E St. No. 3, pp. 14-15).

1	Q.	WHAT WILL BE THE AVERAGE INCREASE FOR THE WEST
2		MANHEIM NON-LOW-INCOME CUSTOMERS?
3	А.	Under my proposed rates, the average bill for a non-low-income customer will
4		increase from \$62.00 per month to \$91.01 per month which is an increase of
5		\$29.01 per month or 46.79% (I&E Ex. No. 3, Sch. 6, line 6).
6		
7	Q.	DID ANY PARTIES RESPOND TO YOUR RECOMMENDATION
8		<b>REGARDING WEST MANHEIM RATES?</b>
9	A.	Yes. Ms. Heppenstall agreed that a rate structure without an allowance is
10		preferable, and Mr. Mierzwa stated that he believes the minimum allowance
11		should eventually be eliminated. However, both parties indicated that it may be
12		more appropriate to eliminate the allowance over several rate proceedings for
13		reasons of avoiding rate shock and appropriate movement towards cost of service
14		rates (York Water St. No. 108-R, p. 5, and OCA St. No. 4-R, pp. 8-9).
15		
16	Q.	DID MR. MIERZWA OR MS. HEPPENSTALL PROVIDE ANY
17		ALTERNATE PROPOSALS TO PARTIALLY ELIMINATE THE 4,000-
18		GALLON USAGE ALLOWANCE?
19	A.	No. While I&E may not be opposed to eliminating the usage allowance over
20		several rate cases, neither party provided any definitive proposal including the
21		impact to revenue and average bills regarding a partial elimination of the 4,000-
22		gallon usage allowance.

1	Q.	DO YOU WISH TO CHANGE YOUR RECOMMENDATION
2		REGARDING THE WEST MANHEIM OPERATIONS WASTEWATER
3		RATES AND USAGE ALLOWANCE?
4	A.	No. As no proposal has been provided to consider, I will therefore continue to
5		recommend the entire 4,000-gallon allowance be eliminated in this case as the
6		parties have agreed it should be the goal.
7		
8		WATER OPERATIONS – CUSTOMER COSTS
9	Q.	DID THE COMPANY PREPARE A CUSTOMER COST ANALYSIS TO
10		SUPPORT INCREASING THE CUSTOMER CHARGES?
10 11	A.	<b>SUPPORT INCREASING THE CUSTOMER CHARGES?</b> Yes. The Company provided two customer cost analyses for the FPFTY in York
11		Yes. The Company provided two customer cost analyses for the FPFTY in York
11 12		Yes. The Company provided two customer cost analyses for the FPFTY in York Water Exhibit FVIII, RS1-j Attachment. The results of first cost analysis, shown
11 12 13		Yes. The Company provided two customer cost analyses for the FPFTY in York Water Exhibit FVIII, RS1-j Attachment. The results of first cost analysis, shown on page 1 of 9 of the attachment, includes all costs being allocated to the customer
11 12 13 14		Yes. The Company provided two customer cost analyses for the FPFTY in York Water Exhibit FVIII, RS1-j Attachment. The results of first cost analysis, shown on page 1 of 9 of the attachment, includes all costs being allocated to the customer cost function and results in a unit cost of \$30.76 per month.
11 12 13 14 15		Yes. The Company provided two customer cost analyses for the FPFTY in York Water Exhibit FVIII, RS1-j Attachment. The results of first cost analysis, shown on page 1 of 9 of the attachment, includes all costs being allocated to the customer cost function and results in a unit cost of \$30.76 per month. Additionally, the Company provided a second customer cost analysis that

1	Q.	WHICH CUSTOMER COST ANALYSIS DID YORK WATER USE TO
2		DETERMINE ITS PROPOSED CUSTOMER CHARGES?
3	А.	The proposed 5/8-inch customer charge is \$20.71, which is equal to the monthly
4		cost determined in the direct customer cost analysis (York Water Ex. FVIII, Sch.
5		I).
6		
7	Q.	DID YOU AGREE THAT CUSTOMER CHARGES SHOULD BE
8		DETERMINED BASED ON THE RESULTS OF THE DIRECT
9		CUSTOMER COST ANALYSIS?
10	А.	Yes. The Commission has traditionally relied on customer cost analyses based on
11		direct cost allocations. Therefore, it is reasonable to continue to reject the "fully
12		allocated" customer cost analysis provided by Ms. Heppenstall and base the
13		customer charges instead on the direct cost customer cost analysis provided by the
14		Company. (I&E St. No. 3, pp. 18-19).
15		
16	Q.	DID ANY PARTIES RESPOND TO YOUR POSITION REGARDING THE
17		CUSTOMER COST ANALYSIS?
18	А.	Yes. Mr. Mierzwa disagreed with my position regarding the Company's customer
19		cost analysis based on changes to that analysis that he proposed in his direct
20		testimony and summarized on page 9 of OCA Statement No. 4R.

1	Q.	DO YOU OPPOSE MR. MIERZWA'S POSIITON REGARDING THE
2		COMPANY'S CUSTOMER COST ANALYSIS?
3	A.	No. I do not oppose Mr. Mierzwa's position regarding the Company's customer
4		cost analysis. My recommendation is that the Company's water customer charges
5		be based upon the direct cost customer cost analysis that is approved by the
6		Commission.
7		
8	<u>SCA</u>	LE BACK OF RATES
9	Q.	WHAT IS A SCALE BACK OF RATES?
10	A.	If the Commission grants an increase less than the amount the Company requested,
11		the Company's proposed rates would be reduced, or scaled back, to produce the
12		revenue requirement allowed by the Commission.
13		
14	Q.	DID THE COMPANY INDICATE ITS PREFERRED SCALE BACK
15		METHODOLOGY?
16	A.	Yes. In its response to OCA-I-9, attached as I&E Exhibit No. 3, Schedule 8, the
17		Company stated that "[w]ith the exception of Public Fire Protection, all classes'
18		increases should be scaled-back proportionately to the originally proposed
19		increases."

1	Q.	DID YOU AGREE WITH THE COMPANY'S SCALE BACK PROPOSAL?
2	A.	Generally, yes. I agreed that all classes' increases should be scaled back
3		proportionately to the originally proposed increases, apart from the Public Fire
4		Protection classes. However, as I describe below, additional steps are required to
5		determine the appropriate scale back of rates (I&E St. No. 3, pp. 20-21).
6		
7	Q.	WHAT IS THE FIRST STEP THAT MUST BE COMPLETED IN ANY
8		SCALE BACK OF RATES?
9	А.	The first step that must be completed in any scale back is to determine the revenue
10		requirements and scale backs of the wastewater operations (I&E St. No. 3, p. 21).
11		
12	Q.	WHAT DID YOU RECOMMEND IF THE COMMISSION GRANTS LESS
12 13	Q.	WHAT DID YOU RECOMMEND IF THE COMMISSION GRANTS LESS THAN THE FULL INCREASE FOR THE WASTEWATER
	Q.	
13	<b>Q.</b> A.	THAN THE FULL INCREASE FOR THE WASTEWATER
13 14		THAN THE FULL INCREASE FOR THE WASTEWATER OPERATIONS?
13 14 15		<b>THAN THE FULL INCREASE FOR THE WASTEWATER OPERATIONS?</b> I recommended that any scale back be netted against the subsidy the Commission
13 14 15 16		<b>THAN THE FULL INCREASE FOR THE WASTEWATER OPERATIONS?</b> I recommended that any scale back be netted against the subsidy the Commission
13 14 15 16 17		THAN THE FULL INCREASE FOR THE WASTEWATER OPERATIONS? I recommended that any scale back be netted against the subsidy the Commission determines for the Wastewater Operations (I&E St. No. 3, p. 21).
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> </ol>	A.	THAN THE FULL INCREASE FOR THE WASTEWATER         OPERATIONS?         I recommended that any scale back be netted against the subsidy the Commission         determines for the Wastewater Operations (I&E St. No. 3, p. 21).         WATER OPERATIONS RATE SCALE BACK
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> <li>19</li> </ol>	A.	THAN THE FULL INCREASE FOR THE WASTEWATER         OPERATIONS?         I recommended that any scale back be netted against the subsidy the Commission         determines for the Wastewater Operations (I&E St. No. 3, p. 21).         WATER OPERATIONS RATE SCALE BACK         DID YOU RECOMMEND THAT THE CUSTOMER CHARGES BE

# Q. WHY DID YOU RECOMMEND THAT THE CUSTOMER CHARGES BE INCLUDED IN ANY SCALE BACK?

3	A.	Because the \$20.71 per month 5/8 <sup>th</sup> inch customer charge proposed by the Company
4		is based upon the direct customer cost, any reduction in any of the ratemaking inputs
5		by the Commission would reduce the inputs used in the customer cost analysis that
6		was used to determine the $20.71$ per month $5/8^{\text{th}}$ inch customer charge. To be
7		consistent, I also recommended the other larger meter sized customer charges be
8		scaled back since the Company proposed that they be increased the same 27.4%
9		(I&E St. No. 3, p. 23).
10		
11	Q.	WHAT DID YOU RECOMMEND IF THE COMMISSION GRANTS AN
11 12	Q.	WHAT DID YOU RECOMMEND IF THE COMMISSION GRANTS AN INCREASE THAT IS LESS THAN THE FULLY REQUESTED INCREASE
	Q.	
12	Q.	INCREASE THAT IS LESS THAN THE FULLY REQUESTED INCREASE
12 13	<b>Q.</b> A.	INCREASE THAT IS LESS THAN THE FULLY REQUESTED INCREASE FOR WATER OPERATIONS AND REDUCES THE CUSTOMER
12 13 14		INCREASE THAT IS LESS THAN THE FULLY REQUESTED INCREASE FOR WATER OPERATIONS AND REDUCES THE CUSTOMER CHARGES?
12 13 14 15		INCREASE THAT IS LESS THAN THE FULLY REQUESTED INCREASE FOR WATER OPERATIONS AND REDUCES THE CUSTOMER CHARGES? If the Commission grants an increase less than the fully requested increase, I

19 (I&E St. No. 3, pp. 23-24).

1	Q.	DID ANY PARTIES AGREE WITH YOUR SCALE BACK
2		<b>RECOMMENDATIONS?</b>
3	А.	Yes. The Company agreed with my scale back recommendations (York Water St.
4		No. 108-R, pp. 5-6).
5		
6	Q.	DID THE OSBA DISAGREE WITH YOUR SCALE BACK
7		<b>RECOMMENDATION?</b>
8	А.	OSBA witness Kalcic disagreed with my scale back recommendation because it does
9		not treat the Act 11 allocation revenue and the water revenue requirement separately.
10		Mr. Kalcic instead indicated that PAWC's approved Act 11 revenue requirement
11		should be allocated to water service classes based on wastewater class contributions
12		to the Company's Act 11 revenue requirement shortfall (OSBA St. No. 1-R, pp. 13-
13		14).
14		
15	Q.	DO YOU OPPOSE OSBA'S SCALE BACK RECOMMENDATION?
16	А.	No. Mr. Kalcic's scale back recommendation considers the Act 11 allocation to and
17		from specific classes, which adds additional steps to a scale back. I do not believe
18		Mr. Kalcic's proposals are unreasonable and, therefore, I do not oppose his
19		recommendation.
20		
21	Q.	DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?
22	A.	Yes.

#### PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

# THE YORK WATER COMPANY

#### Docket Nos. R-2022-3031340 and R-2022-3032806

**Exhibit to Accompany** 

the

**Surrebuttal Testimony** 

of

## Ethan H. Cline

**Bureau of Investigation and Enforcement** 

**Concerning:** 

Cost Allocation Rate Design Scale back of Rates THE YORK WATER COMPANY WASTEWATER OPERATIONS COMPARISON OF COST OF SERVICE WITH REVENUES UNDER PRESENT AND PROPOSED RATES FOR THE TWELVE MONTHS ENDED FEBRUARY 29, 2024

crease	Percent		Increase	(11)	53.0%	50.5%	52.7%	0.0%	52.7%
Proposed Increase			Amount	(10)	\$ 1,968,871	224,010	2,192,881	0	\$ 2,192,881
	osed Rates		Percent	(H)	89.5%	10.5%	100.0%		
	Revenues, Proposed Rates		Amount	(G)	\$ 5,682,575	667,709	6,350,284	4,861	\$ 6,355,145
	Revenues, Present Rates		Percent	(F)	89.3%	10.7%	100.0%		
			Amount	(E)	\$ 3,713,704	443,699	4,157,403	4,861	3 4,162,264
	Amount to be			(D)	89.7%	10.3%	100.0%		
vice		Recovered Under	Proposed Rates	(C)	\$ 5,682,543	\$ 651,092	6,333,635	4,861	\$ 6,338,496
Cost of Service		Contrib. From	Water Rates	(B)	\$ 1,252,102	\$ 699,288	1,951,390	0	\$ 1,951,390
		Amount	(Schedule B)	(A)	\$ 6,934,645	1,350,380	8,285,025	4,861	\$ 8,289,886
	Customer		Classification		Residential	2 Non-Residential	Total Sales	4 Other Revenues	tal
		Line	No.		1 Re	2 No	3	4 Oth	5 Total

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:		
V.	:	Docket No.:	R-2022-3031340
The York Water Company – Water	:		
Pennsylvania Public Utility Commission v.	: : :	Docket No.:	R-2022-3032806
The York Water Company – Wastewater	:		

# **VERIFICATION OF ETHAN H. CLINE**

I, Ethan H. Cline, on behalf of the Bureau of Investigation and Enforcement, hereby verify that I&E Statement No. 3, I&E Exhibit No. 3, I&E Statement No. 3-SR, and I&E Exhibit No. 3-SR were prepared by me or under my direct supervision and control.

Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same if called to the stand at any evidentiary hearing held in this matter.

This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

Signed in Harrisburg, Pennsylvania, this 5th day of October, 2022.

/s/ Ethan H. Cline

Ethan H. Cline

OCA Statement 1 (REVISED)

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

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Pennsylvania Public Utility Commission

v.

The York Water Company

Docket No. R-2022-3031340 (Water) Docket No. R-2022-3032806 (Wastewater)

Direct Testimony of Mark E. Garrett

On Behalf of: Office of Consumer Advocate

August 19, 2022

**REVISED SEPTEMBER 12, 2022** 

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### I. INTRODUCTION AND PURPOSE OF TESTIMONY

1	Q:	PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
2	A:	My name is Mark Garrett. My business address is 4028 Oakdale Farm Circle, Edmond,
3		OK 73013.
4		
5	Q:	HOW ARE YOU EMPLOYED?
6	A:	I am the President of Garrett Group Consulting, Inc., a consulting firm specializing in
7		public utility regulation and litigation.
8		
9	Q:	PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
10		PROFESSIONAL EXPERIENCE.
11	A:	I am a licensed attorney and a certified public accountant. I work as a consultant in public
12		utility regulation. I received my bachelor's degree from the University of Oklahoma and
13		completed post-graduate hours at Stephen F. Austin State University and at the University
14		of Texas at Arlington and Pan American. I received my juris doctorate degree from
15		Oklahoma City University Law School and was admitted to the Oklahoma Bar in 1997. I
16		am a Certified Public Accountant licensed in the States of Texas and Oklahoma with a
17		background in public accounting, private industry, and utility regulation.
18		In public accounting, as a staff auditor for a firm in Dallas, I primarily audited
19		financial institutions in the State of Texas. In private industry, as controller for a mid-
20		sized (\$300 million) corporation in Dallas, I managed the Company's accounting function,
21		including general ledger, accounts payable, financial reporting, audits, tax returns,

Direct Testimony of Mark E. Garrett Docket Nos. R-2022-3031340 (Water); and Docket No. R-2022-3032806 (Wastewater) budgets, projections, and supervision of accounting personnel. In utility regulation, I
 served as an auditor in the Public Utility Division of the Oklahoma Corporation
 Commission from 1991 to 1995. In that position, I managed the audits of major gas and
 electric utility companies in Oklahoma.

5 Since my departure from the Oklahoma Corporation Commission, I have worked 6 on numerous rate cases and other regulatory proceedings on behalf of various consumers, 7 consumer groups, public utility commission staffs and offices of attorneys general. I have 8 provided testimony before the public utility commissions in the states of Alaska, Arizona, 9 Arkansas, Colorado, Florida, Indiana, Massachusetts, Nevada, Oklahoma, Pennsylvania, 10 Texas, Utah, and Washington. My clients include industrial customers and groups of 11 customers, hospitals and hospital groups, universities, municipalities, and large 12 commercial customers. I have also testified on behalf of the commission staff in Utah and 13 the offices of attorneys general in Oklahoma, Indiana, Washington, Nevada and Florida. 14 I have also served as a presenter at the NARUC subcommittee on Accounting and Finance 15 on the issue of incentive compensation, and as a regular instructor at the New Mexico State University's Center for Public Utilities course on basic utility regulation. I have 16 attached Appendix A which contains a more complete description of my qualifications 17 18 and a list of the regulatory proceedings in which I have been involved.

- 19
- 20

### Q: HAVE YOUR QUALIFICATIONS BEEN ACCEPTED BY THIS COMMISSION?

A: Yes. I previously filed testimony in Philadelphia Gas Works' general rate case, Docket
No. R-2020-3017206. A description of my qualifications and a list of the proceedings in

Direct Testimony of Mark E. Garrett Docket Nos. R-2022-3031340 (Water); and Docket No. R-2022-3032806 (Wastewater) 1

which I have been involved are included at the end of my testimony as Appendix A.

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3	Q:	ON WHOSE BEHALF ARE YOU APPEARING IN THESE PROCEEDINGS?
4	A:	I am appearing on behalf of the Office of Consumer Advocate ("OCA"). I was retained
5		by the OCA to assist in the review and evaluation of the general rate case filing submitted
6		by The York Water Company ("York or "Company").
7		
8	Q:	WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?
9	A:	In my testimony I support several adjustments to the Company's proposed operating
10		expense levels. I also sponsor the OCA revenue requirement schedules which include the

11 adjustments recommended by other OCA witnesses.

### II. OVERVIEW OF YORK'S REQUESTED RELIEF

### 12 Q: PLEASE PROVIDE AN OVERVIEW OF THE COMPANY'S REQUEST TO

### 13 INCREASE WATER AND WASTEWATER RATES.

- A: In its current filing, York has submitted applications for its water and wastewater utilities.
  The combined rate increase for both utilities is \$20,310,530.<sup>1</sup> This is comprised of
- 16 \$18,853,737 for the water utility, a 33.8% increase,<sup>2</sup> and \$1,456,793 for the wastewater

<sup>&</sup>lt;sup>1</sup> Calculated as follows: (\$18,853,737 + \$1,456,793 = \$20,310,530).

<sup>&</sup>lt;sup>2</sup> The 33.8% increase includes the impact of the Distribution System Improvement Charge of \$2,121,928 which will be rolled into base rates. The requested increase in base rates is 35.1% (\$18,853,737 / \$53,642,460 \* 100 = 35.1%).

utility, a 35.0% rate increase. These balances also reflect York's requested revenue allocation to shift \$2,670,856 of its wastewater revenue deficiency to the water utility.<sup>3</sup>

3 The Company is requesting water utility rate base of \$350,621,590 and a revenue requirement of \$69,825,341.<sup>4</sup> It is requesting a wastewater rate base of \$33,353,950 with 4 a revenue requirement of \$8,289,911<sup>5</sup> before the revenue allocation shift. These requests 5 6 are based on a requested return on equity of 11.25%, inclusive of a 25 basis point management adder, and an overall rate of return of 7.93%.<sup>6</sup> The Company's projected 7 8 additions of \$117,200,230 in new and replacement plant for the two utilities between December 31, 2021 and February 29, 2024<sup>7</sup> is a major component of the requested 9 10 increases, as well as the high return on equity.

### III. <u>SUMMARY OF ADJUSTMENTS</u>

1

2

## 11Q:PLEASESUMMARIZEYOURREVENUEREQUIREMENT12RECOMMENDATIONS.

A: In my testimony, I propose several adjustments to the Company's projected expense
levels, I incorporate the acquisition adjustment recommendations of Morgan N.
DeAngelo, and the cost of capital recommendations of Dr. David S. Habr. The impact on
the Company's requested revenue requirement is set forth below:

<sup>6</sup> Direct Testimony of Paul R. Moul, p. 2.

<sup>&</sup>lt;sup>3</sup> Exhibit No. FII-2, p, 10.

<sup>&</sup>lt;sup>4</sup> Exhibit No. FV-1, pp. 3, 6.

<sup>&</sup>lt;sup>5</sup> Exhibit FV-1W, pp. 3, 6.

<sup>&</sup>lt;sup>7</sup> Direct Testimony of Mark A. Wheeler, p. 17, lines 19-22 and p. 18, lines 13-16.

Table 1: Summary of O	CA Adjustments	
	Water	Wastewater
York's Requested Increase in Base Rates	\$18,853,737	\$1,456,793
OCA Adjustments		
Cash Working Capital	\$(27,488)	
Acquisition Adjustments	(6,341)	\$(46,634)
ROE 25 Basis Point Reduction <sup>8</sup>	(683,661)	(63,800)
Capital Structure at 52% Equity	(1,136,823)	(106,089)
Return on Equity Adjustment	(7,944,800)	(741,415)
Payroll Expense Adjustments	(382,591)	(17,296)
Short Term Incentive Compensation	(123,754)	(5,595)
Long Term Incentive Compensation	(238,146)	(10,766)
Board of Directors' Compensation	(213,825)	N/A
Payroll Taxes	(37,287)	(1,686)
Inflation Adjustment	(1,023,307)	(298,363)
Acquisition Adjustment Amortization	(6,789)	(57,718)
Indirect Impacts (Bad Debts, Late Charges, Other Taxes)	(27,402)	(2,646)
Net OCA Adjustments	\$(11,852,215)	\$(1,352,007)
Recommended Change to Base Rates	\$7,001,522	\$104,786

1Q:THE ADJUSTMENT SUMMARY ABOVE INCLUDES AN AMOUNT2IDENTIFIED AS INDIRECT IMPACTS. PLEASE DESCIBE THIS ITEM AND3EXPLAIN WHY IT IS NOT SHOWN AS A LINE ITEM ON THE REVENUE4REQUIREMENT EXHIBIT.

5 A: The line item above labeled 'Indirect Impacts' reflects the combined indirect impacts 6 resulting from the adjustments that the OCA is proposing. These indirect impacts consist 7 of the related late charges, bad debt expense, and the utility assessment adjustment that are 8 required as result of the OCA's other adjustments. These items are included as a 9 component of the revenue conversion factor in York's exhibits and on the revenue 10 requirement schedule.

<sup>&</sup>lt;sup>8</sup> A 25-basis point increase to ROE would increase revenue requirement by \$683,661 for Water and \$62,871 for Wastewater as shown on OCA Errata Exhibit MEG-3, and as discussed in the testimony of OCA witness Dr. Habr.

1

### Q: WHAT TEST YEARS DID YORK USE IN THIS CASE?

- 2 A: York presents the following test periods in its filing:
- The historic test year ("HTY") ended December 31, 2021
- The future test year ("FTY") December 31, 2022
- 5 The fully projected future test year ("FPFTY") February 29, 2024.
- 6 The requested revenue requirement is based on the FPFTY ending February 29, 2024.

### IV. <u>EXPENSE ADJUSTMENTS</u>

### 7 Q: WHAT ADJUSTMENTS DO YOU MAKE TO THE FPFTY EXPENSE LEVELS?

8 A: I propose adjustments and recommendations related to the following projected operating

9 expense levels:

10	А.	Payroll Costs

- 11 B. Short Term Incentive Compensation
- 12 C. Long Term Incentive Compensation
- 13 D. Board of Directors Compensation
- 14 E. Inflation Adjustment
- 15 F. Cash Working Capital and Income Tax Adjustments

### A. <u>PAYROLL COSTS</u>

### 16 Q: PLEASE DISCUSS THE COMPANY'S PAYROLL COSTS REQUESTED IN THIS

- 17 **APPLICATION.**
- 18 A: The Company's payroll calculation begins with payroll expense levels as of the historical
- 19 test year ended December 31, 2021 ("HTY"). The Company then proposes various
- 20 adjustments to increase estimated payroll costs as of the Fully Projected Future Test Year
- 21 ("FPFTY"). The Company's adjustments are made for both the water and wastewater
- 22 companies, but all of the Company's calculations were included in the water company
- 23 workpapers.

1		The Company's proposed payroll increases are based on two types of adjustments:
2		(1) estimated pay increases for the projected year ended December 31, 2022, and again for
3		the future test year ended February 29, 2024, and (2) the proposed addition of ten new
4		employee positions in 2022. The estimated pay increases include escalations for union
5		and non-union employees based on regular time pay, premium time pay, cash incentives,
6		and stock incentives, as applicable. For purposes of this discussion, I will address payroll
7		escalation rates, pay increases, and employee headcount in this section. I will address
8		incentive compensation issues in subsequent sections of testimony.
9		
9 10	Q:	DID THE COMPANY USE THE SAME ESTIMATED PAY INCREASES AND
	Q:	DID THE COMPANY USE THE SAME ESTIMATED PAY INCREASES AND ESCALATION RATE FOR ITS UNION AND NON-UNION EMPLOYEES?
10	<b>Q:</b> A:	
10 11		ESCALATION RATE FOR ITS UNION AND NON-UNION EMPLOYEES?
10 11 12		<b>ESCALATION RATE FOR ITS UNION AND NON-UNION EMPLOYEES?</b> No. The Company's adjustments reflected union pay increases that are effective in May
10 11 12 13		<b>ESCALATION RATE FOR ITS UNION AND NON-UNION EMPLOYEES?</b> No. The Company's adjustments reflected union pay increases that are effective in May of each year and estimated non-union pay increases anticipated in October of each year. <sup>9</sup>

<sup>&</sup>lt;sup>9</sup> See York's response to OCA IV-22.

<sup>&</sup>lt;sup>10</sup> See Exhibit FIII-5, p. 2.

<sup>&</sup>lt;sup>11</sup> Id.

## Q: IS THE DISCREPANCY BETWEEN UNION AND NON-UNION PAY RAISES A CAUSE FOR CONCERN?

A: Yes. The fact that the Company's estimates for non-union pay increases are significantly higher than the arms-length negotiated union pay increases is a cause for concern because it indicates that the projected non-union pay increases may be overstated in the Company's calculation. The union pay increases of 3.5% reflect market-based rates,<sup>12</sup> while the nonunion estimates may be escalated at higher rates, causing the Company's projected payroll cost to be overstated. For this reason, I propose an adjustment to establish the Company's annual payroll escalation rate at 3.5% per year for all employees.

10

## 11 Q: IS THERE OTHER EVIDENCE THAT AN ADJUSTMENT TO LIMIT THE 12 COMPANY'S PAYROLL ESCALATION RATE TO 3.5% FOR ALL

### 13 EMPLOYEES IS REASONABLE AT THIS TIME?

A: Yes. Mercer, a widely-recognized compensation firm, published on its website 2022
compensation survey results which indicate that merit increase budgets were tracking at
3.2%, while only 27% of companies were planning merit increases of 3.5% or greater.<sup>13</sup>
Similarly, a recent Forbes article addressed employer compensation survey data which
indicated that, despite higher inflation rates, the average budgeted salary increase for 2022
was only 3.4%. The article addressed the complexities of payroll escalation and indicated

 $^{12}$  Id.

<sup>&</sup>lt;sup>13</sup> See Compensation is going up. But, is it enough? Compensation planning survey results | Mercer.US

1		that pay raises are based on numerous factors and adjust more gradually than projected
2		inflation rates. York's proposed escalation rates for its union employees are consistent
3		with these benchmarks in the range of 3.5% per year, however, its estimated non-union
4		and management pay rate increases are well above these levels, and should be reduced for
5		rate-setting purposes. <sup>14</sup> In the context of an estimated FPFTY more than two years beyond
6		the HTY, York's escalated pay increases in excess of 3.5% are not warranted.
7		
8	Q:	WHAT IS THE ANNUAL PAYROLL INCREASE YOU RECOMMEND?
9	A:	I recommend that the Commission approve projected pay increases for 2022 and 2023 at
9 10	A:	I recommend that the Commission approve projected pay increases for 2022 and 2023 at 3.5% per year for all employees. This recommendation does not result in any reduction
-	A:	
10	A:	3.5% per year for all employees. This recommendation does not result in any reduction
10 11	A:	3.5% per year for all employees. This recommendation does not result in any reduction in the pay levels for union positions, because it is in line with the amount requested by the

<sup>&</sup>lt;sup>14</sup> See Exhibit FIII-5, p. 2.; Forbes, <u>Why Salary Increases Do Not Keep Pace With Inflation</u>, April 7, 2022; https://www.forbes.com/sites/johnbremen/2022/04/07/why-salary-increases-do-not-keep-pace-with-inflation/?sh=7162d3b17533

THE COMPANY'S PAYROLL CALCULATIONS ALSO INCLUDE AN 1 **O**: 2 **INCREASE IN THE NUMBER OF NON-UNION POSITIONS. HAVE YOU** 3 **PROPOSED AN ADJUSTMENT TO REMOVE THE ADDITIONAL TEN (10)** POSITIONS 4 NON-UNION EMPLOYEE FROM THE REVENUE 5 **REQUIREMENT?** 

A: No. In this filing, the Company projects it will add ten (10) additional non-union
employees for 2022 through February 2024. I have *not* proposed an adjustment to remove
these positions.

9 Q: HOW DOES THE COMPANY'S PROJECTED INCREASE IN EMPLOYEE
10 POSITIONS COMPARE WITH PRIOR YEARS?

- A: The Company had 109 employees in January 2019, which grew to 113 employees by the
  end of 2020. As of its 2021 annualized payroll, the Company's headcount remained at 113
  full time employees. As such, the projected headcount increase is a significant increase.
- 14

# Q: IN ADDITION TO THE TEN NEW PROJECTED POSITIONS, DOES THE COMPANY ALSO SEEK TO INCLUDE UNFILLED POSITIONS IN THE REVENUE REQUIREMENT?

A: Yes. The Company identified four (4) vacant non-union positions and one (1) union
 position that it has included in pro forma payroll cost. <sup>15</sup> These are in addition to the ten
 new positions the Company identified.

<sup>&</sup>lt;sup>15</sup> See Response to OCA Set X, No. 2.

## Q: SHOULD THESE UNFILLED POSITIONS BE INCLUDED IN THE REVENUE REQUIREMENT?

A: No. Unfilled positions should not be included in the revenue requirement. In my experience, utilities regularly maintain some level of unfilled positions and therefore these positions are typically excluded from the revenue requirement. Utility companies, like most companies, experience ongoing attrition and replacement of employee positions, and it is appropriate to exclude these vacant positions to avoid overstating the revenue requirement.

9

## 10 Q: IS AN ADJUSTMENT TO REMOVE THE FOUR UNFILLED NON-UNION 11 POSITIONS REASONABLE?

# A: Yes. It is reasonable to remove a utility's unfilled employee positions for ratemaking purposes. This is especially true where, as here, the Company has proposed significant growth in projected headcount which will be included in the revenue requirement.

15

# Q: WHAT IS THE AMOUNT OF THE ADJUSTMENT NECESSARY TO LIMIT NON-UNION PAY INCREASES TO 3.5% AND TO EXCLUDE THE VACANT POSITIONS FROM THE COMPANY'S REVENUE REQUIREMENT?

# A: The adjustment to reduce the non-union pay increases to 3.5% per year for 2022 and 2023, and to exclude the four vacant non-union positions reduces the payroll expense by \$382,591 for the water company and \$17,296 for the wastewater company. This adjustment is found on Exhibit MEG-4.

### B. <u>ANNUAL CASH INCENTIVE PLAN</u>

## Q: PLEASE SUMMARIZE THE INCENTIVE AND BONUS COMPENSATION YORK HAS INCLUDED IN REVENUE REQUIREMENT.

A: York includes three types of bonus payments and incentive compensation for its employees: (1) annual bonuses paid to all employees in an equal annual amount per employee; (2) annual short-term cash incentive compensation for salaried employees; and (3) long-term stock incentives employees at senior managerial levels. The annual bonuses paid in equal dollar amounts to all permanent employees are reasonable in amount, and I have not proposed any adjustments related to these bonuses. The short-term annual cash incentives and the long-term stock incentive payments are discussed in the sections below.

10

# Q: WHAT AMOUNT HAS YORK INCLUDED IN REVENUE REQUIREMENT RELATED TO ITS ANNUAL SHORT TERM INCENTIVE COMPENSATION PLANS?

A: In this application, York seeks to include in rates \$287,026 for its annual cash incentive
expense, comprised of \$247,508 for the water utility, and \$11,189 for the wastewater
utility.<sup>16</sup> York has 43 salaried employees eligible for short term incentive compensation
which ranges from 5% of the employee's base salary for managers, 7.5% for vicepresidents, to 10% for C-Suite employees.<sup>17</sup>

<sup>&</sup>lt;sup>16</sup> See Response to OCA IV-14, with expense allocation between utilities based on Exhibit FIII-2-40(b). <sup>17</sup> See Response to OCA IV-12.

See Response to OCA IV-12.

1

2

### Q: WHAT IS THE COMMISSION'S POLICY REGARDING THE INCLUSION OF INCENTIVE COMPENSATION IN THE REVENUE REQUIEMENT?

A: The Commission's policy is to allow recovery of incentive compensation in rates so long as the utility shows that the overall amount of compensation is reasonable and that the plan provides benefits to ratepayers.<sup>18</sup> The Commission does require, however, that the utility show: (1) measurable performance objectives, (2) studies or other data to support the necessity of the incentive compensation plan, and (3) evidence supporting a claim of the utility's inability to retain competent management personnel.<sup>19</sup>

9

### 10 Q: PLEASE DESCRIBE YORK'S CASH INCENTIVE PLAN.

11A:York's cash incentive compensation plan is a formal written plan approved by the12Compensation Committee of York's Board of Directors. According to Company witness13Joseph T. Hand, the Cash Incentive Plan (the "Cash Plan") was approved by the14Company's Compensation Board of Directors on January 26, 2003.<sup>20</sup> The plan establishes15a two-tiered approach for awarding annual cash incentives. First, the plan sets forth16"Terms of Awards," which provide the business criteria which the Committee may use in17making annual cash incentive awards.<sup>21</sup> The plan states:

<sup>&</sup>lt;sup>18</sup> *Pa. Pub. Util. Comm'n v. Aqua Pennsylvania*, Docket No. R-2021-3027385, 2022 PA. PUC LEXIS 161 (May 16, 2022), pp. 96-101.

<sup>&</sup>lt;sup>19</sup> See *Pa. Pub. Util. Comm'n v. Philadelphia Gas Works*, Docket No. R-00061931, Order Entered September 28, 2007, page 48.

<sup>&</sup>lt;sup>20</sup> See Direct Testimony of Joseph T. Hand, Exhibit No. FIII-22 (Cash Incentive Plan attachment).

<sup>&</sup>lt;sup>21</sup> See Direct Testimony of Joseph T. Hand, Exhibit No. FIII-22 at 2(Cash Incentive Plan attachment).

One or more of the following business criteria or other measures of performance may be used by the Committee in establishing Annual Incentive Awards: (1) growth in revenues or assets; (2) earnings from operations; (3) net income or net income per common share; (4) return on investment or return on equity; (5) stock price or shareholder return and (6) strategic business criteria, consisting of meeting specified water quality standards, environmental or safety standards, affordability of rates and customer satisfaction standards.<sup>22</sup>

9 It is noteworthy that five out of the six criteria set forth are financial metrics. 10 The Company's plan states, "the Committee may exercise its *discretion* to eliminate, to 11 reduce or increase the amounts payable as Annual Incentive Awards, subject to such 12 business criteria or other measures of performance.<sup>23</sup>

13The second component of York's Cash Incentive Plan are the "Performance14Measures."24 This section of the plan explains that the Committee will approve an annual15list Performance Objectives which require an overall score of seventy-five (75) percent16achievement for the cash awards to be distributed in a given year.<sup>25</sup> The Company17provided copies of its 2021 and 2022 Cash Incentive Plan Performance Objectives, which18set forth lists of 17 objectives, as well as the annual Earnings Per Share("EPS") target of19\$1.12 for each year.<sup>26</sup>

<sup>22</sup> Id.

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<sup>23</sup> Id.

<sup>24</sup> Id.

<sup>25</sup> Id.

<sup>&</sup>lt;sup>26</sup> See Direct Testimony of Joseph T. Hand, Exhibit No. FIII-22 (Performance Objectives attachments).

1 (

9

### Q: DID YORK APPLY THE TWO-TIERED CRITERA—AS DESCRIBED ABOVE—

### 2 IN AWARDING A CASH INCENTIVE PAYMENT FOR 2021?

A: Yes. The Company's cash incentive award for 2021 was based upon (1) achieving the
Earnings Per Share ("EPS") target and (2) exceeding the 75% of the Performance
Objectives for the year. Specifically, the Company stated:

For 2021, management achieved 94% of the 2021 performance objectives
and the earnings per share target set for 2021. As a result, the full eligible
award for 2021 was issued. <sup>27</sup>

### 10 Q: DO YORK'S ANNUAL PERFORMANCE OBJECTIVES MEET THE 11 COMMISSION'S CRITERIA?

A: It is unclear based on the evidence the Company has presented thus far. Although the Company provides a general statement in support of the incentive compensation plan in the testimony of Joseph T. Hand,<sup>28</sup> it is unclear from the materials provided that the incentive compensation plans are beneficial for ratepayers. Most of plan's business criteria, and many of its performance objectives include financial metrics which are designed to benefit shareholders. Based upon my review, further evidence is necessary for the Company to demonstrate that its Cash Incentive Plan is beneficial for ratepayers.

<sup>&</sup>lt;sup>27</sup> See response to OCA Interrogatory Set IV, No. 16.

<sup>&</sup>lt;sup>28</sup> See Direct Testimony of Joseph T. Hand, p. 11, lines 2-7.

### 1 0: DO YOU AGREE WITH THE COMMISSION'S POLICY THAT PLAN COSTS 2 ARE RECOVERABLE SO LONG AS THE PLAN PROVIDES ANY CUSTOMER 3 **BENEFIT?**

Not entirely. While I generally agree with this requirement, I would point out that in utility 4 A: 5 ratemaking, a standard that requires benefits to customers actually means that a 'net 6 benefit' to customers is required. In other words, a showing of ratepayer benefit at any 7 cost is not sufficient. Instead, the utility has the burden of showing that the cost incurred 8 provides a <u>net</u> benefit to ratepayers. I do not agree that if a utility shows any benefit to 9 ratepayers, no matter how small, the entirety of its incentive compensation plan costs 10 should be included in rates. Moreover, I support the view that the costs of incentive 11 compensation plans may be shared or allocated between shareholders and ratepayers 12 where the objectives of the plan, particularly financial metrics, are designed to benefit 13 shareholders.

14

#### 15 **Q**: DO FINANCIAL PERFORMANCE MEASURES COMPRISE A SIGNIFICANT

### 16

### **COMPONENT OF THE COMPANY'S INCENTIVE COMPENSATION PLAN?**

17 A: Yes. York's plan is a discretionary plan that is tied to the Company's financial 18 performance. York's Cash Incentive Plan is conditioned on the EPS target as its business 19 criterion."<sup>29</sup> As Mr. Hand explains, "the business criterion is established to ensure that 20 cash incentives are paid only when the Company's financial profile warrants such a

<sup>&</sup>lt;sup>29</sup> Direct Testimony of Joseph T. Hand, p. 10 lines 15-16.

payout."<sup>30</sup> As such, York's plan has an EPS funding trigger. If the EPS target is not met,
 the plan will not be funded. In other words, even though the Company's performance
 measures include both financial and non-financial factors, the actual *funding* trigger for
 incentive compensation is directly tied to the financial performance of the Company.

Under the Company's plan, regardless of how well the employees, or the 5 Company, may perform in a nonfinancial performance measure such as safety, if the EPS 6 is below the stated threshold, the funding for the plan could be 0%.<sup>31</sup> Thus, the Company's 7 earnings level is the controlling factor in determining whether the incentive compensation 8 9 will be paid and to what extent. York's management establishes the earnings (EPS) threshold and has discretion to eliminate the annual incentive payments.<sup>32</sup> Moreover, the 10 11 plan itself states that an EPS target of \$1.12 would "protect shareholders from any significant downside risk. . . "<sup>33</sup> 12

<sup>30</sup> *Id.*, p. 10, lines 18-19.

<sup>&</sup>lt;sup>31</sup> Direct Testimony of Joseph T. Hand, Exhibit NO FIII-22 (2021 Performance Objectives and 2022 Performance Objectives).

<sup>&</sup>lt;sup>32</sup> Id.

<sup>&</sup>lt;sup>33</sup> Direct Testimony of Joseph T. Hand, Exhibit No. FIII-22.

# Q: PLEASE DISCUSS THE RATIONALE FOR SHARING INCENTIVE COMPENSATION COSTS BETWEEN SHAREHOLDERS AND RATEPAYERS WHEN THE COMPANY'S PLAN IS BASED ON BOTH OPERATIONAL AND FINANCIAL PERFORMANCE MEASURES.

5 A: Such sharing arrangements are widely accepted. In my experience, excluding financially-6 based short-term compensation costs is the majority view among regulatory commissions. An Incentive Compensation Survey of the 24 Western States conducted by the Garrett 7 8 Group in 2007, and updated in 2009, 2011, 2015 and 2018, shows that a clear majority of 9 the states surveyed follow the financial-performance rule, in which a portion of incentive payments associated with financial performance are excluded from rates.<sup>34</sup> While some 10 11 states disallow incentive pay using other criteria, none of the jurisdictions surveyed allow 12 full recovery of incentive compensation through rates as a general rule. The table below 13 provides a summary of the survey results:

<sup>&</sup>lt;sup>34</sup> The Garrett Group Incentive Compensation Survey is a telephonic survey of the regulatory commission staff for the in each of the states west of the Mississippi.

Table 2:           Garrett Group, LLC 24 Western State Incentive Survey Results			
Incentives Not Allowed in Rates	Financial Performance Rule Followed	Other Sharing Approach	Incentives Not at Issue
Hawaii			
	Arizona		
	Arkansas		
	California		
	Idaho		
	Kansas		
	Louisiana		
	Minnesota		
	Missouri		
	Nebraska		
	Nevada		
	New Mexico		
	North Dakota		
	Oklahoma		
	Oregon		
	South Dakota		
	Texas		
	Utah		
	Washington		
	Wyoming		
		Alaska <sup>35</sup>	
		Colorado <sup>36</sup>	
			Iowa
			Montana

<sup>&</sup>lt;sup>35</sup> Incentive compensation has not been an issue in the past, partly because most utilities in Alaska are municipalities and COOPs. In one recent case, however, the Commission approved incentives in rates, which may turn out to be an anomaly.

<sup>&</sup>lt;sup>36</sup> Colorado followed the financial performance rule in the past. In one recent case, however, the Commission approved another approach, which may turn out to be an anomaly.

# 1Q:WHEN REGULATORS EXCLUDE THE PORTION OF A UTILITY'S2INCENTIVE PLAN TIED TO FINANCIAL PERFORMANCE MEASURES, DOES3THE UTILITY STOP OFFERING INCENTIVE COMPENSATION TO HELP4ACHIEVE ITS FINANCIAL GOALS?

5 A. No. Even though regulators generally disallow incentive compensation tied to financial 6 performance for ratemaking purposes, utilities continue to include financial performance 7 as a key component of their plans. In my opinion, utilities continue to tie incentive 8 payments to financial performance because by doing so they achieve the primary objective 9 of the incentive plans: to increase corporate earnings and, thereby, earnings per share 10 (EPS). However, since the utility retains the increased earnings that these plans help 11 achieve, payments for these plans should be made from a portion of these increased 12 earnings and these plans should not be subsidized by ratepayers.

13

# 14 Q: PLEASE IDENTIFY SOME OF THE JURISDICTIONS THAT USE A SHARING 15 APPROACH FOR ANNUAL INCENTIVE PLANS SIMILAR TO THE 50/50 16 APPROACH YOU RECOMMEND.

A: As shown in the table above, many regulatory commissions disallow a portion of incentive compensation costs where the incentive plans contain both financial and operational measures. Some of the jurisdictions that use a sharing approach to allocate costs between shareholders and ratepayers include Arizona, Arkansas, Kansas, Oklahoma, Oregon, and Texas, as summarized below:

1	• Arizona: The Arizona commission on numerous occasions has shared the
2	cost of annual incentive plans on a 50/50 split between shareholders and ratepayers. <sup>37</sup>
3	• Arkansas: The Arkansas commission in Docket No. 13-028-U stated:
4 5	The Commission finds that EAI and Staff have failed to show that EAI's short-term, long-term and stock based
6	incentive compensation provide ratepayer benefits to justify
7	100% inclusion in rates. The Commission agrees with both
8	the AG and HHEG witnesses that most, if not all, of the
9	short-term incentive costs are indirectly tied to financial
10	performance through the EAM funding mechanism and,
11	therefore, the Commission finds that ratepayers should bear
12	no more than 50% of the costs. The Commission finds that
13	\$48,087,877 in annual short-term incentive costs, and all
14	other related payroll costs, should be removed from EAI's
15	operating expenses in this proceeding. <sup>38</sup>
16	• Kansas: The Kansas commission generally disallows plans based on
17	financial measures and allocates a 50% sharing for plans using a balance of financial and
18	operational measures. <sup>39</sup>
19	• Oklahoma: The Oklahoma Commission has consistently disallowed
20	financial-based incentive pay for more than 25 years. <sup>40</sup>
21	• <b>Oregon:</b> The Oregon commission has a history of disallowing 50% of
22	operational plans and 75% of financial plans. <sup>41</sup>

<sup>&</sup>lt;sup>37</sup> See e.g., Ariz. Corp. Comm'n, Ariz. Pub. Svc. 2008 rate case, Decision 70360; Southwest Gas 2008 rate case, Decision 70665 and UNS Gas 2008 rate case, Decision 70011.

<sup>&</sup>lt;sup>38</sup> See e.g., Ark. Pub. Serv. Comm'n Docket No. 13-028-U, Order No. 21, p.54 (Emphasis added).

<sup>&</sup>lt;sup>39</sup> See e.g., Kan. Corp. Comm'n, Docket No. 10 KCPE-415-RTS, Order issued Nov. 22, 2010, pp. 46-51.

<sup>&</sup>lt;sup>40</sup> See e.g., Okla. Corp. Comm'n, Oklahoma Natural Gas, Docket No. PUD 91-1190, Order p.145.

<sup>&</sup>lt;sup>41</sup> See e.g., Oregon Pub. Util. Comm'n, Portland General Elec. Co., Docket No. UE 197, Order No. 09-020, issued Jan. 22, 2009, pp. 12-13.

1		• <b>Texas:</b> The Texas commission disallows 100% of short-term incentives
2		directly tied to financial performance measures and 50% of the remaining incentives if
3		they are indirectly tied to financial performance through an earnings-per-share funding
4		mechanism. <sup>42</sup> In applying this approach in the most recent Southwestern Electric Power
5		Company (SWEPCO) case, in Docket No. 46449, the Texas commission made the
6		following finding:
7 8 9 10 11 12 13 14		<ul> <li>194. The Commission has repeatedly ruled that a utility cannot recover the cost of financially-based incentive compensation because <u>financial measures are of more immediate benefit to shareholders and financial measures are not necessary or reasonable to provide utility services</u>.<sup>43</sup></li> <li>This finding articulates the Public Utility Commission of Texas' longstanding precedent.</li> </ul>
14	Q:	WHAT IS THE GENERAL RATIONALE FOR EXCLUDING INCENTIVE
16	-	COMPENSATION TIED TO FINANCIAL PERFORMANCE?
17	A:	In most jurisdictions, the cost of incentive plans which are tied to financial performance
18		measures are excluded for ratemaking purposes. When the costs associated with these
19		plans are excluded, the rationale used by the regulators is often based on one or more of
20		the following reasons:
21 22		(1) <b>Payment is uncertain.</b> Often, payment of incentive compensation is conditioned upon meeting some predetermined financial goal such as achieving a certain

<sup>43</sup> See Application of Southwestern Electric Power Company for Authority to Change Rates, Docket No. 46449, Finding No. 194, Order on Rehearing at p. 34 (March 19, 2018). (Emphasis added).

<sup>&</sup>lt;sup>42</sup> See Pub. Util. Comm'n of Tex., SPS Docket No. 43695, Order on Rehearing at pp. 5-6. Also see, SWEPCO Docket No. 46495, and Docket No 46449.

- increase in earnings, reaching a targeted stock price or meeting budget objectives. If the predetermined goals are not met, the incentive payment is not made, or payment is made at some lesser amount. Therefore, one cannot know from year to year what the level of the payment may be or whether the payment will be made at all. It is generally considered inappropriate to set rates to recover a tentative level of expense.<sup>44</sup>
- 7 (2) Earnings-based incentive plans can discourage conservation. When incentive 8 payments are based on earnings, employees may not support conservation 9 programs designed to reduce usage if they perceive these programs could adversely 10 impact incentive payment levels. To the extent that earnings-based incentive plans 11 discourage conservation these plans may not serve the public interest.
- 12 (3) The utility and its shareholders assume none of the financial risks associated 13 with incentive payments. Ratepayers assume the risk that the utility will instead retain the amounts collected through rates for incentive payments whenever 14 15 targeted increases are not reached. Employees assume the risk that the incentive payments will not be made in a given year. The utility and its shareholders, 16 however, assume no risk associated with these payments. Instead, the company's 17 only responsibility is to decide who gets the money, the shareholders or the 18 19 employees.<sup>45</sup>
- 20 (4) Incentive payments based on financial performance measures should be made out of increased earnings. Whatever the targets or goals may be that trigger an 21 22 incentive payment, when the plan is based in whole or in part on financial 23 performance measures the company always obtains a financial benefit from 24 achieving these objectives. This financial benefit should provide ample funds from 25 which to make the payment. If not, the incentive plan was poorly conceived in the 26 first place. As such, employees should be compensated out of the increased 27 earnings, and not through rates.
- Incentive payments embedded in rates shelter the utility against the risk of
   earnings erosion through attrition. When utilities are allowed to embed amounts
   for incentive payments in rates, that money is available to the utility not only to
   pay the incentive payment when financial performance goals are met but also to

<sup>45</sup> *Id*.

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<sup>&</sup>lt;sup>44</sup> A good example of this problem occurred in the 2008 Oklahoma rate case proceeding of Public Service Company of Oklahoma, PUD 08-144. In 2009, PSO's below target EPS reduced the funding available for incentive compensation payments by 76.9%. Although in the Company's 2008 rate case, the Commission had included more than \$4 million in rates for incentives, the Company chose not to use all of that money to pay incentives, but instead retained some of those funds for its shareholders to help bolster the Company's lower earnings that year.

1 supplement earnings in those years when the company does not perform well. In 2 those years when financial performance measures are met, the increased earnings 3 of the company provide ample additional funds from which to make the incentive 4 payments to employees, and the incentive payment amount embedded in rates is 5 not needed. In those years when financial performance measures are not met and 6 the incentive payments are not made, the amount embedded in rates for incentive 7 payments acts as a financial hedge to shelter the poor financial performance of the 8 company.

## 9 Q: ARE YOU RECOMMENDING THAT THE COMPANY ELIMINATE ITS 10 SHORT-TERM INCENTIVES FOR ITS EMPLOYEES?

A: No. The question for ratemaking purposes is not whether the utility should offer shortterm incentives to its employees; the question is, who should pay for them. The consensus
is that financial-based incentives benefit the shareholders more than do the ratepayers, and,
as a result, should be paid for by the shareholders.

15

## 16 Q: WHAT ARE YOU RECOMMENDING WITH RESPECT TO THE COMPANY'S 17 INCENTIVE EXPENSE?

18 Based on the information the Company has provided, York's plan is tied to the Company's A: 19 financial performance and its metrics are designed to benefit shareholders as well as 20 ratepayers. For this reason, I am recommending, at a minimum, a 50/50 sharing of these 21 costs between shareholders and ratepayers. This recommendation is based on the 22 recognition that the Company's EPS funding mechanism causes at least 50% of the 23 Company's incentive compensation plan goals to be related to financial performance 24 measures, while a smaller percentage relates to customer satisfaction and reliability. 25 Because ratepayers receive at least some benefit from these customer-related goals, some 26 portion of the plan costs can be included in rates. Accordingly, I propose adjustments to

1	reduce the requested level of annual incentive expense by 50% to reflect the fact that the
2	plan is partially tied to financial performance measures. This requires an adjustment of
3	\$(123,754) for the water utility and \$(5,595) for the wastewater utility, as set forth on
4	Exhibit MEG-5.

### C. LONG-TERM STOCK INCENTIVE PLAN

## Q: WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO LONG-TERM STOCK INCENTIVE PLAN COSTS FOR SENIOR MANAGEMENT AND EXECUTIVES?

- 8 A: The Company is proposing to recover long-term incentive plan costs of \$276,170,<sup>46</sup> with
  9 \$238,146 attributable to the water utility expense, and \$10,776 attributable to the
  10 wastewater utility expense.<sup>47</sup>
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## 12 Q: PLEASE DESCRIBE THE COMPANY'S LONG-TERM COMPENSATION 13 PLANS.

A: In addition to the annual incentive plans discussed above, the Company offers a Long Term Incentive Plan ("LTIP") for eligible officers, Board members, non-employee Board
 members, and key employees designated by the Committee.<sup>48</sup> The Company indicated that
 the LTIP covers 17 employees of the Company.<sup>49</sup> The long-term incentive plan includes

<sup>49</sup> See OCA IV-8

<sup>&</sup>lt;sup>46</sup> See OCA IV-9,

<sup>&</sup>lt;sup>47</sup> See Exhibit MEG-6.

<sup>&</sup>lt;sup>48</sup> See Direct Testimony of Joseph T. Hand, Exhibit No. FIII-22 (Long Term Incentive Plan Attachment), p.1.

- 1 the following purpose statement:
  - "The purpose of the Plan is to give participants an ownership interest in York and to create an incentive for them to contribute to York's growth, thereby benefiting York's stockholders, and <u>aligning the economic interest</u> of the participants with those of York's stockholders."<sup>50</sup>
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Because the long-term stock compensation plan is designed to align the interests of
Company executives and senior management with the interests of shareholders, the
shareholders rather than ratepayers should be responsible for paying these costs.

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## 11 Q: WHAT IS THE RATIONALE FOR EXCLUDING FINANCIALLY-BASED 12 LONG-TERM INCENTIVE COMPENSATION EXPENSE?

13 Incentive compensation payments to officers, executives, and key employees of a utility A: 14 are generally excluded for ratemaking purposes. Since officers of any corporation have 15 fiduciary duties of loyalty and care to the corporation itself and not to the customers of the 16 company, these individuals are required to put the interests of the company first. 17 Undoubtedly, the interests of the company and the interests of the customer are not always the same, and at times, can be quite divergent. This natural divergence of interests creates 18 19 a situation where not every cost associated with executive compensation is presumed to 20 be a necessary cost of providing utility service. Many regulators are inclined to exclude 21 executive bonuses, incentive compensation and supplemental benefits from utility rates, 22 understanding that these costs would be better borne by the utility shareholders.

<sup>&</sup>lt;sup>50</sup> See Exhibit No. FIII-22 (The York Water Long-Term Incentive Plan) at 1. (Emphasis added).

1 Further, long-term executive incentive plans are specifically designed to tie 2 management compensation to the financial performance of the company. This is done to 3 further align the interest of the employee with those of the shareholder. Since the compensation of the employee is tied over a long period of time to the company's stock 4 5 price, it motivates employees to make business decisions from the perspective of long-6 term shareholders. This intentional alignment of employee and shareholder interests 7 means the costs of these plans should be borne solely by the shareholders. It would be 8 inappropriate to require ratepayers to bear the costs of incentive plans designed to 9 encourage employees to put the interests of the shareholders first.

10

## 11 Q: HOW ARE LONG-TERM INCENTIVE COMPENSATION COSTS TREATED IN 12 PENNSYLVANIA?

A: The Commission has, in the past, excluded long-term incentive compensation where management bonuses are primarily based on financial metrics to determine payouts.<sup>51</sup> In more recent decisions, however, the Commission has allowed recovery of stock-based incentive compensation where the utility provides evidence linking the stock-based plan with benefits to customers and improved operational efficiency.<sup>52</sup>

<sup>&</sup>lt;sup>51</sup> See Pa. Pub. Util. Comm'n v. Roaring Creek Water Co., 81 Pa. PUC 285 (1994).

<sup>&</sup>lt;sup>52</sup> See *Pa. Pub. Util. Comm'n v. Aqua Pennsylvania, Inc.*, Docket No R-2021-3027385. Public Meeting May 12, 2022, Opinion and Order, pp.100-101.

## Q: HOW IS LONG-TERM INCENTIVE COMPENSATION TREATED IN OTHER JURISDICTIONS?

A: The results of the Garrett Group Incentive Compensation Survey, discussed in the previous section of this testimony, show that many jurisdictions follow the general rule that incentive pay associated with financial performance is not allowed in rates. This means that long-term, stock-based incentives are <u>not recovered in rates</u> in most if not every jurisdiction in the 24 states surveyed. In the synopsis of the incentive survey results from each state that was included in the prior section of this testimony, the treatment of longterm stock-based incentives in each state was underlined.

10 According to the survey, 20 of the 24 western states tend to exclude all or virtually 11 all long-term stock-based incentive pay, either through an outright ban on stock-based 12 incentives or through applying the *financial performance* rule, which has the effect of 13 excluding long-term earnings-based and stock-based awards. These states include 14 Arizona, Arkansas, California, Colorado, Hawaii, Idaho, Kansas, Louisiana, Minnesota, 15 Missouri, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington and Wyoming. In the other four states, Alaska, Iowa, Montana and 16 Nebraska, the issue just has not been addressed. 17

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## 19 Q: DO YOU KNOW HOW LONG-TERM INCENTIVES ARE TREATED IN 20 EASTERN STATES?

A: In addition to our survey of the western states, we also conducted a telephone survey of
four eastern states: Illinois, Kentucky, Michigan and Wisconsin. According to

Direct Testimony of Mark E. Garrett Docket Nos. R-2022-3031340 (Water); and Docket No. R-2022-3032806 (Wastewater)

- 1 commission-staff personnel contacted in these states, the general rule in these jurisdictions
- 2 is that financial-based incentives are not included in rates. The regulatory treatment in these
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states is set forth below, and the treatment of long-term incentives is underlined:

**Illinois:** The general approach of the Illinois Commerce Commission has been that incentives based on financial goals are not allowed while those with operational goals are allowed in rates.<sup>53</sup> These criteria have been consistently applied by the Commission to short-term, long-term and executive incentive compensation. <u>Long-term incentives are more often financially based and therefore more often disallowed</u>. This treatment is the Commission's general practice, but it is also codified in the statute governing the formula rate plans for the state's two largest utilities (Ameren Illinois and Commonwealth Edison). Statute §220ILCS5/16-108.5c¶4(A) states:

12Recovery of incentive compensation expense that is based on the13achievement of operational metrics, including metrics related to budget14controls, outage duration and frequency, safety, customer service,15efficiency and productivity, and environmental compliance. Incentive16compensation expense that is based on net income or an affiliate's earnings17per share shall not be recoverable under the performance-based formula18rate.

19 **Kentucky:** Any incentive compensation related to financial metrics is disallowed 100%. This treatment is applied to short-term, long-term and executive incentives. This 20 21 treatment is not proscribed by regulation or statue but has been the longstanding practice 22 of the Commission. This treatment is set forth in the recent Kentucky American rate case 18-00358 (20190627 PSC Order 01, pp 41-44)<sup>54</sup>. In this case, 100% of the long-term 23 incentives were disallowed while 50% of the short-term incentives were allowed. Even 24 though the short-term plan had a funding mechanism based on earnings per share, the 25 26 plan's performance measures were 50% financial and 50% non-financial. There have been 27 no recent changes to this treatment.

28 Michigan: Incentive compensation based on financial metrics are excluded from 29 rates. Incentives with non-financial metrics which have a demonstrable benefit to 30 ratepayers are allowed in rates. This treatment is used for all incentive compensation and 31 can produce a different result for short-term verses long-term and executive plans which 32 are often stock-based plans which are not included in rates. There are no statutes requiring

<sup>54</sup> See also KPC 14-00396 20150622\_PSC\_ORDER (pp 24-26)

<sup>&</sup>lt;sup>53</sup> See Commonwealth Edison, Docket No. 05-0597, pp. 95-97 (affirmed on appeal); North Shore Gas/Peoples Gas, Docket Nos. 09-0166 and 09-0167, (affirmed on appeal); and Illinois-American Water Co., Order No. 16-0093, p. 37.

- this treatment, but it is the Commission's well-established policy based on consistent
   precedent. This treatment is set forth recently in Consumers Energy Company Electric
   Rate Case U-18322 and DTE Electric Rate Case U-20162.<sup>55</sup>
- 4 **Wisconsin:** Incentive compensation based on financial metrics are excluded from 5 rates, as the commission has found that such plans do not reasonably provide benefits to 6 ratepayers when tied to financial metrics.<sup>56</sup> In the Wisconsin Public Service 2013 rate 7 case, the commission stated:
- 8 The Commission is not persuaded it should change its practice of excluding 9 incentive compensation from revenue requirements of the major investorowned utilities in Wisconsin. WPSC has not demonstrated that the plans 10 provide substantial ratepayer benefit with enough quantified permanent 11 savings to ratepayers to warrant inclusion of the costs in revenue 12 requirement. With the majority of executive incentive performance 13 measures still tied to meeting earnings per share criteria, and the non-14 executive incentive performance measures that weigh heavily on measures 15 tied to the shareholders benefit, the Commission finds it is reasonable to 16 exclude all incentive compensation costs from the revenue requirement.<sup>57</sup> 17

### 18 Q: DO YOU KNOW HOW LONG-TERM STOCK INCENTIVES ARE TREATED IN

### 19 ANY OTHER EASTERN STATES?

20 A: Yes. I am aware that in Indiana, the commission looks at incentives on a case-by-case

### 21 basis and in the past it has both allowed and disallowed stock-based awards.<sup>58</sup>

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<sup>57</sup>Wisconsin Public Service, Docket 6690-UR-122, issued December 18, 2013, p. 24. Emphasis added.

<sup>&</sup>lt;sup>55</sup> In the U-20162 Order, the Commission cites Staff's Initial Brief (pp67-68) in which Staff lists 11 prior cases in which the Commission disallowed financially-based incentive compensation which does not benefit ratepayers.

<sup>&</sup>lt;sup>56</sup>See Northern States Power Co., Docket 4220-UR-123, issued December 21, 2017, p. 16.

<sup>&</sup>lt;sup>58</sup> See decision in Indiana Michigan rate case Cause No. 45235 (allowed). See also, American Indiana Water Co. rate case, Cause No. 44022 (disallowed).

# Q: WHEN UTILITIES SEEK TO RECOVER LONG-TERM INCENTIVE COMPENSATION IN RATES, WHAT RATIONALE IS GENERALLY PROVIDED?

A: Generally, utilities argue that long-term incentives are part of an overall compensation
package that is designed to attract and retain qualified personnel. Since other utilities offer
incentive plans to their executives, a company would run the risk of not being able to
compete for key personnel if it did not offer a comparable plan.

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### Q: IS THIS ARGUMENT PLAUSIBLE?

10 A: No. The problem with the argument is that when utilities, such as York, compete with 11 other utilities for qualified executives, and the long-term incentive compensation plans of 12 those other utilities are not being recovered through rates, York is not placed at a 13 competitive disadvantage when its long-term incentive compensation is excluded as well. 14 The fact that other utilities offer long-term incentive plans is not relevant; what is relevant 15 is the fact that other utilities are not recovering the costs of those plans in rates. In an order disallowing Nevada Power's long-term incentive plan, the Nevada Commission 16 articulated this important ratemaking concept as follows: 17

18Therefore, the Commission accepts BCP's and SNHG's19recommendations to disallow recovery of expenses associated with20LTIP. Both parties provide a valid argument that this type of21incentive plan is mainly for the benefit of shareholders. Further, both22BCP and SNHG provide examples of numerous other jurisdictions23that do not allow the recovery of these costs and, *therefore*.

Direct Testimony of Mark E. Garrett Docket Nos. R-2022-3031340 (Water); and Docket No. R-2022-3032806 (Wastewater) 1 2

### disallowance in this instance would not place NPC in a competitive disadvantage.<sup>59</sup>

3 Further, the problem with the "total compensation package" argument is that when an incentive payment is paid based on the achievement of financial performance goals, there 4 5 should be sufficient financial benefit to the company as the result of achieving these 6 goals. This financial benefit should provide ample additional funds from which to make 7 the incentive payments. If not, the plan was poorly conceived. Thus, a utility is not placed 8 at a competitive disadvantage when incentive payments tied to financial performance are 9 not collected through rates, because the funding for these payments should come out of 10 the additional earnings the incentive plans help achieve.

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## 12 Q: WHAT OTHER RATIONALE DO UTILITIES TYPICALLY PROVIDE FOR 13 INCLUDING LONG-TERM STOCK-BASED INCENTIVES IN RATES?

A: Companies claim that long-term incentives are *necessary* costs, and, as such, they should be included in rates. When tested, however, this assertion does not prove to be true. Much of the water in this country is provided by *municipalities* none of which pay long-term stock-based incentives, yet they are able to attract talent sufficient to deliver safe and reliable service. So, if municipalities can provide service without the use of long-term incentive compensation, I believe it is inaccurate to say that long-term incentives are *necessary* for the provision of water service for an investor-owned system.

<sup>&</sup>lt;sup>59</sup> See In re Nevada Power Co., Docket No. 08-12002, Final Order, p. 139, ¶549, (Nev. Pub. Util. Comm'n Jun. 24, 2009) (Emphasis added).

## Q: WHAT ADJUSTMENTS DO YOU RECOMMEND FOR THE LONG-TERM STOCK INCENTIVE PLAN COMPENSATION?

A: I know that this Commission has in the past allowed stock-based compensation in rates.
 However, I respectfully request that the Commission reevaluate its position going forward
 and allocate the costs of stock-based incentives to shareholders, since shareholders are the
 primary beneficiaries of these plans.

As a result, I recommend that shareholders bear the cost of the long-term stock incentive plan. Accordingly, I recommend that the February 29, 2024 pro forma water company expenses be reduced by \$238,146 and the wastewater expense be reduced by \$10,766. These adjustments can be found on Exhibit MEG-6.

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## 12 Q: DO THE ADJUSTMENTS TO PAYROLL COSTS AND THE INCENTIVE PLANS 13 AFFECT THE PAYROLL TAX EXPENSE?

- A: Yes. The adjustments to payroll cost and the incentives do impact the payroll tax liability.
   I reviewed the adjusted payroll costs and limited the payroll adjustment for salaries and
   incentives that exceeded the taxable compensation limits. I then calculated the appropriate
   payroll tax adjustments for the water and wastewater utilities.
- 18

## 19Q:WHAT ARE THE AMOUNTS OF THE ADJUSTMENTS TO PAYROLL TAX20EXPENSE?

A: These adjustments reduce the water company payroll tax expense by \$37,287 and the
wastewater tax expense by \$1,686. These adjustments are found on Exhibit MEG-7.

### D. BOARD OF DIRECTORS' COMPENSATION

## Q: HAS THE COMPANY INCLUDED BOARD OF DIRECTORS' COMPENSATION COSTS IN ITS REVENUE REQUIREMENT?

A: Yes, as shown in Exhibit FIII-2-48, York included \$427,649 in its revenue requirement
for directors' compensation. I propose an adjustment to remove a portion of these costs
from the revenue requirement.

6

## 7 Q: WHAT IS THE ISSUE WITH RESPECT TO BOARD OF DIRECTORS' ("BOD") 8 COMPENSATION?

9 Regulators have recognized that an allocation of BOD compensation costs between A: 10 shareholders and ratepayers is appropriate. Ratepayers should not be expected to bear the 11 full amount of BOD compensation because officers and directors of any corporation have 12 legal, fiduciary duties of loyalty and care to the corporation itself and not to its customers. 13 These individuals are *required by law* to put the interests of the Company first. 14 Undoubtedly, the interests of the Company and the interests of customers are not always the same, and at times, can be quite divergent. This natural divergence of interests creates 15 16 a situation where not every compensation cost is presumed to be a necessary cost of 17 providing utility service. Instead, a sharing of director compensation costs would 18 recognize the fact that the costs of director fees provide a benefit to both shareholder and 19 the ratepayers alike.

# Q: HAVE YOU TESTIFIED IN OTHER CASES IN WHICH BOARD OF DIRECTORS' COMPENSATION COSTS HAVE BEEN ALLOCATED BETWEEN SHAREHOLDERS AND RATEPAYERS?

A: Yes. I recently testified on the issue of board of directors' fees before the Public Utility
Commission of Nevada ("PUCN") and the Washington Utilities and Transportation
Commission ("WUTC"). First, in the Southwest Gas Corp. ("SWG") rate case, the
Nevada commission divided the cost of the BOD compensation equally between
ratepayers and shareholders. The commission stated:

9 420. The Commission accepts Staffs proposal to disallow 50 percent of the 10 BOD compensation costs in order to share the costs equally between 11 ratepayers and shareholders. The Commission finds that the evidence on the 12 record supports benefits to both ratepayers and shareholders. A competent 13 BOD provides value to SWG through increased earning and market value, 14 while ratepayers benefit from safe, reliable service. Accordingly, it is 15 appropriate that the costs be shared between shareholders and ratepayers.<sup>60</sup>

### 16 Similarly, in the 2020 rate case of Cascade Natural Gas before the Washington 17 commission, the customers' proposed adjustment to share board of directors' costs equally 18 between shareholders and customers was uncontested and was accepted by the 19 Washington commission.<sup>61</sup>

<sup>&</sup>lt;sup>60</sup> In re Southwest Gas Corp., Docket No. 18-05031, (Nev. Pub. Util. Comm'n) Modified Final Order, at p. 138, ¶ 420 (Feb. 15, 2019).

<sup>&</sup>lt;sup>61</sup> *In re Cascade Natural Gas Corp.*, Docket No. UG-200568 (Wash. Util. and Transport. Comm'n), Order No. 5, pp. 9-10 (May 18, 2021).

#### 1 **O**: DO YOU HAVE OTHER CONCERNS REGARDING YORK'S BOARD OF 2 **DIRECTORS' COMPENSATION?**

Yes. In addition to the concern that York has requested that all of its board of directors' 3 A: 4 costs be recovered from ratepayers, I am also concerned that a portion of York's directors' compensation is paid in the form of *stock grants*.<sup>62</sup> As with executives and high-level 5 6 managers, compensation in the form of stock awards provides undue incentives to increase shareholder earnings, rather than to balance the interests of shareholders and customers. 7 8 For those reasons, I recommend the BOD cash compensation and expenses be shared 9 equally between shareholders and ratepayers, and the stock compensation be borne by the 10 shareholders.

11

#### 12 **Q**: HOW IS YOUR ADJUSTMENT CALCULATED?

13 A: As set forth in Exhibit FIII-2-48, York included a total of \$427,649 in its revenue requirement for directors' compensation. My proposed adjustment allocates the cash-14 15 based compensation evenly between ratepayers and shareholders, in the amount of \$213,825 each. The adjustment to remove the equity-based compensation and to allocate 16 the BOD cash compensation and expenses equally between shareholders and ratepayers is 17 18 \$213,825 for the water utility. This adjustment is set forth at Exhibit MEG-9.

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<sup>&</sup>lt;sup>62</sup> See Direct Testimony of Joseph T. Hand, p. 10, line 21—p.11, line 7.

## E. <u>INFLATION ADJUSTMENT</u>

## 1 Q: PLEASE DISCUSS YORK'S REQUESTED INFLATION ADJUSTMENT.

A: York proposes an inflation adjustment to both the water and the wastewater utilities based on a February 2021 to February 2022 increase in the CPI-U of 6.4%.<sup>63</sup> The adjustment is made for 2022, 2023, and 2 months of 2024. The adjustment is applied to all expenses that are <u>not</u> separately adjusted. In other words, the utility proposes a *blanket* inflation adjustment to all expense accounts not separately adjusted for projected increases through the end of the February 29, 2024 test year. The inflation adjustment increases water company expenses by \$1,023,307 and wastewater expenses by \$298,363.

9

## 10 Q: DO YOU AGREE WITH YORK'S PROPOSED INFLATION ADJUSTMENT?

11 A: No. In my opinion, blanket inflation adjustments do not pass the *known and measurable* 12 standard for utility ratemaking. Even in a future test year situation, projected increases 13 must be based on specific analysis for each requested increase. Moreover, blanket 14 inflation adjustments for projected test years are poor ratemaking policy because they 15 create a disincentive for utilities to control costs going forward.

<sup>&</sup>lt;sup>63</sup> See York Water Statement No. 103W, Direct Testimony of Matthew E. Poff, p. 21.

1 **Q:** 

## HAS THIS COMMISSION ADDRESSED THESE ISSUES BEFORE?

- 2 A: Yes. In the recent Aqua Pennsylvania, Inc. rate case, Docket No. R-2021-3027385, the 3 PUC found that Aqua's general inflation adjustment to accounts not specifically analyzed 4 and adjusted should be denied. 5 We agree with the ALJ that Aqua has not justified the use of a general price 6 level adjustment to expenses not specifically adjusted in this case or not subject to inflation. R.D. at 70. We also agree that allowing Aqua to apply 7 a general inflation adjustment to a block of expenses could incentivize less 8 9 accurate tracking of expenses and a less rigorous approach to controlling costs for those expenses. The application of a General Price Adjustment to 10 11 22% of expenses is neither targeted nor specific. We find the ALJ's recommendation to deny Aqua's use of a General Price Adjustment to be 12
- 13 reasonable.<sup>64</sup>

## 14 Q: HAS THE COMMISSION ALSO FOUND THAT GENERAL INFLATION

## 15 ADJUSTMENTS ARE NOT KNOWN AND MEASURABLE?

- 16 A: Yes. In the recent Pa PUC v. Wellsboro Electric Company (Order entered April 29, 2020),
- 17 the Commission found that a blanket inflation adjustment does not meet the *known and*
- 18 *measurable* test.

19 The ALJs explained that the Company has the burden of demonstrating that each FTY expense claim will increase in the FPFTY by some "known and 20 21 measurable" change in the FPFTY. According to the ALJs, the Company did not demonstrate that the blanket three percent inflation adjustment to 22 all expenses would meet the known and measurable change standard; 23 24 specifically, the Company did not demonstrate that making this adjustment 25 to each expense claim directly relates to the actual costs expected to be incurred in each expense account in the FPFTY. R.D. at 21-23. 26

2022, at p. 117.

<sup>&</sup>lt;sup>64</sup> See. Pa. Pub. Util. Comm'n v. Aqua Pennsylvania, Docket No. R-2021-3027385, Order and Opinion, May 12,

1

#### **O**: WHAT IS YOUR RECOMMENDATION REGARDING YORK'S PROPOSED 2 **INFLATION ADJUSTMENTS?**

3 A: I recommend that the Commission reject York's proposed general inflation adjustments. 4 The adjustments to reverse the proposed inflation adjustments reduce the water company 5 expense by \$1,023,307 and the wastewater expense by \$298,363. These adjustments are 6 found on Exhibit MEG-8.

7

#### F. CASH WORKING CAPITAL AND INCOME TAX ADJUSTMENTS

#### 8 **O**: DO THE ADJUSTMENTS RECOMMENDED BY THE OCA AFFECT THE CASH 9 WORKING CAPITAL ALLOWANCE?

10 Yes. The adjustments reduce Cash Working Capital ("CWC") required for O&M expenses A: 11 and payroll taxes. The impact of each adjustment is based on the total cost, not just the 12 expense component. York also included the total costs CWC calculation, not just the expense component. There are some minor deficiencies in York's CWC study, such as 13 14 using an assumed payroll lag of seven days for all payroll when there is a delay of a year or more for management's incentive payment. I am ignoring those issues because I am 15 recommending the elimination of those expenses so that the CWC correction would be 16 17 fully offset by the CWC adjustment related to the exclusion of those costs. I am using 18 York's calculated expense lag days to calculate the CWC adjustment.

19

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### Q: WHAT IS THE AMOUNT OF THE CWC ADJUSTMENT?

A: The adjustment to Cash Working Capital related to the recommended adjustments to
 expenses is a reduction to this rate base item of \$259,943. This adjustment is found on
 Exhibit MEG-11.

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# 6 Q: DO THE OCA ADJUSTMENTS IMPACT THE FEBRUARY 29, 2024 PRO 7 FORMA INCOME TAX EXPENSE?

A: Yes. The OCA recommends adjustments to rate base and the capital structure, the former reduces the available interest deduction and the later increases the interest deduction. The OCA is also recommending adjustments to operating income that impact taxable income. The impact of these adjustments results in a net increase to income tax expense for the water utility of \$477,284 and the wastewater utility of \$105,061. These adjustments are

13 found on OCA Errata Exhibit MEG-12.

14

## V. OTHER OCA WITNESSES

# 15 Q: ARE THE RECOMMENDATIONS OF OTHER OCA WITNESSES INCLUDED 16 IN YOUR EXHIBITS?

- 17 A: Yes. My testimony and exhibits include the recommendations of Dr. Habr on the cost of
  18 capital adjustments, as well as acquisition adjustment recommendations of Ms. DeAngelo.
  - VI. <u>CONCLUSION</u>

## 19 Q: DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

20 A: Yes.

#### Appendix A

### MARK E. GARRETT

#### **CONTACT INFORMATION:**

4028 Oakdale Farm Circle Edmond, OK 73013 (405) 203-5415

#### **EDUCATION:**

Juris Doctor Degree, With Honors, Oklahoma City University Law School, 1997 Post Graduate Hours in Accounting, Finance and Economics, 1984-85: University of Texas at Arlington; University of Texas at Pan American; Stephen F. Austin State University Bachelor of Arts Degree, University of Oklahoma, 1978

#### **CREDENTIALS:**

Member Oklahoma Bar Association, 1997, License No. 017629 Certified Public Accountant in Oklahoma, 1992, Certificate No. 11707-R Certified Public Accountant in Texas, 1986, Certificate No. 48514

#### WORK HISTORY:

**GARRETT GROUP CONSULTING, INC. – Regulatory Consulting Practice (1996 - Present)** Participates as a consultant and expert witness in gas and electric regulatory proceedings and other matters before regulatory agencies in rate case proceedings to determine just and reasonable rates. Reviews management decisions of regulated utilities regarding the reasonableness of prices paid for electric plant, gas plant, purchased power, renewable energy projects, natural gas supplies and transportation, and coal supplies and transportation. Participates in legislative advisory role regarding regulated utilities. Participates as an Instructor at NMSU Center for Public Utilities and as a Speaker at NARUC Staff Subcommittee on Accounting and Finance.

**OKLAHOMA CORPORATION COMMISSION - Coordinator of Accounting and Financial Analysis (1991 - 1994)** Planned and supervised the audits of major public utility companies doing business Oklahoma for the purpose of determining revenue requirements. Presented both oral and written testimony as an expert witness for Staff in defense of numerous accounting and financial recommendations related to cost-of-service based rates. Audit work and testimony covered all areas of rate base and operating expense. Supervised, trained and reviewed the audit work of numerous Staff CPAs and auditors. Promoted from Supervisor of Audits to Coordinator in 1992.

**FREEDOM FINANCIAL CORPORATION - Controller (1987 - 1990)** Responsible for all financial reporting including monthly and annual financial statements, cash flow statements, budget reports, long-term financial planning, tax planning and personnel development. Managed the General Ledger and Accounts Payable departments and supervised a staff of seven CPAs and accountants. Reviewed all subsidiary state and federal tax returns and facilitated the annual independent financial audit and all state or federal tax audits. Received promotion from Assistant Controller in September 1988.

SHELBY, RUCKSDASHEL & JONES, CPAs - Auditor (1986 - 1987) Audited the financial statements of businesses in the state of Texas, with an emphasis in financial institutions.

### Previous Experience Related to Cost-of-Service, Rate Design, Pricing and Energy-Related Issues

- 1. Oncor Electric Delivery Company (Texas), 2022 (PUC Docket No. 53601) Participating as an expert witness on behalf of the Steering Committee of Cities before the Texas Public Utility Commission in Oncor's General Rate Case proceeding to provide testimony on various revenue requirement issues.
- 2. The York Water Company (2022) (Pennsylvania), (Docket No. R-2022-3031340 and R-2022-3032806) – Participating as an expert witness on behalf of Office of Consumer Advocate ("OCA") before the Pennsylvania Public Utility Commission to address various revenue requirement issues in the York rate case.
- **3.** Sierra Pacific Power Company, 2022 (Nevada), (Docket No. 22-06) Participated as an expert witness on behalf of Bureau of Consumer Protection ("BCP") before the Nevada Public Utility Commission to address various revenue requirement issues.
- 4. NV Energy, 2022 (Nevada), (Docket No. 22-003028) Participating as an expert witness on behalf of Bureau of Consumer Protection ("BCP") before the Nevada Public Utility Commission to address various issues in the merger application of Sierra Pacific Power Company and Nevada Power Company.
- 5. Atmos MidTex (Texas), 2022 (Texas), (Dallas Annual Rate Review) Participating as an expert witness on behalf of the City of Dallas before the Texas Railroad Commission in Atmos's Dallas Annual Rate Review ("DARR") proceeding. Sponsoring recommendations on various revenue requirement issues.
- 6. CenterPoint Energy Resources Corp., 2022 (Texas) (Docket No. 53442) Participating as an expert witness for the City of Houston before the Texas Public Utility Commission the Company's Distribution Cost Recovery Factor sponsoring testimony on various cost recovery issues.
- 7. Cascade Natural Gas, 2021 (Washington) Participating as an expert witness on behalf of Public Counsel in Cascade's limited issue rate case application, sponsoring Public Counsel's revenue requirement schedules and testimony to address various revenue requirement and tax issues.
- 8. Oklahoma Gas and Electric Company, 2021 (Oklahoma), (Cause No. PUD 202100164) Participating as an expert witness on behalf of Oklahoma Industrial Energy Consumers ("OIEC")1 before the Oklahoma Corporation Commission in OG&E's general rate case application addressing various revenue requirement and rate design issues.
- **9. Southwestern Electric Power Company, 2021 (Texas), (PUC Docket No. 52397)** Participating as an expert witness on behalf of Cities Advocating Reasonable Deregulation ("CARD Cities") before the Texas Public Utility Commission in SWEPCO's application to recover Uri storm costs.
- **10.** Southwestern Public Service Co., 2021 (Texas) (Docket No. 52210) Participating as an expert witness on behalf of the Alliance of Xcel Municipalities ("AXM") before the Texas Public Utility Commission in SWEPCO's application to recover Uri storm costs.
- 11. CenterPoint Energy Resources Corp., 2021 (Texas) (Docket No. OS—00007061) Participating as an expert witness for the City of Houston before the Texas Rail Road Commission in a

<sup>&</sup>lt;sup>1</sup> OIEC is an association of industrial manufacturing facilities in Oklahoma.

consolidated application from the large natural gas distribution utilities in Texas to securitize and recover URI storm costs from February 2021.

- 12. Indiana Michigan Power, 2021 (Indiana), (Docket No. 45576) Participating as an expert witness on behalf of the Office of Utility Consumer Counselor in I&M's rate case application, sponsoring testimony to address various revenue requirement and tax issues.
- 13. Chugach Electric Association, 2021 (Alaska), (Docket No. U-21-059) Participating as an expert witness on behalf of Providence Health and Services before the Alaska Regulatory Commission. Sponsoring testimony to address Chugach's application to address a shortfall in revenues after its acquisition of Municipal Light and Power.
- 14. Southwestern Public Service Co., 2021 (Texas) (Docket No. 51802) Participating as an expert witness on behalf of the Alliance of Xcel Municipalities ("AXM") in the SPS general rate case application to provide testimony before the Texas Public Utility Commission regarding rate base and operating expense issues.
- **15.** El Paso Electric Company, 2021 (Texas), (Docket No. 52195) Participating as an expert witness on behalf of the City of El Paso in the El Paso Electric Company general rate case to provide recommendations to the Texas Public Utility Commission regarding rate base and operating expense issues.
- 16. NV Energy, 2021 (Nevada), (Docket No. 21-06001) Participating as an expert witness on behalf of the Southern Nevada Gaming Group ("SNGG") before the Nevada PUC. Sponsoring written and oral testimony in the Nevada Power and Sierra Pacific Joint Integrated Resource Plan ("IRP") to provide analysis of the proposed generation additions and cost allocations.
- 17. Summit Utilities Arkansas (Arkansas), (Docket No. 21-060-U) Participating as an expert witness on behalf of Arkansas Gas Consumers and the Hospitals and Higher Education Group before the Arkansas Public Service Commission in Summit's proposed acquisition of CenterPoint Energy's Arkansas assets. Sponsoring testimony regarding the acquisition premium, ratepayer benefits and affiliate transactions.
- 18. Doyon Utilities, 2021 Alaska (Regulatory Commission of Alaska) Participating as an expert witness on behalf of the Department of Defense to provide expert testimony in twelve rate case reviews for the utility systems of Fort Wainwright, Fort Greely and Joint Base Elmendorf-Richardson before the Regulatory Commission of Alaska.
- 19. NV Energy, 2021 (Nevada), (Docket No. 21-03040) Participating as an expert witness on behalf of the Southern Nevada Gaming Group ("SNGG") before the Nevada PUC to provide written and oral testimony in the Nevada Power and Sierra Pacific Joint Natural Disaster Protection Plan ("NDPP").
- 20. Public Service Company of Oklahoma, 2021 (Oklahoma) (Cause No. PUD 202100022) Participating as an expert witness on behalf of OIEC before the OCC in AEP/PSO's general rate case application to provide testimony on various revenue requirement, cost of service and rate design issues.
- 21. Oklahoma Gas and Electric Company, 2021 (Oklahoma), (Cause No. PUD 202100072) Participating as an expert witness on behalf of Oklahoma Industrial Energy Consumers ("OIEC") before the Oklahoma Corporation Commission in OG&E's application for securitization of its winter

storm costs.

- 22. Southwestern Electric Power Company, 2021 (Arkansas), (Docket No. 19-008-U) Participating as an expert witness on behalf of Western Arkansas Large Energy Consumers ("WALEC")2 before the Arkansas Public Service Commission in SWEPCO's Formula Rate Plan review and extraordinary winter storm cost recovery plan.
- 23. Atmos MidTex (Texas), 2021 (Texas), (Dallas Annual Rate Review) Participating as an expert witness on behalf of the City of Dallas before the Texas Railroad Commission in Atmos's Dallas Annual Rate Review ("DARR") proceeding. Sponsoring recommendations on various revenue requirement issues.
- 24. PNM Resources / Avangrid Merger, 2021 (New Mexico), (Case No. 20-00222-UT) Participating as an expert witness for the Albuquerque Bernalillo County Water Utility Authority ("ABCWUA") before the New Mexico Public Regulation Commission to address various merger-related issues.
- 25. Oklahoma Gas & Electric Co., 2020 (Arkansas) (Docket No. 18-046-FR) Participating as an expert witness on behalf of the Arkansas River Valley Energy Consumers ("ARVEC")<sup>3</sup> before the Arkansas Public Service Commission in OG&E's Formula Rate Plan application to provide testimony on cost of service issues.
- 26. Public Service Company of Oklahoma, 2020 (Oklahoma) (Cause No. PUD 202000097) Participating as an expert witness on behalf of OIEC before the OCC in AEP/PSO's application for approval of facilities proposed for Fort Sill to address cost recovery and rate design issues.
- 27. El Paso Electric Company, 2020 (Texas), (Docket No. 51348) Participating as an expert witness on behalf of the City of El Paso in the El Paso Electric Company annual Distribution Cost Recovery Factor ("DCRF") application to provide recommendations to the Texas Public Utility Commission regarding the Company's requested DCRF increase.
- 28. NV Energy, 2020 (Nevada), (Docket No. 20-07023) Participating as an expert witness on behalf of the Southern Nevada Gaming Group ("SNGG") before the Nevada PUC. Sponsoring written and oral testimony in the Nevada Power and Sierra Pacific Joint Integrated Resource Plan ("IRP") to provide analysis of the proposed transmission additions and cost allocations.
- **29.** Southwestern Electric Power Company, 2020 (Texas), (PUC Docket No. 51415) Participating as an expert witness on behalf of Cities Advocating Reasonable Deregulation ("CARD Cities") before the Texas Public Utility Commission in SWEPCO's general rate case application to provide testimony on various revenue requirement issues.
- **30.** Dominion Energy South Carolina, 2020 (South Carolina), (Docket No. 2020-125-E) Participating as an expert witness on behalf of DOD/FEA in DESC's rate case application, sponsoring testimony to address various revenue requirement, rate design and tax issues.
- **31.** Cascade Natural Gas, 2020 (Washington), (NG-UG-200568) Participating as an expert witness on behalf of Public Counsel in Cascade's rate case application, sponsoring testimony to address various revenue requirement and tax issues.

<sup>&</sup>lt;sup>2</sup> WALEC is an association of industrial manufacturing facilities in Arkansas.

<sup>&</sup>lt;sup>3</sup> ARVEC is an association of industrial manufacturing facilities in northwest Arkansas.

- **32.** Nevada Power Company, 2020 (Nevada) (Docket No. 20-06003) Participating as an expert witness on behalf of Bureau of Consumer Protection ("BCP") before the Nevada Public Utility Commission to address various revenue requirement issues in the case.
- **33.** El Paso Electric Company, 2020 (New Mexico), (Docket RC-20-00104-UT) Participating as an expert witness on behalf of the City of Las Cruces and Dona Ana county in EPE's rate case application, sponsoring testimony to address various revenue requirement and tax issues.
- 34. Oklahoma Gas and Electric Company, 2020 (Oklahoma), (Cause No. PUD 202000021) Participating as an expert witness on behalf of Oklahoma Industrial Energy Consumers ("OIEC") before the Oklahoma Corporation Commission in OG&E's Grid Enhancement Plan application. Sponsoring testimony to address the utility's proposed cost recovery mechanism and cost of service allocations.
- **35. Philadelphia Gas Works, 2020 (Pennsylvania), (Docket No. R-2020-3017206)** Participating expert witness on behalf of Office of Consumer Advocate ("OCA") before the Pennsylvania Public Utility Commission to address various revenue requirement issues in PGW's rate case.
- **36.** Atmos MidTex (Texas), 2020 (Texas), (Dallas Annual Rate Review) Participating as an expert witness on behalf of the City of Dallas before the Texas Railroad Commission in Atmos's Dallas Annual Rate Review ("DARR") proceeding. Sponsoring recommendations on various revenue requirement issues.
- **37.** Southwest Gas Corporation, 2020 (Nevada) (Docket No. 20-02023) Participated as an expert witness on behalf of Bureau of Consumer Protection ("BCP") before the Nevada Public Utility Commission to address various revenue requirement issues.
- **38.** El Paso Electric Company, 2019 (Texas), (Docket No. 49849) Participating as an expert witness on behalf of the City of El Paso in the merger of El Paso Electric Company with Sun Jupiter Holdings LLC and IIF US Holdings 2 LLP to provide recommendations to the Texas Public Utility Commission regarding the treatment of tax issues in the proposed merger agreement.
- **39.** Nevada Senate Bill 300 Rulemaking, 2019 (Nevada), (Docket No. 19-069008) Participating as an expert witness on behalf of the Southern Nevada Gaming Group before the Nevada PUC to assist with the development of alternative ratemaking regulations under SB 300.
- **40.** Entergy Arkansas, 2019 (Arkansas), (Docket No. 19-020-TF) Participating as an expert witness on behalf of the Arkansas industrial consumer group to review EAI's application to allocate its perceived under-recovery of off-system sales margins to Arkansas customers.
- **41. Public Service Company of Oklahoma, 2019 (Oklahoma) (Cause No. PUD 201900201)** Participating as an expert witness on behalf of OIEC before the OCC in AEP/PSO's application for approval for the cost recovery of selected wind facilities.
- 42. Oklahoma Gas & Electric Co., 2019 (Arkansas) (Docket No. 15-034-U) Participated as an expert witness on behalf of the Arkansas River Valley Energy Consumers ("ARVEC") before the Arkansas Public Service Commission in OG&E's Act 310 Environmental Compliance Plan ("ECP") Rider case to provide testimony on whether OG&E can apply for an ECP rider now that it has elected to utilize an annual Formula Rate Plan with a 4% annual cap.
- 43. Oklahoma Gas & Electric Co., 2019 (Arkansas) (Docket No. 18-046-FR) Participating as an

expert witness on behalf of the Arkansas River Valley Energy Consumers ("ARVEC") before the Arkansas Public Service Commission in OG&E's Formula Rate Plan application to provide testimony on various revenue requirement, cost of service and rate design issues.

- 44. Southwestern Public Service Co., ("SPS") 2019 (Texas), (Docket No. 49831) Participating as an expert witness on behalf of the Alliance of Xcel Municipalities ("AXM") in the SPS general rate case application to provide testimony before the Texas Public Utility Commission regarding rate base and operating expense issues and sponsor the AXM Accounting Exhibits.
- **45.** Southwestern Electric Power Company, 2019 (Arkansas), (Docket No. 19-008-U) Participated as an expert witness on behalf of Western Arkansas Large Energy Consumers ("WALEC") before the Arkansas Public Service Commission in SWEPCO's rate case to address various revenue requirement and rate design issues.
- 46. Anchorage Municipal Light and Power and Chugach Electric Association, 2019 (Alaska), (Docket No. U-19-020) – Participating as an expert witness before the Regulatory Commission of Alaska on behalf of Providence Health and Services to provide testimony on pending acquisition of ML&P by Chugach to address the proposed acquisition premium and other issues associated with the public interest.
- **47.** Sierra Pacific Power Company, 2019 (Nevada), (Docket No. 19-06002) Participated as an expert witness on behalf of Bureau of Consumer Protection ("BCP") before the Nevada Public Utility Commission to address various revenue requirement issues.
- **48.** Air Liquide Hydrogen Energy U.S., 2019 (Nevada), (704B Exit Application, Docket No. 19-02002) – Participated as an expert witness on behalf of Air Liquide before the Nevada PUC. Sponsoring written and oral testimony in Air Liquide's application to purchase energy and capacity from a provider other than NV Energy.
- **49.** Empire District Electric Company, 2019 (Oklahoma), (Cause No. PUD 201800133) Participated as an expert witness on behalf of Oklahoma Industrial Energy Consumers ("OIEC") before the Oklahoma Corporation Commission in Empire's general rate case to address various revenue requirement, rate design and tax issues.
- **50.** Indiana Michigan Power, 2019 (Indiana), (Docket No. 45235) Participating as an expert witness on behalf of the Office of Utility Consumer Counselor in I&M's rate case application, sponsoring testimony to address various revenue requirement and tax issues.
- **51. Puget Sound Energy, 2019 (Washington), (Docket No. 190529-30)** Participating as an expert witness on behalf of Public Counsel in PSE's rate case application, sponsoring testimony to address various revenue requirement and tax issues.
- **52.** Anchorage Municipal Light and Power, 2019 (Alaska), (Docket No. U-18-102) Participating as an expert witness before the Regulatory Commission of Alaska on behalf of Providence Health and Services to provide testimony on the ratemaking treatment of ML&P's acquired interest in the Beluga River Unit gas field with ratepayer funds.
- 53. Oklahoma Gas and Electric Company, 2019 (Oklahoma), (Cause No. PUD 201800140) Participated as an expert witness on behalf of Oklahoma Industrial Energy Consumers ("OIEC") before the Oklahoma Corporation Commission in OG&E's General Rate Case application. Sponsoring testimony to address the utility's overall revenue requirement and rate design proposals.

- 54. Cascade Natural Gas, 2019 (Washington) (Docket No. 190210) Participated as an expert witness on behalf of Public Counsel in Cascade's rate case application. Sponsoring testimony to address various revenue requirement and tax issues.
- 55. CenterPoint Energy Houston Electric, 2019 (Texas) (Docket No. 49421) Participated as an expert witness on behalf of City of Houston before the Public Utility Commission of Texas in CenterPoint Energy's rate case application to provide testimony on various revenue requirement issues.
- 56. Oklahoma Gas & Electric Co., 2018 (Arkansas) (Docket No. 18-046-FR Participated as an expert witness on behalf of the Arkansas River Valley Energy Consumers ("ARVEC") before the Arkansas Public Service Commission in OG&E's Formula Rate Plan application to provide testimony on various revenue requirement, cost of service and rate design issues.
- 57. Southwest Gas Corporation, 2018 (Nevada) (Docket No. 18-05031) Participated as an expert witness on behalf of Bureau of Consumer Protection ("BCP") before the Nevada Public Utility Commission to address various revenue requirement issues.
- **58. Puget Sound Energy, 2018 (Washington) (Docket No. UE 18089)** Participated as an expert witness on behalf of Public Counsel in PSE's Emergency Rate Relief proceeding. Sponsoring testimony to address the application itself and various revenue requirement and TCJA issues.
- **59.** Public Service Company of Oklahoma, 2018 (Oklahoma) (Cause No. PUD 201800097) Participated as an expert witness on behalf of OIEC before the OCC in AEP/PSO's general rate case application to provide testimony on various revenue requirement, cost of service and rate design issues.
- **60.** Entergy Texas Inc., 2018 (Texas) (PUC Docket No. 48371) Participated as an expert witness on behalf of the Cities in ETI's general rate case to provide testimony on various cost of service issues and on the utility's overall revenue requirement.
- 61. Atmos Energy Corp., Mid-Tex Division, 2018 (Texas) (Docket No. GUD No. 10779) Participated as an expert witness on behalf of the Atmos Texas Municipalities to review the utility's requested revenue requirement including TCJA adjustments.
- **62.** CenterPoint Energy Houston Electric, LLC, 2018 (Texas) (Docket No. 48226) Participated as an expert witness on behalf of City of Houston before the Public Utility Commission of Texas in CenterPoint Energy's application for approval to amend its distribution cost recovery factor (DCRF) to address the utility's treatment of the Tax Cuts and Jobs Act of 2017 ("TCJA").
- **63. NV Energy, 2018 (Nevada) (Docket No. 17-10001)** Participated as an expert witness on behalf of the Energy Choice Initiative ("ECI") before the Governor's Committee on Energy Choice, in an investigatory docket of an Issue of Public Importance Regarding the Pending Energy Choice Initiative and the Possible Restructuring of Nevada's Energy Industry.
- **64. Southwestern Electric Power Company, 2018 (Texas) (PUC Docket No. 48233)** Participated as an expert witness on behalf of Cities Advocating Reasonable Deregulation ("CARD Cities") before the Texas Public Utility Commission in SWEPCO's application to implement bae rate reductions as result of the Tax Cuts and Jobs Act of 2017 ("TCJA").

- **65. Oncor Electric Delivery Company (Texas), 2018 (PUC Docket No. 48325)** Participated as an expert witness before the Texas Public Utility Commission in Oncor's application for authority to decrease rates based on the Tax Cuts and Jobs Act of 2017 ("TCJA").
- 66. Public Service Company of Oklahoma ("PSO") (Oklahoma), 2018 (Cause No. PUD 201800019)
   Participated as an expert witness on behalf of OIEC before the OCC in AEP/PSO's application regarding ADIT under the Tax Cuts and Jobs Act of 2017 ("TCJA").
- 67. Oklahoma Natural Gas Company, 2018 (Cause No. PUD 201800028) Participated as an expert witness on behalf of the OIEC before the Oklahoma Corporation Commission in ONG's Performance Based Rate Change Tariff, to address issues involving the impacts of the Tax Cuts and Jobs Act of 2017 ("TCJA").
- **68. Oklahoma Gas & Electric Co. (Arkansas), 2018 (Docket No. 18-006-U** Participated as an expert on behalf of the Arkansas River Valley Energy Consumers ("ARVEC") before the Arkansas Public Service Commission in the matter of an Investigation of the Effect on Revenue Requirements Resulting from Changes to Corporate Income Tax Rates under the Tax Cuts and Jobs Act of 2017 ("TCJA").
- **69. Texas Gas Service, 2018** Participated as a consulting expert on behalf of the City of El Paso regarding implementation of rate changes related to the Tax Cuts and Jobs Act of 2017 ("TCJA").
- 70. Sierra Pacific Power Company (Nevada), 2018 (Docket No. 18-02011 and 18-02015) Participated as an expert witness on behalf of the Northern Nevada Utility Customers<sup>4</sup> before the Nevada PUC in SPPC's application related to the Tax Cuts and Jobs Act of 2017 ("TCJA").
- **71.** Nevada Power Company (Nevada), 2018 (Docket No. 18-02010 and 18-02014) Participated as an expert witness on behalf of the Southern Nevada Gaming Group before the Nevada PUC in NPC's application related to the Tax Cuts and Jobs Act of 2017 ("TCJA").
- Public Service Company of Oklahoma ("PSO") (Oklahoma), 2017 (Cause No. PUD 201700572)
   Participated as an expert witness on behalf of OIEC before the OCC in AEP/PSO's application to examine the impacts of the Tax Cuts and Jobs Act of 2017 ("TCJA").
- 73. Empire District Electric Company ("EPE") (Oklahoma), 2018 (Cause No. PUD 201700471) Participated as an expert witness on behalf of Oklahoma Industrial Energy Consumers ("OIEC") before the Oklahoma Corporation Commission in Empire's application to add 800MW of wind. Sponsoring testimony to address the various ratemaking and tax issues.
- 74. Oklahoma Gas and Electric Company ("OG&E"), (Oklahoma), 2018 (Cause No. PUD 201700496) Participated as an expert witness on behalf of Oklahoma Industrial Energy Consumers ("OIEC") before the Oklahoma Corporation Commission in OG&E's General Rate Case application. Sponsoring testimony to address the utility's overall revenue requirement and rate design proposals.
- Public Service Company of Oklahoma ("PSO") (Oklahoma), 2017 (Cause No. PUD 201700276)
   Participated as an expert witness on behalf of OIEC before the OCC in AEP/PSO's Wind Catcher case to provide testimony on various ratemaking and tax issues.

<sup>&</sup>lt;sup>4</sup> The Northern Nevada Utility Consumers is a group of large commercial and industrial customers in the SPPC service territory.

- 76. Southwestern Public Service Co. ("SPS") (Texas), 2017 (PUCT Docket No. 47527) Participating as an expert witness on behalf of the Alliance of Xcel Municipalities ("AXM") in the SPS general rate case application to provide testimony before the Texas Public Utility Commission regarding rate base and operating expense issues and sponsor the AXM Accounting Exhibits.
- 77. Southwestern Electric Power Company, ("SWEPCO") (Texas), 2017 (PUC Docket No. 47461) Participated as an expert witness on behalf of Cities Advocating Reasonable Deregulation ("CARD Cities") before the Texas Public Utility Commission in SWEPCO's Wind Catcher case proceeding to provide testimony on various ratemaking and tax issues.
- **78.** Atmos MidTex (Texas), 2017 (Docket No. 10640) Participated as an expert witness on behalf of the City of Dallas before the Texas Railroad Commission in Atmos's Dallas Annual Rate Review ("DARR") proceeding. Sponsoring testimony on various revenue requirement issues.
- **79.** Avista Utilities (Washington), 2017 (Docket Nos. UE-170485/UG-170486) Participated as an expert witness on behalf of Public Counsel in Avista's general rate case proceeding. Sponsoring testimony to address various revenue requirement issues and Avista's requested attrition adjustments.
- **80.** Nevada Power Company (Nevada), 2017 (Docket No. 17-06003) Participated as an expert witness on behalf of the Southern Nevada Hotel Group before the Nevada PUC in NPC's general rate case proceeding. Sponsoring testimony on various revenue requirement, depreciation, and rate design issues.
- **81.** Anchorage Municipal Light and Power (Alaska), 2017 (Docket No. U-17-008) Participating as an expert witness before the Regulatory Commission of Alaska on behalf of Providence Health and Services to provide testimony in ML&P's General Rate Case on various revenue requirement and rate design issues.
- 82. Public Service Company of Oklahoma (Oklahoma), 2017 (Cause No. PUD 201700151) Participated as an expert witness on behalf of OIEC before the OCC in AEP/PSO's general rate case application to provide testimony on various revenue requirement and rate design issues.
- 83. Oncor Electric Delivery Company (Texas), 2017 (PUC Docket No. 46957) Participated as an expert witness on behalf of the Steering Committee of Cities before the Texas Public Utility Commission in Oncor's General Rate Case proceeding to provide testimony on various revenue requirement issues.
- 84. EverSource (Massachusetts), 2017 (DPU Docket No. 17-05) Participated as an expert witness before the Massachusetts Department of Public Utilities EverSource's General Rate Case application on behalf of Energy Freedom Coalition of America to provide testimony to address various revenue requirement issues.
- 85. El Paso Electric Company (Texas), 2017 (PUC Docket No. 46831) Participated as an expert witness on behalf of the City of El Paso before the Texas Public Utility Commission in El Paso's General Rate Case proceeding to provide testimony on various revenue requirement issues.
- **86.** Atmos Pipeline Texas (Texas), 2017 (Docket No. 10580) Participated as an expert witness on behalf of the City of Dallas before the Texas Railroad Commission in APT's General Rate Case application, sponsoring testimony to address various revenue requirement proposals.
- 87. Empire District Electric Company (Oklahoma), 2017 (Cause No. PUD 201600468) Participated

as an expert witness on behalf of Oklahoma Industrial Energy Consumers ("OIEC") before the Oklahoma Corporation Commission in Empire's General Rate Case application. Sponsoring testimony to address the utility's overall revenue requirement and rate design proposals.

- **88.** Caesars Enterprise Service, LLC (Nevada), 2016 (704B Exit Application) Participated as an expert witness on behalf of Caesars before the Nevada PUC. Sponsoring written and oral testimony in Caesar's application to purchase energy and capacity from a provider other than Nevada Power.
- **89.** Southwestern Electric Power Company (Texas), 2016 (PUC Docket No. 46449) Participated as an expert witness on behalf of Cities Advocating Reasonable Deregulation ("CARD Cities") before the Texas Public Utility Commission in SWEPCO's general rate case proceeding to provide testimony on various revenue requirement issues.
- **90.** CenterPoint Texas, 2016 (Docket No. 10567) Participated as an expert witness on behalf of City of Houston before the Texas Railroad Commission in CenterPoint's general rate case application, sponsoring testimony to address the utility's overall revenue requirement and various rate design proposals.
- **91.** Entergy Texas, Inc., 2016 (Docket No. 46357) Participated as an expert witness on behalf Cities Served by Applicant before the Texas PUC in ETI's application to amend its Transmission Cost Recovery Factor.
- **92.** Anchorage Municipal Light and Power, 2016 (Docket No. U-16-060) Participated as an expert witness before the Regulatory Commission of Alaska on behalf of Providence Health and Services to provide testimony on the ratemaking treatment of ML&P's acquired interest in the Beluga River Unit gas field with ratepayer funds.
- **93.** Arizona Public Service Company, 2016 (Docket No. E-01345A-16-0036) Participated as an expert witness before the Arizona Corporation Commission in APS's General Rate Case application on behalf of Energy Freedom Coalition of America to provide written and oral testimony to address various revenue requirement issues.
- **94.** Oklahoma Gas & Electric Co. (Arkansas), 2016 (Docket No. 16-052-U Participated as an expert witness on behalf of the Arkansas River Valley Energy Consumers ("ARVEC") before the Arkansas Public Service Commission in OG&E's general rate case application to provide testimony on various revenue requirement, cost of service and rate design issues.
- **95.** Sierra Pacific Power Company (Nevada), 2016 (Docket No. 16-06006) Participated as an expert witness on behalf of the Northern Nevada Utility Customers before the Nevada PUC in SPPC's general rate case proceeding. Sponsored testimony on various revenue requirement, depreciation, and rate design issues.
- **96. Tucson Electric Power, 2016 (Docket No. E-01933A-15-0322)** Participated as an expert witness before the Arizona Corporation Commission in TEP's General Rate Case application, on behalf of Energy Freedom Coalition of America providing written and oral testimony to address the utility's cost of service study and rate design proposals.
- **97. Texas Gas Service, 2016 (Docket No. 10506)** Participated as an expert witness on behalf of El Paso before the Texas Railroad Commission in TGS's General Rate Case application, sponsoring testimony to address the utility's overall revenue requirement and various rate design proposals.

- **98. Texas Gas Service, 2016 (Docket No. 10488)** Participated as an expert witness on behalf of South Jefferson County Service Area ("SJCSA") before the Texas Railroad Commission in TGS's General Rate Case application, sponsoring testimony to address the utility's overall revenue requirement and various rate design proposals.
- **99.** Oklahoma Gas and Electric Company, 2016 (Cause No. PUD 201500273) Participated as an expert witness on behalf of Oklahoma Industrial Energy Consumers ("OIEC") before the Oklahoma Corporation Commission in OG&E's General Rate Case application. Sponsoring testimony to address the utility's overall revenue requirement and rate design proposals.
- 100. Oklahoma Gas & Electric Company, 2016 (Cause No. PUD 201500273) Participated as an expert witness on behalf of The Alliance for Solar Choice ("TASC") before the Oklahoma Corporation Commission to address OG&E's proposed Distributed Generation ("DG") rates for solar DG customers.
- **101.** Anchorage Municipal Light and Power, 2016 (Docket No. U-13-097) Participated as an expert witness before the Regulatory Commission of Alaska on behalf of Providence Health and Services to provide testimony on rates and tariffs proposed for customer-owned combined heat and power plant generation.
- **102.** Oklahoma Natural Gas Company, 2015 (Cause No. PUD 201500213) Participated as an expert witness on behalf of the OIEC before the Oklahoma Corporation Commission in ONG's General Rate Case application. Sponsored testimony to address the utility's overall revenue requirement and rate design proposals.
- 103. Oklahoma Gas & Electric Company, 2015 (Cause No. PUD 201500274) Participated as an expert witness on behalf of The Alliance for Solar Choice ("TASC") before the Oklahoma Corporation Commission to address OG&E's proposed Distributed Generation ("DG") rates for solar DG customers.
- **104.** Nevada Power Company, 2015 (Docket No. 15-07004) Participated as an expert witness on behalf of the Southern Nevada Hotel Group ("SNHG")<sup>5</sup> before the Nevada PUC. Sponsoring written and oral testimony in NPC's 2015 Integrated Resource Plan to provide analysis of the On Line transmission line allocation, the Siverhawk plant acquisition, and the Griffith contract termination.
- 105. Oklahoma Gas & Electric Company, 2015 (Docket No. 15-034-U) Participated as an expert witness on behalf of the Arkansas River Valley Energy Consumers ("ARVEC") before the Arkansas Public Service Commission in OG&E's Act 310 application to implement a rider to recover environmental compliance costs.
- **106. MGM Resorts, LLC, 2015** (Docket No. 15-05017) Participated as an expert witness on behalf of the MGM Resorts, LLC before the Nevada PUC. Sponsoring written and oral testimony in MGM's application to purchase energy and capacity from a provider other than Nevada Power.
- **107.** Entergy Arkansas, 2015 (Docket No. 15-015-U) Participated as an expert witness on behalf of the Hospital and Higher Education Group ("HHEG") an intervener group that includes the University of Arkansas and several hospitals before the Arkansas PSC in Entergy's general rate case to provide testimony on various revenue requirement issues.

<sup>&</sup>lt;sup>5</sup> The Southern Nevada Hotel Group is comprised of Boyd Gaming, Caesars Entertainment, MGM Resorts, Station Casinos, Venetian Casino Resort, and Wynn Las Vegas.

- **108.** Public Service Company of Oklahoma, 2015 (Cause No. PUD 201500208) Participated as an expert witness on behalf of OIEC before the OCC in AEP/PSO's general rate case application to provide testimony on various cost-of-service issues and on the utility's overall revenue requirement and rate design proposals.
- 109. Nevada Power Company, 2014 (Docket No. 14-05003) Participated as an expert witness on behalf of the Southern Nevada Hotel Group ("SNHG") before the Nevada PUC. Sponsored written and oral testimony in NPC environmental compliance case, called the Emissions Reduction and Capacity Replacement case. The main focus of our testimony was our recommendation to eliminate the \$438M Moapa solar project from the compliance plan.
- **110.** Nevada Power Company, 2014 (Docket No. 14-05004) Participated as an expert witness on behalf of the Southern Nevada Hotel Group before the Nevada PUC to sponsor written and oral testimony in both the revenue requirement phase and the rate design phase of the proceedings to establish prospective cost-of-service based rates for the power company.
- 111. Oklahoma Gas and Electric Co., 2014 (Cause No. PUD 201400229) Participated as an expert witness on behalf of Oklahoma Industrial Energy Consumers ("OIEC") in OG&E's Environmental Compliance and Mustang Modernization Plan before the Oklahoma Corporation Commission to provide testimony addressing the economics and rate impacts of the plan.
- **112.** Sourcegas Arkansas, Inc., 2014 (Docket No. 13-079-U) Participated as an expert witness on behalf of the Hospital and Higher Education Group ("HHEG"), an intervener group that includes the University of Arkansas and several hospitals before the Arkansas PSC in SGA's general rate case to provide testimony on various revenue requirement issues.
- **113.** Anchorage Municipal Light and Power, 2014 (Docket No. U-13-184) Participated as an expert witness before the Alaska Regulatory Utility Commission on behalf of Providence Health and Services to provide testimony on various revenue requirement and cost of service issues.
- **114. Public Service Company of Oklahoma, 2014 (Cause No. PUD 201300217)** Participated as an expert witness on behalf of OIEC before the OCC in AEP/PSO's general rate case application to provide testimony on various cost-of-service issues and on the utility's overall revenue requirement and rate design proposals.
- **115.** Entergy Texas Inc., 2013 (PUC Docket No. 41791) Participated as an expert witness on behalf of the Cities<sup>6</sup> in ETI's general rate case to provide testimony on various cost of service issues and on the utility's overall revenue requirement.
- **116.** MidAmerican/NV Energy Merger, 2013 (Docket No. 13-07021) Participated as an expert witness on behalf of the Southern Nevada Hotel Group ("SNHG") before the Nevada PUC. Sponsored testimony to address various issues raised in the proposed acquisition of NV Energy by MidAmerican Energy Holdings Company, including capital structure and acquisition premium recovery issues.
- **117.** Entergy Arkansas, 2013 (Docket No. 13-028-U) Participated as an expert witness on behalf of the Hospital and Higher Education Group ("HHEG") an intervener group that includes the University of Arkansas and several hospitals before the Arkansas PSC in Entergy's general rate case to provide

<sup>&</sup>lt;sup>6</sup> The Cities include Beaumont, Conroe, Groves, Houston, Huntsville, Orange, Navasota, Nederland, Pine Forest, Pinehurst, Port Arthur, Port Neches, Rose City, Shenandoah, Silsbee, Sour Lake, Vidor, and West Orange.

testimony on various revenue requirement issues.

- **118.** Sierra Pacific Power Company, 2013 (Docket No. 13-06002) Participated as an expert witness on behalf of the Northern Nevada Utility Customers<sup>7</sup> before the Nevada PUC in SPPC's general rate case proceeding to provide testimony on various cost of service and revenue requirement issues. Sponsored written and oral testimony in the depreciation phase, the revenue requirement phase and the rate design phase of these proceedings.
- **119. Gulf Power Company, 2013 (Docket No. 130140-EI)** Participated as an expert witness on behalf of the Office of Public Counsel before the Florida Commission in Gulf Power's general rate case proceeding to provide testimony on various revenue requirement issues.
- **120. Public Service Company of Oklahoma, 2013 (Cause No. PUD 201200054)** Participated as an expert witness on behalf of the OIEC before the Oklahoma Corporation Commission ("OCC") to provide testimony in PSO's application seeking Commission approval of its settlement agreement with EPA.
- 121. Southwestern Electric Power Company, 2012 (PUC Docket No. 40443) Participated as an expert witness on behalf of Cities Advocating Reasonable Deregulation ("CARD Cities") before the Texas Public Utility Commission in SWEPCO's general rate case proceeding to provide testimony on various cost of service issues and on the utility's overall revenue requirement.
- **122.** Doyon Utilities, 2012 Alaska Rate Case (Docket No. TA7-717) Participated as an expert witness consultant on behalf of the Department of Defense to provide expert testimony in twelve rate case reviews for the utility systems of Fort Wainwright, Fort Greely and Joint Base Elmendorf-Richardson before the Regulatory Commission of Alaska.
- **123.** University of Oklahoma, 2012 Participated as an expert witness on behalf of the University of Oklahoma to provide expert testimony on various revenue requirement issues in the University's general rate case with the Corix Group, which provides utility services to the University.
- 124. Public Service Company of Oklahoma, 2012 (Cause No. PUD 201200079) Participated as an expert witness on behalf of the OIEC before the Oklahoma Corporation Commission to provide expert testimony addressing the utility's request to earn additional compensation on a 510MW purchased power agreement with Exelon
- **125.** Centerpoint Energy Texas Gas, 2012 (Docket No. GUD 10182) Participated as an expert witness on behalf of the Steering Committee of Cities before the Texas Railroad Commission to provide expert testimony on various revenue requirement issues.
- **126.** Entergy Texas Inc., 2012 (PUC Docket No. 39896) Participated as an expert witness on behalf of the Cities in ETI's general rate case to provide testimony on various cost of service issues and on the utility's overall revenue requirement.
- 127. Oklahoma Natural Gas Company, 2012 (Cause No. PUD 2012-029) Participated as an expert witness on behalf of the OIEC before the OCC in ONG's Performance Based Rate ("PBR") application seeking Commission approval of a requested rate increase based upon formula results for 2011.

<sup>&</sup>lt;sup>7</sup> The Northern Nevada Utility Consumers is a group of large commercial and industrial customers in the SPPC service territory.

- **128.** University of Oklahoma, 2012 Assisted the University of Oklahoma with an audit of the costs associated with its six utility operations and its contract with the Corix Group to provide utility services to the university.
- **129.** Oklahoma Gas and Electric Company, 2012 (Cause No. PUD 2011-186) Participated as an expert witness on behalf of the OIEC before the OCC in OG&E's application seeking Commission approval of a special contract with Oklahoma State University and a wind energy purchase agreement in connection therewith.
- **130.** Empire Electric Company, 2011, (Cause No. PUD 11-082) Participated as an expert witness on behalf of Enbridge before the OCC in Empire's rate case to provided testimony in both the revenue requirement and rate design phases of the proceedings to establish prospective cost-of-service based rates for the power company.
- **131.** Nevada Power Company, 2011, (Docket No. 11-04010) Participated as an expert witness on behalf of the Southern Nevada Hotel Group ("SNHG") before the Nevada PUC. Sponsored written and oral testimony to address proposed changes to the Company's customer deposit rules.
- **132.** Nevada Power Company, 2011, (Docket No. 11-06006) Participated as an expert witness on behalf of the Southern Nevada Hotel Group before the Nevada PUC. Sponsored written and oral testimony in both the revenue requirement phase and the rate design phase of the proceedings to establish prospective cost-of-service based rates for the power company.
- **133.** Public Service Company of Oklahoma, 2011 (Cause No. PUD 2011-106) Participated as an expert witness on behalf of the OIEC before the OCC in PSO's application seeking rider recovery of third party SPP transmission costs and fees.
- **134.** Oklahoma Gas and Electric Company, 2011 (Cause No. PUD 2011-087) Participated as an expert witness on behalf of OIEC before the OCC in OG&E's rate case to provided testimony in both the revenue requirement and rate design phases of the proceedings to establish prospective cost-of-service based rates for the power company.
- **135.** Oklahoma Gas & Electric Company, 2011 (Docket No. 10-109-U) Participated as an expert witness on behalf of Gerdau Macsteel before the Arkansas Public Service Commission in OG&E's application to recover Smart Grid costs to make recommendations regarding the allocation of the Smart Grid costs.
- **136.** Oklahoma Gas & Electric Company, 2011 (Cause No. PUD 2011-027) Participated as an expert witness on behalf of the OIEC before the OCC in OG&E's application seeking to include retiree medical expense in the Company's pension tracker mechanism.
- **137. Public Service Company of Oklahoma, 2011 (Cause No. PUD 2010-50)** Participated as an expert witness on behalf of OIEC before the Oklahoma Corporation Commission in AEP/PSO's application to recover ice storm O&M expenses through a regulatory asset/rider mechanism to address tax impact and return issues in the proposed rider.
- **138. Public Service Company of Colorado, 2011 (Docket No. 10AL-908E)** Participated as an expert witness on behalf of the Colorado Retail Council ("CRC") before the Colorado Public Utilities Commission providing written and live testimony to address PSCo's proposed Environmental Tariff.

- **139.** Oklahoma Gas & Electric Company, 2011 (Docket No. 10-067-U) Participated as an expert witness on behalf of the Northwest Arkansas Industrial Energy Consumers ("NWIEC")<sup>8</sup> before the Arkansas Public Service Commission in OG&E's general rate case application to provide testimony on various revenue requirement, cost of service and rate design issues.
- **140.** Oklahoma Gas & Electric Company, 2010 (Cause No. PUD 2010-146) Participated as an expert witness on behalf of the OIEC before the OCC in OG&E's application seeking rider recovery of third party SPP transmission costs and SPP administration fees.
- 141. Massachusetts Electric Co. & Nantucket Electric Co. d/b/a National Grid, 2010 (Docket No. DPU 10-54) Participated as an expert witness providing both written and live testimony before the Massachusetts Department of Public Utilities on behalf of the Associated Industries of Massachusetts ("AIM") to address the Company's proposed participation in the 438MW Cape Wind project in Nantucket Sound.
- 142. Public Service Company of Oklahoma, 2010 (Cause No. PUD 2010-50) Participated as an expert witness on behalf of the OIEC before the OCC in AEP/PSO's general rate case application to provide testimony on various cost-of-service issues and on the utility's overall revenue requirement and rate design proposals.
- 143. Texas-New Mexico Power Co., 2010 (Docket 38480) Participated as an expert witness on behalf of the Alliance of Texas Municipalities ("ATM") before the Texas PUC in TMNP's general rate case application to address various revenue requirement and rate design issues to establish prospective cost-of-service based rates.
- 144. Southwestern Public Service Co., 2010 (PUCT Docket No. 38147) Participated as an expert witness on behalf of the Alliance of Xcel Municipalities ("AXM") in the SPS general rate case application to provide testimony before the Texas Public Utility Commission regarding rate base and operating expense issues and sponsor the AXM Accounting Exhibits.
- 145. Oklahoma Gas & Electric Company, 2010 (Cause No. PUD 2010-37) Participated as an expert witness on behalf of OIEC before the OCC to address the preapproval and ratemaking treatment of OG&E's 220MW self-build wind project.
- 146. Oklahoma Gas & Electric Company, 2010 (Cause No. PUD 2010-29) Participated as an expert witness on behalf of the OIEC before the OCC in OG&E's application seeking pre-approval of deployment of smart-grid technology and rider-recovery of the associated costs. Sponsored written testimony to address smart-grid deployment and time-differentiated fuel rates.
- 147. Public Service Company of Oklahoma, 2010 (Cause No. PUD 2010-01) Participated as an expert witness on behalf of the OIEC before the OCC in the Company's proposed Green Energy Choice Tariff. Sponsored testimony to address the pricing and ratemaking treatment of the Company's proposed wind subscription tariff.
- 148. Nevada Power Company, 2010 (Docket No. 10-02009) Participated as an expert witness on behalf of the Southern Nevada Hotel Group ("SNHG") before the Nevada PUC to provide testimony in NPC's Internal Resource Plan to address the ratemaking treatment of the proposed ON Line transmission line.

<sup>&</sup>lt;sup>8</sup>NWIEC is an association of industrial manufacturing facilities in northwest Arkansas.

- **149.** Entergy Texas Inc., 2010 (PUC Docket No. 37744) Participated as an expert witness on behalf of the Cities in ETI's general rate case to provide testimony on various cost of service issues and on the utility's overall revenue requirement.
- **150.** El Paso Electric Company, 2010 (PUC Docket No. 37690) Participated as an expert witness on behalf of the City of El Paso in the EPI general rate case to provide testimony on various cost of service issues and on the utility's overall revenue requirement.
- **151. Public Service Company of Oklahoma, 2009 (Cause No. 09-196)** Participated as an expert witness on behalf of the OIEC before the OCC in PSO's application for approval of DSM programs and cost recovery. Sponsored testimony to address program costs, lost revenue recovery, cost allocations and incentives.
- **152.** Oklahoma Gas and Electric Company, 2009 (Cause No. PUD 09-230 and 09-231) Participated as an expert witness on behalf of OIEC before the OCC in OG&E's application to add wind resources from two purchased power contracts. Sponsored written testimony to address the proper ratemaking treatment of the contract costs and the renewable energy certificates.
- **153.** Oklahoma Gas and Electric Company, 2009 (Cause No. PUD 08-398) Participated as an expert witness on behalf of OIEC before the OCC in OG&E's rate case. Provided testimony in both the revenue requirement and rate design phases of the proceedings to establish prospective cost-of-service based rates for the power company.
- **154.** Nevada Power Company, 2009, (Docket No. 08-12002) Participated as an expert witness on behalf of the Southern Nevada Hotel Group before the Nevada PUC. Sponsored written and oral testimony in both the revenue requirement phase and the rate design phase of the proceedings to establish prospective cost-of-service based rates for the power company.
- **155. Public Service Company of Oklahoma, 2009 (Cause No. 09-031)** Participated as an expert witness on behalf of OIEC before the OCC in PSO's application to add wind resources from two purchased power contracts. Sponsored written testimony to address the proper ratemaking treatment of the contract costs and the renewable energy certificates.
- **156.** Oklahoma Natural Gas Co., 2009 (Cause No. PUD 08-348) Participated as an expert witness on witness on behalf of the OIEC before the OCC in ONG's application to establish a Performance Based Rate tariff. Sponsored both written and oral testimony to address the merits of the utility's proposed PBR.
- **157.** Rocky Mountain Power, 2009 (Docket No. 08-035-38) Participated as an expert witness on behalf of the Division of Public Utilities (Staff) in PacifiCorp's general rate case to provide testimony on various revenue requirement issues.
- **158. Texas-New Mexico Power Co., 2008 (Docket 36025)** Participated as an expert witness on behalf of the Alliance of Texas Municipalities ("ATM") before the Texas PUC in TMNP's general rate case application to address various revenue requirement and rate design issues to establish prospective cost-of-service based rates.
- **159. Public Service Company of Oklahoma, 2008 (Cause No. 08-144)** Participated as an expert witness on behalf of the OIEC before the OCC in PSO's general rate case application to address revenue requirement and rate design issues to establish prospective cost-of-service based rates.

- **160.** Public Service Company of Oklahoma, 2008 (Cause No. 08-150) Participated as an expert witness on behalf of the OIEC before the OCC to address PSO's calculation of its Fuel Clause Adjustment for 2008.
- **161.** Oklahoma Gas and Electric Company, 2008 (Cause No. PUD 08-059) Participated as an expert witness on behalf of the OIEC before the OCC in OG&E's application seeking authorization of its Demand Side Management ("DSM") programs and the establishment of a DSM Rider to recover program costs, lost revenues and utility incentives.
- 162. Entergy Gulf States, 2008 (PUC Docket No. 34800, SOAH Docket No. 473-08-0334) Participated as an expert witness on behalf of the Cities in EGSI's general rate case to provide testimony on various cost of service issues and on the utility's overall revenue requirement.
- **163. Public Service Company of Oklahoma, 2008 (Cause No. 07-465)** Participated as an expert witness on behalf of the OIEC before the OCC in PSO's application to recover the pre-construction costs of the cancelled Red Rock coal generation facility.
- **164.** Oklahoma Gas and Electric Company, 2008 (Cause No. 07-447) Participated as an expert witness on behalf of the OIEC before the OCC in OG&E's application seeking authorization to recover the pre-construction costs of the cancelled Red Rock coal generation facility using proceeds from sales of excess SO<sub>2</sub> allowances.
- **165.** Rocky Mountain Power, 2008 (Docket No. 07-035-93) Participated as an expert witness on behalf of Division of Public Utilities (Staff) in PacifiCorp's general rate case to provide testimony on various revenue requirement issues.
- **166. Public Service Company of Oklahoma, 2008 (Cause No. PUD 07-449)** Participated as an expert witness on behalf of the OIEC before the OCC in PSO's application seeking authorization of its Demand Side Management ("DSM") programs and the establishment of a DSM Rider to recover program costs, lost revenues and utility incentives.
- **167. Public Service Company of Oklahoma, 2008 (Cause No. PUD 07-397)** Participated as an expert witness on behalf of OIEC before the OCC in PSO's application seeking authorization to defer storm damage costs in a regulatory asset account and to recover the costs using the proceeds from sales of excess SO<sub>2</sub> allowances.
- **168.** Oklahoma Gas & Electric Co., 2007 (Cause No. PUD 07-012) Participated as an expert witness on behalf of OIEC before the OCC in OG&E's application seeking pre-approval to construct the Red Rock coal plant to address the Company's proposed rider recovery mechanism.
- **169.** Oklahoma Natural Gas Co., 2007 (Cause No. PUD 07-335) Participated as an expert witness on behalf of the OIEC before the OCC in ONG's application proposing alternative cost recovery for the Company's ongoing capital expenditures through the proposed Capital Investment Mechanism Rider ("CIM Rider"). Sponsored testimony to address ONG's proposal.
- 170. Public Service Company of Oklahoma, 2007 (Cause No. PUD 06-030) Participated as an expert witness on behalf of the OIEC before the OCC in PSO's application seeking a used and useful determination for its planned addition of the Red Rock coal plant to address the Company's use of debt equivalency in the competitive bidding process for new resources.
- 171. Public Service Company of Oklahoma, 2006 (Cause No. PUD 06-285) Participated as an expert

witness on behalf of the OIEC before the OCC in PSO's general rate case application to address various revenue requirement and rate design issues to establish prospective cost-of-service based rates.

- **172.** Nevada Power Company, 2007, (Docket No. 07-01022) Participated as an expert witness on behalf of the MGM MIRAGE before the Nevada PUC in Nevada Power Company's deferred energy docket to determine the level of prudent company expenditures for fuel and purchased power.
- **173.** Nevada Power Company, 2006, (Docket No. 06-11022) Participated as an expert witness on behalf of the MGM MIRAGE properties before the Nevada PUC. Sponsored written and oral testimony in both the revenue requirement phase and the rate design phase of the proceedings to establish prospective cost-of-service based rates for the power company.
- **174.** Southwestern Public Service Co., 2006 (PUCT Docket No. 37766) Participated as an expert witness on behalf of the Alliance of Xcel Municipalities ("AXM") in the SPS general rate case application. Provided testimony before the Texas Public Utility Commission regarding rate base and operating expense issues and sponsored the Accounting Exhibits on behalf of AXM.
- 175. Atmos Energy Corp., Mid-Tex Division, 2006 (Texas GUD 9676) Participated as an expert witness in the Atmos Mid-Tex general rate case application on behalf of the Atmos Texas Municipalities ("ATM"). Provided written and oral testimony before the Railroad Commission of Texas regarding the revenue requirements of Mid-Tex including various rate base, operating expense, depreciation and tax issues. Sponsored the Accounting Exhibits for ATM.
- **176.** Nevada Power Company, 2006 (Docket No. 06-06007) Participated as an expert witness on behalf of the MGM MIRAGE in the Sinatra Substation Electric Line Extension and Service Contract case. Provided both written and oral testimony before the Nevada Public Utility Commission to provide the Commission with information as to why the application is consistent with the line extension requirements of Rule 9 and why the cost recovery proposals set forth in the application provide a least cost approach to adding necessary new capacity in the Las Vegas strip area.
- **177. Public Service Co. of Oklahoma, 2006 (Cause No. PUD 05-00516) -** Participated as an expert witness on behalf of the OIEC to review PSO's application for a "used and useful" determination of its proposed peaking facility.
- **178.** Oklahoma Gas and Electric Co., 2006 (Cause No. PUD 06-00041) Participated as an expert witness on behalf of the OIEC in OG&E's application to propose an incentive sharing mechanism for SO<sub>2</sub> allowance proceeds.
- **179.** Chermac Energy Corporation, 2006 (Cause No. PUD 05-00059 and 05-00177) Participated as an expert witness on behalf of the OIEC in Chermac's PURPA application. Sponsored written responsive and rebuttal testimony to address various rate design issues arising under the application.
- **180.** Oklahoma Gas and Electric Co., 2006 (Cause No. PUD 05-00140) Participated as an expert witness on behalf of the OIEC in OG&E's 2003 and 2004 Fuel Clause reviews. Sponsored written testimony to address the purchasing practices of the Company, its transactions with affiliates, and the prices paid for natural gas, coal and purchased power.
- **181.** Nevada Power Company, 2006, (Docket No. 06-01016) Participated as an expert witness on behalf of the MGM MIRAGE properties before the Nevada PUC. Sponsored written testimony in NPC's deferred energy docket to determine the level of prudent company expenditures for fuel and

purchased power.

- **182.** Oklahoma Gas and Electric Co., 2005 (Cause No. PUD 05-151) Participated as an expert witness on behalf of the OIEC in OG&E's general rate case application. Sponsored both written and oral testimony before the OCC to address various revenue requirement and rate design issues for the purpose of setting prospective cost-of-service based rates.
- **183.** Oklahoma Natural Gas Co., 2005 (Cause No. PUD 04-610) Participated as an expert witness on behalf of the Attorney General of Oklahoma. Sponsored written and oral testimony to address numerous rate base, operating expense and depreciation issues for the purpose of setting prospective cost-of-service based rates.
- **184.** CenterPoint Energy Arkla, 2004 (Cause No. PUD 04-0187) Participated as an expert witness on behalf of the Attorney General of Oklahoma: Sponsored written testimony to provide the OCC with analysis from an accounting and ratemaking perspective of the Co.'s proposed change in depreciation rates from an Average Life Group to an Equal Life Group methodology. Addressed the Co.'s proposed increase in depreciation rates associated with increased negative salvage value calculations.
- **185.** Public Service Co. of Oklahoma, 2004 (Cause No. PUD 02-0754) Participated as an expert witness on behalf of the OIEC. Sponsored written testimony (1) making adjustments to PSO's requested recovery of an ICR programming error, (2) correcting errors in the allocation of trading margins on off-system sales of electricity from AEP East to West and among the AEP West utilities and (3) recommending an annual rather than a quarterly change in the FAC rates.
- **186. PowerSmith Cogeneration Project, 2004 (Cause No. PUD 03-0564)** Participated as an expert witness on behalf of the OIEC to provide the OCC with direction in setting an avoided cost for the PowerSmith Cogeneration project under PURPA requirements. Provided both written and oral testimony on the provisions of the proposed contract under PURPA:
- **187.** Electric Utility Rules for Affiliate Transactions, 2004 (Cause No. RM 03-0003) Participated as a consultant on behalf of the OIEC to draft comments to assist the OCC in developing rules for affiliate transactions. Assisted in drafting the proposed rules. Successful in having the Lower of Cost or Market rule adopted for affiliate transactions in Oklahoma.
- **188.** Nevada Power Company, 2003, (Docket No. 03-10001) Participated as an expert witness on behalf of the MGM MIRAGE properties before the Nevada PUC. Sponsored written and oral testimony in both the revenue requirement phase and the rate design phase of the proceedings to establish prospective cost-of-service based rates for the power company.
- **189.** Nevada Power Company, 2003, (Docket No. 03-11019) Participated as an expert witness on behalf of the MGM MIRAGE before the Nevada PUC in Nevada Power Company's deferred energy docket to determine the level of prudent company expenditures for fuel and purchased power.
- **190. Public Service Company of Oklahoma, 2003 (Cause No. PUD 03-0076)** Participated as an expert witness on behalf of the OIEC before the OCC in PSO's general rate case application to address various revenue requirement and rate design issues to establish prospective cost-of-service based rates.
- **191.** Oklahoma Gas & Electric Co., 2003 (Cause No. PUD 03-0226) Participated as an expert witness on behalf of the OIEC. Provided both written and oral testimony before the OCC to determine the appropriate level to include in rates for natural gas transportation and storage services acquired from

an affiliated company.

- **192.** Nevada Power Company, 2003 (Docket No. 02-5003-5007) Participated as an expert witness on behalf of the MGM Mirage before the Nevada PUC. Sponsored written and oral testimony to calculate the appropriate exit fee in MGM Mirage's 661 Application to leave the system.
- **193.** McCarthy Family Farms, 2003 Participated as a consultant to assist McCarthy Family Farms in converting a biomass and biosolids composting process into a renewable energy power producing business in California.
- **194.** Bice v. Petro Hunt, 2003 (ND, Supreme Court No. 20030306) Participated as an expert witness in a class certification proceeding to provide cost-of-service calculations for royalty valuation deductions for natural gas gathering, dehydration, compression, treatment and processing fees in North Dakota.
- **195.** Nevada Power Company, 2003 (Docket No. 03-11019) Participated as a consulting expert on behalf of the MGM Mirage before the Nevada PUC in Nevada Power Company's deferred energy docket to determine the level of prudent company expenditures for fuel and purchased power. Provided written and oral testimony on the reasonableness of the cost allocations to the utility's various customer classes.
- **196.** Wind River Reservation, 2003 (Fed. Claims Ct. No. 458-79L, 459-79L) Participated as a consulting expert on behalf of the Shoshone and Arapaho Tribes to provide cost-of-service calculations for royalty valuation deductions for gathering, dehydration, treatment and compression of natural gas and the reasonableness of deductions for gas transportation.
- **197.** Oklahoma Gas & Electric Co., 2002 (Cause No. PUD 01-0455) Participated as an expert witness on behalf of the OIEC before the OCC. Sponsored written and oral testimony on numerous revenue requirement issues including rate base, operating expense and rate design issues to establish prospective cost-of-service based rates.
- **198.** Nevada Power Company, 2002 (Docket No. 02-11021) Participated as an expert witness on behalf of the MGM Mirage before the Nevada PUC in Nevada Power Company's deferred energy docket to determine the level of prudent company expenditures for fuel and purchased power and to make recommendations with respect to rate design.
- **199.** Nevada Power Company, 2002 (Docket No. 01-11029) Participated as a consulting expert on behalf of the MGM Mirage before the Nevada PUC in Nevada Power Company's deferred energy docket to determine the level of prudent company expenditures for fuel and purchased power included in the Company's \$928 million deferred energy balances.
- **200.** Nevada Power Company, 2002 (Docket No. 01-10001) Participated as an expert witness on behalf of the MGM Mirage before the Nevada PUC. Sponsored written and oral testimony in both the revenue requirement phase and the rate design phase of the proceedings to establish prospective cost-of-service based rates for the power company.
- 201. Chesapeake v. Kinder Morgan, 2001 (CIV-00-397L) Participated as an expert witness on behalf of Chesapeake Energy in a gas gathering dispute. Sponsored testimony to calculate and support a reasonable rate on the gas gathering system. Performed necessary calculations to determine appropriate levels of operating expense, depreciation and cost of capital to include in a reasonable gathering charge and developed an appropriate rate design to recover these costs.

- **202.** Southern Union Gas Company, 2001 Participated as a consultant to the City of El Paso in its review of SUG's gas purchasing practices, gas storage position, and potential use of financial hedging instruments and ratemaking incentives to devise strategies to help shelter customers from the risk of high commodity price spikes during the winter months.
- **203.** Nevada Power Company, 2001 Participated as an expert witness on behalf of the MGM-Mirage, Park Place and Mandalay Bay Group before the Nevada Public Utility Commission to review NPC's Comprehensive Energy Plan (CEP) for the State of Nevada and make recommendations regarding the appropriate level of additional costs to include in rates for the Company's prospective power costs associated with natural gas and gas transportation, coal and coal transportation and purchased power.
- **204.** Bridenstine v. Kaiser-Francis Oil Co. et al., 2001 (CJ-95-54) Participated as an expert witness on behalf of royalty owner plaintiffs in a valuation dispute regarding gathering, dehydration, metering, compression, and marketing costs. Provided cost-of-service calculations to determine the reasonableness of the gathering rate charged to the royalty interest. Also provided calculations as to the average price available in the field based upon a study of royalty payments received on other wells in the area.
- **205.** Klatt v. Hunt et al., 2000 (ND) Participated as an expert witness and filed report in United States District Court for the District of North Dakota in a natural gas gathering contract dispute to calculate charges and allocations for processing, sour gas compression, treatment, overhead, depreciation expense, use of residue gas, purchase price allocations, and risk capital.
- **206.** Oklahoma Gas and Electric Co., 2000 (Cause No. PUD 00-0020) Participated as an expert witness on behalf of the OIEC before the OCC. Sponsored testimony on OG&E's proposed Generation Efficiency Performance Rider (GEPR). Provided a list of criteria with which to measure a utility's proposal for alternative ratemaking. Recommended modifications to the Company's proposed GEPR to bring it within the boundaries of an acceptable alternative ratemaking formula.
- **207.** Oklahoma Gas and Electric Co., 1999 Participated as an expert witness on behalf of the OIEC before the OCC. Sponsored testimony on OG&E's proposed Performance Based Ratemaking (PBR) proposal including analysis of the Company's regulated return on equity, fluctuations in the capital investment and operating expense accounts of the Company and the impact that various rate base, operating expense and cost of capital adjustments would have on the Company's proposal.
- **208.** Nevada Power Company, 1999 (Docket No. 99-7035) Participated as an expert witness on behalf of the Mirage, Park Place and Mandalay Bay Group before the Nevada PUC. Sponsored written and oral testimony addressing the appropriate ratemaking treatment of the Company's deferred energy balances, prospective power costs for natural gas, coal and purchased power and deferred capacity payments for purchased power.
- **209.** Nevada Power Company, 1999 (Docket No. 99-4005) Participated as an expert witness on behalf of the Mirage, Park Place and Mandalay Bay Group before the Nevada PUC. Sponsored written and oral testimony to unbundle the utility services of the NPC and to establish the appropriate cost-of-service allocations and rate design for the utility in Nevada's new competitive electric utility industry.
- **210.** Nevada Power Company, 1999 (Docket No. 99-4005) Participated as an expert witness on behalf of the Mirage, Park Place and Mandalay Bay Group before the Nevada PUC. Sponsored written and oral testimony to establish the cost-of-service revenue requirement of the Company.

- 211. Nevada Power/Sierra Pacific Merger, 1998 (Docket No. 98-7023) Participated as an expert witness on behalf of the Mirage and MGM Grand before the Nevada PUC. Sponsored written and oral testimony to establish (1) appropriate conditions on the merger (2) the proper sequence of regulatory events to unbundle utility services and deregulate the electric utility industry in Nevada (3) the proper accounting treatment of the acquisition premium and the gain on divestiture of generation assets. The recommendations regarding conditions on the merger, the sequence of regulatory events to unbundle and deregulate, and the accounting treatment of the acquisition premium were specifically adopted in the Commission's final order.
- 212. Oklahoma Natural Gas Company, 1998 (Cause No. PUD 98-0177) Participated as an expert witness in ONG's unbundling proceedings before the OCC. Sponsored written and oral testimony on behalf of Transok, LLC to establish the cost of ONG's unbundled upstream gas services. Substantially all of the cost-of-service recommendations to unbundle ONG's gas services were adopted in the Commission's interim order.
- **213. Public Service Company of Oklahoma, 1997 (Cause No. PUD 96-0214) -** Audited both rate base investment and operating revenue and expense to determine the Company's revenue requirement and cost-of-service. Sponsored written testimony before the OCC on behalf of the OIEC.
- 214. Oklahoma Natural Gas /Western Resources Merger, 1997 (Cause No. PUD 97-0106) Sponsored testimony on behalf of the OIEC regarding the appropriate accounting treatment of acquisition premiums resulting from the purchase of regulated assets.
- **215.** Oklahoma Gas and Electric Co., 1996 (Cause No. PUD 96-0116) Audited both rate base investment and operating income. Sponsored testimony on behalf of the OIEC for the purpose of determining the Company's revenue requirement and cost-of-service allocations.
- **216. Oklahoma Corporation Commission, 1996** Provided technical assistance to Commissioner Anthony's office in analyzing gas contracts and related legal proceedings involving ONG and certain of its gas supply contracts. Assignment included comparison of pricing terms of subject gas contracts to portfolio of gas contracts and other data obtained through annual fuel audits analyzing ONG's gas purchasing practices.
- **217. Tenkiller Water Company, 1996** Provided technical assistance to the Attorney General of Oklahoma in his review of the Company's regulated cost-of-service for the purpose of setting prospective utility rates.
- **218.** Arkansas Oklahoma Gas Company, 1995 (Cause No. PUD 95-0134) Sponsored written and oral testimony before the OCC on behalf of the Attorney General of Oklahoma regarding the price of natural gas on AOG's system and the impact of AOG's proposed cost of gas allocations and gas transportation rates and tariffs on AOG's various customer classes.
- **219.** Enogex, Inc., 1995 (FERC 95-10-000) Analyzed Enogex's application before the FERC to increase gas transportation rates for the Oklahoma Independent Petroleum Association and made recommendations regarding revenue requirement, cost-of-service and rate design on behalf of independent producers and shippers.
- 220. Oklahoma Natural Gas Company, 1995 (Cause No. PUD 94-0477) Analyzed a portfolio of ONG's gas purchase contracts in the Company's Payment-In-Kind (PIC) gas purchase program and made recommendations to the OCC Staff on behalf of Terra Nitrogen, Inc. regarding the inappropriate profits made by ONG on the sale of the gas commodity through the PIC program

pricing formula. Also analyzed the price of gas on ONG's system, ONG's cost-of-service based rates, and certain class cross-subsidizations in ONG's existing rate design.

- 221. Arkansas Louisiana Gas Company, 1994 (Cause No. PUD 94-0354) Planned and supervised the rate case audit for the OCC Staff and reviewed the workpapers and testimony of the other auditors on the case. Sponsored cost-of-service testimony on cash working capital and developed policy recommendations on post test year adjustments.
- **222.** Empire District Electric Company, 1994 (Cause No. PUD 94-0343) Planned and supervised the rate case audit for the OCC Staff and reviewed the workpapers and testimony of other auditors. Sponsored cost-of-service testimony on rate base investment areas including cash working capital.
- 223. Oklahoma Natural Gas Company, 1992 through 1993 (Cause No. PUD 92-1190) Planned and supervised the rate case audit of ONG for the OCC Staff. Reviewed all workpapers and testimony of the other auditors on the case. Sponsored written and oral testimony on numerous cost-of-service adjustments. Analyzed ONG's gas supply contracts under the Company's PIC program.
- 224. Oklahoma Gas and Electric Company, 1991 through 1992 (Cause No. PUD 91-1055) Audited the rate base, operating revenue and operating expense accounts of OG&E on behalf of the OCC Staff. Sponsored written and oral testimony on numerous revenue requirement adjustments to establish the appropriate level of costs to include for the purpose of setting prospective rates.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 <u>Office of Consumer Advocate - Summary Comparison of Revenue Requirement</u>

Line			Yo	York OCA Recommendation Difference			ence	OCA Impac	ct of Errata		
						Wastewater		Wastewater	OCA Initial	Impa	ct of
No.	Description	Ref.	Water	Wastewater	Water	Errata	Water	Errata	Watewater	Erra	ata
1	Rate Base		\$ 350,621,590	\$ 33,353,950	\$ 350,301,681	\$ 32,909,997	\$ (319,909)	\$ (443,953)	\$ 32,430,699	\$47	9,298
2	Rate of Return		7.93%	7.93%	6.01%	6.01%	-1.92%	-1.92%	6.01%		0.00%
3	Return Requirement		27,804,706	2,645,008	21,037,718	1,976,443	(6,766,988)	(668,565)	1,947,658	2	8,785
4	Adjusted Net Operating Income	v,	\$ 16,450,949	\$ (270,366)	\$ 17,999,363	\$ 15,997	\$ 1,548,414	\$ 286,363	\$69,789	\$ (5	3,792)
5	Deficiency		11,353,757	2,915,374	3,038,355	1,960,446	(8,315,402)	(954,927)	1,877,869	(8	2,577)
6	Revenue Conversion Factor		0.701591	0.706304	0.701591	0.706304	0.000000	0.000000	0.706304	0.0	00000
7	Revenue Deficiency		\$ 16,182,881	\$ 4,127,649	\$ 4,330,666	\$ 2,775,642	\$ {11,852,215}	\$ (1,352,007)	\$ 2,658,728	\$ 11	6,915
8	Consolidated Allocation		2,670,856	(2,670,856)	2,670,856	(2,670,856)	<u> </u>		(2,670,856)		<u> </u>
9	Deficiency with Allocation		\$ 18,853,737	\$ 1,456,793	\$ 7,001,522	\$ 104,786	\$ (11,852,215)	\$ (1,352,007)	<u>\$ (12,129)</u>	<u>\$ 11</u>	6,915

Note 1 From Exhibit No. FI-2, p. 13.

### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Revenue Requirement with OCA's Recommended Adjustments

			Water				Waste Water Errata						Impact of Wastewater Errata				
Line No.	Description	Ref.	York Proposed Rates 2/29/2024	OCA Adjustment	R	OCA ecommended		York oposed Rates 2/29/2024		OCA Errata Idjustment		DCA Errata commended		ICA Original commended		Difference ginal - Errata	
	Deter Deter		(A)	(B)		(C)		(A)		(8)		(C)					
1	<u>Rate Base</u> Plant in Service	v	\$ 529,635,105		è	529.635.105	Ś	43,442,074			ŝ	43,442,074	ŝ	43,442,074	Ś	_	
2	Accumulated Depreciation	v	(107,427,025)		\$	{107,427,025}	2	(9,177,932)				(9,177,932)	•	(9,177,932)	•	_	
3	Net Plant in Service	ı/	\$ 422,208,080	\$ -	\$	422,208,080	\$	34,264,142	\$		\$	34,264,142	\$	34,264,142	\$		
		ı/	\$ 1.520.534		Ś		Ś				s		Ś		Ś		
4	Materials and Supplies	1/	• • • • • • • • •	(259,943)	Ş	1,520,534 2,811,014	Ş	-			\$	-	\$	•	ş	-	
5	Cash Working Capital	1/	3,070,957					200 44 4		(442.052)		(193 530)		•		- 479,298	
6	Utility Plant Acquisition Adjustments	1/	(68,018)	(59,966)		(127,984)		260,414		(443,953)		(183,539)		(662,837) 18,347		4/9,290	
7	Taxes on Deposits and Advances	v	1,403,563			1,403,563		18,347				18,347				•	
8	Accumulated Deferred Income Tax	4	(24,488,981)			(24,488,981)		(148,987)				(148,987)		(148,987)		-	
9	Excess Accumulated Deferred Income Tax	-7 1/	(13,371,592)			(13,371,592)		(6,782)				(6,782)		(6,782)		•	
10	Contributions in Aid of Construction	-7 1/	(33,721,565)			(33,721,565)		(1,033,184)				(1,033,184)		(1,033,184)		-	
11	Customers' Advances for Construction		(4,455,584)			(4,455,584)						-		•		-	
12	Customers' Advances Not Expended	4	(1,475,804)		_	(1,475,804)			_	(440.050)	_	-	-			-	
13	Total Rate Base	2/	\$ 350,621,590	\$ (319,909)	\$	350,301,681	\$		\$	(443,953)	\$	32,909,997	\$	32,430,699	\$	479,298	
14	Rate of Return	-/	7.930118%	-1.924518%	-	6.005600%	-	7.930118%	-	-1.924518%	\$	6.005600%	\$	6.005600%	ŝ	0.000000%	
15	Return Requirement		\$ 27,804,706	\$ (6,766,988)	\$	21,037,718	\$	2,645,008	\$	(668,565)	ş	1,976,443	Ş	1,947,658	Ş	28,785	
	Revenues	3/															
16	Sales of Water		\$ 52,523,311		\$	52,523,311	\$	4,157,401			\$	4,157,401	\$	4,157,401	\$	•	
17	Other Revenue	3/	1,119,149			1,119,149		4,861				4,861		4,861		•	
18	Total Revenue		\$ 53,642,460	\$-	\$	53,642,460	\$	4,162,262	\$	-	\$	4,162,262	\$	4,162,262	\$	•	
	Expenses																
19	Operating Expenses	4/	\$ 23,702,382	\$ (1,981,622)	\$	21,720,760	\$	4,229,014	\$	(332,020)	\$	3,896,994	\$	3,890,464	\$	6,530	
20	Depreciation	4/	12,960,981	(6,789)		12,954,192		933,718		(57,718)		876,000		803,226		72,774	
21	Taxes Other Than Income Taxes	4/	1,378,995	(37,287)		1,341,708		43,491		(1,686)		41,805		41,805		•	
22	Income Taxes	4/	(850,847)	477,284		(373,563)	_	(773,595)	_	105,061		(668,534)		(643,023)		(25,511)	
23	Total Operating Expenses		\$ 37,191,511	\$ (1,548,414)	\$	35,643,097	\$	4,432,628	\$	(286,363)	\$	4,146,265	\$	4,092,473	\$	53,793	
24	Net Operating Income		\$ 16,450,949	\$ 1,548,414	\$	17,999,363	\$	(270,366)	\$	286,363	\$	15,997	\$	69,789	\$	(53,793)	
25	Return (Sufficiency) Deficiency		\$ 11,353,757	\$ (8,315,402)	\$	3,038,355	\$	2,915,374	\$	(954,927)	\$	1,960,446	\$	1,877,869	\$	82,578	
26	Revenue Conversion Factor	5/	0.70159058	0.70159058	_	0.70159058		0.706303677	_	0.706303677		0.706303677		0.706303677		0	
27	Revenue (Sufficiency) Deficiency	6/	\$ 16,182,881	\$ (11,852,215)	s	4,330,666	Ś	4,127,649	\$	(1,352,007)	\$	2,775,642	\$	2,658,727	\$	116,915	
28	Wastewater Revenue Allocation	6/	2,670,856		_	2,670,856	_	(2,670,856)	_			(2,670,856)		(2,670,856)		<u> </u>	
29	Total Increase in Rates	6/	\$ 18,853,737	\$ (11,852,215)	\$	7,001,522	\$	1,456,793	\$	(1,352,007)	\$	104,786	\$	(12,129)	\$	116,915	
30	Percent of Requested Increase					37%						7%					

Note 1 From Exhibit No. FV-1, p. 3.

Note 2 See the Direct Testimony of Paul R. Moul, p. 2, lines 23 through 25.

Note 3 From Exhibit Fil-2, p. 9.

Note 4 From Exhibit No. FI-2, pp 11, 13. Also see FV-1.pg5, column 7.

Note 5 From HV-1.wp1, factor for total revenue requirements.

Note 6 From Exhibit Fil-2, p. 10.

From Exhibit No. FV-1W (tab FV-1W.pg3) See the Direct Testimony of Paul R. Moul, p. 1. From Exhibit No. FII-2W, page 9 (tab FII-2W.pg9) and Exhibit No. FV-1W (tab FV-1W.pg6). From HV-1W.wp1.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Summary of Recommendations

				Water		Erra	ita Wastewa	ter	Impact of Was	stewater Errata
Line			-	Pre-Tax	Revenue		Pre-Tax	Revenue	OCA Original	Difference
No.	Description	Witness	Rate Base	Return	Deficiency	Rate Base	Return	Deficiency	Recommended	Original - Errata
1	York Requested Increase Amounts		\$ 350,621,590	:	\$ 18,853,737	\$ 33,353,950		\$ 1,456,793	\$ 1,456,793	\$-
	Rate Base Adjustments									
2	Cash Working Capital	Garrett	\$ (259,943)	10.57%	\$ (27,488)		10.50%	\$ -	\$-	\$-
3	Acquisition Adjustments	DeAngelo	(59,966)	10.57%	(6,341)	(443,953)	10.50%	(46,634)	(96,980)	50,347
4	Total Rate Base Adjustments	-	\$ (319,909)		\$ (33,830)	\$ (443,953)	· -	\$ (46,634)	\$ (96,980)	\$ 50,347
	Rate of Return Adjustments									
5	25 Basis Point Reduction in ROE		\$ 350,301,681	-0.20%	(683,661)	\$ 32,909,997	-0.19%	(63,800)	(62,871)	(929)
6	Capital Structure	Habr	350,301,681	-0.32%	(1,136,823)	32,909,997	-0.32%	(106,089)	(104,544)	(1,545)
7	Return on Equity	Habr	350,301,681	-2.27%	(7,944,800)	32,909,997	-2.25%	(741,415)	(730,617)	(10,798)
8	Total Rate of Return Adjustments			_	(9,765,284)		-	(911,304)	(898,031)	(13,272)
	Operating Income Adjustments									
9	Payroll Expense	Garrett		:	\$ (382,591)			\$ (17,296)	\$ (17,296)	\$-
10	Cash Incentives	Garrett			(123,754)			(5,595)	(5,595)	-
11	Stock Incentives	Garrett			(238,146)			(10,766)	(17,296)	6,530
12	Payroll Taxes	Garrett			(37,287)			(1,686)	(1,686)	-
13	Cost Escalation	Garrett			(1,023,307)			(298,363)	(298,363)	-
14	Board of Directors Expenses	Garrett			(213,825)			-	•	•
15	Acquisition Adjustment Amortization	DeAngelo			(6,789)			(57,718)	(130,492)	72,775
16	Rate Adjustment Impacts (Note 1)	Garrett		-	(27,402)		-	(2,646)	(3,183)	537
17	Total Operating Income Adjustments			_	(2,053,101)			(394,070)	(473,911)	79,841
18	Total Adjustments			_	(11,852,215)		-	(1,352,007)	(1,468,922)	116,915
19	OCA Recommended Increase(Decrease)			4	\$ 7,001,522		-	\$ 104,786	\$ (12,129)	\$ 116,915

Note 1 The impact of OCA's adjustments on late charges, bad debts, and assessments are accounted for here. The adjustment of these costs are a component of the revenue gross up factor on the Revenue Requirement Exhibit.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Payroll Expense Recommendations

Line					
No.	Description	Ref.		Water	Wastewater
1	Pro Forma Hourly Payroll Excluding Bonuses and Vacant Positions 12/31/2021	1/	Ś	2,007,650	
2	Pro Forma Salary Payroll Excluding Bonuses and Vacant Positions 12/31/2021	1/	•	3,563,364	
3	Total Non-Union Payroll 12/31/2021		\$	5,571,014	
4	OCA Recommended 2022 Increase Factor			103.50%	
5	2022 Adjusted Amount		\$	5,765,999	
6	2022 Additional Hourly and Salaried Positions	2/		606,243	
7	OCA Adjusted 2022 Hourly and Salaried Payroll		\$	6,372,242	
8	OCA Recommended 2023 Increase Factor			103.50%	
9	February 29, 2024 Adjusted Non-Union Payroll		\$	6,595,271	
10	February 29, 2024 Requested Union Payroll, Excluding Unfilled Positions	3/		2,479,100	
11	OCA Recommended Payroll Expense (without Bonuses)		\$	9,074,371	
12	Requested 2/29/2024 Payroll (without Bonuses)	4/		9,518,048	
13	Gross Payroll Adjustment Before Expense Allocation		\$	(443,677)	\$ (443,677)
14	Expense Factor	S/		0.862317798 6/	0.038983417
15	Adjustment to Payroll Expense		\$	(382,591)	\$ (17,296)
Note 1	Derived from CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case visy, tab Hill-2-4(b) og1	colls G10-I147 ar	nd M	10-0147 evcludi	ng rows 97 and

Note 1 Derived from CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab HIII-2-4(b).pg1, cells G10-I147 and M10-O147 excluding rows 92 and 134 for hourly positions.

Note 2 From CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-1(c).pg1, total of cells G10-I19 and M10-O19 excluding rows 21 and 83 for salaried positions.

Note 3 Derived from CONFIDENTIAL File OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-25(c).pg1, total of cells G1 147I and M10-O147 for union positions.

Note 4 From CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-25(c).pg1, total of cells G1 147I and M10-O147.

Note 5 From Fill-2-40(b).pg1, Total of Accounts 6011000 through 60180003 / Pro Forma Company Labor.

Note 6 From FIII-2-40(b).pg1, Total of Accounts 7015000 through 7018000 / Pro Forma Company Labor.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Cash Incentive Award Recommendations

Line No.	Description	Ref.		Water	Wa	stewater
1	Cash Incentive Awards - 2/29/2024 Pro Forma	1/	\$	287,026	\$	287,026
2	Expense Factor	2/	0.	862317798 <sup>3/</sup>	0.0	38983417
3	Amount Included in Operating Expenses		\$	247,508	\$	11,189
4	Ratepayer Share			50.00%		50.00%
5	Amount Recommended for Recovery		\$	123,754	\$	5,595
6	OCA Recommended Adjustment	:	\$	(123,754)	\$	(5,595)

Note 1 See OCA IV-14 and CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-25(c).pg1, cell Q167.

Note 2 Derived from CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-40(b).pg1, Total of cells G21-G51 / G61.

Note 3 Derived from CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-40(b).pg1, Total of cells G52-G57 / G61.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 <u>Office of Consumer Advocate - Long-Term Incentive Plan Recommendations</u>

Line No.	Description	Ref.	Water	Wastewater
1	Long-Term Stock Awards - 2/29/2024 Pro Forma	ı/	\$ 276,170	\$ 276,170
2	Expense Factor	2/	0.862317798 3/	0.038983417
3	Long-Term Incentive Expense		\$ 238,146	\$ 10,766
4	OCA Recommended Adjustment to Long-Term Incentives		\$ (238,146)	\$ (10,766)

Note 1 See OCA IV-9 and CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-25(c).pg1, cell R167.

Note 2 Derived from CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-40(b).pg1, Total of cells G21-G51 / G61.

Note 3 Derived from CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-40(b).pg1, Total of cells G52-G57 / G61.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Payroll Tax Recommendations

Line					Water		
No.	Description		Payroll	Cas	h Incentive	Sto	ck Incentive
1	Expense Adjustment	\$	(382,591)	\$	(123,754)	\$	(238,146)
2	Adjustments to Wages Over \$147K		(58,581)		(54,124)		(204,490)
3	Adjustment Subject to OASDI Tax	\$	(324,010)	\$	(69,630)	\$	(33,656)
4	Adjustment to Medicare Taxes	\$	(5,548)	\$	(1,794)	\$	(3,453)
5	Adjustment to OASDI Tax	\$	(20,089)	\$	(4,317)	\$	(2,087)
6	Tax Adjustment Totals	\$	(25,636)	\$	(6,111)	\$	(5,540)
7	Total Water Employment Tax Adjustment					<u>\$</u>	(37,287)
8	Payroll Tax Effective Rate						5.01%
				w	astewater		
			Payroll	Cas	h Incentive	Sto	ck Incentive
9	Expense Adjustment	\$	(17,296)	\$	(5,595)	\$	(10,766)
10	Adjustments to Wages Over \$147K	<u> </u>	(2,648)		(2,447)		(9,245)
11	Adjustment Subject to OASDI Tax	\$	(14,648)	\$	(3,148)	\$	(1,522)
12	Adjustment to Medicare Taxes	\$	(251)	\$	(81)	\$	(156)
13	Adjustment to OASDI Tax	\$	(908)	\$	(195)	\$	(94)
14	Tax Adjustment Totals	\$	(1,159)	\$	(276)	\$	(250)
15	Total Wastewater Employment Tax Adjustment					\$	(1,686)

Note 1 From CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-25(c).pg1, selected amounts times the appropriate expense factor.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 <u>Office of Consumer Advocate - Inflation Adjustment Recommendations</u>

Line No.	Description	Ref.	Water	N	/astewater
1	<u>Requested Inflation Adjustments</u> Adjustment December 2021 - December 2022	1/	\$ 360,236 <sup>3/</sup>	\$	106,523
2	Pro Forma Adjustment, December 2022 - February 2024	2/	 663,071 <sup>4/</sup>		191,840
3	Total Requested		\$ 1,023,307	\$	298,363
4	OCA Adjustment		\$ (1,023,307)	<u>\$</u>	(298,363)

Note 1 FIII-2.pg2, J239.

Note 2 FIII-2-37.pg1, cell H54.

Note 3 FIII-2W.pg2, J89.

Note 4 FIII-2-28W.pg1, cell H38.

### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Board of Directors Fees Recommendations

Line No.	Description	Ref.	Amount
1	Requested Board of Directors Compensation	1/	\$ 427,649
2	OCA Recommended Ratepayer Share (50%)	-	213,825
3	OCA Recommended Board of Directors Fee Adjustment	=	\$ (213,825)

Note 1 Exhibit FIII-2-48.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Acquisition Adjustment Recommendations

	Unice of Consumer Advocate - Acqui								Impact of Was	stewa	ter Errata
Line							Errata	0	CA Original		Difference
No.	Description	Ref		Water	Ref.	w	astewater	N	astewater	Ori	ginal - Errata
	Rate Base										
1	Wrightsville Acquisition Adjustment at 2/29/2024	1/	\$	59,966							
2	Felton Acquisition Adjustment at 2/29/2024		_		2/	\$	260,414	\$	260,414	\$	·
3	Acquisition Adjustments Requested		\$	59,966		\$	260,414	\$	260,414	\$	-
4	Jacobus Acquisition Adjustment at 2/29/24				3/	\$ (	183,538.55)	\$ (	183,538.55)	\$	
5	Letterkenny Acquisition Adjustment at 2/29/2024				3/			(	479,298.79)		479,298.79
6	Negative Acquisition Adjustments Not Requested					\$ (	183,538.55)	\$ (	662,837.34)	\$	479,298.79
7	Adjustment to Remove Wrightsville and Felton Acquisition Adjustments		\$	(59,966)		\$	(260,414)	\$	(260,414)	\$	-
8	Adjustment to Add the Jacobus and Letterkenny Acquisition Adjustments		_			\$	(183,539)	\$	(662,837)	\$	479,299
9	Total Rate Base Adjustments		\$	(59,966)		\$	(443,953)	\$	(923,251)	\$	479,299
	Amortization										
10	Wrightsville Acquisition Adjustment at 2/29/2024	4/	\$	6,789							
11	Felton Acquisition Adjustment at 2/29/2024				. s/	\$	29,481	\$	29,481	\$	•
12	Amortization of Acquisition Adjustments Requested		\$	6,789		\$	29,481	\$	29,481	\$	•
13	Jacobus Acquisition Adjustment Amortization				6/	\$	(28,237)	\$	(28,237)	\$	-
14	Letterkenny Acquisition Adjustment Amortization				6/			_	(72,775)		72,775
15	Amortization of Omitted Negative Amortization Adjustments					\$	(28,237)	\$	(101,011)	\$	72,775
16	Adjustment to Remove Amortization of Wrightsville and Felton Acq. Adj.		\$	(6,789)		\$	(29,481)	\$	(29,481)	\$	
17	Adjustment to Add Amortization of Jacobus and Letterkenny Acq. Adj.					\$	(28,237)	\$	(101,011)	\$	72,775
18	Total Amortization Adjustments		\$	(6,789)		\$	(57,718)	\$	(130,492)	\$	72,775

Note 1 Exhibit No. FV-1-9, page 1.

Note 2 Exhibit No. FV-1-2W, page 1.

Note 3 See the Direct Testimony of Morgan N. DeAngelo, page 8, net of amortization beginning at date of acquisition.

Note 4 Exhibit No. FIII-2-22, page 1.

Note 5 Exhibit No. Fill-2W.

Note 6 Based on the ten year amortizations recommended by Morgan N. DeAngelo.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Cash Working Capital

Line		-1220697	7.523 Lag	Dollar
No.	Description	Amount		Days
1	Payroll Expense Adjustments	\$ (1,159	,663) 7.0	\$ (8,117,639)
2	Payroll Tax Withholding	(61	,035) 13.7	(837,976)
3	Payroll Taxes	(61	,035) 13.7	(837,976)
4	Inflation Adjustment	(1,023	<u>,307)</u> 18.1	(18,545,719)
5	Totals	\$ (2,305	,039) 12.3	\$ (28,339,309)
6	Revenue Lag		53.4	
7	Cash Working Capital Expense Adjustments	\$ (6	,315) 41.1	\$ (259,502)
8	Rate Base Adjustments	\$ (319	,909)	
9	Long-Term Debt Component of Capital	-	77%	
10	Interest Adjustment	\$ (5	,658)	
11	Daily Interest Adjustment	\$	(16) 28.4	(440)
12	Cash Working Capital Adjustment			\$ (259,943)

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Income Tax Expense

				Weighted			1	mpact of Wa	stewa	ter Errata
Line				Interest		Errata	00	A Original	D	lifference
No.	Description	1	Rate Base	Cost	Amount		W	astewater	Orig	inal - Errata
	Water									
1	Rate Base Adjustments	\$	(319,909)	-1.77%	\$	5,658				
2	York Weighted Interest Cost			1.77%						
3	OCA Weighted Interest Cost			1.88%						
4	Difference	\$ 3	350,301,681	-0.11%	\$	(379,401)				
5	Operating Income Adjustments				\$	2,025,699				
6	Total				\$	1,651,955				
7	Combined Effective Tax Rate					28.89210%				
8	Adjustment to February 29, 2024 Income Tax Expense				\$	477,284				
	Wastewater									
9	Rate Base Adjustments	\$	443,953	1.77%	\$	7,851	\$	16,328	\$	(8,477)
10	York Weighted Interest Cost			1.77%						
11	OCA Weighted Interest Cost			1.88%						
12	Difference	\$	32,909,997	-0.11%	\$	(35,644)	\$	(35,125)	\$	(519)
13	Operating Income Adjustments				\$	391,423	\$	470,728	\$	(79,305)
14	Total				\$	363,631	\$	451,931	\$	(88,300)
15	Combined Effective Tax Rate					28.89210%		28.89210%		0.00000%
16	Adjustment to February 29, 2024 Income Tax Expense				\$	105,061	\$	130,572	\$	(25,512)

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Cost of Capital

							Wate	r	Waste	Water
Line						ROR	Conversion	Pre-Tax	Conversion	Pre-Tax
No.	Description		Capital	Ratio	Rate	Component	Factor <sup>3</sup>	ROR	Factor <sup>3</sup>	ROR
1	Long-Term Debt	1/	\$ 174,870,000	45.23% <sup>2/</sup>	3.91%	1.77%	0.986656	1.79%	0.993284	1.78%
2	Equity	1/	\$ 211,777,106	<u>54.77%</u> 2/	11.25%	6.16%	0.701591_	8.78%	0.706304	8.72%
3			\$ 386,647,106	100.00%		7.93%		10.57%		10.50%
4	OCA Recommend									
5			on to Return on Eg							
6	Long-Term Debt	4/		45.23% <sup>4/</sup>	3.91%	1.77%	0.986656	1.79%	0.993284	1.78%
7	Equity	4/		<u> </u>	11.00%	6.02%	0.701591_	8.59%	0.706304	8.53%
8				100.00%		7.79%	-	10.38%	-	10.31%
9	25 Basis Point RO	E Ad	justment				=	-0.20%	=	-0.19%
10	Capital Structure									
11	Long-Term Debt	4/		48.00% 4/	3.91%	1.88%	0.986656	1.90%	0.993284	1.89%
12	Equity	4/		52.00% <sup>4/</sup>	11.00%	5.72%	0.701591_	8.15%	0.706304_	8.10%
13				100.00%		7.60%	-	10.06%	-	9.99%
14	Capital Structure	Adju	stment				=	-0.32%	-	-0.32%
15	<u>Return on Equity</u>									
16	Long-Term Debt	4/		48.00% 4/	3.91%	1.88%	0.986656	1.90%	0.993284	1.89%
17	Equity	4/		<u>52.00%</u> 4/	7.94%	4.13%	0.701591	5.88%	0.706304	5.85%
18				100.00%		6.01%	-	7.79%	-	7.74%
19	ROE Adjustment						=	-2.27%	-	-2.25%

Note 1 From Exhibit No. FVII-1, WP 1.

Note 2 From Exhibit No. FVII-1, WP 2, HV-1.pg3 and Moul Direct, page 2.

Note 3 From HV-1.wp1, factors for total revenue requirements.

Note 4 See the Responsive Testimony of Dr. David S. Habr.

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission : v. : Docket Nos. R-2022-3031340 (Water) : R-2022-3032806 (Wastewater) : The York Water Company

#### VERIFICATION

I, Mark E. Garrett, hereby state that the facts set forth in my Direct Testimony, OCA Statement 1, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: August 19, 2022 \*334093 Signature:

june 11 Mark E. Garrett

Consultant Address: Garrett Group Consulting, Inc. 4028 Oakdale Farm Circle Edmond, Oklahoma 73013

### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission Office of Consumer Advocate Office of Small Business Advocate v.	: : : :	Docket Nos. R-2022-3031340 C-2022-3032868 C-2022-3032902
The York Water Company – Water Division	:	
Pennsylvania Public Utility Commission	:	Docket Nos. R-2022-3032806
Office of Consumer Advocate	:	C-2022-3032869
Office of Small Business Advocate	:	C-2022-3033016
	:	
V.	:	
	:	
The York Water Company – Wastewater	:	
Division	:	

Direct Testimony of Morgan N. DeAngelo

On Behalf of Pennsylvania Office of Consumer Advocate

August 19, 2022

## **Table of Contents**

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## 1 Introduction:

2	Q.	Please state your name, business address and occupation.
3	A.	My name is Morgan N. DeAngelo. My business address is 555 Walnut Street, 5 <sup>th</sup> Floor,
4		Forum Place, Harrisburg, Pennsylvania 17101. I am currently employed as a Regulatory
5		Analyst by the Pennsylvania Office of Consumer Advocate (OCA).
6	Q.	Please describe your educational background and qualifications to provide testimony
7		in this case.
8	А.	I have a Master's degree in Business Administration and a Bachelor of Business
9		Administration Degree, with a concentration in Finance and a minor in Accounting from
10		Wilkes University. My educational background and qualifications are described in
11		Appendix A.
12	0	On whose helpelf are you tostifying in this proceeding?
12	Q.	On whose behalf are you testifying in this proceeding?
12	Q. A.	I am testifying on behalf of the Office of Consumer Advocate.
	А.	
13	А.	I am testifying on behalf of the Office of Consumer Advocate.
13 14	A. <u>Purp</u>	I am testifying on behalf of the Office of Consumer Advocate.
13 14 15	A. <u>Purp</u> Q.	I am testifying on behalf of the Office of Consumer Advocate. ose of Direct Testimony: Please describe the purpose of your Direct Testimony.
13 14 15 16	A. <u>Purp</u> Q.	I am testifying on behalf of the Office of Consumer Advocate. <u>ose of Direct Testimony:</u> Please describe the purpose of your Direct Testimony. The purpose of my Direct Testimony is to address the York Water Company (York)'s
13 14 15 16 17	A. <u>Purp</u> Q.	I am testifying on behalf of the Office of Consumer Advocate. <u>ose of Direct Testimony:</u> Please describe the purpose of your Direct Testimony. The purpose of my Direct Testimony is to address the York Water Company (York)'s request for acquisition adjustments related to assets purchased since 2018. In York Direct
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> </ol>	A. <u>Purp</u> Q.	I am testifying on behalf of the Office of Consumer Advocate. ose of Direct Testimony: Please describe the purpose of your Direct Testimony. The purpose of my Direct Testimony is to address the York Water Company (York)'s request for acquisition adjustments related to assets purchased since 2018. In York Direct Testimony Statement No. 1, Mr. Joseph T. Hand identifies positive acquisition
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> <li>19</li> </ol>	A. <u>Purp</u> Q.	I am testifying on behalf of the Office of Consumer Advocate. ose of Direct Testimony: Please describe the purpose of your Direct Testimony. The purpose of my Direct Testimony is to address the York Water Company (York)'s request for acquisition adjustments related to assets purchased since 2018. In York Direct Testimony Statement No. 1, Mr. Joseph T. Hand identifies positive acquisition adjustments to the Wrightsville Municipal Authority (Wrightsville), Felton Borough

1	Q.	Were there additional acquisitions since York's 2018 rate case that are not
2		addressed in its current filing?
3	А.	Yes. Since York's last rate case, I am aware that York has filed several applications to
4		acquire additional water and wastewater system assets, including for example, the
5		Letterkenny Industrial Development Authority water and wastewater system assets at
6		Docket Nos. A-2021-3029704 and A-2021-3029945. Since York did not identify any
7		adjustments related to these acquisitions in this base rate filing, I will not be addressing
8		them in my Direct Testimony.
9	<u>Positi</u>	ve Acquisition Adjustments:
10	Q:	What is a positive acquisition adjustment?
11	<b>A:</b>	Ordinarily, when a public utility purchases another entity's assets and seeks to include the

13 property when first devoted to the public service less applicable accrued depreciation.

assets in its rate base, it may only include the value of assets at original cost of the

14 However, there is an exception to this rule permitted when a public utility purchases

15 water or wastewater assets at a cost in excess of the original cost less accrued

16 depreciation if the public utility can meet the factors stated in Section 1327(a) of the

17 Public Utility Code. The difference in price between net original cost and purchase price

18 is the amount of the positive acquisition adjustment.

12

#### 19 Q. Did York claim an acquisition adjustment for West Manheim?

A. No. In his Direct Testimony, Mr. Hand stated that York's net cost to acquire the West
 Manheim wastewater collection system was \$3,124 greater than the original cost of the
 property, less applicable depreciation. (York Statement No. 1, p. 21, ln. 6-9). He also

1		stated, "Due to the immaterial amount, the Company is not requesting amortization of the
2		\$3,124 positive acquisition adjustment.". (York Statement No. 1, p. 22, ln. 1-2).
3	Q.	Do you agree with York's proposed treatment of the West Manheim acquisition?
4	А.	Yes. York has not provided evidence to support a positive acquisition adjustment.
5		Further, as Mr. Hand recognizes, the difference between the purchase price and
6		depreciated original cost was not material.
7	Q.	What positive acquisition adjustments did York claim in this rate case?
8	<b>A.</b>	York acquired Wrightsville and Felton at amounts greater than the net book value. The
9		following table summarizes the Purchase Price compared to the Depreciated Original
10		Cost of each system identified as a proposed positive acquisition adjustment in York's
11		base rate filing.

Systems Acquired for More than the Depreciated Original Cost							
Acquisition	System	Date Acquired	Purchase Price	Depreciated Original Cost	Difference		
Wrightsville	Water	2/15/2018	\$113,113	\$45,227	\$67,886		
Felton	Wastewater	12/28/2018	\$913,679	\$618,871	\$294,808		

12

#### 13 Q. Please discuss York's claim in regard to the acquisition of system assets of the

14 Wrightsville water system and the Felton wastewater system.

15 A. On February 15, 2018, York completed the acquisition of Wrightsville's water assets, an

16 expansion of its territory and the provision of water service to Eastern York School

- 17 District (District), which are in York County. The system assets were purchased for
- 18 \$113,113, which is \$67,886 more than the Depreciated Original Cost of \$45,227. (York
- 19 Exh. No. FV-1-9). York is requesting that the amortization reflecting the difference
- 20 between the purchase price and depreciated original cost of the \$67,886 positive

1	acquisition adjustment be permitted over a 10-year period. (York Statement No. 1, p. 14,
2	ln. 10-12).
3	On April 9, 2020, York completed the acquisition of Felton's wastewater assets, which
4	are located in York County. The system assets were purchased for \$913,679, which is
5	\$294,808 more than the Depreciated Original Cost of \$618,871. (York Statement No.
6	4W, p. 8, ln. 9-12). York is requesting that the amortization reflecting the difference
7	between the purchase price and depreciated original cost of the \$294,808 positive
8	acquisition adjustment be permitted over a 10-year period. (York Exh. No. HIII-2-1W).
9 <b>Q.</b>	Does the Public Utility Code contain requirements that must be met by a utility in
10	order to reflect a positive acquisition adjustment in rates?
11 <b>A.</b>	Yes. As noted above, Subsection (a) of Section 1327 of the Public Utility Code outlines
12	nine criteria, all of which must be met by a utility in order to add an acquisition adjustment
13	to rate base. These criteria are:
14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29	<ol> <li>The property acquired is used and useful in providing service;</li> <li>The acquired utility had 3,300 or fewer customer connections or was non-viable in the absence of the acquisition;</li> <li>The acquired entity was not, at the time of acquisition, furnishing and maintaining adequate, efficient, safe and reasonable service and facilities, evidence of which shall include, but not be limited to, any one or more of the following:         <ol> <li>violation of statutory or regulatory requirements of the Department of Environmental Resources or the commission concerning the safety, adequacy, efficiency or reasonableness of service and facilities;</li> <li>a finding by the commission of inadequate financial, managerial or technical ability of the small water or sewer utility;</li> <li>a finding by the commission that there is a present deficiency concerning the availability of water, the palatability of water or the provision of water at adequate volume and pressure;</li> <li>a finding by the commission that the small water or sewer utility, because</li> </ol> </li> </ol>

1 2		(v) any other facts, as the commission may determine, that evidence the inability of the small water or sewer utility to furnish or maintain adequate,
3		efficient, safe and reasonable service and facilities;
4		(4) reasonable and prudent investments will be made to assure that the customers
5		served by the property will receive adequate, efficient, safe and reasonable service;
6		(5) the public utilityis in agreement with the acquisition and the negotiations which
7		led to the acquisition were conducted at arm's length;
8		(6) the actual purchase price is reasonable;
9		(7) neither the acquiring nor the selling public utility, municipal corporation or person
10		is an affiliated interest of the other;
11		(8) the rates charged by the acquiring public utility to its preacquisition customers will
12		not increase unreasonably because of the acquisition; and
13		(9) the excess of the acquisition cost over the depreciated original cost will be added
14		to the rate base to be amortized as an addition to expense over a reasonable period
15		of time with corresponding reductions in the rate base.
16	Wrigl	ntsville Water System
17	0	
17	Q.	Has York met all nine of the Section 1327(a) criteria to support its proposed
18		acquisition adjustment related to Wrightsville?
19	А.	No. York has not met all nine criteria necessary to support a positive acquisition
20		adjustment associated with Wrightsville in this case. In particular, York has not met the
21		criteria under Section 1327(a)(3).
22	Q.	Section 1327(a)(3) requires that, in order for a utility to recognize an acquisition
23		adjustment in rates, the acquired company must not, at the time of acquisition, be
24		providing and maintaining adequate, efficient, safe and reasonable service and
25		facilities. Has York provided any information to show that Wrightsville was not
26		providing adequate service to its customers at the time of acquisition?
27	А.	No. York has not shown that, as to Wrightsville, it can meet any of the requirements
28		outlined in Section 1327(a)(3) to show that Wrightsville was not providing adequate
29		service to its customers at the time of acquisition.

1	Q.	Do you agree with York that the Company should receive a positive acquisition
2		adjustment for its acquisition of Wrightsville?
3	<b>A.</b>	No. The desire of the former owner to sell the assets is not in and of itself a reason for
4		ratepayers to reimburse York for its business decision to pay more than depreciated
5		original cost. As such, I recommend that York's proposal for a positive acquisition
6		adjustment should be rejected. The removal of this adjustment is reflected in the
7		testimony and schedules of OCA witness Mark Garrett in OCA Statement 1.
8	Felton	Wastewater System
9	Q.	Has York met all nine of the Section 1327(a) criteria to support its proposed
10		acquisition adjustment related to Felton?
11	А.	No. York has not met all nine criteria necessary to support an acquisition adjustment for
12		the Felton wastewater system assets. In particular, York has not met the criteria under
13		Section 1327(a)(3).
14	Q.	Has York provided evidence that Felton was not providing adequate service to its
15		customers at the time of acquisition?
16	А.	No. Mr. Hand states that Felton received a Notice of Violation (NOV) from the
17		Department of Environmental Protection (DEP) in 2018. (York Statement No. 1, p. 16,
18		In. 19-21). No information is provided regarding the type or severity of violation, whether
19		the violation concerned the "safety, adequacy, efficiency or reasonableness of service and
20		facilities," and whether Felton corrected the problem. Mr. Hand also states that Felton
21		identified Inflow and Infiltration problems with the collection system in its 2018 Chapter

1		94 report, however, that report indicated the treatment plant is projected to have adequate
2		hydraulic and organic capacity for the next five years. <sup>1</sup>
3	Q.	Do you agree with York that the Company should receive a positive acquisition
4		adjustment for its acquisition of Felton?
5	A.	No. This acquisition does not meet the requirements of Section 1327(a) of the Public
6		Utility Code because York has not provided sufficient information to show, in particular,
7		that Felton was a troubled system and was not furnishing and maintaining adequate,
8		efficient, safe and reasonable service and facilities at the time of the acquisition. The
9		desire of the former owner to sell the assets is not a valid reason for ratepayers to
10		reimburse York for its business decision. As such, based on the information that Aqua
11		provided in support of its claim, I recommend that York's proposal for a positive
12		acquisition adjustment should be rejected. The removal of this adjustment is reflected in
13		the testimony and schedules of OCA witness Mark Garrett in OCA Statement 1.
14	Q.	Are the Wrightsville and Felton systems addressed in any other OCA testimony?
15	А.	Yes. OCA witness Mr. Terry L. Fought addresses both systems in OCA Statement 6.
16	Negat	tive Acquisition Adjustments:
17	Q.	What negative acquisition adjustments did York claim in the current rate case?
18	А.	York proposes to make a negative acquisition adjustment related to two systems that it

- 19 purchased at amounts less than the net book values. These systems are Jacobus Borough
- 20 Sewer Authority (Jacobus) and Letterkenny Township Municipal Authority. The

Order, p. 6. Docket No. A-2019-3013113.

- 1 following table summarizes the Purchase Price compared to the Depreciated Original
- 2 Cost of the Jacobus system, which I will be addressing.

Acquisitions Acquired for Less than the Depreciated Original Cost					
Acquisition System		Date Purchase		Depreciated Original	
Acquisition	System	Acquired	Price	Cost	Difference
Jacobus	Wastewater	8/29/2020	\$2,100,000	\$2,382,367	(\$282,367)

#### 4 Q. Please discuss York's claim for the Jacobus system.

- 5 A. On August 29, 2019, York completed the acquisition of Jacobus's wastewater assets,
- 6 which are located in York County. The system assets were purchased for \$2,100,000,
- 7 which is \$282,367 less than the Depreciated Original Cost of \$2,382,367. York stated,
- 8 "No amortization of pass-through of the difference between the acquisition cost and the
- 9 depreciated original cost is appropriate because this acquisition involves a matter of
- 10 substantial public interest.". (York Statement No. 1, p. 15-16, ln. 22-23, 1-2).

#### 11 Q. Does the Public Utility Code contain requirements that must be met by a utility in

#### 12 order to reflect a negative acquisition adjustment in rates?

- 13 A. Yes. Subsection (e) of Section 1327 of the Public Utility Code states criteria which must
- 14 be met by a utility in order to make a negative acquisition adjustment (not just pass
- 15 through to customers the benefit of the difference between acquisition cost and the
- 16 depreciated original cost). The statute states the following:
- 17 If a public utility acquires property from another public utility, a municipal 18 corporation or a person at a cost which is lower than the original cost of the 19 property when first devoted to the public service less the applicable accrued 20 depreciation and the property is used and useful in providing water or sewer 21 service, that difference shall, absent matters of a substantial public interest, 22 be amortized as an addition to income over a reasonable period of time or 23 be passed through to the ratepayers by such other methodology as the 24 commission may direct. Notice of the proposed treatment of an acquisition

- cost lower than depreciated original cost shall be given to the Director of 1 2 Trial Staff and the Consumer Advocate. 3 **Q**. Has York met this criterion of Section 1327(e) to support omitting its amortization 4 of the pass-through of the difference between acquisition cost and the depreciated 5 original cost? 6 A. No, York has not. York identified that Jacobus Borough did not wish to continue 7 providing wastewater service to its residents due to increasing costs and challenges of 8 meeting regulatory oversight and reporting requirements. (York Statement No. 1, p. 14, 9 In. 20-22). Further, Mr. Hand stated that no immediate successor for the Jacobus 10 contracted operator, who was retiring, was available. There was no showing why another 11 operator could not be contracted to fill the position. The statements by Mr. Hand do not 12 show there is a "substantial public interest" for York's customers to be denied the \$282,367 benefit of York acquiring the system at less than depreciated original cost. 13 14 Additionally, the Commission Order stated, "At the time of filing its next base rate case, 15 which proposes the assets of this acquisition in rate base, The York Water Company -16 Wastewater shall specifically reference Docket No. A-2019-3007355 and justify any 17 amount claimed as an acquisition adjustment pursuant to Section 1327 of the Public Utility Code, 66 Pa. C.S. § 1327.".<sup>2</sup> Ultimately, York has not justified its failure to pass 18 19 through the difference to ratepayers because it has not met the standard of Section 20 1327(e).
- 21

Order, p. 13, Paragraph No. 9. Docket No. A-2019-3007355.

## 1 Q. What adjustments are you recommending?

2	А.	I recommend that York amortize the difference between the purchase price and
3		depreciated original cost of the assets, as an addition to income over ten years, consistent
4		with the number of years used by York for its proposed Positive Acquisition
5		Adjustments. My recommended adjustments are provided on the schedules of OCA
6		witness Mark Garrett.
7	Q.	Did the OCA address the Jacobus system in any other testimony?
	C	
8	А.	Yes. Mr. Fought also addressed the Jacobus system in OCA Statement 6.
0	C	
9	Conc	lusion:
10	Q.	Does this conclude your Direct Testimony?
11	A.	Yes. However, I reserve the right to modify if needed.

## Appendix A

#### Appendix A

#### **QUALIFICATIONS OF**

#### **MORGAN N. DEANGELO**

#### **Education:**

2020 M.B.A., Wilkes University

2018 B.B.A. concentration in Finance, minor in Accounting, Wilkes University

#### **Positions:**

June 2020 - Present	Regulatory Analyst, Pennsylvania Office of Consumer Advocate
2018 - 2020	Graduate Assistant, Office of Student Development, Wilkes University

#### **Experience:**

I am currently employed by the Pennsylvania Office of Attorney General, Office of Consumer Advocate (OCA) as a Regulatory Analyst. In this position, my responsibilities of reviewing utility company filings with the Pennsylvania Public Utility Commission (Commission) and analyzing the financial, economic, rate of return, and policy issues that are relevant to the filings. Additionally, I am tasked with preparing recommendations for the OCA's involvement in utility filings with the PA PUC, writing testimony and presenting oral testimony on behalf of the OCA.

#### **Relevant Training:**

IPU Regulatory Studies - Intermediate Course, August 2020 IPU Accounting and Ratemaking Course, February 2021

#### Previous Cases where testimony was submitted:

- Petition of Twin Lakes Utilities, Inc., P-2020-3020914
- Application of Pennsylvania American Water Company, A-2020-3019634
- PaPUC v. UGI Utilities, Inc. Electric Division, R-2021-3023618
- PaPUC v. Pittsburgh Water and Sewer Authority, R-2021-3024773, R-2021,3024774, R-2021-3024779
- PaPUC v. Aqua Pennsylvania, Inc., Aqua Pennsylvania Wastewater, Inc., R-2021-3027285, R-2021-3027186
- PaPUC v. City of Lancaster Water Department, R-2021-3026682
- Application of Aqua Pennsylvania Wastewater, Inc., A-2021-3027268
- PaPUC v. Borough of Ambler Water, R-2022-3031704

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:
	: Docket Nos. R-2022-3031340 (Water)
v.	: R-2022-3032806 (Wastewater)
	:
The York Water Company	:

#### **VERIFICATION**

I, Morgan N. DeAngelo, hereby state that the facts set forth in my Direct Testimony, OCA Statement 2, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: August 19, 2022 \*334091

Signature: <u>Morgan N. DeAngelo</u> Morgan N. DeAngelo

Consultant Address: Office of Consumer Advocate 555 Walnut Street 5<sup>th</sup> Floor, Forum Place Harrisburg, PA 17101-1923

### **BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
<b>v.</b>	:	Docket Nos. R-2022-3031340 (Water)
	:	R-2022-3032806 (WW)
York Water Company	:	

## DIRECT TESTIMONY OF

### DR. DAVID S. HABR

## ON BEHALF OF THE OFFICE OF CONSUMER ADVOCATE

August 19, 2022

#### 1 Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A: David S. Habr, 213 Cornuta Way, Nipomo, CA.

#### 3 Q: BY WHOM ARE YOU EMPLOYED?

4 A: I am the owner of Habr Economics, a consulting firm I founded in January 2009.

5 The firm focuses on cost of capital and mergers and acquisitions.

## 6 Q: PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR EDUCATION 7 AND EXPERIENCE.

8 A: I received a Bachelor of Arts (1968) and a Master of Arts (1969) degree in

9 economics from the University of Nebraska – Lincoln. I received a Ph.D. degree

10 in economics from Washington State University in 1976.

11 I began my career in utility regulation when I joined the Iowa State

12 Commerce Commission (n/k/a the Iowa Utilities Board) in 1981. My first rate of

13 return testimony was filed in a Northwestern Bell case in 1983 and I have

14 continued to testify on rate of return since then. In 1987, I was hired by the Iowa

15 Office of Consumer Advocate to establish and develop their testifying staff as well

16 as continue to testify on rate of return and other financial and economic matters. I

17 remained in that position until the end of 2008. Since starting Habr Economics, I

18 have filed rate of return testimony in Hawaii, Maine, Maryland, and Pennsylvania

and testimony in merger cases in Maine and Maryland. I also prepared rate of

20 return testimony for the Utah Office of Consumer Services and filed testimony in

21 Iowa on the impact of holding company strategic decisions on the efficiency of

22 utility company operations.

1		Prior to joining the Iowa State Commerce Commission staff, I had a private
2		consulting practice, worked for a small consulting firm, and served six years as a
3		member of the economics faculty at Drake University. My vita, Exhibit DSH-1,
4		contains a more detailed account of my previous activities.
5	Q:	WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS
6		PROCEEDING?
7	A:	The purpose of my testimony is to determine the appropriate return on common
8		equity and overall cost of capital to use in this proceeding. I also have comments
9		on various aspects of Mr. Moul's testimony.
10	Q:	HAVE YOU PREPARED ANY EXHIBITS TO ACCOMPANY YOUR
11		TESTIMONY?
12	A:	Yes, I have prepared Exhibits DSH-1 through DSH-18. A brief description of
13		each exhibit follows:
14		DSH-1 – Habr Vita.
15		DSH-2 thru 4 – DCF costs based on analyst's forecasts only.
16		DSH-5 thru 7 – DCF costs including GDP growth, FERC method.
17		DSH-8 thru 10 – DCF costs including GDP growth, 2-Stage DCF.
18		DSH-11 – Historical Risk Premium.
19		DSH-12 thru 13 – CAPM results.

20 DSH-14 thru 15 – CAPM/Risk Premium results.

# Q: WHAT RECOMMENDATIONS CONCERNING THE COST OF CAPITAL ARE YOU PROPOSING?

A: I am accepting York Water's 3.91% embedded cost of debt, recommending a
hypothetical capital structure consisting of 52% common equity and 48% long
term debt be used in this proceeding and recommending that York Water be given
the opportunity to earn 7.94% on its common equity. Combining York Water's
3.91% embedded long-term debt with my recommended capital structure and
7.94% common equity cost will provide York Water to earn an overall rate of
return of 6.01%.

#### 10

My proposed adjustments are reflected in the table below.

	Ratio	Cost Rate	Weighted Cost
Common			
Equity	52.00%	7.94%	4.13%
Long Term			
Debt	48.00%	3.91%	1.88%
Total	100.00%		6.01%

11

12 The details supporting my proposed adjustments are discussed further in my

13 testimony.

#### 1 Q: HOW DO YOUR RECOMMENDATIONS COMPARE TO COMPANY

#### 2 WITNESS MOUL'S RECOMMENDATIONS?

- 3 A: Mr. Moul proposes a return on equity of 11.00% and a management performance
- 4 adder of 0.25%, for a total return on equity of 11.25%<sup>1</sup> Mr. Moul's
- 5 recommendation is based on his analysis of the Capital Asset Pricing Model
- 6 (CAPM), Discounted Cash Flow (DCF) Model, and other models. A summary of
- 7 Mr. Moul's positions are shown in figure below.<sup>2</sup>

		Cost	Weighted Cost
	Ratios	Rate	Rate
Long-Term Debt	45.23%	3.91%	1.77%
Common Equity	54.77%	11.25%	6.16%
Total	100.00%		7.93%

8

### 9 Q: WHY DO YOU DISAGREE WITH MR. MOUL'S ANALYSIS?

10 A: I outline my full DCF and CAPM analysis below to show why my inputs are more 11 reasonable than those chosen by Mr. Moul. This is because several of Mr. Moul's 12 key assumptions and inputs to these models violate fundamental, widely accepted 13 tenets in finance and valuation. I find several aspects of Mr. Moul's approach and 14 resulting recommendations to be problematic, including the growth rates used in 15 his DCF models and his inflated estimate for the equity risk premium used in his

<sup>&</sup>lt;sup>1</sup> Moul, St. No. 107, at 6-7.

<sup>&</sup>lt;sup>2</sup> Moul, St. No. 107, at 2.

1	CAPM analysis. In addition, Mr. Moul adds a leverage adjustment to the results
2	of his models, which inappropriately inflate the results. The Commission has
3	previously rejected Mr. Moul's proposed leverage adjustment. <sup>3</sup> Finally, Mr. Moul
4	inappropriately adds a premium to his cost of equity estimate for management
5	performance, which further inflates a figure that is already overestimated.
6	Regarding capital structure, Mr. Moul proposes a 45.23% long-term debt
7	ratio when the Company had long-term debt ratios of 46% in 2020 and 49% in
8	2021. <sup>4</sup> The Company's proposed capital structure should be rejected for several
9	reasons as discussed more fully below.
10	I recommend that the Commission should also consider the burden on
11	consumers if the Commission increased the ROE and implemented the Company's
12	proposed capital structure and management performance bonus. As expressed in
13	OCA witness Mark Garrett's testimony (OCA Statement 1), under my proposed
14	52% equity, the proposed water revenues would be decreased by \$1,171,648 for
15	water and \$110,791 for wastewater. <sup>5</sup>
16	The inclusion of a 25-basis point increase to ROE is also not warranted for
17	the reasons outlined by OCA Witness Barbara Alexander. Removing this

<sup>&</sup>lt;sup>3</sup> *Pa. PUC v. PPL Elec. Util. Corp.*, Docket No. R-2012-2290597, Order at 52 (Dec. 28, 2012). <sup>4</sup> York Water 2021 Annual Report to Shareholder, page 8.

<sup>&</sup>lt;sup>5</sup> Mark Garrett Direct Testimony, OCA Statement 1, page 7. Assuming all else equal, a 25-basis point increase to ROE (7.93% Habr ROE + 0.25= 8.18%) would add approximately \$1,282,439 to the total water and wastewater revenue requirement. Impact on water and wastewater operations is \$689,689 and \$62,781, respectively.

1		unwarranted adder decreases York Water's overall revenue requirement by
2		\$683,689 for water and \$62,781 for wastewater. <sup>6</sup>
3	Q:	IS A MANAGEMENT PERFORMANCE BONUS INCLUDED IN YOUR
4		7.94% COMMON EQUITY COST?
5	A:	No, for the reasons set forth below in my testimony, it is not appropriate to include
6		a management performance bonus in the cost of common equity. In addition,
7		OCA witness Alexander (OCA Statement 5) presents evidence that the Company's
8		performance is not "superior" as concluded by York Water witnesses Hand and
9		Moul. <sup>7</sup>
10	Q:	WHY IS IT NECESSARY TO DETERMINE THE COST OF COMMON
11		EQUITY FOR A REGULATED UTILITY COMPANY?
12	A:	Regulated prices are based on all the costs of producing utility services including
13		borrowing costs and the money paid to common stockholders (the cost of common
14		equity or fair profit rate) for the use of the funds they provide. All the products or
15		services used in the production of utility services have an explicit cost associated
16		with them, including the interest cost associated with borrowing money and the
17		dividend rate for preferred stock. Common equity is the only resource used by a
18		utility company that does not have a contractual or defined cost associated with it.
19		Rather, the return available to common shareholders is the residual that remains

<sup>&</sup>lt;sup>6</sup> Mark Garrett Direct Testimony, OCA Statement 1, page 7.
<sup>7</sup> Hand, Statement 1, page 23; Moul, Statement 107, pages 6-7.

1		The cost of common equity is an important cost for utility companies and
2		utility customers. It determines the amount of profit the utility will be allowed to
3		earn. Profits for the provision of utility services are regulated because the services
4		are produced under conditions that approximate a natural monopoly, a situation
5		where the largest firm has the lowest cost and is able to produce enough for
6		everyone at that cost. Of course, in the absence of regulation, a monopolistic
7		utility is also big enough to keep out competitors, charge higher prices, and earn
8		higher profits than it would be able to if it had viable competitors for all of its
9		services. Thus, the role of regulation is to ensure that services that are most
10		efficiently provided under a monopolistic structure – such as the provision or
11		water and wastewater treatment and services – are provided in a manner that can
12		reasonably be expected in a competitive environment.
13	Q:	ARE THERE LEGAL STANDARDS REGARDING THE RATE OF
14		RETURN ON EQUITY A UTILITY IS ALLOWED TO EARN?
15	A:	Yes, there are two U. S. Supreme Court cases, Bluefield Water Works and Hope
16		Natural Gas that provide general guidance for establishing the return on equity. In
17		Bluefield the court held, in part, that:
18 19 20 21 22 23 24 25 26		A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding, risks and uncertainties, <b>but it has no constitutional right to profits such as are realized or anticipated in highly</b> <b>profitable enterprises or speculative ventures</b> . The return should be reasonably sufficient to assure confidence in the financial

1 2 3 4 5 6 7 8 9	soundness of the utility, and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market, and business condition generally. <sup>8</sup> In <i>Hope</i> , the Court held, in part that:
$ \begin{array}{c} 10\\ 11\\ 12\\ 13\\ 14\\ 15\\ 16\\ 17\\ 18\\ 19\\ 20\\ 21\\ 22\\ 23\\ 24\\ 25\\ 26\\ \end{array} $	The ratemaking process under the Act, [Federal Power Act] <i>i.e.</i> , the fixing of 'just and reasonable' rates, involves a balancing of the investor and consumer interests. Thus, we stated in the <i>Natural Gas Pipeline Co.</i> case that 'regulation does not insure that the business shall produce net revenues.' [Cite omitted.] But, such considerations aside, the investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view, it is important that there be enough revenue not only for operating expenses, but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard, the return to the equity owner should be commensurate with returns on investment in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital. <sup>9</sup>
27 28	In both cases, the Court indicated that utilities should be allowed to earn a return close to the returns on businesses with similar risks. Two analytical
29	methods, the discounted cash flow (DCF) model and the capital asset pricing
30	modeling (CAPM), were developed after these decisions were written that make it
31	possible to use financial market data to estimate the return common stockholders
32	expect to earn on their investment in utility common stock.

<sup>&</sup>lt;sup>8</sup> Bluefield Waterworks & Improvement Co. v. Public Service Comm'n. Of West Virginia, 262 U.S. 679, 692-3, 43

 <sup>&</sup>lt;sup>9</sup> Federal Power Comm'n. v. Hope Natural Gas Co., 320 U.S. 591, 603, 64 S. Ct. 281, 288 (1944). (Citations omitted, emphasis added.)

1	Q:	ARE YOU AWARE OF ANY STATEMENTS THE UNITED STATES
2		SUPREME COURT HAS MADE CONCERNING THE IMPACT OF
3		RATEMAKING ON PROPERTY VALUES?
4	A:	Yes. In the above-mentioned <i>Hope</i> case, the Supreme Court stated that:
5 6 7 8 9 10 11 12 13		The fixing of prices, like other applications of the police power, may reduce the value of the property which is being regulated. But the fact that the value is reduced does not mean that the regulation is invalid. It does, however, indicate that 'fair value' is the end product of the process of ratemaking, not the starting point, as the Circuit Court of Appeals held. The heart of the matter is that rates cannot be made to depend upon 'fair value' when the value of the going enterprise depends on earnings under whatever rates may be anticipated. <sup>10</sup>
14 15	Q:	WHAT RELATIONSHIP DOES THIS STATEMENT HAVE TO DO WITH
16		THE COST OF COMMON EQUITY FOR A UTILITY COMPANY
17		DETERMINED DURING A REGULATORY PROCEEDING?
18	A:	This statement recognizes that cost of common equity determined through the
19		regulatory process may have an impact on the value of the utility company's
20		property. In today's world, this change in value would be reflected in the market
21		value of the utility company's common stock or, in the case of a utility holding
22		company, the parent company's common stock.

<sup>&</sup>lt;sup>10</sup> Hope, 320 U.S. at 601, 64 S. Ct. at 287. (Citations and footnote omitted; emphasis added.)

1	Q:	WHAT PROXY GROUP DO YOU USE IN YOUR ANALYSIS?
2	A:	Except for York Water, I have utilized Mr. Moul's proxy group.
3	Q:	WHAT IS THE PURPOSE OF A PROXY GROUP?
4	A:	The fact of the matter is that sufficient York Water information exists to estimate
5		York Water's cost of common equity on a stand-alone basis. The proxy group in
6		this case provides a range of individual company common equity cost rates that
7		provide a framework for establishing the reasonableness of York Water's common
8		equity cost.
9	Q:	WHY ISN'T YORK WATER INCLUDED IN YOUR PROXY GROUP?
10	A:	The purpose of the proxy group is to provide cost of common equity information
11		about companies similar to York Water. Including York Water in the proxy group
12		is effectively, in part, comparing York Water to itself and distorts the purpose of
13		using the proxy group.
14	Q:	DOES MR. MOUL'S METHODOLOGY ALLOW THIS COMPARISON
15		TO TAKE PLACE?
16	A:	No. Mr. Moul combines the dividend yields, growth rates, betas for all the proxy
17		group members into group averages thus losing the individual variation of each
18		proxy group member including York Water.
19	Q:	DID YOU ALSO CONSIDER YORK WATER IN YOUR ANALYSIS?
20	A:	Yes. I performed a complete DCF and CAPM analysis on York Water.

## Q: WHAT METHOD DO YOU USE TO DETERMINE THE COST OF COMMON EQUITY?

A: I rely primarily on the DCF model. This model is straight forward and provides
reliable results when the growth rate used in the model is consistent with the
model's assumptions.

The model begins with the proposition that the market price for a share of 6 7 common stock that an investor is willing to pay under any market conditions is 8 equal to the present value of the stock's expected dividend (income) stream. The 9 present value of an expected income stream is determined by discounting the 10 stream with a rate that reflects, among other items, the investor's perception of the 11 asset's inherent and relative riskiness compared to similar or other companies the investor may be considering. In this manner, the economic principle of 12 13 opportunity cost finds expression in the DCF method. In my experience, the discount rate will also tend to track general capital 14 market conditions. That is, the discount rate, being similar to an interest rate, will 15 tend to move up when interest rates in general rise and it will tend to move down 16 when interest rates in general decline. 17

From the investor's point of view, *this discount rate reflects the rate of return the investor expects to earn on his or her investment in the asset.* For an asset like a utility company common stock that is freely traded in the market, the market price conceptually represents the present value of the expected income

stream for investors who are willing and able to buy that asset instead of another asset.

3	If the expected dividend growth remains unchanged, the price an investor
4	would be willing to pay for the stock is given by equation (1). The numerator
5	reflects a perpetual dividend stream growing at the rate "g" and the denominator
6	reflects the cost of equity (discount rate) "k" used to determine the present value
7	of the dividend stream. This equation only has a finite solution if "k" is greater
8	than "g." A value of "g" greater than "k" would imply a share price that is
9	infinitely large.
10	$P_{0} = \int_{0}^{\infty} \frac{D_{0} e^{(g)t}}{e^{(k)t}} dt $ (1)

11 12 13 14 15 16 17	$P_0$ = the current market price of the stock. $D_0$ = the current indicated annual dividend. k = the cost of common equity. g = the long-term sustainable growth rate. e = the base for natural logarithms. t = time. dt = the differential of time
18	The solution to equation (1) is:

1

2

 $P_0 = \frac{D_0}{k - g} \tag{2}$ 

Equation (2) can be rearranged to the familiar dividend yield plus growth format used to find the implied value of k based on observed values of  $D_0$ ,  $P_0$ , and g:

$$k = \frac{D_o}{P_o} + g \tag{3}$$

1		In the constant growth version of the model, the expected growth rate is a
2		rate that could be economically/financially sustained by the company "forever" (or
3		infinitely from the mathematical point of view). This constant growth assumption
4		puts an implicit upper limit on the magnitude of the dividend growth rate.
5		If the magnitude of the dividend growth rate used exceeds the magnitude of
6		the expected long-term growth in Gross Domestic Product (GDP), the results of
7		the model become unrealistic. A company with a perpetual, sustainable growth
8		rate greater than the economy will eventually exceed the economy as a whole in
9		size. That is, the company would become the economy, a quite unlikely real-
10		world outcome. For this reason, one must be very careful when using analysts'
11		growth forecasts that exceed GDP growth forecasts because the use of these
12		forecasts results in an overestimate of a given utility's cost of common equity.
13		The forecasts reported by Yahoo and Zack's are 5-year forecasts while
14		Value Line's forecasts are 3- to 5-year forecasts. By definition, they do not match
15		the time horizon contemplated in the constant growth version of the DCF model
16		and may or may not reflect a company's sustainable long-term growth rate.
17	Q:	IS THERE ANY WAY THE DCF MODEL CAN BE MODIFIED TO TAKE
18		INTO ACCOUNT THE FACT THAT AN INDIVIDUAL COMPANY
19		CANNOT GROW FASTER THAN THE ECONOMY AS A WHOLE IN
20		PERPETUITY?
21	A:	Yes. A weighted average of the analysts' growth forecasts and the long-term GDP
22		growth rate forecast can be used for "g" in the standard dividend yield plus growth

DCF model to temper the impact of short-term growth rate forecasts that are not
 sustainable in the long run.

FERC has been using a weighted average growth rate in the DCF model in natural gas and oil pipeline cases since the mid-1990's and has adopted the same methodology in regulated utility cases. (See FERC Opinions 569 and 569-A).<sup>11</sup> FERC currently gives 80% weight to the earnings growth forecasts and 20% weight to the GDP growth forecast. This tempers the impact of unsustainably high earnings growth forecasts on DCF cost estimates. A DCF model with two growth periods or stages can also be used to estimate a weighted average growth rate.

## 10 Q: WHAT DOES A DCF MODEL WITH TWO GROWTH STAGES LOOK 11 LIKE?

A: The following equation is a general version for two-stage DCF model. Basically,
the constant growth version of the model shown in equation (1) is divided into two
parts, a high growth initial period followed by the long-term sustainable growth
period.

16 
$$P_0 = \int_0^a \frac{D_0 e^{(g_1)t}}{e^k} dt + \int_a^\infty \frac{D_0 e^{(g_2)}}{e^k} dt$$
(4)

In this model,  $g_1$  is the growth rate for the first "*a*" years and  $g_2$  is the sustainable growth rate for the remaining time. For analysts' 5-year forecasts, "a" takes a value of "5." In my application of this model, I allowed the analysts' forecasts to

<sup>&</sup>lt;sup>11</sup> Association of Businesses advocating Tariff Equity, et al. v. Midcontinent Independent System Operator, Inc., et al., 169 FERC ¶ 61,129 and 171 FERC ¶ 61,154 respectively.

1 continue for 20 years ("a" = 20) to make sure the analysts' forecasts had time to  
2 run their course. To obtain the average growth rate estimate, it is first necessary to  
3 estimate the cost of equity.<sup>12</sup>  
4 Q: HOW IS THE TWO-STAGE GROWTH MODEL COST OF COMMON  
5 EQUITY CALCULATED?  
6 A: It is calculated through an iterative process using the following solution to the  
7 above equation.  
8 
$$P_0 = D_0 \left(\frac{1}{g_1 - k}\right) (e^{(g_1 - k)a} - 1) - D_0 \left(\frac{1}{g_2 - k}\right) e^{(g_2 - k)a}$$
 (5)  
9 Different values for "*k*" are inserted in the righthand side of the equation until the  
10 calculated value of  $P_0$  is equal to the current observed value of the stock price.  
11 Q: HOW IS THE WEIGHTED AVERAGE GROWTH RATE FOUND ONCE  
12 THE COST OF COMMON EQUITY HAS BEEN ESTIMATED?  
13 A: The weighted average growth rate is found by first subtracting the dividend yield  
14 from the cost of common equity estimate. Because the resulting growth is a  
15 continuously compounded growth rate for use in the standard "dividend yield plus  
16 annually compounded growth rate for use in the standard "dividend yield plus  
17 growth model."

<sup>&</sup>lt;sup>12</sup> It should be noted that all the growth rates in equation (4) are continuously compounding growth rates as opposed to the annually compounding growth rates reported by Yahoo!, Zack's, and *Value Line*. Annually compounding growth rates can be converted to continuously compounding growth rates and vice versa.

1	Q:	WHAT TIME PERIOD DID YOU USE IN YOUR ANALYSIS?
2	A:	I used period May 2, 2022 through July 19, 2022. This period reflects any impact
3		the recent Federal Reserve interest rate increases have had on York Water's and
4		the proxy groups common stock prices.
5	Q:	HOW DID YOU ARRIVE AT THE GDP GROWTH VALUE USED IN
6		YOUR DCF ANALYSIS?
7	A:	I reviewed three growth rates, two based on forecast information in the 2022
8		Annual Report of the Board of Trustees of the Federal Old-Age and Survivors
9		Insurance and Federal Disability Insurance Trust Funds (OSAID Annual Trustees'
10		Report) <sup>13</sup> and EIA's 2022 Annual Outlook while the third is based on historical
11		GDP growth. The growth rates are presented in Table – 1 below. The OASID and
12		EIA growth rates are based on information released this spring prior to the Federal
13		Reserve interest rate increases. While I do not expect that those interest rate
14		increases would have an impact on the content of those reports, out of an
15		abundance of caution, I chose to rely on the 5.07% GDP growth rate in my DCF
16		analysis.
		TABLE 1 GDP FUTURE GROWTH RATES

Average:	4.51%	
EIA Annual Outlook Forecast Growth, 20282050	4.35%	
OASDI Trustee's Report Intermediate Forecast Growth, 20282096	4.10%	
Historical Compound GDP Growth, 1983 2021	5.07%	

<sup>&</sup>lt;sup>13</sup> This report assesses the costs various Social Security program need. See, <u>https://www.ssa.gov/OACT/TR/2022/</u>

\_\_\_\_

## 1 Q: WHAT ARE THE RESULTS OF YOUR PROXY GROUP DCF

## 2 ANALYSIS?

3 A: The overall results of my DCF are presented in Table 2 below.

		DCF		FE	RC 2-Step D	DCF	Т	wo-Stage D	CF		
Company	Yahoo! Growth Rates	Zacks Growth Rates	<i>Value Line</i> Growth Rates	Yahoo! Growth Rates	Zacks Growth Rates	<i>Value Line</i> Growth Rates	Yahoo! Growth Rates	Zacks Growth Rates	<i>Value Line</i> Growth Rates	Individual Company Average	Individual Company Median
American States Water	6.30%		7.41%	6.43%		7.32%	6.93%		6.99%	6.90%	6.96%
American Water Works Co.	10.16%	9.93%	<del>4.81%</del>	9.51%	9.33%	5.22%	7.11%	7.09%	6.80%	8.14%	8.22%
Artesian Resources Corp.	6.34%			6.55%			7.34%			6.74%	6.55%
California Water Service Group	13.69%		8.44%	12.36%		8.15%	7.67%		7.08%	9.56%	8.29%
Essential Utilities, Inc.	9.25%	8.58%	12.49%	8.90%	8.37%	11.50%	7.66%	7.59%	8.13%	9.16%	8.58%
Middlesex Water Company	<del>4.06%</del>		5.87%	<del>4.53%</del>		5.98%	6.38%		6.42%	6.16%	6.18%
SJW Corporation	12.28%		<del>16.53%</del>	11.34%		14.75%	8.09%		9.27%	11.15%	11.34%
Proxy Group Average	9.67%	9.26%	8.55%	9.18%	8.85%	8.82%	7.31%	7.34%	7.45%		
Proxy Group Median	9.70%	9.26%	7.92%	9.21%	8.85%	7.74%	7.34%	7.34%	7.03%		

## TABLE 2 -- PROXY GROUP DCF METHODS COST OF COMMON EQUITY RESULTS<sup>14</sup>

Combined P	roxy Group DCF		Group FERC 2-Step wth DCF	Combined Proxy Group Two-Stage Growth DCF		
Maximum: Minimum:	13.69% 5.87%	Maximum: Minimum:	14.75% 5.22%	Maximum: Minimum:	9.27% 6.38%	
Median:	8.91%	Median:	8.63%	Median:	7.11%	
Average:	9.23%	Average:	8.98%	Average:	7.37%	

Combined DCF, FERC 2-Step, and 2-Stage Median: 7.67%

Combined DCF, FERC 2-Step, and 2-Stage Average: 8.26%

## 4

5 The common equity cost estimates clearly decline when the unsustainable analysts'

- 6 forecasts are tempered by forecast GDP growth. The DCF results based on
- 7 weighted average growth from the 2-Stage growth are the lowest even though the
- 8 analysts' forecast growth was assumed to last 20 years rather than five.

<sup>&</sup>lt;sup>14</sup> Three extremely low and one extremely high DCF values (in red) have been eliminated from consideration.

#### 1 **O**: DO YOU INCLUDE INDIVIDUAL PROXY GROUP COMPANY RESULTS 2 **IN YOUR EXHIBITS?**

3 A: Yes. The individual proxy group company results based on analysts' forecasts 4 only are in Exhibits DSH-2 through DSH-4. The results based on the FERC 5 weighting of analysts' forecasts and GDP growth are found in DSH-5 through

DSH-7. Results based on the 2-stage growth model are found in Exhibits DSH-8 6

7 through DSH-10. Each of these exhibits also includes the results for York Water.

#### 8 **O**: HOW DO YOU INTERPRET THE RESULTS OF YOUR DCF ANALYSIS?

9 A: Of the three DCF models, the two-stage growth model results are most reflective

10 of the impact of stable growth over the DCF model's infinite time horizon. For

11 example, the impact of Value Line's SJW Corporation's 14% earnings growth

forecast that generated 16.53% DCF result is reduced enough in the two-stage 12

13 growth to yield a 9.27% equity cost estimate.

In this case, the DCF model using only analysts' forecasts provides extreme 14 DCF estimates<sup>15</sup>, some of which are not consistent with the model's infinite time 15 16 horizon. The results, at best, can be looked at as providing a ceiling above which the allowed common equity should not go. 17

## The FERC 2-step method falls in between the DCF model and the 2-stage 18 growth model. It provides a consistent means of giving less weight to GDP 19 growth than does the 2-stage growth model. As I see it, the FERC 2-step model

<sup>&</sup>lt;sup>15</sup> Two extremely low and one extremely high DCF values (in red) in the DCF category have been eliminated from consideration.

5	Q:	WHAT ARE THE RESULTS THE DCF ANALYSIS YOU CONDUCTED
4		obtain meaningful common equity cost estimates.
3		clearly demonstrate why unsustainable analysts' forecasts need to be restrained to
2		two-stage growth model. Both the FERC 2-step and the two-stage growth model
1		provides some "give" in the full impact of long-term growth demonstrated in the

- 6 ON YORK WATER?
- 7 A: York Water's DCF results based on analysists' forecasts are as follows:
- 8 <u>Yahoo! 4.9% Growth;</u> DCF 6.89%, FERC 6.93%, 2-Stage 7.05%.
- 9 <u>Zack's 5.0% Growth;</u> DCF 6.99%, FERC 7.01%, 2-Stage 7.06%.<sup>16</sup>

<sup>&</sup>lt;sup>16</sup> The calculations that generate these results are found on exhibits DSH-2 through DSH-10.

1	Q:	DID YOU PERFORM ANY OTHER DCF ANALYSIS OF YORK WATER?
2	A:	Yes, I did. I reviewed York Water's historical performance to see how historical
3		earnings growth compared to the analysts' forecasts. Specifically, I reviewed
4		York Water's earnings, dividend, and book value growth for the period $2003 -$
5		2021. I found earnings growth of 5.94%, dividend growth of 4.10%, and book
6		value of 6.04% <sup>17</sup> . Using the 5.94% earnings growth in the DCF model yields a
7		7.94% common equity cost for York water. <sup>18</sup>
8	Q:	HOW DOES THIS 7.94% COMMON EQUITY COST FIT IN WITH THE
9		<b>OVERALL RESULTS OF YOUR PROXY GROUP RESULTS?</b>
10	A:	The 7.94% is 27 basis points above the 7.67% median of the combined DCF
11		results and 32 basis points below the 8.26% average of the combined DCF results
12		so the 7.94% is higher than half of the observations but lower than the average of
13		the observations. Roughly, it is somewhere in the middle of all the observations.
14	Q:	MR. MOUL'S DCF ANALYSIS YIELDED A NOTABLY HIGHER
15		RESULT. DID YOU FIND ANY PROBLEMS WITH HIS ANALYSIS?
16	A:	Yes. Mr. Moul's DCF Model produced a cost equity result of 10.77%, which
17		includes a "leverage adjustment" of 1.46%. <sup>19</sup> As stated earlier, the results of Mr.
18		Moul's DCF are overstated primarily because of a fundamental error regarding his
19		growth rate inputs and the inappropriate "leverage adjustment" he included in both
20		his DCF model and his Capital Asset Pricing Model (CAPM).

<sup>&</sup>lt;sup>17</sup> See Habr Electronic workpapers Habr York Water Company Rate of Return, Tab York DCF. <sup>18</sup> 7.94% = (1+.5x5.94)/40.07+5.94<sup>19</sup> Moul, Statement 107, at 32.

# Q: WHAT COMMENTS DO YOU HAVE ABOUT HIS DISCUSSION OF THE GORDON, GORDON, AND GOULD ARTICLE ON PAGE 27 OF HIS TESTIMONY?

4 Mr. Moul is trying to use this article to support the contention that analysts' A: 5 earnings forecasts are the "best" earnings forecasts. After careful review of the entire article, I believe that Mr. Moul's statement at lines 2-3 that Professor 6 7 Gordon "concluded that the best measure of growth in the DCF model is a forecast 8 of earnings per share growth" (emphasis added) is completely incorrect. The 9 following quote summarizes the authors' view concerning analysts' forecasts. 10 Before closing, we have three observations to make. First, the 11 superior performance by KFRG [analysts forecasts] should come as 12 no surprise. All four estimates of growth rely upon past data, but in 13 the case of KFRG a larger body of past data is used, filtered through a group of security analysts who adjust for abnormalities that are not 14 considered relevant for future growth. We assume this is done by 15 16 any analyst who develops retention growth estimates of yield for a firm. If we had done this for all seventy-five firms in our utility 17 sample, it is likely that the correlations would have been as good or 18 better than those obtained with the analyst forecasts of growth.<sup>20</sup> 19 20 21 Basically, the authors say two things. First, the analysts' forecasts had superior

- 22 performance compared to the three other growth rates used in the study.<sup>21</sup> Second,
- the authors believe they can develop growth estimates that are just as good, or
- better than the analysts' forecasts. Hence, they were not saying the analysts'
- 25 forecasts were "best" as Mr. Moul claims.

<sup>&</sup>lt;sup>20</sup> Gordon, David A., Myron J. Gordon, and Lawrence I. Gould, "Choice among methods of estimating share yield," *The Journal of Portfolio Management*, Spring, 1989, pp. 54-55.

<sup>&</sup>lt;sup>21</sup> The three other growth rates were 5-year historical earning, dividend, and book value growth. *Id.*, p. 51.

5

**Q**:

## WHAT OTHER METHODS HAVE YOU USED TO ESTIMATE THE

## 2 COST OF COMMON EQUITY?

3 A: I use the CAPM and a risk premium method that is based on the CAPM as checks

4 to my DCF analysis. The basic CAPM is represented by the equation:

$$k_e = R_f + \beta_e (R_m - R_f)$$

6 where:

7 8 9 10	$k_e$ = company's market cost of common equity. $R_f$ = risk free rate of return. $R_m$ = market rate of return. $\beta_e$ = the company's common stock beta.
11	The CAPM, like the DCF, is a market-based model. Beta, a measure of
12	risk, reflects the principle that rational investors expect higher returns for incurring
13	higher risk. The core problem with the basic CAPM is that the closest measure
14	there is for a "true" risk free rate, <sup>22</sup> the rate on short duration T-bills, is highly
15	influenced by Federal Reserve monetary policy and thus does not reflect a market
16	determined risk free rate.
17	The basic risk premium model consists of a bond yield plus a risk premium,
18	that is:
19	$k_e = k_b + (k_e - k_b)$
20	The core problem with the risk premium model is obvious; the cost of
21	common equity must be estimated somehow to come up with the risk premium to
22	be added to the bond yield, $k_b$ , to determine the cost of common equity. Going

<sup>&</sup>lt;sup>22</sup> The "true" risk free rate has neither default risk nor interest rate risk.

- through this process adds nothing to the information already contained in the
   original common equity cost estimate.
- These two problems can be solved recognizing that it is conceptually
  possible to estimate bond yields using the CAPM. That is:

$$k_b = R_f + \beta_b \big( R_m - R_f \big)$$

8

- 6 where  $k_b$  is the bond yield and  $\beta_b$  is the company's bond beta. A risk premium 7 that can be added to the company's bond yield can now be calculated as:
  - $k_e k_b = (\beta_e \beta_b)(R_m R_f)$

9 That is, the equity risk premium to be added to the company's bond yield is 10 equal to difference between equity and bond betas times the market risk premium. 11 The risk premium model now takes the form:

12 
$$k_e = k_b + (\beta_e - \beta_b) (R_m - R_f)$$

Thus, we have a model that combines positive aspects of the risk premium model and the CAPM. From the risk premium model, we have the observable bond yield,  $k_b$ , and, from the CAPM we have empirically estimated values for the betas and the market risk premium. Even if bond betas are not available, this model can be used to estimate maximum values for CAPM common equity costs by assigning a value of zero to the bond beta. That is what I have done in the current analysis.

## Q: PLEASE DESCRIBE THE INPUTS YOU USE IN YOUR CAPM ANALYSIS?

3	A:	I wanted to match my CAPM analysis time frame with the time frame I used in my
4		DCF analysis. To that end, I calculated betas for the Proxy Group companies and
5		York Water based on the New York Stock Exchange Index using daily holding
6		period returns for the period May 2, 2022 through July 19, 2022. The calculated
7		betas where then adjusted using Value Line's adjustment formula: adjusted beta =
8		0.35 = 0.67(calculated beta).
9		Likewise, the interest rates in the analysis, the one month and 30-year
10		constant maturity treasuries along with Moody's "A" and "Baa" rated utility
11		bonds, covered that same period. Companies with split ratings were given bond
12		yields equal to the average of the "A" and "Baa" yields.
13	Q:	WHAT MARKET RISK PREMIUM DID YOU USE IN YOUR CAPM
14		ANALYSIS?
15	A:	I used two different estimates of the market risk premium. The first, 6.98%, is a
16		historical risk premium based on total return data for Large Capitalization Stocks

- 17 and U.S. Treasury Bills found in Appendices B-1 and B-9 in the 2022 edition of
- 18 the *SBBI Yearbook*. The second, 7.92%, is based on a DCF cost estimate for the

19 S&P 500.

## 1 Q: HOW IS YOUR HISTORICAL RISK PREMIUM CALCULATED?

2	A:	My historical risk premium is the average of the annual difference between annual
3		holding period returns (continuously compounded) for Large Capitalization Stock
4		and the annual holding period returns (continuously compounded) for U.S.
5		Treasury Bills. For the period 1926 through 2022, that average is 6.74%, which I
6		converted to the annual compounding equivalent, 6.98%, for use in the CAPM
7		models. (See Exhibit DSH-12.)
8	Q:	WHY DO YOU INCLUDE AN HISTORICAL RISK PREMIUM IN YOUR
9		ANALYSIS?
10	A:	Whether making a hiring decision or a decision to buy a common stock, the
11		rational decision maker will look at past accomplishments as well as current and
12		future potentials. Past performance provides a reality check; it tells us what the
13		experience has been relative to the expectations for the future.
14	Q:	HOW DID YOU ARRIVE AT THE 7.92% S&P 500 RISK PREMIUM?
15	A:	The 7.92% S&P 500 risk premium was calculated by first estimating the DCF cost
16		for S&P 500 index. The June 2022 annualized dividend paid was \$61.02 per
17		share. Combining that dividend with average S&P 500 closing price for the May
18		2, 2022 through July 19, 2022 period, \$3,943.06 gives a 1.62% dividend yield.
19		My S&P earnings growth rate is based on the historical S&P earnings
20		record developed by Professor Robert Shiller of Yale University. Table 3 below
21		shows S&P loglinear growth rates over various time periods.
22		

## Table 3 S&P 500 Earnings Growth; Shiller Data

Average Growth 1871 – 2022	4.31%
Average Growth 1929 - 2022	6.18%
Average Growth 1950 – 2022	6.04%
Average Growth 1982 – 2022	6.24%
Average Growth 2002 – 2022	7.24%

1		I have used the more recent 7.24 growth to arrive at my 8.93% DCF cost
2		rate for the S&P 500. <sup>23</sup> I then subtracted the May 2, 2022 through July 19, 2022
3		average one-month constant maturity yield, 1.01%, to arrive at my 7.92% risk
4		premium.
5	Q:	WHAT ARE THE RESULTS OF YOUR PROXY GROUP CAPM
6		ANALYSIS?

7 A: The overall results of my CAPM analysis are presented in Table 4 below.

## TABLE 4 -- PROXY GROUP CAPM RESULTS SUMMARIZEDBY ESTIMATION METHOD

		CAPM/Ris	sk Premium		САРМ			
Risk Premium	High	Low	Median	Avg.	High	Low	Median	Avg.
Historical	11.28%	9.12%	9.57%	9.94%	9.59%	7.08%	7.87%	8.16%
S&P 500 Index	12.15%	9.69%	10.21%	10.62%	10.45%	7.61%	8.51%	8.84%
Combined	12.15%	9.12%	9.97%	10.28%	10.45%	7.08%	8.27%	8.50%

8

 $<sup>^{23}</sup>$  8.93% = 1.62% x (1+7.24 x 0.5) + 7.24%

## Q: WHAT DO THE RESULTS OF YOUR CAPM ANALYSIS SHOW?

2	A:	These results show two important points. First, as I noted earlier, the 10.28%
3		combined average CAPM/Risk Premium is an extreme estimate of equity because
4		bond betas have been assumed to be zero in its calculation. This suggests that Mr.
5		Moul's 14.36% average CAPM cost of equity estimate is completely out of line
6		for the reasons set forth below.
7		Second, the 8.50% combined average CAPM cost rate shown in Table 4
8		above is in very close proximity to the 8.26% combined average DCF rate shown
9		at the very bottom of my Table 2.
10	Q:	WHAT ARE THE RESULTS OF YOUR YORK CAPM ANALYSIS?
11	A:	The CAPM result using the historical risk premium is 7.10% while the CAPM
12		result using the S&P 500 risk premium is 7.63%. Both results are at the lower end
13		of the corresponding proxy group CAPM range and fall in the Two-Stage DCF
14		range.
15	Q:	WHAT ARE THE RESULTS OF YOUR YORK CAPM/RISK PREMIUM
16		ANALYSIS?
17	A:	The CAPM/Risk Premium result using the historical risk premium 8.80% while
18		the CAPM/Risk Premium result using the S&P 500 risk premium is 9.33%. Both
19		results are lower than the low end of the respective proxy group range and fall in
20		the FERC 2-Step range.

1	Q:	MR. MOUL'S CAPM ANALYSIS YIELDS NOTABLY HIGHER RESULTS.
2		DID YOU FIND SPECIFIC PROBLEMS WITH MR. MOUL'S CAPM
3		ASSUMPTIONS AND INPUTS?
4	A:	Yes, I did. Mr. Moul's estimated 14.36% CAPM cost of equity is driven by
5		leverage and size adjustments he used in his CAPM analysis. Specifically, Mr.
6		Moul's leverage adjustment increased the proxy group's average beta from 0.77 to
7		1.01. Multiplying the 0.24 beta difference by his 10.24% risk premium yields a
8		2.46% adder to the unadjusted proxy group $10.87\%^{24}$ CAPM cost of equity. His
9		size adjustment added another 1.02% to his CAPM cost of equity.
10	Q:	WHAT IS THE REVENUE IMPACT OF ADDING 2.46% TO THE COST
11		OF COMMON EQITY IN THIS PROCEEDING?
12	A:	Mr. Garrett has informed me that the 2.46% adder would increase the water
13		revenue requirement by \$6.727 million and the waste water revenue requirement
14		by \$619 thousand.
15	Q:	DID MR. GARRETT INFORM YOU WHAT THE 1.02% SIZE
16		ADJUSTMENT WOULD ADD TO THE REVENUE REQUIREMENT?
17	A:	Yes, he did. This adjustment adds \$2.789 million the water revenue requirement

18 and \$257 thousand to the waste water revenue requirement.

<sup>&</sup>lt;sup>24</sup> 10.87% =  $3.0\% + 0.77 \times 10.24\%$ .

1Q:MR. MOUL MADE WHAT HE CALLED LEVERAGE ADJUSTMENTS2TO HIS DCF AND CAPM COST ESTIMATES TO REFLECT THE3DIVERGENCE BETWEEN MARKET VALUE AND BOOK VALUE4CAPITAL STRUCTURES. HAS THIS DIVERGENCE LED YOU TO5MAKE ANY ADJUSTMENTS TO YOUR DCF AND CAPM COSTS?6A:No. Even if leverage adjustments may be relevant to studies of non-regulated7industries, they are not relevant to the regulated utility industry; their use in the8regulated utility industry results in double counting an existing risk.9Q:WHY DO YOU SAY THEIR USE RESULTS IN DOUBLE COUNTING AN10EXISTING RISK?11A:When we talk about the market value capital structure exceeding the book value12capital structure, we are really talking about situations where the market price of a13share of a utility's common stock exceeds the book value per share of common14stock. This divergence is the result of expected earnings exceeding the cost of15common equity. The equation below which is derived from the standard DCF16demonstrates this relationship.17
$$\frac{P}{B} = \frac{r - br}{k - br}$$
18In this equation, "r" is the growth rate. For the unregulated firm, "r" is20related to its competitive position in the markets in which it operates. For the21regulated firm, "r" is ultimately related to the prices established by the regulatory

authority. Sustained earned returns that exceed the cost of common equity can be
 reduced or eliminated at any time through regulatory action.

Thus, in the regulatory arena, any divergence between the market value capital structure and the book value capital structure is ultimately related to regulatory risk. That regulatory risk is already reflected in the price investors are willing to pay for the utility's common stock. Mr. Moul's proposed adjustments would result in investors being compensated twice for the same risk and therefore must be rejected.

### 9 Q: HAS THE COMMISSION REJECTED MR. MOUL'S LEVERAGE

10 ADJUSTMENT IN PRIOR CASES?

11 A. Yes.<sup>25</sup> In PPL's 2012 rate case, Mr. Moul proposed a substantially similar leverage

12 adjustment. The Commission found that "[f]or the reasons developed by the OCA

13 and I&E, the Company's leverage adjustment should be denied."<sup>26</sup> In Columbia's

14 2020 base rate case and PECO Gas's 2020 base rate case, the Commission allowed

15 ROEs based upon dividend yield and growth inputs, without leverage

16 adjustments.<sup>27</sup> In Aqua PA's most recent base rate case, the Commission denied

17 Aqua PA's request to include a leverage adjustment as contrary to the public

18 interest.<sup>28</sup>

 <sup>&</sup>lt;sup>25</sup> *Pa. PUC v. PPL Elec. Util. Corp.*, Docket No. R-2012-2290597, Order at 52 (Dec. 28, 2012).
 <sup>26</sup> *Id.* at 52.

<sup>&</sup>lt;sup>27</sup> *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835, Order at 141 (Feb. 19, 2021)(*Columbia 2020 Order*); *Pa. PUC v. PECO Energy Co. – Gas Div.*, Docket No. R-2020-3018929, Order at 160-161 (June 22, 2021) (*PECO Gas 2020 Order*).

<sup>&</sup>lt;sup>28</sup> *Pa. PUC v. Aqua Pennsylvania, Inc., et al.*, Docket Nos. R-2021-3027385, R-2021-3027386, Order at 166-167 (May 16, 2022)(<u>Aqua 2021 Order</u>).

## Q: MR. MOUL MADE A SIZE ADJUSTMENT IN HIS CAPM ANALYSIS; DO YOU AGREE WITH THIS ADJUSTMENT?

3	A:	No, I do not. The 1.02% size adjustment shown on his Schedule 1, page 2 comes
4		from Schedule 13, page 3. The 1.02% size premium is associated with a size
5		group that has a beta of 1.12. All the firms in Mr. Moul's proxy group have Value
6		Line betas less than one as do the vast majority of utility companies. Thus, I do
7		not believe that the size premium scale applies to regulated utility companies.
8		Given their less than one betas, if any value in the size applies to them, it is the -
9		0.35% associated with the largest decile, the only group that has a beta less than
10		one.
11	Q:	WHAT FURTHER COMMENTS DO YOU HAVE ON MR. MOUL'S
12		LEVERAGE AND SIZE ADJUSTMENTS?
13	A:	I want to point out the impact of his leverage adjustment on his DCF equity cost
14		range and his leverage and size adjustments on his CAPM range. On page 32 of
15		Mr. Moul's testimony, he shows a 10.77% DCF cost rate. Without the leverage
16		adjustment, his DCF cost rate would be $9.31\%$ (=1.81% + 7.50%).
17		On that same page, he shows a 14.36% CAPM cost rate. Without his
18		leverage and size adjustments, his CAPM cost rate would be 10.87%
19		(=3.00%+.769 x 10.24%). Without the leverage adjustment, Mr. Moul must rely
20		on his risk premium and comparable earnings analysis to justify his 11.00%
21		recommended cost of common equity. As noted below, neither of those two

methods provides information as to the market cost of common equity for a utility
 company.

3	Q:	DOES MR. MOUL ALSO UTILIZE A RISK PREMIUM ANALYSIS?
4	A:	Yes. Mr. Moul describes the Risk Premium approach as follows: "the cost of
5		equity capital is determined by corporate bond yields plus a premium to account
6		for the fact that common equity is exposed to greater investment risk than debt
7		capital." The result of his Risk Premium analysis is 11.00%. <sup>29</sup>
8	Q;	WHAT COMMENTS DO YOU HAVE CONCERNING MR. MOUL'S RISK
9		PREMIUM METHOD?
10	A:	I have reviewed Mr. Moul's risk premium method and have found that the risk
11		premium he uses does not reflect the difference between government bond returns
12		and the returns on utility common stock. Rather, his equity risk premium is based
13		on the large corporate stocks returns shown on Schedule 12, page 1 of his Exhibit
14		No. FYII. Hence, his presentation contains no credible information about the cost
15		of common equity for a utility company because there is no company information
16		in his analysis.
17	Q:	DOES MR. MOUL ALSO PRESENT A COMPARABLE EARNINGS
18		ANALYSIS?
19	A:	Yes. Mr. Moul describes the comparable earnings analysis as an estimate of "a fair

rate of return on equity by comparing returns realized by non-regulated companies

<sup>&</sup>lt;sup>29</sup> Moul, Statement 107, at 32.

1	to returns that a public utility with similar risk characters would need to realize in
2	order to compete for capital." <sup>30</sup> Mr. Moul calculates a Comparable Earnings result
3	of 12.15%. <sup>31</sup>

5

## Q: WHAT COMMENTS DO YOU HAVE CONCERNING MR. MOUL'S COMPARABLE EARNINGS ANALYSIS?

6 A: Without saying it directly, Mr., Moul's comparable earnings analysis appears to be 7 based on the comparable earnings language in *Bluefield* and *Hope*. As an 8 economist, I believe the comparable earnings language in *Bluefield* and *Hope* is 9 best met using market based common equity cost estimation methods such as the 10 DCF model. In making their purchase decisions, knowledgeable investors 11 compare the earnings potential of all the companies they consider purchasing and reflect any important differentials in the price they are willing to pay for the 12 13 company's common stock. In other words, investors perform their own comparable earnings standard when they purchase a utility company's common 14 stock. Mr. Moul's comparable earnings analysis provides no substantive 15 16 information as to the proper cost of common equity to use in this proceeding. Nor, do the earned returns that Mr. Moul refers to provide any indication of what 17 investors expect to earn on their investment in the utility company's common 18 stock. 19

<sup>&</sup>lt;sup>30</sup> Moul, Statement 107, at 40.

<sup>&</sup>lt;sup>31</sup> Moul, Statement 107, at 43, Sch. 1, page 2.

1	Q:	WHAT RETURN ON COMMON EQUITY ARE YOU RECOMMENDING
2		YORK WATER BE GIVEN AN OPPORTUNITY TO EARN?
3	A:	I am recommending York Water be given the opportunity to earn 7.94% on its
4		common equity. This recommendation is based on my DCF analysis of York
5		Water and is consistent with the results of my York Water CAPM analysis.
6	Q:	TURNING NOW TO YORK WATER'S CAPITAL STRUCTURE, WHAT
7		CAPITAL STRUCTURE ARE YOU RECOMMENDING FOR USE IN
8		THIS PROCEEEDING?
9	A:	I am recommending hypothetical capital consisting of 52.0% common equity and
10		48.0% long-term debt.
11	Q:	WHY ARE YOU PROPOSING A HYPOTHETICAL CAPITLAL
11 12	Q:	WHY ARE YOU PROPOSING A HYPOTHETICAL CAPITLAL STRUCTURE?
	<b>Q:</b> A:	
12		STRUCTURE?
12 13		<b>STRUCTURE?</b> York Water's capital structure is quite fluid at this time. In April 2022 York
12 13 14		<b>STRUCTURE?</b> York Water's capital structure is quite fluid at this time. In April 2022 York Water issued 1,121,940 common shares with net proceeds of \$43.97 million of
12 13 14 15		STRUCTURE? York Water's capital structure is quite fluid at this time. In April 2022 York Water issued 1,121,940 common shares with net proceeds of \$43.97 million of which \$29.32 million was used to pay down long-term debt. This resulted York
12 13 14 15 16		STRUCTURE? York Water's capital structure is quite fluid at this time. In April 2022 York Water issued 1,121,940 common shares with net proceeds of \$43.97 million of which \$29.32 million was used to pay down long-term debt. This resulted York Water's long-term debt ratio falling from 49.0% on 12-31-2021 to 36.8% on 6-30-
12 13 14 15 16 17		STRUCTURE? York Water's capital structure is quite fluid at this time. In April 2022 York Water issued 1,121,940 common shares with net proceeds of \$43.97 million of which \$29.32 million was used to pay down long-term debt. This resulted York Water's long-term debt ratio falling from 49.0% on 12-31-2021 to 36.8% on 6-30- 2022. <sup>32</sup> Company also indicated it expects to issue additional long-term debt for its

<sup>&</sup>lt;sup>32</sup> York Water 2021 Annual Report to Shareholder, page 8.
<sup>33</sup> York Water 2021 Annual Report to Shareholder, page 8.
<sup>34</sup> York Water 2021 Annual Report to Shareholder, page 8.

1		There is no reason for customers to bear the burden of an equity heavy capital
2		structure while waiting for the debt ratio to trend upward. My recommended 48%
3		debt ratio lifts this burden. and is consistent with York Water's year-end long-term
4		debt ratios of 46% in 2020 and 49% in 2021.35
5	Q:	WHAT IS THE DOLLAR VALUE OF THE IMPACT OF YOUR
6		PROPOSED 48% DEBT RATIO?
7	A:	Mr. Garrett has indicated that my proposed 48% debt ratio lowers the water
8		revenue requirement by \$1,171,648 and the wastewater revenue requirement by
9		\$110,791.
10	Q:	WHAT LONG-TERM DEBT COST ARE YOUR PROPOSING IN THIS
11		PROCEEDING?
12	A:	I am accepting Mr. Moul's 3.91% long-term debt cost. As is shown in in Table 5
13		below, combining Mr. Moul's 3.91% long-term debt cost with my 7.94%
14		recommended allowed return on common equity yields a 6.01% overall rate of return.

<sup>&</sup>lt;sup>35</sup> York Water 2021 Annual Report to Shareholder, page 8.

1			TABLE 5 O	VERALL	RATE OF RE			
2				Ratio	Cost Rate	Weighted Cost	_	
3			Common					
4			Equity	52.00%	7.94%	4.13%		
5			Long Term Debt	48.00%	3.91%	1.88%	-	
6			Total					
7				100.00%		6.01%		
8								
9	Q:	AT PAGE	SEVEN, LINES	S 2 THROU	JGH 4 OF HIS	S TESTIMON	Y, MR. MOUL	
10		<b>OPINES</b>	THAT YORK	WATER S	SHOULD BE	GIVEN A 25	5 BASIS POINT	
11		ADDITIO	N TO COST (	OF COMN	ION EQUIT	Y IN "RECO	GNITION	
12		OFNTHE	EXEMPLARY	Y PERFO	RMANCE O	F THE COM	PANY'S	
13		MANAGE	EMENT."					
14	A:	For several	l reasons, no. F	irst, "recog	gnition" does	not have a doll	lar value. In the	
15		regulatory	process, custom	ners are no	t required to p	bay for something	ing whose value is	\$
16		unknown.	Second, neither	r Mr. Moul	nor any othe	r Company wi	tness has offered	
17		evidence a	s to what the va	lue is. Thi	rd, regulated	utilities are exp	pected to operate	
18		efficiently	and should not	be given a	reward for do	oing what is ex	spected. Fourth,	
19		OCA with	ess Barbara Ale	xander has	found custor	ner service def	ficiencies such as	
20		declining c	call center perfo	rmance and	d identificatio	on of disputes a	and complaints.	
21		Fifth, the a	llowed rate of r	eturn shou	ld reflect the	cost of commo	on equity only.	

2

## Q: IS IT APPROPRIATE TO INCLUDE A MANAGEMENT PERFORMANCE BONUS IN YOUR 7.94% COMMON EQUITY COST?

- 3 A: No. Mr. Moul inappropriately adds a premium to his cost of equity estimate for
- 4 management performance, which further inflates a figure that is already
- 5 overestimated for the reasons I set forth below. Such a premium is completely
- 6 unrelated to York Water's cost of equity estimate.

## 7 Q: HAVE YOU QUANTIFIED THE FINANCIAL IMPACT TO

## 8 **RATEPAYERS THAT MR. MOUL'S PERFORMANCE PREMIUM**

- 9 WOULD HAVE?
- A: Yes. As addressed in the Direct Testimony of Mark Garrett (OCA Statement 1), an
  increase of 0.25% to the ROE for Mr. Moul's management performance premium
  would increase the water and wastewater revenue requirements by \$746,560.

## 13 Q: PLEASE DESCRIBE YOUR OVERALL COST OF CAPITAL

- 14 **RECOMMENDATION TO THE COMMISSION.**
- 15 A: I recommend the Commission reject the Company's proposed ROE and capital
- 16 structure. Instead, the Commission should award York Water with a 7.94% cost of
- 17 common equity. The Commission should also impute a ratemaking capital
- 18 structure consisting of 52.0% common equity and 48.0% long-term debt. The
- 19 Commission should reject the Company's request for a 25-basis point
- 20 management performance bonus. My overall weighted average awarded return
- 21 recommendation is 6.01%.

## 1 Q: DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

- 2 A: Yes. I reserve the right to supplement this testimony should additional
- 3 information become available.

## **DAVID S. HABR**

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805-931-8079 (H) 805-459-4932 (W)

## SUMMARY

Ph.D. economist with over thirty five years of applied economic and financial experience in utility regulation. Has special expertise in rate of return, mergers, and asset transactions. Was instrumental in determining the methodology used in class cost of service and rate design. Solid technical background with testimony that is very clear and defendable under cross examination. Recognized by the Governor of Iowa for his knowledge and understanding of public utilities' operations and his fair and balanced judgment.

## **PROFESSIONAL EXPERIENCE**

Habr Economics ...... January 2009 – Present

Habr Economics established in January 2009 after a successful career in public utility regulation. The firm specializes in rate of return, mergers, asset transactions, and general policy issues.

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- Testified as an expert witness in over 45 cases on the cost of common equity, the overall cost of capital, and other economic and financial matters including utility mergers, asset acquisitions, and competitive market analysis. Testimony successfully defended under strenuous cross examination.
- Initiated studies on electric restructuring which demonstrated that electric deregulation could cost Iowa customers a minimum of \$200 million per year. These un-refuted results helped the efforts which lead to restructuring being rejected in Iowa.
- Achieved consensus in settlement negotiations, represented the Office in public forums, Public Consumer Advocate Sector representative on Midwest Independent System Operator Advisory Committee, drafted legislation, and prepared and managed the OCA's \$3 million annual budget.
- Identified and hired the professional staff needed to expand from a six to a 17 person technical staff in 1989. Staff educational level ranges from B.A.'s to Ph.D.'s. At December 31, 2008 staff's average time with the Office was 19 years.

- Testified as an expert witness on the cost of common equity, the overall cost of capital, and other economic or financial matters.
- Integrated the use of bond betas to develop a "risk premium" method of estimating common equity cost rates based on the Capital Asset Pricing Model.

## 

- Determined cost of common equity and overall cost of capital for various utility companies. Presented the analysis as written testimony and was subject to cross-examination on the testimony.
- Completed article integrating brokerage fees and flotation cost in the discounted cash flow model which was accepted for publication in the January 1988 issue of the National Regulatory Research Institute Quarterly Bulletin. Presented a paper on the use of double leverage in determining the cost of capital for utility subsidiaries of a holding company to the Economics and Finance Subcommittee at the 1987 Winter Meeting of the National Association of Regulatory Utility Commissioners.
- Refined and improved the accuracy of the computer program used to calculate the weighted cost of capital for rate case presentation.
- - Estimated damages in two antitrust cases; helped develop a brief in a third antitrust case.
  - Testified on a telephone rate design issue before the Iowa State Commerce Commission and on alternative benefit payment methods before the Iowa Industrial Commission.

## Mitchell & Mitchell Economists, Ltd. ..... October 1979 – August 1980

• Organized and developed the economics group. Secured and completed contract with Northwestern Bell to develop a revenue forecasting model. Secured and completed contract with City of Des Moines to conduct a feasibility study for the Neighborhood Business Revitalization Program.

Drake University ...... September 1973 – June 1979

- Taught graduate and undergraduate courses in the economics program. Courses included Managerial Economics (M.B.A. Program), Government Regulation of Business, Public Utilities, and Transportation.
- Served on University Business Affairs Committee for four years; committee chair 1978-79. Faculty advisor, local chapter of Omicron Delta Epsilon (economics honor society) 1973-79.

## **EDUCATION**

Ph.D. (Economics)       Washington State University         Dissertation:       "The Returns to Advertising: An Analysis of the Relationship Between Advertising and Liquor Sales in the State of Washington"         M.A. (Economics)       University of Nebraska – Lincometer Lincometer Advertising		
Dissertation:		
<b>M.A.</b> (Economics)	University of Nebraska – Lincoln	
<b>B.A.</b> (Economics)		

## **PROFESSIONAL ACTIVITIES**

Activities and Memberships: Developed and taught an antitrust economics class at the Drake Law School Fall 1981 and taught the macroeconomics class in the Drake M.B.A. program Spring and Fall 1987. Member of the National Association of State Utility Consumer Advocates' Economics and Finance Committee 1990 – 2008 and the NARUC Ad Hoc Committee on Diversification (1986 – 1987).

## **Regulatory Proceedings in Which Dr. Habr Has Filed Testimony**

- 1. Northwestern Bell Telephone Company (Iowa State Commerce Commission Docket No. RPU-81-40, Direct January 1982), Cost of equity issues.
- 2. Northwestern Bell Telephone Company (Iowa State Commerce Commission Docket No. RPU-82-49, Direct March 1983), Rate of Return.
- 3. MCI Telecommunications Corporation (Iowa State Commerce Commission Docket No. RPU-84-2, Direct 1984), Competitiveness of Long Distance Markets.
- 4. Northwestern Bell Telephone Company (Iowa State Commerce Commission Docket No. RPU-84-7, Direct June 1984), Rate of Return.
- 5. INVESTIGATION INTO COMPETITION IN COMMUNICATIONS SERVICES AND FACILITIES (Iowa State Commerce Commission Docket No. INU-84-6, October 1984), Workable Competition and Cost Allocation.
- Peoples Natural Gas Company (Iowa State Commerce Commission Docket No. RPU-84-42, Direct December 1984), Capital Structure.
- 7. Union Electric Company (Iowa State Commerce Commission Docket No. RPU-85-9, Direct August 1985), Flotation Costs.
- 8. Iowa Public Service Company -- Gas (Iowa State Commerce Commission Docket No. RPU-85-14, Direct September 1985), Rate of Return.
- 9. INVESTIGATION INTO COMPETITION IN MTS, WATS, AND PL SERVICES (Iowa State Commerce Commission Docket No. INU-83-3, October 1985), Workable Competition.
- 10. Iowa Electric Light and Power Company Gas (Iowa State Commerce Commission Docket No. RPU-85-31, Direct February 1986), Rate of Return.
- 11. Iowa Electric Light and Power Company Electric (Iowa Utilities Board Docket No. RPU-86-7, Direct July 1986), Capital Structure.
- 12. Peoples Natural Gas Company, A Division of Utilicorp United, Inc. (Iowa Utilities Board Docket No. RPU-86-11, Direct September 1986), Rate of Return.
- 13. Great River Gas Company (Iowa Utilities Board Docket No. RPU-86-12, Direct September 1986), Rate of Return.
- 14. Iowa Power and Light Company Electric (Iowa Utilities Board Docket No. RPU-87-2, Direct, June 1987, Rebuttal, October 1987), Capital Structure.

- 15. Iowa Public Service Company Gas (Iowa Utilities Board Docket No. RPU-87-3, Direct December 1987), Rate of Return.
- 16. Iowa Public Service Company Electric (Iowa Utilities Board Docket No. RPU-87-6, Direct April 1988, Rebuttal August 1988), Rate of Return, Weather Normalization.
- 17. Iowa Southern Utilities Company and Ottumwa Water Works (Iowa Utilities Board Docket No. AEP-88-1, Direct May 1989, Rebuttal May 1989), Capacity and Energy Rates for a Small Hydro.
- 18. DEREGULATION OF INTERLATA INTEREXCHANGE MESSAGE TELECOMMUNICATIONS SERVICES (MTS), WIDE AREA TRELECOMMUNICATIONS SERVICE (WATS), CHANNEL SERVICE (PRIVATE LINE), AND CUSTOM NETWORK SERVICE (Iowa Utilities Board Docket No. INU-88-2, September 1988), Strength of Competitive Market Forces.
- 19. Iowa Southern Utilities Company (Iowa Utilities Board Docket No. RPU-89-7, Direct February 1990, Rebuttal April 1990), Rate of Return.
- Iowa Electric Light and Power Company Electric (Iowa Utilities Board Docket No. RPU-89-9, Direct April 1990, Rebuttal May 1990), Cost of Common equity, Double Leverage.
- 21. Iowa Resources, Inc. and Midwest Energy Company (Iowa Utilities Board Docket No. SPU-90-5, Direct June 1990, Rebuttal June 1990), Utility Holding Company Merger.
- 22. Iowa Electric Light and Power Company Gas (Iowa Utilities Board Docket No. RPU-90-7, November 1990), Cost of Common Equity, Double Leverage.
- 23. Iowa Southern Utilities Company Electric (Iowa Utilities Board Docket No. RPU-90-8, Direct August 1990, Rebuttal January 1991), Rate of Return.
- 24. Rochester Telephone Co. et al (Iowa Utilities Board Docket No. SPU-91-3, Direct June 1991, Rebuttal June 1991), Merger Analysis.
- 25. Midwest Gas, a Division of Iowa Public Service Company (Iowa Utilities Board Docket No. RPU-91-5, Direct October 1995, Rebuttal of Intervenor November 1991, Rebuttal December 1991), Cost of Common Equity, Acquisition Adjustment.
- 26. Iowa Public Service Company Electric (Iowa Utilities Board Docket No. RPU-91-6, Direct August 1991, Rebuttal January 1992), Cost of Common Equity.
- 27. Iowa Southern Utilities Company Electric (Iowa Utilities Board Docket No. RPU-91-8, Direct September 1991, Rebuttal February 1992, Additional Rebuttal April 1992), Cost of Common Equity.

- Iowa Electric Light and Power Company Electric (Iowa Utilities Board Docket No. RPU-91-9, Direct January 1992, Rebuttal of Intervenor February 1992, Rebuttal March 1992), Cost of Common Equity.
- 29. Iowa Electric Light and Power Company and Union Electric Company (Iowa Utilities Board Docket No. SPU-92-7, Direct April 1992), Asset Purchase Analysis.
- 30. Iowa Power, Inc. Electric (Iowa Utilities Board Docket No. RPU-92-2, Direct June 1992, Direct June 1992, Rebuttal of Intervenor July 1992), Cost of Common Equity.
- 31. Peoples Natural Gas Company, A Division of UtiliCorp United, Inc. (Iowa Utilities Board Docket No. RPU-92-6, Direct August 1992), Cost of Common Equity.
- 32. Iowa Southern Utilities Company Gas (Iowa Utilities Board Docket No. RPU-92-8, Direct October 1992), Cost of Common Equity.
- Iowa Electric Light and Power Company Gas (Iowa Utilities Board Docket No. RPU-92-9, Direct October 1992, Rebuttal of Intervenor November 1992), Cost of Common Equity.
- 34. ENERGY POLICY ACT OF 1992 (Iowa Utilities Board Docket No. INU-93-1, Rebuttal July 1993, Surrebuttal, July 1993), Purchase Power and the Cost of Capital, Financial Leverage Used by EWGs.
- 35. Interstate Power Company (Iowa Utilities Board Docket No. ECR-93-1, Direct September 1993, Rebuttal October 1993), Rate of Return for Unrecovered Energy Efficiency Expenditures, Cost of Capital for Avoided Cost Calculations.
- 36. Midwest Power Systems (Iowa Utilities Board Docket No. ECT-93-2, Direct November 1993, Rebuttal January 1994), Rate of Return for Unrecovered Energy Efficiency Expenditures, Appropriate Method for Determining the Annualized Recovery of the Expenditures.
- 37. Interstate Power Company Electric (Iowa Utilities Board Docket No. RPU-93-6, Direct November 1993, Rebuttal January 1994), Cost of Common Equity.
- 38. U S West Communications, Inc. (Iowa Utilities Board Docket No. RPU-93-9, Direct August 1993, Rebuttal February 1994), Rate of Return.
- 39. IES Utilities, Inc. Electric and Gas (Iowa Utilities Board Docket No. ECR-94-2, Direct October 1994), Rate of Return to Apply to Deferred Unamortized Energy Efficiency Balances.

- 40. IES Utilities, Inc. Electric (Iowa Utilities Board Docket No. RPU-94-2, Direct October 1994, Rebuttal of Intervenor, November 1994, Rebuttal December 1994, Rebuttal Related to Duane Arnold Depreciation, January 1995, Supplemental January 1995), Cost of Common Equity, Acquisition Adjustment, Economic Depreciation for Duane Arnold, Decommissioning Expenditures for Duane Arnold.
- 41. Midwest Gas (Iowa Utilities Board Docket No. RPU-94-3, Direct November 1994, Rebuttal of Intervenor, December 1994, Rebuttal January 1995), Cost of Common Equity.
- 42. Midwest Power (Iowa Utilities Board Docket No. RPU-94-4, Direct January 1995, Rebuttal of Intervenor January 1995, Rebuttal March 1995), Cost of Common Equity.
- 43. Iowa-Illinois Gas & Electric –Gas (Iowa Utilities Board Docket No. TF-94-640, Direct February 1995), Proper Policy for Rates That are Less Than Full Cost.
- 44. MidAmerican Energy Company (Iowa Utilities Board Docket No. P-831, Direct July 1995), Cost/Benefit Analysis of Proposed Pipeline.
- 45. Midwest Wind Developers v. Iowa Electric Light and Power Company et al; and Windustries, Inc. v. Iowa Electric Light and Power Company et. al (Iowa Utilities Board Docket No. AEP-95-1 thru 4, Direct September 1995, Rebuttal December 1995), Develop Appropriate kW and kWh rates.
- 46. Windustries, Inc. v. MidAmerican Energy Company (Iowa Utilities Board Docket No. AEP-95-5, Direct November 1995, Rebuttal December 1995), Develop Appropriate kW and kWh rates.
- 47. McLeod Telemanagement v. U S WEST Communications, Inc. (Iowa Utilities Board Docket No. FCU-96-1/FCU-96-3, Direct April 1996), Competitive Impact of Not Offering Centrex Plus to New Customers.
- 48. MidAmerican Energy Company Electric (Iowa Utilities Board Docket No. RPU-96-8, Direct August 1996, Rebuttal November 1996), Cost of Common Equity.
- 49. Lost Nation-Elwood Telephone Company (Iowa Utilities Board Docket No. TCU-96-9, Direct August 1996), Facilities Based Competition.
- 50. GTE Midwest Incorporated (Iowa Utilities Board Docket No. RPU-96-6, Direct September 1996), Proper Cost Recovery for intraLATA Equal Access.
- 51. MidAmerican Energy Company (Iowa Utilities Board Docket No. APP-96-1, Direct September 1996, Rebuttal November 1996), Causes of High Payout Ratio and Stranded Costs.

- 52. South Slope Cooperative Telephone Company (Iowa Utilities Board Docket No. TCU-96-12, Direct September 1996), Facilities Based Competition.
- 53. IES Utilities (Iowa Utilities Board Docket No. ECR-96-3, Direct February 1997), Pretax Return for Levelized Recovery of Deferred Energy Efficiency Expenditures.
- 54. U S WEST Communications, Inc. (Iowa Utilities Board Docket No. RPU-96-9, Direct April 1997, Rebuttal July 1997), Rate of Return.
- 55. MidAmerican Energy Company Electric (Iowa Utilities Board Docket No. TF-97-229, Direct October 1997), Can Other Utility Companies be Forced to Join a Pilot Project.
- 56. CalEnergy Company and MidAmerican Energy Holdings Company (Iowa Utilities Board Docket No. SPU-98-8, Direct November 1998, Rebuttal December 1998), Merger Analysis.
- 57. MidAmerican Energy Holdings Company, MidAmerican Energy Company, Teton Formation L.L.C., and Teton Acquisition Corporation (Iowa Utilities Board Docket No. SPU-99-32, Direct January 2000), Merger Analysis.
- 58. Qwest Corporation (Iowa Utilities Board Docket No. TF-00-250, Direct February 2001), Price Plan Review.
- 59. MidAmerican Energy Company Electric (Iowa Utilities Board Docket No. RPU-01-9, Direct February 2002), Implicit Excess Return on Common Equity.
- 60. Interstate Power Company Electric (Iowa Utilities Board Docket No. RPU-02-3, Direct July 2002, Rebuttal of Intervenor August 2002, Rebuttal November 2002), Cost of Common Equity, Duane Arnold Decommissioning Cost, Nature and Purpose of Test Year.
- 61. Iowa Telecommunications Services, Inc. d/b/a Iowa Telecom (Iowa Utilities Board Docket No. RPU-02-4, Direct August 2002), Appropriateness of Using Forward Looking Cost Models to Establish Retail Rates.
- 62. Aquila, Inc. d/b/a Aquila Networks (Iowa Utilities Board Docket No. RPU-02-5, Direct September 2002, Rebuttal November 2002), Cost of Common Equity.
- 63. Interstate Power and Light Company Gas (Iowa Utilities Board Docket No. RPU-02-7, Direct October 2002, Rebuttal of Intervenor November 2002, Rebuttal January 2003), Cost of Common Equity.
- 64. MidAmerican Energy Company Electric (Iowa Utilities Board Docket No. RPU-02-10, Direct March 2003), Cost of Common Equity Issues.

- 65. Iowa Telecommunications Services, Inc. d/b/a Iowa Telecom (Iowa Utilities Board Docket No. SPU-04-10, Direct May 2006), Analysis of Proposed Initial Public Offering.
- 66. Qwest Communications Corporation (Iowa Utilities Board Docket No. TCU-03-13, Rebuttal August 2004), Appropriateness of a Telecommunications Company Competing with an Affiliate.
- 67. Interstate Power and Light Company and FPL Energy Duane Arnold, LLC (Iowa Utilities Board Docket No. SPU-05-15, Direct September 2005, Rebuttal October 2005), Analysis of Proposed Sale of Nuclear Power Plant.
- 68. Interstate Power and Light Company and ITC Midwest, LLC (Iowa Utilities Board Docket No. SPU-07-11, Direct June 2007, Rebuttal July 2007), Analysis of Proposed Sale of Electric Transmission System.
- 69. Interstate Power and Light Company (Iowa Utilities Board Docket No. RPU-08-1, Rebuttal October 2008, Additional Supplemental October 2008), Energy Forecast Analysis.
- 70. Interstate Power and Light Company (Iowa Utilities Board Docket No. RPU-2009-0002, Direct July 2009, Rebuttal September 2009), Impact of Strategic Decisions on Efficiency of Utility Operations.
- 71. Bangor Hydro Electric Company, Maine Public Service Company, et. al (Maine Public Utilities Commission Docket No. 2010-89, Direct June 2010, Surrebuttal August 2010), Analysis of the Impact of Proposed Merger on Retail Customers.
- 72. FirstEnergy Corporation and Allegheny Energy, Inc. (Maryland Public Service Commission Case No. 9233, Direct October 2010, Surrebuttal November 2010), Analysis of the Impact of Proposed Merger on Retail Customers.
- 73. Bangor Gas Company and Maine Public Service Company (Maine Public Utilities Commission Docket No. 2013-00443, Direct March 2014), Rate of Return.
- 74. Columbia Gas Maryland, Inc. (Maryland Public Service Commission Case No. 9417, Direct June 2016, Rebuttal and Surrebuttal July 2016), Rate of Return.
- 75. Philadelphia Gas Works (Pennsylvania Public Utility Commission Docket No. R-2017-2586783, Direct May 2017, Surrebuttal June 2017), Proper Margin for a Municipal Gas Utility.
- 76. The Gas Company, LLC d/b/a Hawai`i Gas (Hawaii Public Utilities Commission Docket No. 2017-0150), Direct March 2018, Rate of Return.

- 77. Duquesne Light Company (Pennsylvania Public Utility Commission Docket No. R-2018-3000124), Direct June 2018, Surrebuttal July 2018, Rate of Return.
- 78. PECO Energy Company (Pennsylvania Public Utility Commission Docket No. R-2018-3000164), Direct June 2018, Surrebuttal July 2018, Rate of Return.
- 79. PJM Interconnection, L.L.C. & PECO Energy Company (Federal Energy Regulatory Commission Docket No. ER17-1519-001), Direct & Answering August 2018, Return on Equity.
- Hawai'i Electric Light Company (Hawaii Public Utilities Commission Docket No. 2019-0368), Direct July 2019, Rate of Return.
- Citizens' Electric Company, Wellsboro Electric Company, and Valley Energy Company (Pennsylvania Public Utility Commission Docket Nos. R-2019-3008212, R-2019-3008208, and R-2019-3008209 respectively), Direct October 2019, Surrebuttal December 2019, Rate of Return.
- Philadelphia Gas Works (Pennsylvania Public Utility Commission Docket No. R-2020-30172060), Direct June 2020, Surrebuttal July 2020, Proper Margin for a Municipal Gas Utility.
- 83. Pittsburg Water and Sewer Authority (Pennsylvania Public Utility Commission Docket Nos. R-2020-3017951 and R-2020-3017970), Direct July 2020, Surrebuttal September 2020, Proper Margin for a Municipal Water and Waste Water Utility.
- 84. Bangor Natural Gas Company (Maine Public Utilities Commission, Docket No. 2021-00024) Direct June 2021, Surrebuttal October 2021, Rate of Return.
- 85. Pittsburg Water and Sewer Authority (Pennsylvania Public Utility Commission Docket Nos. R-2021-3024773, R-2021-3024774, and R-2021-3024779), Direct July 2021, Surrebuttal August 2021, Proper Margin for a Municipal Water and Waste Water Utility.

Exhibit DSH-2 Page 1 of 1

#### **PROXY GROUP DCF -- YAHOO GROWTH FORECASTS**

					Dividend	Adjusted Dividend		DCF Cost
Number	Company	SYM	Price	Dividend	Yield	Yield	Growth	Rate
1	American States Water	AWR	78.65	1.46	1.86%	1.90%	4.40%	6.30%
2	American Water Works Co.	AWK	146.97	2.62	1.78%	1.86%	8.30%	10.16%
3	Artesian Resources Corp.	ARTNA	47.57	1.09	2.29%	2.34%	4.00%	6.34%
4	California Water Service Group	CWT	53.32	1.00	1.88%	1.99%	11.70%	13.69%
5	Essential Utilities, Inc.	WTRG	45.31	1.07	2.37%	2.45%	6.80%	9.25%
6	Middlesex Water Company	MSEX	86.59	1.16	1.34%	1.36%	2.70%	4.06%
7	SJW Corporation	SJW	60.81	1.44	2.37%	2.48%	9.80%	12.28%
	IBES Average Growth	6.81%					Maximum: Median: Mean: Minimum:	13.69% 9.70% 9.67% 6.30%
	York Water Company	YORW	40.07	0.78	1.95%	1.99%	4.90%	6.89%

Exhibit DSH-3 Page 1 of 1

#### **PROXY GROUP DCF -- ZACKS GROWTH FORECASTS**

						Adjusted		
					Dividend	Dividend	Zacks	DCF Cost
Number	Company	SYM	Price	Dividend	Yield	Yield	Growth	Rate
1	American States Water	AWR	78.65	1.46	1.86%		N.A,	
2	American Water Works Co.	AWK	146.97	2.62	1.78%	1.85%	8.08%	9.93%
3	Artesian Resources Corp.	ARTNA	47.57	1.09	2.29%		N.A.	
4	California Water Service Group	CWT	53.32	1.00	1.88%		N.A.	
5	Essential Utilities, Inc.	WTRG	45.31	1.07	2.37%	2.44%	6.14%	8.58%
6	Middlesex Water Company	MSEX	86.59	1.16	1.34%		N.A.	
7	SJW Corporation	SJW	60.81	1.44	2.37%		N.A.	

Zacks Average Growth 7.11%

Maximum: 9.93% Median: 9.26% Mean: 9.26%

Minimum: 8.58%

Exhibit DSH-4 Page 1 of 1

#### PROXY GROUP DCF -- VALUE LINE GROWTH FORECASTS

					Dividend	Adjusted Dividend	Line	DCF Cost
Number	Company	SYM	Price	Dividend	Yield	Yield	Growth	Rate
1	American States Water	AWR	78.65	1.46	1.86%	1.91%	5.50%	7.41%
2	American Water Works Co.	AWK	146.97	2.62	1.78%	1.81%	3.00%	4.81%
3	Artesian Resources Corp.	ARTNA	47.57	1.09	2.29%		N.A.	
4	California Water Service Group	CWT	53.32	1.00	1.88%	1.94%	6.50%	8.44%
5	Essential Utilities, Inc.	WTRG	45.31	1.07	2.37%	2.49%	10.00%	12.49%
6	Middlesex Water Company	MSEX	86.59	1.16	1.34%	1.37%	4.50%	5.87%
7	SJW Corporation	SJW	60.81	1.44	2.37%	2.53%	14.00%	<del>16.53%</del>
	VL Average Growth	7.25%					Maximum: Median: Mean:	12.49% 7.92% 8.55%
							Minimum:	5.87%
	York Water Company	YORW	40.07	0.78	1.95%	1.99%	5.00%	6.99%

Exhibit DSH-5 Page 1 of 1

					Dividend	Adjusted Dividend	Yahoo (IBES)	Long-term GDP	Combined	DCF Cost
Number	Company	SYM	Price	Dividend	Yield	Yield	Growth	Growth	Growth	Rate
1	American States Water	AWR	78.65	1.46	1.86%	1.90%	4.40%	5.07%	4.53%	6.43%
2	American Water Works Co.	AWK	146.97	2.62	1.78%	1.86%	8.30%	5.07%	7.65%	9.51%
3	Artesian Resources Corp.	ARTNA	47.57	1.09	2.29%	2.34%	4.00%	5.07%	4.21%	6.55%
4	California Water Service Group	CWT	53.32	1.00	1.88%	1.99%	11.70%	5.07%	10.37%	12.36%
5	Essential Utilities, Inc.	WTRG	45.31	1.07	2.37%	2.45%	6.80%	5.07%	6.45%	8.90%
6	Middlesex Water Company	MSEX	86.59	1.16	1.34%	1.36%	2.70%	5.07%	3.17%	4 <del>.53%</del>
7	SJW Corporation	SJW	60.81	1.44	2.37%	2.48%	9.80%	5.07%	8.85%	11.34%
									Maximum: Median:	12.36% 8.90%
									Mean: Minimum:	8.52%
										6.43%
	York Water Company	YORW	40.07	0.78	1.95%	1.99%	4.90%	5.07%	4.93%	6.93%

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## PROXY GROUP FERC 2-STEP DCF CALCULATION --ZACKS GROWTH

						Adjusted		Long-term		
					Dividend	Dividend	Zacks	GDP	Combined	DCF Cost
Number	Company	SYM	Price	Dividend	Yield	Yield	Growth	Growth	Growth	Rate
1	American States Water	AWR	78.65	1.46	1.86%		N.A,	5.07%		
2	American Water Works Co.	AWK	146.97	2.62	1.78%	1.85%	8.08%	5.07%	7.48%	9.33%
3	Artesian Resources Corp.	ARTNA	47.57	1.09	2.29%		N.A.	5.07%		
4	California Water Service Group	CWT	53.32	1.00	1.88%		N.A.	5.07%		
5	Essential Utilities, Inc.	WTRG	45.31	1.07	2.37%	2.44%	6.14%	5.07%	5.93%	8.37%
6	Middlesex Water Company	MSEX	86.59	1.16	1.34%		N.A.	5.07%		
7	SJW Corporation	SJW	60.81	1.44	2.37%		N.A.	5.07%		

Maximum: 9.33%

Median: 8.85%

Mean: 8.85%

Minimum: 8.37%

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					Dividend	Adjusted Dividend	Value Line	Long-term GDP	Combined	DCF Cost
Number	Company	SYM	Price	Dividend	Yield	Yield	Growth	Growth	Growth	Rate
1	American States Water	AWR	78.65	1.46	1.86%	1.91%	5.50%	5.07%	5.41%	7.32%
2	American Water Works Co.	AWK	146.97	2.62	1.78%	1.81%	3.00%	5.07%	3.41%	5.22%
3	Artesian Resources Corp.	ARTNA	47.57	1.09	2.29%		N.A.	5.07%		
4	California Water Service Group	CWT	53.32	1.00	1.88%	1.94%	6.50%	5.07%	6.21%	8.15%
5	Essential Utilities, Inc.	WTRG	45.31	1.07	2.37%	2.49%	10.00%	5.07%	9.01%	11.50%
6	Middlesex Water Company	MSEX	86.59	1.16	1.34%	1.37%	4.50%	5.07%	4.61%	5.98%
7	SJW Corporation	SJW	60.81	1.44	2.37%	2.53%	14.00%	5.07%	12.21%	14.75%
									Maximum: Median:	14.75% 7.74%
									Mean: Minimum:	8.82% 5.22%
	York Water Company	YORW	40.07	0.78	1.95%	1.99%	5.00%	5.07%	5.01%	7.01%

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	PROXY GROUP DCF COST BASED ON TWO STAGE DCF WEIGHTED AVERAGE OF YAHOO! EARNINGS												
										Weighted	Weighted	Adjusted	
						Continuou	IS			Average	Average	Dividend	
						Yahoo!	Continuous	Years in	Continous	Continuous	Annual	Yield	Discrete
			Calculated	Annualized	Dividend	Growth	g GDP Growth	Stage One	Two-Stage	Growth	Compound	(4)x((1+.0	DCF Cost
		Price	Price	Dividend	Yield	1	g-2	"a"	DCF "k"	(8) - (4)	Growth	5)x(10))	(10) + (11)
No.	Company	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	American States Water	\$78.65	\$78.65	\$1.46	1.86%	4.31%	4.94%	20	6.76%	4.91%	5.03%	1.90%	6.93%
2	American Water Works Co.	\$146.97	\$146.97	\$2.62	1.78%	7.97%	4.94%	20	6.93%	5.14%	5.28%	1.83%	7.11%
3	Artesian Resources Corp.	\$47.57	\$47.57	\$1.09	2.29%	3.92%	4.94%	20	7.16%	4.87%	4.99%	2.35%	7.34%
4	California Water Service Group	\$53.32	\$53.32	\$1.00	1.88%	11.06%	4.94%	20	7.46%	5.58%	5.74%	1.93%	7.67%
5	Essential Utilities, Inc.	\$45.31	\$45.31	\$1.07	2.37%	6.58%	4.94%	20	7.46%	5.10%	5.23%	2.43%	7.66%
6	Middlesex Water Company	\$86.59	\$86.59	\$1.16	1.34%	2.66%	4.94%	20	6.22%	4.88%	5.00%	1.37%	6.38%
7	SJW Corporation	\$60.81	\$60.81	\$1.44	2.37%	9.35%	4.94%	20	7.87%	5.51%	5.66%	2.43%	8.09%
												Maximum:	8.09%
												Median:	7.34%
												Mean:	7.31%
												Minimum:	6.38%
	York Water Company	\$40.07	\$40.07	\$0.78	1.95%	4.78%	4.94%	20	6.88%	4.93%	5.05%	1.99%	7.05%

Average Dividend Average Continuous Continuous Years in Continous Continuous Annual Yield Discrete Growth Calculated Annualized Dividend Zacks Growth GDP Growth Stage One Two-Stage Compound (4)x((1+.0 DCF Cost Price Price Dividend Yield "a" DCF "k" (8) - (4) Growth 5)x(10)) (10) + (11) g-1 g-2 (2) (1) (3) (4) (5) (6) (7) (8) (9) (11) (12) No. Company (10) American States Water \$78.65 #VALUE! \$1.46 1.86% N.A. 5.32% 5.47% 1.91% 1 4.94% 20 7.18% 2 American Water Works Co. \$146.97 \$146.97 \$2.62 1.78% 7.77% 4.94% 20 6.91% 5.13% 5.26% 1.83% 7.09% 3 Artesian Resources Corp. \$47.57 **#VALUE!** \$1.09 2.29% N.A. 4.94% 20 8.07% 5.77% 5.94% 2.36% 4 California Water Service Group \$53.32 #VALUE! \$1.00 1.88% N.A. 4.94% 20 8.14% 6.26% 6.47% 1.94% 5 Essential Utilities, Inc. \$45.31 \$45.31 \$1.07 2.37% 5.96% 4.94% 20 7.40% 5.03% 5.16% 2.43% 7.59% 6 Middlesex Water Company \$1.16 20 5.03% 5.16% 1.37% \$86.59 #VALUE! 1.34% N.A. 4.94% 6.37% 20 6.42% 7 SJW Corporation \$60.81 **#VALUE!** \$1.44 2.37% N.A. 4.94% 8.59% 6.23% 2.44%

#### PROXY GROUP DCF COST BASED ON TWO STAGE DCF WEIGHTED AVERAGE OF ZACKS EARNINGS

Maximum: 7.59%

Median: 7.34%

Mean: 7.34%

Minimum: 7.09%

Adjusted

Weighted

Weighted

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	PROXY GROUP DCF COST BASED ON TWO STAGE DCF WEIGHTED AVERAGE OF VALUE LINE												
										Weighted	Weighted	Adjusted	
						Continuous	;			Average	Average	Dividend	
						Value Line	Continuous	Years in	Continous	Continuous	Annual	Yield	Discrete
			Calculated	Annualized	Dividend	Growth	g-GDP Growth	Stage One	Two-Stage	Growth	Compound	(4)x((1+.0	DCF Cost
		Price	Price	Dividend	Yield	1	g-2	"a"	DCF "k"	(8) - (4)	Growth	5)x(10))	(10) + (11)
No.	Company	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	American States Water	\$78.65	\$78.65	\$1.46	1.86%	5.35%	4.94%	20	6.82%	4.96%	5.09%	1.90%	6.99%
2	American Water Works Co.	\$146.97	\$146.97	\$2.62	1.78%	2.96%	4.94%	20	6.64%	4.86%	4.97%	1.83%	6.80%
3	Artesian Resources Corp.	\$47.57		\$1.09	2.29%	N.A.	4.94%	20	7.53%	5.23%	5.37%	2.36%	
4	California Water Service Group	\$53.32	\$53.32	\$1.00	1.88%	6.30%	4.94%	20	6.90%	5.02%	5.15%	1.92%	7.08%
5	Essential Utilities, Inc.	\$45.31	\$45.31	\$1.07	2.37%	9.53%	4.94%	20	7.91%	5.54%	5.70%	2.43%	8.13%
6	Middlesex Water Company	\$86.59	\$86.59	\$1.16	1.34%	4.40%	4.94%	20	6.26%	4.92%	5.05%	1.37%	6.42%
7	SJW Corporation	\$60.81	\$60.81	\$1.44	2.37%	13.10%	4.94%	20	8.97%	6.60%	6.82%	2.45%	9.27%
												Maximum:	9.27%
												Median:	7.03%
												Mean:	7.45%
												Minimum:	6.42%
	York Water Company	\$40.07	\$40.07	\$0.78	1.95%	4.88%	4.94%	20	6.88%	4.94%	5.06%	1.99%	7.06%

Year	Common Stock Total Return Index <u>For Year Ended</u>	Discrete Common Stock <u>Annual Return</u>	Continuous Common Stock <u>Annual Return</u>	T-Bill Total Return Index <u>For Year Ended</u>	Discrete T-Bill <u>Annual Return</u>	Continuous T-Bill <u>Annual Return</u>	T-Bill Realized Discrete Risk <u>Premium</u>	T-Bill Realized Continuous Risk <u>Premium</u>
1925	1.000			1.000				
1926	1.116	11.600%	10.975%	1.033	3.300%	3.247%	8.300%	7.728%
1927	1.535	37.545%	31.878%	1.065	3.098%	3.051%	34.447%	28.827%
1928	2.204	43.583%	36.174%	1.103	3.568%	3.506%	40.015%	32.668%
1929	2.018	-8.439%	-8.817%	1.155	4.714%	4.607%	-13.154%	-13.423%
1930	1.516	-24.876%	-28.603%	1.183	2.424%	2.395%	-27.300%	-30.998%
1931	0.859	-43.338%	-56.806%	1.196	1.099%	1.093%	-44.437%	-57.899%
1932	0.789	-8.149%	-8.500%	1.207	0.920%	0.916%	-9.069%	-9.416%
1933	1.214	53.866%	43.091%	1.211	0.331%	0.331%	53.534%	42.760%
1934	1.197	-1.400%	-1.410%	1.213	0.165%	0.165%	-1.565%	-1.575%
1935	1.767	47.619%	38.946%	1.215	0.165%	0.165%	47.454%	38.782%
1936	2.367	33.956%	29.234%	1.217	0.165%	0.164%	33.791%	29.070%
1937	1.538	-35.023%	-43.114%	1.221	0.329%	0.328%	-35.352%	-43.442%
1938	2.016	31.079%	27.063%	1.221	0.000%	0.000%	31.079%	27.063%
1939	2.008	-0.397%	-0.398%	1.221	0.000%	0.000%	-0.397%	-0.398%
1940	1.812	-9.761%	-10.271%	1.221	0.000%	0.000%	-9.761%	-10.271%
1941	1.602	-11.589%	-12.318%	1.222	0.082%	0.082%	-11.671%	-12.400%
1942	1.927	20.287%	18.471%	1.225	0.245%	0.245%	20.042%	18.226%
1943	2.427	25.947%	23.069%	1.229	0.327%	0.326%	25.621%	22.743%
1944	2.906	19.736%	18.012%	1.233	0.325%	0.325%	19.411%	17.687%
1945	3.965	36.442%	31.073%	1.237	0.324%	0.324%	36.117%	30.749%
1946	3.645	-8.071%	-8.415%	1.242	0.404%	0.403%	-8.475%	-8.818%
1947	3.853	5.706%	5.550%	1.248	0.483%	0.482%	5.223%	5.068%
1948	4.065	5.502%	5.356%	1.258	0.801%	0.798%	4.701%	4.558%
1949	4.829	18.795%	17.223%	1.272	1.113%	1.107%	17.682%	16.116%
1950	6.360	31.704%	27.539%	1.287	1.179%	1.172%	30.525%	26.367%
1951	7.888	24.025%	21.531%	1.306	1.476%	1.466%	22.549%	20.066%
1952	9.336	18.357%	16.854%	1.328	1.685%	1.671%	16.672%	15.183%
1953	9.244	-0.985%	-0.990%	1.352	1.807%	1.791%	-2.793%	-2.781%
1954	14.108	52.618%	42.277%	1.364	0.888%	0.884%	51.730%	41.393%
1955	18.561	31.564%	27.432%	1.385	1.540%	1.528%	30.024%	25.904%
1956	19.778	6.557%	6.351%	1.419	2.455%	2.425%	4.102%	3.926%
1957	17.646	-10.780%	-11.406%	1.464	3.171%	3.122%	-13.951%	-14.528%
1958	25.298	43.364%	36.022%	1.486	1.503%	1.492%	41.861%	34.530%
1959	28.322	11.954%	11.291%	1.530	2.961%	2.918%	8.993%	8.373%
1960	28.455	0.470%	0.469%	1.571	2.680%	2.644%	-2.210%	-2.176%
1961	36.106	26.888%	23.814%	1.604	2.101%	2.079%	24.787%	21.735%

<u>Year</u>	Common Stock Total Return Index <u>For Year Ended</u>	Discrete Common Stock <u>Annual Return</u>	Continuous Common Stock <u>Annual Return</u>	T-Bill Total Return Index <u>For Year Ended</u>	Discrete T-Bill <u>Annual Return</u>	Continuous T-Bill <u>Annual Return</u>	T-Bill Realized Discrete Risk <u>Premium</u>	T-Bill Realized Continuous Risk <u>Premium</u>
1962	32.954	-8.730%	-9.135%	1.648	2.743%	2.706%	-11.473%	-11.841%
1963	40.469	22.805%	20.542%	1.700	3.155%	3.107%	19.649%	17.436%
1964	47.139	16.482%	15.256%	1.760	3.529%	3.469%	12.952%	11.788%
1965	53.008	12.450%	11.734%	1.829	3.920%	3.846%	8.530%	7.889%
1966	47.674	-10.063%	-10.606%	1.916	4.757%	4.647%	-14.819%	-15.253%
1967	59.104	23.975%	21.491%	1.997	4.228%	4.141%	19.748%	17.351%
1968	65.642	11.062%	10.492%	2.101	5.208%	5.077%	5.854%	5.415%
1969	60.059	-8.505%	-8.889%	2.239	6.568%	6.362%	-15.074%	-15.250%
1970	62.375	3.856%	3.784%	2.385	6.521%	6.317%	-2.665%	-2.533%
1971	71.295	14.301%	13.366%	2.490	4.403%	4.308%	9.898%	9.058%
1972	84.838	18.996%	17.392%	2.585	3.815%	3.744%	15.180%	13.647%
1973	72.376	-14.689%	-15.887%	2.764	6.925%	6.695%	-21.614%	-22.582%
1974	53.220	-26.467%	-30.744%	2.986	8.032%	7.726%	-34.499%	-38.470%
1975	73.033	37.228%	31.648%	3.159	5.794%	5.632%	31.435%	26.016%
1976	90.508	23.928%	21.453%	3.319	5.065%	4.941%	18.863%	16.512%
1977	84.029	-7.158%	-7.428%	3.489	5.122%	4.995%	-12.281%	-12.423%
1978	89.551	6.572%	6.365%	3.740	7.194%	6.947%	-0.622%	-0.582%
1979	106.216	18.610%	17.067%	4.128	10.374%	9.871%	8.235%	7.196%
1980	140.741	32.505%	28.145%	4.592	11.240%	10.652%	21.264%	17.492%
1981	133.812	-4.923%	-5.049%	5.267	14.699%	13.715%	-19.623%	-18.763%
1982	162.643	21.546%	19.512%	5.822	10.537%	10.018%	11.009%	9.494%
1983	199.328	22.556%	20.339%	6.335	8.811%	8.445%	13.744%	11.895%
1984	211.833	6.274%	6.085%	6.959	9.850%	9.395%	-3.576%	-3.310%
1985	279.041	31.727%	27.556%	7.496	7.717%	7.433%	24.010%	20.123%
1986	330.124	18.307%	16.811%	7.958	6.163%	5.981%	12.143%	10.830%
1987	348.511	5.570%	5.420%	8.393	5.466%	5.322%	0.104%	0.098%
1988	406.392	16.608%	15.365%	8.926	6.351%	6.157%	10.258%	9.208%
1989	535.162	31.686%	27.525%	9.673	8.369%	8.037%	23.317%	19.488%
1990	518.549	-3.104%	-3.153%	10.429	7.816%	7.525%	-10.920%	-10.679%
1991	676.529	30.466%	26.594%	11.012	5.590%	5.440%	24.876%	21.155%
1992	728.077	7.619%	7.343%	11.398	3.505%	3.445%	4.114%	3.898%
1993	801.457	10.079%	9.602%	11.728	2.895%	2.854%	7.183%	6.748%
1994	812.040	1.320%	1.312%	12.186	3.905%	3.831%	-2.585%	-2.519%
1995	1,117.187	37.578%	31.902%	12.868	5.597%	5.446%	31.981%	26.456%
1996	1,373.695	22.960%	20.669%	13.538	5.207%	5.076%	17.753%	15.593%
1997	1,832.006	33.363%	28.791%	14.25	5.259%	5.126%	28.104%	23.665%
1998	2,355.568	28.579%	25.137%	14.942	4.856%	4.742%	23.722%	20.395%

							T-Bill	T-Bill
		Discrete	Continuous				Realized	Realized
	Common Stock	Common	Common	T-Bill Total	Discrete	Continuous	Discrete	Continuous
	Total Return Index	Stock	Stock	<b>Return Index</b>	T-Bill	T-Bill	Risk	Risk
<u>Year</u>	For Year Ended	<u>Annual Return</u>	<u>Annual Return</u>	For Year Ended	Annual Return	Annual Return	<u>Premium</u>	<u>Premium</u>
1999	2,851.215	21.042%	19.096%	15.641	4.678%	4.572%	16.363%	14.524%
2000	2,591.629	-9.104%	-9.546%	16.563	5.895%	5.728%	-14.999%	-15.273%
2001	2,283.593	-11.886%	-12.654%	17.197	3.828%	3.756%	-15.714%	-16.410%
2002	1,778.907	-22.101%	-24.975%	17.480	1.646%	1.632%	-23.746%	-26.607%
2003	2,289.178	28.685%	25.219%	17.659	1.024%	1.019%	27.660%	24.201%
2004	2,538.287	10.882%	10.330%	17.871	1.201%	1.193%	9.682%	9.136%
2005	2,662.966	4.912%	4.795%	18.403	2.977%	2.933%	1.935%	1.862%
2006	3,083.563	15.794%	14.665%	19.287	4.804%	4.692%	10.991%	9.973%
2007	3,252.973	5.494%	5.348%	20.186	4.661%	4.556%	0.833%	0.793%
2008	2,049.443	-36.998%	-46.200%	20.509	1.600%	1.587%	-38.598%	-47.788%
2009	2,591.818	26.465%	23.479%	20.529	0.098%	0.097%	26.367%	23.382%
2010	2,982.233	15.063%	14.031%	20.553	0.117%	0.117%	14.946%	13.914%
2011	3,045.211	2.112%	2.090%	20.562	0.044%	0.044%	2.068%	2.046%
2012	3,532.551	16.003%	14.845%	20.574	0.058%	0.058%	15.945%	14.787%
2013	4,676.679	32.388%	28.057%	20.579	0.024%	0.024%	32.364%	28.032%
2014	5,316.847	13.689%	12.829%	20.583	0.019%	0.019%	13.669%	12.810%
2015	5,390.422	1.384%	1.374%	20.586	0.015%	0.015%	1.369%	1.360%
2016	6,035.113	11.960%	11.297%	20.628	0.204%	0.204%	11.756%	11.093%
2017	7,352.672	21.832%	19.747%	20.792	0.795%	0.792%	21.037%	18.955%
2018	7,030.306	-4.384%	-4.483%	21.173	1.832%	1.816%	-6.217%	-6.299%
2019	9,243.896	31.486%	27.373%	21.629	2.154%	2.131%	29.333%	25.242%
2020	10,944.659	18.399%	16.889%	21.726	0.448%	0.447%	17.950%	16.441%
2021	14,086.369	28.705%	25.236%	21.735	0.041%	0.041%	28.664%	25.194%

### Average 1926--

Risk Premium 9.025% 6.744% Annual Compounding T-Bill Risk Premium	 6.98%
	 <b>6.744%</b> 19.239%

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## PROXY GROUP CAPM -- S&P 500 INDEX RISK PREMIUM

			Risk Free Rate 30-Yr Constant		S&P Index Risk	CAPM Common Equity
Number	Company	SYM	Maturity	Habr Beta	Premium	Cost
1	American States Water	AWR	3.15%	0.637	7.92%	8.19%
2	American Water Works Co.	AWK	3.15%	0.922	7.92%	10.45%
3	Artesian Resources Corp.	ARTNA	3.15%	0.563	7.92%	7.61%
4	California Water Service Group	CWT	3.15%	0.677	7.92%	8.51%
5	Essential Utilities, Inc.	WTRG	3.15%	0.873	7.92%	10.06%
6	Middlesex Water Company	MSEX	3.15%	0.744	7.92%	9.04%
7	SJW Corporation	SJW	3.15%	0.612	7.92%	7.99%
				-	Maximum: Median: Mean: Minimum:	10.45% 8.51% 8.84% 7.61%
	York Water Company	YORW	3.15%	0.566	7.92%	7.63%

Exhibit DSH-13 Page 1 of 1

## PROXY GROUP CAPM -- HISTORICAL RISK PREMIUM

			Risk Free Rate 30-Yr Constant	Habr	Historical Risk	CAPM Common Equity
Number	Company	SYM	Maturity	Betas	Premium	Cost
1	American States Water	AWR	3.15%	0.637	6.98%	7.60%
2	American Water Works Co.	AWK	3.15%	0.922	6.98%	9.59%
3	Artesian Resources Corp.	ARTNA	3.15%	0.563	6.98%	7.08%
4	California Water Service Group	CWT	3.15%	0.677	6.98%	7.87%
5	Essential Utilities, Inc.	WTRG	3.15%	0.873	6.98%	9.24%
6	Middlesex Water Company	MSEX	3.15%	0.744	6.98%	8.34%
7	SJW Corporation	SJW	3.15%	0.612	6.98%	7.42%
					Maximum: Median:	9.59% 7.87%
					Mean:	8.16%
					Minimum:	7.08%
	York Water Company	YORW	3.15%	0.566	6.98%	7.10%

## PROXY GROUP CAPM/ RISK PREMIUM -- S&P 500 INDEX RISK PREMIUM

				Utility		S&P Dividend	CAPM/Risk Premium
			Moody's/S	Bond	Habr	Index Risk	Common
Number	Company	SYM	&P Rating	Yield	Betas	Premium	Equity Cost
1	American States Water	AWR	A2/A+	4.85%	0.637	7.92%	9.89%
2	American Water Works Co.	AWK	A3/A	4.85%	0.922	7.92%	12.15%
3	Artesian Resources Corp.	ARTNA		5.23%	0.563	7.92%	9.69%
4	California Water Service Group	CWT	A+	4.85%	0.677	7.92%	10.21%
5	Essential Utilities, Inc.	WTRG	Baa2/A	5.04%	0.873	7.92%	11.95%
6	Middlesex Water Company	MSEX	A2/A	4.85%	0.744	7.92%	10.74%
7	SJW Corporation	SJW	A-	4.85%	0.612	7.92%	9.69%

					Maximum:	12.15%
					Median:	10.21%
					Mean:	10.62%
					Minimum:	9.69%
York Water Company	YORW	A-	4.85%	0.566	7.92%	9.33%

Exhibit DSH-15 Page 1 of 1

## PROXY GROUP CAPM/ RISK PREMIUM -- HISTORICAL RISK PREMIUM

			Moody's/ S&P	Utility Bond	Habr	Historical Risk	Premium Common
Number C	Company	SYM	Rating	Yield	Betas	Premium	Equity Cost
1 A	merican States Water	AWR	A2/A+	4.85%	0.637	6.98%	9.29%
2 A	merican Water Works Co.	AWK	A3/A	4.85%	0.922	6.98%	11.28%
3 A	rtesian Resources Corp.	ARTNA		5.23%	0.563	6.98%	9.16%
4 C	alifornia Water Service Group	CWT	A+	4.85%	0.677	6.98%	9.57%
5 Es	ssential Utilities, Inc.	WTRG	Baa2/A	5.04%	0.873	6.98%	11.13%
6 N	/iddlesex Water Company	MSEX	A2/A	4.85%	0.744	6.98%	10.04%
7 S.	JW Corporation	SJW	A-	4.85%	0.612	6.98%	9.12%

					Maximum: Median:	11.28% 9.57%
					Mean:	9.94%
					Minimum:	9.12%
York Water Company	YORW	A-	4.85%	0.566	6.98%	8.80%

## BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

:

:

Pennsylvania Public Utility Commission

: Docket Nos. R-2022-3031340 (Water) : R-2022-3032806 (Wastewater)

The York Water Company

v.

## VERIFICATION

I, David S. Habr, hereby state that the facts set forth in my Direct Testimony, OCA Statement 3, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: August 19, 2022 \*334092

Signature:

1. The

David S. Habr

Consultant Address: Habr Economics 213 Cornuta Way Nipomo, CA 93444-5020

**OCA STATEMENT 4** 

## **BEFORE THE**

## PENNSYLVANIA PUBLIC UTILITY COMMISSION

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PENNSYLVANIA PUBLIC UTILITY COMMISSION v. THE YORK WATER COMPANY

DOCKET NOS. R-2022-3031340 (WATER) R-2022-3032806 (WASTEWATER)

## DIRECT TESTIMONY OF

## JEROME D. MIERZWA

## **ON BEHALF OF THE**

## PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

AUGUST 19, 2022



1		I. <u>INTRODUCTION</u>
2	Q.	WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS
3		ADDRESS?
4	А.	My name is Jerome D. Mierzwa. I am a Principal and Vice President of Exeter
5		Associates, Inc ("Exeter"). My business address is 10480 Little Patuxent Parkway,
6		Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-
7		related consulting services.
8	Q.	PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
9		EXPERIENCE.
10	А.	I graduated from Canisius College in Buffalo, New York, in 1981 with a Bachelor of
11		Science Degree in Marketing. In 1985, I received a Master's Degree in Business
12		Administration with a concentration in finance, also from Canisius College. In July
13		1986, I joined National Fuel Gas Distribution Corporation ("NFG Distribution") as a
14		Management Trainee in the Research and Statistical Services Department ("RSS").
15		I was promoted to Supervisor RSS in January 1987. While employed with NFG
16		Distribution, I conducted various financial and statistical analyses related to the
17		Company's market research activity and state regulatory affairs. In April 1987, as part
18		of a corporate reorganization, I was transferred to National Fuel Gas Supply
19		Corporation's ("NFG Supply") rate department where my responsibilities included
20		utility cost of service and rate design analysis, expense and revenue requirement
21		forecasting and activities related to federal regulation. I was also responsible for
22		preparing NFG Supply's Federal Energy Regulatory Commission ("FERC") Purchase
23		Gas Adjustment ("PGA") filings and developing interstate pipeline and spot market
24		supply gas price projections. These forecasts were utilized for internal planning

purposes as well as in NFG Distribution's Section 1307(f) purchased gas cost
 proceedings.

In April 1990, I accepted a position as a Utility Analyst with Exeter. In December 1992, I was promoted to Senior Regulatory Analyst. Effective April 1, 1996, I became a principal of Exeter. Since joining Exeter, I have specialized in utility class cost of service and rate design analysis, evaluating the gas purchasing practices and policies of natural gas utilities, sales and rate forecasting, performance-based incentive regulation, revenue requirement analysis, the unbundling of utility services, and the evaluation of customer choice natural gas transportation programs.

10

11

Q.

## HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY

PROCEEDINGS ON UTILITY RATES?

A. Yes. I have provided testimony on approximately 400 occasions in proceedings before
FERC, utility regulatory commissions in Arkansas, Delaware, Georgia, Illinois,
Indiana, Louisiana, Maine, Maryland, Massachusetts, Montana, Nevada, New
Hampshire, New Jersey, Ohio, Pennsylvania, Rhode Island, South Carolina, Texas,
Utah, and Virginia, as well as before the Pennsylvania Public Utility Commission
("Commission").

18 Q.

## WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. On May 27, 2022, The York Water Company ("York" or "the Company") filed an
application to increase rates for water utility service by \$18.9 million, or 35.1%, and to
increase rates for wastewater service by \$1.5 million, or 35.0%. Exeter was retained by
the Pennsylvania Office of Consumer Advocate ("OCA") to review and analyze the
Company's water and wastewater cost of service ("COS") studies and the rate design
proposals included in York's application. My testimony addresses the Company's COS
studies and rate design proposals.

Q.	HAVE YOU PREPARED EXHIBITS TO ACCOMPANY YOUR
	TESTIMONY?
A.	Yes, I have. Schedules JDM-1 through JDM-3 are attached to my testimony.
Q.	PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.
	• The systemwide and customer class specific base-extra capacity factors utilized in the Company's water COS study are out of date unreasonable and should be modified;
	• The water revenue increase authorized by the Commission in this proceeding should be distributed to the various customer classifications based on the OCA's COS study results;
	• The monthly water service Residential customer charge for a customer with a 5/8-inch meter should remain at \$16.25 unless based on an analysis of direct customer costs, the increase authorized by the Commission is sufficient to justify a higher charge; and
	• York's proposal pursuant to Section 1311(c) of the Public Utility Code to collect \$2.67 million of the costs associated with providing wastewater service through the rates for water utility service should be revised and reduced to \$2.05 million, and subsequently scaled-back to reflect the wastewater revenue requirement authorized by the Commission in this proceeding. The allocation of the wastewater costs to the various water customer classes should also be modified.
Q.	HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?
A.	The remainder of my testimony is divided into six additional sections. The second
	section of my testimony describes and evaluates the Company's water COS study. The
	third section presents my recommended distribution of the water revenue increase
	authorized by the Commission in this proceeding. The next section addresses York's
	proposed water service Residential customer charge. The fifth section of my testimony
	addresses York's proposal to recover \$2.67 million of the costs associated with
	providing wastewater service through the rates for water utility service pursuant to
	Section 1311(c) of the Public Utility Code. The final section of my testimony address
	York's wastewater COS study, revenue allocation, and rate design proposals.
Dir	ect Testimony of Jerome D. Mierzwa Page 3

1 II. WATER COST OF SERVICE STUDY 2 WHAT IS THE OBJECTIVE OF A COST OF SERVICE STUDY? Q. 3 A. A cost of service study is conducted to assist a utility or commission in determining the 4 level of costs properly recoverable from each of the various classes of customers to 5 which the utility provides service. Allocation of recoverable costs to each class of service is generally based on cost causation principles. 6 7 WHAT ARE THE PRIMARY COST OF SERVICE STUDY Q. 8 METHODOLOGIES UTILIZED FOR WATER UTILITIES? 9 A. The two most commonly used and widely recognized methods of allocating costs 10 to customer classes for water utilities are the base-extra capacity method and the 11 commodity-demand method. Both of these methods are set forth in the American Water 12 Works Association's ("AWWA") Manual, M1, Principles of Water Rates, Fees, and 13 Charges ("AWWA Manual"). 14 WHAT METHODOLOGY HAS THE COMPANY UTILIZED FOR ITS Q. 15 WATER COST OF SERVICE STUDY? 16 A. York has utilized the base-extra capacity method in preparing its water cost of service 17 studies. Under the base-extra capacity method, investment and costs are first classified 18 into four primary functional cost categories: base or average capacity, extra capacity, 19 customer, and fire protection. Once investment and costs are classified to these 20 functional categories, they are allocated to the various customer classes. York's water 21 cost of service study and subsequently discussed wastewater cost of service studies are 22 sponsored by Constance E. Heppenstall of Garnett Fleming Valuation and Rate 23 Consultants, LLC.

Q. PLEASE DESCRIBE IN GREATER DETAIL THE FOUR PRIMARY
 FUNCTIONAL COST CATEGORIES AND HOW THEY ARE
 ALLOCATED TO THE VARIOUS CUSTOMER CLASSES UNDER THE
 BASE-EXTRA CAPACITY METHOD.

A. Base or Average Costs are costs that tend to vary with the quantity of water used, plus
 costs associated with supplying, treating, pumping, and distributing water to customers
 under average load conditions. Base costs were allocated to customer class on the basis
 of average daily usage in York's cost of service study.

9 **Extra Capacity Costs** are costs associated with meeting usage requirements in 10 excess of base or average usage. This includes operating and capital costs for additional 11 plant and system capacity beyond that required for average usage. Extra capacity costs 12 in the Company's study have been subdivided into costs necessary to meet maximum 13 day extra demand and maximum hour extra demand. These extra capacity costs were 14 allocated to customer class on the basis of each class's maximum day and maximum 15 hour usage in excess of average usage. Extra capacity costs related to fire protection 16 service are allocated directly to the fire protection classifications.

17 **Customer Costs** are costs associated with serving customers regardless of their 18 usage or demand characteristics. Customer costs include the operating costs related to 19 meters and services, meter reading costs, and billing and collection costs. Customer 20 costs were allocated on the basis of capital cost of meters and services and the number 21 of customer bills.

Fire Protection Costs are costs associated with providing the facilities to meet the potential peak demand of fire protection service. In the Company's study, fire protection costs have been subdivided into the costs associated with meeting Public Fire Protection and Private Fire Protection demands. The extra capacity costs assigned

	to fire protection were allocated to Public and Private Fire Protection on the basis of
	the total relative demands of hydrants and fire service lines. In accordance with 66 Pa.
	C.S. § 1328(b) of the Public Utility Code, public fire costs exceeding 25% of the public
	fire cost of service were reallocated to other classifications.
Q.	WHAT CUSTOMER CLASSES HAS THE COMPANY IDENTIFIED IN
	ITS WATER COST OF SERVICE STUDY?
А.	The Company has separately identified the cost of serving five customer classes in its
	study: Residential; Commercial; Industrial; Private Fire Protection; and Public Fire
	Protection. Within each of these classes a separate cost of service has been determined
	for the gravity and re-pumped service areas.
Q.	DO YOU AGREE WITH THE FUNCTIONALIZATION AND
	ALLOCATION OF COSTS IN YORK'S WATER COST OF SERVICE
	STUDY?
А.	I generally agree with York's use of the base-extra capacity methodology. However, I
	believe that modifications to the systemwide and customer class specific maximum day
	and maximum hour extra capacity factors utilized to allocate functionalized costs to the
	various customer classifications are necessary.
Q.	PLEASE DESCRIBE IN GREATER DETAIL YORK'S ALLOCATION OF
	MAXIMUM DAY AND MAXIMUM HOUR EXTRA CAPACITY COSTS
	UNDER THE BASE-EXTRA CAPACITY METHOD TO THE VARIOUS
	CUSTOMER CLASSES.
А.	Under the method set forth in the AWWA Manual, maximum day and maximum hour
	extra capacity costs are allocated to customer class based on the excess of each class's
	non-coincident maximum day and maximum hour demands over average day and
	average hour demands, respectively.
	A. Q. Q.

For example, in York's cost of service study, the average daily demand of 1 2 Residential customers in the gravity and re-pumped service areas is 84,206,000 gallons and the non-coincident maximum day demand of Residential customers is estimated to 3 be 210,515,000 gallons (Exhibit No. FVIII, Schedule E, page 3).<sup>1</sup> Thus, the maximum 4 day extra capacity demand of Residential customers is estimated to be 126,309,000 5 6 gallons (210,515,000 minus 84,206,000) and this serves as the basis to allocate 7 maximum day extra capacity costs to Residential customers. The maximum day extra 8 capacity factor, which I discuss later in my testimony, is the ratio obtained by dividing 9 maximum day extra capacity demands by average daily demands. In this instance, the 10 maximum day extra capacity factor for Residential customers 2.5 is 11 (210,515,000/84,206,000).

In the Company's water cost of service study, the average hourly demand of 12 13 Residential customers in the gravity and re-pumped service areas is 3,508,600 gallons, 14 and the non-coincident maximum hour demand of Residential customers is estimated 15 to be 15,788,700 gallons (Exhibit No. FVIII, Schedule E, pages 7 and 9). Thus, the 16 maximum hour extra capacity demand of Residential customers is estimated to be 17 12,280,100 gallons (15,788,700 minus 3,508,600), and this serves as the basis for 18 allocating maximum hour extra capacity costs to Residential customers. In this instance, the maximum hour extra capacity factor of Residential customers is 4.5 19 20 (15,788,700/3,508,600).

<sup>&</sup>lt;sup>1</sup> Average demands of the various customer classes are based on actual meter readings and, therefore, known with relative certainty. Maximum day and maximum hour demands must be estimated because consumption meters are not read on a daily or hourly basis.

1	Q.	THE BASE-EXTRA CAPACITY UTILIZES NON-COINCIDENT PEAK
2		DEMANDS TO ALLOCATE EXTRA CAPACITY COSTS TO THE
3		VARIOUS CUSTOMER CLASSES. IS THIS SIMPLY THE DEMANDS OF
4		EACH CUSTOMER CLASSIFICATION AT THE TIME OF SYSTEM
5		PEAK DAY AND PEAK HOUR DEMANDS?
6	A.	No. Non-coincident peak demands represent the maximum demands of the individual
7		customer classifications regardless of when those demands occur. Thus, the sum of
8		each customer class's non-coincident demands will exceed the system coincident peak
9		demand. The ratio obtained by dividing non-coincident demands by coincident
10		demands is referred to as the system diversity ratio in the AWWA Manual.
11	Q.	WHY ARE NON-COINCIDENT DEMANDS UTILIZED UNDER THE
12		BASE-EXTRA CAPACITY METHOD?
13	A.	The basis for using non-coincident maximum day and minimum hour demands is set
14		forth in the AWWA Manual:
14 15		forth in the AWWA Manual: It is important that the reader understand the rationale
15 16		It is important that the reader understand the rationale of using the non-coincident demands in distributing
15 16 17		It is important that the reader understand the rationale of using the non-coincident demands in distributing the functionally allocated costs to each class. The
15 16 17 18		It is important that the reader understand the rationale of using the non-coincident demands in distributing the functionally allocated costs to each class. The rationale for supporting the use of non-coincident
15 16 17 18 19		It is important that the reader understand the rationale of using the non-coincident demands in distributing the functionally allocated costs to each class. The rationale for supporting the use of non-coincident peaking factors is that the benefits of diversity in
15 16 17 18		It is important that the reader understand the rationale of using the non-coincident demands in distributing the functionally allocated costs to each class. The rationale for supporting the use of non-coincident peaking factors is that the benefits of diversity in customer class consumption patterns should accrue
15 16 17 18 19 20 21 22		It is important that the reader understand the rationale of using the non-coincident demands in distributing the functionally allocated costs to each class. The rationale for supporting the use of non-coincident peaking factors is that the benefits of diversity in
15 16 17 18 19 20 21 22 23		It is important that the reader understand the rationale of using the non-coincident demands in distributing the functionally allocated costs to each class. The rationale for supporting the use of non-coincident peaking factors is that the benefits of diversity in customer class consumption patterns should accrue to all classes in proportion to their use of the system, and not be allocated primarily to a particular class that happens to peak at a time different from other
15 16 17 18 19 20 21 22 23 24		It is important that the reader understand the rationale of using the non-coincident demands in distributing the functionally allocated costs to each class. The rationale for supporting the use of non-coincident peaking factors is that the benefits of diversity in customer class consumption patterns should accrue to all classes in proportion to their use of the system, and not be allocated primarily to a particular class that happens to peak at a time different from other users of the system. The concept is illustrated
15 16 17 18 19 20 21 22 23 24 25		It is important that the reader understand the rationale of using the non-coincident demands in distributing the functionally allocated costs to each class. The rationale for supporting the use of non-coincident peaking factors is that the benefits of diversity in customer class consumption patterns should accrue to all classes in proportion to their use of the system, and not be allocated primarily to a particular class that happens to peak at a time different from other users of the system. The concept is illustrated through the following example: Assume that a utility
15 16 17 18 19 20 21 22 23 24 25 26		It is important that the reader understand the rationale of using the non-coincident demands in distributing the functionally allocated costs to each class. The rationale for supporting the use of non-coincident peaking factors is that the benefits of diversity in customer class consumption patterns should accrue to all classes in proportion to their use of the system, and not be allocated primarily to a particular class that happens to peak at a time different from other users of the system. The concept is illustrated through the following example: Assume that a utility was going to build a <i>separate system</i> (source of
15 16 17 18 19 20 21 22 23 24 25 26 27		It is important that the reader understand the rationale of using the non-coincident demands in distributing the functionally allocated costs to each class. The rationale for supporting the use of non-coincident peaking factors is that the benefits of diversity in customer class consumption patterns should accrue to all classes in proportion to their use of the system, and not be allocated primarily to a particular class that happens to peak at a time different from other users of the system. The concept is illustrated through the following example: Assume that a utility was going to build a <i>separate system</i> (source of supply, treatment, pumping, transmission and
15 16 17 18 19 20 21 22 23 24 25 26		It is important that the reader understand the rationale of using the non-coincident demands in distributing the functionally allocated costs to each class. The rationale for supporting the use of non-coincident peaking factors is that the benefits of diversity in customer class consumption patterns should accrue to all classes in proportion to their use of the system, and not be allocated primarily to a particular class that happens to peak at a time different from other users of the system. The concept is illustrated through the following example: Assume that a utility was going to build a <i>separate system</i> (source of supply, treatment, pumping, transmission and distribution, etc.) for <i>each of the customer classes</i>
15 16 17 18 19 20 21 22 23 24 25 26 27 28		It is important that the reader understand the rationale of using the non-coincident demands in distributing the functionally allocated costs to each class. The rationale for supporting the use of non-coincident peaking factors is that the benefits of diversity in customer class consumption patterns should accrue to all classes in proportion to their use of the system, and not be allocated primarily to a particular class that happens to peak at a time different from other users of the system. The concept is illustrated through the following example: Assume that a utility was going to build a <i>separate system</i> (source of supply, treatment, pumping, transmission and distribution, etc.) for <i>each of the customer classes</i> served by the utility. These separate water systems would need to be sized to meet the base, maximum-
15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31		It is important that the reader understand the rationale of using the non-coincident demands in distributing the functionally allocated costs to each class. The rationale for supporting the use of non-coincident peaking factors is that the benefits of diversity in customer class consumption patterns should accrue to all classes in proportion to their use of the system, and not be allocated primarily to a particular class that happens to peak at a time different from other users of the system. The concept is illustrated through the following example: Assume that a utility was going to build a <i>separate system</i> (source of supply, treatment, pumping, transmission and distribution, etc.) for <i>each of the customer classes</i> served by the utility. These separate water systems would need to be sized to meet the base, maximum- day extra capacity, and maximum-hour extra
15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32		It is important that the reader understand the rationale of using the non-coincident demands in distributing the functionally allocated costs to each class. The rationale for supporting the use of non-coincident peaking factors is that the benefits of diversity in customer class consumption patterns should accrue to all classes in proportion to their use of the system, and not be allocated primarily to a particular class that happens to peak at a time different from other users of the system. The concept is illustrated through the following example: Assume that a utility was going to build a <i>separate system</i> (source of supply, treatment, pumping, transmission and distribution, etc.) for <i>each of the customer classes</i> served by the utility. These separate water systems would need to be sized to meet the base, maximum- day extra capacity, and maximum-hour extra capacity demands related to each class. The sum of
15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31		It is important that the reader understand the rationale of using the non-coincident demands in distributing the functionally allocated costs to each class. The rationale for supporting the use of non-coincident peaking factors is that the benefits of diversity in customer class consumption patterns should accrue to all classes in proportion to their use of the system, and not be allocated primarily to a particular class that happens to peak at a time different from other users of the system. The concept is illustrated through the following example: Assume that a utility was going to build a <i>separate system</i> (source of supply, treatment, pumping, transmission and distribution, etc.) for <i>each of the customer classes</i> served by the utility. These separate water systems would need to be sized to meet the base, maximum- day extra capacity, and maximum-hour extra

1	individual systems would be allocable to each class
2	(based on their respective non-coincidental demands
3	that were the basis for sizing the individual
4	components of the system).

5 Assume that a concept is developed that efficiencies, 6 economies of scale, and reduction in the overall size 7 of the "system" could be achieved if the system is an 8 integrated, diversified system. With this concept in 9 mind, recognizing the diversities of demands of the 10 various classes and using the coincidental demands 11 of all classes to size the plant, a smaller system could 12 be built. Total fixed capital costs and most operation 13 and maintenance expenses, except perhaps for power 14 and chemical costs, would be reduced in sizing the overall system facilities on the basis of the 15 coincidental demands of all the classes of customers. 16 17 The question at hand is, considering that there is a

18 smaller, more efficient, and less costly system, how 19 should the cost savings of that system be allocated 20 among the individual customer classes? One 21 appropriate manner to allocate these costs, and have 22 each customer class share equitably in the overall 23 cost savings, is to allocate the total new, smaller 24 system costs on the basis of the non-coincidental 25 demands of each customer class. In this manner, all 26 classes share proportionately in the economies of 27 scale and cost savings of this smaller, integrated, and 28 diverse system.

AWWA Manual, Appendix A, pages 374 - 375, 7<sup>th</sup>
Edition (2017).

## 31 Q. HOW DID THE COMPANY DETERMINE THE MAXIMUM DAY AND

## 32 MAXIMUM HOUR DEMANDS OF THE VARIOUS CUSTOMER CLASS

- 33 REFLECTED IN ITS COST OF SERVICE STUDY?
- A. The maximum day and maximum hour demands reflected in the Company's water cost
- 35 of service study were developed based on a combination of judgment, a customer
- demand study conducted on the York system during 1976 and 1977, and studies by
- 37 other Pennsylvania water utilities.

# Q. WHAT ARE YOUR CONCERNS WITH THE SYSTEMWIDE AND CUSTOMER CLASS SPECIFIC MAXIMUM DAY AND MAXIMUM HOUR DEMAND FACTORS USED IN THE COMPANY'S STUDY?

4 My concern with the systemwide and customer specific demand factors used by the 5 Company is that they are outdated. The systemwide maximum day extra capacity factor 6 used in York's cost of service study was experienced in 2010, and the systemwide 7 maximum day extra capacity factor was experienced in 2006. The customer demand 8 study conducted by York relied upon for the customer class specific demand factors is 9 45 years old. Thus, changes in customer demands and/or mix are not reflected in the 10 Company's systemwide and customer specific demand factors. For example, Exhibit 11 No. FVIII. RS1-c Attachment, page 9 of the Company's filing identified the Industrial 12 customers included in the Company's 1976 – 1977 customer demand study. Of the 19 13 customer accounts identified there, York no longer provides water utility service to five 14 of those locations. In the 1976 – 1977 customer demand study, of the 14 accounts still 15 served by York, the average daily consumption of those customers was 1,649,989 16 gallons. The average daily consumption of those 14 customers during 2021 was only 17 321,008 gallons, a decline of over 80%. Clearly, customer demands have changed 18 significantly since the 1976 – 1977 demand study.

19 Q. WHAT DO YOU RECOMMEND WITH RESPECT TO THE

- 20 SYSTEMWIDE AND CLASS SPECIFIC CUSTOMER DEMAND
- 21 FACTORS WHICH SHOULD BE USED IN THE COMPANY'S COST OF
- 22 SERVICE STUDY?
- A. Based on the maximum day and maximum hour usage ratio to average day usage ratio
   recently experienced by York which are presented on Exhibit No. FVIII, Schedule F, I
   recommend that a systemwide maximum day demand factor of 1.35 be utilized in the

1 Company's cost-of-service study, and that a maximum hour demand factor of 1.65 be 2 utilized.

For customer class specific demand factors, Appendix A of the AWWA Manual presents a procedure that can be used to develop customer demand factors from system demand data and customer billing records. I recommend that this procedure be used to develop customer demand factors. This will provide for the development of customer demand factors which are based on recent data and the current usage characteristics of York's customers.

HAVE YOU DEVELOPED CUSTOMER DEMAND FACTORS BASED

9

10

Q.

## ON THE PROCEDURES DESCRIBED IN THE AWWA MANUAL?

11 A. Yes. I have calculated customer demand factors using the procedures described in the 12 AWWA Manual. These demand factors are developed on Schedule JDM-1. To develop 13 these factors, I examined annual system demand and monthly customer billing records 14 for the most recent three year period for which data was available and provided by 15 York, and developed customer demand factors for each of those years. I selected to 16 utilize the demand factors calculated for the most recent annual period (June 2021 – 17 May 2022) because the AWWA Manual prescribes that the year with the highest ratio 18 of system maximum day to system average day demand for a representative number of 19 recent years should be used in the analysis. I would note that, however, the resulting 20 customer demand factors would not vary significantly if data from any of the past three 21 years had been utilized.

## Q. HOW DO YOUR RECOMMENDED SYSTEMWIDE EXTRA CAPACITY FACTORS COMPARE TO THOSE USED BY YORK?

A. York has used a systemwide maximum day demand factor of 1.52, and a maximum
hour demand factor of 1.84 in its cost of service study. I recommended that, based on

1		more recent usage characteristics of York's customers, a maximum day demand factor
2		of 1.35 and a maximum hour demand factor of 1.65 should be utilized.
3	Q.	HOW DO THE CUSTOMER CLASS SPECIFIC DEMAND FACTORS
4		WHICH YOU DEVELOPED BASED ON THE PROCEDURES
5		RECOMMENDED IN THE AWWA MANUAL COMPARE TO THOSE
6		USED BY THE COMPANY?
7	A.	A comparison of the customer demand factors which I developed and those used by the
8		Company is presented in Table 1.

Table 1.Comparison of Customer Extra Capacity Demand Factors								
Maximum Day Maximum Hour								
Class	AWWA	Company	AWWA	Company				
Residential	1.70	2.50	2.80	4.50				
Commercial	1.50	1.60	2.50	3.30				
Industrial	1.45	1.50	1.95	2.70				

## 9 Q. HAVE YOU PREPARED A WATER COST OF SERVICE STUDY THAT

10

## INCORPORATES YOUR RECOMMENDED DEMAND FACTORS?

11 A. Yes. Schedule JDM-2 presents a summary of a cost of service study incorporating my 12 recommended systemwide and customer class specific demand factors. The study 13 presented in Schedule JDM-2 also reflects my recommendation to reduce the 14 wastewater revenue requirement to be recovered from water service customers by \$625,000, from \$2,670,856 to \$2,045,856, and my proposed modifications to the 15 16 allocation of the wastewater revenue requirement to the various customer classes. 17 These recommendations and modifications to the wastewater revenue requirement to 18 be recovered from water service customers are addressed in Section V of my testimony.

# Q. HOW DO THE RESULTS OF YOUR STUDY COMPARE WITH THE RESULTS OF THE COMPANY'S STUDY?

A. A comparison of the unitized rates of return<sup>2</sup> at the Company's proposed rates based
on the Company's and my cost-of-service studies is presented in Table 2. I would note
that the OCA unitized rates of return reflected in Table 2 are the same with and without
my proposed recommendations and modifications to the assignment and allocation of
a portion of the wastewater revenue requirement to water service.

Table 2.Unitized Rates of Return at Proposed Rates		
Customer Class	Company	OCA
Gravity System		
Residential	1.00	1.08
Commercial	1.00	0.90
Industrial	1.00	0.89
Private Fire	1.00	0.92
Public Fire	1.00	0.98
Repumped System		
Residential	1.00	1.08
Commercial	1.00	0.90
Industrial	1.00	0.91
Private Fire	1.00	0.91
Public Fire	1.00	0.98

8 As shown above in Table 2, at the revenue increase proposed by the Company 9 for each class, my study indicates the Residential class would be paying more than its 10 indicated cost of service, while the Commercial, Industrial, and Private Fire classes 11 would be paying modestly less than their indicated cost of service. In contrast, under

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<sup>&</sup>lt;sup>2</sup> The unitized rate of return is calculated by dividing the rate of return of a particular customer class by the Company's overall rate of return. A unitized rate of return of 1.0 would indicate that a customer class is contributing revenues equal to its cost of service. Unitized rates of return greater than 1.0 indicate that a customer class is contributing revenues in excess of its cost of service, while unitized rates of return less than 1.0 indicate that a customer class is contributing revenues insufficient to cover that class's cost of service.

the OCA's proposed revenue distribution discussed in the next section of my testimony
 has been allocated so that the unitized rate of return for each class would be 1.00.

1

## **III. WATER REVENUE DISTRIBUTION**

2 Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSED DISTRIBUTION

3

OF THE RATE INCREASE IT IS REQUESTING IN THIS PROCEEDING.

4 A. York's proposed distribution of the water revenue increase is presented in Table 3.

Table 3.Company Proposed Distribution of Water Revenue Increase				
	Present	Proposed		
Class	Rates	Rates	Increase	Percent
<b>Residential</b>				
Gravity	\$9,781,992	\$13,311,230	\$3,529,238	36.1%
Repumped	\$24,687,304	\$32,762,201	\$8,074,897	32.7%
Total:	\$34,469,296	\$46,073,431	\$11,604,135	33.7%
<b>Commercial</b>				
Gravity	\$3,610,022	\$5,264,408	\$1,654,386	45.8%
Repumped	\$6,957,041	\$9,997,650	\$3,040,609	43.7%
Total:	\$10,567,063	\$15,262,058	\$4,694,995	44.4%
<b>Industrial</b>				
Gravity	\$851,750	\$1,238,985	\$387,235	45.5%
Repumped	\$3,223,353	\$4,528,700	\$1,305,347	40.5%
Total:	\$4,075,104	\$5,767,685	\$1,692,581	41.5%
<u>Private Fire</u>				
Gravity	\$673,909	\$914,517	\$240,608	35.7%
Repumped	\$1,345,427	\$1,683,139	\$337,712	25.1%
Total:	\$2,019,336	\$2,597,656	\$578,320	28.6%
<u>Public Fire</u>				
Gravity	\$268,062	\$323,794	\$55,732	20.8%
Repumped	\$1,124,463	\$1,329,176	\$204,713	18.2%
Total:	\$1,392,525	\$1,652,970	\$260,445	18.7%
Grand				
Total:	\$52,523,324	\$71,353,800	\$18,830,476	35.9%

1	Q.	HOW DID THE COMPANY DISTRIBUTE THE PROPOSED INCREASE
2		TO THE VARIOUS CUSTOMER CLASSES?
3	A.	York has proposed rates for each customer class equal to the indicated cost of service.
4	Q.	WHAT IS YOUR PROPOSAL WITH RESPECT TO THE DISTRIBUTION
5		OF THE WATER REVENUE INCREASE AWARDED IN THIS
6		PROCEEDING?
7	А.	I recommend that the increase authorized in this proceeding be distributed based on the
8		cost of service indicated by my study. A distribution based on the Company's requested
9		increase is presented in Table 4. To the extent the Commission awards York less than
10		the amount of the revenue increase requested, rates for each class should be scaled back
11		proportionately.

Table 4.           OCA Proposed Distribution of Water Revenue Increase				
Class	Present Rates	Proposed Rates	Increase	Percent
<u>Residential</u>				
Gravity	\$9,781,992	\$12,744,179	\$2,962,187	30.3%
Repumped	\$24,687,304	\$31,383,981	\$6,696,677	27.1%
Total:	\$34,469,296	\$44,128,160	\$9,658,863	28.0%
<b>Commercial</b>				
Gravity	\$3,610,022	\$5,435,061	\$1,825,039	50.6%
Repumped	\$6,957,041	\$10,358,665	\$3,401,624	48.9%
Total:	\$10,567,063	\$15,793,726	\$5,226,663	49.5%
<u>Industrial</u>				
Gravity	\$851,750	\$1,345,427	\$493,677	58.0%
Repumped	\$3,223,353	\$4,893,536	\$1,670,182	51.8%
Total:	\$4,075,104	\$6,238,963	\$2,163,859	53.1%
Private Fire				
Gravity	\$673,909	\$985,430	\$311,521	46.2%
Repumped	\$1,345,427	\$1,834,049	\$488,622	36.3%
Total:	\$2,019,336	\$2,819,479	\$800,143	39.6%
<b>Public Fire</b>				
Gravity	\$268,062	\$340,696	\$72,634	27.1%
Repumped	\$1,124,463	\$1,404,746	\$280,283	24.9%
Total:	\$1,392,525	\$1,745,442	\$352,917	25.3%
Grand Total:	\$52,523,324	\$70,725,769	\$18,202,445	34.7%

1

1		IV. <u>RESIDENTIAL WATER CUSTOMER CHARGE</u>
2	Q.	WHAT IS YORK PROPOSING WITH RESPECT TO THE RESIDENTIAL
3		CUSTOMER CHARGE FOR WATER CUSTOMERS?
4	A.	York is proposing to increase the current customer charge for a Residential customer
5		with a 5/8-inch meter from \$16.25 to \$20.71. Similar percentage increases are proposed
6		for customers with larger meters. The \$20.71 is based on analysis of what the Company
7		claims are direct customer costs presented in RS1-J Attachment.
8	Q.	WHAT COSTS HAS YORK INCLUDED IN ITS CALCULATION OF
9		DIRECT CUSTOMER COSTS?
10	A.	York has included operation and maintenance ("O&M") expenses, depreciation
11		expense and the return and taxes associated with meters and services and related
12		supplies, customer accounting O&M expenses and bad debt expense in its calculation
13		of direct customers. The Company has also included what it claims are directly related
14		O&M costs such as pensions and benefits.
15	Q.	IS YORK'S CALCULATION OF DIRECT CUSTOMER COSTS
16		REASONABLE?
17	A.	No. Only those costs that change directly with the addition or subtraction of a customer
18		should be included in the calculation of a customer charge. York has included bad debt
19		expense in its calculation which is not a direct customer cost, and office building and
20		furniture and equipment related investment costs which are also not direct customer
21		costs. Finally, York has included the investment costs associated with its Enterprise
22		Software which do not change with the addition or subtraction of a customer <sup>3</sup> .

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<sup>&</sup>lt;sup>3</sup> Per the response to OCA Set IX, No. 1, Enterprise Software is the software system which manages and integrates most accounting, billing, customer service, purchasing, human resource, and operational functions of the Company within a single system.

#### 1 Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO YORK'S 2 MONTHLY RESIDENTIAL CUSTOMER CHARGES FOR WATER 3 CUSTOMERS?

4 A. York claims that, based on the Company's requested increase, a cost-based customer 5 charge would be \$20.71. As discussed above, the Company's calculation improperly 6 includes bad debt expense, office building and furniture and equipment related 7 investment costs, Enterprise Software investment costs, and should be reduced 8 accordingly. Finally, at the revenue increase authorized by the Commission in this 9 proceeding, a cost-based charge would certainly be further reduced. For example, 10 adjusting York's overall requested pre-tax rate of return of 9.01% to reflect the OCA's 11 recommended pre-tax return of 7.94% would further reduce the calculated customer 12 charge. A calculation adjusting the Company's calculated direct customer charge to 13 remove the improperly included costs, eliminate bad debt expense, and to reflect the 14 OCA's recommended rate of return is presented on Schedule JDM-3. As shown there, 15 these adjustments reduce the calculated charge to \$19.30. Other adjustments to York's 16 revenue requirement claim are likely to further reduce the calculated customer charge. 17 Therefore, I recommend that the existing \$16.25 monthly charge for Residential 18 customers with a 5/8-inch meter be maintained, unless the increase authorized by the 19 Commission is sufficient to justify a higher charge.

20

## V. RECOVERY OF WASTEWATER SERVICE COSTS FROM WATER SERVICE

- 21 Q. PLEASE DESCRIBE YORK'S PROPOSAL IN THIS PROCEEDING WITH 22 RESPECT TO ITS WASTEWATER OPERATIONS.
- 23 A. York is proposing to recover a portion of the revenue requirement associated with 24 wastewater operations from its water operations and is proposing to allocate a portion 25 of the wastewater revenue requirement to the water revenue requirement of Residential

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1		and Commercial customers. York's proposal is pursuant to one of the amendments to
2		the Public Utility Code made by Act 11 of 2012. York is proposing to increase rates
3		for its average wastewater customer by 35%, or \$1.5 million. The unrecovered
4		wastewater revenue requirement to be allocated to water utility service is \$2,670,856.
5		Absent an allocation of any portion of the wastewater revenue requirement to water
6		revenue requirement, rates to wastewater customers would need to be increased by
7		approximately 100%, based on York's filed-for claim.
8	Q.	ON WHAT PROVISION OF ACT 11 OF 2012 DOES YORK RELY ON TO
9		SUPPORT ITS REQUEST TO RECOVER A PORTION OF THE
10		WASTEWATER REVENUE REQUIREMENT THROUGH THE WATER
11		UTILITY REVENUE REQUIREMENT?
12	А.	The particular provision of Act 11 on which York relies is an amendment to Section
13		1311 of the Public Utility Code, 66 Pa. C.S. § 1311. The Act amended subsection (c)
14		and added a new subsection (e) of that section. The relevant portions of Section 1311
15		now read as follows:
16 17		§ 1311 Valuation of and return on the property of a public utility.
18		* * *
19 20 21 22 23 24 25 26 27 28 29 30 31		(c) Segregation of property. When any public utility furnishes more than one of the different types of utility service, the commission shall segregate the property used and useful in furnishing each type of such service, and shall not consider the property of such public utility as a unit in determining the value of the rate base of such public utility for the purpose of fixing base rates. A utility that provides water and wastewater service shall be exempt from this subsection upon petition of a utility to combine water and wastewater revenue requirements. The commission, when setting base rates, after notice and an opportunity to be heard, may allocate a portion of

1 2 3		the wastewater revenue requirement to the combined water and wastewater customer base if in the public interest.
4		* * *
5 6 7 8 9 10		(e) Definition. As used in this section, the term "utility that provides both water and wastewater service" shall include separate companies that individually provide water and wastewater service so long as the companies are wholly owned by a common parent company.
11 12		66 Pa. C.S. § 1311 (effective April 16, 2012).
13	Q.	DOES YORK QUALIFY AS A UTILITY THAT PROVIDES BOTH
14		WATER AND WASTEWATER SERVICE?
15	A.	Yes.
16	Q.	HOW HAS YORK ALLOCATED THE WASTEWATER COSTS
17		ASSIGNED TO WATER CUSTOMERS TO EACH OF THE CUSTOMER
18		CLASSES INCLUDED IN THE COMPANY'S COST OF SERVICE
19		STUDY?
20	A.	York has assigned the wastewater costs to the Residential and Commercial classes
21		based on the cost of providing water service as indicated by its water study. None of
22		the costs have been assigned to the Industrial class. York has also not assigned any of
23		the wastewater revenue requirement to the Private or Public Fire Protection classes. For
24		Public Fire Protection, this is consistent with the requirement of Section 1328 of the
25		Public Utility Code which limits Public Fire Protection charges to 25% of the indicated
26		cost of service.

Q. HAS THE COMMISSION ISSUED ANY ORDERS, RULEMAKINGS,
 POLICY STATEMENTS OR OTHER GUIDANCE ON HOW IT SHOULD
 BE DETERMINED WHETHER RECOVERING A PORTION OF THE
 COSTS ASSOCIATED WITH PROVIDING WASTEWATER SERVICE
 THROUGH RATES FOR WATER SERVICE IS IN THE PUBLIC
 INTEREST?

A. Yes. In Aqua Pennsylvania, Inc. ("Aqua") Docket No. R-2021-3027385, Aqua
proposed to recover approximately 30% of its wastewater revenue requirement from
water customers.<sup>4</sup> In its Order in that proceeding, the Commission found Aqua's
proposal to assign 30% of its wastewater revenue requirement to water customers not
to be in the public interest.<sup>5</sup> In that proceeding, the Commission reduced the subsidy
based on a proposal presented by the Bureau of Investigation and Enforcement..

13 Q. IS YORK'S PROPOSAL TO ALLOCATE A PORTION OF THE

14 WASTEWATER REVENUE REQUIREMENT TO WATER CUSTOMERS

- 15 REASONABLE, AND IS THE PROPOSED ALLOCATION TO THE
- 16 WATER CUSTOMER CLASSES REASONABLE?

17 A. For the reasons subsequently discussed, I recommend that York's proposed assignment 18 of the wastewater revenue requirement to water customers should be modified. 19 Wastewater service costs may only be assigned to water customers if doing so is in the 20 public interest. If the Commission determines in this proceeding that it is appropriate 21 to assign a portion of the wastewater revenue requirement to water customers, the 22 Company's proposed allocation to the various water customer classes based on the cost 23 of water service is generally reasonable with the exception that Industrial and Public 24 Fire Protection customers should be included in an allocation based on their indicated

<sup>5</sup> <u>Id.</u>, at 227.

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<sup>&</sup>lt;sup>4</sup> Order entered May 16, 2022, at 226.

cost of service. There is no basis to exclude Industrial and Private Fire Protection
 customers from such an allocation.

# 3 Q. PLEASE EXPLAIN WHY AND HOW YOU ARE RECOMMENDING 4 THAT YORK'S PROPOSED ASSIGNMENT OF THE WASTEWATER 5 REVENUE REQUIRED TO WATER SERVICE BE MODIFIED.

A. In this proceeding, York is proposing to increase both water and wastewater rates by
35%. Under this proposal, the rates assessed to water customers will be more than
sufficient to recover the indicated cost of water service, but the rates assessed to
wastewater customers will be less than sufficient to recover the indicated cost of
wastewater service. Therefore, a larger percentage increase is warranted for wastewater
service than is warranted for water service.

12 Any shift of wastewater revenue requirement to water customers should be a 13 fact specific inquiry and a determination of how much, if any, is in the public interest 14 to shift should be made on a case-by-case basis. However, we also know that in Aqua 15 Docket No. R-2021-3027385, the Commission found Aqua's proposal to assign 30% 16 of its wastewater revenue requirement to water customers not be in the public interest 17 and reduced the shifted revenue. In this proceeding, where York is proposing to allocate 18 32% of its wastewater revenue requirement to water customers and the proposed shift 19 would result in an equal increase to water and wastewater rates, the proposed subsidy 20 is not reasonable. I recommend that the allocation of the wastewater revenue 21 requirement assigned to water customers be reduced 25%, or \$625,000. This results in 22 a shift of the wastewater revenue requirement to water customers of slightly less than 23 25%, increases the recovery of the wastewater revenue requirement from wastewater 24 customers, and continues to provide for mitigation of the rate increase which would 25 otherwise be experienced by wastewater customers absent any revenue requirement

1

shift to water customers. The Company's proposal as well as my recommended

2 adjustments to that proposal are presented in Table 5.

Table 5. OCA	Adjustment t	o Company	Assignment	of Wastewa	ter Revenue	Requiremen	nt to Water	Service
			equirement As Water Servic	0				
Class	Cost of Service	Company	OCA Adjustment	OCA Assignment	Present Revenues	Proposed Revenues	Increase	Percent
Residential	\$6,934,645	\$1,978,386	(\$462,957)	\$1,515,429	\$3,713,704	\$5,419,216	\$1,705,512	45.9%
Non-Residential	\$1,350,380	\$692,470	(\$162,043)	\$530,427	\$443,699	\$819,953	\$376,254	84.8%
Total Sales	\$8,285,025	\$2,670,856	(\$625,000)	\$2,045,856	\$4,157,403	\$6,239,169	\$2,081,766	50.1%

## 3 VI. <u>WASTEWATER COST OF SERVICE STUDIES, REVENUE ALLOCATION,</u> 4 <u>AND RATE DESIGN</u>

5 Q.

### HOW MANY WASTEWATER COST OF SERVICE STUDIES DID THE

- 6 COMPANY PRESENT?
- A. York presented two wastewater studies. York prepared one study for its total
  wastewater operations (Exhibit No. FVIII-WA) and prepared a separate study for its
  total wastewater operations exclusive of its West Manheim acquisition (Exhibit No.
- 10 FVIII-WB). The study exclusive of West Manheim was prepared in compliance with
- 11 the Company's West Manheim acquisition Order in Docket No. A-2021-3025720.
- 12 Q. WHICH WASTEWATER COST OF SERVICE STUDY DOES YORK
- 13 UTILIZE TO DEVELOP ITS PROPOSED ALLOCATION OF ITS
- 14 REQUESTED REVENUE INCREASE?
- A. York utilizes the cost of service study for its total wastewater operations inclusive of
  West Manheim to develop its proposed revenue distribution.
- 17 Q. WHAT METHODOLOGY DID THE COMPANY UTILIZE IN
- 18 PREPARING ITS WASTEWATER COST OF SERVICE STUDIES?
- A. Ms. Heppenstall used the functional cost allocation methodology described in
   *Financing and Charges for Wastewater Systems; Manual of Practice No.* 27 published

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1		by the Water Environment Federation ("Manual of Practice No. 27"). This method
2		allocates the cost of providing wastewater service to customer classifications in
3		proportion to each classification's use of the service provider's facilities and services.
4		Costs are assigned to cost components using predominant operational purposes as cost-
5		causative factors. The functional cost allocation method is generally accepted as a
6		sound method for allocating the cost of wastewater service.
7	Q.	PLEASE IDENTIFY THE CUSTOMER CLASSES INCLUDED IN YORK'S
8		WASTEWATER STUDIES.
9	A.	Each wastewater cost of service study includes two customer classes: Residential and
10		Non-Residential.
11	Q.	ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE
12		WASTEWATER COST OF SERVICE STUDIES PREPARED BY YORK?
13	А.	I am not recommending any adjustments directly to the Company's wastewater studies.
14		However, as previously explained, I am proposing to modify the Company's proposal
15		to recover 32% of its wastewater cost of service, or revenue requirement, from water
16		service customers.
17	Q.	OTHER THAN REDUCING THE WASTEWATER REVENUE
18		REQUIREMENT ASSIGNED TO WATER SERVICE, ARE YOU
19		PROPOSING ANY CHANGES TO YORK'S PROPOSED REVENUE
20		ALLOCATIONS?
21	A.	No.

## 1Q.HOW SHOULD THE WASTEWATER RATES PROPOSED BY YORK BE2ADJUSTED TO REFLECT YOUR PROPOSED REVENUE

3

#### ALLOCATION?

A. I recommend that the rates proposed by York for each class be proportionately increased to reflect the reduction in the wastewater revenue requirement assigned to water customers.

4 Q. IF THE COMMISSION AUTHORIZES A TOTAL WASTEWATER

5 REVENUE REQUIREMENT THAT IS LESS THAN THE \$8.3 MILLION

6 REVENUE REQUIREMENT REQUESTED BY YORK, HOW SHOULD

- 7 THAT REDUCTION BE ALLOCATED AND REFLECTED IN THE
  8 DESIGN OF RATES?
- 9 A. If the Commission authorizes a total wastewater revenue requirement that is less than
  10 the revenue requirement requested by York, I recommend that the reduction first be
  applied to proportionately reduce by class the wastewater revenue requirement
  assigned to water customers, and only if there is an amount remaining should it then be
  proportionately applied to reduce the wastewater revenue requirement not assigned to
  water customers. I also recommend that the rates proposed by York be proportionately
  scaled back to reflect the final revenue requirement of each class.

16 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

17 A. Yes, it does; however, I reserve the right to update this testimony as may be necessary.

**OCA STATEMENT 4** 

#### **BEFORE THE**

#### PENNSYLVANIA PUBLIC UTILITIES COMMISSION

PENNSYLVANIA PUBLIC UTILITY	)
COMMISSION	)
	)
<b>v.</b>	)
	)
THE YORK WATER COMPANY	)

DOCKET NOS. R-2022-3031340 (WATER) R-2022-3032806 (WASTEWATER)

SCHEDULES ACCOMPANYING THE DIRECT TESTIMONY OF

#### JEROME D. MIERZWA

#### **ON BEHALF OF THE**

#### PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

AUGUST 19, 2022

				Page 1 of 4
Gal	THE YORK Calculation of Class Maximum Day Period June 20	THE YORK WATER COMPANY of Class Maximum Day and Maximum Hour Extra Capacity Factors Period June 2019 through May 2022	Capacity Factors	
	Period	Residential	Commercial & Wholesale	Industrial
MAXIMUM DAY SUMMARY				
	June 2019 - May 2020	1.49	1.48	1.37
	June 2020 - May 2021	1.68	1.41	1.44
	June 2021 - May 2022	1.68	1.51	1.46
	Period Maximum	1.68	1.51	1.46
	Use	1.70	1.50	1.45
	Company	2.50	1.60	1.50
MAXIMUM HOUR SUMIMARY	June 2019 - May 2020	2.48	2.46	1.83
	June 2020 - May 2021	2.78	2.33	1.91
	June 2021 - May 2022	2.79	2.50	1.94
	Period Maximum	2.79	2.50	1.94
	Use	2.80	2.50	1.95
	Company	4.50	3.30	2.70

Schedule JDM-1

	Calculation	of Class N	laximum Day an	imum Day and Maximum Hou	Calculation of Class Maximum Day and Maximum Hour Extra Capacity Factors	actors			
		-	Period June 2019 through May 2020	9 through May 2	2020				
				Ŭ	Commercial &				
MONTHLY SALES	.Y SALES		Residential		Wholesale		Industrial	l.	Total
Мау	2020		261,683,300		127,355,800		68,031,400		457,070,500
Apr	2020		237,226,000		117,126,100		57,726,800		412,078,900
Mar	2020		228,693,100		139,979,400		63,144,500		431,817,000
Feb	2020		217,779,100		142,550,900		66,324,800		426,654,800
Jan	2020		235,422,900		145,234,800		70,774,600		451,432,300
Dec	2019		236,136,500		150,155,900		72,231,600		458,524,000
Nov	2019		231,008,900		152,393,000		73,693,200		457,095,100
Oct	2019		241,863,700		157,976,400		77,834,400		477,674,500
Sep	2019		259,746,600		182,246,300		80,468,800		522,461,700
Aug	2019		256,464,900		180,210,700		83,409,800		520,085,400
Inc	2019		247,439,200		169,011,600		81,831,900		498,282,700
Jun	2019		251,510,400		164,254,100		76,921,500		492,686,000
	Total		2,904,974,600		1,828,495,000		872,393,300	2,	5,605,862,900
MAXIMU	MAXIMUM DAY EXTRA CAPACITY FACTOR								
	Annual Daily Average		7,958,835		5,009,575		2,390,119		15,358,528
	Maximum Month	May	261,683,300	September	182,246,300	August	83,409,800		527,339,400
	Average Day Maximum Month	Мау	8,441,397	September	6,074,877	August	2,690,639		17,206,912
	Maximum Month/Average Day Factor		1.06		1.21		1.13		
	System Maximum Month System Average Day in Maximum Month Non-Revenue Producing Water Adjustment Adjusted Average Day in Maximum Month Actual Maximum Day System Maximum Day/Maximum Month Day Ratio		1.04		1.04		1.04	September 30	522,461,700 17,415,390 24% 23,002,361 24,000,000 1.04
	Weekly Usage Adjustment		1.35		1.17		1.17		
	Calculated Maximum Day Extra Capacity Factor		1.49		1.48		1.37		
MAXIMU	MAXIMUM HOUR EXTRA CAPACITY FACTOR								
	Estimated Maximum Hour to Maximum Day Ratio		1.66		1.66		1.33		
	Calculated Maximum Hour Extra Capacity Factor		2.48		2.46		1.83		

Schedule JDM-1 Page 2 of 4

ł ć THE YORK WATER COMPANY Calculation of Class Maximum Dav and Maximum Hour Extra

Schedule JDM- Page 3 of
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THE YORK WATER COMPANY Calculation of Class Maximum Day and Maximum Hour Extra Capacity Factors Period June 2020 through May 2021

MONTHLY SALES	.Y SALES	ļ	Residential	1	Commercial & Wholesale	,	Industrial	, I	Total	
May	2021		255,454,800		165,411,400		76,810,200		497,676,400	
Apr	2021		255,728,400		161,570,600		78,117,100		495,416,100	
Mar	2021		223,128,000		138,281,500		64,457,700		425,867,200	
Feb	2021		247,390,900		148,249,200		71,293,600		466,933,700	
Jan	2021		241,150,100		130,302,000		70,012,200		441,464,300	
Dec	2020		244,371,600		138,449,001		65,698,300		448,518,901	
Nov	2020		242,755,200		147,925,100		72,738,200		463,418,500	
Oct	2020		246,084,800		155,675,900		75,150,600		476,911,300	
Sep	2020		251,931,400		158,809,900		69,495,300		480,236,600	
Aug	2020		277,482,800		169,408,400		82,462,000		529,353,200	
Int	2020		288,922,400		174,956,400		86,312,400		550,191,200	
nn	2020		290,835,000		154,244,200		77,648,600		522,727,800	
	Total		3,065,235,400		1,843,283,601		890,196,200	2,	5,798,715,201	
MAXIMU	MAXIMUM DAY EXTRA CAPACITY FACTOR									
	Annual Daily Average		8,397,905		5,050,092		2,438,894		15,886,891	
	Maximum Month	June	290,835,000	ЫлL	174,956,400	ylul	86,312,400		552,103,800	
	Average Day Maximum Month	June	9,694,500	ylul	5,643,755	ylul	2,784,271		18,122,526	
	Maximum Month/Average Day Factor		1.15		1.12		1.14			
	System Maximum Month System Average Day in Maximum Month Non-Revenue Producing Water Adjustment Adjusted Average Day in Maximum Month Actual Maximum Day System Maximum Day/Maximum Month Day Ratio		1.08		1.08		1.08	July 31	550,191,200 17,748,103 23,002,700 24,730,000 1.08	
	Weekly Usage Adjustment		1.35		1.17		1.17			
	Calculated Maximum Day Extra Capacity Factor		1.68		1.41		1.44			
UMIXAM	MAXIMUM HOUR EXTRA CAPACITY FACTOR									
	Estimated Maximum Hour to Maximum Day Ratio		1.66		1.66		1.33			
	Calculated Maximum HourDay Extra Capacity Factor		2.78		2.33		1.91			

	Calculatio	n of Class A	Calculation of Class Maximum Day and Maximum Hour Extra Capacity Factors Period June 2021 through May 2022	Maximum Ho nrough May 2	ur Extra Capacity 2022	Factors			
MONTHLY SALES	Y SALES	1	Residential		Commercial & Wholesale	,	Industrial	1	Total
May	2022		234,287,604		155,431,400		75,726,200		465,445,204
Apr	2022		248,006,200		164,664,800		76,620,000		489,291,000
Mar	2022		236,058,320		155,787,689		72,340,300		464,186,309
Feb	2022		227,646,958		145,024,100		66,906,000		439,577,058
Jan	2022		245,606,222		145,217,911		69,778,100		460,602,233
Dec	2021		252,801,700		164,009,200		78,074,600		494,885,500
Nov	2021		237,187,000		154,527,000		73,135,100		464,849,100
Oct	2021		249,876,200		169,562,900		84,177,000		503,616,100
Sep	2021		235,057,700		157,315,900		73,910,100		466,283,700
Aug	2021		277,729,400		186,786,400		84,551,300		549,067,100
Jul	2021		269,508,400		176,836,000		85,959,100		532,303,500
Jun	2021		261,777,400		162,089,000		77,344,601		501,211,001
	Total		2,975,543,104	-	1,937,252,300		918,522,401	2,	5,831,317,805
MAXIMU	MAXIMUM DAY EXTRA CAPACITY FACTOR								
	Annual Daily Average		8,152,173		5,307,541		2,516,500		15,976,213
	Maximum Month	August	277,729,400	August	186,786,400	ylul	85,959,100		550,474,900
	Average Day Maximum Month	August	8,959,013	August	6,025,368	ylut	2,772,874		17,757,255
	Maximum Month/Average Day Factor		1.10		1.14		1.10		
	System Maximum Month System Average Day in Maximum Month Non-Revenue Producing Water Adjustment							August 31	549,067,100 17,711,842 21%
	Adjusted Average Day in Maximum Month Actual Maximum Day								22,480,348 25,500,000
	System Maximum Day/Maximum Month Day Ratio		1.13		1.13		1.13		1.13
	Weekly Usage Adjustment		1.35		1.17		1.17		
	Calculated Maximum Day Extra Capacity Factor		1.68		1.51		1.46		
MAXIMU	MAXIMUM HOUR EXTRA CAPACITY FACTOR								
	Estimated Maximum Hour to Maximum Day Ratio		1.66		1.66		1.33		
	Calculated Maximum Hour Extra Capacity Factor		2.79		2.50		1.94		

Schedule JDM-1 Page 4 of 4

> THE YORK WATER COMPANY Calculation of Class Maximum Hour Extra Capacity Factors Period June 2021 through May 2022

Schedule JDM-2

## THE YORK WATER COMPANY WATER OPERATIONS DEVELOPMENT OF RATE OF RETURN BY CUSTOMER CLASSIFICATION UNDER PROPOSED RATES

				Gravity System					Repumping System	System	
	Cost of				Fire P	Fire Protection				Fire Pr	Fire Protection
Item	Service	Residential	Commercial	Industrial	Private	Public	Residential	Commercial	Industrial	Private	Public
(1)	(2)	(3)	(4)	(5)	(9)	(7)	(8)	(6)	(10)	(11)	(12)
<ol> <li>Revenues From Sales</li> <li>Other Revenues</li> </ol>	\$70,728,799 1,142,025	\$13,115,410 194,144	\$ 5,189,388 83,025	\$ 1,278,888 20,899	\$ 943,743 15,874	\$ 323,794 22,612	\$32,280,691 450,072	\$ 9,856,339 155,201	\$ 4,673,835 77,201	\$1,737,534 29,578	\$1,329,176 93,418
3. Total Operating Revenues	71,870,824	13,309,554	5,272,413	1,299,787	959,618	346,406	32,730,763	10,011,540	4,751,036	1,767,113	1,422,594
4. Less: Operating Expenses	40,280,974	8,484,101	3,243,590	769,271	476,906	(505,423)	20,742,725	5,810,083	2,566,720	795,878	(2,103,122)
5. Return And Income Taxes (Ln 3 - Ln 4)	31,589,850	4,825,453	2,028,823	530,517	482,712	851,829	11,988,038	4,201,458	2,184,316	971,234	3,525,716
6. Less: Taxable Exclusions (Factor 24)	6,200,718	874,301	446,452	117,194	102,932	170,520	2,177,072	923,287	471,875	209,584	706,882
7. Taxable income	25,389,132	3,951,152	1,582,372	413,323	379,780	681,309	9,810,966	3,278,171	1,712,441	761,650	2,818,834
8. Less: Income Taxes (Tax. Inc.)	3,769,035	586,551	234,904	61,358	56,379	101,141	1,456,445	486,647	254,213	113,068	418,458
9. Net Return (Line 5 - Line 8)	27,820,815	4,238,902	1,793,919	469,159	426,333	750,688	10,531,593	3,714,811	1,930,103	858,166	3,107,258
10. Original Cost Measure Of Value	350,621,588	49,427,873	25,228,634	6,614,842	5,831,852	9,639,712	123,119,063	52,216,339	26,690,145	11,866,115	39,987,732
11. Rate Of Return, Percent	7.93	8.58	7.11	7.09	7.31	7.79	8.55	7.11	7.23	7.23	77.7
12. Relative Rate Of Return	1.00	1.08	0.90	0.89	0.92	0.98	1.08	0.90	0.91	0.91	0.98

#### THE YORK WATER COMPANY WATER OPERATIONS

#### CALCULATION OF DIRECT CUSTOMER COSTS FOR A 5/8-INCH METER PER MONTH

Cost Function (1)	Di	rect Cost of Service* (2)	Num	ber of Units (3)	Direct Cost Per Unit (4)	Co	Direct ost Per nit Per Month (5)
Meters	\$	2,650,167	88,340	5/8-inch Equivalents	\$ 30.00	\$	2.50
Services		7,768,312	75,193	3/4-inch Equivalents	103.31		8.61
Billing and Collecting & Meter Reading	3	2,779,080	854,579	Bills	3.25		3.25
Subtotal		13,197,559					14.36
Unrecovered Public Fire		5,236,326	88,340	5/8-inch Equivalents	59.27		4.94
Total	\$	18,433,885				\$	19.30

#### THE YORK WATER COMPANY WATER OPERATIONS ANALYSIS OF DIRECT CUSTOMER COSTS

				Alloc	ated to C	ustomer	Cost	8
		Total	-				С	Billing, ollecting &
Description		Account	-	Meters	Serv		Me	ter Reading
(1)		(2)		(3)	(4	•)		(5)
Operation and Maintenance Expenses Direct Labor:								
Operation of Meters	\$	135,526	\$	135,526				
Operation of Services	Φ		Φ	135,520	24	14 625		
Maintenance of Meters		344,635		50 727	34	14,635		
Maintenance of Services		58,737		58,737	\$ 13	7 704		
Maintenance of Services		137,734			\$ 13	87,734		
Supplies and Expenses								
Operation of Meters		38,021		38,021				
Operation of Services		98,856			g	8,856		
Maintenance of Meters		38,020		38,020		0,000		
Maintenance of Services		989,253		00,020	98	9,253		
						,		
Customer Accounting								
Billing and Collecting Labor		1,107,624					\$	1,107,624
Meter Reading Labor		67,137						67,137
Billing and Collecting Supplies		897,385						897,385
Meter Reading Supplies		44,833						44,833
Bad Debt Expense		358,011						
Other Directly Realted O&M Costs		600 000		105 072	40	6 407		
T & D Operations & Supervision		682,399		195,972		6,427		
T & D Maintenance Supervision		176,811		50,777		6.034		400 475
Pensions and Benefits		362,247		49,883		15,890		166,475
Worker's Compensation		63,345		8,723	2	25,511		29,111
Load Growth Adjustment - Customer		42,330		40 505				42,330
General Price Level Adj.	5 <u>0</u>	452,302	-	48,505	20	4,968	2	198,829
Subtotal O & M Expenses		6,095,206	·	624,163	2,55	9,309	_	2,553,724
Depreciation Expense								
Meters		955,891		955,891				
Services		1,790,837			1,79	0,837		
Other Directly Related Facilities						-		
Office Buildings		-						
Stores, Shop & Garage		-						
Furniture & Equipment		-						
Enterprise Software		-						
Transportation Equipment		141,417	-	15,166	6	4,086	-	62,166
Subtotal Depreciation		2,888,145		971,057	1,85	4,922		62,166
Taxes, Other Than Income								
PUC & OCA Assessments		122,429		21,725	F	7,031		33,674
Payroll Taxes		284,754		39,212		4,681		130,862
Total Taxes, Other Than Income		407,184		60,937		31,711	_	164,536
		101,104		00,007				10-1,000
Rate Base:								
Meters		3,891,033		13,891,033				
Services	4	4,384,467			44,38	34,467		
Other Directly Related Facilities								
Office Buildings		×.						
Stores, Shop & Garage		-						
Furniture & Equipment		-						
Enterprise Software		-						
Transportation Equipment		374,848		40,199		9,869		164,781
Deferred Taxes	(	6,193,990)		(1,412,199)	(4,60	0,060)		(181,731)
Subtotal	5	2,456,358		12,519,032	39,95	54,276		(16,950)
Return & Income Taxes,								
as a Percent of Rate Base @ 7.94%		4,165,035	_	994,011	3,17	2,370	_	(1,346)
Total O & M, Depreciation, Return	¢ 4	2 555 570		0.650 407	6 7 7	0 240	¢	0 770 000
and Taxes	\$ 1	3,555,570	\$	2,650,167	\$ 7,76	0,312	\$	2,779,080

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	3.	
	: Docket Nos	. R-2022-3031340 (Water)
V.		R-2022-3032806 (Wastewater)
The York Water Company	3 <b>.</b> 0	

#### **VERIFICATION**

I, Jerome D. Mierzwa, hereby state that the facts set forth in my Direct Testimony, OCA Statement 4, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: August 19, 2022 \*334089

Signature: Jerome D. Mierzwa

Consultant Address: Exeter Associates, Inc. 10480 Little Patuxent Parkway Suite 300 Columbia, MD 21044-3575

#### BEFORE THE

#### PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:
	: Docket Nos. R-2022-3031340 (Water)
v.	: R-2022-3032806 (WW)
	:
The York Water Company	:

#### DIRECT TESTIMONY

#### OF

#### BARBARA R. ALEXANDER

#### Barbara Alexander Consulting LLC

#### ON BEHALF OF THE

#### OFFICE OF CONSUMER ADVOCATE

August 22, 2022

#### 1 I. INTRODUCTION

2

3 **O**. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION. 4 A. My name is Barbara R. Alexander. I am the sole member of Barbara Alexander 5 Consulting LLC. My address is 83 Wedgewood Dr., Winthrop, ME 04364. I appear in 6 this case as a witness on behalf of the Office of Consumer Advocate (OCA). 7 Q. PLEASE DESCRIBE YOUR BACKGROUND AND QUALIFICATIONS. 8 A. I have a 30-year experience as an expert in consumer protection, service quality, and low 9 income programs for public utilities and the regulation of retail alternative energy 10 suppliers in markets that have adopted restructuring for electric and/or natural gas supply 11 service. I was the Director of the Consumer Assistance Division for the Maine Public 12 Utilities Commission from 1986-1996 and have operated my own consulting practice for 13 public advocates and consumers since that time. I have testified in over 30 U.S. and 14 Canadian jurisdictions, including testimony before the Pennsylvania Public Utility 15 Commission in many proceedings. My C.V. attached to this testimony as Exhibit BA-1 lists all my publications and testimony associated with my consulting practice. 16 17 HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE PENNSYLVANIA Q. 18 PUBLIC UTILITY COMMISSION? 19 A. Yes. I have filed testimony on behalf of the OCA in many investigations, base rate 20 proceedings, mergers and acquisitions, and default service proceedings on issues relating 21 to customer service, service quality and reliability of service, low income programs, and 22 retail market programs. In particular, I have filed testimony as an expert witness on 23 behalf of the OCA in many recent base rate and regulatory compliance proceedings by

1		Pennsylvania water and wastewater utilities, including Pittsburgh Water and Sewer
2		Authority, Aqua Pennsylvania, and Pennsylvania American Water Company.
3	Q.	HAVE YOU PREVIOUSLY FILED TESTIMONY REGARDING YORK WATER?
4	A.	No.
5	Q.	WHAT IS THE PURPOSE OF YOUR TESTIMONY?
6	A.	I am filing Testimony on behalf of the OCA to address issues relating to the adequacy
7		and reasonableness of certain aspects of York Water Company's ("York Water")
8		customer service performance, compliance with the Commission's consumer protection
9		requirements, and its low income programs. My testimony addresses York Water's water
10		and wastewater services. These issues are important by themselves, but particularly so in
11		this case given the magnitude of York Water's proposed rate increases for water and
12		wastewater services.
13	Q.	PLEASE SUMMARIZE YORK WATER'S RATE INCREASE PROPOSALS.
14	A.	York Water provides water service to more than 70,440 customers and wastewater
15		service to 3,357 customers. The Company provides water service in parts of York and
16		Adams Counties and wastewater service in parts of York, Franklin, and Adams Counties.
17		Under the Company's rate proposal, the typical monthly water bill for residential gravity
18		customers using 4,525 gallons per month would increase from \$40.54 to \$53.02 per
19		month, or by 30.8%. The typical water bill for residential repumped customers using
20		3,784 gallons of water per month would increase from \$48.89 to \$62.27 per month, or by
21		27.4%. According to the customer notices included in York's filing, under the
22		Company's proposal, the typical wastewater bill for residential customers would increase
23		as follows:

1

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Area	Usage	Present Rate	Proposed Rate	\$ Increase	% Increase
Asbury Pointe Subdivision, East Prospect Borough, and Lower Windsor Area	3,586 gallons per month	\$62.50	\$80.55	\$18.05	28.9%
Felton Borough	Per month per dwelling unit	\$79.50	\$80.55	\$1.05	1.3%
Jacobus Borough	3,570 gallons per month	\$55.00	\$80.55	\$25.55	46.5%
Letterkenny Township	Per month per dwelling unit	\$45.00	\$80.55	\$35.55	79.0%
Straban Township Area	3,465 gallons per month	\$62.50	\$80.55	\$18.05	28.9%
West Manheim Township	3,333 gallons per month	\$61.67	\$75.87	\$14.20	23.0%
West York Borough	Per month per dwelling unit	\$32.71	\$55.61	\$22.90	70.0%

3

4 York also proposes to increase the 5/8-inch water customer charge (for gravity and

5 repumped customers) from \$16.25 to \$20.71 per month, which is an increase of 27.4%.

6 Q. DID YORK WATER PROPOSE ANY CUSTOMER SERVICE PERFORMANCE

7 STANDARDS AS PART OF ITS BASE RATE CASE?

8 A. No. York Water did not propose any specific performance standards for customer service

9 with its proposed rate increase. Nor did York Water link its proposal for a higher rate of

10 return to any specific customer service performance measurement.

Q. DID YORK WATER DESCRIBE OR DISCUSS ITS CUSTOMER SERVICE
 PERFORMANCE IN ITS BASE RATE FILING?

- A. Yes. Mr. Hand's testimony referred to "exceptional customer service" in support of York
  Water's base rate filing.<sup>1</sup> Mr. Hand justified this description based on the customer
  complaint rates published by the Commission's Bureau of Consumer Services as
  compared to other water utilities, the low rates charged by York Water compared to other
  water utilities, and its acquisition of troubled water and wastewater utilities. In addition,
  Mr. Hand referenced a Customer Attitude Survey that measures customer satisfaction and
  other metrics.<sup>2</sup>
- 10 Q. DOES YORK WATER SEEK A HIGHER RATE OF RETURN AS A REWARD FOR
  11 "EXEMPLARY PERFORMANCE?"
- A. Yes. The Company's proposed rate of return includes 0.25% in recognition of the
   performance of its management.<sup>3</sup>

14 Q. PLEASE DESCRIBE HOW YOUR TESTIMONY IS ORGANIZED.

- 15 A. My testimony will examine certain aspects of York Water's quality of service and
- 16 customer service performance as part of the Company's proposed rate increase.<sup>4</sup> My
- 17 review and testimony also address the program design and implementation of York
- 18 Water's low income bill payment assistance programs. I will then make
- 19 recommendations for improvement and reforms in several areas that should be ordered as
- 20

part of this base rate case. I recommend that the Commission require York Water to meet

<sup>&</sup>lt;sup>1</sup> York Water Statement No. 1, page 8, lines 3-4 and page 23, lines 9-10.

<sup>&</sup>lt;sup>2</sup> York Water Response to OCA-III-2.

<sup>&</sup>lt;sup>3</sup> York Water Response to OCA-III-28.

<sup>&</sup>lt;sup>4</sup> My testimony does not address issues relating to York Water's water quality regulated by Pennsylvania's Department of Environmental Protection or the design and operation of the water distribution and sewer collection system and whether the water and wastewater service meet the technical and operational standards required by the Commission.

1		and/or gradually improve its quality of service and customer service performance by
2		establishing specific expectations and reporting requirements. I also provide my review
3		of compliance with the Commission's customer service regulations found at 52 Pa. Code
4		§ 56.1 et seq. ("Chapter 56") and consumer protection issues as reflected in customer
5		complaint records and York Water's internal training materials, and give my opinion as
6		to how these conclusions and recommendations should be considered in light of York
7		Water's request for a reward component for its rate of return. Finally, I will recommend
8		program design reforms and increased participation metrics for York Water's low income
9		programs.
10	II.	YORK WATER'S CUSTOMER SERVICE PERFORMANCE
11 12	Q.	WHAT ISSUES WILL YOU EXAMINE WITH RESPECT TO YORK WATER'S
13		QUALITY OF SERVICE AND CUSTOMER SERVICE PERFORMANCE?
14	A.	I will present information on York Water's performance in the following areas:
15		Call Center Performance
16		Customer Complaint Response
17		<ul> <li>Compliance with Chapter 56's Payment Arrangement policies</li> </ul>
18		<ul> <li>Compliance with Chapter 56's Termination of Service policies</li> </ul>
19		<ul> <li>Low Income program design and expenditures</li> </ul>
20		<ul> <li>York Water's Current Tariffs</li> </ul>
21	Q.	WHAT IS THE SOURCE OF YOUR DATA ON THE ABOVE INDICATORS FOR
22		CUSTOMER SERVICE PERFORMANCE?
23	A.	My information concerning York Water's low income programs, and customer service
24		performance is based on York Water's base rate case filing, its responses to data requests Direct Testimony of Barbara R. Alexander On Behalf of the Office of Consumer Advocate

1		in this proceeding, and the Commission's publications on customer service performance
2		and compliance with the applicable credit and collection regulations found in Chapter 56.
3	Q.	PLEASE DISCUSS THE PERFORMANCE OF YORK WATER'S CUSTOMER CALL
4		CENTER.
5	A.	The operation of its call center is crucial to the Company's ability to deliver a reasonable
6		level of customer service and to offer the consumer protections and complaint handling
7		requirements reflected in the Commission's regulations. York Water relies on a small
8		customer call center as the main method by which customers can communicate
9		individually with York Water. There is only one office, located in downtown York,
10		where customers can conduct business in person. <sup>5</sup> Customers can pay bills via the U.S.
11		Mail, the York Water online web portal, or via the interactive voice response system, <sup>6</sup>
12		however, only 14% of its customers are enrolled in automatic bill pay. <sup>7</sup> The staffing
13		level consists of 10 full time customer service representatives. <sup>8</sup>
14	Q.	PLEASE DISCUSS THE PERFORMANCE RESULTS OF THE YORK WATER CALL
15		CENTER FOR PENNSYLVANIA CUSTOMERS.
16	A.	I attach the York Water customer call center data with York Water's calculations of the
17		annual average results as Exhibit BA-2.9
18		These results reflect extremely poor performance in terms of the Company's
19		ability to answer calls in a timely manner and avoid a significant abandonment rate (the
20		percentage of calls in the queue to be answered by a customer service representative that

 <sup>&</sup>lt;sup>5</sup> York Water Response to OCA-III-27.
 <sup>6</sup> York Water Response to OCA-III-26 states that customers are not charged additional fees when paying their bills in any manner.

<sup>&</sup>lt;sup>7</sup> York Water Response to OCA-III-24.
<sup>8</sup> York Water Response to OCA-III-11.
<sup>9</sup> York Water Response to OCA-III-10 and attachments.

- are abandoned due to a long wait time). This level of performance has generally deteriorated in recent years. The following is a summary of the key indicators:
- 3

4

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2

Year	Percent Calls	Abandonment	Average Speed
	Answered in 30	Rate	of Answer
	Seconds		(minutes)
2020	66.83%	4.94%	1:03
2021	29.47%	14.57%	4:28
2022 (Jan.	19.87%	18.13%	6:29
through May)			

5 These results are not reasonable and significantly below what is reported by 6 Pennsylvania gas and electric utilities, where the typical performance is to answer 80% of the calls within 30 seconds with an abandonment rate at or below 4%.<sup>10</sup> Most 7 8 importantly, these results reflect a continuing deterioration of service quality performance 9 beginning in 2021 and continuing through 2022 to date. 10 Furthermore, the annual averages mask a dramatic swing in call center 11 performance. For example, in 2022 from January through May, 54% of the calls were 12 not answered within 241 seconds (4 minutes). In September 2020 the abandonment rate 13 was 10.80% of all calls. The same pattern was repeated in September 2021 when the 14 abandonment rate was 20.62% and over 50% of the calls were not answered within 240 15 seconds. 16 The key variable in predicting reasonable versus unreasonable call center 17 performance is the volume of calls and the number of available call center representatives

<sup>&</sup>lt;sup>10</sup> The Commission publishes an annual report on service quality performance by Pennsylvania gas and electric utilities. The typical performance is to answer over 80% of calls within 30 seconds and experience an annual abandonment rate of 4% or less as reflected in the data for 2020. This data is not published for water utilities regulated by the Commission. See,

https://www.puc.pa.gov/media/1658/customer\_service\_performance\_report2020.pdf

1		on hand to answer the calls. Performance can be improved with better prediction of call
2		volume and ensuring sufficiently trained personnel are available to respond to call
3		volume at predicted high call volume days and times.
4	Q.	DOES YORK WATER HAVE INTERNAL PERFORMANCE OBJECTIVES FOR ITS
5		CALL CENTER?
6	A.	No. When asked how the Company monitors call center performance with internal
7		performance standards or targets, the response stated that the utility "strives to answer all
8		customer calls in a timely manner." <sup>11</sup> Nor has York Water conducted an evaluation of its
9		call center performance. <sup>12</sup>
10	Q.	HAS YORK WATER PROVIDED ANY REASON FOR THE POOR PERFORMANCE
11		OF ITS CALL CENTER?
12	A.	Yes. York Water blames this deterioration in performance "in part" on its agreement to
13		collect the City of York wastewater and refuse bills, a policy that was terminated as of
14		July 2022: "Therefore, the Company expects the call volume and hold time figures to
15		improve going forward." <sup>13</sup> However, York Water did not provide any other explanation
16		beyond the stated reason for its poor call center performance. I attach York Water's
17		response to OCA-VII-13 as Exhibit BA-3.
18	Q.	IS THIS A REASONABLE RESPONSE TO THE DETERIORATION IN CALL
19		CENTER PERFORMANCE?
20	A.	No. While it is entirely possible that the call center performance reflects the Company's
21		decision to collect non-York Water bills (and I acknowledge a 1,500 increase in calls in

<sup>&</sup>lt;sup>11</sup> York Water Response to OCA-VII-14.
<sup>12</sup> York Water Response to OCA-III-14.
<sup>13</sup> York Water Response to OCA-VII-13.

1		2021 compared to 2020), it is York Water's obligation to take the necessary steps to
2		ensure a reasonable level of service quality performance. Certainly, jurisdictional water
3		and wastewater customers should not suffer significant deterioration of customer service
4		because of the Company's decision to bill for and collect non-jurisdictional services.
5		Over the period of January 2021 through May 2022 there is no indication of the
6		necessary changes to halt the obvious trend in deterioration of performance. And, the
7		lack of any internal performance standards or measures of reasonable performance, I
8		cannot accept this response as sufficient.
9	Q.	WHAT DO YOU RECOMMEND?
10	A.	I recommend that York Water be required to significantly improve its call center
11		performance to meet the standard performance results of answering 80% of the calls with
12		30 seconds and meeting an abandonment rate of 4% or less. This improvement should be

13 monitored for compliance as a condition of any rate increase.

#### 1 Q. TURNING TO HOW YORK WATER HANDLES CUSTOMER COMPLAINTS,

#### 2

#### PLEASE DISCUSS THE REGULATORY BASIS FOR YOUR ANALYSIS.

3 A. Every Pennsylvania public utility is required to educate customers about how to register 4 informal and formal complaints filed with the Commission as a result of a customer's 5 dissatisfaction with the utility's response to billing and other customer service disputes.<sup>14</sup> 6 Informal complaints are handled by the Commission's Bureau of Consumer Services 7 (BCS) and formal complaints are addressed by the Commission's Office of 8 Administrative Law Judge. Utilities also receive "disputes" directly from customers and 9 are obligated to investigate and respond to those issues or indications of dissatisfaction. 10 Customer complaints typically form a hierarchy or pyramid from a large volume of 11 disputes to a smaller group of informal complaints to the BCS and a relatively smaller 12 number of formal complaints filed with the Commission. Tracking and evaluating 13 disputes handled by the utility and informal or formal complaints handled by BCS are 14 key to ensuring ongoing improvements in customer service because that evaluation is 15 likely to spot the "red flag" that indicates a systemic issue or concern that requires 16 management's attention and, in some cases, a change in policy or procedure. In addition, 17 of course, this type of evaluation may also identify violations of the Commission's 18 regulations. Public utilities are required to keep records of customer disputes.<sup>15</sup>

<sup>15</sup> 52 Pa. Code § 56.432. Record maintenance.

<sup>&</sup>lt;sup>14</sup> York Water's Customer Rights and Responsibility Notice is available on its website and includes the required information about disputing bills or service:

You have the right to question or dispute any billing or service action of the company. You should tell the company of the problem as soon as it occurs. This gives the company the opportunity to resolve the matter with you. If you do not contact the company first, the Commission may instruct you to do so before accepting an informal complaint from you. See, <u>https://www.yorkwater.com/wp-content/uploads/knowyourrights.pdf</u>

A public utility shall preserve for a minimum of 4 years written or recorded disputes and complaints, keep the records accessible within this Commonwealth at an office located in the territory served by it, and make the records

1		The Commission's Bureau of Consumer Services publishes a quarterly Consumer
2		Activities and Report Evaluation for Pennsylvania electric, gas, telephone, and water
3		utilities. <sup>16</sup> These reports typically include historical information to allow for a trend
4		analysis.
5	Q.	HOW DOES YORK WATER MONITOR AND RESPOND TO CUSTOMER
6		COMPLAINT TRENDS AND THESE BCS REPORTS?
7	A.	York Water does not keep a data base or log of customer disputes <sup>17</sup> and has never done a
8		root cause analysis of customer complaints. <sup>18</sup> When asked how customer disputes and
9		complaints are monitored or evaluated to determine trends or issues that need attention,
10		the Company states, "Trends in internal customer complaints and disputes are monitored
11		daily by management. Management reviews incoming customer emails and checks in
12		frequently with call center staff to identify and address potential issues." <sup>19</sup> However,
13		York Water is unable to identify any specific review process or action taken.
14	Q.	DO YORK WATER'S TRAINING MATERIALS INCLUDE ANY INFORMATION
15		ON HOW TO RECOGNIZE A CUSTOMER DISPUTE OR TAKE ACTION IN
16		RESPONSE TO A DISPUTE?
17	A.	No. These materials include a table of contents and an outline of the training topics that

available for examination by the Commission or its staff. Information to be maintained includes the following: (1) The payment performance of each of its customers.

<sup>(2)</sup> The number of payment agreements made by the public utility company and a synopsis of the terms,

conditions and standards upon which agreements were made.

<sup>(3)</sup> The number of service terminations and reconnections.

<sup>(4)</sup> Communications to or from individual customers regarding interruptions, discontinuances, terminations and reconnections of service, including the name and address of the customer, the date and character of the dispute or complaint and the adjustment or disposal made of the matter.

<sup>&</sup>lt;sup>16</sup> <u>http://www.puc.state.pa.us/filing\_resources/consumer\_activities\_report\_evaluation.aspx</u>. This link provides access to the historical annual and quarterly reports cited in my testimony.

<sup>&</sup>lt;sup>17</sup> York Water Response to OCA-VII-25.

<sup>&</sup>lt;sup>18</sup> York Water Response to OCA-III-36.

<sup>&</sup>lt;sup>19</sup> York Water Response to OCA-III-6.

1		does not identify disputes or complaints as a training topic. <sup>20</sup> I attach these documents as
2		Exhibit BA-4.
3	Q.	DOES YORK WATER HAVE ANY INTERNAL COMPLAINT (DISPUTE)
4		PERFORMANCE STANDARDS?
5	A.	No. York Water relies on its low incidence of BCS complaints and violations as
6		compared to larger Pennsylvania water utilities.
7	Q.	PLEASE DISCUSS YORK WATER'S COMMUNICATIONS FROM BCS.
8	A.	York Water was the subject of a Final Order in response to a Formal Complaint filed by a
9		customer that resulted in a civil penalty of \$1,000 due to their failure to provide
10		reasonable service in violation of Section 1501 of the Public Utility Code. <sup>21</sup> This
11		complaint found that York Water failed to provide adequate service in responding to a
12		customer's leak report. In June 2022, York Water was notified by BCS of a verified
13		infraction of Chapter 56.191(c)(2)(i) in which a customer was required to make payment
14		in full as a condition of restoration without the criteria associated with prior payment
15		plans being met to justify such a demand. <sup>22</sup> When asked to describe the internal actions
16		undertaken in response to the BCS notice, York Water stated that it conducted a review
17		of its internal policies and agreed to make certain reforms going forward with regard to
18		implementing the criteria of Chapter 56 with regard to restoration of service and

<sup>&</sup>lt;sup>20</sup> York Water Response to OCA=III-12, Attachments CS-01 CSR Training Binder Order of Contents and CS-01 Customer Service Training Outline. The other training materials provide specific information on Sewer, Payments (the Company's payment portal), Payment Agreements, Oracle (the database used to record customer information), Miscellaneous, Meter Info, How Tos, Collections, Billing, and Apps and Forms. None of these materials address how to identify a customer dispute or complaint. <sup>21</sup> York Water Response to OCA-III-8, Attachment A.

<sup>&</sup>lt;sup>22</sup> York Water Response to OCA-III-8, Attachment B.

- communicate with customers about the reduced restoration terms.<sup>23</sup> York Water's
   current training materials reflect this obligation for reduced restoration terms.
- 3 Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO CUSTOMER
- 4 COMPLAINT HANDLING IN THIS RATE CASE?
- A. I recommend that York Water be required to adopt revised and updated training materials
  and revisions to its database to ensure that disputes and complaints are identified, tracked,
  and evaluated on a regular basis. In addition to the Complaint Log that OCA witness
- 8 Terry Fought recommends, York Water should revise its current database system to
- 9 identify a dispute and track its resolution through the process of management review and
- 10 resolution. Customer service representatives should be trained to recognize a dispute and

11 identify it in the database for tracking and resolution. The fact that York Water's policies

12 are deficient in identifying customer disputes and complaints may explain why York

13 Water's complaint ratio is lower compared to other Pennsylvania water utilities.

- 14 Q. WHAT IS THE STATUS OF THE TRAINING OF CUSTOMER REPRESENTATIVES
- 15 FOR PENNSYLVANIA-SPECIFIC REGULATIONS AND CUSTOMER

### 16 **PROTECTIONS**?

A. York Water's training programs do not include many key details that are important to ensure that residential customers are provided with the rights and remedies set forth in Chapter 56. For example, the training materials for payment agreements are primarily aimed at filling in the proper fields in the database and lack any substantive discussion on engaging the customer in a discussion of the individual circumstances that would lead to a negotiated payment plan that is workable or affordable. While one page of the training

<sup>&</sup>lt;sup>23</sup> York Water Response to OCA-VII-11.

includes a chart showing four "levels" of payment agreements based on income and other life circumstances, there is no training on how to solicit this information from customers or enter the information in the database. In fact, York Water is not able to distinguish the various type of payment plans it has granted and has never done an analysis of whether its payment plan policies are effective.<sup>24</sup> I attach these data responses as Exhibit BA-5. Another example is that the training materials do not include any discussion of a customer's rights when they are covered by a Protection from Abuse Order even though the termination notices include this customer information.

Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO YORK WATER'S
 INTERNAL TRAINING MATERIALS AND OVERSIGHT RESPONSIBILITIES TO
 ENSURE COMPLIANCE WITH CHAPTER 56?

A. I recommend that York Water undertake a review and reform of its training materials and
oversight policies to ensure a proper level of detail to inform customer service
representatives and customers about the rights, remedies, and responsibilities set forth in
Chapter 56. The current training program is insufficient and inadequate, particularly
when considered in light of the failure to properly identify, track and resolve customer
disputes and complaints.

10 Q. HAVE YOU REVIEWED YORK WATER'S TERMINATION PROCEDURES?

11 A. Yes. The volume of termination notices by York Water increased dramatically in

12 2021and again recorded a significant increase in 2022 compared to 2021.<sup>25</sup> I attach this

13 data response as Exhibit BA-6. It is reasonable to assume that this trend in 2021 is due in

14 part to the end of the COVID 19 pandemic protections. However, the Company alleges

<sup>&</sup>lt;sup>24</sup> York Water Response to OCA-III-38 and OCA-III-40.

<sup>&</sup>lt;sup>25</sup> York Water Response to OCA-III-21, Attachment.

1		that this increased trend toward terminations in late 2021 and early 2022 is due in part to
2		York Water's agreement to bill and collect charges for the City of York for wastewater
3		and refuse service. <sup>26</sup> York Water states that the volume of termination notices did not
4		result in actual terminations due to the "direction of the City of York." <sup>27</sup> I attach these
5		data responses as Exhibit BA-7. In fact, while over 4,500 notices were issued in January
6		through May 2022, less than 40 actual terminations of service occurred during this
7		timeframe. This pattern raises a number of serious concerns.
8	Q.	PLEASE EXPLAIN YOUR CONCERNS ABOUT YORK WATER'S ISSUANCE OF
9		TERMINATION NOTICES ON BEHALF OF THE CITY OF YORK.
10	A.	I understand that the Pennsylvania Water Services Act allows a water utility to collect
11		unpaid bills for wastewater or sewer service provided by a municipality. <sup>28</sup> This statute
12		also requires the billing agent, York Water, to separately set forth the charges from the
13		municipality on its bills, a requirement that is not clear that York Water has implemented.
14		However, there is no authority for any water utility to collect "refuse" charges on behalf
15		of a municipality, <sup>29</sup> and, critically, the Commission's regulations prohibit termination of
16		service for non-basic charges such as these. <sup>30</sup> These potential legal matters should be
17		investigated further by the Commission. Second, the pattern of issuing thousands of

<sup>&</sup>lt;sup>26</sup> York Water Response to OCA-VII-8.

<sup>&</sup>lt;sup>27</sup> Ibid.

<sup>&</sup>lt;sup>28</sup> Act of Apr. 14, 2006, P.L. 85, No. 28.

<sup>&</sup>lt;sup>29</sup> York Water's website contains the following notice:

We are aware of the inactive account number message City of York refuse customers are receiving when attempting to pay their refuse bill online or over the phone. We are working to correct this for customers and we apologize for this inconvenience. If you would like to make a payment immediately, we are able to process checks in person and accept cash in person at our Downtown York headquarters at 130 East Market Street. City of York refuse customers can also be set up on automatic payments through our TAP program, which will use banking details to process the amount due on the due dates. https://www.yorkwater.com/city-of-york-refuse-payments/ [Site visited 8/10/2022]

<sup>&</sup>lt;sup>30</sup> 52 Pa Code § 56.83(3).

1		notices threatening termination of regulated water service every month and not pursuing
2		termination based on the "direction of the City of York," raises the potential for
3		noncompliance with a Chapter 56 directive that prohibits the issuance of termination
4		notices when termination is not intended to occur. <sup>31</sup>
5	Q.	HAS YORK WATER HALTED ITS AGREEMENT TO BILL AND COLLECT FOR
6		CITY OF YORK WASTEWATER AND REFUSE CHARGES?
7	A.	Yes. York Water states that they terminated this arrangement as of July 2022. <sup>32</sup>
8		Although, York Water's website still references payment options for City of York refuse
9		service as noted above.
10	Q.	DOES YORK WATER ANALYZE ITS TERMINATION AND RECONNECTION
11		TRENDS?
12	A.	No. York Water does not track whether its termination notices are resolved with
13		payment or payment plan and does not track the notices not resolved but which remain
14		eligible for termination. <sup>33</sup> I attach this data response as Exhibit BA-8.
15	Q.	HAVE YOU REVIEWED YORK WATER'S POLICIES TO IMPLEMENT THE
16		RIGHTS OF TENANTS WHEN THE PROPERTY OWNER OR LANDLORD FAILS
17		TO PAY THE BILL?
18	Q.	Yes. I have several concerns. First, when asked to document the policies and procedures
19		required to be implemented pursuant to the Discontinuance of Services to Leased
20		Premises Act and the Chapter 56 requirements governing termination of service to leased

<sup>&</sup>lt;sup>31</sup> 52 Pa. Code **§ 56.99. Use of termination notice solely as collection device prohibited.** A public utility may not threaten to terminate service when it has no present intent to terminate service or when actual termination is prohibited under this chapter. Notice of the intent to terminate shall be used only as a warning that service will in fact be terminated in accordance with the procedures under this chapter, unless the customer or occupant remedies the situation which gave rise to the enforcement efforts of the public utility.

<sup>&</sup>lt;sup>32</sup> York Water Response to OCA-VII-8.

<sup>&</sup>lt;sup>33</sup> York Water Response to OCA-III-21.

1		premises, York Water's responses generally reflect these requirements. <sup>34</sup> However, there
2		are no training materials that summarize these requirements, <sup>35</sup> and thus no indication that
3		these policies are being properly implemented. Nor do the York Water tariffs reflect any
4		rules and regulations in this area. I attach York Water's response to this data request as
5		Exhibit BA-9. As a result, it is not clear how the responses to the data requests can be
6		verified as being implemented by the customer call center on a day-to-day basis. Second,
7		throughout these data responses York Water states that it "is in the process of reviewing
8		its existing practices," or states that revisions of its practices are being implemented. <sup>36</sup> I
9		attach these data responses as Exhibit BA-10. Finally, I am concerned about the policies
10		that are being implemented to determine if a property is vacant or not when a landlord
11		seeks to terminate service since, again, there is a lack of any explicit directive to
12		customer call center employees to require this information as a condition of pursuing
13		termination.
14	Q.	HAVE YOU REVIEWED YORK WATER'S TRAINING MATERIALS TO
15		IMPLEMENT THE OBLIGATION TO ATTEMPT PERSONAL CONTACT
16		"IMMEDIATELY PRIOR" TO TERMINATION OF SERVICE?
17		

17 A. No. I am unable to do so since the request for this information directs me to the customer

18 service training materials that do not address field operations or how the technicians

19 handle personal contact with the customer or responsible adult prior to the termination of

20 service.

<sup>&</sup>lt;sup>34</sup> York Water Responses to OCA set XI included questions 1 through 16 relating to York Water's implementation of these requirements.

<sup>&</sup>lt;sup>35</sup> York Water Response to OCA-XI-1.

<sup>&</sup>lt;sup>36</sup> York Water Response to OCA-XI-5, XI-6, and XI-11.

1 Q. IN LIGHT OF THE DEFICIENCIES IN YORK WATER'S TRAINING MATERIALS,

#### 2 WHAT DO YOU RECOMMEND?

A. I recommend that York Water develop training materials that correct these deficiencies
and submit updated and revised training materials as a condition of a rate increase
ordered in this proceeding.

## 6 III. YORK WATER'S ASSISTANCE PROGRAMS FOR LOW INCOME 7 CUSTOMERS NEED SIGNIFICANT REFORM

9 Q. PLEASE EXPLAIN YORK WATER'S LOW INCOME BILL PAYMENT

10 ASSISTANCE PROGRAMS.

8

11 A. York Water has operated a CARES program that consists of a one-time bill credit of up 12 to \$200 for eligible low income customers since 2019. Customers must apply through 13 one of two social service agencies who then evaluate the customer's unpaid and current 14 bill amounts and decides on a grant amount up to \$200. The current budget for this 15 program is \$20,000 and York Water has refused payments when the funding is exhausted as occurred in October 2021.<sup>37</sup> I attach this data response as Exhibit BA-11. The 16 17 Company has proposed an increased budget for this program in its rate case filing to 18 \$40,000. York Water states that it also operates a small arrears forgiveness program that is designed to reduce water usage.<sup>38</sup> However, there is no information about this program 19 20 on the Company's web portal where the CARES and other federally funded assistance 21 programs are referenced.

<sup>&</sup>lt;sup>37</sup> York Water Response to OCA-VII-1.

<sup>&</sup>lt;sup>38</sup> York Water Response to OCA-VII-2.

## Q. THE CARES PROGRAM WAS APPROVED AS A "PILOT." HAS YORK WATER EVALUATED THE IMPACT OF THIS PROGRAM?

No. York Water has not conducted any analysis of the sufficiency or this program or its 3 A. 4 impact on bill payment or bill affordability. As a result, the nomenclature of this 5 program as a "pilot" is incorrect since normally a "pilot" is a program that is being 6 implemented to determine whether its impact contributes to the overall intent of the 7 program design. York Water does not track monthly enrollment, number of customers 8 denied enrollment, the number who successfully complete the program, the number who 9 fail to meet the program's terms for regular payments, or the arrears balances of customers upon entering the program.<sup>39</sup> I attach this data response as Exhibit BA-12. 10 HAS YORK WATER CONDUCTED ANY STUDIES OF ITS CUSTOMER BASE 11 **Q**. 12 CONCERNING AFFORDABILITY OF ESSENTIAL UTILITY SERVICES AND/OR 13 WATER AND SEWER SERVICE? 14 Α. No. York Water has not conducted any studies of the demographics of its customer base 15 or the affordability of water and sewer service based on household income or age.<sup>40</sup> I 16 attach these data responses as Exhibit BA-13. 17 Q. IS THIS PROGRAM A REASONABLE APPROACH TO ADDRESS THE NEEDS OF

18 YORK'S LOW INCOME CUSTOMERS?

A. Not entirely. The program does assist low income customers who have a large unpaid
bill and who are facing a shut-off. I do not object to a program that provides additional
assistance to such customers. This program, however, is limited to those individuals who
can appear in person at only one of two social service agencies in York Water's service

<sup>&</sup>lt;sup>39</sup> York Water Response to OCA-III-37.

<sup>&</sup>lt;sup>40</sup> York Water Response to OCA-III-31 through OCA-III-35.

1 territory, thus creating a significant barrier to participation. Furthermore, this type of 2 program does not respond to ongoing unaffordability of essential water and sewer 3 services, particularly given the significant rate increase proposed in this proceeding. In 4 other words, the CARES program would be a useful supplement to an ongoing program 5 to reduce monthly bills, but it is not a substitute for a program that addresses the 6 continuing mismatch between income and payments for essential water and sewer 7 services. Programs that rely on "crisis" funding do not contribute to incentives to enable 8 vulnerable customers to make regular affordable monthly payments.

9 Q.

Q. WHAT DO YOU RECOMMEND?

10 I recommend that York Water be required to implement a bill discount program similar to A. 11 that in effect for Community Utilities of Pennsylvania. That program provides a 35% monthly discount on the rate for the metered consumption charge.<sup>41</sup> This program is 12 13 easily programmed into the utility's billing system. The applications for participation in 14 this program should be available on York Water's website. Customers who can provide 15 evidence of participation in existing means-tested income programs, such as Low Income 16 Heating Assistance, Low Income Water Assistance, Medicaid, Food Stamps (SNAP), or 17 participation in the applicable electric and natural gas Customer Assistance Programs 18 should be automatically enrolled. My recommended approach to enrollment will reduce 19 the barrier associated with in-person appointments and the eliminate the duplication 20 required to show proof of income.

<sup>&</sup>lt;sup>41</sup> Community Utilities of Pennsylvania tariffs, available at: <u>https://www.uiwater.com/docs/default-</u>source/pennsylvania/cupa-water-tariff-january-27-2022.pdf?sfvrsn=c2e52f5b\_0

1

Q. HAVE YOU ESTIMATED THE COSTS FOR THIS PROGRAM?

Q. No. I am unable to do so given the lack of demographic information maintained by York
Water. However, I recommend that York Water consult with the available agencies and
utilities with knowledge of its service territory and propose a budget for this program in
its Rebuttal Testimony.

Q. DOES YORK WATER PARTICIPATE AS AN AUTHORIZED VENDOR FOR ALL
AVAILBALE FEDERAL OR STATE FUNDED PROGRAMS THAT PROVIDE
GRANTS TO ELIGIBLE LOW INCOME CUSTOMERS?

9 A. I am not sure. While York Water has indicated that it participates in the Low Income 10 Water Assistance Program and the Emergency Rental Assistance Program, both of which 11 provide funding to help pay unpaid bills incurred by low income water and sewer 12 customers, it is not clear whether York Water participates as an authorized vendor in the 13 Pennsylvania Homeowners Assistance Program. All these programs are funded via the 14 American Rescue Plan Act and all of them provide potential assistance on unpaid water 15 and sewer bills. The Homeowners Assistance Program has only recently been initiated 16 and can provide homeowners who have trouble in paying their mortgage and utility bills a grant to the homeowner's utility companies.<sup>42</sup> Payment of utility bills up to \$8,000 is 17 18 authorized by this program. York Water should take advantage of all available programs 19 to enable its customers to avoid unpaid debt, late fees, and termination of service, and 20 help all ratepayers from unpaid debt expense.

<sup>&</sup>lt;sup>42</sup> <u>https://pahaf.org/whats-covered/</u>

# 1IV.YORK WATER'S TARIFFS NEED REFORM TO COMPLY WITH2CONSUMER PROTECTION REQUIREMENTS AND COMMISSION3POLICY

5 Q. HAVE YOU REVIEWED YORK WATER'S CURRENT WATER AND

#### 6 WASTEWATER TARIFFS?

4

7 A. Yes. York Water did not propose any changes to its tariffs with regard to consumer

8 protections addressed by Chapter 56. However, my review indicates that York Water's

9 water and wastewater tariffs are deficient in identifying essential consumer protections.

- 10 While the tariffs correctly state that Chapter 56 is incorporated by reference, the actual
- 11 tariff language concerning payments and termination of service contain language that
- 12 does not reference customer rights for payment arrangements, dispute resolution, medical
- 13 emergency, Protection from Abuse Orders, or any of the essential provisions of
- 14 applicable landlord/tenant law and policies.<sup>43</sup> The lack of details on these same issues in
- 15 the Company's training materials also supports the need for including the rights and
- 16 remedies of Chapter 56 in the Company's tariffs.
- 17 Q. WHAT DO YOU RECOMMEND?
- 18 A. I recommend that York Water revise its tariffs to reflect the essential consumer

19 protections included in Chapter 56. York Water may find the tariff provisions of

20 Pennsylvania American Water Company a useful model in this regard.

<sup>&</sup>lt;sup>43</sup> For example, York Water's Water Tariff at Section 10.2 does not reference any of the established rights to avoid termination and states:

<sup>10.2</sup> The termination notice shall be mailed to the Customer and shall advise the Customer that payment of the Past-Due Amount must be made, in full, within the time period allowed by current P.U.C. regulations for such payment, or water service will be terminated. If the Past-Due Amount shall not be paid in full, at the principal office of the Company within the allotted time and following the prescribed steps per current P.U.C. regulations, the Company shall dispatch an employee either: (1) to collect the Past-Due Amount in full, or (2) to terminate water service. In default of payment of the Past-Due Amount, in full, water service will be terminated.

# 1V.YORK WATER'S CUSTOMER SERVICE PERFORMANCE IS DIRECTLY2RELATED TO THIS RATE CASE AND THE REQUEST FOR A REWARD3FACTOR IN THE RATE OF RETURN

Q. WHAT IS THE CONNECTION BETWEEN YOUR DISCUSSION OF SERVICE
QUALITY AND CUSTOMER SERVICE PERFORMANCE, AND THE RATE

7 INCREASE PROPOSED BY YORK WATER?

4

A. Any public utility must justify its rates in part based on its ability to perform its essential
quality of service and customer service functions at a reasonable performance level. It is
appropriate to compare the performance of the utility seeking a significant rate increase
to other Pennsylvania utilities.

12 My analysis and findings should inform the Commission on the reasonableness of 13 York Water's significant rate increase proposals. In other words, if York Water seeks a 14 rate increase but there are deficiencies in its customer service performance, the 15 Commission should order improvements in specific areas as a condition of any rate 16 increase or consider reducing the rate increase until reforms have been adopted. This 17 approach is mandated by the statutory guidelines governing public utility rate cases in 18 which the Commission must evaluate the "efficiency, effectiveness, and adequacy of service."44 19

20 Q. DOES YOUR ANALYSIS IMPACT YORK WATER'S PROPOSAL TO INCLUDE A
21 REWARD FOR EXEMPLARY MANAGEMENT PERFORMANCE IN ITS RATE
22 PROPOSAL?

Q. Yes. I object to York Water's proposal to provide itself with a reward for outstanding
performance by its management, through the Commission approving a higher rate of

<sup>&</sup>lt;sup>44</sup> 66 Pa. C.S. § 523.

1	return. The Company's proposal does not link its reward to any evidence of superior
2	customer service performance. In addition, the basis for my conclusion is the poor
3	performance of the York Water call center and certain findings I have made with respect
4	to York Water's training and consumer protection compliance, particularly with respect
5	to the Company's policies and training relating to disputes, payment arrangements,
6	landlord/tenant protections, and Protection from Abuse Orders. Finally, York Water's
7	questionable billing and termination practices for unpaid charges related to the City of
8	York's wastewater and refuse services also support my recommendation.

## 9 VI. CONDITIONS THAT SHOULD BE ATTACHED TO ANY RATE 10 INCREASE

11

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS FOR YORK WATER'S
 CUSTOMER SERVICE PERFORMANCE AS A CONDITION OF ANY RATE
 INCREASE.

A. My analysis indicated that there are certain areas that need to be addressed as requiring
 improvement and reform as conditions for allowing York Water to increase its rates:

17 York Water should be required to take steps to improve the monthly performance of 18 its call center. Specific performance standards should be implemented, which include 19 objectives for Average Speed of Answer and Abandonment Rate that are designed to 20 achieve (over a reasonable number of years) that 80% of the customer calls that enter 21 the queue to speak to a customer service representative to be answered within 30 22 seconds and that the call abandonment rate be 4% or less. The Commission should 23 mandate significant progress in quarterly reports from York Water as a condition of 24 any rate increase.

1		York Water should take steps to identify, track, evaluate, and respond to customer
2		disputes and complaints. The training materials are seriously deficient in identifying
3		and responding to customer disputes and complaints. I recommend that York Water
4		be required to submit a plan that adopts explicit training for identification, tracking,
5		monitoring, and evaluating customer complaints. This complaint analysis should also
6		include the payment arrangement disputes that are an essential component of
7		adequate and reasonable service, particularly in light of my discussion of York
8		Water's inadequate internal payment arrangement training and policies. The
9		Commission should require quarterly reports that document improved complaint
10		handling and analysis as a condition of any rate increase.
11	•	York Water should be required to reform its customer training programs with regard
12		to payment arrangement negotiations with customers to undertake a more
13		individualized approach based on the customer's circumstances and needs. This
14		reform should be undertaken immediately and documented in a compliance filing as a
15		condition of any rate increase.
16	•	York Water should be required to create and implement internal training programs
17		relating to Landlord/Tenant rights, obligations and policies governing Protection from
18		Abuse Orders, and the policies that will be implemented when personal contact is
19		initiated immediately prior to termination of service. In addition, the training regime
20		itself needs reform to document how training is conducted and how ongoing
21		compliance is audited.
22	•	In light of my findings concerning the poor performance of the call center, the lack of
23		uniform and complete training of customer representatives on Pennsylvania rights and

1		remedies, and the lack of connection between complaint analysis and changes to
2		address underlying root causes, I recommend that the Commission undertake an audit
3		of York Water's customer service operations. The Commission should establish a
4		timetable for this audit as a condition of any rate increase.
5		• York Water should implement a low income discount program similar to that
6		implemented by Community Utilities of Pennsylvania. Such a program would
7		provide a modest discount on the consumption charge for eligible low income
8		customers, most of whom could be enrolled based on their participation in existing
9		means-tested social welfare programs. The CARES program should continue at a
10		proposed budget of \$40,000. York Water should document its participation in the
11		various programs funded through the American Rescue Plan Act and publicize the
12		available of funding to help pay for overdue water and sewer bills in order to obtain
13		the maximum funding to assist its low income customers and avoid unnecessary bad
14		debt expense paid by all ratepayers.
15		• York Water's water and wastewater tariffs should be amended to include the essential
16		consumer protections set forth in Chapter 56, similar to, for example, the tariff
17		provisions of Pennsylvania American Water Co.
18	Q.	WHAT SHOULD OCCUR IF YORK WATER FAILS TO SATISFY THESE
19		CONDITIONS AND IMPROVE ITS CALL CENTER, TRAINING OBLIGATIONS,
20		AND COMPLAINT HANDLING PERFORMANCE?
21	A.	I propose that while the rates established in this proceeding are in effect, York Water
22		submit quarterly reports to the Commission and the parties that include the progress in

- 1 meeting my proposed commitments. At a minimum, the Commission should open an
- 2 investigation of persistent failure to meet reasonable performance standards.

1	Q.	DO YOU HAVE AN ADDITIONAL RECOMMENDATION WITH RESPECT TO
2		YORK WATER'S USE OF ITS BILLING AND TERMINATION RIGHTS FOR
3		UNPAID CITY OF YORK WASTEWATER AND REFUSE CHARGES?
4	A.	I recommend that this policy, which is no longer in effect, be separately investigated by
5		the Commission to determine the appropriate enforcement action, if any, that is
6		necessary.
7	Q.	DOES THIS COMPLETE YOUR DIRECT TESTIMONY AT THIS TIME?
8	A.	Yes.

## **EXHIBIT BA-1**

## BARBARA R. ALEXANDER BARBARA ALEXANDER CONSULTING LLC

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## **Recent Clients:**

### AARP

The Utility Reform Network (TURN) (California) Pennsylvania Office of Consumer Advocate Public Counsel Unit, Attorney General, Washington Arkansas Attorney General The Public Utility Project of New York Ohio Office of Consumer Counsel District of Columbia Office of People's Counsel Delaware Division of Public Advocate Maryland Office of People's Counsel

## Areas of Expertise:

- Default Service, Consumer Protection, Service Quality, and Universal Service policies and programs associated with the alternative rate plans and mergers;
- Consumer Protection and Service Quality policies and programs associated with the regulation of competitive energy and telecommunications providers;
- The regulatory policies associated with the regulation of Credit, Collection, Consumer Protection, Low Income, and Service Quality programs and policies for public utilities;
- Customer Education and Rate design and pricing policies applicable to residential customers; and
- Advanced Metering Infrastructure and Grid Modernization costs and benefits, time-based pricing proposals, and performance standards.

## Prior Employment

DIRECTOR

1986-96

Consumer Assistance Division

## Department of Professional and Financial Regulation

Bureau of Consumer Credit Protection

NARUC Staff Subcommittee on Consumer Affairs.

Director of an independent regulatory agency charged with the implementation of Maine Consumer Credit Code and Truth in Lending Act. Investigations and audits of financial institutions and retail creditors, enforcement activities, testimony before Maine Legislature and U.S. Congress.

witness on customer services, consumer protection, service quality and low income policy issues before the PUC. Chair,

## Education

SUPERINTENDENT

JURIS DOCTOR

University of Maine School of Law

Maine Public Utilities Commission

Admitted to the Bar of the State of Maine, September 1976. Currently registered as "inactive."

B.A. (WITH DISTINCTION) IN POLITICAL SCIENCE University of Michigan

#### One of five division directors appointed by a three-member regulatory commission and part of commission management team. Direct supervision of 10 employees, oversight of public utility consumer complaint function, appearance as an expert

1973-76 Portland, Maine

1964-68 Ann Arbor, Michigan

Augusta, Maine

1979-83

Augusta, Maine

## Publications and Testimony

"How to Construct a Service Quality Index in Performance-Based Ratemaking", The Electricity Journal, April, 1996

"The Consumer Protection Agenda in the Electric Restructuring Debate", William A. Spratley & Associates, May, 1996

Direct Testimony on behalf of the Telecommunications Workers Union, Telecom Public Notice 96-8, Price Cap Regulation and Related Issues, Canadian Radio-Television and Telecommunications Commission, September, 1996. [Analysis of and recommendations concerning the need to regulate service quality in move to price cap regulation]

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Direct Testimony on behalf of AARP, West Virginia PUC Investigation into Retail Electric Competition (consumer protection, universal service, Code of Conduct), June 15, 1999.

Direct and Surrebuttal Testimony on behalf of the Pennsylvania OCA, Natural Gas Restructuring proceedings (8 natural gas utilities): consumer protection; consumer education; code of conduct, before the Pennsylvania PUC, October 1999-April 2000.

Comments on Draft Rules addressing Slamming and Cramming (Docket No. RMU-99-7) on behalf of the Iowa Office of Consumer Advocate, before the Iowa Utilities Board, October 1999.

Alexander, Barbara, "Door to Door Sales of Competitive Energy Services," <u>LEAP Letter</u>, January-February 2000 [Wm. A. Spratley & Associates, Columbus, OH]

Direct Testimony on behalf of the Maine Office of Public Advocate, Central Maine Power Company Alternative Regulation Plan [Docket 99-666] on service quality issues, before the Maine PUC, May 2000.

Direct Testimony on behalf of AARP, Universal Service Programs and Funding of low-income programs for electric and natural gas service, before the New Jersey Board of Public Utilities, Docket No. EX000200091, July, 2000.

Comments (on behalf of NASUCA and AARP) on Uniform Business Practices Reports, May and September 2000.

Direct Testimony on behalf of the Pennsylvania OCA, Verizon-Pennsylvania Structural Separation Plan on service quality, customer service and consumer protection issues [Docket No. M-00001353] before the Pennsylvania PUC, October 2000.

Direct and Rebuttal Testimony on behalf of the Maine Office of Public Advocate, Verizon-Maine Alternative Form of Regulation on service quality issues [Docket No. 99-851] before the Maine PUC, January and February 2001.

Direct and Rebuttal Testimony on behalf of the Citizens Utility Board, Nicor Gas Customer Select Pilot Program, on consumer protection and regulation of competitive natural gas suppliers [Docket Nos. 00-0620 and 00-0621] before the Illinois Commerce Commission, December 2000 and February 2001.

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Comments on behalf of AARP New Jersey before the New Jersey Board of Public Utilities, In the Matter of the Establishment of a Universal Service Fund Pursuant to Section 12 of the Electric Discount and Energy Competition Act of 1999, Docket No. EX00020091 (August 2006) [Recommendations for USF program changes]

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Rebuttal Testimony on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania PUC, Petition by PPL Electric Utilities Corp. for Approval of a Competitive Bridge Plan, Docket No. P-00062227 (December 2006) [Default Service policies]

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Alexander, Barbara, *Analysis of Public Service Co. of Colorado's "Our Energy Future" Initiative: Consumer Concerns and Recommendations*, AARP White Paper (December 2016), attached to the Direct Testimony of Corey Skluzak on behalf of the Colorado Office of Consumer Counsel, Docket No. 16A-0588E (Exhibit CWS-35).

Direct Testimony of Barbara Alexander before the Public Utilities Commission of Ohio on behalf of the Office of Consumer Counsel, In the Matter of the Application of Ohio Power Co. for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143, in the Form of an Electric Security Plan, Case No. 16-1852-EL-SSO (May 2017) [Response to proposal for new surcharge for certain distribution grid investments]

Alexander, Barbara, <u>Analysis and Evaluation of PEPCO's Root-Cause Analysis Report: District of</u> <u>Columbia Customer Satisfaction</u>, prepared for the District of Columbia Office of People's Counsel and submitted to the D.C. Public Service Commission in Formal Case No. 1119 (May 2017) Direct Testimony of Barbara Alexander before the Arkansas Public Service Commission on behalf of the Attorney General of Arkansas, Application of Entergy Arkansas, Inc. for an Order to find Advanced Metering Infrastructure to be in the Public Interest, Docket No. 16-06-U (June 2017) [Analysis of AMI business case; consumer protection policies]

Rebuttal Testimony of Barbara Alexander before the Pennsylvania Public Utilities Commission on behalf of the Office of Consumer Advocate, Pennsylvania PUC, et al., v. Philadelphia Gas Works, Docket No. R-2017-2586783 (June 2017) [Purchase of Receivables Program, customer shopping issues]

Direct and Surrebuttal Testimony of Barbara Alexander before the Maryland Public Service Commission on behalf of the Office of People's Counsel, In the Matter of the Application of Potomac Electric Power Co. for Adjustments to its Retail Rates for the Distribution of Electric Energy, Case No. 9443 (June and August 2017) [Service Quality and Reliability of Service]

Direct Testimony of Barbara Alexander before the Washington Utilities and Transportation Commission, on behalf of the Washington State Office of Attorney General, Public Counsel Unit, W.U.T.C. v. Puget Sound Energy, Dockets UE-170033 and UG\_170034 (June 2017) [Base Rate Case: Service Quality Index; customer services]

Direct and Surrebuttal Testimony of Barbara Alexander before the Maryland Public Service Commission on behalf of the Office of Peoples Counsel, In the Matter of the Merger of AltaGas Ltd. And WGL Holdings, Inc., Case No. 9449 (August and September 2017) [Merger: conditions for service quality and reliability of service]

Supplemental Testimony in Opposition to Joint Stipulation and Recommendations of Barbara Alexander before the Public Utilities Commission of Ohio on behalf of the Office of Consumer Counsel, In the Matter of the Application of Ohio Power Co. for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143, in the Form of an Electric Security Plan, Case No. 16-1852-EL-SSO (October 11, 2017) [Response to Stipulation approving new surcharge for certain distribution grid investments]

Direct and Rebuttal Testimony of Barbara Alexander on behalf of The Public Utility Project of New York, before the New York Public Service Commission, Case 15-M-0127 In the Matter of Eligibility Criteria for Energy Service Companies, Case 12-M-0476 Proceeding on Motion of the Commission to Assess Certain Aspects of the Residential and Small Non-residential Retail Energy Markets in New York State, and Case 98-M-1343 In the Matter of Retail Access Business Rules (November and December 2017) [Analysis of New York retail energy market for residential customers; recommendations for reform]

Comments of Barbara Alexander before the Delaware Public Service Commission, on behalf of the Delaware Division f the Public Advocate, In the Matter of the Review of Customer Choice in the State of Delaware, Docket No. 15-1693 (December 22, 2017) [Proposals for retail market enhancement programs]

Alexander, Barbara, <u>Analysis and Evaluation of PEPCO's Supplemental Root-Cause Analysis Report: District of</u> <u>Columbia Customer Satisfaction</u> prepared for the District of Columbia Office of People's Counsel and submitted to the D.C. Public Service Commission in Formal Case No. 1119 (January 2018)

Direct, Rebuttal, and Surrebuttal Testimony of Barbara Alexander on behalf of the Office of Consumer Advocate, before the Pennsylvania Utility Commission, Joint Petition of Metropolitan Edison Company Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company For Approval of their Default Service Program and Procurement Plan for the Period June 1, 2019 Through May 31, 2023, Docket Nos. P-2017-2637855, et seq. (February, March, and April 2018) [Retail Market Enhancement Programs in a default service proceeding]

Direct Testimony of Barbara Alexander on behalf of the Arizona Corporation Commission Staff, before the Arizona Corporation Commission, In the Matter of the Application of Brooke Water, LCC for increase in water rates, Docket No. W-03039A-17-0295 (May 15, 2018) [Analysis of customer service, call center performance, and compliance with prior Commission orders]

Alexander, Barbara, "Residential Demand Charges: A Consumer Perspective," EUCI Conference, Nashville, TN (May 2018)

Direct Testimony of Barbara Alexander in Opposition to the Joint Stipulation and Recommendation on behalf of the Office of the Ohio Consumers' Counsel, before the Public Utility Commission of Ohio, Case No. 17-0032-EL-AIR et seq. (June 15, 2018) [Analysis of the prudence of Duke Energy Ohio's Advanced Metering Infrastructure Deployment and request for inclusion of costs in rate base]

Alexander, Barbara, "Time to End the Retail Energy Market Experiment for Residential Customers," Harvard Electricity Policy Group (June 2018)

Rebuttal Testimony of Barbara Alexander on behalf of the Office of Consumer Advocate, before the Pennsylvania Public Utility Commission, PUC v. Columbia Gas of Pennsylvania, Inc., Docket No. R-2018-2647577 (July 3, 2018) [Analysis of gas utility billing policies for non-commodity services and retail natural gas suppliers]

Direct Testimony of Barbara Alexander on behalf of TURN and Center for Accessible Technology before the California Public Utility Commission, 2018 Rate Design Window, Docket No. A.17-12-011, et al. (October 26, 2018) [Consumer Protections to Accompany the Transition to Default Time of Use Rates for residential customers; analysis of customer education and messaging]

Direct and Surrebuttal Testimony of Barbara Alexander on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania Utility Commission, PUC vs. Pittsburgh Water and Sewer Authority, Docket Nos. R-2018-3002645, R-2018-3002647 (September and October 2018) [Analysis of compliance with Pennsylvania consumer protection and service quality performance of a large water and sewer utility; base rate case]

Direct Testimony of Barbara Alexander on behalf of TURN before the California Public Utility Commission, Southern California Edison Charge Ready 2 Infrastructure and Market Education Programs, Docket No. A.18-06-015 (November 30, 2018) [Analysis of proposed mass market customer education proposal]

Direct, Surrebuttal and Supplemental Surrebuttal Testimony of Barbara Alexander on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania Public Utility Commission, Implementation of Chapter 32 of The Public Utility Code Regarding Pittsburgh Water and Sewer Authority – Stage 1, Docket Nos. M-2018-2640802 and M-2018-2640803 (April, May and August 2019) [Analysis of consumer protection, customer service, and customer education programs of large water and wastewater utility]

Direct, Rebuttal, and Surrebuttal Testimony of Barbara Alexander on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania Public Utility Commission, Application of Aqua America, Inc., Aqua Pennsylvania, Inc., Aqua Pennsylvania Wastewater, Inc., Peoples Natural Gas Company, LLC and Peoples Gas Company, LLC for all of the Authority and the Necessary Certificates of Public Convenience to Approve a Change in Control of Peoples Natural Gas Company, LLC and Peoples Gas Company LLC by Way of the Purchase of All of LDC Funding, LLC's Membership Interests by Aqua America, Inc., Docket Nos. A-2018-3006061, A-2018-3006062, and A-2018-3006063 (April and May 2019) [Customer Service, Consumer Protection, and Universal Service conditions for merger]

Testimony in Opposition to Settlement on behalf of The Office of the Ohio Consumers' Council, before the Ohio Public Utilities Commission, In the Matter of the Commission's Investigation of PALMco Power OH, LLC dba Indra Energy and PALMco Energy OH, LLC dba Indra Energy, Case No. 19-957-GE-COI (September 4, 2019) [Analysis of proposed settlement for consumer protections and customer remedies]

Testimony in Opposition to Settlement on behalf of The Office of the Ohio Consumers' Council, before the Ohio Public Utilities Commission, In the Matter of the Commission's Investigation of Verde Energy USA Ohio LLC, Case No. 19-0958-GE-COI (October 2, 2019) [Analysis of proposed settlement for consumer protections and customer remedies]

Direct Testimony and Supplemental Direct Testimony on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania Public Utility Commission, Joint Petition of Metropolitan Edison Co., Pennsylvania Electric Co., Pennsylvania Power Co. and West Penn Power Co. for Approval of Their Involuntary Remote Disconnect Procedures, Docket No. P-2019-3013979 et al. (March 20, 2020 and July 15, 2022) [Criteria for remote disconnection of service with AMI]

Rebuttal Testimony on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania Public Utility Commission, Interstate Gas Supply, Inc., Direct Energy Services LLC and Shipley Choice LLC v. Metropolitan Edison Co., Pennsylvania Electric Col, Pennsylvania Power Col, West Penn Power Co., Docket Nos. C-2019-30138-5 et al. (May 2020) [Complaint by retail suppliers seeking to bill non-basic services on utility bill]

Alexander, Barbara, "An Evaluation of Arizona Public Service Company's Customer Education Plan and its Implementation," prepared on behalf of the Staff of the Arizona Corporation Commission, Docket Nos. E-01345A-19-0236 and E-01345A-19-0003 (May 15, 2020)

Direct and Supplemental Testimony, Rebuttal Testimony, and Surrebuttal Testimony on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania Public Utility Commission, Petition of PPL Electric Utilities Corporation for Approval of a Default Service Program for the Period of June 1, 2021 through May 31, 2025, Docket No. P-2020-3019356 (June-August 2020) [Standard Offer Program and low income shopping program for retail market programs]

Direct, Rebuttal, and Surrebuttal Testimony on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania Public Utility Commission, Petition of PECO Energy for Approval of Default Service Program for the Period June 1, 2021 through May 31, 2025, Docket No. P-2020-3019290 (June-July 2020), ) [Standard Offer Program and low income shopping program for retail market programs]

Direct, Rebuttal, and Surrebuttal Testimony, on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania Public Utility Commission, Petition of Duquesne Light Co. for Approval of Default Service Program for the Period June 1, 2021 through May 31, 2025, Docket No. P-2020-3019522 (July-September 2020), [Standard Offer Program and low income shopping program for retail market programs]

Direct and Surrebuttal Testimony, on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania Public Utility Commission, Pennsylvania Public Utility Commission v. Pittsburgh Water and Sewer Authority, Docket Nos. R-2020-3017951 (water), C-2020-3019348, R-2020-3017970 (wastewater), C-2020-3019349 (July-September 2020) [Base rate case; analysis of customer service and consumer protection programs and policies]

Affidavit of Barbara R. Alexander, <u>Analysis of Washington Gas Light Co. Root Cause Analysis Report</u>, on behalf of the Office of the People's Counsel of the District of Columbia, submitted to the Public Service Commission in Formal Case No. 1142 (October 2020).

Direct and Surrebuttal Testimony on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania Public Utility Commission, Pennsylvania Public Utility Commission v. Pennsylvania American Water Co, Docket R-2020-3019369, et al., (September-October 2020) [Base rate case; analysis of customer service and consumer protection programs and policies]

Direct and Surrebuttal Testimony, on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania Public Utility Commission, Pennsylvania Public Utility Commission v. Pittsburgh Water and Sewer Authority, Docket Nos. R-2021-3024773, et al. (July-September 2021) [Base rate case; analysis of customer service and consumer protection programs and policies]

Direct and Surrebuttal Testimony on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania Public Utility Commission, Pennsylvania Public Utility Commission v. Aqua Pennsylvania, Inc, Docket Nos. R-2021-3027385 et al. (November-December 2021) [Base rate case; analysis of customer service and consumer protection programs and policies] Direct, Rebuttal, and Surrebuttal Testimony on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania Public Utility Commission, Joint Petition of Metropolitan Edison Co., Pennsylvania Electric Co., Pennsylvania Power Co. and West Penn Power Co. for Approval of their Default Service Programs, Docket Nos. P-2021-3030012 et al. (February, March, and April 2022) [Standard Offer program; retail market policies; Time of Use rate option; low income consumer protections]

## **Presentations and Training Programs:**

- Presentation on Consumer Protection Policies for Solar Providers, New Mexico Public Regulatory Commission, Santa Fe, NM, January 2017
- Presentation on Residential Rate Design Policies, National Energy Affordability and Energy Conference, Denver, CO., June 2016
- Presentation on "Regulatory-Market Arbitrage: From Rate Base to Market and Back Again," before the Harvard Electricity Policy Group, Washington, D.C., March 2016.
- Presentation on Residential Rate Design and Demand Charges, NASUCA, November 2015.
- Alexander, Barbara, "Residential Demand Charges: A Consumer Perspective," presentation for Harvard Electricity Policy Group, Washington, D.C., June 2015.
- Presentation on "Future Utility Models: A Consumer Perspective," for Kleinman Center for Energy Policy, U. of Pennsylvania, August 2015.
- Presentation, EUCI Workshop on Demand Rates for Residential Customers, Denver, CO [May 2015]
- Presentation, Smart Grid Future, Brookings Institute, Washington, DC [July 2010]
- Participant, Fair Pricing Conference, Rutgers Business School, New Jersey [April 2010]
- Presentation on Smart Metering, National Regulatory Conference, Williamsburg, VA [May 2010]
- Presentation on Smart Metering, Energy Bar Association Annual Meeting, Washington, DC [November 2009]
- Presentation at Workshop on Smart Grid policies, California PUC [July 2009]
- National Energy Affordability and Energy Conference (NEAUC) Annual Conference
- NARUC annual and regional meetings
- NASUCA annual and regional meetings
- National Community Action Foundation's Annual Energy and Community Economic Development Partnerships Conference
- Testimony and Presentations to State Legislatures: Virginia, New Jersey, Texas, Kentucky, Illinois, and Maine
- Training Programs for State Regulatory Commissions: Pennsylvania, Georgia, Kentucky, Illinois, New Jersey
- DOE-NARUC National Electricity Forum
- AIC Conference on Reliability of Electric Service
- Institute of Public Utilities, MSU (Camp NARUC) [Instructor 1996-2006]
- Training Programs on customer service and service quality regulation for international regulators (India and Brazil) on behalf of Regulatory Assistance Project
- Georgia Natural Gas Deregulation Task Force [December 2001]
- Mid Atlantic Assoc. of Regulatory Utility Commissioners [July 2003]
- Illinois Commerce Commission's Post 2006 Initiative [April 2004]
- Delaware Public Service Commission's Workshop on Standard Offer Service [August 2004]

## **EXHIBIT BA-2**

(YORK WATER COMPANY RESPONSE TO OCA SET III, NO. 10)

#### Pennsylvania Public Utility Commission v. The York Water Company Docket Nos. R-2022-3031340 (Water)

R-2022-3032806 (Wastewater)

#### Office of Consumer Advocate Interrogatories Set III

### OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET III, NO. 10

With regard to the York Water's customer call center(s) that serve Pennsylvania residential customers, provide the following monthly information in an Excel spreadsheet with formulas intact for the period January 2020 through the current month and update this information during the pendency of this proceeding:

- a. Volume of calls to the voice response menu;
- b. Volume of calls seeking to speak to a customer service representative (those who enter the queue);
- c. Percentage of calls in (b) answered within 30 seconds;
- d. Average Speed of Answer for (b);
- e. Abandonment rate for (b);
- f. Average talk time for (b); and
- g. Busy Rate for (a).

#### **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

### DATE:

June 23, 2022

### **RESPONSE:**

a.-g. See Attachment OCA III-10 for the requested phone statistics.

## 2018 Call Center Statistics

										Ti	ver : Intervo	ıls	
	# Inbound Calls	# Answered	# Abandone d	# Redirecte d	# Disc	% Answered	% Abandone d	To Vmail Total	% To Vmail	Avg. Time to Answer	< 24 sec.	25-120 sec.	> 120 sec.
January	5930	4815	596	512	4	81.20%	10.05%	460	7.76%	2:29	39.88%	21.43%	39.04%
February	4978	4204	470	302	2	84.45%	9.44%	300	6.03%	2:11	44.79%	21.29%	34.18%
March	4632	4250	261	120	1	91.75%	5.63%	119	2.57%	1:15	59.22%	20.80%	20.26%
April	3631	3352	179	100	0	92.32%	4.93%	100	2.75%	1:00	63.57%	20.97%	15.69%
May	5020	4717	200	103	0	93.96%	3.98%	103	2.05%	0:52	65.97%	20.71%	13.59%
June	5002	4739	172	91	0	94.74%	3.44%	91	1.82%	0:44	68.24%	20.85%	11.08%
July	5640	5006	411	223	0	88.76%	7.29%	223	3.95%	1:24	55.33%	22.03%	22.91%
August	5616	4983	403	230	0	88.73%	7.18%	230	4.10%	1:36	51.43%	21.29%	27.59%
September	4693	4108	377	208	0	87.53%	8.03%	208	4.43%	1:50	47.78%	21.23%	31.26%
October	5644	4843	502	299	0	85.81%	8.89%	299	5.30%	2:13	41.83%	20.71%	37.45%
November	4506	4274	166	66	0	94.85%	3.68%	64	1.42%	0:40	75.32%	14.86%	9.83%
December	3812	3628	138	46	0	95.17%	3.62%	46	1.21%	0:37	76.68%	14.39%	8.93%
TOTALS	59104	<b>52919</b>	3875	2300	7	89.94%	6.35%	2243	3.62%	1:24	57.50%	20.05%	22.65%

## **2019 Call Center Statistics**

										Ti				
	# Inbound Calls	# Answered	# Abandone d	# Redirecte d	# Disc	% Answered	% Abandone d	To Vmail Total	% To Vmail	Avg. Time to Answer	< 24 sec.	25-120 sec.	121-240 sec.	> 241 sec
January	4878	4609	187	82	0	94.49%	3.83%	82	1.68%	0:43	76.31%	13.50%	5.47%	4.73%
February	3945	3623	235	87	0	91.84%	5.96%	87	2.21%	1:03	66.63%	16.59%	8.87%	7.90%
March	4542	4260	195	87	0	93.79%	4.29%	87	1.92%	0:55	68.78%	16.50%	8.26%	6.46%
April	4730	4388	235	107	0	92.77%	4.97%	107	2.26%	0:58	67.73%	15.95%	8.91%	7.41%
May	4795	4321	324	150	0	90.11%	6.76%	150	3.13%	1:21	60.73%	18.65%	10.04%	10.58%
June	4493	3997	343	153	0	88.96%	7.63%	153	3.41%	1:23	57.79%	20.24%	11.23%	10.73%
July	5168	4340	556	271	1	83.98%	10.76%	264	5.11%	2:15	44.22%	21.66%	13.43%	20.69%
August	5421	4492	603	325	1	82.86%	11.12%	325	6.00%	2:19	46.97%	18.86%	13.45%	20.73%
September	4852	4339	337	175	1	89.43%	6.95%	175	3.61%	1:27	57.52%	19.89%	10.49%	12.10%
October	5132	4629	347	122	0	90.20%	6.76%	156	3.04%	1:20	63.25%	17.87%	8.86%	10.93%
November	4311	4016	201	93	1	93.16%	4.66%	93	2.16%	0:55	66.14%	18.50%	9.64%	5.73%
December	4262	3885	248	129	0	91.15%	5.82%	129	3.03%	1:04	63.40%	19.05%	9.45%	8.11%
TOTALS	56529	50899	3811	1781	4	90.04%	<b>6.63%</b>	1808	3.13%	1:18	<b>61.62%</b>	18.11%	9.84%	10.51%

										Time to Answer : Intervals				
	# Inbound Calls	# Answered	# Abandoned	# Redirected	# Disc	% Answered	% Abandoned	To Vmail Total	% To Vmail	Avg. Time to Answer	< 24 sec.	25-120 sec.	121-240 sec.	> 241 sec
January	3677	3442	154	80	1	93.61%	4.19%	80	2.18%	0:52	68.88%	17.20%	8.28%	5.64%
February	2999	2719	176	101	3	90.66%	5.87%	101	3.37%	1:13	61.09%	18.76%	10.89%	9.27%
March	3870	3421	304	143	2	88.40%	7.86%	143	3.70%	1:40	51.51%	21.02%	13.24%	14.26%
April	2667	2480	126	61	0	92.99%	4.72%	61	2.29%	1:01	66.57%	16.49%	9.44%	7.50%
May	2927	2814	85	26	2	96.14%	2.90%	26	0.89%	0:24	83.83%	11.80%	2.91%	1.46%
June	3266	3132	100	33	1	95.90%	3.06%	33	1.01%	0:25	83.11%	11.97%	3.35%	1.56%
July	3674	3475	139	58	2	94.58%	3.78%	58	1.58%	0:45	71.42%	16.98%	7.31%	4.29%
August	3639	3432	146	61	0	94.31%	4.01%	61	1.68%	0:50	69.14%	19.03%	6.47%	5.36%
September	5483	4481	592	409	1	81.73%	10.80%	409	7.46%	2:36	45.35%	20.15%	12.03%	22.49%
October	4254	3981	163	109	1	93.58%	3.83%	109	2.56%	1:00	66.79%	17.91%	7.96%	7.33%
November	3689	3507	126	56	0	95.07%	3.42%	56	1.52%	0:41	74.02%	16.54%	5.85%	3.59%
December	4093	3768	199	123	3	92.06%	4.86%	123	3.01%	1:09	60.30%	22.88%	8.12%	8.70%
TOTALS	44238	40652	2310	1260	16	91.89%	4.94%	1260	2.60%	1:03	66.83%	17.56%	7.99%	7.62%

#### 2021 Call Center Statistics

										Tiı	ne to Answ	ver : Intervo	als	
	# Inbound Calls	# Answered	# Abandoned	# Redirected	# Disc	% Answered	% Abandoned	To Vmail Total	% To Vmail	Avg. Time to Answer	< 30 sec.	31-120 sec.	121-240 sec.	> 241 sec
January	4735	4030	408	295	2	85.11%	8.62%	295	6.23%	2:31	41.02%	22.73%	15.58%	20.69%
February	5229	4097	665	463	4	78.35%	12.72%	463	8.85%	3:44	35.59%	17.79%	13.77%	32.85%
March	5081	4326	475	280	0	85.14%	9.35%	280	5.51%	2:25	44.06%	18.59%	14.82%	22.54%
April	5448	4096	827	524	1	75.18%	15.18%	524	9.62%	4:18	31.27%	17.77%	15.31%	35.64%
May	5207	3601	933	673	0	69.16%	17.92%	673	12.92%	5:57	24.47%	12.33%	14.38%	48.82%
June	5574	4189	812	571	2	75.15%	14.57%	569	10.21%	4:32	27.93%	15.73%	15.21%	41.13%
July	5319	3765	947	607	0	70.78%	17.80%	603	11.34%	5:25	24.44%	12.93%	15.14%	47.49%
August	4724	3915	488	320	1	82.87%	10.33%	315	6.67%	2:59	39.69%	17.88%	15.17%	27.25%
September	5398	3605	1113	680	0	66.78%	20.62%	678	12.56%	6:21	18.92%	12.18%	14.84%	54.06%
October	4887	3404	877	605	1	69.65%	17.95%	605	12.38%	6:01	19.71%	13.87%	14.95%	51.47%
November	4529	3401	664	463	1	75.09%	14.66%	463	10.22%	4:54	23.73%	15.20%	15.29%	45.78%
December	3995	3022	605	363	5	75.64%	15.14%	363	9.09%	4:34	22.80%	14.82%	18.46%	43.91%
TOTALS	60126	45451	8814	5844	17	75.59%	14.57%	5831	9.63%	4:28	29.47%	15.99%	15.24%	39.30%

#### 2022 Call Center Statistics

								1		Time to Answer : Intervals				
	# Inbound Calls	# Answered	# Abandoned	# Redirected	# Disc	% Answered	% Abandoned	To Vmail Total	% To Vmail	Avg. Time to Answer	< 30 sec.	31-120 sec.	121-240 sec.	> 241 sec
January	4970	3709	740	508	13	74.63%	14.89%	508	10.22%	5:00	19.65%	14.69%	17.36%	48.29%
February	4476	3173	767	536	0	70.89%	17.14%	536	11.97%	6:05	17.46%	11.53%	16.01%	55.00%
March	4762	3586	697	477	2	75.30%	14.64%	476	10.00%	4:32	29.25%	15.20%	15.62%	39.93%
April	6392	3650	1608	1133	1	57.10%	25.16%	1133	17.73%	9:36	15.07%	7.84%	10.58%	66.52%
May	5402	3565	1017	818	2	65.99%	18.83%	817	15.12%	7:16	17.90%	8.53%	13.77%	59.80%
June														
July														
August														
September														
October														
November														
December														
TOTALS	26002	17683	4829	3472	18	68.78%	18.13%	3470	13.01%	6:29	19.87%	11.56%	14.67%	53.91%

(YORK WATER COMPANY RESPONSE TO OCA SET VII, NO. 13)

#### Office of Consumer Advocate Interrogatories Set VII

#### **OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET VII, NO. 13**

With regard to the phone center stats provided in response to OCA-III-10, please provide York Water's internal review of the trends reflected in this multi-year performance and what steps are being taken, if any, to improve performance.

#### **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

#### DATE:

August 2, 2022

#### **RESPONSE:**

The Company recognized that the call volume and hold time increased since 2020 in part due to City of York wastewater and refuse customers. When appropriate, additional resources were used to address the increase in caller traffic. Further, as noted in response to OCA-VII-8, York Water stopped providing billing services for the City of York wastewater customers in July 2022. Therefore, the Company expects the call volume and hold time figures to improve going forward.

(YORK WATER COMPANY RESPONSE TO OCA SET VII, NO. 12)

#### Office of Consumer Advocate Interrogatories Set III

#### OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET III, NO. 12

Provide the training materials currently in effect for customer service representatives who serve Pennsylvania customers.

#### **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

#### DATE:

June 23, 2022

#### **RESPONSE:**

The training materials currently in effect for customer service representatives who serve Pennsylvania customers is attached.

#### CSR TRAINING BINDER ORDER OF CONTENTS

- Customer service training outline
- Areas of Service
- Oracle
  - Basics of Oracle
    - Account search
    - Front page
    - Private fire
    - Customer Flags/Password accounts
    - Tap info (line material, etc.)
- Apps/Forms
  - Online app steps
  - Add new customer in Paymentus
  - o Paper app
  - Creating account from paper app
  - Moving customer from one address to another
  - Continuous service
- Billing/Pas
  - Billing history
  - Individual bill
  - Payment agreement info sheet
  - Fixed amount sheet
  - o PA account

- o PA page
- o PA view activity
- TAP front page
- TAP form
- o Rates
- Consumption Calls
- o Meter info
- How To (steps)
  - o Creating a WO
  - o Editing a WO
  - Debit/Credit
  - Promise to Pay/Correspondence Notes
  - Creating a PA
  - Setting up paperless billing in Paymentus
  - Paperless billing in Oracle
  - Attaching Docs in Oracle account
  - Verifying doc is attached
- Sewer
  - Municipal Agreements
  - Sanitary sewer Emergency (YWC owned)
  - o Jacobus smartsheet
  - WY, EP, AP, Felton, & Letterkenny smartsheet
  - York City sewer info (FAQs, emails, etc.)
  - SGT smartsheet

- WMT smartsheet
- YNS smartsheet
- Sewer acct in Oracle (YWC billing agent)
  - Sewer bill
- YWC owned and operated sewer acct
  - Flat rate (rental prop) vs on water bill
  - Bills of each
- Meters
  - Meter test form
  - Meter reading info sheet
  - How to read your meter
    - ARB vs ECODER (w/ pics)
- Collections/Past due
  - $\circ \quad \text{Turn on fee} \quad$
  - o YWC Cares
  - Medical certificate
  - o CAP
- Miscellaneous
  - SLPP form/app
  - Lead service line?
  - FAQs about water quality
- Miscellaneous (in front pouch)
  - Who to call & when
  - Municipality contact numbers

- WO mapping
- YWC employee contact info

**Customer Service Training Outline** 

#### Our Company

#### A. Intro to Customer Service

- a. Front Office Staff
  - i. CSR's (Ana, Colton, Elisabetta, Fabiola, Jocelyn, Lindsey, Lydia, Nancy, Susan, Valerie)
  - ii. Cashier (Jean)
  - iii. Customer Service Lead (Savannah)
- b. Meter Reading Department (Dean, Don, Luis, Michele, Colton, Lindsey, Lydia)
- c. Collections (Elisabetta, Jocelyn)
- d. Mail Room (Lona)
- e. Billing Department (Linda & Nancy)
- f. IT Department (Mark, Andy, Nadh, Chris)

#### B. Intro to Management

- a. Vice President of Human Resources (Natalee Colon)
- b. President and CEO (JT Hand)
- c. CFO (Matt Poff)
- d. Vice President of Customer Service (Vernon Bracey)
- e. COO (Mark Wheeler)

#### C. Quick Review and Exposure of Company

- a. Shadow Meter Reading/Collectors
  - i. Terminations, Postings, starts/finals, turn offs, complaint orders, etc.
- b. Shadow w/ Distribution
  - i. Meter exchanges, Turn on's, main cleaning-relining, Main extensions, etc.

Overview

#### A. Tools Training

- a. Overview of Oracle
- b. Overview of Paymentus
- c. Overview of Neptune Software
  - i. Fixed Collectors/On demand reads
- d. Overview of MXIE software/phone system

#### B. Rules & Regulations

a. Overview of Chapter 14 & 56 (will read in free time)

#### **Department Specific Training**

#### A. Main Duties

a. Phone calls

b. Emails, voicemails, applications – 1 day priority

#### B. Phone Calls

- a. Collections: extensions, amount due, shut off date
- b. Start/stop service: current customers, new customers (multi vs single; continuous service)
- c. Low pressure
- d. High consumption: leaks/toilets
- e. Refund checks
- f. Water quality
- g. Settlement companies

#### C. Payment Options

- a. Paymentus: One time & scheduled payments
- b. TAP (Timely Automatic Payments)
- c. Overnight Drop box
- d. Online banking/corner store payments

#### D. Work Orders

a. Service requests (all types of work orders)

#### E. Application Process

- a. Online & in person
- b. Oracle Entry
- c. ID & lease/deed verification
- d. Searching for previous accounts & balances

#### F. Email Training

- a. Online application process
- b. Voicemails
- c. Other customer service emails

#### G. Collections

- a. Multi vs single unit postings
- b. Terminations
- c. Promise to Pay
- d. User w/o contract
- e. Write offs
- f. In Collections
- g. Medical Certificates
- h. Social Services (St Matts, Salvation Army, etc.)

#### H. Payment Agreements

- a. One-time vs ongoing
- b. Eligibility
- c. CIC PA
- d. Delinquent PA customer

#### I. York Water Programs

- a. Service Line Protection Plan (SLPP)
- b. Customer Assistant Program (CAP)
- c. York Water Cares (w/ Salvation Army)

#### J. Sewer

a. Owned and Operated by YWC vs Billing agent

#### Where to find in My Computer

#### A. Customer Service (I) drive:

- a. Shut off list
- b. Scanned applications
- c. Blank applications
- d. Medical certificates
- e. Leases

#### B. Shared (W) drive:

- a. Turn on schedule
- b. Meter schedule

#### C. Payment Agreement (J) drive:

- a. If a PA customer has received a shut off notice
- b. How much their shut off notice is

#### Where do I go when a customer asks/says...

- A. What is my balance?
- B. What is the minimum I can pay?
- C. I would like to end my service.
- D. I would like to start service.

- E. I think my pipes are lead.
- F. I need to get my water turned on.

(YORK WATER COMPANY RESPONSE TO OCA SET III, NOS. 38 AND 40)

#### Office of Consumer Advocate Interrogatories Set III

#### OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET III, NO. 38

Please provide a the "pilot low income program" implementation plan and any analysis of this plan undertaken since its inception.

#### **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

#### DATE:

June 23, 2022

#### **RESPONSE:**

The pilot low-income program implementation plan information is attached as Attachment OCA-III-38, A and B.

### Guidelines

### For agencies distributing York Water Cares funds for The York Water Company

- 1. The person receiving assistance must be a residential water or sewer customer of The York Water Company.
- 2. The assistance must be for the customer's primary residence (may be rented or owned).
- 3. The customer must provide a current shut-off notice from York Water when applying for York Water Cares funds. Exceptions to this guideline need to be approved by York Water.
- 4. The customer needs to show the agency proof (recent bill, cashed check, or receipt) that they have made a payment of at least 25% of the amount due in the past 90 days and may also be required to have a payment arrangement on the balance past due <u>before</u> York Water Cares funds will be released by the agency.

Customers may receive a maximum of \$200 per calendar year and must receive the total amount at one time. Distribution of York Water Cares funds to a customer will be one time during the calendar year.

- 5. There will be no carryover of funds for an account from one year to the next.
- 6. York Water Cares funds are not to be used for security deposits, connection fees, and prior uncollectibles from a previous address. The funds are for water or sewer use only.
- 7. The distribution of York Water Cares funds should not be based strictly on income level of the customer, however, proof of income for all adults in the household for a minimum of the past 60 days should be provided. Other factors the agency could include:
  - 55 years of age or older
  - Resident who does not exceed 200% poverty level
  - On a disabled or handicapped income
  - Veteran with a verified need
  - Able to demonstrate a certified medical emergency
  - Experienced a verifiable, recent loss of income
  - Receiving unemployment benefits
- 8. Customers may only receive York Water Cares funds from an agency serving the county in which they live.
- 9. The agency distributing York Water Cares funds will determine the need of each customer, since it specializes in these decisions.
- 10. The agency will track the amount of York Water Cares funds given to each customer during the calendar year.
- 11. When sending the check from your agency to York Water, please include the following information:
  - Name of customer
  - York Water account number
  - Amount of assistance per customer
- 12. The agency will send a monthly report to The York Water Customer Service Department by the end of the first week of the next month. The information should include:
  - Name of the agency
  - Address of the agency
  - Month the activity occurred
  - Beginning balance
  - Check amount deposited by The York Water Company
  - Amount paid out to customers that month
  - Ending balance

- Number of applicants granted assistance and number of requests that could not be fulfilled because the agency did not have sufficient funds.
  - List of customers receiving help, including:
    - Date assistance was approved
    - Name of customer
    - Customer's estimated household income and # of residents (if that is used to determine eligibility)
    - Customer's York Water account number
    - Total amount of assistance per customer (all assistance given by the agency from any funding source)
    - Amount of assistance per customer that came from York Water Cares funds
- 13. When the agency's monthly report shows an ending balance of \$2,000 or less, York Water will send a check to the agency only if funds are available to replenish the fund. Agencies should be careful not to draw funds down below a zero balance, in the event that funds are not available to replenish an overdrawn amount.

These are guidelines. Leniency is encouraged in specific extraordinary circumstances upon the recommendation of the agency or the recommendation of York Water. If you have any questions or feel a need to deviate from the guidelines in special cases, please call the VP of Customer Service, Vernon Bracey at 717-718-2943 or vernonb@yorkwater.com.



### **OVERVIEW**

York Water Cares (YWC) is a program, which provides limited funding payable thru community agencies to those who need help paying their water bill.

Although this program is designed to help low income customers, it may also be helpful to customers who have a short term challenge in making ends meet and need assistance paying their water bill. Please give us a call or an email to (717)845-3601 or customer.service@yorkwater.com and ask about our Low Income Customer Assistance Program.

This program is only available one time per year for a customer that qualifies. Please read this handout for details. York Water Cares (YWC)

Low Income Customer Assistance Program





York





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"That good York water" SINCE 1816 Need help paying your water bill?

We have a program to assist customers who may need a helping hand if they get behind in paying their water bills.

This program is a partnership with local charities that will provide guidance to our customers and help them pay a water bill if they are having difficulties.

### Who can apply?

#### To receive assistance:

1. You must be a residential water or sewer customer of York Water (you can either rent or own the home you live in).

2. You must be unable to pay your full water bill.

3. You must be at risk of being shut-off due to non-payment.

# Will this pay my whole water bill?

Probably not. You'll have to show the agency that you can pay or have paid 25% of the past due amount. You can bring your most recent water bill to show how much is past due, and how much you've paid towards the bill. Once you've done that, the agency may be able to pay up to \$200 towards your water bill.

### How does it work?

#### If you meet the requirements:

 You should contact our Customer Service at (717)845-3601 or customer.service@yorkwater.com and ask about our Low Income Customer Assistance Program. We'll let you know if an area agency is participating and if they have funds available.

2. Contact the agency and set up an appointment. They may want you to bring a current water bill or shut-off notice and proof of income for the past 2 months.

3. The agency will review your payment history, proof of income, and how much you owe on your water bill. The agency may also discuss water saving tips and other ways to reduce future water bills.

4. If approved by the agency and if funds are available, they may make a contribution of up to \$200 towards your water bill's past due amount.

5. The agency will notify us if they choose to make a payment (which will pause any shut-offs) and then the agency will send us the money directly.

6. This program can only be used one time per year.

# Do I need to be a low income customer?

This program is generally for lowincome customers, but is also available if a customer has a short term difficulty in paying their water bill, such as an emergency expense, a medical issue, recent loss of a job, an unusually high water bill that they cannot afford to pay, etc.

# Is there always money available?

No, an agency may run out of assistance funds. If they do then we can check to see if another agency has any funds available.

### How do I get started?

Stop in our office at 130 E. Market Street, or contact our Customer Service at (717)845-3601 or customer.service@yorkwater.com and ask about our Low Income Customer Assistance Program.

#### Office of Consumer Advocate Interrogatories Set III

#### OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET III, NO. 40

Has York Water evaluated the completion rate for its payment plans to determine the basis or criteria for success or failure? If so, provide such analysis.

#### **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

#### DATE:

June 23, 2022

#### **RESPONSE:**

The Company has not evaluated the completion rate for its payment agreements.

(YORK WATER COMPANY RESPONSE TO OCA SET III, NO. 21)

### Pennsylvania Public Utility Commission v.

The York Water Company Docket Nos. R-2022-3031340 (Water) R-2022-3032806 (Wastewater)

#### Office of Consumer Advocate Interrogatories Set III

#### OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET III, NO. 21

Provide the following monthly and annual information in electronic spreadsheet format concerning Pennsylvania residential customers for the period January 1, 2020 through the current month and continuing through this proceeding:

- a. Termination Notices issued;
- b. Termination Notices resolved with payment;
- c. Termination Notices resolved with payment plan;
- d. Termination Notices not resolved and eligible for termination of service;
- e. Termination of Service; and
- f. Reconnection of Service within 30 days.

#### **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

#### DATE:

June 23, 2022

#### **RESPONSE:**

- a. The number of notices issued is included in the attached spreadsheet OCA III-21;
- b. The Company does not track the number of notices resolved with payment;
- c. The Company does not track the number of notices resolved with payment plan;
- d. The Company does not track notices not resolved and eligible for termination;
- e. The number of service terminations is included in the attached spreadsheet;
- f. The Company does not track the number of reconnections within 30 days.

Month	Termination notices	Termination		
		of service		
Jan-20	4963	73		
Feb-20	4086	55		
Mar-20	1331	51		
Apr-20	0	0		
May-20	0	0		
Jun-20	0	0		
Jul-20	0	0		
Aug-20	0	0		
Sep-20	0	0		
Oct-20	0	0		
Nov-20	0	0		
Dec-20	0	0		
Jan-21	4087	0		
Feb-21	2389	54		
1-Mar	3099	67		
Apr-21	3657	63		
May-21	2905	75		
Jun-21	3443	29		
Jul-21	3184	18		
Aug-21	3458	45		
Sep-21	3267	44		
Oct-21	3740	29		
Nov-21	783	41		
Dec-21	3137	30		
Jan-22	5179	24		
Feb-22	4707	20		
Mar-22	3766	23		
Apr-22	6543	15		
May-22	4223	19		

### OCA Set III, No. 21

(YORK WATER COMPANY RESPONSE TO OCA SET VII, NO. 8)

#### Office of Consumer Advocate Interrogatories Set VII

#### **OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET VII, NO. 8**

The response to OCA-III-21 shows a significant disparity between the volume of termination notices issued and the actual terminations of service. Please identify the basis for deciding what customers will be terminated and further explain why York Water has issued termination notices that are not acted upon.

#### **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

#### DATE:

August 2, 2022

#### **RESPONSE:**

From 2020 until May 2022, York Water served as the third-party billing agent for the City of York wastewater customers. York Water issued its final City of York wastewater bills on May 26, 2022, with a due date of June 20, 2022. Effective July 1, 2022, York Water ceased providing billing agent services to City of York wastewater customers. Also, since 2020, York Water has served as the third-party billing agent for the City of York refuse customers. Both the wastewater and refuse billing services include issuing termination notices for delinquent City of York wastewater and refuse customers. The totals referenced in response to OCA-III-21 include delinquent York Water customers and delinquent City of York wastewater and refuse customers. While the majority of the shut off notices generated were for City of York customers, few shut offs occurred at the direction of the City of York.

(YORK WATER COMPANY RESPONSE TO OCA SET III, NO. 21)

### Pennsylvania Public Utility Commission v.

The York Water Company Docket Nos. R-2022-3031340 (Water) R-2022-3032806 (Wastewater)

#### Office of Consumer Advocate Interrogatories Set III

#### OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET III, NO. 21

Provide the following monthly and annual information in electronic spreadsheet format concerning Pennsylvania residential customers for the period January 1, 2020 through the current month and continuing through this proceeding:

- a. Termination Notices issued;
- b. Termination Notices resolved with payment;
- c. Termination Notices resolved with payment plan;
- d. Termination Notices not resolved and eligible for termination of service;
- e. Termination of Service; and
- f. Reconnection of Service within 30 days.

#### **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

#### DATE:

June 23, 2022

#### **RESPONSE:**

- a. The number of notices issued is included in the attached spreadsheet OCA III-21;
- b. The Company does not track the number of notices resolved with payment;
- c. The Company does not track the number of notices resolved with payment plan;
- d. The Company does not track notices not resolved and eligible for termination;
- e. The number of service terminations is included in the attached spreadsheet;
- f. The Company does not track the number of reconnections within 30 days.

Month	Termination notices	Termination		
		of service		
Jan-20	4963	73		
Feb-20	4086	55		
Mar-20	1331	51		
Apr-20	0	0		
May-20	0	0		
Jun-20	0	0		
Jul-20	0	0		
Aug-20	0	0		
Sep-20	0	0		
Oct-20	0	0		
Nov-20	0	0		
Dec-20	0	0		
Jan-21	4087	0		
Feb-21	2389	54		
1-Mar	3099	67		
Apr-21	3657	63		
May-21	2905	75		
Jun-21	3443	29		
Jul-21	3184	18		
Aug-21	3458	45		
Sep-21	3267	44		
Oct-21	3740	29		
Nov-21	783	41		
Dec-21	3137	30		
Jan-22	5179	24		
Feb-22	4707	20		
Mar-22	3766	23		
Apr-22	6543	15		
May-22	4223	19		

### OCA Set III, No. 21

(YORK WATER COMPANY RESPONSE TO OCA SET XI, NO. 1)

#### Office of Consumer Advocate Interrogatories Set XI

#### OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET XI, NO. 1

What are York Water's procedures and policies related to adherence to the Discontinuance of Services to Leased Premises Act (DSLPA), 66 Pa. C.S. § 1521, et seq.? Please provide a copy of York Water's written policies, training materials, and other written documents which describe the policies and procedures related to the Discontinuance of Services to Leased Premises Act.

#### **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

#### DATE:

August 5, 2022

#### **RESPONSE:**

The Company adheres to the Act through the correct notification to landlords and tenants for delinquent accounts, compiling tenant information during the delinquent posting process, and allowing payment from a tenant for current charges. The Company does not have written documents describing the policies and procedures related to Discontinuance of Services to Leased Premises Act.

(YORK WATER COMPANY RESPONSE TO OCA SET XI, NOS. 5, 6, AND 11)

#### Pennsylvania Public Utility Commission

v. The York Water Company Docket Nos. R-2022-3031340 (Water) R-2022-3032806 (Wastewater)

#### Office of Consumer Advocate Interrogatories Set XI

#### OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET XI, NO. 5

When a tenant exercises his/her right to continued service pursuant to DSLPA 66 Pa. C.S. § 1527:

- a. Is the tenant required to put the account in his/her name?
- b. What is the initial amount they need to pay to continue service?

c. How does York Water determine the future monthly payments required to continue service?

d. How is the tenant notified of the monthly amount they must pay?

#### **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

#### DATE:

August 5, 2022

#### **RESPONSE:**

a. The tenant is not required to place service in their name.

b. The amount to continue services for a tenant is the amount equal to the bill for the affected account of the landlord ratepayer for the billing month preceding the notice to the tenants.

c. York Water determines the future monthly payments required to continue service pursuant to its Commission-approved tariff.

d. A tenant is notified via a delinquent posting to the property where notification of tenant charges is provided. York Water is in the process of revising its practices, such that it will send the tenant(s) a notice in the second and each succeeding billing month of the total amount of the bill that they must pay to continue service.

#### Office of Consumer Advocate Interrogatories Set XI

#### OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET XI, NO. 6

Provide a copy of the notice or notices used by York Water to notify tenants of the amount due for each succeeding period after they elect to continue or resume service and make an initial payment. How often is this notice issued?

#### **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

#### DATE:

August 5, 2022

#### **RESPONSE:**

As explained in response to OCA-XI-5(d), York Water is in the process of revising its practices, such that it will send the tenant(s) a notice in the second and each succeeding billing month of the total amount of the bill that they must pay to continue service. This includes developing a notice to send to tenants in the second and each succeeding billing month.

#### Office of Consumer Advocate Interrogatories Set XI

#### OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET XI, NO. 11

Provide York Water's policies concerning the process tenants must follow to apply to have utility service continued or resumed to a property in which service was discontinued, including any documentation required to be provided by the tenant. Identify whether or how this process differs from when the landlord requests termination of service compared to when the landlord fails to pay the bill.

#### **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

#### DATE:

August 5, 2022

#### **RESPONSE:**

York Water interprets this interrogatory's use of "discontinuance" as meaning a voluntary relinquishment of service, as defined by Section 1521 of the Public Utility Code. With that understanding, the Company answers as follows:

For a single unit residential building, the tenant would submit an application for service online on the Company's website, in person, or by mail. Generally, the only documentation required is the application for service. This process is the same for a "discontinuance" of service at the request of the landlord ratepayer and a "termination" of service for the landlord ratepayer's non-payment.

For a multi-unit residential building or mobile home park that is not individually metered, the Company is updating its practices, such that a tenant can continue or resume service by paying the amounts specified in Section 1527 of the Public Utility Code. Alternatively, the tenant has the "right to agree to subscribe for future service individually if this can be accomplished without a major revision of distribution facilities or additional right-of-way acquisitions." 66 Pa. C.S. § 1527(d). This process is the same for a "discontinuance" of service at the request of the landlord ratepayer and a "termination" of service for the landlord ratepayer's non-payment.

(YORK WATER COMPANY RESPONSE TO OCA SET VII, NO. 1)

# Pennsylvania Public Utility Commission

v. The York Water Company Docket Nos. R-2022-3031340 (Water) R-2022-3032806 (Wastewater)

#### Office of Consumer Advocate Interrogatories Set VII

# OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET VII, NO. 1

With regard to the "Guidelines for agencies distributing York Water Cares funds for The York Water Company," provided in response to OCA-III-38, Attachment A, please provide the following information:

- a. When were these guidelines created by York Water?
- b. To whom were the guidelines distributed (identifying each "agency") and when?

c. The total amount of York Water Cares program funds distributed by agency in calendar year 2021 and 2022 to date;

d. The monthly reports received by York Water pursuant to these guidelines from each agency for the calendar year 2021 and 2022 to date.

e. Any compilation of the monthly reports received by York Water, such as spreadsheets, year-end totals, internal analysis of the program, etc.

# **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

# DATE:

August 2, 2022

# **RESPONSE:**

a. The guidelines for agencies distributing CARES funds were created in March 2019.

b. The guidelines were distributed to The Salvation Army on November 12, 2019, and to the Community Progress Council on July 13, 2020.

c. In 2021, the Salvation Army disbursed \$8,822.06, and the Community Progress Council disbursed \$23,465.34. In 2022, the Community Progress Council has disbursed \$967.31. No funds have been disbursed by the Salvation Army to date in 2022. See Attachments OCA-VII-1 2021 Salvation Army-YWC spreadsheet, OCA-VII-1 2021 CPC-YWC spreadsheet, and OCA-VII-1 2022 CPC-YWC spreadsheet.

d. See the attachments provided in response to part c.

e. See the attachments provided in response to part c.

# **EXHIBIT BA-12**

(YORK WATER COMPANY RESPONSE TO OCA SET III, NO. 37)

#### Pennsylvania Public Utility Commission

v. The York Water Company Docket Nos. R-2022-3031340 (Water) R-2022-3032806 (Wastewater)

#### Office of Consumer Advocate Interrogatories Set III

# OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET III, NO. 37

Please provide the following monthly information for its low income program since its inception:

- a. Number of participating customers enrolled;
- b. Number of customers denied enrollment;
- c. Number of customers who successfully completed the program;
- d. Number of customers who were terminated or failed to complete the program;
- e. Arrears balance at entry;
- f. Arrears balance at either termination or completion of the program;
- g. Dollar amount of arrears forgiveness awarded; and
- h. The percentage of customers enrolled who successfully completed the program.

# **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

# DATE:

June 23, 2022

### **RESPONSE:**

The Company does not track the information requested.

# **EXHIBIT BA-13**

(YORK WATER COMPANY RESPONSE TO OCA SET III, NOS. 31 THROUGH 35)

### Office of Consumer Advocate Interrogatories Set III

# OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET III, NO. 31

Provide any research and associated report or other internal document that reflects an analysis of affordability for water and wastewater services prepared by or relied upon by York Water in the development of its low income program since 2018.

#### **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

## DATE:

June 23, 2022

## **RESPONSE:**

The Company does not have any research, associated reports, or internal documents that reflect an analysis of affordability for water and wastewater services that was used in the development of its low income program.

## Office of Consumer Advocate Interrogatories Set III

# OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET III, NO. 32

Has York Water undertaken any evaluation of affordability of its proposed rates if approved in this base rate case? If so, please provide such analysis.

#### **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

#### DATE:

June 23, 2022

### **RESPONSE:**

## Office of Consumer Advocate Interrogatories Set III

# OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET III, NO. 33

In evaluating affordability, did York Water consider only household income information? If not, identify other criteria used to evaluate affordability of York Water services.

#### **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

## DATE:

June 23, 2022

### **RESPONSE:**

## Office of Consumer Advocate Interrogatories Set III

# OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET III, NO. 34

Does York Water's analysis of affordability reflect the average payments required to maintain electricity and natural gas service by its customers? If not, why not?

#### **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

# DATE:

June 23, 2022

## **RESPONSE:**

## Office of Consumer Advocate Interrogatories Set III

# OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET III, NO. 35

In evaluating affordability did York Water conduct any customer surveys? Analysis of bill payment experience? Payment plan experience?

#### **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

#### DATE:

June 23, 2022

### **RESPONSE:**

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:
	: Docket Nos. R-2022-3031340 (Water)
v.	: R-2022-3032806 (Wastewater)
	:
The York Water Company	:

#### **VERIFICATION**

I, Barbara R. Alexander, hereby state that the facts set forth in my Direct Testimony, OCA Statement 5, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: August 22, 2022 \*334308

Signature:

Bahma V. Munder

Barbara R. Alexander

Consultant Address: Barbara Alexander Consulting, LLC 83 Wedgewood Drive Winthrop, Maine 04364

OCA Statement 6

# **BEFORE THE**

# PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION	:	
	:	Docket No. R-2022-3031340
	:	(WATER)
V.	:	
	:	Docket No. R-2022-3032806
	:	(WASTEWATER)
YORK WATER COMPANY	:	

# DIRECT TESTIMONY

# OF

# TERRY L. FOUGHT

# ON BEHALF OF

# PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

# AUGUST 19, 2022

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1	Q.	PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.
2	Α.	Terry L. Fought, 780 Cardinal Drive, Harrisburg, Pennsylvania, 17111.
3		
4	Q	BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?
5	Α.	I am a self-employed consulting engineer retained by the Office of Consumer
6		Advocate (OCA) for the purposes of providing testimony in this proceeding.
7		
8	Q.	PLEASE DESCRIBE YOUR BACKGROUND AND QUALIFICATIONS.
9	Α.	Appendix A, which is attached to this testimony, describes my educational
10		background and applicable experience.
11		
12	Q.	WHAT ISSUES HAVE YOU BEEN ASKED TO INVESTIGATE REGARDING
13		THIS YORK WATER COMPANY (YWC) RATE CASE?
14	Α.	The OCA requested that I investigate: (1) quality of service issues, (2) customer
15		complaints and (3) acquisition adjustments.
16		
17	Q.	WHAT DID YOUR INVESTIGATION CONSIST OF?
18	Α.	My investigation included: (1) reviewing portions of YWC's filing applicable to
19		Quality of Service; (2) reviewing informal and formal complaints filed by YWC
20		customers with the PUC; (3) reviewing customer complaints received by YWC; (4)
21		reviewing the Direct Testimony of YWC witness Joseph T. Hand, York Water
22		Statement No. 1; (5) reviewing YWC's responses to the OCA's interrogatories
23		regarding quality of service issues; (6) reviewing the 2021 York Water Company

Management and operations Audit<sup>1</sup>; (7) attending the Public Input Hearing on 1 August 17 via telephone; (8) reviewing records from the application proceedings 2 for each of the acquired systems; and (9) reviewing the following statutes and 3 regulations addressing acquisitions: 4 66 Pa. C.S. § 1327. Acquisition of Water and Sewer Utilities. 5 52 Pa. Code § 69.701. Viability of small water systems. • 6 • 52 Pa. Code § 69.711. Acquisition Incentives. 7 • 52 Pa. Code § 69.721. Water and wastewater system acquisitions. 8 9 YWC'S WATER SUPPLY & WASTEWATER SYSTEMS 10 Q. BRIEFLY DESCRIBE YWC'S WATER AND WASTEWATER OPERATIONS. 11 12 Α. The Company is engaged in the business of furnishing water and wastewater service to over 75,000 customers pursuant to certificates of public convenience 13 and necessity issued by the Commission. York Water provides direct water service 14 in the City of York, in the Boroughs of East Prospect, Hallam, Jacobus, Jefferson, 15 Loganville, Manchester, Mount Wolf, New Salem, North York, Railroad, Seven 16 Valleys, Spring Grove, West York, York Haven and Yorkana, and in the Townships 17 of Codorus, Conewago, East Manchester, Hellam, Hopewell, Jackson, Lower 18 Windsor, Manchester, Newberry, North Codorus, North Hopewell, Paradise, 19 Shrewsbury, Springettsbury, Springfield, Spring Garden, West Manchester, West 20 Manheim, Windsor and York in York County, Pennsylvania and the Boroughs of 21

22

Abbottstown and Carroll Valley and Townships of Berwick, Cumberland, Oxford,

<sup>&</sup>lt;sup>1</sup> PA PUC Bureau of Audits, Docket No D-2020-3021861

Hamilton, Reading, Mount Pleasant, Union, and Straban in Adams County,
 Pennsylvania. The Company also provides wholesale service to the Boroughs of
 Glen Rock, New Freedom, and Stewartstown and to Dover Township.

In addition, York Water provides wastewater service in the Boroughs of East
 Prospect, Felton, Jacobus, and West York, in the Townships of East Manchester,
 Lower Windsor, and West Manheim in York County, Pennsylvania, in the Township
 of Letterkenny in Franklin County, Pennsylvania, and in the Township of Straban
 in Adams County, Pennsylvania.<sup>2</sup>

9

# 10 Q. WHAT QUALITY OF SERVICE ISSUES ARE INCLUDED IN YOUR TESTIMONY

# 11 **REGARDING THE WATER AND WASTEWATER SYSTEMS?**

A. My testimony addresses customer complaint logs, pressures and pressure surveys, fire hydrants, and customer complaints, including formal complaints and testimony at the August 17<sup>th</sup> Public Input Hearing. Unless otherwise indicated, my

- recommendations below apply to both the water and wastewater systems.
- 16

# 17 CUSTOMER COMPLAINT LOGS

# 18 Q. WHAT ARE THE PUC'S REQUIREMENTS FOR CUSTOMER COMPLAINTS?

- 19 A. According to 52 Pa. Code § 65.3. Complaints:
- (a) *Investigations.* A public utility shall make a full and prompt investigation of
   complaints made by the Commission or by others, including customers,
   relating to service or facilities.
- (b) *Records of complaints.* A public utility shall preserve for a period of at least 5
   years, written service complaints showing the name and address of the
   complainant, the date and character of the complaint and the final
   disposition of the complaint.

<sup>&</sup>lt;sup>2</sup> York Water Statement No. 1, p.4.

# Q. WHAT INFORMATION HAS YWC SUBMITTED CONCERNING WATER AND WASTEWATER CUSTOMER COMPLAINTS?

A. In response to OCA-Set-VIII-1, YWC stated that the Company does not maintain
 a customer complaint log for all customer complaints received. See Exhibit TLF 1.

In response to OCA-Set-II-6, YWC provided a listing of 176 informal/formal
 mediations and complaints filed with the PUC regarding its water systems received
 during the calendar year 2019 through May 23, 2022.

In response to OCA-Set-II-18, YWC provided a listing of one informal/formal
 mediations and complaints filed with the PUC regarding its wastewater systems
 received during the calendar year 2019 through May 18, 2022. YWC also
 submitted an Excel spreadsheet listing twenty-two other wastewater customer
 complaints from 2019 through June 6, 2022, that were not filed with the PUC.

14

# 15 Q. DID YWC'S LISTING OF COMPLAINTS INCLUDE THE CHARACTER AND 16 DISPOSITION OF THE COMPLAINTS?

A. Not entirely. Although the character of the complaint was included for most of the water complaints filed with the PUC, the final disposition only noted when the PUC case was closed. The 176 water system complaints filed with the PUC included two pressure complaints and one YWC service line leak complaint.

21 Regarding the twenty-two wastewater complaints not filed with the PUC, sixteen 22 were determined to be the responsibility of the customers and other utilities. The 23 remaining six complaints were sewer backups: three located in YWC's Amblebrook

12

System; two located in the West York System; and one in the Letterkenny System. YWC adequately responded to these six complaints.

3

# 4 Q. DO YOU HAVE ANY RECOMMENDATIONS REGARDING YWC SUBMITTING

5

# A LISTING OF CUSTOMER COMPLAINTS IN FUTURE RATE CASES?

6 Α. Yes, with the understanding that the PUC requires that records of complaints be preserved for five years so that OCA and other parties can easily review the 7 adequacy of the public utilities responses, YWC should submit a complaint log 8 that: (1) includes all complaints or records of customer disputes received by phone, 9 online, and in writing, (not just those filed with the Commission), and (2) submit the 10 listing of complaints in live Excel format, including providing more specific details 11 of the complaints as discussed above, and also indicating the final disposition of 12 the complaint. 13

Regarding the water system, I suggest the complaint listing include the following categories so that the data can be sorted by date and location: date, location, and the nature of complaint categorized as dirty water, rusty water, water taste, odor, or color, staining (of laundry or plumbing fixtures), request for water testing, customer property damage, incomplete surface restoration, and health issues.

19 Regarding the wastewater system, I suggest the complaint listing include the 20 following categories: date, location, and the nature of complaint categorized as 21 odor, sewer backups, pump station alarms, grinder pumps, sewer main breaks, 22 customer property damage, and incomplete surface restoration.

# 1 PRESSURES AND PRESSURE SURVEYS

# 2 Q. WHAT ARE THE PUC'S REQUIREMENTS FOR PRESSURES AND PRESSURE

# 3 SURVEYS?

4 A. According to 52 Pa. Code § 65.6. Pressures:

(a) Variations in pressure. The utility shall maintain normal operating pressures of 5 not less than 25 p.s.i.g. nor more than 125 p.s.i.g. at the main, except that during 6 periods of peak seasonal loads the pressures at the time of hourly maximum 7 demand may be not less than 20 p.s.i.g. nor more than 150 p.s.i.g. and that during 8 periods of hourly minimum demand the pressure may be not more than 150 p.s.i.g. 9 A utility may undertake to furnish a service which does not comply with the 10 foregoing specifications where compliance with such specifications would prevent 11 it from furnishing adequate service to any customer or where called for by good 12 engineering practices. The Company of the Commission to require service 13 improvements incorporating standards other than those set forth in this subsection 14 when, after investigation, it determines that such improvements are necessary is 15 not hereby restricted. 16

- (b) *Pressure gauges.* Within 2 years after the effective date of this section, each 17 utility shall obtain one or more recording pressure gauges for each separately 18 operated pressure zone for the purpose of making pressure surveys as required 19 by this section. These gauges shall be able to record the pressure experienced on 20 the zones and shall be able to record a continuous 24-hour test. Each utility serving 21 1,000 or more customers or 1,000 or more customers in any separately operated 22 zone of a multi-zone utility shall maintain one or more of these recording pressure 23 gauges in service at some representative point or points in each of the pressure 24 zones of the utility. 25
- (c) *Telemetering.* An utility may make the pressure surveys required by this
   section by means of telemetered information electronically transferred to printed
   copy instead of using recording pressure gauges.
- (d) Pressure surveys. At regular intervals, but not less than once each year, each 29 utility shall make a survey of pressures in its distribution system of sufficient 30 magnitude to indicate the pressures maintained at representative points on its 31 system. The surveys should be made at or near periods of maximum and minimum 32 usage. Records of these surveys shall show the date and time of beginning and 33 end of the test and the location at which the test was made. Records of these 34 pressure surveys shall be maintained by the utility for a period of at least three 35 years and shall be made available to representatives, agents, or employes of the 36 Commission upon request. 37

# 38 Notes of Decisions

39 Adequate Pressure

The 25 p.s.i.g. minimum expressed in subsection (a) is not intended to restrict the Company of the PUC to order improvements where service is inadequate; therefore, the PUC has the power to order needed improvements notwithstanding

- that the pressure in a utility's main meets the standard of the regulation. Barone v.
   *Pennsylvania Public Utility Commission*, 485 A.2d 519 (Pa. Cmwlth. 1984).
- 3

# 4 Q. WHAT ARE DEP'S REQUIREMENTS FOR SYSTEM PRESSURES?

- 5 A. According to DEP's Public Water Supply Manual, Part II, Community System
- 6 Design Standards:
- 7 **1.** Pressure<sup>3</sup>

All water mains, including those not designed to provide fire protection, shall be sized after a hydraulic analysis based on flow demands and pressure requirements. The pipe system and its appurtenances shall be designed to maintain a minimum pressure of 20 pounds per square inch, gauge (psig) at ground level at all points in the distribution system under all conditions of flow. The normal working pressure in the distribution system should be approximately 60 psig.

15

# 16 Q. WHAT ARE THE DIFFERENCES BETWEEN THE PUC AND DEP PRESSURE

- 17 **REQUIREMENTS?**
- A. The PUC has a maximum and minimum pressure criterion while DEP has a minimum and normal working pressure criterion. The PUC has a minimum criterion of 25 psi at the main while DEP's minimum criteria is 20 psi at ground
- level. Assuming the main is buried 4.5 feet below ground, the DEP minimum
- criteria is equivalent to 22 psi at the main.
- 23 Instead of having a pressure survey requirement for all water systems, DEP
- <sup>24</sup> imposes a pressure survey requirement on specific systems with known pressure
- 25 problems.
- 26

<sup>&</sup>lt;sup>3</sup> Public Water Supply Manual, Part II, Community System Design Standards, May 6, 2006, p. 186.

# 1Q.WHAT ARE THE REPRESENTATIVE POINTS ON THE SYSTEM WHERE2PRESSURE SURVEYS SHOULD BE CONDUCTED?

A. In general, the representative points are highest and lowest ground elevations of
 each distribution system in each pressure zone.

- 5
- 6

# Q. HOW HAVE PRESSURE SURVEYS CHANGED SINCE 1984?

Α. The latest modification to 52 Pa. Code § 65.6. Pressures occurred in 1984 when 7 the typical technology consisted of either: (1) installing one or more recording 8 pressure gauges in each separately operated pressure zone, or (2) transferring 9 electronic telemetered pressure information to printed copy. In both options, it was 10 11 intended that the highest and lowest pressures experienced by a customer in each pressure zone would be determined by recording the pressures at representative 12 points. Generally, the highest pressures will be located in the portion of the 13 14 pressure zone with a water main at the lowest ground elevation, and the lowest pressures will be located in the portion of the pressure zone with a water main at 15 the highest ground elevation<sup>4</sup>. 16

YWC, like most water supply utilities, now has Supervisory Control and Data Acquisition (SCADA) systems and hydraulic computer models capable of checking pressures throughout its distribution systems. The OCA has accepted utilityprovided pressures at fire hydrants from hydraulic models and/or SCADA data in lieu of "pressure surveys" if there haven't been any customer complaints that indicate non-compliance with 52 Pa. Code § 65.6. Having utilities provide this data

<sup>&</sup>lt;sup>4</sup> This statement may not consider low pressures due to pressure drops in mains with pipe sizes under 4-inches.

is more cost effective than conducting pressure surveys, assuming the utility
 provides a complete Customer Complaint Log that includes all customer
 complaints regarding pressure.

For example, if the complaint log shows that a customer has complained about water pressure, the pressure taken at a nearby fire hydrant can be used to determine compliance with 52 Pa. Code § 65.6 by adjusting the pressure for the difference in ground elevation. If the change in elevation estimated by on-line mapping indicates a possible violation, a field survey can resolve the issue.

9

# Q. HAS YWC PROVIDED INFORMATION REGARDING CUSTOMER PRESSURES AND PRESSURE COMPLAINTS?

A. Yes, in the Filing, Exhibit FIX-2, YWC states that "The Company is in compliance with Commission regulations regarding normal operating pressure standards and pressure surveys at regular intervals". YWC also indicated that some customers have ordinary pressures exceeding 125 psi. See Exhibit TLF-2.

16

# 17 Q. IS THE INFORMATION PROVIDED BY THE YWC SUITABLE TO REPLACE

# 18**PRESSURE SURVEYS?**

A. No, YWC has not provided the following: (1) a complete log of all customer complaints that includes all pressure complaints, (2) a statement that it did not receive any other pressure complaints than the two filed with the PUC, and (3) the details and final dispositions of the two pressure complaints filed with the PUC.

23

1

# Q. HAS DEP ORDERED THE YWC TO ADDRESS HIGH PRESSURES?

- 2 A. No. DEP does not have a criterion for high pressure.
- 3

## 4 Q. DO YOU HAVE ANY RECOMMENDATIONS REGARDING HIGH PRESSURES?

Α. Yes, I have the following recommendations for cases when a utility increases 5 pressures to existing customers to serve new customers. Some existing 6 customers that previously did not need pressure reducing valves (PRV) may not 7 be able to install a PRV without excessive expense after a pressure increase. This 8 is because their property and homes were not designed to include a PRV 9 installation. If a utility increases normal operating pressures to exceed 125 psi in 10 its existing mains in order to serve new customers, the utility should be required to 11 protect the existing customers service lines by either: (1) providing pressure 12 reducing valves approved for water supply with the applicable pressure, or (2) 13 14 where possible, reducing the pressures in the existing mains to less than 125 psi by installing duel lines or a booster pump station to serve the new customers. 15

16

#### 17 FIRE HYDRANTS

#### 18 Q. WHAT ARE DEP'S REQUIREMENTS FOR FIRE HYDRANTS?

A. According to DEP's Public Water Supply Manual, Part II, Community System
 Design Standards, the minimum size permitted for a water main connected to a
 fire hydrant is 6 inches. See Exhibit TLF-3.

# Q. WHAT IS YOUR RECOMMENDATION CONCERNING YWC'S PUBLIC FIRE HYDRANTS?

Α. All of the fire hydrants that cannot provide the minimum fire flow of 500 gallons per 3 minute (gpm) at 20 pounds per square inch should be marked so that they will only 4 be used for flushing and blow-offs. Any fire hydrants connected to less than 6-inch 5 water mains should also be marked so that they will only be used for flushing and 6 blow-offs unless YWC can document that they can provide the minimum fire flow. 7 This is important because it is generally accepted that (1) at least 500 gpm can be 8 pumped from every fire hydrant and (2) if a fire company pumps 500 gpm or more 9 from a hydrant that cannot provide that minimum fire flow, it may cause negative 10 pressures that contaminate other portions of the distribution system. 11

12

# 13 **POSITIVE ACQUISITION ADJUSTMENTS (ACQUISITION PREMIUMS)**

# Q. WHAT IS THE OCA'S POSITION REGARDING YWC'S CLAIM THAT IT MET THE STATUTORY REQUIREMENT TO MAKE A POSITIVE ADJUSTMENT FOR THE WRIGHTSVILLE, FELTON AND THE WEST MANHEIM TOWNSHIP

# 17 **ACQUISTIONS?**

A. <u>West Manheim Township.</u> As explained by Ms. DeAngelo, OCA Statement No.
 2, YWC did not claim an acquisition adjustment for the West Manheim Township
 acquisition and that she agrees with YWC's proposed treatment of that acquisition.

# 21 **Wrightsville and Felton Systems.** In regard to the Wrightsville and Felton 22 acquisitions, it is OCA's position that YWC has not met all nine criteria necessary 23 to support a positive adjustment because it has not met Section 1327(a)(3) (the

systems were not providing adequate service at the time of acquisition). Ms.
 DeAngelo explains the requirements that must be met by a utility to reflect a
 positive acquisition adjustment in rates.<sup>5</sup>

Wrightsville Water System. YWC acquired a portion of the Wrightsville water 4 system that served one customer – an educational campus of the Eastern York 5 School District. YWC did not provide any documentation that Wrightsville was not 6 providing and maintaining adequate, efficient, safe and reasonable service and 7 facilities at the time of the acquisition. Following the acquisition, Mr. Hand did 8 testify that (1) YWC installed an emergency interconnect to provide water to the 9 remaining Wrightsville Water System in case of a failure of its system using the 10 Susquehanna River and (2) YWC replaced the acquired 90,000 gallon tank with a 11 310,000 gallon finished water standpipe to provide the necessary water for the 12 expanding educational campus of the School District.<sup>6</sup> However, he did not 13 14 provide any documentation that the interconnect was required by the Department of Environmental Protection (DEP) because of concern about the reliability of 15 Wrightsville's Susquehanna River water treatment facilities nor was replacing the 16 17 90,000 gallon tank identified in the estimated additional capital requirements in York's application filing.<sup>7</sup> Therefore, neither the emergency interconnect nor 18 19 replacement of the 90,000 gallon tank were considered necessary to provide 20 adequate service at the time of acquisition.

<sup>&</sup>lt;sup>5</sup> OCA Statement 2, pp. 3-7.

<sup>&</sup>lt;sup>6</sup> York Water Statement No. 1, pp. 11-14.

<sup>&</sup>lt;sup>7</sup> Docket No. A-2017-2611372, Order, pp. 8-9.

1Felton Borough Wastewater System.According to Mr. Hand, Felton Borough2did not want to continue to provide wastewater service to its customers due to3increasing costs, regulatory oversite, reporting requirements and concerns about4maintaining the system and providing reliable service in future years. Mr. Hand5also noted a 2018 DEP Notice of Violation (NOV) that included an effluent violation6in August 2017 and a 2018 Chapter 94 Report that identified an inflow/infiltration7problems.<sup>8</sup>

The above NOV and effluent violation do not, standing alone, indicate that Felton 8 was providing inadequate service because it is not unusual for wastewater 9 systems to get an NOV that includes an effluent violation. 10 Also, the inflow/infiltration problems are a non-issue since the 2020 Chapter 94 Report 11 includes the following reasonable explanation: "The hydraulic overload status 12 identified in the 2019 Felton Borough Chapter 94 Report was not found in the 2020 13 14 review of data. Referencing the 2019 report, the former operator suspected a defect in the housing of the flow meter ultrasonic transducer as the primary cause 15 of continuous higher than permitted flows observed at the facility during the 2019 16 17 report year. The review of the 2020 Operational data indicates that no hydraulic or organic overloads are projected for the next 5 years. The YWC continues to pursue 18 investigation and removal of all identified I/I sources." See Exhibit TLF-4. 19

<sup>&</sup>lt;sup>8</sup> York Water Statement No. 1, pp. 16-17.

1Q.HAS YWC SUBMITTED SUFFICIENT DOCUMENTATION THAT INDICATES2THAT IT MET THE CRITERIA UNDER SECTION 1327(a)(3) FOR A POSITIVE3ACQUISITION ADJUSTMENT FOR THE WRIGHTSVILLE WATER SYSTEM4AND FELTON BOROUGH WASTEWATER SYSTEM?

- 5 A. Not in my opinion.
- 6

# 7 **NEGATIVE ACQUISITION ADJUSTMENTS**

Q. WHAT IS THE OCA'S POSITION REGARDING YWC'S CLAIM THAT IT MET
 THE STATUTORY REQUIREMENT TO MAKE A NEGATIVE ADJUSTMENT
 FOR THE JACOBUS ACQUISITION?

11 Α. As explained by Ms. DeAngelo, OCA Statement No. 2, YWC needs to show that YWC's acquisition of the Jacobus wastewater system was a matter of substantial 12 13 public interest in accordance with Section 1327(e). I agree with Ms. DeAngelo that Mr. Hand's testimony indicating that Jacobus Sewer Authority: (1) did not wish to 14 15 continue providing wastewater service to its residents due to increasing costs and challenges of meeting regulatory oversight and reporting requirements and (2) had 16 17 no immediate successor for the Jacobus contracted operator (who was retiring) do not show that YWC's acquisition was a matter substantial public interest. Also, the 18 Commission noted in its Order that based on inquiries by YWC and the 19 Commission to DEP regarding compliance history, the Jacobus system had no 20 current or previous violations, consent orders or corrective action plans.<sup>9</sup> 21

22

# Q HAS YWC JUSTIFIED ITS POSITION THAT ITS ACQUISITION OF THE JACOBUS SYSTEM MET THE CRITERIA FOR A NEGATIVE ACQUISITION ADJUSTMENT UNDER SECTION 1327(e)?

- A. Not in my opinion.
- 27

<sup>&</sup>lt;sup>9</sup> Docket No. A-2019-3007355, Order, pp. 11.

# 1 RECENT CUSTOMER COMPLAINTS – INFORMAL, FORMAL, PIH

# 2 Q. ARE YOU AWARE OF OTHER QUALITY OF SERVICE COMPLAINTS?

3 A. Not at this time.

# 4 Q. DOES THIS COMPLETE YOUR WRITTEN DIRECT TESTIMONY?

- 5 A. Yes, at this time. I reserve the right to supplement this testimony either in writing
- 6 or orally if additional relevant information is received.

APPENDIX A

# BACKGROUND AND QUALIFICATIONS

TERRY L. FOUGHT, P.E.

#### **Education**

Cleveland State University, Cleveland, Ohio, Bachelor of Civil Engineering, 1967

#### Professional Registrations

Professional Engineer, Pennsylvania, PE-023343-E, 1975

Professional Engineer, New Jersey, GE 25392, 1978 (Inactive)

Professional Engineer, Virginia, 10850, 1979 (Inactive)

Professional Land Surveyor, Pennsylvania, SU-000194-A, 1980 (Inactive)

#### Employment

From March 1983 to date, I have been a self-employed consulting engineer engaged in providing consulting engineering services to water and wastewater utilities, both private and municipal.

From May 1969 to March 1983, I was employed be E. H. Bourquard & Associates, Inc. as a project engineer to water and wastewater clients. At the time I left the firm I was a vice-president.

From 1962 to 1969, I was employed by the State of Ohio, Department of Highways and the Geauga County Ohio Sanitary Engineers Office as an engineer's assistant to assistant sanitary engineer with breaks in employment to attend college and 1½ years active duty military service.

#### Experience

I have prepared studies related to and designed water supply, treatment, transmission, distribution and storage facilities. I have provided services to the following private and municipal water suppliers: Amber Hill Mobile Home Park, Brockway Borough Municipal Authority, Dallas Water Company, Eastern Gas and Water Investment Company, Haddonfield Hills Development, Halifax Borough, Langhorne Spring Water Company, Mifflintown Municipal Authority, Neshaminy Water Resources Authority, Newberry Water Company, Pleasant View Mobil Home Park, H. B. Reese Candy Company, Shavertown Water Company, Smethport Water Company, Tunkhannock Water Company, and Watts Business Center.

I have prepared studies related to and designed wastewater collection and interceptor sewers, pumping stations and force mains, and treatment plants. I have provided services to the following private and municipal sewerage utilities: Brockway Glass Company, Central Dauphin School District, Clean Waste Technologies, Inc., Dauphin Borough, Dauphin Borough Municipal Authority, Halifax Area School District, Halifax Municipal Authority, Mercersburg Borough, Middle Paxton Township, Newberry Sewer Company, Newberry Township Municipal Authority, Park-a-way Park Family Campground, Reading Township Municipal Authority, Reynoldsville Borough, Saint Thomas Township, and Watts Business Center.

I have prepared over 100 stormwater management and drainage plans for land development and subdivision plans in Cumberland, Dauphin, and York Counties. Most of these plans included the design of storm sewer collection systems.

List of Public Utility cases which I have testified or provided substantial assistance:

# NEW JERSEY BUREAU OF PUBLIC UTILITIES

<u>Docket Number</u>	<u>Company Name</u>
7712-1140	City of Trenton
787-847	Hackensack Water Company
814-119	City of Trenton
8310-862	City of Trenton

# PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket Number	Company Name
Docket Number C-2010-2175673 C-2011-2259004 C-2012-2332951 C-2014-2447138 C-2014-2447169 C-2018-2644592 C-2020-3022354 F-2011-2280415 F-2012-2311590 F-2012-2330753 I-840377 I-00050109 I-00072313 I-2009-2109324 I-2016-2526085 P-2008-2075142 P-2014-2404341 P-2017-2584953 P-2017-2584953 P-2017-258707 P-2017-258707 P-2017-258707 P-2017-2589724 P-2020-3020914 R-00850174 R-00963708 (Sewer) R-00963709 (Water) R-00984334 R-00984375 R-00994672	Pennsylvania-American Water Company Endsley v PAWC Tschachler v UGI Hidden Valley Utility Services - Water Hidden Valley Utility Services - Wastewater Winola Water Company McKercher v Borough of Hanover Lynette Lugo Lopez v PGW Belinda Lyles v Aqua Scott v PGW Pennsylvania Gas and Water Company PAWC High Fluoride Incident WP Water & Sewer Co. Clean Treatment Sewer Company Delaware Sewer Company Pennsylvania-American Water Company Delaware Sewer Company Aqua Pennsylvania, Inc. Newtown Artesian Water Company Suez Water Pennsylvania, Inc. Twin Lakes Utilities, Inc. Philadelphia Suburban Water Company Meadows Water Company Wynnewood Water & Sewer Corporation Wynnewood Water & Sewer Corporation Wynnewood Water & Sewer Corporation Wynnewood Water & Sewer Corporation Mynnewood Water & Sewer Corporation Wynnewood Water & Sewer Corporation Wynnewood Water & Sewer Corporation Mynnewood Water & Sewer Corporation Consumers Pa. Water Company
R-00963709 (Water) R-00984257 R-00984334	Wynnewood Water & Sewer Corporation Wynnewood Water & Sewer Corporation Consumers Pa. Water Company National Utilities, Inc.
R-00963709 (Water) R-00984257 R-00984334 R-00984375 R-00994672 R-00005031 R-00005050 R-00005212 (Sewer) R-00005997	Wynnewood Water & Sewer Corporation Consumers Pa. Water Company National Utilities, Inc. City of Bethlehem Superior Water Company Penn Estates Utilities, Inc. Emporium Water Company Pennsylvania-American Water Company Jackson Sewer Corporation
R-00027982 (Sewer) R-00049862 R-00050607 R-00050659 R-00050673 R-00050678	Pennsylvania-American Water Company City of Lancaster – Sewer Fund Glendale Yearound Sewer Co. Wonderview Water Co. Pocono Water Co. Mesco, Inc.

# PENNSYLVANIA PUBLIC UTILITY COMMISSION (Continued)

Docket Number	Company Name
R-00050814	Marietta Gravity Water Co.
R-00051030	Aqua Pennsylvania, Inc.
R-00051167	City of Lancaster – Water Fund
R-00061297	Emporium Water Co.
R-00061492	Reynolds Disposal Co.
R-00061496	Columbia Water Co.
R-00061617	Allied Utilities Services
R-00061618	Imperial Point Water Co.
R-00061625	Phoenixville Sewer Fund
R-00061645	Eaton Water Co.
R-00062017	Borough of Ambler Water Department
R-00072074 (Sewer)	Aqua PA, Little Washington Division
R-00072075 (Sewer)	Aqua PA, Chesterdale/Williamstown Division
R-00072351	Village Water Company
R-00072491	Clarendon Water Company
R-00072492	City of Bethlehem, Bureau of Water
R-00072493 (Water)	Total Environmental Solutions, Inc., Treasure Lake
R-00072711 R-2008-2020729	Aqua PA Blue Knob Water Company
R-2008-2020729 R-2008-2020873	Warwick Drainage Company
R-2008-2020875	Warwick Water Works, Inc.
R-2008-2032689	PAWC Coatesville Wastewater Operations
R-2008-2039261	Superior Water Company
R-2008-2045157	Columbia Water Company
R-2008-2047291	Rock Spring Water Company
R-2008-2079310	AQUA, PA
R-2008-2081738	Little Washington Wastewater Company
R-09-2097323	Pennsylvania-American Water Company
R-2009-2102464	Reynoldsville Water Company
R-2009-2103937	PA Utility Company, Inc (Water)
R-2009-2103980	PA Utility Company, Inc (Sewer)
R-2009-2105601	Fryburg Water Company
R-2009-2110093	Birch Acres Water Company
R-2009-2115743	Lake Spangerberg Water Company
R-2009-2116908	Hanover Borough Water
R-2009-2117289	Utilities Inc, Westgate (Water)
R-2009-2117532	Penn Estates Utilities Inc (Water)
R-2009-2117750	Newtown Artesian Water Company
R-2009-2121928 R-2009-2122887	Clean Treatment Sewage Company United Water Pennsylvania, Inc
R-2009-2132019	AQUA, PA
R-2010-2157062	Tri-Valley Water Supply Company, Inc
R-2010-2166208	Pennsylvania American Water Company (Wastewater)
R-2010-2171339	Reynolds Disposal Company
R-2010-2171918	TESI, Treasure Lake, Water Division
R-2010-2171924	TESI, Treasure Lake, Sewer Division
R-2010-2174643	City of Lock Haven
R-2010-2179103	City of Lancaster Water Department
R-2010-2191376	Superior Water Company
R-2010-2194499	Dear Haven Water Company
R-2010-2194577	Dear Haven Sewer Company

# PENNSYLVANIA PUBLIC UTILITY COMMISSION (Continued)

Docket Number	Company Name
R-2010-2207833	Little Washington Waste Water, Masthope Division
R-2010-2207853	Little Washington Waste Water, SE Consolidated Division
R-2011-2218562	CMV Sewage Company, Inc.
R-2011-2232243	Pennsylvania-American Water Company
R-2011-2232985	United Water Company
R-2011-2244756	City of Bethlehem- Bureau of Water
R-2011-2246415	Twin Lakes Utilities, Inc.
R-2011-2248531	Wonderview Sanitary Facilities
R-2011-2248937	Fairview Sanitation Company
R-2011-2251181	Borough of Quakertown, Water
R-2011-2255159	Penn Estates Utility Inc - Water
R-2012-2286118	Audubon Water Company
R-2012-2330887	North Heidelberg Sewer Company
R-2012-2310366	City of Lancaster Sewer Fund
R-2012-2311725	Borough of Hanover - Sewer
R-2012-2315536	Imperial Point Water Company
R-2012-2336662	Rock Springs Water Company
R-2013-2350509	City of DuBois, Bureau of Water
R-2013-2355276 R-2013-2360798	Pennsylvania-American Water Company
R-2013-2370455	Columbia Water Company Penn Estates Utilities, Inc Sewer Division
R-2013-2367108	Fryburg Water Company
R-2013-2367125	Cooperstown Water Company
R-2013-2390244	City of Bethlehem – Bureau of Water
R-2014-2400003	Borough of Ambler – Water Department
R-2014-2420204	Pocono Waterworks Company, Inc. (Water)
R-2014-2420211	Pocono Waterworks Company, Inc. (Sewer)
R-2014-2402324	Emporium Water Company
R-2014-2430945	Plumer Water Company
R-2014-2428304	Borough of Hanover Water Department
R-2014-2410003	City of Lancaster-Bureau of Water
R-2014-2427035	Venango Water Company
R-2014-2427189	B E Rhodes Sewer Company
R-2014-2447138	Hidden Valley Utilities Services - Water
R-2014-2447169	Hidden Valley Utilities Services – Sewer
R-2014-2452705	Delaware Sewer Company
R-2015-2462723	United Water Pennsylvania
R-2015-2470184	Borough of Schuylkill Haven Water Department
R-2015-2479962	Corner Water Supply
R-2015-2506337	Twin Lakes Utilities, Inc.
R-2016-2538600	Community Utilities of Pennsylvania, Inc.
R-2016-2554150	City of DuBois – Bureau of Water
R-2017-2595853	Pennsylvania-American Water Company
R-2017-2598203 R-2017-2631441	Columbia Water Company Reynolds Water Company
R-2018-3000022	York Water Company
R-2018-3000834	Suez Water Company
R-2018-3002645 (Water)	Pittsburgh Water & Sewer Authority
R-2018-3002645 (Water)	Pittsburgh Water & Sewer Authority
R-2018-3001306 (Water)	Hidden Valley Utility Services
R-2018-3001307 (Sewer)	Hidden Valley Utility Services

# PENNSYLVANIA PUBLIC UTILITY COMMISSION (Continued)

Docket Number	Company Name
R-2019-3008947 (Water) R-2019-3008948 (Sewer) R-2019-3010955 R-2019-3010958 R-2020-3017951 R-2020-3017970 R-2020-3019369 R-2020-3020256 R-2020-3020917 R-2020-3020917 R-2020-3024773 R-2020-3024774 R-2020-3024779 R-2021-3025206 R-2021-3025207 R-2021-3026682	Community Utilities of PA Community Utilities of PA City of Lancaster Sewer Fund Twin Lakes Utilities, Inc. Pittsburgh Water and Sewer Authority Pittsburgh Water and Sewer Authority Pennsylvania-American Water Company City of Bethlehem Audubon Water Company Hanover Borough Water Department Pittsburgh Water and Sewer Authority (W) Pittsburgh Water and Sewer Authority (WW) Pittsburgh Water and Sewer Authority (SW) Community Utilities of Pennsylvania, Inc. (W) Community Utilities of Pennsylvania, Inc. (WW)
R-2021-3027385	Aqua Water Company (W) (WW)

# Exhibit TLF - 1

#### Pennsylvania Public Utility Commission v. The York Water Company Docket Nos. R-2022-3031340 (Water)

R-2022-3032806 (Wastewater)

Office of Consumer Advocate Interrogatories Set VIII

# **OFFICE OF CONSUMER ADVOCATE INTERROGATORY OCA SET VIII, NO. 1**

Reference: Company's response to OCA Set II-6.

a. Please provide a key to the column "TYPE" in Attachments A thru D.

b. Does the Company maintain a customer complaint log for all customer complaints received by the Company? If yes, please provide a copy in Excel format similar to the "Customer Incident Spreadsheet" submitted in response to OCA Set II-18.

### **RESPONDENT:**

M. A. Wheeler Chief Operating Officer

# DATE:

August 5, 2022

### **RESPONSE:**

a. **PAR** – payment arrangement request

Billing dispute – customer believes the billing is incorrect

**PAR dispute** – customer disagrees with the terms of their payment arrangement request

**Off dispute** – customer filed a complaint because service was terminated for non-payment

CIC – customer has a change in circumstance

**Legislative Referral** – elected official filed an informal complaint with the BCS on behalf of a constituent

**Denial of service** – customer attempts to establish service at another location but the request is denied until payment on an arrearage from a previous location is satisfied

**People-Delivered Service** – Customer filed an informal complaint related to service delivery

**Svc. Line leak** – customer filed an informal complaint after the Company informed them of the requirement to repair the customer-owned portion of the service line

#### Pennsylvania Public Utility Commission

v. The York Water Company Docket Nos. R-2022-3031340 (Water) R-2022-3032806 (Wastewater)

## Office of Consumer Advocate Interrogatories Set VIII

**Infraction** – BCS imposed an infraction against the Company for failing to follow all Chapter 56, Chapter 14 regulations

**On PAR** – customer filed an informal complaint in dispute of current billing charges.

OFF PAR - service was terminated for non-payment

**Payment** – customer filed complaint due to threat of shut off for non-payment **Off/Svc. Off** – customer at a new location did not apply for service in their name then filed a complaint because service to property was off

**Line extension** – customer currently not served by York Water and wanted to connect. Filed an informal complaint to dispute line extension cost.

Low Pressure – customer disputed low pressure inside home

**Mtr. Exchange Dispute** – customer disputed shut off notice he received for failure to schedule meter exchange appointment

**PAR w/Dispute** – complaint filed because customer felt that bills were out of line **Not a Cust.** – complaint filed from an individual disputing York Water's intent to purchase the water and wastewater assets of a mobile home park

**Billing/Refund** – customer filed a complaint over an overpayment and requested a refund

**Other, meter charge** – complaint filed over receiving termination notices for a required meter exchange & high bill complaint

Service (Pressure) – complaint filed over perceived higher than normal pressure

b. The Company does not maintain a customer complaint log for all customer complaints received.

### Exhibit TLF - 2

#### THE YORK WATER COMPANY DATA REQUIREMENTS OF THE PENNSYLVANIA PUBLIC UTILITY COMMISSION QUALITY OF SERVICE SDWA VIOLATIONS

53.53 IX. Quality of Service

D. Water and Wastewater Utilities

1

Indicate whether the company is in violation of any provision of the Pennsylvania Safe Drinking Water Act (SDWA) or any rule, regulation or order, or any condition of any permit, variance or exemption granted by the Department of Environmental Protection (DEP), or its predecessor.

- a. Provide information indicating whether the company is in compliance with SDWA provisions at the 25 Pa. Code, § 109.401 regarding general public notification requirements.
  - (i) Provide a copy of each public notification given in accordance with this section, since the last rate proceeding.
  - (ii) Provide a detailed explanation of all actions taken to remedy an acute violation, and/or to comply with the requirements prescribed by a variance or exemption.
  - (iii) State whether any fines or penalties were assessed by DEP, and indicate the amounts paid by the company.
- b. Provide the most recent copies of all annual consumer confidence reports issued pursuant to SDWA Amendments of 1996 since the last rate proceeding.
  - (i) Provide any annual consumer confidence reports which reflect violations of state and federal safe drinking water requirements.
  - (ii) Explain how these violations were resolved.
- Response: The Company is not in violation of any provision of the Pennsylvania Safe Drinking Water Act or any rule, regulation or order, or any condition of any permit, variance or exemption granted by the Department of Environmental Protection.

The Company is under a Consent Order and Agreement with the Department of Environmental Protection due to its exceedance of the Lead and Copper Rule in 2016.

The Company is in compliance with Safe Drinking Water Act provisions regarding general public notification requirements. No public notifications have been given since the last rate proceeding.

A summary of all violations, and actions taken to remedy, is attached to Exhibit No. HIX-1. There have been no fines or penalties assessed by DEP.

A copy of the annual consumer confidence reports issued since the last rate proceeding is attached to Exhibit No. HIX-1.

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

### THE YORK WATER COMPANY DATA REQUIREMENTS OF THE PENNSYLVANIA PUBLIC UTILITY COMMISSION QUALITY OF SERVICE OPERATING PRESSURE STANDARDS

- 53.53 IX. Quality of Service
- D. Water and Wastewater Utilities
- 2. Indicate whether the company is in compliance with 52 Pa. Code, § 65.5 regarding normal operating pressure standards, and with 52 Pa. Code, § 65.6(d) regarding pressure surveys at regular intervals.
  - a. Provide details on any major water pressure problems which had occurred since the last rate proceeding in any part of the water distribution system.
  - b. Describe any action taken on a temporary basis, and the long term solutions developed to address any major water pressure problems.

Response: The Company is in compliance with Commission regulations regarding normal operating pressure standards and pressure surveys at regular intervals.

No major water pressure problems have occurred since the last rate proceeding.

The ordinary range of pressure in the distribution system is 30 psi to 130 psi. System pressures are maintained by the hydraulic grade that is established by the level of water in various tanks and reservoirs and by pumping.

### THE YORK WATER COMPANY DATA REQUIREMENTS OF THE PENNSYLVANIA PUBLIC UTILITY COMMISSION QUALITY OF SERVICE SERVICE INTERRUPTIONS

- 53.53 IX. Quality of Service
- D. Water and Wastewater Utilities
- Provide support to demonstrate that water service is being furnished on a continuous basis by supplying a summary of the company records of each service interruption greater than 24 hours since the last rate proceeding.
- Response: The Company has not had a service interruption greater than 24 hours since the last rate case proceeding.

### THE YORK WATER COMPANY DATA REQUIREMENTS OF THE PENNSYLVANIA PUBLIC UTILITY COMMISSION QUALITY OF SERVICE CUSTOMER COMPLAINTS

### 53.53 IX. Quality of Service

- D. Provide a discussion of the company's policy, or provide a copy of the policy if in written form, on tracking and responding to customer complaints.
- 4.
- a. Provide a summary report demonstrating the company's compliance with 52 Pa. Code, § 65.3 regarding the full and prompt investigation of service or facility complaints and the record keeping requirments of such complaints.
- Response: The company responds to informal and formal PUC complaints in accordance with the requirements of 52 Pa. Code 65.3

The company receives complaints and/or inquiries via telephone, email, in-person interaction and social media platforms. In most cases, complaints are resolved at the customer service employee level, and notes are entered in the Company's customer information system as part of the customer's history file. Complaints regarding service or facilities that require additional intervention are escalated to a supervisor for follow-up. When necessary, the Company will issue a Company Report to the customer.

All inquiries are tracked for action taken prior to being closed out, and if the inquiry requires action by someone outside of the customer service department, a customer work order will be created to track the activity until completion.

In addition, the Company established a special link on its web page through which customers can submit complaints or inquiries directly to the customer service department. The President and Chief Executive Officer and the Chief Operating Officer are both copied on all of these inquiries. The VP of Customer Service monitors the activity of any complaints and inquiries several times each day and coordinates the appropriate company response to the inquiry. In an effort to gauge customer satisfaction, the Company also conducts telephone surveys of randomly selected customers whose homes were recently visited in response to a service-related issue. Customer service representatives administer the surveys and the VP-Customer Service reviews the results.

The Company has a VoIP telephone system. The telephone system has a call back feature. Each call is returned in a timely fashion.

Complaints or inquiries requiring some action on the part of the Company are logged into the Company's customer information system as part of the customer's history file.

### THE YORK WATER COMPANY DATA REQUIREMENTS OF THE PENNSYLVANIA PUBLIC UTILITY COMMISSION QUALITY OF SERVICE DISTRIBUTION SYSTEM MAPPING

- 53.53 IX. Quality of Service
- D. Water and Wastewater Utilities
- 5. Indicate whether the company is in compliance with 52 Pa. Code, § 65.4(b) regarding complete and current mapping of the entire distribution system.
- Response: The Company keeps complete maps, plans and records of its entire distribution system for its water service showing the size, character and location of each main, street valve and service line, as well as its collection systems for wastewater service showing the size, character and location of each sewer line, manhole, and lateral.

THE YORK WATER COMPANYExhibit No. FIX-6.DATA REQUIREMENTS OF THE PENNSYLVANIA PUBLIC UTILITY COMMISSION Page 1 of 1QUALITY OF SERVICE WATER CONSERVATIONWitness: M A Wheeler

- 53.53 IX. Quality of Service
- D. Water and Wastewater Utilities
- Provide a summary report demonstrating the company's efforts in water
   conservation, since the last rate proceeding, pursuant to 52 Pa. Code, § 65.20.
- Response: Education The Company and its employees undertake an active role in the community to stress the need for water conservation. Speakers are provided to local organizations to explain the need for water conservation. The Company provides text books and a film to local school and scout groups on water conservation. The Company has also sponsored and provided instruction for the Boy Scout merit badge on Water and Soil Conservation.

Water Audit For Large Users - The Company has assigned a team of employees to complete the water audit process in a continuous improvement effort.

Efficiency Plumbing Fixtures - Most municipalities in which the Company serves have building code provisions which require the installation of water saving plumbing fixtures.

Unaccounted For Water - Refer to Exhibit No. HXI-5, the Company's water audit team also is involved with this process.

Leak Detection - Leak detection and repair is one of the Company's highest priorities. The Company has an employee whose sole responsibility is leak detection. During calendar year 2021, the Company's Leak Detection Coordinator detected 166 leaks throughout the Company's service territory.

> In 2021, the Company also invested in mobile leak detection equipment to continue to search for water leaks in the distribution system.

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

- Metering The Company meters all customer usage with the exception of fire service. All meter readings are checked during the billing process to make sure that the most recent consumption is consistent with the historical average. If the reading is abnormal, before billings are mailed, a telephone call is placed to the customer to tell them about the abnormal reading and to encourage them to investigate whether they have any leaking fixtures. The Company has received high praise from its customers for the validation procedure.
- Conservation Plan The Company seeks to encourage cost-effective water conservation in all of its contacts with the citizens of York and Adams Counties. Each year our customers receive bill inserts that describe ways to conserve water. In addition, a brochure that the Company provides to all new customers contains a section on water conservation. Also, the Company's Consumer Confidence Report (Refer to Exhibit No. HIX-1) contains water conservation information.

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

The York Water Company became a partner of EPA's Water Sense program in 2008. The Company provides information on its website and through a bill insert regarding this program. The program seeks to educate Americans about saving water and protecting the environment.

### THE YORK WATER COMPANY DATA REQUIREMENTS OF THE PENNSYLVANIA PUBLIC UTILITY COMMISSION QUALITY OF SERVICE METER TESTING

- 53.53 IX. Quality of Service
- D. Water and Wastewater Utilities
- 7. Provide a discussion of the company's policy regarding meter requirements, replacements and testing. State if the company's procedures are in compliance with 52 Pa. Code, § 65.8(b).
  - a. Provide meter test records as required in 52 Pa. Code, § 65.8(c) for the 50 meters most recently removed from service.
  - b. Provide a discussion of the company's policy and history of compliance with 52 Pa. Code, § 65.9 regarding adjustment of bills for meter error within the last year.
- Response: The Company's policies regarding meter requirements, replacements and testing and adjustment of bills for meter error are in compliance with 52 Pa. Code, Paragraphs 65.8 and 65.9.

Meter test records for the meters removed from service thus far in 2022 are attached to Exhibit No. HIX-7.

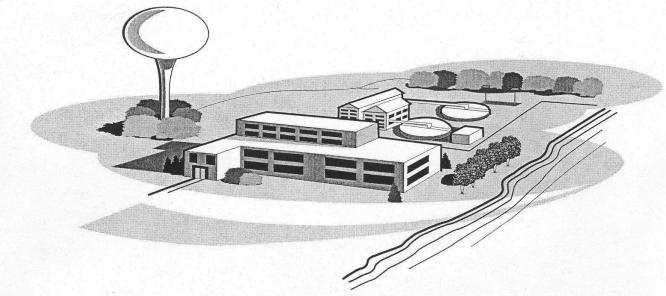
### Exhibit TLF - 3





# Public Water Supply Manual

383-2125-108



## PART II COMMUNITY SYSTEM DESIGN STANDARDS



COMMONWEALTH OF PENNSYLVANIA Department of Environmental Protection For more information, visit DEP's Web site at <u>www.depweb.state.pa.us/</u>, Keyword: "Drinking Water." conditions of flow. The normal working pressure in the distribution system should be approximately 60 psig.

2. Diameter

The minimum size of water main which provides for fire protection and serving fire hydrants shall be 6-inch diameter. Larger sized mains will be required if necessary to allow the withdrawal of the required fire flow while maintaining the minimum residual pressure of 20 psig.

The minimum size of water main in the distribution system where fire protection is not to be provided should be a minimum of 3-inch diameter. Any departure from minimum requirements shall be justified by hydraulic analysis and future water use, and can be considered only in special circumstances.

3. Fire Protection

When fire protection is to be provided, system design should be such that fire flows and facilities are in accordance with the requirements of the State Insurance Services Office.

4. Dead Ends

Dead ends shall be minimized by looping all mains whenever practical. Where dead end lines are necessary in the first stage of construction of a distribution system, the lines shall be provided with the appropriate flushing devices as outlined in Section VIII.B.5.

5. Flushing

Where dead end mains occur, they shall be provided with an approved blow-off or flushing hydrant for flushing purposes. Flushing devices should be sized to provide flows which will give a velocity of at least 2.5 feet per second in the water main being flushed. Fire hydrants may be used for this purpose provided they comply with all of DEP's requirements on fire hydrant installation. No flushing device shall be directly connected to any sewer.

### C. Shut-Off Valves

A sufficient number of valves shall be provided on water mains to minimize inconvenience and sanitary hazards will be minimized during repairs. Valves should be located at not more than 500 foot intervals in commercial districts and at not more than one block or 800 foot intervals in other areas of the distribution system.

### D. Hydrants

Where freezing temperatures prevail, hydrants of the dry barrel type are preferred. Hydrants of this type should comply with the criteria set forth in AWWA's Standard

### Exhibit TLF - 4



### The York Water Company

March 24, 2021

Via Digital Submission Pennsylvania Department of Environmental Protection Southcentral Regional Office Clean Water Program 909 Elmerton Avenue Harrisburg, PA 17110-8200

Reference: 2020 Chapter 94 Municipal Wasteload Management Annual Report For Felton Wastewater Treatment Plant (NPDES PA0088579 A-1)

The York Water Company is digitally submitting the 2020 Municipal Wasteload Management Report governing the existing Felton WWTP, located in Felton Borough, York County.

If you have any questions, please feel free to contact me at (717) 654-1326, or jackl@yorkwater.com.

Sincerely,

John M. Longstreet Asst. Supt. Wastewater Division

### **Felton Borough Sewer System Discussion**

The York Water Company (YWC) acquired the Felton Borough wastewater treatment plant and collection system on April 9, 2020 and began operations of the system on April 16, 2020. The NPDES Permit # PA0088579 and WQM Part II Permit were transferred to the York Water Company, in February 2021, after PaDEP approved the Felton Borough Act 537 Plan Special Study. The Act 537 Plan Special Study was required to identify the York Water Company as the owner/operator of the Felton Borough sewerage system.

The Felton sanitary sewer collection system was constructed in 2004-2005. The gravity collection system is comprised of 59 sanitary manholes and 9,891.9 ft. of 8" PVC pipe. The collection system contains 1 pump station discharging to 551.5 ft. of 4" PVC forced main. This pump station serves 125 of 126 connected Users.

The Felton Borough wastewater is treated by the Felton Borough Wastewater Treatment Plant (NPDES #PA0088579). The treatment facility is a 40,000 gpd extended aeration package plant. The treated effluent is discharged to North Branch of Muddy Creek.

### **Operations and Maintenance**

Since acquisition, the York Water Company has implemented an improved operations and maintenance program at the facility. In 2020, the YWC replaced both EQ tank pumps, a faulty UV sensor, effluent composite sampler, skimmers, return lines, and clarifier weir plates. Quarterly maintenance of blowers now includes oil change, filter, and belt replacements. The facility's emergency generator is tested weekly and serviced annually.

The YWC also improved sludge management by operating the aerobic digesters to allow for periodic settling and decant operations. A decant pump was installed to eliminate the pre-YWC practice of allowing the digester to overflow to the EQ tank during normal wasting operations. Through these changes, the facility has improved the overall loading and operation of the facility.

In 2020, the YWC Electronics division began installing a SCADA system to enable remote observation and trending of data collected. Completion of the installation is anticipated in 2021.

### **Inflow and Infiltration**

As part of the Corrective Action Plan (CAP) submitted by the former operator, the YWC began the CCTV inspection and cleaning of the collection system. In 2020, a total of 5,039 ft of sewer line was inspected for defects and infiltration sources using CCTV. As part of the inspection process, the same 5,039 ft of sewer were cleaned using high pressure jetting equipment.

Most of the sewer lines inspected found no significant defects that would be the sources of Inflow and Infiltration. The inspection found that Manhole FB-58 has subsided and has caused some pipe deflection in the immediate upstream and downstream manhole/pipe transitions. Based on field observations, this deflection has existed for several years and results in poor flow hydraulics through the manhole. The YWC has identified this manhole for replacement and correction of the observed pipe deflection.

The system does experience Inflow and Infiltration during significant rain events. The inspection did not identify any obvious sources of I/I, as the inspection took place during a relatively rain free period. Due

to the continuation of higher flows for several days after a rain event, the YWC suspects that a significant portion of the extraneous flow is coming from basement sumps activated during high ground water tables. Felton Borough notified residents, in early 2020, that basement sump pump discharge to the sanitary sewer is prohibited. The YWC is currently evaluating the best option to address these potential sources of inflow and infiltration.

### Hydraulic & Organic Overloads

The hydraulic overload status identified in the 2019 Felton Borough Chapter 94 Report was not found in the 2020 review of data. Referencing the 2019 report, the former operator suspected a defect in the housing of the flow meter ultrasonic transducer as the primary cause of continuous higher than permitted flows observed at the facility during the 2019 report year.

The review of the 2020 Operational data indicates that no hydraulic or organic overloads are projected for the next 5 years. The YWC continues to pursue investigation and removal of all identified I/I sources.

### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:
	: Docket Nos. R-2022-3031340 (Water)
V.	: R-2022-3032806 (Wastewater)
	1
The York Water Company	:

### VERIFICATION

I, Terry L. Fought, hereby state that the facts set forth in my Direct Testimony, OCA Statement 6, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: August 19, 2022 \*334090 Signature:

in L. Fought Terry

Consultant Address: 780 Cardinal Drive Harrisburg, PA 17111

### **BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
<b>v.</b>	:	Docket Nos. R-2022-3031340 (Water)
	:	R-2022-3032806 (WW)
York Water Company	:	

### **REBUTTAL TESTIMONY OF**

### DR. DAVID S. HABR

### ON BEHALF OF THE OFFICE OF CONSUMER ADVOCATE

**September 16, 2022** 

### 1 Q: PLEASE STATE YOUR NAME.

2 A: David S. Habr.

# 3 Q: ARE YOU THE SAME DAVID S. HABR WHO PREVIOUSLY FILED 4 DIRECT TESTIMONY IN THIS PROCEEDING?

5 A: Yes, I am.

### 6 Q: WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A: I have several comments related to the capital structure I&E witness Keller
recommends in his direct testimony (Page 12, lines 1-16).

### 9 Q: WHAT CAPITAL STRUCTURE DID MR. KELLER RECOMMEND?

- 10 A: Mr. Keller accepted the capital structure proposed by Company witness Moul,
- 11 45.23% long-term debt and 54.55% common equity. As I noted in my direct
- 12 testimony, York Water's debt ratio fell from 49.0% to 36.8% as a result of York
- 13 Water using the proceeds of an April 2022 common stock issuance to pay off
- 14 \$29.32 million in long-term debt.

15 It was York Water's choice to refinance the long-term debt in this fashion. 16 The Company could have refinanced the long-term debt by issuing new long-term 17 debt instead of common stock. By doing so the debt ratio would have remained 18 basically unchanged, and ratepayers would not have to pay higher rates due to 19 excess common equity in the capital structure. For all of the reasons I have 20 discussed in my direct testimony, the Company's proposed ratemaking capital 21 structure, as adopted by Mr. Keller, is not reasonable for ratemaking purposes.

1

1	Q:	DO YOU HAVE ANY OTHER COMMENTS ON THE CAPITAL
2		STRUCTURE ACCEPTED BY MR. KELLER?
3	A:	Yes, I do. In its Second Quarter 2022 10-Q, York Water observed that a debt ratio
4		"between forty-six and fifty percent has historically been acceptable to the PPUC
5		in rate filings." <sup>1</sup> Thus, York Water has identified in its own financial reports that
6		Mr. Moul's and therefore, Mr. Keller's, 45.23% debt ratio is below the PPUC's
7		historically acceptable range.
8	Q:	DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONHY?

9 A: Yes, it does.

<sup>&</sup>lt;sup>1</sup>York Water Company 2022 second quarter 10-Q, p. 23.

### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:
	: Docket Nos. R-2022-3031340 (Water)
V.	: R-2022-3032806 (Wastewater)
	:
The York Water Company	:

### VERIFICATION

I, David S. Habr, hereby state that the facts set forth in my Rebuttal Testimony, OCA Statement 3R, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: September 16, 2022 \*335405

Signature:

<u>/David S. Habr/</u> David S. Habr

Consultant Address: Habr Economics 213 Cornuta Way Nipomo, CA 93444-5020

**OCA STATEMENT 4R** 

### **BEFORE THE**

### PENNSYLVANIA PUBLIC UTILITY COMMISSION

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PENNSYLVANIA PUBLIC UTILITY COMMISSION v. THE YORK WATER COMPANY

DOCKET NOS. R-2022-3031340 (WATER) R-2022-3032806 (WASTEWATER)

### **REBUTTAL TESTIMONY OF**

### JEROME D. MIERZWA

### **ON BEHALF OF THE**

### PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

**SEPTEMBER 16, 2022** 



1		I. INTRODUCTION
2	Q.	WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS
3		ADDRESS?
4	A.	My name is Jerome D. Mierzwa. I am a Principal and Vice President of Exeter
5		Associates, Inc ("Exeter"). My business address is 10480 Little Patuxent Parkway,
6		Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-
7		related consulting services.
8	Q.	ARE YOU THE SAME JEROME D. MIERZWA THAT FILED DIRECT
9		TESTIMONY IN THIS PROCEEDING ON AUGUST 19, 2022?
10	A.	Yes. I am.
11	Q.	WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?
12	A.	The purpose of my rebuttal testimony is to respond to certain aspects of the direct
13		testimony of Brian Kalcic filed on behalf of the Office of Small Business Advocate
14		("OSBA"); and Ethan H. Cline filed on behalf of the Bureau of Investigation and
15		Enforcement ("I&E").
16		
17		II. OSBA WITNESS: BRIAN KALCIC
18	Q.	HOW DID THE YORK WATER COMPANY ("YORK" OR "COMPANY")
19		ALLOCATE ITS PROPOSED WATER REVENUE REQUIREMENT
20		INCREASE TO THE VARIOUS CUSTOMER CLASSES?
21	A.	York has proposed to allocate its proposed revenue requirement increase to each
22		customer class based on the results of its class cost of service study ("CCOSS").

Q. IS MR. KALCIC IN AGREEMENT WITH THE COMPANY'S PROPOSED
 REVENUE ALLOCATION?

- A. Exclusive of the Company's proposed assignment of a portion of the wastewater
   revenue requirement to water service, Mr. Kalcic is in agreement with the Company's
   proposed revenue allocation.<sup>1</sup> Mr. Kalcic refers to the assignment of a portion of the
   wastewater revenue requirement to water service as "Act 11 considerations."
- 7 Q. DO YOU AGREE WITH MR. KALCIC'S RECOMMENDATION THAT,
- 8 ABSENT ACT 11 CONSIDERATIONS, THE COMMISSION SHOULD
  9 ADOPT THE WATER CLASS REVENUE ALLOCATIONS PROPOSED
  10 BY YORK IN THIS PROCEEDING?

11 No, I do not. As explained in my direct testimony, the system-wide and customer class A. 12 specific maximum day and maximum hour extra-capacity demand factors utilized in 13 the Company's CCOSS are outdated. Those extra-capacity demand factors have a 14 significant impact on the CCOSS results. The system-wide maximum day factor 15 reflected in York's CCOSS was experienced in 2010, and the system-wide maximum 16 hour extra-capacity factor was experienced in 2006. The customer class specific 17 extra-capacity factors reflected in York's CCOSS are based on an analysis conducted 18 by York over 45 years ago. The extra-capacity demand factors utilized in York's 19 CCOSS do not reflect the usage characteristics of York's current customers and, 20 therefore, should not be used as the basis for determining the class revenue allocations and the setting of rates in this proceeding.<sup>2</sup> 21

<sup>&</sup>lt;sup>1</sup> Direct Testimony of Brian Kalcic, at 9, lines 21-23.

<sup>&</sup>lt;sup>2</sup> Direct Testimony of Brian Jerome D. Mierzwa, at 10, line 1-18.

Q. HOW DO YOU RECOMMEND THAT RATES BE DETERMINED IN
 THIS PROCEEDING?

A. The extra-capacity factors included in the OCA's CCOSS presented in my direct
testimony are reflective of the usage characteristics of York's current customers.
Therefore, I recommend that the class revenue allocations adopted in this proceeding
be determined based on the results of the OCA's CCOSS.<sup>3</sup>

7 Q. HOW DID YORK PROPOSE TO ALLOCATE THE ACT 11

8 WASTEWATER REVENUE REQUIREMENT ASSIGNED TO WATER

### SERVICE TO THE VARIOUS WATER CUSTOMER CLASSES?

A. York proposed to allocate the Act 11 revenue requirement to the Residential and
 Commercial water service classes in proportion to each class's relative share of the
 water cost of service.<sup>4</sup>

13Q.DID YOU RECOMMEND ANY MODIFICATIONS TO YORK'S ACT 11

14 ALLOCATION PROPOSAL?

9

A. Yes. In my direct testimony I recommended that Industrial and Public Fire Protection
customers be included in the allocation.

17 Q. DOES MR. KALCIC AGREE WITH THE METHOD USED BY YORK TO

18 ALLOCATE THE WASTEWATER REVENUE REQUIREMENT

19 ASSIGNED TO WATER SERVICE?

A. No. Mr. Kalcic claims that the Act 11 wastewater revenue requirement shortfall to be
 recovered from water service customers should be assigned to each water customer
 class based on the corresponding class's wastewater revenue requirement shortfall.<sup>5</sup>

<sup>&</sup>lt;sup>3</sup> Id., at 16, lines 7-11.

<sup>&</sup>lt;sup>4</sup> York Statement No. 108, at 8.

<sup>&</sup>lt;sup>5</sup> OSBA Statement No. 1 p. 11 lines 1-6.

1		That is, for example, the wastewater revenue requirement shortfall of the Residential
2		wastewater class should be recovered from Residential water customers.
3	Q.	DO YOU AGREE WITH MR. KALCIC'S PROPOSAL CONCERNING
4		THE ALLOCATION OF THE ACT 11 WASTEWATER REVENUE
5		REQUIREMENT SHORTFALL TO WATER SERVICE CUSTOMERS?
6	А.	No. Mr. Kalcic's proposal might have merit if a significant percentage of York's
7		wastewater customers were also water customers. However, they are not. York serves
8		approximately 73,000 water and wastewater customers. Of these 73,000 customers,
9		approximately 5,000 of those customers are also wastewater customers. There is no
10		cost basis to assign the unrecovered wastewater costs of a particular class to the water
11		customers in that same class that do not receive wastewater service from York and pay
12		another provider for wastewater service. Mr. Kalcic's proposed change to York's Act
13		11 revenue requirement allocation should not be adopted.
14	Q.	MR. KALCIC HAS PROPOSED REDUCING THE COMPANY'S \$2.76
15		
		MILLION ACT 11 ASSIGNMENT OF THE WASTEWATER REVENUE
16		MILLION ACT 11 ASSIGNMENT OF THE WASTEWATER REVENUE REQUIREMENT BY \$1.0 MILLION TO \$1.7 MILLION. <sup>6</sup> WHAT IS YOUR
16 17		
	A.	REQUIREMENT BY \$1.0 MILLION TO \$1.7 MILLION. <sup>6</sup> WHAT IS YOUR
17	A.	REQUIREMENT BY \$1.0 MILLION TO \$1.7 MILLION. <sup>6</sup> WHAT IS YOUR RESPONSE?
17 18	A.	REQUIREMENT BY \$1.0 MILLION TO \$1.7 MILLION. <sup>6</sup> WHAT IS YOUR RESPONSE? In my direct testimony, I recommended that the \$2,670,856 Act 11 wastewater revenue
17 18 19	A.	REQUIREMENT BY \$1.0 MILLION TO \$1.7 MILLION. <sup>6</sup> WHAT IS YOUR RESPONSE? In my direct testimony, I recommended that the \$2,670,856 Act 11 wastewater revenue requirement York proposed to assign to water service be reduced by \$625,000 to
17 18 19 20	A.	REQUIREMENT BY \$1.0 MILLION TO \$1.7 MILLION. <sup>6</sup> WHAT IS YOUR RESPONSE? In my direct testimony, I recommended that the \$2,670,856 Act 11 wastewater revenue requirement York proposed to assign to water service be reduced by \$625,000 to \$2,045,856. <sup>7</sup> Under my recommendation, 24.7% of the wastewater revenue
17 18 19 20 21	A.	REQUIREMENT BY \$1.0 MILLION TO \$1.7 MILLION. <sup>6</sup> WHAT IS YOUR RESPONSE? In my direct testimony, I recommended that the \$2,670,856 Act 11 wastewater revenue requirement York proposed to assign to water service be reduced by \$625,000 to \$2,045,856. <sup>7</sup> Under my recommendation, 24.7% of the wastewater revenue requirement would be assigned to water service. Under Mr. Kalcic's recommendation,

<sup>&</sup>lt;sup>6</sup> OSBA Statement No. 1, p. 18, lines 17-20. <sup>7</sup> OCA Statement No. 1, p. 24, 2-3.

recommendation is approximately \$350,000, or 4%. Therefore, based on this
 comparison alone, I don't believe my Act 11 revenue recommendation, or the
 recommendation of Mr. Kalcic is superior because the differences are not very
 significant.

However, in implementing his adjustment to the Act 11 assignment of the
wastewater revenue requirement to water service, Mr. Kalcic has assigned the Act 11
revenue requirement to York's wastewater customer classes so that the increase to each
class would be 1.75 times the system average increase, or 58.3%.<sup>8</sup> This is shown on
Schedule BK-2WW. In adjusting the Company's proposed assignment of the Act 11
revenues to each of the wastewater customer classes, he has assigned each class an
increase of 58.4%.<sup>9</sup> As subsequently explained, this is unreasonable.

Table 1-R below summarizes the results of the Company's wastewater CCOSS
and the present revenues for each rate class served by York.

Table 1-R.           Comparison of Wastewater Cost of Service and Present Revenues				
	Present		Difference	
Class	Cost of Service	Revenues	Amount	Percent
Residential	\$6,934,645	\$3,713,704	\$3,220,941	54%
Non-Residential	1,350,380	443,699	906,681	33%
Total:	\$8,265,025	\$4,157,403	\$4,127,622	50%

14

15

16

As shown in Table 1-R, at present rates, the Residential class is contributing revenues equal to 54% of the indicated cost of service, while the Non-Residential class is contributing revenue only equal to 33% of the indicated cost of service. As such, the

9 <u>Id</u>.

<sup>&</sup>lt;sup>8</sup> OSBA Statement No. 1, p. 17, lines 12-16.

Non-Residential class should receive an increase which is greater than the increase
 assigned to the Residential class in order to provide additional movement toward the
 indicated cost of service. Under Mr. Kalcic's proposal, both classes would receive the
 same percentage increases. This would be unreasonable.

5 As shown in Table 5 of my direct testimony, reducing the assignment of the Act 6 11 revenue requirement to water service by \$625,000 would result in an increase of 45.9% to the Residential class, 84.8% to the Non-Residential class, and 50.1% overall. 7 8 The increase to the Non-Residential class would be 1.70 times the system average 9 wastewater revenue increase. Under Mr. Kalcic's proposal to reduce the Act 11 revenue 10 assignment to water service by \$1.0 million, the increase to the Non-Residential class 11 would be even more significant. To better provide for gradualism and reflect greater 12 movement toward cost of service rates for the Non-Residential class, I believe my 13 recommended reduction of the wastewater revenue requirement assigned to water 14 service of \$625,000 is more reasonable.

- 15
- 16

### III. <u>I&E WITNESS: ETHAN H. CLINE</u>

- 17 Q. AS INDICATED IN RESPONDING TO MR. KALCIC, YOU
- 18 RECOMMENDED THAT THE ACT 11 ASSIGNMENT OF THE
- 19 WASTEWATER REVENUE REQUIREMENT TO WATER SERVICE BE
- 20 REDUCED BY \$625,000. WHAT IS MR. CLINE'S RECOMMENDATION
  21 WITH RESPECT TO THE ACT 11 ASSIGNMENT?
- A. Based on York's requested revenue requirement increase, as shown on I&E Exhibit
  No. 3, Schedule 7, Column B, Mr. Cline has proposed reducing the Company's
  proposed Act 11 assignment from \$2,670,856 to \$1,951,390, or by \$719,466. He then

1		subsequently reduces the Act 11 assignment to \$844,015 to account for I&E's proposed
2		reduction in York's wastewater revenue requirement claim. <sup>10</sup>
3	Q.	HOW DID MR. CLINE DEVELOP HIS REDUCTION TO YORK'S
4		PROPOSED ACT 11 ASSIGNMENT TO WATER SERVICE?
5	А.	Mr. Cline's proposed reduction to York's Act 11 assignment to water service was
6		developed by proposing changes to the current wastewater rate structure of certain
7		customers and modifying the wastewater rate increases proposed by York to provide
8		for additional movement toward rate consolidation. <sup>11</sup> These wastewater rate structure
9		changes and rate increase modifications are discussed and described in detail on pages
10		9 and 10 of Mr. Cline's direct testimony. Mr. Cline's Act 11 assignment
11		recommendation is the end result of his proposed rate structure changes and rate
12		increase modifications.
13	Q.	WHAT IS YOUR RESPONSE TO MR. CLINE'S PROPOSED ACT 11
14		ASSIGNMENT RECOMMENDATIONS?
15	А.	Based on the Company's requested revenue increase, like Mr. Kalcic's
16		recommendation, Mr. Cline's reduction of \$719,466 is not significantly different than
17		the Act 11 assignment reduction of \$625,000 which I have proposed. Therefore, I do
18		not find the amount of his reduction to be unreasonable. With respect to his adjustment
19		to reflect I&E's proposed reduction to York's wastewater revenue requirement claim,
20		I agree with Mr. Cline that the Act 11 assignment should be reduced by the reduction
21		in the wastewater revenue requirement found appropriate by the Commission.
22		However, as also previously explained in responding to Mr. Kalcic, the rates of
23		York's Non-Residential wastewater customers are currently recovering significantly

<sup>&</sup>lt;sup>10</sup> I&E Statement No. 3, page 6, lines 1-7.
<sup>11</sup> I&E Statement No. 3, page 6, lines 16 – 18.

1 less of the indicated cost of service than the current rates of Residential wastewater 2 customers. Therefore, the rates of Non-Residential customers should be increased by a 3 greater percentage than the rates of Residential customers if overall, the rates adopted 4 in this proceeding are to reflect movement toward the cost of service. As shown on I&E 5 Exhibit No. 3, Schedule 7, Column 11, Mr. Cline's proposed rate structures changes 6 and rate increase modifications result in a higher percentage rate increase for 7 Residential wastewater customers than Non-Residential customers which is 8 inconsistent with cost of service ratemaking. Therefore, Mr. Cline's rate structure 9 changes and rate increase modifications should be rejected, as should his modification 10 to the assignment of Act 11 revenues because his modification to the assignment of Act 11 11 revenues is based on his rate structure changes and rate increase modifications.

- 12 Q. THE COMPANY IS PROPOSING TO MAINTAIN THE CURRENT 4,000
  13 GALLON MINIMUM ALLOWANCE FOR ALL WASTEWATER
- 14 CUSTOMERS OTHER THAN WEST MANHEIM CUSTOMERS.<sup>12</sup> DOES
  15 MR. CLINE AGREE WITH THE COMPANY'S PROPOSAL TO
  16 MAINTAIN THE MINIMUM ALLOWANCE, AND WHAT IS YOUR
- 17 RESPONSE TO MR. CLINE?

A. No. As part of his rate structure changes, Mr. Cline has proposed to eliminate the current 4,000-gallon minimum allowance this proceeding.<sup>13</sup> However, as just explained, Mr. Cline's rate structure changes do not provide for appropriate movement toward cost of service rates for the wastewater customer classes served by York. I believe that the minimum allowance should eventually be eliminated; however, it may

<sup>&</sup>lt;sup>12</sup> I&E Statement No. 3, page 7, lines 19-21.

<sup>&</sup>lt;sup>13</sup> I&E Statement No. 3, page 10, lines 2-4.

1		be appropriate to eliminate the allowance over several rate proceedings so that
2		appropriate movement towards cost of service rates is accomplished in this proceeding.
3	Q.	DO YOU HAVE ANY OTHER COMMENTS CONCERNING MR.
4		CLINE'S PROPOSED MODIFICATIONS TO THE RATES PROPOSED
5		BY YORK?
6	А.	Yes. Mr. Cline's proposed rates are summarized on I&E Exhibit No. 3, Schedule 3.
7		Several of the modification result in rates increasing in excess of 100%. Increases of
8		this magnitude are inconsistent with the principle of gradualism.
9	Q.	ON PAGES 18 AND 19 OF HIS DIRECT TESTIMONY, MR. CLINE
10		RECOMMENDS THAT THE CUSTOMER CHARGES FOR WATER
11		SERVICE BE DETERMINED BASED ON THE COMPANY'S DIRECT
12		COST ANALYSIS. WHAT IS YOUR RESPONSE?
13	А.	As explained on page 19 of my direct testimony, the Company's direct customer cost
14		analysis indicates that a cost-based customer charge for a Residential customer with a
15		5/8-inch meter is \$20.71. However, the Company's calculation of direct costs is based
16		on the Company's request revenue requirement increase and also improperly includes
17		bad debt expense, office building and furniture and equipment related investment costs,
18		and Enterprise Software investment costs. York's direct cost calculation should be
19		adjusted to remove improperly included costs and to reflect the increase authorized by
20		the Commission in this proceeding. This can be accomplished by removing the costs
21		improperly included in the calculation and then scaling back the calculated rate to
22		reflect the revenue increase authorized by the Commission in this proceeding.
23	Q.	DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?
24	A.	Yes, it does.

### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:
	: Docket Nos. R-2022-3031340 (Water)
v.	: R-2022-3032806 (Wastewater)
	:
The York Water Company	:

### **VERIFICATION**

I, Jerome D. Mierzwa, hereby state that the facts set forth in my Rebuttal Testimony, OCA Statement 4R, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: September 16, 2022 \*335404

: <u>furene</u> ). (mayna Jerome D. Mierzwa Signature:

Consultant Address: Exeter Associates, Inc. 10480 Little Patuxent Parkway Suite 300 Columbia, MD 21044-3575

OCA Statement 1SR

### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

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Pennsylvania Public Utility Commission

v.

The York Water Company

Docket No. R-2022-3031340 (Water) Docket No. R-2022-3032806 (Wastewater)

Surrebuttal Testimony of Mark E. Garrett

On Behalf of: Office of Consumer Advocate

September 28, 2022

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	I.	<b>INTRODUCTION AND PURPOSE OF TESTIMONY</b>
1	Q:	PLEASE STATE YOUR NAME.
2	A:	My name is Mark Garrett.
3		
4	Q:	ARE YOU THE SAME MARK GARRETT THAT FILED DIRECT TESTIMONY
5		IN THIS PROCEEDING ON August 19, 2022?
6	A:	Yes. A description of my qualifications was filed with that testimony.
7		
8	Q:	ON WHOSE BEHALF ARE YOU APPEARING IN THESE PROCEEDINGS?
9	A:	I am appearing on behalf of the Office of Consumer Advocate ("OCA"). I was retained
10		by the OCA to assist in the review and evaluation of the general rate case filing submitted
11		by The York Water Company ("York or "Company").
12		
13	Q:	WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?
14	A:	In my surrebuttal testimony I respond to the testimony of Matthew E. Poff set forth in his
15		rebuttal testimony filed September 16, 2022. I address Mr. Poff's rebuttal testimony
16		regarding payroll costs, short-term incentives, long-term incentives, board of directors'
17		compensation, and the blanket inflation adjustment.

### II. <u>SUMMARY OF ADJUSTMENTS</u>

### 1 Q: PLEASE SUMMARIZE YOUR DIRECT TESTIMONY RECOMMENDATIONS.

A: In direct testimony, I proposed several adjustments to the Company's projected expense
levels and incorporated the recommendations of OCA witnesses Morgan N. DeAngelo
and Dr. David S. Habr. The impacts of these adjustments are set forth below and in the
attached Schedules.<sup>1</sup> My adjustments are bolded.

Table 1: Summary of OCA Adjustments		
	Water	Wastewater
York's Requested Increase in Base Rates	\$18,853,737	\$1,456,793
OCA Adjustments		
Cash Working Capital	\$(27,488)	
Acquisition Adjustments	(6,341)	\$(46,634)
ROE 25 Basis Point Reduction <sup>2</sup>	(683,661)	(63,800)
Capital Structure at 52% Equity	(1,136,823)	(106,089)
Return on Equity Adjustment	(7,944,800)	(741,415)
Payroll Expense Adjustments	(382,591)	(17,296)
Short Term Incentive Compensation	(123,754)	(5,595)
Long Term Incentive Compensation	(238,146)	(10,766)
<b>Board of Directors' Compensation</b>	(213,825)	N/A
Payroll Taxes	(37,287)	(1,686)
Inflation Adjustment	(1,023,307)	(298,363)
Acquisition Adjustment Amortization	(6,789)	(57,718)
Indirect Impacts (Bad Debts, Late Charges, Other Taxes)	(27,402)	(2,646)
Net OCA Adjustments	\$(11,852,215)	\$(1,352,007)
Recommended Change to Base Rates	\$7,001,522	\$104,786)

10

York presented the following test periods in its filing:

- The historic test year ("HTY") ended December 31, 2021
- The future test year ("FTY") December 31, 2022
  - The fully projected future test year ("FPFTY") February 29, 2024.

The requested revenue requirement is based on the FPFTY ending February 29, 2024.

<sup>1</sup> The attached schedules are the same as those attached to my Revised Direct Testimony (OCA St. 1 (Revised).

<sup>&</sup>lt;sup>2</sup> A 25-basis point increase to ROE would increase revenue requirement by \$683,661 for Water and \$62,871 for Wastewater as shown on OCA Exhibit MEG-3, and as discussed in the testimony of OCA witness Dr. Habr.

### III SURREBUTTAL TO MR. POFF

### 1 Q: WHAT ISSUES DO YOU ADDRESS IN YOUR SURREBUTTAL TESTIMONY?

2 A: I address the recommendations made by Mr. Poff related to the following issues:

- 3 A. Payroll Costs
  - B. Short Term Incentive Compensation
- 5

4

7

- 6
- C. Long Term Incentive CompensationD. Board of Directors' Compensation
- E. Inflation Adjustment

### A. <u>PAYROLL COSTS</u>

## 8 Q: PLEASE SUMMARIZE YOUR RECOMMENDATIONS IN DIRECT 9 TESTIMONY REGARDING PAYROLL COSTS.

10 In my direct testimony I testified that the Company's payroll request begins with payroll A: 11 expense levels as of the historical test year ended December 31, 2021 ("HTY") and then 12 adds: (1) estimated pay increases for the future test year ended December 31, 2022, and again for the fully projected future test year ended February 29, 2024, and (2) a proposed 13 14 addition of ten new employees in 2022. The Company's projected pay increases for union 15 employees was 3.5% and for non-union employees was 5.0%. I pointed out that the Company's estimates for non-union pay increases are significantly higher than the arms-16 17 length negotiated union pay increases is a cause for concern because it indicates that the 18 projected non-union pay increases may be overstated in the Company's calculation. The 19 union pay increases of 3.5% reflect market-based rates, while the non-union estimates may 20 be escalated at higher rates, causing the Company's projected payroll cost to be overstated. 21 For this reason, I proposed an adjustment to establish the Company's annual payroll 22 escalation rate at 3.5% per year for all employees.

1	In support of this position, I referenced data reported by Mercer, a widely-
2	recognized compensation firm, that indicates merit increases are tracking at 3.2%, while
3	only 27% of the companies in its survey were planning merit increases of 3.5% or greater. <sup>3</sup>
4	I also referenced a recent Forbes article addressing employer compensation survey data
5	which indicated that, despite higher inflation rates, the average budgeted salary increase
6	for 2022 was only 3.4%. This indicates York's proposed escalation rates for its union
7	employees are consistent with these benchmarks in the range of 3.5% per year, however,
8	its estimated non-union and management pay rate increases are well above these levels
9	and should be reduced for rate-setting purposes. <sup>4</sup>
10	I recommended that the Commission approve projected pay increases for 2022 and
11	2023 at 3.5% per year for all employees. This recommendation does not result in any
12	reduction in the pay levels for union positions. This adjustment does, however, bring the
12 13	
	reduction in the pay levels for union positions. This adjustment does, however, bring the
13	reduction in the pay levels for union positions. This adjustment does, however, bring the projected pay increases for non-union and managerial positions in line with the 3.5%
13 14	reduction in the pay levels for union positions. This adjustment does, however, bring the projected pay increases for non-union and managerial positions in line with the 3.5% market-based levels projected for York's union employees.
13 14 15	reduction in the pay levels for union positions. This adjustment does, however, bring the projected pay increases for non-union and managerial positions in line with the 3.5% market-based levels projected for York's union employees. The Company also requested that five (5) vacant position be included in rates. I
13 14 15 16	reduction in the pay levels for union positions. This adjustment does, however, bring the projected pay increases for non-union and managerial positions in line with the 3.5% market-based levels projected for York's union employees. The Company also requested that five (5) vacant position be included in rates. I recommended that the costs associated with vacant positions should not be included in

<sup>&</sup>lt;sup>3</sup> See <u>Compensation is going up. But, is it enough? Compensation planning survey results | Mercer.US</u>

<sup>&</sup>lt;sup>4</sup> See Exhibit FIII-5, p. 2.; Forbes, <u>Why Salary Increases Do Not Keep Pace With Inflation</u>, April 7, 2022; https://www.forbes.com/sites/johnbremen/2022/04/07/why-salary-increases-do-not-keep-pace-with-inflation/?sh=7162d3b17533

4	Q:	WHAT DID MR. POFF SAY IN HIS REBUTTAL TESTIMONY IN RESPONSE
3		
2		further in this testimony.
1		its requested revenue requirement, so, I will not discuss the issue of vacant positions

# 5

6

# TO YOUR POSITION REGARDING THE PROJECTED SALARY INCREASE FOR NON-UNION EMPLOYEES?

A: Mr. Poff said that the Company maintains that a 5.0 percent increase in the FTY and
FPFTY is reasonable and consistent with the general economy that continues to see low
unemployment, high inflation, and upward pressure on wage growth as well as continued
impact from the "Great Resignation." He testified that the U.S. Bureau of Labor Statistics
shows wages and salaries for private industry workers increased 5.7 percent for the 12month period ending in June 2022.

13

# 14 Q: DO YOU AGREE WITH THIS RATIONALE?

A: No. The problem with this testimony is that we are not setting rates for June 2022, we are
setting rates for 2024. Mr. Poff provides no data to rebut the Mercer projections of 3.2%
for merit increases. Moreover, he does not respond to the fact that the union increases of
3.5% are market-based per se. In short, he provides no evidence that the actual increases
going forward will be any greater than 3.5%.

### B. <u>ANNUAL CASH INCENTIVE PLAN</u>

# 1Q:PLEASE SUMMARIZE YOUR DIRECT TESTIMONY ABOUT THE2COMPANY'S ANNUAL INCENTIVE PLAN.

3 In my direct testimony I acknowledged that the Commission's policy is to allow recovery A: 4 of incentive compensation in rates so long as the utility shows that the overall amount of 5 compensation is reasonable and that the plan provides benefits to ratepayers. The 6 Commission does require, however, that the utility show: (1) measurable performance 7 objectives, (2) studies or other data to support the necessity of the incentive compensation 8 plan, and (3) evidence supporting a claim of the utility's inability to retain competent 9 management personnel.<sup>5</sup>

I said that the Company's cash incentive award for 2021 was based upon (1) achieving the Earnings Per Share ("EPS") target and (2) exceeding the 75% of the Performance Objectives for the year. Most of the plan's business criteria, and many of its performance objectives include financial metrics which are designed to benefit shareholders. Based upon my review, the Company has not provided sufficient evidence to demonstrate that its Cash Incentive Plan is beneficial for ratepayers.

I said that, while I generally agree with the policy that the plan should show a benefit to ratepayers, I point out that in utility ratemaking, a standard that requires benefits to customers actually means that a '*net benefit*' to customers is required. In other words, a showing of ratepayer benefit at any cost is not sufficient. Instead, the utility has the

<sup>&</sup>lt;sup>5</sup> *Pa. Public Util. Comm'n v. Philadelphia Gas Works*, Docket No. R-00061931, Order Sept. 28, 2007, p. 48.

burden of showing that the cost incurred provides a <u>net</u> benefit to ratepayers. I did not agree with the Company's position that if a utility shows *any* benefit to ratepayers, no matter how small, the entirety of its incentive compensation plan costs should be included in rates. Moreover, I support the view that the costs of incentive compensation plans may be shared or allocated between shareholders and ratepayers where the objectives of the plan, particularly financial metrics, are designed to benefit shareholders. I provided a long list of states that follow this approach.<sup>6</sup>

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## 9 Q: WHAT WAS MR. POFF'S RESPONSE TO THIS TESTIMONY?

10 A: Mr. Poff stated, "The Commission's policy is to allow recovery of incentive compensation 11 in rates so long as the utility shows the overall amount of compensation is reasonable and that the plan provides benefits to ratepayers."<sup>7</sup> This statement is not completely correct. 12 13 The Pennsylvania Public Utility Commission actually requires more. The Commission 14 also requires that the utility show: (1) measurable performance objectives, (2) studies or 15 other data to support the necessity of the incentive compensation plan, and (3) evidence supporting a claim of the utility's inability to retain competent management personnel.<sup>8</sup> 16 In the 2007 PGW rate case, Docket No. R-00061931, the Commission stated: 17 18 We agree with the finding of the ALJs on this issue. The ALJs' rationale 19 for disallowance of this claim is accurate. The ALJs noted that PGW failed 20 to show by record evidence the requisite documentation to comply with its

<sup>6</sup> See page 21 of Mr. Garrett's Direct and Errata testimonies.

<sup>7</sup> See Poff Rebuttal, p. 8, lines 1-3.

Surrebuttal Testimony of Mark E. Garrett Docket Nos. R-2022-3031340 (Water); and Docket No. R-2022-3032806 (Wastewater)

<sup>&</sup>lt;sup>8</sup> See e.g., Pa. Pub. Util. Comm'n v. Philadelphia Gas Works, Docket No. R-00061931, Order Sept. 28, 2007, p. 48.

Management Agreement, <u>that PGW has not presented studies or</u> <u>submitted any data to support its claimed inability to retain competent</u> <u>management personnel without such a program</u> and that the Philadelphia Gas Commission did not allow the expense in PGW's 2007 budget because "clearly articulated, well-defined, quantitative goals and criteria (as are used in private industry for such 'pay-for-performance' programs) are absent." Accordingly, we shall deny the exceptions of PGW on this issue and <u>adopt the recommendation of the ALJs to disallow the \$500,000</u> <u>claimed expense</u>.<sup>9</sup>

11 As in the PGW case, York failed to provide this requisite information in its application. 12 In particular, there was no evidence provided to show that York has not been able to retain 13 competent management without these incentives, which is the third prong of the 14 requirements.

Mr. Poff instead argued, "Although some of the performance objectives have a financial component, it is unreasonable to conclude that strong financial performance only benefits the shareholders and not the ratepayers."<sup>10</sup> This is a strawman argument. I never took the position that financial performance measures "only benefit the shareholders and not ratepayers." What I said is that financial measures benefit shareholders <u>more</u> than they do ratepayers. This is why incentive plans that contain these measures, such as the Company's plan, are generally shared between shareholders and ratepayers.

Mr. Poff also says that the "net benefit" standard is not followed in Pennsylvania.
He is mistaken on this point. Any commission that applies a "*used and useful*" standard

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<sup>&</sup>lt;sup>9</sup> Pa. Public Util. Comm'n v. Philadelphia Gas Works, Docket No. R-00061931, Order Sept. 28, 2007, p.
48. (Emphasis added).

<sup>&</sup>lt;sup>10</sup>*Id*. at lines 13-15.

is applying a net benefits test. *Used* means operational and *useful* means providing a net
benefit to ratepayers. Further, any commission that requires cost/benefit analysis is
applying a net benefits test – *e.g.*, do the benefits *outweigh* the costs. Of course, this
Commission applies net benefits standards. The standard that Mr. Poff supports is no
standard at all—that *any* benefit to ratepayers, no matter how infinitesimal, is sufficient,
no matter the cost.

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### C. LONG-TERM STOCK INCENTIVE PLAN

# 8 Q: PLEASE SUMMARIZE YOUR DIRECT TESTIMONY REGARDING THE 9 COMPANY'S LONG-TERM COMPENSATION PLANS.

10 I recommended that York's long-term stock compensation costs be borne by the A: 11 shareholders rather than the ratepayers in this proceeding. I testified that because the 12 Company's long-term stock compensation plan is designed to align the interests of 13 Company executives and senior management with the interests of shareholders, the 14 shareholders rather than ratepayers should be responsible for paying these costs. I explained that incentive compensation payments to officers, executives, and key employees 15 of a utility are often excluded for ratemaking purposes. Since officers of any corporation 16 17 have fiduciary duties of loyalty and care to the corporation itself and not to the customers 18 of the company, these individuals are required to put the interests of the company first. 19 I testified that the interests of the company and the interests of the customer are

not always the same, and at times, can be quite divergent. This natural divergence of interests creates a situation where not every cost associated with executive compensation

Surrebuttal Testimony of Mark E. Garrett Docket Nos. R-2022-3031340 (Water); and Docket No. R-2022-3032806 (Wastewater) is presumed to be a necessary cost of providing utility service. Since the compensation of
the employee is tied over a long period of time to the company's stock price, it motivates
employees to make business decisions from the perspective of long-term shareholders.
This intentional alignment of employee and shareholder interests means the costs of these
plans should be borne solely by the shareholders. It would be inappropriate to require
ratepayers to bear the costs of incentive plans designed to encourage employees to put the
interests of the shareholders first.

8 I discussed that the majority view of regulatory commissions is to exclude stock-9 based long-term incentive compensation from rates. I referenced the Garrett Group 10 Incentive Compensation Survey, which showed that 20 of the 24 western states tend to 11 exclude all or virtually all long-term stock-based incentive pay, either through an outright 12 ban on stock-based incentives or through applying the *financial performance* rule, which 13 has the effect of excluding long-term earnings-based and stock-based awards. These states 14 include Arizona, Arkansas, California, Colorado, Hawaii, Idaho, Kansas, Louisiana, 15 Minnesota, Missouri, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington and Wyoming. In the other four states, Alaska, Iowa, 16 17 Montana and Nebraska, the issue just has not been addressed.

I also discussed the treatment in four midwestern states: Illinois, Kentucky,
 Michigan and Wisconsin. According to commission-staff personnel contacted in these
 states, these jurisdictions also adhere to the general rule that financial-based stock incentives
 of executives and upper management excluded from rates.

1 **Q:** 

### WHAT RESPONSE DID MR. POFF PROVIDE ON THIS ISSUE?

2 A: Mr. Poff is dismissive of the telephonic surveys conducted of commission staffs in 28 states, saying that we did not support our arguments with decisions in Pennsylvania.<sup>11</sup> But, 3 We are recommending that the Pennsylvania Public Utility 4 that was our point. 5 Commission reconsider its prior treatment of stock incentives. In the 28 states surveyed, 6 100% of the states that deal with stock incentives as a form of compensation (24 of 24) disallow the inclusion of this type of incentive payment in rates. (They do not disallow 7 8 the incentives; they just do not include them in rates). In the other four states, Alaska, 9 Iowa, Montana and Nebraska, the issue just has not been addressed.

### D. BOARD OF DIRECTORS' COMPENSATION

# 10 Q: HAS THE COMPANY INCLUDED BOARD OF DIRECTORS' COMPENSATION 11 COSTS IN ITS REVENUE REQUIREMENT?

A: Yes, as shown in Exhibit FIII-2-48, York included \$427,649 in its revenue requirement
for directors' compensation. I propose an adjustment to remove a portion of these costs
from the revenue requirement.

<sup>11</sup> See Poff Rebuttal Testimony at page 12.

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# Q: PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING BOARD OF DIRECTORS' ("BOD") COMPENSATION?

York included \$427,649 in its revenue requirement for directors' compensation, a portion 3 A: 4 of which is in the form of *stock grants*. I proposed an adjustment to remove, from the 5 revenue requirement, the board of directors' stock grants and 50% of the cash 6 compensation costs. I testified that ratepayers should not be expected to bear the full cost 7 of BOD compensation because officers and directors of any corporation have legal, 8 fiduciary duties of loyalty and care to the corporation itself and not to its customers. These 9 individuals are <u>required by law</u> to put the interests of the Company first, and the interests 10 of the Company and the interests of customers are not always aligned. Because of this 11 natural divergence of interests, not every compensation cost is presumed to be a necessary 12 cost of providing utility service.

In addition, I testified regarding other recent cases in which regulators ordered a sharing of BOD compensation costs between shareholders and ratepayers is appropriate. I discussed the treatment approved issue by the Public Utility Commission of Nevada ("PUCN") and the Washington Utilities and Transportation Commission ("WUTC"). In discovery responses, I provided further examples of regulatory commissions that also have ordered similar sharing of these costs.<sup>12</sup>

<sup>&</sup>lt;sup>12</sup> See OCA Response to York Request Set III-7.

# Q: DID MR. POFF ADDRESS THE CONCERNS YOU RAISED REGARDING BOARD OF DIRECTORS' COMPENSATION?

3 No. Instead of addressing the substantive issues I raised, Mr. Poff merely states that this A: Commission has not disallowed board of directors' costs in the past. He also says that I 4 5 only point to two jurisdictions where these costs have been shared, even though I provided the Company with a list of several states in which these costs are shared.<sup>13</sup> I actually 6 7 provided the Company with a list of regulatory commission decisions I relied on, most 8 notably, recent decisions in Connecticut that allocated the majority of these costs to 9 shareholders. The decisions I relied upon, as set forth in OCA's Response to York's 10 discovery request Set III-7 is outlined below:

# 11 <u>Connecticut</u>

- 12 In the Application of the Connecticut Water Co., to Amend its Rate Schedule, Conn. Pub. Util. Reg. Authority, Docket No. 20-12-30 the PURA stated: 13 The OCC stated that the BOD answers to and serves the interests of 14 15 the Company's shareholders; thus, the expense should not be entirely recovered from ratepayers. A 75/25 sharing of costs 16 between shareholders and ratepayers, respectively would be more 17 18 appropriate. The OCC recommends a disallowance of 75% of this 19 cost, a reduction of \$329,250. OCC Brief, p.49. 20 The Authority finds that BOD fees should not be allocated solely to the ratepayers because both the ratepayers and shareholders 21 benefit from the expense.<sup>14</sup> 22 23
- In the <u>Application of the Connecticut Light and Power Co., to Amend its Rate</u>
   Schedules, Conn. Pub. Util. Reg. Authority, Docket No. 14-05-06 the PURA stated:

<sup>&</sup>lt;sup>13</sup> Id.

<sup>&</sup>lt;sup>14</sup><u>Application of the Connecticut Water Co., to Amend its Rate Schedule</u>, Conn. Pub. Util. Reg. Authority, Docket No. 20-12-30, Order issued July 28, 2022, at p.12. (Emphasis added). Document provided at Att. OCA III-7.

1 2 3 4 5 6 7 8	The Authority finds that <u>the main objective of the BOD is to protect</u> <u>the interest of the Company's investors or shareowners</u> . Ratepayers may indirectly benefit from the activities of the BOD; however, ratepayers are not the focus of the BOD decisions. Consistent with the determinations in previous Decisions regarding BOD expense and Directors' and Officers' Liability Insurance (DOL) expense, <u>the Authority allows only 25% of BOD costs in</u> <u>rates</u> . <sup>15</sup>
9	Regarding related Directors' insurance (DOL) costs, Connecticut PURA stated:
10	The OCC agreed that DOL protects the officers of the Company
10	from lawsuits brought against them by shareholders that arise as a
12	result of decisions that they make while performing their duties.
13	Therefore, the shareholders, who receive the payout, are the
14	primary beneficiaries of this insurance. <u>Ratepayers receive very</u>
15	little of the benefit and should not be responsible for all of the costs.
16	OCC Brief, p. 75. The OCC noted that the Company failed to
17	recognize that many legitimate expenses (e.g., image building
18	advertisements, lobbying expenses) are not recoverable The
19	Authority finds no convincing reason to deviate from its previous
20	treatment of DOL insurance. Consistent with the determinations in
21	previous Decisions regarding BOD expense and DOL expense, the
22	Authority will allow only 25% of DOL costs in rates. <sup>16</sup>
23	
24	<u>Nevada</u>
25	• In re Southwest Gas Corp., Docket No. 18-05031, the Nevada
26	commission on divided the cost of the BOD compensation equally
27	between ratepayers and shareholders. The PUCN stated:
28	420. The Commission accepts Staffs proposal to disallow 50
29	percent of the BOD compensation costs in order to share the costs

<sup>&</sup>lt;sup>15</sup> <u>Application of the Connecticut Light and Power Co., to Amend its Rate Schedules</u>, Conn. Pub. Util. Reg. Authority, Docket No. 14-05-06, Order issued p. 76. (Emphasis added). Document provided at **Att. OCA III-7**.

<sup>&</sup>lt;sup>16</sup> <u>Application of the Connecticut Light and Power Co., to Amend its Rate Schedules</u>, Conn. Pub. Util. Reg. Authority, Docket No. 14-05-06, Order issued pp. 77 (Emphasis added) (The emphasized portion of the PURA's decision is an example of "net benefit" analysis that regulatory commissions apply when excluding a portion of a utility's BOD related costs from rates, as discussed by Mr. Garrett in his testimony, and in his Response to Interrogatory OCA III-3(a) above. Document provided at **Att. OCA III-7**.

equally between ratepayers and shareholders. The Commission finds that the evidence on the record supports benefits to both ratepayers and shareholders. A competent BOD provides value to SWG through increased earning and market value, while ratepayers benefit from safe, reliable service. Accordingly, it is appropriate that the costs be shared between shareholders and ratepayers.<sup>17</sup>

## 7 Washington

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10 11 • In re *Cascade Natural Gas Corp.*, the Washington commission approved the customers' adjustment to share board of directors' costs equally between shareholders and customers.<sup>18</sup>

# 12 <u>New Mexico</u>

In the Application of El Paso Electric Co., the ALJ's Recommended Decision stated: 13 14 For the same reasons that the cost of D&O insurance should be shared 50% 15 - 50% between shareholders and ratepayers, the cost of board of directors compensation should be shared 50%-50% between shareholders and 16 ratepayers. Recovering 100% of the cost of board of directors 17 compensation from ratepayers would not result in just and reasonable rates 18 19 because ratepayers and shareholders at least equally benefit from the service of board members.<sup>19</sup> 20

# 21 Other Jurisdictions

It is Mr. Garrett's understanding and belief that regulatory commissions in
California and Arkansas also have approved similar allocations resulting in
a sharing of Board of Directors' costs between shareholders and ratepayers,
however, he does not have these orders in his possession.

<sup>&</sup>lt;sup>17</sup> *In re Southwest Gas Corp.*, Docket No. 18-05031, (Nev. Pub. Util. Comm'n) Modified Final Order, at p. 138, ¶ 420 (Feb. 15, 2019). Document provided at **Att. OCA III-7**.

<sup>&</sup>lt;sup>18</sup> *In re Cascade Natural Gas Corp.*, Docket No. UG-200568 (Wash. Util. and Transport. Comm'n), Order No. 5, pp. 9-10 (May 18, 2021). Document provided at **Att. OCA III-7**.

<sup>&</sup>lt;sup>19</sup> <u>Application of El Paso Electric Co. for Revision of its Retail Electric Rates</u>; New Mex. Pub. Reg. Comm'n, Case No. 20-00104-UT, Recommended Decision issued April 6, 2021, p. 170. (Emphasis added). The Recommended Decision was upheld in the final NMPRC Order issued. Document provided at **Att. OCA III-7**.

# Q: DID MR. POFF RAISE ANY OTHER ARGUMENTS AGAINST SHARING THESE COSTS WITH SHAREHOLDERS?

3 Yes. In my direct testimony I said that directors and officers of the company are required A: 4 by law to put the interests of the Company first, and the interests of the Company and the 5 interests of customers are not always aligned, and because of this natural divergence of 6 interests, not every compensation cost is presumed to be a necessary cost of providing 7 utility service. In response to this Mr. Poff said that the Business Corporation Law of 8 1988 allows directors in Pennsylvania to consider the effects of any actions on groups 9 affected by the actions, including shareholders, members, employees, suppliers, customers 10 and creditors as well as the community.<sup>20</sup>

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## 12 Q: DOES THIS LANGUAGE CHANGE ANYTHING IN YOUR TESTIMONY?

A: No. The Business Corporation Law of 1988 still specifically requires directors and
officers to act in a manner they reasonably believe to be in the best interest of the
corporation. In other words, the duty of loyalty, for officers and directors to act in the best
interest of the corporation, is still in effect. As a result, shareholders should be responsible
for at least a portion of the Board of Directors' costs.

<sup>&</sup>lt;sup>20</sup> See Poff rebuttal at p. 14.

## E. <u>INFLATION ADJUSTMENT</u>

# Q: PLEASE SUMMARIZE YOUR POSITION REGARDING YORK'S REQUESTED INFLATION ADJUSTMENT.

3 York proposed an inflation adjustment to both the water and the wastewater utilities based A: on a February 2021 to February 2022 increase in the CPI-U of 6.4%.<sup>21</sup> The adjustment is 4 5 made for 2022, 2023, and 2 months of 2024, and applies to all expenses that are not 6 separately adjusted. I recommended that the Commission reject the Company's proposed 7 blanket inflation adjustment because, such adjustments do not pass the known and 8 measurable standard for utility ratemaking. Even in a future test year situation, projected 9 increases must be based on specific analysis for each requested increase. Moreover, 10 blanket inflation adjustments for projected test years are poor ratemaking policy because 11 they create a disincentive for utilities to control costs going forward.

12I testified regarding the Commission's recent decisions rejecting general inflation13adjustments in the recent Aqua Pennsylvania, Inc. rate case, Docket No. R-2021-143027385,<sup>22</sup> and in Pa PUC v. Wellsboro Electric Company (Order entered April 29, 2020),15in which the Commission found that a blanket inflation adjustment does not meet the16*known and measurable* test. For these reasons, I recommended the inflation adjustment17should be rejected.

<sup>&</sup>lt;sup>21</sup> See York Water Statement No. 103W, Direct Testimony of Matthew E. Poff, p. 21.

<sup>&</sup>lt;sup>22</sup> See. *Pa. Pub. Util. Comm'n v. Aqua Pennsylvania*, Docket No. R-2021-3027385, Order and Opinion, May 12, 2022, at p. 117.

# 1 Q: HOW DID MR. POFF RESPOND REGARDING YOUR POSITION ON THE 2 INFLATION ADJUSTMENT?

Mr. Poff argued that prior decisions of the Commission had allowed inflation adjustments.

4 He cites three cases, one 20 years old, one 30 years old and one 36 years old to support his 5 position. However, he provided no rebuttal to the fact that the Commission has, in its most 6 recent decision, rejected general inflation adjustments, such as the adjustment proposed by the Company in this case. 7 8 In the recent Aqua Pennsylvania, Inc. rate case, Docket No. R-2021-3027385, 9 (Order entered May 12, 2022), the PUC found that Aqua's general inflation adjustment to 10 accounts was not specifically analyzed and adjusted and should be denied. 11 We agree with the ALJ that Aqua has not justified the use of a general price level adjustment to expenses not specifically adjusted in this case or not 12 13 subject to inflation. R.D. at 70. We also agree that allowing Aqua to apply 14 a general inflation adjustment to a block of expenses could incentivize less 15 accurate tracking of expenses and a less rigorous approach to controlling 16 costs for those expenses. The application of a General Price Adjustment to 17 22% of expenses is neither targeted nor specific. We find the ALJ's recommendation to deny Aqua's use of a General Price Adjustment to be 18 reasonable.<sup>23</sup> 19 20 In the recent Pa PUC v. Wellsboro Electric Company (Order entered April 29, 21 2020), the Commission found that a blanket inflation adjustment does not meet the known 22 and measurable test. 23 The ALJs explained that the Company has the burden of demonstrating that

each FTY expense claim will increase in the FPFTY by some "known and
measurable" change in the FPFTY. According to the ALJs, the Company
did not demonstrate that the blanket three percent inflation adjustment to

<sup>23</sup> See. *Pa. Pub. Util. Comm'n v. Aqua Pennsylvania*, Docket No. R-2021-3027385, Order and Opinion, May 12, 2022, at p. 117.

Surrebuttal Testimony of Mark E. Garrett Docket Nos. R-2022-3031340 (Water); and Docket No. R-2022-3032806 (Wastewater)

3

A:

1 2 3 4	all expenses would meet the known and measurable change standard; specifically, the Company did not demonstrate that making this adjustment to each expense claim directly relates to the actual costs expected to be incurred in each expense account in the FPFTY. R.D. at 21-23.
5	The general inflation adjustments rejected by the Commission in these cases is precisely
6	the type of inflation adjustment proposed in this case. Here, York proposed inflation
7	adjustments to many accounts based on known and measurable changes expected to occur
8	in those accounts over the next several years. We accepted those increases, although we
9	proposed a downward adjustment to the requested payroll increases. On top of these
10	specific increases, though, the Company then propose a blanket inflation adjustment for
11	all of the other accounts. This is precisely the type of inflation adjustment rejected by the
12	Commission in the recent Wellsboro and Aqua cases.

# IV. <u>CONCLUSION</u>

# 13 Q: DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

14 A: Yes.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Summary Comparison of Revenue Requirement

Line		York			OCA Recom	mendation	Differ	ence	OCA Impac		
						Wastewater		Wastewater	OCA Initial	Impact o	af 👘
No.	Description	Ref.	Water	Wastewater	Water	Errata	Water	Errata	Watewater	Errata	
1	Rate Base		\$ 350,621,590	\$ 33,353,950	\$ 350,301,681	\$ 32,909,997	\$ (319,909)	\$ (443,953)	\$ 32,430,699	\$ 479,2	98
2	Rate of Return		7.93%	7.93%	6.01%	6.01%	-1.92%	-1.92%	6.01%	0.0	ю%
3	Return Requirement		27,804,706	2,645,008	21,037,718	1,976,443	(6,766,988)	(668,565)	1,947,658	28,7	85
4	Adjusted Net Operating Income	v,	\$ 16,450,949	\$ (270,366)	\$ 17,999,363	\$ 15,997	\$ 1,548,414	\$ 286,363	\$ 69,789	\$ (53,7	92)
5	Deficiency		11,353,757	2,915,374	3,038,355	1,960,446	(8,315,402)	(954,927)	1,877,869	(82,5	77)
6	Revenue Conversion Factor		0.701591	0.706304	0.701591	0.706304	0.000000	0.000000	0.706304	0.0000	000
7	Revenue Deficiency		\$ 16,182,881	\$ 4,127,649	\$ 4,330,666	\$ 2,775,642	\$ {11,852,215}	\$ (1,352,007)	\$ 2,658,728	\$ 116,9	15
8	Consolidated Allocation		2,670,856	(2,670,856)	2,670,856	(2,670,856)	<u> </u>		(2,670,856)		
9	Deficiency with Allocation		\$ 18,853,737	\$ 1,456,793	\$ 7,001,522	\$ 104,786	\$ (11,852,215)	\$ (1,352,007)	<u>\$ (12,129)</u>	\$ 116,9	15

Note 1 From Exhibit No. FI-2, p. 13.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Revenue Requirement with OCA's Recommended Adjustments

				Water					Wast	e Water Errata				Impact of Wast	ewat	er Errata
Line No.	Description	Ref.	York Proposed Rates 2/29/2024	OCA Adjustment	R	OCA ecommended		York oposed Rates 2/29/2024		OCA Errata Idjustment		DCA Errata commended		ICA Original commended		Difference ginal - Errata
	Deter Deter		(A)	(B)		(C)		(A)		(8)		(C)				
1	<u>Rate Base</u> Plant in Service	v	\$ 529,635,105		è	529.635.105	Ś	43,442,074			ŝ	43,442,074	ŝ	43,442,074	Ś	_
2	Accumulated Depreciation	v	(107,427,025)		\$	{107,427,025}	2	(9,177,932)				(9,177,932)	•	(9,177,932)	•	-
3	Net Plant in Service	ı/	\$ 422,208,080	\$ -	\$	422,208,080	\$	34,264,142	\$		\$	34,264,142	\$	34,264,142	\$	-
		ı/	\$ 1,520,534		Ś		Ś				s		Ś		ŝ	
4	Materials and Supplies	1/	• • • • • • • • • • • • •	(259,943)	Ş	1,520,534 2,811,014	Ş	-			\$	-	\$	•	Ş	-
5	Cash Working Capital	1/	3,070,957					200 44 4		(442.052)		(193 530)		•		- 479,298
6	Utility Plant Acquisition Adjustments	1/	(68,018)	(59,966)		(127,984)		260,414		(443,953)		(183,539)		(662,837) 18,347		4/3,230
7	Taxes on Deposits and Advances	v	1,403,563			1,403,563		18,347				18,347				•
8	Accumulated Deferred Income Tax	4	(24,488,981)			(24,488,981)		(148,987)				(148,987)		(148,987)		-
9	Excess Accumulated Deferred Income Tax	-7 1/	(13,371,592)			(13,371,592)		(6,782)				(6,782)		(6,782)		•
10	Contributions in Aid of Construction	-7 1/	(33,721,565)			(33,721,565)		(1,033,184)				(1,033,184)		(1,033,184)		-
11	Customers' Advances for Construction		(4,455,584)			(4,455,584)						-		•		-
12	Customers' Advances Not Expended	4	(1,475,804)		_	(1,475,804)	-		_	(440.050)	_	-	-			-
13	Total Rate Base	2/	\$ 350,621,590	\$ (319,909)	\$	350,301,681	\$		\$	(443,953)	\$	32,909,997	\$	32,430,699	\$	479,298
14	Rate of Return	-/	7.930118%	-1.924518%	-	6.005600%	-	7.930118%	-	-1.924518%	Ś	6.005600%	\$	6.005600%	ŝ	0.000000%
15	Return Requirement		\$ 27,804,706	\$ (6,766,988)	\$	21,037,718	\$	2,645,008	\$	(668,565)	ş	1,976,443	Ş	1,947,658	Ş	28,785
	Revenues	3/														
16	Sales of Water		\$ 52,523,311		\$	52,523,311	\$	4,157,401			\$	4,157,401	\$	4,157,401	\$	•
17	Other Revenue	3/	1,119,149			1,119,149		4,861				4,861		4,861		•
18	Total Revenue		\$ 53,642,460	\$-	\$	53,642,460	\$	4,162,262	\$	-	\$	4,162,262	\$	4,162,262	\$	•
	Expenses															
19	Operating Expenses	4/	\$ 23,702,382	\$ (1,981,622)	\$	21,720,760	\$	4,229,014	\$	(332,020)	\$	3,896,994	\$	3,890,464	\$	6,530
20	Depreciation	4/	12,960,981	(6,789)		12,954,192		933,718		(57,718)		876,000		803,226		72,774
21	Taxes Other Than Income Taxes	4/	1,378,995	(37,287)		1,341,708		43,491		(1,686)		41,805		41,805		•
22	Income Taxes	4/	(850,847)	477,284		(373,563)	_	(773,595)	_	105,061		(668,534)		(643,023)		(25,511)
23	Total Operating Expenses		\$ 37,191,511	\$ (1,548,414)	\$	35,643,097	\$	4,432,628	\$	(286,363)	\$	4,146,265	\$	4,092,473	\$	53,793
24	Net Operating Income		\$ 16,450,949	\$ 1,548,414	\$	17,999,363	\$	(270,366)	\$	286,363	\$	15,997	\$	69,789	\$	(53,793)
25	Return (Sufficiency) Deficiency		\$ 11,353,757	\$ (8,315,402)	\$	3,038,355	\$	2,915,374	\$	(954,927)	\$	1,960,446	\$	1,877,869	\$	82,578
26	Revenue Conversion Factor	5/	0.70159058	0.70159058	_	0.70159058		0.706303677	_	0.706303677		0.706303677		0.706303677		0
27	Revenue (Sufficiency) Deficiency	6/	\$ 16,182,881	\$ (11,852,215)	s	4,330,666	Ś	4,127,649	\$	(1,352,007)	\$	2,775,642	\$	2,658,727	\$	116,915
28	Wastewater Revenue Allocation	6/	2,670,856		_	2,670,856	_	(2,670,856)	_			(2,670,856)		(2,670,856)	_	•
29	Total Increase in Rates	6/	\$ 18,853,737	\$ (11,852,215)	\$	7,001,522	\$	1,456,793	\$	(1,352,007)	\$	104,786	\$	(12,129)	\$	116,915
30	Percent of Requested Increase					37%						7%				

Note 1 From Exhibit No. FV-1, p. 3.

Note 2 See the Direct Testimony of Paul R. Moul, p. 2, lines 23 through 25.

Note 3 From Exhibit Fil-2, p. 9.

Note 4 From Exhibit No. FI-2, pp 11, 13. Also see FV-1.pg5, column 7.

Note 5 From HV-1.wp1, factor for total revenue requirements.

Note 6 From Exhibit Fil-2, p. 10.

From Exhibit No. FV-1W (tab FV-1W.pg3) See the Direct Testimony of Paul R. Moul, p. 1. From Exhibit No. FII-2W, page 9 (tab FII-2W.pg9) and Exhibit No. FV-1W (tab FV-1W.pg6). From HV-1W.wp1.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Summary of Recommendations

				Water		Erra	ta Wastewa	ter	Impact of Wa	stewater Errata
Line			-	Pre-Tax	Revenue		Pre-Tax	Revenue	OCA Original	Difference
No.	Description	Witness	Rate Base	Return	Deficiency	Rate Base	Return	Deficiency	Recommended	Original - Errata
1	York Requested Increase Amounts		\$ 350,621,590	:	\$ 18,853,737	\$ 33,353,950		\$ 1,456,793	\$ 1,456,793	\$-
	Rate Base Adjustments									
2	Cash Working Capital	Garrett	\$ (259,943)	10.57%	\$ (27,488)		10.50%	\$-	\$-	\$-
3	Acquisition Adjustments	DeAngelo	(59,966)	10.57%	(6,341)	(443,953)	10.50%	(46,634)	(96,980)	50,347
4	Total Rate Base Adjustments	-	\$ (319,909)		\$ (33,830)	\$ (443,953)	-	\$ (46,634)	\$ (96,980)	\$ 50,347
	Rate of Return Adjustments									
5	25 Basis Point Reduction in ROE		\$ 350,301,681	-0.20%	(683,661)	\$ 32,909,997	-0.19%	(63,800)	(62,871)	(929)
6	Capital Structure	Habr	350,301,681	-0.32%	(1,136,823)	32,909,997	-0.32%	(106,089)	(104,544)	(1,545)
7	Return on Equity	Habr	350,301,681	-2.27%	(7,944,800)	32,909,997	-2.25%	(741,415)	(730,617)	(10,798)
8	Total Rate of Return Adjustments			_	(9,765,284)		_	(911,304)	(898,031)	(13,272)
	Operating Income Adjustments									
9	Payroll Expense	Garrett		:	\$ (382,591)			\$ (17,296)	\$ (17,296)	\$-
10	Cash Incentives	Garrett			(123,754)			(5,595)	(5,595)	-
11	Stock Incentives	Garrett			(238,146)			(10,766)	(17,296)	6,530
12	Payroll Taxes	Garrett			(37,287)			(1,686)	(1,686)	-
13	Cost Escalation	Garrett			(1,023,307)			(298,363)	(298,363)	-
14	Board of Directors Expenses	Garrett			(213,825)			-	-	•
15	Acquisition Adjustment Amortization	DeAngelo			(6,789)			(57,718)	(130,492)	72,775
16	Rate Adjustment Impacts (Note 1)	Garrett		-	(27,402)		-	(2,646)	(3,183)	537
17	Total Operating Income Adjustments			_	(2,053,101)			(394,070)	(473,911)	79,841
18	Total Adjustments			_	(11,852,215)		-	(1,352,007)	(1,468,922)	116,915
19	OCA Recommended Increase(Decrease)			4	\$ 7,001,522		=	\$ 104,786	\$ (12,129)	\$ 116,915

Note 1 The impact of OCA's adjustments on late charges, bad debts, and assessments are accounted for here. The adjustment of these costs are a component of the revenue gross up factor on the Revenue Requirement Exhibit.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Payroll Expense Recommendations

Line					
No.	Description	Ref.		Water	Wastewater
1	Pro Forma Hourly Payroll Excluding Bonuses and Vacant Positions 12/31/2021	1/	Ś	2,007,650	
2	Pro Forma Salary Payroll Excluding Bonuses and Vacant Positions 12/31/2021	1/	•	3,563,364	
3	Total Non-Union Payroll 12/31/2021		\$	5,571,014	
4	OCA Recommended 2022 Increase Factor			103.50%	
5	2022 Adjusted Amount		\$	5,765,999	
6	2022 Additional Hourly and Salaried Positions	2/		606,243	
7	OCA Adjusted 2022 Hourly and Salaried Payroll		\$	6,372,242	
8	OCA Recommended 2023 Increase Factor			103.50%	
9	February 29, 2024 Adjusted Non-Union Payroll		\$	6,595,271	
10	February 29, 2024 Requested Union Payroll, Excluding Unfilled Positions	3/		2,479,100	
11	OCA Recommended Payroll Expense (without Bonuses)		\$	9,074,371	
12	Requested 2/29/2024 Payroll (without Bonuses)	4/		9,518,048	
13	Gross Payroll Adjustment Before Expense Allocation		\$	(443,677)	\$ (443,677)
14	Expense Factor	S/		0.862317798 6/	0.038983417
15	Adjustment to Payroll Expense		\$	(382,591)	\$ (17,296)
Note 1	Derived from CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case visy, tab Hill-2-4(b) ng1	cells G10-I147 ar	nd M	10-0147 excludi	ing rows 92 and

Note 1 Derived from CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab HIII-2-4(b).pg1, cells G10-I147 and M10-O147 excluding rows 92 and 134 for hourly positions.

Note 2 From CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-1(c).pg1, total of cells G10-I19 and M10-O19 excluding rows 21 and 83 for salaried positions.

Note 3 Derived from CONFIDENTIAL File OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-25(c).pg1, total of cells G1 147I and M10-O147 for union positions.

Note 4 From CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-25(c).pg1, total of cells G1 147I and M10-O147.

Note 5 From Fill-2-40(b).pg1, Total of Accounts 6011000 through 60180003 / Pro Forma Company Labor.

Note 6 From FIII-2-40(b).pg1, Total of Accounts 7015000 through 7018000 / Pro Forma Company Labor.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Cash Incentive Award Recommendations

Line No.	Description	Ref.		Water	Wa	stewater
1	Cash Incentive Awards - 2/29/2024 Pro Forma	1/	\$	287,026	\$	287,026
2	Expense Factor	2/	0.	862317798 <sup>3/</sup>	0.0	38983417
3	Amount Included in Operating Expenses		\$	247,508	\$	11,189
4	Ratepayer Share			50.00%		50.00%
5	Amount Recommended for Recovery		\$	123,754	\$	5,595
6	OCA Recommended Adjustment	:	\$	(123,754)	\$	(5,595)

Note 1 See OCA IV-14 and CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-25(c).pg1, cell Q167.

Note 2 Derived from CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-40(b).pg1, Total of cells G21-G51 / G61.

Note 3 Derived from CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-40(b).pg1, Total of cells G52-G57 / G61.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 <u>Office of Consumer Advocate - Long-Term Incentive Plan Recommendations</u>

Line No.	Description	Ref.	Water	Wastewater		
1	Long-Term Stock Awards - 2/29/2024 Pro Forma	1/	\$ 276,170	\$ 276,170		
2	Expense Factor	2/	0.862317798 3/	0.038983417		
3	Long-Term Incentive Expense		\$ 238,146	\$ 10,766		
4	OCA Recommended Adjustment to Long-Term Incentives		\$ (238,146)	\$ (10,766)		

Note 1 See OCA IV-9 and CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-25(c).pg1, cell R167.

Note 2 Derived from CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-40(b).pg1, Total of cells G21-G51 / G61.

Note 3 Derived from CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-40(b).pg1, Total of cells G52-G57 / G61.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Payroll Tax Recommendations

Line					Water		
No.	Description		Payroll		h Incentive	Stock Incentive	
1	Expense Adjustment	\$	(382,591)	\$	(123,754)	\$	(238,146)
2	Adjustments to Wages Over \$147K		(58,581)		(54,124)		(204,490)
3	Adjustment Subject to OASDI Tax	\$	(324,010)	\$	(69,630)	\$	(33,656)
4	Adjustment to Medicare Taxes	\$	(5,548)	\$	(1,794)	\$	(3,453)
5	Adjustment to OASDI Tax	\$	(20,089)	\$	(4,317)	\$	(2,087)
6	Tax Adjustment Totals	\$	(25,636)	\$	(6,111)	\$	(5,540)
7	Total Water Employment Tax Adjustment					<u>\$</u>	(37,287)
8	Payroll Tax Effective Rate						5.01%
				w	astewater		
			Payroll	Cas	h Incentive	Sto	ck Incentive
9	Expense Adjustment	\$	(17,296)	\$	(5,595)	\$	(10,766)
10	Adjustments to Wages Over \$147K	<u> </u>	(2,648)		(2,447)		(9,245)
11	Adjustment Subject to OASDI Tax	\$	(14,648)	\$	(3,148)	\$	(1,522)
12	Adjustment to Medicare Taxes	\$	(251)	\$	(81)	\$	(156)
13	Adjustment to OASDI Tax	\$	(908)	\$	(195)	\$	(94)
14	Tax Adjustment Totals	\$	(1,159)	\$	(276)	\$	(250)
15	Total Wastewater Employment Tax Adjustment					\$	(1,686)

Note 1 From CONFIDENTIAL File: OCA-IV-1 2022 Water Rate Case.xlsx, tab FIII-2-25(c).pg1, selected amounts times the appropriate expense factor.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 <u>Office of Consumer Advocate - Inflation Adjustment Recommendations</u>

Line No.	Description	Ref.	Water	N	/astewater
1	Requested Inflation Adjustments Adjustment December 2021 - December 2022	1/	\$ 360,236 <sup>3/</sup>	\$	106,523
2	Pro Forma Adjustment, December 2022 - February 2024	2/	 663,071 <sup>4/</sup>		191,840
3	Total Requested		\$ 1,023,307	\$	298,363
4	OCA Adjustment		\$ (1,023,307)	<u>\$</u>	(298,363)

Note 1 FIII-2.pg2, J239.

Note 2 FIII-2-37.pg1, cell H54.

Note 3 FIII-2W.pg2, J89.

Note 4 FIII-2-28W.pg1, cell H38.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Board of Directors Fees Recommendations

Line No.	Description	Ref.	Amount
1	Requested Board of Directors Compensation	1/	\$ 427,649
2	OCA Recommended Ratepayer Share (50%)	-	213,825
3	OCA Recommended Board of Directors Fee Adjustment	=	\$ (213,825)

Note 1 Exhibit FIII-2-48.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Acquisition Adjustment Recommendations

	Unice of Consumer Advocate - Acqui								Impact of Was	stewa	ter Errata
Line							Errata	0	CA Original		Difference
No.	Description	Ref		Water	Ref.	w	astewater	N	astewater	Ori	ginal - Errata
	Rate Base										
1	Wrightsville Acquisition Adjustment at 2/29/2024	1/	\$	59,966							
2	Felton Acquisition Adjustment at 2/29/2024				2/	\$	260,414	\$	260,414	\$	<u> </u>
3	Acquisition Adjustments Requested		\$	59,966		\$	260,414	\$	260,414	\$	-
4	Jacobus Acquisition Adjustment at 2/29/24				3/	\$ (	183,538.55)	\$ (	183,538.55)	\$	
5	Letterkenny Acquisition Adjustment at 2/29/2024				3/			(	479,298.79)		479,298.79
6	Negative Acquisition Adjustments Not Requested					\$ (	183,538.55)	\$ (	662,837.34)	\$	479,298.79
7	Adjustment to Remove Wrightsville and Felton Acquisition Adjustments		\$	(59,966)		\$	(260,414)	\$	(260,414)	\$	-
8	Adjustment to Add the Jacobus and Letterkenny Acquisition Adjustments		_			\$	(183,539)	\$	(662,837)	\$	479,299
9	Total Rate Base Adjustments		\$	(59,966)		\$	(443,953)	\$	(923,251)	\$	479,299
	Amortization										
10	Wrightsville Acquisition Adjustment at 2/29/2024	4/	\$	6,789							
11	Felton Acquisition Adjustment at 2/29/2024				. s/	\$	29,481	\$	29,481	\$	•
12	Amortization of Acquisition Adjustments Requested		\$	6,789		\$	29,481	\$	29,481	\$	•
13	Jacobus Acquisition Adjustment Amortization				6/	\$	(28,237)	\$	(28,237)	\$	-
14	Letterkenny Acquisition Adjustment Amortization				6/			_	(72,775)		72,775
15	Amortization of Omitted Negative Amortization Adjustments					\$	(28,237)	\$	(101,011)	\$	72,775
16	Adjustment to Remove Amortization of Wrightsville and Felton Acq. Adj.		\$	(6,789)		\$	(29,481)	\$	(29,481)	\$	
17	Adjustment to Add Amortization of Jacobus and Letterkenny Acq. Adj.					\$	(28,237)	\$	(101,011)	\$	72,775
18	Total Amortization Adjustments		\$	(6,789)		\$	(57,718)	\$	(130,492)	\$	72,775

Note 1 Exhibit No. FV-1-9, page 1.

Note 2 Exhibit No. FV-1-2W, page 1.

Note 3 See the Direct Testimony of Morgan N. DeAngelo, page 8, net of amortization beginning at date of acquisition.

Note 4 Exhibit No. FIII-2-22, page 1.

Note 5 Exhibit No. Fill-2W.

Note 6 Based on the ten year amortizations recommended by Morgan N. DeAngelo.

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Cash Working Capital

Line		-1220697	7.523 Lag	Dollar
No.	Description	Amou	nt Days	Days
1	Payroll Expense Adjustments	\$ (1,159	,663) 7.0	\$ (8,117,639)
2	Payroll Tax Withholding	(61	,035) 13.7	(837,976)
3	Payroll Taxes	(61	,035) 13.7	(837,976)
4	Inflation Adjustment	(1,023	<u>,307)</u> 18.1	(18,545,719)
5	Totals	\$ (2,305	,039) 12.3	\$ (28,339,309)
6	Revenue Lag		53.4	
7	Cash Working Capital Expense Adjustments	\$ (6	,315) 41.1	\$ (259,502)
8	Rate Base Adjustments	\$ (319	,909)	
9	Long-Term Debt Component of Capital	-	77%	
10	Interest Adjustment	\$ (5	,658)	
11	Daily Interest Adjustment	\$	(16) 28.4	(440)
12	Cash Working Capital Adjustment			\$ (259,943)

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Income Tax Expense

				Weighted			1	mpact of Wa	stewa	ter Errata														
Line				Interest		Errata	00	A Original	D	lifference														
No.	Description	1	Rate Base	Cost	Amount		Amount		Amount		Amount		Amount		Amount		Amount		Amount		Amount Was		Original - Errata	
	Water								1.000															
1	Rate Base Adjustments	\$	(319,909)	-1.77%	\$	5,658																		
2	York Weighted Interest Cost			1.77%																				
3	OCA Weighted Interest Cost			1.88%																				
4	Difference	\$ 3	350,301,681	-0.11%	\$	(379,401)																		
5	Operating Income Adjustments				\$	2,025,699																		
6	Total				\$	1,651,955																		
7	Combined Effective Tax Rate					28.89210%																		
8	Adjustment to February 29, 2024 Income Tax Expense				\$	477,284																		
	Wastewater																							
9	Rate Base Adjustments	\$	443,953	1.77%	\$	7,851	\$	16,328	\$	(8,477)														
10	York Weighted Interest Cost			1.77%																				
11	OCA Weighted Interest Cost			1.88%																				
12	Difference	\$	32,909,997	-0.11%	\$	(35,644)	\$	(35,125)	\$	(519)														
13	Operating Income Adjustments				\$	391,423	\$	470,728	\$	(79,305)														
14	Total				\$	363,631	\$	451,931	\$	(88,300)														
15	Combined Effective Tax Rate					28.89210%		28.89210%		0.00000%														
16	Adjustment to February 29, 2024 Income Tax Expense				\$	105,061	\$	130,572	\$	(25,512)														

#### The York Water Company Docket Nos. R-2022-3031340 (Water) and R-2022-3032806 (Wastewater) Historic Test Year Ending 12/31/2021; Fully Projected Test Year Ending 2/29/2024 Office of Consumer Advocate - Cost of Capital

							Wate	r	Waste	Water
Line						ROR	Conversion	Pre-Tax	Conversion	Pre-Tax
No.	Description		Capital	Ratio	Rate	Component	Factor <sup>3</sup>	ROR	Factor <sup>3</sup>	ROR
1	Long-Term Debt	1/	\$ 174,870,000	45.23% <sup>2/</sup>	3.91%	1.77%	0.986656	1.79%	0.993284	1.78%
2	Equity	1/	\$ 211,777,106	<u> </u>	11.25%	6.16%	0.701591_	8.78%	0.706304_	8.72%
3			\$ 386,647,106	100.00%		7.93%		10.57%		10.50%
4	OCA Recommend									
5			on to Return on Eg							
6	Long-Term Debt	4/		45.23% <sup>4/</sup>	3.91%	1.77%	0.986656	1.79%	0.993284	1.78%
7	Equity	4/		<u> </u>	11.00%	6.02%	0.701591_	8.59%	0.706304_	8.53%
8				100.00%		7.79%	-	10.38%	-	10.31%
9	25 Basis Point ROI	E Ad	justment				=	-0.20%	=	-0.19%
10	Capital Structure									
11	Long-Term Debt	4/		48.00% 4/	3.91%	1.88%	0.986656	1.90%	0.993284	1.89%
12	Equity	4/		<u> </u>	11.00%	5.72%	0.701591_	8.15%	0.706304_	8.10%
13				100.00%		7.60%	-	10.06%	-	9.99%
14	Capital Structure	Adju	stment				=	-0.32%	=	-0.32%
15	<u>Return on Equity</u>									
16	Long-Term Debt	4/		48.00% 4/	3.91%	1.88%	0.986656	1.90%	0.993284	1.89%
17	Equity	4/		52.00% 4/	7.94%	4.13%	0.701591	5.88%	0.706304	5.85%
18				100.00%		6.01%	-	7.79%	-	7.74%
19	ROE Adjustment						=	-2.27%	=	-2.25%

Note 1 From Exhibit No. FVII-1, WP 1.

Note 2 From Exhibit No. FVII-1, WP 2, HV-1.pg3 and Moul Direct, page 2.

Note 3 From HV-1.wp1, factors for total revenue requirements.

Note 4 See the Responsive Testimony of Dr. David S. Habr.

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	
	: Docket Nos. R-2022-3031340 (Water)
<b>v.</b>	: R-2022-3032806 (Wastewater)
	:
The York Water Company	:

#### **VERIFICATION**

I, Mark E. Garrett, hereby state that the facts set forth in my Surrebuttal Testimony, OCA Statement 1SR, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: September 28, 2022 \*335887

Signature:

Mark E. Garrett

Consultant Address: Garrett Group Consulting, Inc. 4028 Oakdale Farm Circle Edmond, Oklahoma 73013

## BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission Office of Consumer Advocate Office of Small Business Advocate	: : :	Docket Nos. R-2022-3031340 C-2022-3032868 C-2022-3032902
V.	:	
	:	
The York Water Company – Water Division	:	
	:	
Pennsylvania Public Utility Commission	:	Docket Nos. R-2022-3032806
Office of Consumer Advocate	:	C-2022-3032869
Office of Small Business Advocate	:	C-2022-3033016
	:	
V.	:	
	:	
The York Water Company – Wastewater	:	
Division	:	

Surrebuttal Testimony of Morgan N. DeAngelo

On Behalf of Pennsylvania Office of Consumer Advocate

September 28, 2022

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Response to Mr. Joseph T. Hand:	. 1
Positive Acquisition Adjustments	. 1
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# 1 Introduction:

2	Q.	Please state your name, business address and occupation.
3	A.	My name is Morgan N. DeAngelo. My business address is 555 Walnut Street, Forum
4		Place, 5 <sup>th</sup> Floor, Harrisburg, Pennsylvania 17101. I am currently employed as a
5		Regulatory Analyst by the Pennsylvania Office of Consumer Advocate (OCA).
6	Q.	Have you provided testimony in this case?
7	A.	Yes. I provided Direct Testimony in this case on August 19, 2022, in OCA Statement 2.
8	Q.	How is your Surrebuttal Testimony organized?
9	A.	In this testimony, I respond to the Rebuttal Testimony of York Water Company's (York)
10		witness, Mr. Joseph T. Hand, addressing York's proposed acquisition adjustments.
11	<u>Resp</u>	onse to Mr. Joseph T. Hand:
12		Positive Acquisition Adjustments
13	Q.	Please summarize your Direct Testimony regarding York's positive acquisition
14		adjustments.
15	A.	In my Direct Testimony, OCA Statement 2, p. 6-7, I described reasons why the positive
16		acquisition adjustment for Felton Borough should be removed from rate base and from
17		the expense amortization on the basis that York has not met the criteria under Section
18		1327(a)(3). Ultimately, York had not provided sufficient information to show that Felton
19		was a troubled system and was not furnishing and maintaining adequate, efficient, safe,
20		and reasonable service and facilities at the time of the acquisition.

1

#### Q. What argument did Mr. Hand make in his Rebuttal Testimony?

2 Mr. Hand disagreed and stated the "Company believes this positive acquisition A. 3 adjustment meets the criteria of Section 1327(a)(3) of the Code". (York Statement No. 1-4 R, p. 3, ln. 23-24) He also discussed a Corrective Action Plan that York put in place for 5 the system's inflow and infiltration (I&I) and stated, "the Company does not believe a 6 similar outcome would have occurred under the continued ownership of Felton 7 Borough". (York Statement No. 1-R, p. 5, ln. 5-6) Mr. Hand also indicated York 8 disagrees with OCA Witness Fought that a "notice of violation (NOV) that included an 9 effluent violation does not indicate Felton Borough was providing inadequate service 10 because it is not unusual for wastewater systems to get an NOV that includes an effluent 11 violation. (York Statement No. 1-R, p. 3-4, ln. 3, 1-3) Additionally, Mr. Hand alleged 12 that the positive and negative acquisition adjustments in the filing are miniscule compared to others. He also indicated that had York used fair market value treatment for 13 14 all the acquisitions, the "resulting valuations, and resulting total revenue requirement for 15 both water and wastewater operations, likely would have been higher and not subject to 16 challenges based upon Section 1327 criteria presented by OCA". (York Statement No. 1-17 R, p. 2-3, ln. 21-22, 1-2)

18

## Q. Do you agree with Mr. Hand?

A. No. Mr. Hand's testimony relies upon speculation about what Felton Borough would or
would not have done, including the assumption that a Corrective Action plan was
required, and that Felton Borough would not have created a Corrective Action Plan or did
not have the resources to implement a Corrective Action Plan. The assumption made by
Mr. Hand that Felton Borough would not have created a Corrective Action Plan, if one

had been required, is not enough to prove that Felton Borough was providing inadequate
service to its customers at the time of acquisition. There is no evidence showing that
Felton Borough would not be financially able to do so. Additionally, OCA witness
Fought stated in his experience "DEP initiates Consent Order Agreement (COA) to
address any serious recurring effluent non-compliance issues. The Borough was not
under a COA like the Letterkenny Township Municipal Authority System was." (OCA
Statement 6SR, p. 3)

8 Finally, Mr. Hand argues that OCA's challenge to two of the five acquisitions 9 reflected in this rate case is somehow counterproductive. He stated, "Challenging these 10 acquisition adjustments generated from depreciated original cost acquisitions discourages 11 the Company from continuing to pursue this strategy". (York Statement No. 1-R, p.2, 12 ln.18-19) Mr. Hand's argument ignores that in rebuttal, York accepted the OCA's 13 adjustment to remove the acquisition premium for York's proposed acquisition 14 adjustment for the Wrightsville Water System. He also argues that, because the OCA 15 raised the lack of evidence and support for York's claim for two acquisition adjustments, 16 York would in the future choose a presumably more expensive acquisition strategy that 17 would raise rates even more to the acquired customers and to the existing customers. The 18 OCA takes cases as they come. Here, York made acquisitions and sought adjustments 19 under Section 1327. Based on this, I have reviewed the acquisitions and the requests for 20 acquisition adjustments and made recommendations about which should, and which should not be accepted. What York pursues in the future will be addressed in the future, 21 22 but Mr. Hand appears to overlook that fair market value acquisitions can be challenged as 23 well under Section 1329 and under Sections 1102 and 1103. My testimony addresses the

1		acquisitions filed under Section 1327. York failed to meet the criteria under Section
2		1327, and therefore, I continue to recommend that York's proposal for a positive
3		acquisition adjustment should be rejected.
4		Negative Acquisition Adjustments
5	Q.	Please summarize your Direct Testimony regarding York's negative acquisition
6		adjustment.
7	A.	In my Direct Testimony, OCA Statement 2, p. 7-10, I described reasons why the negative
8		acquisition adjustment for Jacobus Borough Sewer Authority (Jacobus) has not met the
9		criterion of Section 1327(e) to support omitting its amortization of the pass-through of
10		the difference between acquisition cost and the depreciated original cost. By indicating
11		Jacobus did not wish to continue providing wastewater service and that there was no
12		immediate successor for the contracted operator, York has not justified its position that it
13		should not pass through the difference to ratepayers, and therefore there is no evidence of
14		substantial public interest.
15	Q.	How did Mr. Hand respond in his Rebuttal Testimony?
16	A.	In his Rebuttal Testimony, Mr. Hand stated the "Company was not told all the steps
17		Jacobus Borough took to try to fill the position, but the Company believes that their best
18		efforts were fruitless based on increasing demand and limited supply of qualified
19		operators". (York Statement No. 1-R, p. 6, ln. 1-3) He also indicated a situation that
20		occurred the first weekend, post-acquisition, stating "a severe storm and power outage
21		disrupted power to two of the sanitary lift stations" and "Company personnel responded
22		by setting mobile generators at the lift stations to keep customers in service and prevent
23		an overflow condition". (York Statement No. 1-R, p. 6, ln. 6-9) Furthermore, Mr. Hand

discussed capital improvements York has made, since the acquisition, and stated "these
 were capital improvements that Jacobus Borough was unwilling or unable to make and
 may have resulted in inadequate service or environmental violations in the future". (York
 Statement No. 1-R, p. 6, ln. 16-18)

5

Q.

### Do you agree with Mr. Hand?

6 No. There is no information supporting that Jacobus could not have otherwise hired an A. 7 operator. Mr. Hand acknowledges that he does not know what efforts, if any, Jacobus 8 undertook to locate a qualified operator. Retirement of the current operator alone without 9 any evidence that a replacement operator could not be located does not meet the public 10 interest standard set forth in Section 1327(e). York appears to have been readily able to 11 retain an operator and there is no information to show that Jacobus would not have been 12 able to do the same other than Mr. Hand's speculation. Additionally, if the storm and 13 power outage occurred while the system was still in the ownership of Jacobus, there is no 14 definitive way to prove Jacobus would not have been able to take the steps to bring in 15 mobile generators and restore power. There is also no documentation that Jacobus would 16 be financially or managerially unable to make the capital improvements York made, post-17 acquisition. Therefore, I continue to recommend that York amortize the difference 18 between the purchase price and depreciated original cost of its assets, as an addition to 19 income over ten years.

### 20 Conclusion:

### 21 Q. Does this conclude your Surrebuttal Testimony?

22 A. Yes. However, I reserve the right to modify if needed.

### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:
	: Docket Nos. R-2022-3031340 (Water)
V.	: R-2022-3032806 (Wastewater)
	:
The York Water Company	:

### **VERIFICATION**

I, Morgan N. DeAngelo, hereby state that the facts set forth in my Surrebuttal Testimony, OCA Statement 2SR, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: September 28, 2022 \*335891

Signature: MAJAM N. Delangelo Morgan N. DeAngelo

Consultant Address: Office of Consumer Advocate 555 Walnut Street 5<sup>th</sup> Floor, Forum Place Harrisburg, PA 17101-1923

### **BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
<b>v.</b>	:	Docket Nos. R-2022-3031340 (Water)
	:	R-2022-3032806 (WW)
York Water Company	:	

### SURREBUTTAL TESTIMONY OF

### DR. DAVID S. HABR

### ON BEHALF OF THE OFFICE OF CONSUMER ADVOCATE

September 28, 2022

1 Q:	PLEASE	<b>STATE</b>	YOUR	NAME.
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2 A: David S. Habr.

3 ARE YOU THE SAME DAVID S. HABR WHO PREVIOUSLY FILED **O**: 4 DIRECT AND REBUTTAL TESTIMONY IN THIS PROCEEDING? 5 A: Yes, I am. 6 **O**: WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY? 7 A: I have comments on various portions of Mr. Moul's rebuttal testimony that are 8 related to my direct testimony. 9 **O**: MR. MOUL REFERS TO INCREASING EQUITY COSTS AT VARIOUS

11 COMMON EQUITY COSTS FOR YORK WATER AND THE MEMBERS

POINTS IN HIS TESTIMONY AT PAGES 4 THROUGH 9. HAVE THE

12 OF YOUR PROXY GROUP INCREASED SINCE YOUR DIRECT

### 13 **TESTIMONY WAS FILED?**

10

Based on stock price changes, it appears that the cost of common equity has 14 A: 15 increased for three members of the proxy group and decreased for four members of the proxy group as well as York Water. Surrebuttal TABLE-1 has three sets of 16 stock prices for the proxy group and York Water. The first set contains the 17 average prices for the period May 2 through July 19, 2022 that I used in my direct 18 testimony. The second set contains the average prices for the period July 20 19 through September 16, 2022, and the last set contains September 23, 2022 closing 20 prices. Finally, the betas for the proxy group members and York Water are 21 included in the table to provide a risk measure. 22

	Avera	Average Price			
Commons	F 2 7 40 22	7 20 0 46 22	9-23-	Data	
Company	5-27-19-22	7-209-16-22	2022	Beta	
American States Water	\$78.65	\$86.09	\$83.27	0.637	
American Water Works	\$146.97	\$153.53	\$140.91	0.922	
Artesian Resources Corporation	\$47.57	\$54.38	\$51.38	0.563	
California Water Service	\$53.32	\$59.93	\$56.46	0.677	
Essential Utilities, Inc.	\$45.31	\$50.10	\$44.34	0.873	
Middlesex Water Company	\$86.59	\$91.39	\$84.19	0.744	
SWJ Group	\$60.81	\$65.58	\$61.03	0.612	
York Water Company	\$40.07	\$43.79	\$41.76	0.566	
For all of the cor	npanies, the	average prices	for the Ju	ıly 20 <sup>th</sup> (	through
September 16 <sup>th</sup> period are greater than the prices used in my testimony. This					
suggests declining common equity costs for the period after I filed my testimony.					
However, comparing the 9-23 closing prices with the prices used in my direct					

### SURREBUTTAL Table 1

6 suggests that the three riskiest companies, i.e., the companies with the three largest

7 betas, are now experiencing increased common equity costs, i.e., their 9-23 stock

8 prices are lower than the prices used in my direct testimony.

### 9 Q: WHAT DOES THIS INFORMATION TELL YOU?

10 A: It tells me that just because common equity costs in general may be up, the

11 common equity cost for low-risk firms may go down as investors look for safe

12 havens. S&P describes York Water as having low-risk water distribution

13 operations.<sup>1</sup>

1

2

3

4

<sup>&</sup>lt;sup>1</sup> Response to OCA Set V, No. 3, S&P Global Ratings, 10/8/2021, page 1.

### Q: ON PAGES 6-7, MR. MOUL ASSERTS THAT THE INTEREST RATES USED IN YOUR CAPM ANALYSIS ARE NOT APPROPRIATE. DO YOU AGREE WITH HIS ASSERTION?

A: I do not. My interest rate time period matches the time period I used to calculate
my betas. Investor expectations concerning future interest rates during this time period
are embedded in the prices used to calculate the betas. Thus, there is no need to
incorporate out of period interest rate forecasts.

## 8 Q. DO YOU AGREE WITH MR. MOUL'S STATEMENT ON PAGE 9, LINES 9 15-16 THAT "THE COMMISSION SHOULD INCREASE THE RETURN 10 IN THIS CASE ABOVE THE 9.80% EQUITY RETURN THAT WAS 11 RECENTLY ESTABLISHED IN THE DSIC PROCEEDING FOR WATER 12 UTILITIES?"

13 A. No. The DSIC water equity return is not an appropriate basis upon which to 14 establish York's ROE in this proceeding. The DSIC mechanism provides York the 15 opportunity to recover certain eligible investments in the water and wastewater distribution system improvements between base rate cases. As an automatic rate 16 recovery mechanism for York, the DSIC lowers its risk. Contrary to Mr. Moul's 17 inference, not all DSIC eligible plant may be recovered through the DSIC 18 surcharge due to the 5% cap. The DSIC surcharge reflects specific statutory and 19 regulatory policy, which favors investment in main replacement, subject to 20 21 consumer protections. The equity return that is calculated in some way by Commission staff, for use in a single quarter test of whether York is over-earning 22

1	through its DSIC surcharge, is not suited to the identification of the cost of
2	common equity which York should be allowed the opportunity to earn as a result
3	of this proceeding.

4 **Q**. MR. MOUL'S REBUTTAL TESTIMONY ON PAGE 5, LINES 8-20, 5 **REFERENCES THE RETURN ON COMMON EQUITY ESTABLISHED** FOR UGI UTILITIES, INC.-ELECTRIC DIVISION (UGI), CITIZENS 6 7 ELECTRIC COMPANY (CITIZENS), VALLEY ENERGY (VALLEY), 8 WELLSBORO ELECTRIC COMPANY (WELLSBORO), COLUMBIA GAS COMPANY (COLUMBIA), PECO ENERGY COMPANY-GAS 9 10 DIVISION (PECO GAS), AND AQUA PENNSYLVANIA, INC. (AQUA) IN 11 **COMMISSION PROCEEDINGS FROM 2017 THROUGH 2022. ARE** THESE RETURNS AN APPROPRIATE METRIC BY WHICH TO ASSESS 12 13 THE COST OF COMMON EQUITY ESTABLISHED FOR THIS **PROCEEDING?** 14

No. The purpose of developing a proxy group in the development of a comparable 15 A: 16 group of utilities is to compare returns to other like companies. It would not be appropriate to include an electric or natural gas utility company in the proxy group 17 for a water and wastewater utility, and that comparison is not appropriate here. 18 The rates of return that the Commission has set for electric and natural gas utilities 19 over the last five years are simply not relevant. Any impact Aqua Pennsylvania 20 21 has in this proceeding is being represented in the proxy group by its parent company, Essential Utilities, Inc. While the OCA does not agree with the use of 22

these companies as comparisons, the OCA notes that the returns approved by the
 Commission in Mr. Moul's cited example are all at least 100 basis points below
 Mr. Moul's recommended 11.25% return in this proceeding.

## 4 Q: ON PAGE 9, MR. MOUL COMPARES YOUR CAPITAL STRUCTURE 5 RECOMMENDATIONS TO THE CAPITAL STRUCTURES APPROVED 6 BY THE COMMISSION IN THE PECO ENERGY-GAS DIVISION RATE 7 CASE, COLUMBIA GAS RATE CASE, AND THE AQUA RATE CASE.

### 8 **ARE THESE COMPARISONS APPROPRIATE?**

9 A: No. My capital structure recommendation proposed in this case is appropriate
10 because it more accurately reflects York Water's capital structure and the
11 Company's historically acceptable capital structure. The capital structures
12 approved for an electric company, a natural gas company that is part of a large

13 multistate corporation, and a large multistate water company are not relevant.

### 14 Q: DO YOU AGREE WITH MR. MOUL'S STATEMENT AT PAGE 10, LINES

### 15 **13-14, THAT YOUR PROPOSED CAPITAL STRUCTURE "MERELY**

### 16 LOWERS THE COMPANY'S REVENUE REQUIREMENTS."

A: No, I do not. All costs incurred by a regulated utility should be prudent. This
includes capital costs. The Company has clearly shown in 2020 and 2021 that it
can successfully operate with a debt ratio between 46% and 49%. Moreover, as I
noted in my Rebuttal Testimony, Mr. Moul's recommended capital structure is
outside its historically acceptable range. As noted in the Company's second

22 Quarter 2022 10-Q, York Water observed that a debt ratio "between forty-six and

1	fifty percent has historically been acceptable to the PPUC in rate filings." <sup>2</sup> The
2	Company's proposal to lower the debt ratio and increase costs to customers should
3	be rejected.

### 4 Q: AT PAGE 11, LINES 14-16, MR. MOUL CLAIMS THAT THERE IS NO 5 UNCERTAINTY ASSOCIATED WITH CAPITAL STRUCTURE. WHY IS 6 THIS NOT AN ACCURATE ASSESSMENT OF CAPITAL STRUCTURE?

A: It is not an accurate assessment of the dynamic aspects of capital structure. At any point in time, the capital structure is certain. However, in the planning process the capital structure is quite changeable or fluid. It is during this process that a capital structure that is reasonable from both the stockholders' and customers' point of view can be established. York Water is in that process right now and still has the

12 flexibility to establish a capital structure with 48% debt and 52% common equity.

### 13 Q: ON PAGE 12, LINES 9-11, MR. MOUL CLAIMS THAT YOUR

### 14 HYPOTHETICAL CAPITAL STRUCTURE SHOULD NOT BE USED

### 15 BECAUSE IT CREATES A MISMATCH BETWEEN LONG-TERM DEBT

16 **AND THE HYPOTHETICAL DEBT RATIO THAT YOU ADVOCATE.** 

### 17 WHY IS THIS NOT ACCURATE?

18 A: This claimed mismatch is not accurate because there is still flexibility in the

- 19 projected test year capital structure. Company can still create a 48% debt /52%
- 20 common equity capital structure for the future test year.

<sup>&</sup>lt;sup>2</sup>York Water Company 2022 second quarter 10-Q, p. 23.

1	Q:	ON PAGE 14, LINES 24-32, MR. MOUL COMPARES THE USE OF THE
2		DCF IN THE CALCULATION OF THE COMPANY'S RATE OF RETURN
3		IN THIS PROCEEDING TO THE COMMISSION'S CALCULATION OF
4		THE RETURN UTILIZED FOR THE CALCULATION OF THE DSIC
5		RETURN IN THE QUARTERLY EARNINGS REPORTS. WHY IS THIS
6		NOT AN APPROPRIATE COMPARISON?

- A: As I discussed above regarding the comparison of the overall return on equity and
  the use of the DSIC, the comparison similarly is not appropriate here. The equity
  return that is calculated in some way by Commission staff, for use in a single
  quarter test of whether York is over-earning through its DSIC surcharge, is not
  suited to the identification of the cost of common equity which York should be
  allowed the opportunity to each as of the end of the FPFTY.
- 13 Q: ON PAGE 15, LINES 25-26 AND PAGE 18, LINES 11-18, MR. MOUL
- 14 CLAIMS THAT YOUR USE OF A MULTI-STAGE DCF IS NOT
- APPROPRIATE. PLEASE EXPLAIN WHY YOUR USE OF THE MULTI STAGE DCF IS APPROPRIATE?

A: The multistage model must be used to temper analysts' 5-year earnings forecasts
that are not sustainable in the long-run. That is, an individual firm cannot grow
faster than the economy, as a whole, in perpetuity. We can think of it this way,
assume that the economy is represented by a large balloon that is filled with
smaller balloons that represent the individual companies. If one of the smaller
balloons is growing faster than the economy, it will eventually fill up the entire

1		economy balloon thus becoming the entire economy. This clearly is not
2		reasonable and cannot/would not occur. The multistage DCF recognizes this
3		reality whereas the constant growth model, when saddled with an unsustainable,
4		inappropriate growth rate, does not.
5	Q:	AT PAGE 18, LINES 8-9, MR. MOUL CLAIMS YOU USED YOUR
6		MULTI-STAGE DCF APPROACH TO REDUCE YOUR ALLOWED ROE
7		<b>RECOMMENDATION FOR YORK WATER. IS THAT A CORRECT</b>
8		CHARACTERIZATION OF YOUR ANALYSIS?
9	A:	No, it is not. My 7.94% recommended ROE is based upon York Water's dividend
10		yield and its historical earning growth (5.94%) which is higher than Yahoo!'s
11		4.90% growth and Value Line's 5.00% growth.
12	Q:	ON PAGE 19, LINES 4-11, MR. MOUL CRITIQUES YOUR USE OF THE
13		NON-CONSTANT DCF METHODS IN PUBLIC UTILITY RATE
14		SETTING. WHY ARE THESE METHODS APPROPRIATE?
15	A:	As I stated previously, these methods are needed to temper the impact of
16		unsustainably high earnings growth rate forecasts on DCF common equity cost
17		estimates.
18	Q.	ON PAGE 19, LINES 12-20 AND PAGE 20, LINE 1-8, MR. MOUL CLAIMS
19		THERE ARE FLAWS IN THE WAY THAT YOU HAVE APPLIED THE
20		NON-CONSTANT DCF METHODOLOGY IN THIS CASE. DO YOU
21		AGREE WITH HIS ASSESSMENT?
22	A:	No, I do not. First, Mr. Moul claims my use of GDP growth in the DCF model is

entirely misplaced. I would like to point out that I am not the first person to use 1 2 GDP growth in a regulated utility setting. FERC started using GDP in regulated gas transmission cases over 20 years ago to temper extremely high analysts' 3 earnings forecasts. They used a weighted average analysts' forecast earnings 4 5 growth and a forecast GDP growth rate in the single-stage DCF. This method is referred to as the FERC 2-Step. High short-term earnings forecasts are inconsistent 6 7 with the perpetual, sustainable growth that is at the core of the single stage DCF 8 model.

9 Q: REFERRING TO MR. MOUL'S TESTIMONY ON PAGE 20, LINES 12-17,
10 DO YOU AGREE WITH HIM THAT YOU HAVE COMMITTED AN
11 ERROR BY BASING YOUR RECOMMENDED RETURN ON COMMON
12 EQUITY FOR YORK WATER ON YORK WATER'S ACTUAL
13 EXPERIENCE?

# A: No, I do not. For an investor to look to other water companies' cost of common equity to determine what to expect from York Water is analogous to a car buyer looking at Chevys, Hondas, and BMWs to determine what to expect from a Ford. I used York Water's experience analysts' forecast to formulate York Water's market-based cost of common equity. The proxy group information provides a framework for examining the soundness of York Water's cost of common equity.

## Q. AT PAGE 22, LINES 21-26, MR. MOUL CLAIMS THAT YOU DO NOT CRITICIZE HIS USE OF THE LEVERAGE ADJUSTMENT AND THAT THE LEVERAGE ADJUSTMENT HAS NOTHING TO DO WITH MARKET TO BOOK RATIOS. IS THIS ACCURATE?

5 A: No. First, Mr. Moul has mischaracterized my testimony. At page 29, beginning at 6 line 7, I clearly state that leverage adjustments "are clearly not relevant to the 7 regulated utility industry." Second, Mr. Moul bases the need for a leverage 8 adjustment on the divergence between the market value of the equity in the 9 utility's capital structure and its book value. This relationship is simply the 10 market-to-book ratio. I then go on to explain that for a regulated utility to have a 11 market-to-book ratio greater than one means that investors are expecting the 12 utility's earned returns to be greater than utility's cost of common equity.

### 13 Q: AT PAGE 27, LINES 18-19, MR. MOUL CLAIMS YOU CALCULATED

### 14 **"OPTION IMPLIED BETAS" FOR USE IN YOUR CAPM ANALYSIS. IS**

15 **HIS CLAIM CORRECT?** 

16A:No, it is not. I use the same formula for calculating the holding period returns that17Value Line uses, holding period return =  $LN(P_t/P_{t-1})$ -1. The only difference is that18I used daily closing prices to calculate daily holding period returns while Value

20 both use these holding period returns in an ordinary least squares (OLS) regression

Line uses weekly closing prices to calculate weekly holding period returns. We

- 21 analysis to estimate raw betas. Like Value Line, my betas are not based on option
- 22 prices.

19

### Q: ALSO ON PAGE 27 AT LINES 21-22, MR. MOUL ASSERTS THAT YOUR BETAS ARE NOT BASED ON EMPIRICALLY AVAILABLE DATA, IS THIS ASSERTION CORRECT?

4 A: No, it is not. The daily prices I used are readily available on Yahoo!

### 5 Q: DO INVESTORS HAVE TO RELY ON YOUR BETAS FOR THEM TO BE

### 6 **RELEVANT TO THIS PROCEEDING?**

7 A: No, they do not. These betas were calculated so that the stock price information

8 embedded in them is the same stock price information embedded in my DCF

9 analysis. This matching makes them relevant to this proceeding.

### 10 Q: DO YOU AGREE WITH MR. MOUL'S STATEMENT AT PAGE 28, LINES

11 **13-14 THAT YOU HAVE INCORRECTLY USED THE GEOMETRIC** 

### 12 MEAN IN YOUR HISTORICAL MARKET RISK PREMIUM ANALYSIS?

### 13 A: No, I do not. It is more appropriate to use the geometric mean in utility regulation

- 14 where the common equity cost estimate covers an indefinite time in the future.
- 15 This is consistent with Professor Aswath Damodran's observation that if
- ... annual returns are uncorrelated over time, and our objective 16 was to estimate the risk premium for the next year, the 17 arithmetic average is the best and most unbiased estimate of 18 the [risk] premium. There are, however, strong arguments that 19 can be made for the use of geometric averages. (Emphasis 20 added.) First, empirical studies seem to indicate that returns on 21 stocks are negatively correlated over time. Consequently, the 22 arithmetic average return is likely to overstate the premium. 23 Second, while asset pricing models may be single period 24 models, the use of these models to get expected returns over 25 long periods (such as five or ten years) suggests that the 26 estimation period may be much longer than a year. In this 27 context, the argument for geometric average premiums 28

1 2 becomes stronger.<sup>3</sup>

# 3 Q: THE QUESTION THAT MR. MOUL IS ASKED ON PAGE 29, LINE 37 OF 4 HIS REBUTTAL TESTIMONY SUGGESTS THAT YOU "IGNORED THE 5 ADJUSTMENT TO THE CAPM RESUTS FOR SIZE DIFFERENCES." 6 DID YOU IGNORE MAKING POSSIBLE ADJUSTMENTS TO YOUR 7 CAPM RESULTS TO REFLECT SIZE DIFFERENCES?

8 A: No, I did not. On page 31 of my direct testimony, beginning at line 3, I explain 9 how page 3 of his Schedule 13 demonstrates it is inappropriate to apply the size 10 adjustment to regulated utility companies. Not only is the proposed size 11 adjustment shown for each size group, that group's beta is also shown. Every one 12 of the size groups, except for the largest, have betas greater than one. Like 13 regulated utility companies, the largest size group has a beta less than one. That 14 less than one beta is associated with a negative size adjustment. It is clear that 15 regulation negates any size risk that may otherwise be associated with a utility company. 16

### 17 Q. ON PAGES 30-31, MR. MOUL CLAIMS THAT THE RISK PREMIUM

### 18 METHOD SHOULD BE GIVEN "SERIOUS CONSIDERATION." DO

- **YOU AGREE WITH THAT STATEMENT?**
- 20 A. No. As is clearly shown on Mr. Moul's Schedule 12, page 1, his risk premium is

<sup>&</sup>lt;sup>3</sup> Aswath Damodaran, "Equity Risk Premiums (ERP): Determinants, Estimation, and Implications – The 2022 Edition: Updated March 23, 2022.

1		based on large common stocks. Utility companies are not specifically
2		considered. Adding a utility bond yield to a large company risk premium
3		provides no information as to the market cost of common equity for a utility
4		company. This methodology should not be given any consideration.
5	Q.	ON PAGE 33, MR. MOUL CLAIMS THAT YOUR RELIANCE ON THE
6		BLUEFIELD AND HOPE CASES IS "MISTAKEN" BECAUSE THE DCF
7		AND CAPM METHODS WERE NOT ENVISIONED FOR USE AT THE
8		TIME OF THE CASES. IS THIS AN ACCURATE ASSESSMENT?
9	A:	No, it is not. The language in <i>Hope</i> is clearly consistent with the DCF
10		methodology. Specifically, Hope states that "the return to the equity owner should
11		be commensurate with returns on investments in other enterprises having
12		corresponding risks." <sup>4</sup> The is exactly the analysis that knowledgeable purchasers
13		of common stock make when deciding which stock to buy and how much to buy.
14 15	Q:	DO YOU CONTINUE TO RECOMMEND FOR THE REASONS SET
16		FORTH IN YOUR DIRECT TESTIMONY AND IN OCA WITNESS
17		ALEXANDER'S TESTIMONY THAT IT IS NOT APPROPRIATE TO
18		AWARD 25 BASIS POINTS FOR MANAGEMENT PERFORMANCE?
19	A:	Yes.
20	Q:	DOES THIS CONCLUDE YOUR SURREBUTAL TESTIMONY?
21	A:	Yes, it does.

<sup>&</sup>lt;sup>4</sup> See page 8 of Habr direct testimony for full citation.

### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:
	: Docket Nos. R-2022-3031340 (Water)
V.	: R-2022-3032806 (Wastewater)
	:
The York Water Company	:

### VERIFICATION

I, David S. Habr, hereby state that the facts set forth in my Surrebuttal Testimony, OCA Statement 3SR, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: September 28, 2022 \*335892

Signature:

<u>/David S. Habr/</u> David S. Habr

Consultant Address: Habr Economics 213 Cornuta Way Nipomo, CA 93444-5020

**OCA STATEMENT 4SR** 

### **BEFORE THE**

### PENNSYLVANIA PUBLIC UTILITY COMMISSION

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PENNSYLVANIA PUBLIC UTILITY COMMISSION v. THE YORK WATER COMPANY

DOCKET NOS. R-2022-3031340 (WATER) R-2022-3032806 (WASTEWATER)

### SURREBUTTAL TESTIMONY OF

### JEROME D. MIERZWA

### ON BEHALF OF THE

### PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

**SEPTEMBER 28, 2022** 



ASSOCIATES, INC. 10480 Little Patuxent Parkway, Suite 300 Columbia, Maryland 21044

1		I. <u>INTRODUCTION</u>
2	Q.	WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS
3		ADDRESS?
4	A.	My name is Jerome D. Mierzwa. I am a Principal and Vice President of Exeter
5		Associates, Inc ("Exeter"). My business address is 10480 Little Patuxent Parkway,
6		Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-
7		related consulting services.
8	Q.	ARE YOU THE SAME JEROME D. MIERZWA THAT FILED DIRECT
9		TESTIMONY IN THIS PROCEEDING ON AUGUST 19, 2022, AND
10		<b>REBUTTAL TESTIMONY ON SEPTEMBER 16, 2022?</b>
11	A.	Yes. I am.
12	Q.	WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?
13	A.	The purpose of my surrebuttal testimony is to respond to certain aspects of the rebuttal
14		testimony of Constance E. Heppenstall filed on behalf of the York Water Company
15		("York" or "Company"), and Brian Kalcic filed on behalf of the Office of Small
16		Business Advocate ("OSBA").
17		II. YORK WITNESS: CONSTANCE E. HEPPENSTALL
18	Q.	IN YOUR DIRECT TESTIMONY YOU FOUND THAT THE SYSTEM-
19		WIDE AND CLASS EXTRA CAPACITY DEMAND FACTORS, OR
20		RATIOS, USED BY THE COMPANY IN ITS COST OF SERVICE STUDY
21		("COSS") TO BE OUTDATED. WHAT WAS MS. HEPPENSTALL'S
22		RESPONSE TO YOUR CLAIMS CONCERNING THE SYSTEM-WIDE
23		CAPACITY FACTORS?
24	A.	In its COSS, the Company used the system-wide maximum day ratio of 1.52
25		experienced in 2010, and a system-wide maximum hour ratio of 1.84 experienced in

1		2006. In my direct testimony I recommend use of the system-wide maximum day ratio
2		of 1.35 which was reflective of the actual maximum day demands experienced by York
3		over the last 7 years, and a system-wide maximum hour ratio of 1.65 which was also
4		reflective of the actual maximum hour demands experienced by York over the last 7
5		years. Ms. Heppenstall claims a water system is designed to provide water during peak
6		periods over many years, not just over the past 5 to 7 years. Therefore, she recommends
7		that the historic peak ratios should be used, not more recent peak ratios. <sup>1</sup>
8	Q.	WHAT IS YOUR RESPONSE TO MS. HEPPENSTALL'S CLAIM
9		CONCERNING THE USE OF SYSTEM-WIDE MAXIMUM DAY AND
10		MAXIUMUM HOUR RATIOS?
11	A.	With respect to developing demand ratio or factors to be used in a COSS, the American
12		Water Works Association ("AWWA") M1 Manual indicates that demand data "over a
13		representative number of recent years" should be utilized. <sup>2</sup> I believe that 7 years meets
14		the standard identified in the AWWA M1 Manuel, and the up to 16 years relied upon
15		by York does not. Demands experienced 16 years ago are not representative of current
16		customer demands.
17	Q.	IN YOUR DIRECT TESTIMONY YOU FOUND THAT THE CLASS
18		EXTRA CAPACITY RATIOS USED IN THE COMPANY'S COSS WERE
19		DETERMINED IN THE 1976-1977 CUSTOMER DEMAND STUDY AND
20		THAT THESE FACTORS WERE ALSO UNREASONABLE BECAUSE
21		THEY WERE OUTDATED. DID MS. HEPPENSTALL FIND YOUR
22		CONCERN TO BE VALID?
23	A.	No. Ms. Heppenstall claims my concern is not valid. Ms. Heppenstall contends that
24		the Stipulation approved by the Commission in the Company's 1002 rate ages at Decket

<sup>24</sup> the Stipulation approved by the Commission in the Company's 1992 rate case at Docket

<sup>&</sup>lt;sup>1</sup> York Statement No. 108-R, page 6, line 14 through page 7, line 3. <sup>2</sup> AWWA M1 Manual, 7<sup>th</sup> Edition, page 373.

1 No. R-922168 required the Company to "complete a study to investigate the feasibility 2 of preparing a study of customer demands on the York Water System." She claims that 3 the Company submitted the feasibility study in April 1993, but neither the OCA nor 4 Bureau of Investigational Enforcement ("I&E") provided any response to the feasibility 5 study. She also claims that the Company submitted another feasibility study for a 6 customer class demand study in April 2007, pursuant to the Settlement Petition adopted 7 in the Company's 2006 base rate case at Docket No. R-00061322. She claims that 8 again, the Company received no response to the feasibility study and, therefore, the 9 Company contends that it was not appropriate to spend several hundred thousand 10 dollars on a customer class demand study for which it may not have been able to recover the costs.<sup>3</sup> She, therefore, claims that it is not the fault of the Company that they only 11 12 have customer demand data from the 1970s upon which to base class extra capacity demand factors.<sup>4</sup> 13

14 Q. WHAT IS YOUR RESPONSE TO WITNESS HEPPENSTALL'S CLAIMS?

A. Ms. Heppenstall's claims are not relevant to this proceeding. They do not change the
fact that the Company's class maximum day and maximum hour demand extra capacity
factors are out of date and unreasonable. Had the customer demand studies described
in Docket Nos. R-922168 and R-00061322 been performed, the results of those studies
would also likely now be outdated.

<sup>&</sup>lt;sup>3</sup> York Statement No. 108-R, page 7, line 4 through page 8, line 17.

<sup>&</sup>lt;sup>4</sup> <u>Id</u>., page 9, lines 6-10.

Surrebuttal Testimony of Jerome D. Mierzwa

1	Q.	WERE YOU THE OCA'S COST ALLOCATION AND RATE DESIGN
2		WITNESS IN THE COMPANY'S MOST RECENT PRIOR RATE CASE IN
3		DOCKET NO. R-2018-300019, AND DID YOU PRESENT AN ANALYSIS
4		OF CLASS DEMAND FACTORS SIMILAR TO THE ANALYSIS
5		PRESENTED IN THIS PROCEEDING?
6	А.	Yes.
7	Q.	WHAT OBSERVATIONS DOES MS. HEPPENSTALL OFFER
8		CONCERNING YOUR ANALYSES OF CLASS DEMAND FACTORS
9		PRESENTED IN YORK'S PRIOR CASE AND IN THIS CASE?
10	А.	Ms. Heppenstall provides a comparison of the results of each analysis and notes that in
11		this case the class demand factors I have recommended in this case are each higher than
12		the class demand factors I presented in the prior case. She claims that if the historic
13		class maximum day and maximum hour ratio I have proposed were reasonable, they
14		should not change as much from the prior rate case. <sup>5</sup>
15	Q.	WHAT IS YOUR RESPONSE TO MS. HEPPENSTALL'S
16		OBSERVATIONS CONCERNING THE TWO ANALYSES?
17	А.	Contrary to Ms. Heppenstall's claims, the class maximum day and maximum hour
18		ratios have not changed much since the prior case. As shown in the comparison
19		presented on page 10 of Ms. Heppenstall's rebuttal testimony, the differences in each
20		class's maximum day ratio is 0.1, or approximately 6%. The difference in the maximum
21		hour ratios range from 0.15 to 0.20, or 7 to 8%. I would not consider these changes to
22		be significant.

<sup>&</sup>lt;sup>5</sup> <u>Id</u>., page 10, lines 5-11.

1Q.MS. HEPPENSTALL CLAIMS THAT YOU HAVE FAILED TO PROVIDE2CREDIBLE EVIDENCE THAT YOUR ALTERNATIVE METHOD OF3DETERMINING CUSTOMER CLASS DEMANDS IS SUPERIOR TO THE4COMPANY'S.<sup>6</sup> IN RESPONSE TO HER TESTIMONY, HAVE YOU5CONDUCTED ANY FURTHER ANALYSIS OF THE DEMANDS OF6YORK'S VARIOUS CUSTOMER CLASSES AND THE CLASS DEMAND7FACTORS PRESENTED BY MS. HEPPENSTALL?

8 A. Yes. The maximum day extra capacity factor used by the Company for the Residential 9 class is 2.5 (Exhibit No. FVIII, p. 16). That is, the demands of Residential customers 10 on a maximum day are expected to be 2.5 times the demands experienced on an average 11 day. To assess the reasonableness of the Company's estimate, I compared total 12 projected system demands using the Company's estimated maximum day demands of 13 Residential customers with actual system maximum day demands. This comparison is 14 presented on Schedule JDM-1SR. This comparison revealed that based on the maximum day demands assigned to the Residential class of 2.5, the maximum day 15 demands of Residential customers would exceed the actual total maximum day 16 17 demands experienced by York. It is simply impossible for the maximum day demand 18 of one customer class served by York to exceed the actual maximum day demand of 19 all customer classes served by York.

I performed a similar comparison of the maximum hour demands assigned to each class and the maximum hour demands experienced on the York system. This comparison revealed that based on the maximum hour demands assigned to the Residential class of 4.5 (Exhibit No. FV111, page 26), the maximum hour demand of Residential customers would exceed the actual total maximum hour demand

<sup>&</sup>lt;sup>6</sup> <u>*Id*</u>., page 10, lines 10 – 12.

experienced by York. This comparison is also presented on Schedule JDM-1SR.
 Again, it is simply impossible for the maximum hour demands of one customer class
 served by York to exceed the maximum hour demands of all customer classes served
 by York.

5 Based on these comparisons, clearly the maximum day and maximum hour 6 extra capacity demand factors used by the Company for the Residential class are 7 unreasonable. These comparisons also indicate that Ms. Heppenstall has failed to 8 conduct any specific analysis of the reasonableness of the demand factors presented in 9 her COSS. The AWWA Manual M1 approach I have utilized is superior because it is 10 based on the recent actual consumption of York's customers over the last seven years, 11 not data from the 1970s.

Q. BRIEFLY SUMMARIZE YOUR POSITION PRESENTED IN YOUR
 DIRECT TESTIMONY CONCERNING THE COMPANY'S PROPOSED
 MONTHLY RESIDENTIAL CUSTOMER CHARGE FOR A CUSTOMER
 WITH A 5/8-INCH METER.

16 York is proposing to increase the current customer charge for a Residential customer A. 17 with a 5/8-inch meter from \$16.25 to \$20.71. The \$20.71 charge is based on an analysis 18 of what the Company claims are direct customer costs presented in RS1-j Attachment. 19 In my direct testimony, I found York's calculation of direct customer costs to be 20 unreasonable because it included costs that did not vary directly with the addition or 21 subtraction of customers. York included bad debt expense in its calculation, and office 22 buildings and furniture and equipment which are not direct customer costs. Finally, 23 York included the investment costs associated with its Enterprise Software which do 24 not change with the addition or subtraction of a customer.

1

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Q.

### DID MS. HEPPENSTALL AGREE WITH YOUR POSITION THAT BAD DEBT EXPENSE IS NOT A DIRECT CUSTOMER COST?

A. Ms. Heppenstall did not agree with my position that bad debt expense is not a direct
 customer costs and specifically addressed the inclusion of bad debt expense in a
 customer charge in her rebuttal testimony.<sup>7</sup>

### 6 Q. SHOULD BAD DEBT EXPENSE BE INCLUDED IN A CALCULATION 7 OF DIRECT CUSTOMER COST?

A. No. As I explained in my direct testimony, only those costs that vary with the addition
or subtraction of a customer should be considered a direct customer cost. If bad debt
expense did vary directly with the number of customers, each new customer added by
York would contribute to bad debt expense, and each customer that discontinues
service would reduce bad debt expense. Since this is not the case, bad debt expense
does not vary directly with the addition or a subtraction of a customer and, therefore,
those costs should not be included in a calculation of direct customer costs.

### 15 Q. WHAT IS THE IMPACT OF ELIMINATING BAD DEBT EXPENSE

16 FROM THE COMPANY'S CALCULATION OF DIRECT COSTS?

A. As shown on RS1-j Attachment, page 2, Ms. Heppenstall has included \$358,011 of bad
debt expense in her calculation of direct customer costs. As shown in page 1 of that
attachment, the number of bills over which bad debt expense would be collected is
854,579. Thus, eliminating bad debt expense from Ms. Heppenstall's calculation of
direct customer costs would reduce her calculated charge by \$0.42 (\$358,011/854,579).

<sup>&</sup>lt;sup>7</sup> <u>Id</u>., page 14, lines 6-8.

1	Q.	IN YOUR DIRECT TESTIMONY YOU RECOMMENDED
2		PROPORTIONALLY INCREASING WASTEWATER RATES FOR EACH
3		CUSTOMER CLASS IN ORDER TO REDUCE THE WASTEWATER
4		SUBSIDY FROM \$2.67 MILLION TO \$2.05 MILLION. MS.
5		HEPPENSTALL CLAIMS THAT YOU DID NOT PROPORTIONALLY
6		INCREASE THE RATES OF EACH CLASS. <sup>8</sup> WHAT IS YOUR
7		RESPONSE?
8	A.	In my direct testimony I proposed reducing the wastewater subsidy from \$2.67 million
9		to \$2.05 million, or by \$625,000. In assigning the additional \$625,000 to the
10		Residential and Non-Residential classes, I allocated the \$625,000 to each class in
11		proportion to the Company's initial assignment of the \$2.67 million subsidy to each
12		class. This is shown in Table 5 that was included in my direct testimony.
13	Q.	IN YOUR DIRECT TESTIMONY YOU RECOMMENDED THAT THE
14		WASTEWATER SUBSIDY THAT IS PROPOSED TO BE SHIFTED TO
15		WATER CUSTOMERS ALSO BE ALLOCATED TO THE INDUSTRIAL
16		AND PRIVATE FIRE CLASSES. DOES MS. HEPPENSTALL AGREE
17		WITH THIS RECOMMENDATION?
18	A.	No. Ms. Heppenstall claims that the wastewater system has very few Industrial
19		customers and no Private Fire customers. Therefore, she claims that the wastewater
20		costs allocated to water customers should only be allocated to the Residential and
21		Commercial classes, as these are the classes that are mostly responsible for the
22		wastewater costs. <sup>9</sup>

<sup>&</sup>lt;sup>8</sup> <u>*Id*</u>., page 15, line 15-16. <sup>9</sup> <u>*Id*</u>., page 16, line 5-12.

### 1 WHAT IS YOUR RESPONSE TO MS. HEPPENSTALL? Q.

2 A. Allocating the wastewater subsidy only to Residential and Commercial customers 3 might have merit if a significant percentage of York's wastewater customers were also 4 water customers. However, they are not. York serves approximately 73,000 water and 5 wastewater customers. Of the 73,000 customers, approximately 5,000 of those 6 customers are also wastewater customers. There is no basis to assign the unrecovered 7 wastewater costs of a particular class to the water customers in that same class that do 8 not receive wastewater service from York and pay another provider for wastewater 9 service. Therefore, the wastewater subsidy should also be allocated to Industrial water 10 customers and Private Fire customers.

### 11 12

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### **III. OSBA WITNESS: BRIAN KALCIC**

13 IN YOUR DIRECT TESTIMONY YOU FOUND THAT THE COMPANY'S Q. 14 BASE EXTRA-CAPACITY ("BEC") WATER COST OF SERVICE STUDY 15 UTILIZED INAPPROPRIATE SYSTEM-WIDE MAXIMUM DAY AND 16 MAXIMUM HOUR CAPACITY FACTORS AND INAPPROPRIATE 17 CLASS MAXIMUM DAY AND MAXIMUM HOUR CAPACITY 18 FACTORS. ACCORDING TO MR. KALCIC, WHAT ROLE DO SYSTEM-19 WIDE MAXIMUM DAY AND MAXIMUM HOUR DEMAND CAPACITY 20 FACTORS SERVE? 21 A. As explained by Mr. Kalcic, the BEC water cost of service methodology uses system

maximum day and maximum hour capacity factors, or ratios, to determine the level of costs that are classified as base, maximum day, and maximum hour related.<sup>10</sup> 23

<sup>&</sup>lt;sup>10</sup> OSBA Statement No. 1-R, page 2, lines 10-14.

1	Q.	DOES MR. KALCIC AGREE WITH YOUR PROPOSED SYSTEM-WIDE
2		MAXIMUM DAY AND MAXIMUM HOUR DEMAND RATIOS?

3 No. Like Ms. Heppenstall, Mr. Kalcic believes that York's system-wide maximum day A. 4 and maximum hour ratios should be based on demands experienced more than seven 5 years ago, and implies that the maximum demands experienced since 2000 should be 6 utilized.<sup>11</sup>

7 Q.

### WHAT IS YOUR RESPONSE TO MR. KALCIC?

8 A. Similar to my response to Ms. Heppenstall, the AWWA M1 Manuel indicates that 9 demand data "over a representative number of recent years" should be utilized to determine demand factors.<sup>12</sup> I believe that seven years meets that standard, and the up 10 to 16 years relied upon by York does not. Demands experienced 16 years ago are not 11 12 representative of current customer demands.

13 Q. WHAT ARE MR. KALCIC'S CRITICISMS OF YOUR RECOMMENDED 14 CLASS DEMAND FACTORS?

I developed my recommended class demand factors based on the methodology set forth 15 A. 16 in the AWWA Manual M1. Mr. Kalcic claims that the intent of the AWWA M1 17 Manual is to provide an estimate of class demand factors when actual demand data is 18 unavailable, implying that they should not be used in this proceeding because actual data is available.<sup>13</sup> He further claims that I undertook no empirical analysis to determine 19 20 whether the approach described in the AWWA M1 Manual to develop maximum day and maximum hour demand factors was reasonable for the York system.<sup>14</sup> 21

<sup>&</sup>lt;sup>11</sup> <u>Id</u>., page 3, line 9 through page 4, line 11.
<sup>12</sup> AWWA M1 Manuel, page 373.

<sup>&</sup>lt;sup>13</sup> OSBA Statement No. 1-R, page 5, lines 17-21.

<sup>&</sup>lt;sup>14</sup> Id., page 6, lines 17-22.

### 1 Q. WHAT IS YOUR RESPONSE TO MR. KALCIC?

A. First, the actual demand data referred to by Mr. Kalcic is over 40 years old. As
explained in my direct testimony, the water usage characteristics of York's customers
have changed significantly over the last 40 years. For example, the demands of the
Industrial customers reflected in York's demand study have declined over 80 percent
since the demand study was conducted. Thus, I do not believe it reasonable to
characterize the results of the customer demand study conducted by the Company in
the 1970s to be based on relevant actual data.

9 Second, with respect to failing to provide any empirical analysis to support my 10 proposed demand factors, without a detailed customer class demand analysis, the data 11 necessary to perform such an analysis is simply not available. Hence, I used the 12 approach described in the AWWA M1 Manual. The AWWA M1 Manual is the 13 authoritative guide to setting water utility rates, and neither Mr. Kalcic nor Ms. 14 Heppenstall would likely disagree with that characterization. As such, I do not believe that the approach discussed in the AWWA M1 Manual to determining customers 15 16 demand factors can be dismissed as invalid.

Finally, as previously demonstrated in responding to Mr. Heppenstall, the maximum day and maximum hour factors utilized by York indicate that the demands of Commercial and Industrial customers would be negative when Residential customers experience their maximum day and maximum hour demands. This is simply impossible and confirms the unreasonableness of the Company's demand factors.

# 1Q.HOW WOULD THE RESULTS OF YOUR COSS CHANGE2SIGNIFICANTLY IF THE COMPANY'S SYSTEM-WIDE DEMAND3FACTORS AND YOUR CLASS DEMAND FACTORS WERE4REFLECTED IN THAT STUDY IN THE EVENT THAT THE5COMMISSION WERE ONLY TO ADOPT YOUR CLASS DEMAND6FACTORS?

7 A. Table 1SR presented below provides a comparison of the results of the COSS presented 8 in my Direct Testimony which modified both system-wide and class maximum day and 9 maximum hour demand factors utilized by York, and the result of adjusting the 10 Company's COSS only to reflect my recommended class demand factors. This 11 comparison is presented exclusive of the wastewater subsidy allocation to water 12 customers. As shown in Table 1SR, maintaining the Company's systemwide demand 13 factors would not significantly change the results of the initial COSS presented in my 14 direct testimony. Schedule JDM-2SR presents a more detailed summary of the results 15 of a COSS which only adjusts the Company's class demand factors. Scheduled JDM-16 2SR includes an allocation of my recommended wastewater subsidy to water 17 customers, and is directly comparable to the COSS presented as Schedule JDM-2 in 18 my direct testimony.

Table 1SR. Comparison of OCA COSS Results							
	Water Cost of Service Study Results						
Class	Direct <sup>[1]</sup>	Surrebuttal <sup>[2]</sup>	Difference	Percent			
Residential	\$42,819,383	43,070,285	\$250,903	0.6%			
Commercial	\$15,325,308	15,350.405	\$25,097	0.2%			
Industrial	\$6,053,924	6,011,541	(\$42,384)	-0.7%			
Private Fire	\$2,735,857	2,597,596	(\$138,261)	-5.1%			
Public Fire	\$1,745,44	1,653,008	(\$92,434)	-5.3%			
Total:         \$68,679,914         \$68,682,834         \$2,920         0.0%							
<ul> <li><sup>[1]</sup> Adjusts Company's system-wide and class demand factors.</li> <li><sup>[2]</sup> Adjusts only Company's class demand factors</li> </ul>							

Q. MR. KALCIC RECOMMENDS THAT THE WASTEWATER SUBSIDY BE
 ALLOCATED TO WATER CUSTOMERS BASED ON WASTEWATER
 CLASS CONTRIBUTIONS TO THE SUBSIDY.<sup>15</sup> DO YOU AGREE WITH
 THIS RECOMMENDATION?

5 A. No. Ms. Heppenstall has presented a similar recommendation. As previously explained 6 in responding to Ms. Heppenstall, allocating the wastewater subsidy based on 7 wastewater class contributions to the study might have merit if a significant percentage 8 of York's wastewater customers were also water customers. However, they are not. 9 York serves approximately 73,000 water and wastewater customers. Of the 73,000 10 customers, approximately 5,000 of those customers are also wastewater customers. 11 There is no basis to assign the unrecovered wastewater costs of a particular class to the 12 water customers in that same class that do not receive wastewater service from York 13 and pay another provider for wastewater service. Therefore, the wastewater subsidy 14 should be allocated to each water customer class based on each class's indicated water 15 cost of service.

### 16 Q. MR. KALCIC CLAIMS THAT YOUR PROPOSED NON-RESIDENTIAL

### WASTEWATER RATE INCREASE OF 84.8% VIOLATES THE

18 PRINCIPLE OF GRADUALISM. WHAT IS YOUR RESPONSE?

A. I have proposed reducing the wastewater subsidy that is assigned to water customers
 by \$625,000, while Mr. Kalcic has proposed reducing the subsidy by \$1 million.<sup>16</sup>
 Based on the Company's proposed wastewater revenue requirement, under my
 proposed assignment of the wastewater subsidy to water customers, the system average
 increase for wastewater customers would be 50.4%, and under Mr. Kalcic's

17

<sup>&</sup>lt;sup>15</sup> <u>*Id.*</u>, page 11, lines 9-11.

<sup>&</sup>lt;sup>16</sup> OSBA Statement No. 1, page 18, lines 17-20.

1 recommendation, the system average increase would be 58.3%.<sup>17</sup> Mr. Kalcic has proposed a wastewater rate increase of 58.4% for each customer class served by York.<sup>18</sup> 2 3 As explained in greater detail in my rebuttal testimony, it is unreasonable to assign the 4 Residential and Non-Residential wastewater classes the same percentage increase 5 because the Non-Residential class is contributing revenue only equal to 33% of the 6 indicated cost of service, while the Residential class is contributing revenues equal to 7 54% of the indicated cost of service. As such, the Non-Residential class should receive 8 an increase which is greater than the increase assigned to the Residential class in order 9 to provide additional movement toward the indicated cost of service.

Witnesses for the OSBA have frequently testified that a common rule of thumb for rate gradualism is to limit the increase for any particular rate class to no more than 12 1.5 to 2.0 times the system average increase.<sup>19</sup> Mr. Kalcic has proposed a system average wastewater rate increase of 58.3%. My proposed increase for the Non-Residential class is 84.8%, which is 1.45 times the system average increase. Therefore, my recommended wastewater rate increase for the Non-Residential class is slightly lower than an increase that complies with the OSBA's concept of gradualism.

### 17 DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

18 A. Yes, it does; however, I reserve the right to update this testimony as may be necessary.

 $<sup>\</sup>frac{17}{10}$  <u>Id</u>.

<sup>&</sup>lt;sup>18</sup>  $\overline{Id}$ .

<sup>&</sup>lt;sup>19</sup> See, for example, OSBA Statement No. 1, Pittsburgh Water and Sewer Authority, Docket Nos. R-202-3024773, R-202-302744, R-2021-3024779, page 19, lines 16-21- page 20, lines 1-16; OSBA Statement No. 1, PECO Energy Company-Electric Division, Docket No. R-2021-3024601, page 11, lines 8-22, page 12, lines 1-2; OSBA Statement No. 1, Columbia Gas of Pennsylvania, Inc., Docket No. R-2020-3031211, page 27, lines 1-10.

### **OCA STATEMENT 4SR**

### **BEFORE THE**

### PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	)			
COMMISSION				
	)			
<b>v.</b>	)			
	)			
THE YORK WATER COMPANY	)			

DOCKET NOS. R-2022-3031340 (WATER) R-2022-3032806 (WASTEWATER)

### SCHEDULES ACCOMPANYING THE

### SURREBUTTAL TESTIMONY OF

### JEROME D. MIERZWA

### **ON BEHALF OF THE**

### PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

**SEPTEMBER 28, 2022** 



ASSOCIATES, INC. 10480 Little Patuxent Parkway, Suite 300 Columbia, Maryland 21044

Schedule JDM-1SR

### THE YORK WATER COMPANY

### Comparison of Company Class Demand Factor Usage and Maximum Usage Hundred Gallons

Line	Class (A)	Average Daily Usage (B)	Loss Adjustment (C)	Average Daily Sendout (D)=(B/(1-C))	Maximum Day Factor (E)	Projected Maximum Day Usage (F)=(D x E)	
1	Residential	81,522	21.22%	103,483	2.50	258,708	
2	Commercial	53,075	21.22%	67,374	1.60	107,798	
3	Industrial	25,165	21.22%	31,944	1.50	47,917	
4	Total	159,762	21.22%	202,801		414,423	
5	Actual Maximum Day Sendout - Total System (a)						
6	Actual Maximum Day Sendout - Non-Residential Customers (Column F, Line 5 - 1)						

Line	Class (A)	Average Daily Usage (B)	Loss Adjustment (C)	Average Daily Sendout (D)=(B/(1-C))	Maximum Hour Factor (E)	Projected Maximum Hour Usage (F)=(D x E)	
7	Residential	81,522	21.22%	103,483	4.50	465,675	
8	Commercial	53,075	21.22%	67,374	3.30	222,333	
9	Industrial	25,165	21.22%	31,944	2.70	86,250	
10	Total	159,762	21.22%	202,801		774,258	
11	Actual Maximum Hour Sendout - Total System (a) 319,000						
12	Actual Maximum Ho	ur Sendout - Non-Resid	dential Customers (	Column F, Line 11	- 7)	(146,675)	

13 Note: (a) Exhibit No. FVIII, Schedule F, 2021.

### Schedule JDM-2SR

### THE YORK WATER COMPANY WATER OPERATIONS DEVELOPMENT OF RATE OF RETURN BY CUSTOMER CLASSIFICATION UNDER PROPOSED RATES

		Gravity System			Repumping System						
	Cost of				Fire P	rotection				Fire Pr	otection
Item	Service	Residential	Commercial	Industrial	Private	Public	Residential	Commercial	Industrial	Private	Public
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1. Revenues From Sales	\$70,728,799	\$13,117,219	\$ 5,189,002	\$1,278,470	\$ 942,431	\$ 323,794	\$32,284,678	\$ 9,856,824	\$ 4,672,696	\$1,734,508	\$1,329,176
2. Other Revenues	1,142,025	195,971	83,254	20,671	15,189	21,584	456,011	156,343	76,744	27,980	88,393
3. Total Operating Revenues	71,870,824	13,313,191	5,272,256	1,299,141	957,620	345,378	32,740,689	10,013,167	4,749,441	1,762,488	1,417,569
4. Less: Operating Expenses	40,280,974	8,498,295	3,225,677	759,942	461,696	(476,002)	20,699,207	5,785,064	2,540,901	760,975	(1,975,149)
5. Return And Income Taxes (Ln 3 - Ln 4)	31,589,850	4,814,896	2,046,579	539,199	495,924	821,381	12,041,482	4,228,104	2,208,540	1,001,513	3,392,718
6. Less: Taxable Exclusions (Factor 24)	6,200,718	887,323	448,932	116,573	97,351	161,219	2,221,717	934,448	470,634	196,563	665,957
7. Taxable Income	25,389,132	3,927,573	1,597,647	422,626	398,573	660,162	9,819,764	3,293,656	1,737,905	804,950	2,726,761
8. Less: Income Taxes (Tax. Inc.)	3,769,035	583,051	237,172	62,739	59,168	98,002	1,457,751	488,946	257,993	119,495	404,790
9. Net Return (Line 5 - Line 8)	27,820,815	4,231,845	1,809,407	476,460	436,756	723,379	10,583,731	3,739,158	1,950,547	882,018	2,987,928
10. Original Cost Measure Of Value	350,621,588	50,173,107	25,373,854	6,575,050	5,501,538	9,119,577	125,619,819	52,849,741	26,605,146	11,120,925	37,673,257
11. Rate Of Return, Percent	7.93	8.43	7.13	7.25	7.94	7.93	8.43	7.08	7.33	7.93	7.93
12. Relative Rate Of Return	1.00	1.06	0.90	0.91	1.00	1.00	1.06	0.89	0.92	1.00	1.00

### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	: : Docket Nos. R-2022-3031340 (Water)
V.	: R-2022-3032806 (Wastewater)
The York Water Company	:

### VERIFICATION

I, Jerome D. Mierzwa, hereby state that the facts set forth in my Surrebuttal Testimony, OCA Statement 4SR, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: September 28, 2022 \*335893

inva Signature: Jerome D. Mierzwa

Consultant Address: Exeter Associates, Inc. 10480 Little Patuxent Parkway Suite 300 Columbia, MD 21044-3575

#### **BEFORE THE**

#### PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	: Docket Nos. R-2022-3031340 (Water)	
V.	: R-2022-3032806 (WW)	
	:	
The York Water Company	:	

#### SURREBUTTAL TESTIMONY

#### OF

#### BARBARA R. ALEXANDER

#### Barbara Alexander Consulting LLC

#### ON BEHALF OF THE

#### OFFICE OF CONSUMER ADVOCATE

September 28, 2022

1	Q.	PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.
2	A.	My name is Barbara R. Alexander. I am the sole member of Barbara Alexander
3		Consulting LLC. My address is 83 Wedgewood Dr., Winthrop, ME 04364. I appear in
4		this case as a witness on behalf of the Office of Consumer Advocate (OCA).
5	Q.	HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?
6	A.	Yes. I filed Direct Testimony on behalf of the OCA on August 23, 2022.
7	Q.	WHAT IS THE PURPOSE OF YOUR TESTIMONY?
8	A.	I am filing Surrebuttal in response to the Rebuttal Testimony filed by the following York
9		Water Company witnesses: Joseph Hand (York Statement No. 1-R), Mark A. Wheeler
10		(York Statement No. 2-R), and Vernon L. Bracey (York Statement No. 6-R).
11	Q.	PLEASE PROVIDE AN OVERVIEW OF YOUR RESPONSE TO THE COMPANY'S
12		REBUTTAL TESTIMONY CONCERNING CUSTOMER SERVICE
13		PERFORMANCE.
14	A.	The Company's Rebuttal Testimony repeats the claim of "exemplary performance," and
15		responds to all the shortcomings I identified in my testimony as either not a correct
16		conclusion, unrelated to the decision to award an earnings reward, or explained as a
17		reform that will be implemented prior to the next base rate case. In general, a claim of
18		"exemplary performance," should be documented as occurring during the test year and
19		not based on a future promise to correct deficiencies. And the claim of exemplary
20		customer service without any internal performance standards or any analysis of how York
21		Water's performance relates to other Pennsylvania public utilities is unsupported and
22		should be rejected. Furthermore, other claims by York Water relating to its "exemplary"
23		performance raised by Mr. Hand in his Rebuttal will be addressed by Counsel in OCA's

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briefs.

#### 2 **O**. DOES THE COMPANY RECOMMEND FUTURE IMPROVEMENTS IN RESPONSE 3 TO YOUR TESTIMONY? 4 A. Yes. I welcome the Company's statements that York Water will adopt the following 5 improvements: 6 Development of written training materials that reflect the essential consumer 7 protections of Chapter 56 of the Commission's rules on the customer's rights in the 8 negotiation of payment arrangements; protections for customers with Protection from 9 Abuse Orders; the rights of tenants when a landlord or property owner fails to pay a 10 bill; customer rights upon declaration of a medical emergency; and identifying and recording customer disputes;<sup>1</sup> 11 Documentation on how training is done and how ongoing compliance is monitored;<sup>2</sup> 12 13 The development of a means to track the existence of and response to customer disputes as required by Chapter 56.432;<sup>3</sup> 14 15 The analysis of potential costs and benefits for a low income discount program, 16 including information on the demographics of its customer base.<sup>4</sup>

<sup>&</sup>lt;sup>1</sup> York Water Statement No. 6-R, pages 13-15.

<sup>&</sup>lt;sup>2</sup> Ibid., page 15.

<sup>&</sup>lt;sup>3</sup> Ibid., page 19.

<sup>&</sup>lt;sup>4</sup> York Water Statement No. 2-R.

Q. MR. BRACEY ON BEHALF OF YORK WATER REJECTS YOUR CALL CENTER
 PERFORMANCE RECOMMENDATIONS BECAUSE OF YOUR COMPARISON OF
 YORK WATER'S PERFORMANCE WITH LARGER ELECTRIC AND GAS PUBLIC
 UTILITIES. PLEASE COMMENT.

5 The only published call center performance data available for Pennsylvania public A. 6 utilities is contained within the Commission's annual customer service reports that I cited 7 in my Direct Testimony. It is correct that smaller public utilities are not required to 8 report such information. However, Mr. Bracey's excuse for not meeting the average 9 performance standards reflected in these annual reports is not reasonable. First, he uses 10 these same reports to compare York Water's complaints submitted to BCS with other 11 Pennsylvania public utilities and relies on this comparison to justify their additional earnings reward.<sup>5</sup> Second, the suggestion that smaller public utilities should not be held 12 13 to *any* reasonable call center performance standards that are widely viewed as a best 14 practice in many industries is not a hallmark of "exemplary" performance. Mr. Bracey 15 offers no internal York Water benchmark to define his notion of reasonable performance and does not provide any information on any other smaller public utilities that would 16 17 support his claim. MR. BRACEY CONTINUES TO ARGUE THAT ITS ASSUMPTION OF BILLING 18 Q.

16 Q. MIR. DRACET CONTINUES TO AROUE THAT ITS ASSUMPTION OF DILLING

19 SERVICES FOR THE CITY OF YORK IS THE SOURCE OF THE LESS THAN

- 20 OPTIMAL PERFORMANCE AT THE CALL CENTER. PLEASE RESPOND.
- A. According to Mr. Bracey, the customer confusion and questions about the inclusion of
  the City of York wastewater and refuse service charges on bills issued by York Water
  was a significant cause of the deterioration in performance at the call center. He also

<sup>&</sup>lt;sup>5</sup> Mr. Bracey repeats this basis for their exemplary performance in his York Water Statement No. 6-R, page 4. Surrebuttal Testimony of Barbara R. Alexander On Behalf of the Office of Consumer Advocate

states that performance has improved in recent months because Pennsylvania American
 Water Co. has agreed to bill and collect the City of York's wastewater charges.<sup>6</sup> And,
 while he opines that call center performance will continue to improve, he offers no
 specific performance goal or objective.

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#### Q. WHAT IS YOUR OPINION ABOUT THE MOST RECENT CALL CENTER

#### 6 PERFORMANCE THAT MR. BRACEY INCLUDES IN HIS REBUTTAL?

7 Mr. Bracey's "improvement" is only supported when considering the even worse A. 8 performance in 2021 and early 2022. The current "improved" performance that he 9 claims, while better than 2021 and earlier this year, is nevertheless a very unsatisfactory 10 level of performance. In July 2022, only 34% of York Water's customer calls were 11 answered by a representative within 30 seconds, the abandonment rate was over 10%, 12 and 30.35% of the calls were answered in MORE THAN 241 seconds (over 4 minutes).<sup>7</sup> 13 While Mr. Bracey states further improvement is likely to occur, this vague promise 14 without any goal or objective to determine when or how such improvement will occur is 15 not a significant basis for giving York Water's shareholders additional profit at the 16 expense of ratepayers. As documented in my Direct testimony, York Water's call center 17 performance in 2020 was far better than any annual or monthly performance since that 18 time. Yet, Mr. Bracey's Rebuttal Testimony fails to identify any specific level of improvement or timetable during which significant improvement will occur.<sup>8</sup> 19 20 However, in subsequent responses to OCA Set XIV-2 he states, "In general, Mr. 21 Bracey maintains that the Company's call center performance prior to 2020 was, at a

minimum, acceptable performance for a water and wastewater utility of York Water's

<sup>&</sup>lt;sup>6</sup> York Water St. No. 6-R, page 6.

<sup>&</sup>lt;sup>7</sup> York Water Exhibit VLB-2R.

<sup>&</sup>lt;sup>8</sup> York Water Statement No. 6-R, page 9.

1 size." Mr. Bracey then points out that York Water's measurement of call center performance has changed over the years.<sup>9</sup> The 2019 annual performance reported a 1:18 2 minutes as "time to answer," a 6.63% abandonment rate, and 61.62% calls answered 3 within 24 seconds. The 2020 results were reported slightly differently: 4

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Year Percent Calls Answered in 30 Seconds		Abandonment Rate	Average Speed of Answer (minutes)
	Seconds		(initiates)
2020	66.83%	4.94%	1:03

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#### 7 WHAT DO YOU RECOMMEND THAT YORK WATER SHOULD BE REQUIRED **O**.

#### 8 TO MEET FOR CALL CENTER PERFORMANCE?

- 9 A. I think Mr. Bracey's recommendation that York Water be held to meet its 2019
- 10 performance standards is reasonable. However, the reported 2020 performance standards
- 11 capture data that is similar to 2019 and reflect the current methodology. Therefore, I
- 12 recommend that York Water be required to improve its call center performance with the
- objective to meet the 2020 annual results. Both 2019 and 2020 results are far superior to 13
- 14 York Water's call center performance as reflected in the test year of this proceeding.
- MR. BRACEY STATES IN A RECENT DATA RESPONSE THAT HE IS NOT 15 Q.
- 16 RESPONSIBLE FOR CALCULATING THE COSTS TO ACHIEVE A HIGHER
- LEVEL OF CALL CENTER PERFORMANCE. PLEASE COMMENT. 17
- 18 Mr. Bracey states, A. 19
- 20 "It is not within Mr. Bracey's job responsibilities to perform an analysis of the 21 incremental capital costs and expenses that the Company would incur to meet an undefined "higher standard of performance at the customer call center."<sup>10</sup> 22

<sup>&</sup>lt;sup>9</sup> York Water Response to OCA-III-10 presented its call center performance data for 2018 through May 2022. I presented the 2020-2022 data in my Direct Testimony. <sup>10</sup> York Water Response to OCA-XIV-4.

1		I find this response troubling. While Mr. Bracey (Vice President of Customer Service)
2		now acknowledges that the York Water call center performance should be improved and
3		that a proper source of adequate performance is the actual performance of York Water's
4		call center in 2019 and 2020, he does not claim any responsibility for undertaking an
5		analysis of how to achieve these results. This is not a reasonable response of a public
6		utility that seeks a reward for "exemplary" management performance.
7	Q.	MR. BRACEY EXPLAINS THE HISTORY OF YORK WATER'S BILLING AND
8		COLLECTION OF THE CITY OF YORK WASTEWATER AND REFUSE
9		SERVICES. PLEASE COMMENT.
10	A.	Mr. Bracey documents that a "Chapter 507" contract was submitted to the Commission
11		that describes York Water's agreement to bill and collect the City of York's wastewater
12		and refuse services. <sup>11</sup> This agreement was updated several times, most recently in 2019.
13		Mr. Bracey points to the collection of past due and current charges on behalf of the City
14		of York as causing customer confusion and contributed to the volume of calls to York
15		Water. York Water is no longer collecting the City of York wastewater charges.
16		However, York Water is still collecting the City of York's refuse charges. <sup>12</sup> I have a
17		number of serious concerns with York Water's ongoing collection of the City of York
18		refuse charges. These "refuse charges" are the costs of the City of York's trash collection

<sup>&</sup>lt;sup>11</sup> York Water Exhibit VLB-3R.

[www.yorkwater.com Site visited 9/19/2022]

<sup>&</sup>lt;sup>12</sup> York Water's website states: "Effective August 17, 2022, City of York refuse customers are able to pay their refuse bills online or over the phone via credit, debit, or electronic check. We appreciate your patience.

City of York refuse customers can also be set up on automatic payments through our TAP program, which will use banking details to process the amount due on the due dates."

service. These are not charges for "basic" service. They are "non-utility" or "non-basic" charges as that term is used in Chapter 56.263.

3 First, Mr. Bracey does not state the York Water has or will seek to amend its Chapter 507 contract to eliminate wastewater services and include only the refuse 4 5 charges. It is my understanding that a contract to approve of a regulated Pennsylvania public utility to collect non-basic charges on behalf of a municipal entity is not a typical 6 7 Chapter 507 contract. Nonetheless, the current contract on file with the Commission that 8 focuses on collecting City of York wastewater services and the description on how those 9 charges will be collected under threat of disconnection of York Water's charges for water 10 service should be amended.

11 Second, the current contract that was in effect when York Water was collecting 12 and threatening termination of service for nonpayment of the City of York's wastewater 13 charges calls for payments to be allocated to York Water's water services, City of York 14 refuse services, and then City of York wastewater or sewer charges.<sup>13</sup> This policy would 15 appear to allow a partial payment to be allocated to refuse service, a service that York Water agrees is not subject to termination by York Water, prior to payments for 16 17 wastewater service that can be terminated pursuant to the contract. The priority of 18 collecting refuse service charges prior to collecting wastewater or sewer charges bills that 19 were the basis for threats of termination of service on behalf of the City of York is not 20 reasonable because it could lead to the loss of water service due to unpaid sewer bills 21 strictly due to the decision to prioritize payment towards refuse charges that cannot result 22 in a loss of water service. In addition, this payment prioritization would certainly would 23 not comply with the comparable Chapter 56.273 provision, which is at least impliedly

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<sup>&</sup>lt;sup>13</sup> York Water Exhibit VLB-3R, page 6 of 21.

1	applicable given the contract provisions between York Water and the City of York. The			
2	Contract at issue here explicitly calls for York Water to comply with "Commission			
3	regulations."			
4 5 6 7 8 9	Notwithstanding the provision of the Agreement, it is understood and agreed by the parties hereto that the Water Company shall be required to comply with any existing regulations of the Pennsylvania Public Utility Commission relating to the notice before the termination, in addition to providing any notice that might otherwise be required under this contract or any applicable law or ordinance. Section 9. <sup>14</sup>			
10	• Mr. Bracey's most recent response relating to billing and collecting for City of			
11	York wastewater and refuse charges now states that this and other provisions of Chapter			
12	56 are not applicable to York Water's billing services:			
13 14 15 16 17 18 19 20 21 22	First, the City of York's charges were not set forth on York Water's bills. They were set forth on City of York bills prepared and issued by York Water. Second, I am advised by counsel that the City of York's unbilled wastewater and refuse charges were not "unbilled public utility service" charges because the City of York was not and is not a regulated public utility; therefore, York Water did not have to comply with Section 56.264 of the PUC's regulations with respect to the City of York's bills for wastewater and refuse service. Thus, no such training, for the City of York's unbilled wastewater and refuse charges, was provided or necessary. <sup>15</sup>			
23 24 25 26 27 28 29 30	As explained in OCA Set XIV, No. 13, the City of York's wastewater and refuse charges were set forth on City of York bills prepared and issued by York Water. Those charges were not set forth on York Water's water service bills. As a result, York Water's water service bills never included the City of York's wastewater and refuse charges, and, by extension, a customer could never make partial payments that required allocation under Section 56.273 of the PUC's regulations. <sup>16</sup>			
31	These statements are contradicted by the language of the contract between the			
32	City of York and York Water that requires that York Water comply with the			
33	Commission's regulations that I quoted above.			

<sup>&</sup>lt;sup>14</sup> York Water Statement No. 6-R, Exhibit VLB-5R, page 6 of 13.
<sup>15</sup> York Water Response to OCA-XIV-13.
<sup>16</sup> York Water Response to OCA-XIV-14.

1 2	Furthermore, the customer bill attached to Mr. Bracey's Rebuttal Testimony
3	(Exhibit VLB-7R) states "YORK WATER COMPANY, Billing and Collection Agent for
4	the City of York." And requires the customer to make payment to York Water Company.
5 6	• York Water's policies governing the collection of any non-utility charge such as
7	this must be clearly enunciated to customers. The failure to pay these refuse charges
8	should not be subjected to any suggestion or communication that the customer's ability to
9	pay and continue to receive regulated York Water service will suffer due to the
10	nonpayment of the City of York refuse charges. Notices and disclosures to customers on
11	the York Water web portal, in communications with customers, and in billing and
12	collection notices must be clear on this point.
13	• Mr. Bracey states that York Water termination notices did not include unpaid
13 14	• Mr. Bracey states that York Water termination notices did not include unpaid refuse charges billed on behalf of the City of York. <sup>17</sup> This policy is a correct statement of
14	refuse charges billed on behalf of the City of York. <sup>17</sup> This policy is a correct statement of
14 15	refuse charges billed on behalf of the City of York. <sup>17</sup> This policy is a correct statement of Commission regulations. However, the lack of any instructions or training of York
14 15 16	refuse charges billed on behalf of the City of York. <sup>17</sup> This policy is a correct statement of Commission regulations. However, the lack of any instructions or training of York Water's customer service representatives on how unpaid City of York refuse charges
14 15 16 17	refuse charges billed on behalf of the City of York. <sup>17</sup> This policy is a correct statement of Commission regulations. However, the lack of any instructions or training of York Water's customer service representatives on how unpaid City of York refuse charges should be handled in customer communications and the lack of any disclosure on the
14 15 16 17 18	refuse charges billed on behalf of the City of York. <sup>17</sup> This policy is a correct statement of Commission regulations. However, the lack of any instructions or training of York Water's customer service representatives on how unpaid City of York refuse charges should be handled in customer communications and the lack of any disclosure on the York Water billing statement <sup>18</sup> or its web portal about the different treatment of refuse
14 15 16 17 18 19	refuse charges billed on behalf of the City of York. <sup>17</sup> This policy is a correct statement of Commission regulations. However, the lack of any instructions or training of York Water's customer service representatives on how unpaid City of York refuse charges should be handled in customer communications and the lack of any disclosure on the York Water billing statement <sup>18</sup> or its web portal about the different treatment of refuse charges raises a serious concern. The lack of any written instructions that govern how
14 15 16 17 18 19 20	refuse charges billed on behalf of the City of York. <sup>17</sup> This policy is a correct statement of Commission regulations. However, the lack of any instructions or training of York Water's customer service representatives on how unpaid City of York refuse charges should be handled in customer communications and the lack of any disclosure on the York Water billing statement <sup>18</sup> or its web portal about the different treatment of refuse charges raises a serious concern. The lack of any written instructions that govern how customer call center representatives have handled customer calls about these City of York

<sup>&</sup>lt;sup>17</sup> York Water Statement No. 6-R, page 23.
<sup>18</sup> York Water Exhibit VLB-7R.

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continued service of York Water's customers to regulated water service has been compromised.

# Q. TURNING TO MR. BRACEY'S REBUTTAL TESTIMONY CONCERNING THE SIGNIFICANT DISCREPENCY BETWEEN THE ISSUANCE OF TERMINATION NOTICES AND THE ACTUAL TERMINATION OF SERVICE, PLEASE COMMENT.

7 A. Mr. Bracey defends the significant discrepancy between the volume of termination 8 notices and the actual terminations of service that I documented in my Direct testimony 9 as a non-issue. He states that the City of York made the decision not to pursue 10 termination and points to the typical distinction between termination notices and actual 11 terminations in various Commission reports (which he does not specifically identify).<sup>19</sup> I 12 do not accept the excuse that York Water continued to issue thousands of termination 13 notices for York Water customers based on the nonpayment of the City of York 14 wastewater charges on a monthly basis when it became obvious that the City of York 15 then declined to pursue the actual termination of service. York Water continued to 16 threaten termination of service for nonpayment of York Water and City of York charges 17 knowing that the City of York's billing system was deficient, and that actual termination 18 would not occur in the vast majority of situations. While he opines on the theoretical 19 reasons why York Water customers could have properly avoided termination, he has no 20 evidentiary basis for this assumption due to York Water's lack of data on how its 21 customers avoid termination of service or whether informal disputes were filed since 22 York Water cannot track disputes in its current software and billing system.

<sup>&</sup>lt;sup>19</sup> York Water Statement No. 6-R, page 24.

### Q. MR. BRACEY AND MR. WHEELER REJECT YOUR PROPOSAL FOR YORK WATER TO DEVELOP A MONTHLY BILL PAYMENT DISCOUNT FOR LOW INCOME CUSTOMERS AT THIS TIME. DO YOU AGREE?

4 No. However, I do note that York Water has agreed to promote its arrears forgiveness A. 5 program and other federally funded bill payment assistance programs on its web portal. 6 He also stated that York Water does accept enrollment information for CARES directly 7 from customers and then forwards this information electronically to the local service 8 agency authorized to make a determination of eligibility and dollar amount. These are 9 welcome developments. York Water has not responded to my recommendation with any 10 analysis of the costs and benefits for such a program. However, Mr. Wheeler agrees that 11 it would be possible to evaluate the development of a bill discount program if it does not 12 "unduly" harm other customers, presumably referring to the rate impacts of funding such a program.<sup>20</sup> I appreciate the willingness of York Water to conduct research on potential 13 14 enrollment and costs and urge that such an analysis and report be accomplished in the 15 near term (such as 6 months after a final order in this proceeding) since waiting until 16 York Water files a future rate case may reflect a long term delay. 17 Q. PLEASE COMMENT ON YORK WATER'S PARTICIPATION IN THE CURRENT 18 LOW INCOME ASSISTANCE PROGRAMS.

Q. Mr. Wheeler describes the various federally funded programs available to York Water
 customers and agrees to participate in those programs and accept funding for its qualified
 low income customers. These programs now include Pennsylvania Homeowner

- 22 Assistance Fund Program. However, both York Water's CARES program and all of
- these newly funded programs provide a one-time benefit and most of these federally

<sup>&</sup>lt;sup>20</sup> York Statement No. 2-R, page 4, lines 16-17.

1		funded programs will terminate in the near term because they depend on one-time federal
2		appropriations and are not assured of regular funding. As a result, none of these
3		programs provide monthly bill payment assistance or respond to the ongoing
4		unaffordability of essential utility services provided by York Water to customers whose
5		household income is insufficient to avoid nonpayment or late payment. Therefore, York
6		Water's agreement to fund its CARES program that provides a one-time annual benefit
7		and accept one-time federal funding on behalf of its qualified low income customers is
8		laudable, but certainly not a sufficient response to ongoing payment difficulties. The fact
9		that its CARES funding commitment of \$20,000 resulted in customers being denied a
10		benefit (as documented in my Direct Testimony) when the prior level of committed
11		funding was exhausted is a significant indicator of unmet needs.
12	Q.	DOES MR. WHEELER PROVIDE SOME PRELMINARY EVIDENCE
13		CONCERNING THE NEED FOR ONGOING BILL PAYMENT ASSISTANCE FOR
14		LOW INCOME CUSTOMERS?
15	A.	Yes. Mr. Wheeler cited to certain demographic information readily available from the
16		U.S. Census in his Rebuttal Testimony to state that 27.7% of the residents of the City of
17		York live in poverty and York County – 7.1% of residents living in poverty; (2) Adams
18		County – 8.0% of residents living in poverty; and (3), and Franklin County – 9.4% of
19		residents living in poverty. <sup>21</sup> This type of readily available information plus the number
20		of its customers who have or will receive assistance via CARES and the federally funded
21		programs for which York Water receives funding should provide a sufficient basis for
22		preliminary estimates of the enrollment and costs for a discount program in a relatively
23		short time frame.

<sup>&</sup>lt;sup>21</sup> Ibid., pages 3-4.

Q. TURNING TO MR. WHEELER'S REJECTION OF YOUR RECOMMENDATION TO
 INCLUDE ESSENTIAL CHAPTER 56 CONSUMER PROTECTIONS IN ITS
 TARIFFS, PLEASE RESPOND.

4 Mr. Wheeler rejects my recommendation to include essential Chapter 56 consumer A. 5 protections in its tariffs on the grounds that Chapter 56 is incorporated by reference and that it would be unwieldy to constantly update the tariffs if Chapter 56 changes.<sup>22</sup> 6 7 Neither of these reasons are sufficient. First, York Water's current tariffs include 8 statements on consumer rights that fail to recognize the Chapter 56 requirements as I 9 documented in my Direct testimony. The potential for misinterpretation by customers 10 and employees in these areas should be avoided if possible. I identified other 11 Pennsylvania water and wastewater utility tariffs as proper examples. Second, tariffs can 12 be routinely updated where necessary during base rate cases since rates and other tariff 13 language change at that time. The combination of the lack of proper language in the 14 current tariffs with the lack of written training materials on many of these essential 15 consumer protections relating to termination of service, payment arrangements, medical 16 certificates, and disputes heighten my concern and support my recommendation. 17 Q. BASED ON YOUR REVIEW AND RESPONSE TO THE COMPANY'S REBUTTAL 18 TESTIMONY, DO YOU HAVE ANY CHANGES OR MODIFICATIONS TO YOUR 19 **RECOMMENDED CONDITIONS FOR ANY BASE RATE INCREASE?** 20 A. Yes. I present my original recommendations below with my amendments and additions 21 based on York Water's Rebuttal: 22 York Water should be required to take steps to improve the monthly performance of 23 its call center. Specific performance standards should be implemented, which include

<sup>&</sup>lt;sup>22</sup> York Water Statement No. 2-R, pages 9-10.

1	objectives for Average Speed of Answer and Abandonment Rate that are designed to
2	achieve (over a reasonable number of years) that 80% of the customer calls that enter
3	the queue to speak to a customer service representative to be answered within 30
4	seconds and that the call abandonment rate be 4% or less. The Commission should
5	mandate significant progress in quarterly reports from York Water as a condition of
6	any rate increase.
7	RESPONSE: At a minimum York Water should be held accountable to meet its 2020 customer
8	call center performance. The actual performance experienced in 2021 and 2022 to date should
9	be considered in determining whether York Water's customer service has been "exemplary."
10	• York Water should take steps to identify, track, evaluate, and respond to customer
11	disputes and complaints. The training materials are seriously deficient in identifying
12	and responding to customer disputes and complaints. I recommend that York Water
13	be required to submit a plan that adopts explicit training for identification, tracking,
14	monitoring, and evaluating customer complaints. This complaint analysis should also
15	include the payment arrangement disputes that are an essential component of
16	adequate and reasonable service, particularly in light of my discussion of York
17	Water's inadequate internal payment arrangement training and policies. The
18	Commission should require quarterly reports that document improved complaint
19	handling and analysis as a condition of any rate increase.
20	RESPONSE: York Water has agreed to develop a tracking mechanism for customer disputes.
21	This reform should be documented in a compliance filing within six months of a final order in
22	this proceeding.
23	• York Water should be required to reform its customer training programs with regard

1	to payment arrangement negotiations with customers to undertake a more
2	individualized approach based on the customer's circumstances and needs. This
3	reform should be undertaken immediately and documented in a compliance filing as a
4	condition of any rate increase.
5	RESPONSE: As part of its commitment to develop more detailed training materials for its
6	customer call center and other staff, York Water should make explicit its commitment to
7	developing payment arrangements based on the customer's individual circumstances.
8	<ul> <li>York Water should be required to create and implement internal training programs</li> </ul>
9	relating to Landlord/Tenant rights, obligations and policies governing Protection from
10	Abuse Orders, and the policies that will be implemented when personal contact is
11	initiated immediately prior to termination of service. In addition, the training regime
12	itself needs reform to document how training is conducted and how ongoing
13	compliance is audited.
14	RESPONSE: York Water has agreed to develop more detailed training materials on Chapter 56
15	and Act 14 policies and consumer protections as well as adopt a mechanism for oversight and
16	compliance monitoring. This commitment should be completed within six months of a final
17	order in this proceeding.
18	<ul> <li>In light of my findings concerning the poor performance of the call center, the lack of</li> </ul>
19	uniform and complete training of customer representatives on Pennsylvania rights and
20	remedies, and the lack of connection between complaint analysis and changes to
21	address underlying root causes, I recommend that the Commission undertake an audit
22	of York Water's customer service operations. The Commission should establish a
23	timetable for this audit as a condition of any rate increase.

RESPONSE: In light of the commitments by York Water concerning training programs,
 oversight, and dispute tracking, I withdraw this recommendation.

3 York Water should implement a low income discount program similar to that implemented by Community Utilities of Pennsylvania. Such a program would 4 5 provide a modest discount on the consumption charge for eligible low income 6 customers, most of whom could be enrolled based on their participation in existing 7 means-tested social welfare programs. The CARES program should continue at a 8 proposed budget of \$40,000. York Water should document its participation in the 9 various programs funded through the American Rescue Plan Act and publicize the available of funding to help pay for overdue water and sewer bills in order to obtain 10 11 the maximum funding to assist its low income customers and avoid unnecessary bad 12 debt expense paid by all ratepayers.

RESPONSE: York Water agrees to develop research and recommendations for a potential bill discount program based on an analysis of the demographics of its customer base and the costs of such a program. However, rather than delay such analysis until the next base rate case, I recommend that York Water report the results of its analysis and make a recommendation for a monthly discount program with cost recovery mechanism within six months of the final order in this case.

York Water's water and wastewater tariffs should be amended to include the essential
 consumer protections set forth in Chapter 56, similar to, for example, the tariff
 provisions of Pennsylvania American Water Co.

22 RESPONSE: This recommendation should be implemented.

23

• I propose that while the rates established in this proceeding are in effect, York

1	Water submit quarterly reports to the Commission and the parties that include the
2	progress in meeting my proposed commitments. At a minimum, the Commission
3	should open an investigation of persistent failure to meet reasonable performance
4	standards.
5	RESPONSE: Based on the Company's commitments to develop training materials, compliance
6	auditing, and dispute and complaint tracking, I withdraw this recommendation
7	• I recommend that this policy (referring to the billing for the City of York), which
8	is no longer in effect, be separately investigated by the Commission to determine
9	the appropriate enforcement action, if any, that is necessary.
10	RESPONSE: In light of the termination of the billing for City of York wastewater service by
11	York Water, I recommend that York Water seek an amendment to its contract to collect the City
12	of York's refuse charges with the Commission and that such an agreement reflect an obligation
13	by York Water to disclose the refuse charges as non-basic charges on its bills and web portal that
14	will not threaten a customer's access or maintenance of York Water regulated services and
15	document an allocation of partial payment policy in York Water's billing system.
16	
17	Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY AT THIS TIME?
10	

18 A. Yes.

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	: Docket Nos. R-2022-3031340 (Water)	
V.	: R-2022-3032806 (Wastewater)	
	:	
The York Water Company	:	

#### **VERIFICATION**

I, Barbara R. Alexander, hereby state that the facts set forth in my Surrebuttal Testimony, OCA Statement 5SR, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: September 28, 2022 \*335894

Signature:

Bahma R. Alerader

Barbara R. Alexander

Consultant Address: Barbara Alexander Consulting, LLC 83 Wedgewood Drive Winthrop, Maine 04364

OCA Statement 6SR

#### BEFORE THE

#### PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION	:	
	:	Docket No. R-2022-3031340
	:	(WATER)
V.	:	
	:	Docket No. R-2022-3032806
	:	(WASTEWATER)
YORK WATER COMPANY	:	· · · · ·

#### SURREBUTTAL TESTIMONY

OF

#### TERRY L. FOUGHT

ON BEHALF OF

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

SEPTEMBER 28, 2022

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#### 1 INTRODUCTION

2	Q.	PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.
3	A.	Terry L. Fought, 780 Cardinal Drive, Harrisburg, Pennsylvania, 17111.
4		
5	Q.	MR. FOUGHT, HAVE YOU ALREADY SUBMITTED TESTIMONY IN THIS
6		PROCEEDING ON BEHALF OF THE OFFICE OF CONSUMER ADVOCATE?
7	A.	Yes. I submitted direct testimony.
8		
9	Q.	WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?
10	A.	The purpose of my surrebuttal testimony is to respond to portions of the rebuttal
11		testimony by: (1) Joseph T. Hand, York Water Statement No. 1-R, regarding
12		acquisition adjustments; (2) Mark A. Wheeler, York Water Statement No. 2-R
13		regarding line pressures, pressure surveys and fire hydrants; and (3) Vernon L.
14		Bracey, York Water Statement No. 6-R, regarding customer complaints.
15		
16	<u>ACQ</u>	UISITION ADJUSTMENTS
17	Q.	WHAT IS THE COMPANY'S POSITION ON ACQUISTIONS?
18	A.	Mr. Hand's rebuttal testimony regarding the Acquisitions is addressed by Ms.
19		DeAngelo in OCA Statement 2SR. I am providing surrebuttal testimony on specific
20		comments by Mr. Hand on Felton Borough Wastewater System.

## Q. WHAT ARE THE SPECIFIC COMMENTS BY MR. HAND THAT YOU WANT TO ADDRESS REGARDING THE FELTON BOROUGH WASTEWATER SYSTEM POSITIVE ACQUISTION ADJUSTMENT?

- A. First the Company strongly disagrees with my position that a notice of violation
   ("NOV") that included an effluent violation does not indicate Felton Borough was
   providing inadequate service because it is not unusual for wastewater systems to
   get an NOV that includes an effluent violation.<sup>1</sup>
- 8 Second, Mr. Hand stated that problems of inflow and infiltration ("I/I") in the 2018 9 Chapter 94 Report filed by the Borough should be considered since a subsequent 10 report filed by the Company identified no hydraulic or organic overloads projected 11 for the next five years. York Water developed, funded, and executed the 12 Corrective Action Plan (CAP), which included inspecting and cleaning the 13 collection system, identifying potential sources of the I/I and scheduling the needed 14 remediation, and committing to ongoing review and remediation of I/I.<sup>2</sup>
- 15

16Q.DOYOUSTILLRECOMMENDTHATTHECOMPANY'SPOSITIVE17ACQUISTIONADJUSTMENTREGARDINGTHEFELTONBOROUGH18WASTEWATERSYSTEMDOESNOTMEETTHECRITERIAINSECTION191327(a)(3)OFTHECODE?

A. Yes. First, regarding the NOV and one effluent violation, the Company did not indicate that the Borough continued to discharge effluent in violation of its permit;

<sup>&</sup>lt;sup>1</sup> York Water Statement No. 1-R, pp. 3-4.

<sup>&</sup>lt;sup>2</sup> York Water Statement No. 1-R, pp. 4-5.

but stated that the Borough would eventually do so in the future. It has been my 1 experience in reviewing wastewater utilities correspondences with DEP (during 2 many base rate cases) that DEP initiates Consent Order and Agreement (COA) to 3 address any serious recurring effluent non-compliance issues. The Borough was 4 not under a COA like the Letterkenny Township Municipal Authority System was. 5 Second, York relies on the 2018 Chapter 94 Report filed by the Borough indicating 6 that the treatment plant was hydraulically overloaded because of infiltration/inflow 7 (I/I). A later Chapter 94 Report indicates that a defect in the housing of the flow 8 meter ultrasonic transducer was the primary cause of continuous higher than 9 permitted flows. Therefore, the 2018 Chapter 94 Report predicted an 10 overloadedtreatment plant based on an inaccurate flow meter. A CAP is required 11 when a Chapter 94 Report predicts that a wastewater facility will become 12 hydraulically or organically overloaded during the following five years. The 13 Company did not offer any evidence that a CAP would have been necessary if 14 accurate flows were used in the 2018 Chapter 94 Report. See OCA Statement 6, 15 Exhibit TLF-4. It can be noted from Exhibit TLF-4, the Company did not identify 16 17 any obvious sources of I/I.

### Therefore, I still recommend that the positive acquisition adjustment does not meet the criteria in Section 1327(a)(3) of the Code.

#### 1 LINE PRESSURES AND PRESSURE SURVEYS

#### 2 **Q**.

#### WHAT IS THE COMPANY'S POSITION REGARDING PRESSURE SURVEYS?

Mr. Wheeler stated in his rebuttal testimony that: (1) York Water addresses all Α. 3 water pressure complaints, whether they be low or high water pressure concerns; 4 (2) York Water's policy on water pressure is more stringent than the Commission's 5 requirements, as the Company works to ensure appropriate water pressure for all 6 of York Water's customers; (3) as explained in Mr. Bracey's rebuttal testimony 7 (York Water St. No. 6-R), the Company is updating its Oracle customer service 8 database to log and track all customer disputes, including pressure complaints; (4) 9 Mr. Bracey also states that a complaint log will be presented in York Water's next 10 base rate case; and (5) Mr. Wheeler is unaware of any other pressure complaints 11 from 2019 to present other than the two informal complaints filed with the 12 Commission in 2020 which in both cases, the Commission's Bureau of Consumer 13 Services found that the Company's line pressures were within the Commission's 14 requirements and closed out the informal complaints.<sup>3</sup> 15

16

IN FUTURE RATE BASE CASES, WILL THE SUBMISSION OF A CUSTOMER
 COMPLAINT LOG THAT INCLUDES ALL CUSTOMER PRESSURE
 COMPLAINTS BE CONSIDERED ACCEPTABLE TO OCA INSTEAD OF
 PRESSURE SURVEYS?

- 21 A. Yes.
- 22

<sup>&</sup>lt;sup>3</sup> York Water Statement No. 2-R, pp. 10-11.

Q. WHAT IS THE COMPANY'S POSITION REGARDING PROTECTING EXISTING
 CUSTOMERS' PROPERTY WHEN THEIR NORMAL OPERATING PRESSURES
 ARE INCREASED TO EXCEED 125 PSI IN ORDER TO SERVE NEW
 CUSTOMERS?

5 A. Mr. Wheeler testified that York Water's policy is more stringent than the 6 Commissions regulations because, among other reasons, if the existing static 7 pressure at the curb is greater than 80 psi, York Water customers are informed 8 and pressure reducing valves are recommended to be in place on their service 9 lines.<sup>4</sup>

Mr. Wheeler also testified that the Commission should reject my recommendations and follow the same approach as it did in in Aqua Pennsylvania, Inc.'s ("Aqua") 2022 base rate case.<sup>5</sup>

13

## Q. DO YOU CONTINUE TO RECOMMEND THAT EXISTING CUSTOMERS BE PROTECTED WHEN THEIR PRESSURES ARE INCREASED TO OVER 125 PSI TO SERVE ADDITIONAL CUSTOMERS?

A. Yes. It can be noted from Mr. Wheeler's rebuttal testimony that the Company disagrees with protecting the existing customers because of some of my suggested methods to do so. I would note that the circumstances here appear to be different than in the Aqua case that Mr. Wheeler referred to. For example, in

<sup>&</sup>lt;sup>4</sup> In the case of an application for service to a new residential, commercial, or industrial property, York Water similarly informs applicants of the anticipated static pressure at the curb. York Water policy requires the customer to install pressure reducing valves if the normal static operating pressure is greater than 110 psi. <sup>5</sup> York Water Statement No. 2-R, pp. 12 citing 2022 Pa. PUC LEXIS 161, at \*187.

the Aqua 2021 case, the normal operating pressures to some existing customers
 was increased up to and exceeded 200 psi – and the existing customers only
 became aware of the pressure increase after it caused considerable damage to
 pressure reducing valves and in at least one case, reoccurring damages.

However, the York's efforts to inform its customers in a high pressure situation
 appear to be reasonable based on the information I have in this case. I believe
 that the Company has adequately addressed my concerns at this time.

8

#### 9 **FIRE HYDRANTS**

### Q. WHAT IS THE COMPANY'S POSITION ON FIRE HYDRANTS THAT CANNOT PROVIDE THE MINIMUM FIRE FLOW?

Mr. Wheeler testified that: (1) York Water already meets these recommendations<sup>6</sup>; Α. 12 (2) York Water will not install a fire hydrant that cannot meet the minimum 13 14 requirements of flow; (3) the Company is in regular contact with all Fire Chiefs in its certificated service territory about new fire hydrants, and the local municipalities 15 must provide a letter for installation of any new fire hydrants; (4) there have been 16 instances in the past where York Water hydrants could not meet minimum flow, 17 18 and those hydrants were removed; (5) the Company is aware of two non-standard fire hydrants (2 hose connection only) tapped on a 4" main that York Water 19 acquired through a system acquisition. These hydrants are still in place as a means 20 21 to flush in that area. The township in question was not interested in fire protection because it was a 4" main; (6) the local fire department is aware that these hydrants 22

<sup>&</sup>lt;sup>6</sup> OCA St. 6, p. 12.

2		response in the event of a fire in that area.7
3		
4	Q.	DO YOU AGREE WITH THE COMPANY'S POSITION ON FIRE HYDRANTS
5		THAT CANNOT PROVIDE THE MINIMUM FIRE FLOW?
6	Α.	Yes. Mr. Wheeler testimony indicates that it addresses our recommendations.
7		
8	Q.	WHAT IS THE COMPANY'S POSITION ON OVER PUMPING FIRE HYDRANTS
9		AND CONTAMINATING THE DISTRIBUTION SYSTEM? BY CAUSING
10		NEGATIVE PRESSURES?
11	Α.	Mr. Wheeler discussed the local fire companies' firefighting procedure as follows:
12		(1) every fire hydrant can produce at least 500 gpm; (2) almost all fire departments
13		within the Company's service area are using Large Diameter Hose ("LDH") for
14		supply lines; (3) most standard operating procedures call for the 1st in Engine to
15		lay out a supply line from the closest hydrant to the front of the structure on fire;
16		(4) this hose is "soft," so it will only deliver what the fire hydrant can produce, which
17		the Fire Department Pump Operator can monitor on the "intake pressure" gauge
18		on the pump panel of the Engine, prior to the hose collapsing; (5) If the fire being
19		fought is large enough, the fire department may order a second Engine to "re-
20		pump" the supply line to the first Engine, by connecting to the original fire hydrant
21		using a "soft suction" line or a 4-way valve. In this set-up, the Fire Department
22		Pump Operator monitors the "intake pressure" from the hydrant and the "output

are not available for fire service. The Township would rely on a tanker operation

<sup>&</sup>lt;sup>7</sup> York Water Statement No. 2-R, pp. 12-13.

pressure" to the 1st Engine; (6) in this situation, the hose is "soft", and will collapse before going to a negative pressure; (7) as for contamination in other portions of the Distribution system, all service lines (Residential, Commercial, Industrial and Public) are fitted with backflow prevention devices, as per the Company' Cross Connection Control Policy. This makes back-siphonage remote under standard fire-fighting conditions.<sup>8</sup>

7

#### 8 Q. DO YOU AGREE WITH THE COMPANY'S POSITION REGARDING 9 CONTAMINATING THE DISTRIBUTION SYSTEM BY CAUSING NEGATIVE 10 PRESSURES?

Α. Yes, with the understanding that although remote, some contamination of other 11 portions of the distribution system can occur even with the procedure described 12 above. Most, if not all, pipelines experience unavoidable leakage under positive 13 14 pressure and can provide unavoidable leaking of contamination into the distribution system under negative pressure. If negative pressures occur in other portions of 15 the distribution system, the Company should make sure that contamination did not 16 17 occur. Customer complaints of a water outage during a fire would be an indication of possible areas of contamination by negative pressure. In case of possible 18 19 contamination, the Company should contact DEP and follow standard procedures 20 to test and remove any contamination.

<sup>&</sup>lt;sup>8</sup> York Water Statement No. 2-R, pp. 13-14.

#### **Q. DOES THIS COMPLETE YOUR WRITTEN SURREBUTTAL TESTIMONY?**

- 2 A. Yes, at this time. I reserve the right to supplement this testimony either in writing
- <sup>3</sup> or orally if additional relevant information is received.

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:
	: Docket Nos. R-2022-3031340 (Water)
V.	: R-2022-3032806 (Wastewater)
	:
The York Water Company	:

#### VERIFICATION

I, Terry L. Fought, hereby state that the facts set forth in my Surrebuttal Testimony, OCA Statement 6SR, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: September 28, 2022 \*335895 Signature:

in Terry L. Fought

Consultant Address: 780 Cardinal Drive Harrisburg, PA 17111

**OSBA STATEMENT NO. 1** 

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

#### **PENNSYLVANIA PUBLIC UTILITY COMMISSION** :

V.	:	Docket No. R-2022-3031340
THE YORK WATER COMPANY		Docket No. R-2022-3032806
THE TORK WATER COMPANY	•	

**Direct Testimony and Exhibits of** 

#### **BRIAN KALCIC**

#### On Behalf of the

Pennsylvania Office of Small Business Advocate

**Topics:** 

Revenue Allocation Act 11 Revenue Requirement Scale Back of Rates

Date Served: August 19, 2022

Date Submitted for the Record:

1		I. QUALIFICATIONS AND OVERVIEW
2	Q.	Please state your name and business address.
3	А.	Brian Kalcic, 7330 Dorset Avenue, St. Louis, Missouri 63130.
4		
5	Q.	What is your occupation?
6	A.	I am an economist and consultant in the field of public utility regulation, and
7		principal of Excel Consulting. My qualifications are described in the Appendix to
8		this testimony.
9		
10	Q.	On whose behalf are you testifying in this case?
11	A.	I am testifying on behalf of the Office of Small Business Advocate ("OSBA"),
12		which is representing the small business customers served by The York Water
13		Company ("York" or the "Company").
14		
15	Q.	What is the subject of your testimony?
16	A.	My direct testimony addresses a number of topics. First, I will review and critique
17		York's class revenue allocation for water service, and allocation of Act 11 revenues
18		to water service classes. Second, I will evaluate the propriety of the Company's
19		proposed wastewater increases and proposed Act 11 revenue requirement, and
20		sponsor changes, where appropriate.
21		
22	Q.	Do you have any preliminary comments?

#### Direct Testimony of Brian Kalcic

1		Yes. I wish to note at the outset that my recommendations and schedules reflect the
2		Company's full rate request in this proceeding. Any such reference is intended for
3		comparison purposes only and should not be construed as a recommendation by the
4		OSBA that the Commission grant York's request in whole or in part.
5		
6	Q.	How is your testimony organized?
7	A.	My direct testimony is structured as follows. Section I of my testimony contains
8		my qualifications and an overview of my testimony. Section II examines the
9		Company's proposed class revenue allocation for water service and allocation of
10		Act 11 revenues, and presents the OSBA's alternative recommendations and scale
11		back proposal. In Section III, I discuss the Company's proposed wastewater
12		increases and Act 11 revenue requirement, and present the OSBA's alternative
13		recommendations and Act 11 scale back proposal.
14		
15	Q.	Please summarize your recommendations.
16	A.	Based on my analysis of the Company's filing and discovery responses, I
17		recommend that the ALJ and Commission:
18		
19		• Adopt York's proposed revenue allocation for water service, exclusive of
20		Act 11 considerations, since it moves all rate classes to their respective
21		cost-based revenue levels;
22		• Adopt the OSBA's recommended methodology for allocating the
23		Company's Act 11 revenue requirement to water service classes, which

#### Direct Testimony of Brian Kalcic

1	would recover Act 11 wastewater subsidies from water customers on a
2	revenue-neutral basis, by customer class;
3	• Adopt the OSBA's recommended wastewater service increases, which
4	would increase total wastewater revenues by \$2.5 million or 58.3%;
5	• Adopt the OSBA's recommended Act 11 revenue requirement of \$1.7
6	million; and
7	• Adopt the OSBA's recommended water, wastewater and Act 11 scale back
8	proposals in the event that the Commission awards York less than its
9	requested increase in this proceeding.
10	
11	The specific details associated with my recommendations are discussed below.
12	

1		II. WATER SERVICE
2 3		Water Revenue Allocation
4	Q.	Mr. Kalcic, please describe the Company's current water rate structure.
5	A.	At present, the Company serves approximately 70,000 customers via two rate
6		areas. <sup>1</sup> Each rate area contains separate rate schedules for residential, commercial
7		and industrial general metered service ("GMS") customers. In addition, the
8		Company maintains separate private and public fire service rate schedules in each
9		rate area.
10		All GMS customers are subject to the same set of (fixed) customer charges,
11		which vary by meter size. However, the Company's consumption charges differ by
12		rate class, and by rate area. In particular, all Gravity system rate classes are subject
13		to lower consumption charges than their corresponding Repumped system classes.
14		
15	Q.	Is York proposing any changes to its current rate structure?
16	A.	No, it is not.
17		
18	Q.	How does the Company propose to recover its requested base revenue increase
19		in this case?
20	A.	Schedule BK-1W provides a summary of the Company's proposed class revenue
21		allocation. Page 1 shows the Company's proposed revenue allocation on a total

<sup>&</sup>lt;sup>1</sup> The Company's rate areas are referred to as the Gravity system and the Repumped system.

21		reallocation of Act 11 revenues?
20	Q.	What is the Company's revenue allocation proposal exclusive of its proposed
19		
18		next section of my testimony.
17		recommended reduction to York's proposed Act 11 revenue requirement, in the
16		low. I will discuss the OSBA's recommended wastewater increases, and its
15	A.	No. In the OSBA's view, the Company's proposed wastewater increases are far too
14		requirement?
13	Q.	Does the OSBA agree with the magnitude of York's proposed Act 11 revenue
12		
11		wastewater revenue requirement from water service customers under Act 11.
10	A.	Yes. As discussed below, York proposes to recover \$2.7 million of its claimed
9		a portion of York's claimed wastewater revenue requirement?
8	Q.	Do the class water increases shown in Schedule BK-1W reflect the recovery of
7		
6		high of 44.4% (Commercial).
5		proposed increases to sales classes range from a low of 18.7% (Public Fire) to a
4		increase in total base rate water revenues is 35.1% (see line 8). The Company's
3		As shown on page 1 of Schedule BK-1W, the proposed system average
2		systems are shown on pages 2 and 3, respectively. <sup>2</sup>
1		system basis, while the Company's proposed increases to its Gravity and Repumped

<sup>&</sup>lt;sup>2</sup> Note that this order of presentation, i.e., Total System on page 1, followed by the Gravity and Repumped systems on pages 2-3, applies to all of the applicable schedules included in Mr. Kalcic's direct testimony.

1	A.	Page 1 of Schedule BK-2W summarizes the Company's proposed revenue
2		allocation for water service exclusive of Act 11 revenues. The adjusted system
3		average increase in total water revenues is 30.2% (line 8), and individual customer
4		class increases range from a low of 18.7% (Public Fire) to a high of 41.5%
5		(Commercial).
6		
7	Q.	What specific guidelines did York employ in developing its proposed revenue
8		allocation for water service in this proceeding?
9	А.	On page 10 of her direct testimony, Ms. Heppenstall lists two specific rate design
10		guidelines or directives that were conveyed to her by Company management: 1)
11		increase public fire hydrant rates, as necessary, to recover 25% of the cost of
12		service per Section 1328 of the Public Utility Code; and 2) increase all remaining
13		customer and consumption charges so as to move total revenues, by class, toward
14		the indicated cost of service of each class, while recovering the Company's claimed
15		revenue requirement.
16		
17	Q.	With respect to the second directive, does Ms. Heppenstall provide any
18		indication that the Company's proposed revenue allocation would move all
19		rate classes closer to cost of service?
20	А.	Yes. Continuing on page 11 of her direct testimony, Ms. Heppenstall states that "as
21		shown on Schedule A of Exhibit No. FVIII, the revenues under proposed rates in
22		column 6 result in revenues that are closely aligned with the allocated cost of
23		service in column 2."

1		
2	Q.	Have you examined whether York's proposed class revenue allocation,
3		exclusive of Act 11 considerations, is successful in moving all rate classes closer
4		to cost of service?
5	A.	Yes, by examining changes in the levels of water revenue subsidies, by customer
6		class, at present and Company proposed rates.
7		
8	Q.	Why is information about class subsidies relevant to determining movement
9		toward cost of service?
10	A.	By definition, if a class is not paying exactly its full cost of service, it is either: a)
11		receiving a subsidy (i.e., paying too little); or b) providing a subsidy (i.e., paying
12		too much). In order to determine whether or not a class is moving toward cost of
13		service, one must ascertain whether the class's present subsidy is growing or
14		shrinking at proposed rates. If its present subsidy is growing at proposed rates, the
15		class is moving in the wrong direction (i.e., away from cost of service).
16		Conversely, if its present subsidy is shrinking at proposed rates, the class is moving
17		closer to cost of service.
18		In short, the proper yardstick for measuring the degree of movement toward
19		cost of service is the change in the absolute level of class subsidies at present and
20		proposed rates.
21		
22	Q.	Has the Commission recently indicated its agreement with your position that
23		the proper metric for measuring the degree of movement toward cost of

Direct Testimony	of Brian	Kalcic
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1		service is the change in the absolute level of class subsidies at present and
2		proposed rates?
3	A.	Yes. On page 36 of its Opinion and Order in the City of Bethlehem – Water
4		Department base rate proceeding at Docket No. R-2020-3020256, entered on April
5		15, 2021, the Commission stated: "As noted by the OSBA, the proper yardstick for
6		measuring the degree of movement toward cost of service is the change in the
7		absolute level of class subsidies at present and proposed rates."
8		
9	Q.	Have you calculated the class subsidies associated with York's present and
10		proposed water rates, using the Company's water cost-of-service study
11		("WCOSS")?
12	A.	Yes, in Schedule BK-3W.
13		
14	Q.	How did you calculate the subsidies that are reported on pages 1-3 of Schedule
15		BK-3W?
16	A.	The subsidies are derived by subtracting each class's cost-of-service based revenue
17		requirement, exclusive of the cost of wastewater service, as measured by the
18		Company's WCOSS, from the class's total revenue contribution (again, net of any
19		proposed contributions toward wastewater service), at present and Company
20		proposed rates. These calculations provide a dollar measure of the difference
21		between actual class water revenues and those revenue levels that, if attained,
22		would produce equalized class rates of return at present and Company proposed
23		rates.

1		As previously discussed, classes that exhibit a reduction in the (absolute)
2		magnitude of their respective subsidies are moving closer to cost of service.
3		Conversely, classes that exhibit an increase in the (absolute) magnitude of their
4		respective subsidies are moving away from cost of service.
5		
6	Q	What do the class subsidy results shown in Schedule BK-3W indicate with
7		regard to the Company's goal of moving all rate classes closer to cost of
8		service?
9	A.	On a rate area basis, a comparison of the total Gravity and Repumped system results
10		shown on line 6, pages 2 and 3 of Schedule BK-3W, indicates that the Gravity
11		system as a whole receives a subsidy of approximately \$589,000 from the
12		Repumped system at present rates. This subsidy would be reduced (within rate
13		design rounding) to zero under York's proposed rates.
14		In addition, on a total system basis, a comparison of columns 1 and 2 on
15		page 1 of Schedule BK-3W shows that the present subsidies (provided or received)
16		of all customer classes would be eliminated (within rate design rounding) under
17		York's proposed revenue allocation. In other words, all customer classes would
18		move to full cost of service, exclusive of Act 11 considerations, under the
19		Company's revenue allocation proposal.
20		
21	Q.	Are you therefore in agreement with the Company's proposed revenue
22		allocation for water service, exclusive of Act 11 considerations?
23	A.	Yes, I am.

1		
2		Allocation of Act 11 Revenues
3	Q.	How did York allocate its proposed Act 11 revenue requirement to water
4		service classes?
5	A.	Since most of York's wastewater customers are residential and commercial, the
6		Company allocated Act 11 revenue responsibility to its residential and commercial
7		water service classes, in both its Gravity and Repumped service areas, in proportion
8		to each class's relative share of allocated water service costs, i.e., based on each
9		class's relative water cost of service, before any assignment of Act 11 revenue
10		responsibility. <sup>3</sup>
11		
12	Q.	Is the OSBA in agreement with the Company's method of allocating its
13		proposed Act 11 revenue requirement to water service classes?
14	A.	No. As discussed below, York's proposed method of recovering Act 11 revenues is
15		inconsistent with the manner by which the Company determines its Act 11 revenue
16		requirement shortfall.
17		
18	Q.	Please explain.
19	A.	As illustrated in Table 1 below, the Company's total proposed shift in Act 11
20		revenue responsibility of \$2.7 million is determined by the difference between (i)
21		its claimed wastewater revenue requirement of \$8.3 million, and (ii) the total level

<sup>&</sup>lt;sup>3</sup> See York Statement No. 108, at page 8.

1	of proposed wastewater revenues of \$5.6 million. <sup>4</sup> To recover the \$2.7 million
2	revenue shortfall in a consistent fashion, the Company should assign each water
3	service class an amount equal to the difference between the corresponding
4	wastewater class's (i) total revenue requirement, i.e., total cost of service as
5	determined by the Company's wastewater cost-of-service study ("WWCOSS"), and
6	(ii) total level of proposed revenues.
7	
8	Table 1
9	Summary of Class Contributions to
10	York's Proposed Act 11 Revenue Requirement of \$2.7 m.
11	
12	
-	Total Total Proposed

	Total	Total	Proposed
	Claimed WW	Proposed WW	Act 11
	Cost of Service	Revenues	Subsidy
	(1)	(2)	(3) = (1)-(2)
Residential	\$6,934,645	\$4,956,259	\$1,978,386
Non-Residential	<u>1,350,380</u>	<u>657,889</u>	<u>692,491</u>
Subtotal Sales	\$8,285,025	\$5,614,148	\$2,670,877
Other Revenues	<u>4,861</u>	<u>4,861</u>	-
Total Revenue Requirement	\$8,289,886	\$5,619,009	\$2,670,877

13

Source: Exhibit No. FVIII-WA, Schedule A.

14

Put simply, the allocation of York's Act 11 revenue requirement to water
service classes on the basis of corresponding wastewater class contributions to the
Company's Act 11 revenue requirement shortfall will ensure that wastewater

<sup>&</sup>lt;sup>4</sup> See York's response to OSBA-I-5.

OSBA's recommended allocation
quirement to water service
's recommended allocation of
customer class, in column 3. The
s, inclusive of an Act 11 revenue
n 4, which may be compared to
chedule BK-1W.
mmercial class increases shown
e OSBA's corresponding class
s that the case?
with respect to the method used to
npany's Residential and
my's proposal to allocate Act 11
sis of relative water cost of service

<sup>&</sup>lt;sup>5</sup> Note that the OSBA's recommended Industrial, Private Fire Protection and Public Fire Protection increases are unchanged from York's proposal since: 1) the OSBA has accepted the Company's proposed revenue allocation for water service, exclusive of Act 11 considerations, shown in Schedule BK-2W; and 2) neither York nor the OSBA propose to allocate any Act 11 revenue responsibility to industrial or fire protection customers.

1		happens to produce an outcome that mirrors the results obtained under the OSBA's
2		recommended methodology.
3		Such happenstance is not an indication that the two methods are equivalent,
4		or will always produce similar results.
5		
6	Q.	What information does Schedule BK-5W contain?
7	A.	As I indicated earlier, the OSBA objects to the overall magnitude of the Company's
8		proposed shift in wastewater revenue responsibility to water customers. Schedule
9		BK-5W shows the OSBA's total recommended increases in class water revenues,
10		inclusive of its recommended Act 11 revenue requirement of \$1.7 million.
11		The OSBA recommended Act 11 revenue requirement is discussed in
12		Section III of my testimony.
13		
14		Scale Back of Water Rates
15	Q.	Do you have a scale back recommendation in the event that the Commission
16		grants the Company a water revenue increase, exclusive of Act 11, that is less
17		than the \$16.2 million total shown on line 8 of Schedule BK-2W?
18	A.	I do. In that event, I would recommend that the class increases shown in column 2
19		of Schedule BK-2W, excluding Public Fire Protection, be scaled back
20		proportionately via an across-the-board reduction of the Company's proposed class
21		increases within the Gravity and Repumped systems.
22		

1	Q.	Should the Act 11 revenues assigned to water classes also be subject to scale
2		back at the conclusion of this proceeding?
3	A.	Yes. However, the amount of any such scale back will be dependent upon (i) the
4		level of the Company's awarded wastewater revenue requirement and (ii) the final
5		level of wastewater rates. As a result, the Act 11 revenue responsibility assigned to
6		water classes should be subject to a separate scale back at the conclusion of this
7		case.
8		My wastewater- and Act 11-related scale back recommendations are
9		discussed in the next section of my testimony.
10		

1		III. WASTEWATER SERVICE
2 3		Wastewater Rate Increases
4	Q.	How does York propose to adjust its wastewater service revenues in this
5		proceeding?
6	A.	Schedule BK-1WW shows York's proposed wastewater increases, by customer
7		class. The Company proposes to assign residential and non-residential wastewater
8		customers an average increase of 33.5% and 48.3%, respectively. In aggregate,
9		York is proposing to increase existing wastewater revenues by \$1.5 million, or
10		35.0%.
11		
12	Q.	How did York arrive at its proposal to limit the overall wastewater increase to
13		35.0%?
14	A.	The Company sought to move wastewater rates toward full cost of service while
15		avoiding the rate shock that would occur if wastewater rates were to reflect full cost
16		of service. <sup>6</sup>
17		As shown in Table 1 above, the Company's proposal to limit its overall
18		wastewater increase to 35.0% necessitates that \$2.7 million of York's claimed
19		wastewater revenue requirement be recovered from water service customers.
20		
21	Q.	As a general matter, does the OSBA oppose a shift of York's claimed
22		wastewater revenue requirement to water customers?

<sup>&</sup>lt;sup>6</sup> See the Company's response to I&E-RS-1-D.

1	A.	No. I am advised by Counsel that Act 11 permits the recovery of a portion of the
2		Company's wastewater revenue requirement from water customers in a given rate
3		proceeding, in order to mitigate the rate increases that wastewater service customers
4		might otherwise experience.
5		However, Counsel also advises that Act 11 does not authorize a permanent
6		shift in revenue responsibility from wastewater to water customers. In other words,
7		Act 11 does not supersede the cost-of-service principles established by the
8		Commonwealth Court's decision in <i>Lloyd</i> . <sup>7</sup>
9		
10	Q.	Is the OSBA in agreement with the Company's overall proposed wastewater
11		increase, and associated Act 11 revenue requirement?
12	A.	No. The OSBA strongly disagrees with the overall level of York's proposed
13		wastewater increase.
14		
15	Q.	Why?
16	A.	The evidence in this case shows that wastewater customers, collectively, would pay
17		\$2.7 million less than their total cost of service under the Company's proposed
18		revenue levels. Yet, York proposes to assign its subsidized wastewater customers
19		an overall increase of just 35.0% (Schedule BK-1WW), while assigning its
20		subsidizing water service customers an overall increase of 35.1% (Schedule BK-
21		1W). The Company's overall (water and wastewater) system average increase is

<sup>&</sup>lt;sup>7</sup> The Commonwealth Court has unambiguously decided that cost of service should be the "polestar" criterion for rate-setting. In *Lloyd v. Pa. PUC*, the Court held that other rate-making concerns could not trump cost of providing service. *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1020 (Pa. Cmwlth. 2006).

1	also 35.1%. Consequently, one must conclude that the relative magnitude of York's
2	overall wastewater and water increases in this proceeding are not reflective of cost
3	of service.

Within a given rate proceeding, it is axiomatic that a necessary condition for an under-contributing class to move closer to cost of service is that the class receive an increase greater than the system average. Since York proposes to assign its wastewater service customers an increase (35.0%) that is slightly less than the system average (35.1%), it is not possible for the Company's wastewater service customers to move closer to their collective cost of service at York's proposed wastewater revenue levels.

11

# Q. What are the OSBA's recommended increases in wastewater revenues, by customer class, at York's requested wastewater revenue requirement level?

A. The OSBA recommends that York's wastewater classes receive an across-the-board
rate increase of 58.4%, resulting in an overall increase of \$2.4 million or 58.3%, as
shown in Schedule BK-2WW.

17

# 18 Q. How did you determine that wastewater customers should receive an average 19 base rate increase of 58.4%?

A. In the OSBA's view, it is both reasonable and appropriate that York's wastewater
customers be assigned a greater overall increase than water customers in this case,
while still limiting the resulting rate impact on wastewater customers. To that end,
I determined that York's overall wastewater increase should be limited to 1.75

1		times the overall water increase in this proceeding. Accordingly, the OSBA is
2		proposing to increase overall wastewater revenues by 58.3% (see Schedule BK-
3		2WW, line 5), which is 1.75 times the OSBA's overall recommended increase in
4		water revenues of 33.3% (see Schedule BK-5W, page 1, line 8).
5		
6	Q.	Is the OSBA proposing to assign an across-the-board increase of 58.4% to all
7		of the Company's existing wastewater <i>charges</i> ?
8	A.	No. The OSBA's recommended wastewater rate design is intended to limit overall
9		class increases to 58.4%, while facilitating the consolidation of York's existing
10		wastewater rates over time.
11		The OSBA's recommended wastewater rate design is presented in Schedule
12		BK-3WW.
13		
14	Q.	How does the OSBA's additional wastewater increase impact the Company's
15		Act 11 revenue requirement?
16	A.	Since the OSBA's overall recommended wastewater increase is \$0.972 million
17		greater than proposed by York, the Company's proposed Act 11 revenue
18		requirement is reduced by the same amount. The OSBA's overall recommended
19		Act 11 revenue requirement is therefore \$1.7 million (see Schedule BK-4WW, line
20		5), which is 20.5% of the Company's claimed wastewater revenue requirement.
21		
22	Q.	How does the OSBA propose to allocate its recommended Act 11 revenue
23		requirement of \$1.7 million to York's water service customers?

1	A.	As discussed in the previous section of my testimony, the OSBA recommends that
2		the Commission approve the allocation of Act 11 revenues to water service classes
3		on a revenue neutral basis, by customer class. The OSBA's proposed allocation of
4		its recommended Act 11 revenue requirement of \$1.7 million is shown in column 3
5		of Schedule BK-4WW.
6		
7		Scale Back of Wastewater Rates & Act 11 Revenues
8	Q.	Do you have a scale back recommendation pertaining to wastewater rates in
9		the event that the Commission awards the Company an overall wastewater
10		revenue requirement that is less than York's requested amount of \$8.3 million
11		shown on line 5 of Schedule BK-4WW?
12	A.	Yes. In that event, I would recommend that no scale back be applied to wastewater
13		rates unless the Company's awarded wastewater revenue requirement is less than
14		the OSBA's recommended wastewater revenue level of \$6.6 million shown in
15		Schedule BK-4WW. Should the Company's awarded revenue requirement be less
16		than \$6.6 million, I would recommend that the OSBA's recommended wastewater
17		rates be reduced proportionately.
18		
19	Q.	How should the Act 11 revenues assigned to water classes be scaled back at the
20		conclusion of this proceeding?
21	A.	By definition, the Company's awarded Act 11 revenue requirement will be equal to
22		the difference between York's: 1) awarded wastewater revenue requirement, and 2)
23		total approved wastewater revenues. In order to ensure that York's awarded Act 11

10	Q.	Does this conclude your direct testimony?
9		
8		class's scaled back revenue requirement.
7		requirement level, and ii) final wastewater class revenues be subtracted from each
6		proportionately, so as to reflect the Company's awarded wastewater revenue
5		requirements shown in column 1 of Schedule BK-4W W be scaled back
4		To do so, I recommend that i) the individual wastewater class revenue
3		class's contribution to the Company's final Act 11 revenue requirement.
2		neutral basis, by customer class, the Commission should determine each wastewater
1		revenue requirement is recovered from water service customers on a revenue

11 A. Yes.

# EXHIBIT BK-1 W

Schedules BK-1W through BK-5W

### Company Proposed Allocation of its Requested Increase in Total Base Water Revenue Total System <u>(Future Test Period Ending February 29, 2024)</u>

Present					
		Base	Proposed In	crease	
<u>Line</u>	<b>Classification</b>	Revenue 1/	Amount	Percent	
		1	2	3	
1	Residential	\$34,469,296	\$11,604,135	33.7%	
2	Commercial	\$10,567,063	\$4,694,995	44.4%	
3	Industrial	\$4,075,103	\$1,692,582	41.5%	
4	Private Fire	\$2,019,336	\$578,320	28.6%	
5	Public Fire	<u>\$1,392,525</u>	<u>\$260,445</u>	18.7%	
6	Subtotal	\$52,523,323	\$18,830,477	35.9%	
7	Other Revenue	<u>\$1,119,149</u>	<u>\$22,876</u>	2.0%	
8	Total Company	\$53,642,472	\$18,853,353	35.1%	

Source: Exhibit No. FVIII, Schedule A

#### Company Proposed Allocation of its Requested Increase in Total Base Water Revenue Gravity System (Future Test Period Ending February 29, 2024)

		Present Base	Proposed In	oroaco
Line	Classification	<u>Revenue 1/</u>	Amount	Percent
		1	2	3
1	Residential	\$9,781,992	\$3,529,238	36.1%
2	Commercial	\$3,610,022	\$1,654,386	45.8%
3	Industrial	\$851,750	\$387,235	45.5%
4	Private Fire	\$673,909	\$240,608	35.7%
5	Public Fire	<u>\$268,062</u>	<u>\$55,732</u>	20.8%
6	Total Gravity	\$15,185,735	\$5,867,199	38.6%

Source: Exhibit No. FVIII, Schedule A

#### Company Proposed Allocation of its Requested Increase in Total Base Water Revenue Repumped System (Future Test Period Ending February 29, 2024)

		Present		
		Base	Proposed In	crease
<u>Line</u>	<b>Classification</b>	<u>Revenue 1/</u>	Amount	Percent
		1	2	3
1	Residential	\$24,687,304	\$8,074,897	32.7%
2	Commercial	\$6,957,041	\$3,040,609	43.7%
3	Industrial	\$3,223,353	\$1,305,347	40.5%
4	Private Fire	\$1,345,427	\$337,712	25.1%
5	Public Fire	<u>\$1,124,463</u>	<u>\$204,713</u>	18.2%
6	Total Repumped	\$37,337,588	\$12,963,278	34.7%

Source: Exhibit No. FVIII, Schedule A

#### Company Proposed Allocation of its Requested Increase in Water Revenue, Exclusive of Act 11 Total System <u>(Future Test Period Ending February 29, 2024)</u>

		Present		
		Base	Proposed In	crease
<u>Line</u>	<u>Classification</u>	<u>Revenue 1/</u>	Amount	Percent
		1	2	3
1	Residential	\$34,469,296	\$9,618,028	27.9%
2	Commercial	\$10,567,063	\$4,010,245	38.0%
3	Industrial	\$4,075,103	\$1,692,582	41.5%
4	Private Fire	\$2,019,336	\$578,320	28.6%
5	Public Fire	<u>\$1,392,525</u>	<u>\$260,445</u>	18.7%
6	Subtotal	\$52,523,323	\$16,159,620	30.8%
7	Other Revenue	<u>\$1,119,149</u>	<u>\$22,876</u>	2.0%
8	Total Company	\$53,642,472	\$16,182,496	30.2%

Source: Exhibit No. FVIII, Schedule A

#### Company Proposed Allocation of its Requested Increase in Water Revenue, Exclusive of Act 11 Gravity System (Future Test Period Ending February 29, 2024)

		Present	Due in e e e e l lie	
		Base	Proposed In	crease
Line	<u>Classification</u>	<u>Revenue 1/</u>	Amount	Percent
		1	2	3
1	Residential	\$9,781,992	\$2,955,444	30.2%
2	Commercial	\$3,610,022	\$1,418,170	39.3%
3	Industrial	\$851,750	\$387,235	45.5%
4	Private Fire	\$673,909	\$240,608	35.7%
5	Public Fire	<u>\$268,062</u>	<u>\$55,732</u>	20.8%
6	Total Gravity	\$15,185,735	\$5,057,189	33.3%

Source: Exhibit No. FVIII, Schedule A

#### Company Proposed Allocation of its Requested Increase in Water Revenue, Exclusive of Act 11 Repumped System (Future Test Period Ending February 29, 2024)

		Present		
		Base	Proposed In	crease
<u>Line</u>	<u>Classification</u>	<u>Revenue 1/</u>	Amount	Percent
		1	2	3
1	Residential	\$24,687,304	\$6,662,584	27.0%
2	Commercial	\$6,957,041	\$2,592,075	37.3%
3	Industrial	\$3,223,353	\$1,305,347	40.5%
4	Private Fire	\$1,345,427	\$337,712	25.1%
5	Public Fire	<u>\$1,124,463</u>	<u>\$204,713</u>	18.2%
6	Total Repumped	\$37,337,588	\$11,102,431	29.7%

Source: Exhibit No. FVIII, Schedule A

#### Class Revenue Subsidies at Present and Company Proposed Rates Total System - Water Service Only (Future Test Period Ending February 29, 2024)

<u>Line</u>	<u>Classification</u>	-	Present Subsidy 1	Proposed Subsidy 2
1	Residential		\$57,569	(\$414)
2	Commercial		(\$329,392)	\$238
3	Industrial		(\$182,932)	(\$222)
4	Private Fire		\$181,406	\$61
5	Public Fire		<u>\$273,360</u>	<u>(\$37)</u>
6	Total Company		\$11	(\$374)
		Source:	Sch. BK-3W,	Sch. BK-3W,

Note: A positive subsidy figure indicates that a class is <u>providing</u> a subsidy; negative figure indicates that it is receiving a subsidy.

pgs. 2 & 3

pgs. 2 & 3

#### Class Revenue Subsidies at Present and Company Proposed Rates Gravity System - Water Service Only (Future Test Period Ending February 29, 2024)

<u>Line</u>	<u>Classification</u>	Present Subsidy	Proposed Subsidy	
		1	2	
1	Residential	(\$336,937)	\$311	
2	Commercial	(\$229,432)	(\$410)	
3	Industrial	(\$82,223)	(\$149)	
4	Private Fire	\$11,158	(\$42)	
5	Public Fire	<u>\$48,348</u>	<u>\$35</u>	
6	Total Gravity	(\$589,086)	(\$255)	

Source:	Exh. No. FVIII,	Exh. No. FVIII,
	Sch. A	Sch. A
	& York WCOSS at	
	Present Rates	

Note: A positive subsidy figure indicates that a class is <u>providing</u> a subsidy; negative figure indicates that it is receiving a subsidy.

Class Revenue Subsidies at Present and Company Proposed Rates Repumped System - Water Service Only (Future Test Period Ending February 29, 2024)

<u>Line</u>	<u>Classification</u>	Present Subsidy 1	Proposed Subsidy 2
1	Residential	\$394,506	(\$725)
2	Commercial	(\$99,960)	\$648
3	Industrial	(\$100,709)	(\$73)
4	Private Fire	\$170,248	\$103
5	Public Fire	<u>\$225,012</u>	<u>(\$72)</u>
6	Total Repumped	\$589,097	(\$119)

Source:	Exh. No. FVIII,	Exh. No. FVIII,
	Sch. A	Sch. A
	& York WCOSS at	
	Present Rates	

Note: A positive subsidy figure indicates that a class is <u>providing</u> a subsidy; negative figure indicates that it is receiving a subsidy.

### Company Proposed Allocation of its Claimed Increase in its Water Service Revenue Requirement, with OSBA's Allocation of York's Act 11 Revenue Requirement of \$2.7 million Total System <u>(Future Test Period Ending February 29, 2024)</u>

				OSBA		
		Present	York	Allocation of		
		Base	Proposed	York Act 11	Total	%
<u>Line</u>	<u>Classification</u>	<u>Revenue 1/</u>	Increase	<u>Rev. Req.</u>	Increase	<u>lnc.</u>
		1	2	3	4=2+3	5=4/1
1	Residential	\$34,469,296	\$9,618,028	\$1,978,386	\$11,596,414	33.6%
2	Commercial	\$10,567,063	\$4,010,245	\$692,491	\$4,702,736	44.5%
3	Industrial	\$4,075,103	\$1,692,582	\$0	\$1,692,582	41.5%
3	Industrial	\$4,075,105	φ1,092,302	φΟ	φ1,092,302	41.5%
4	Private Fire	\$2,019,336	\$578,320	\$0	\$578,320	28.6%
5	Public Fire	<u>\$1,392,525</u>	<u>\$260,445</u>	<u>\$0</u>	<u>\$260,445</u>	18.7%
6	Subtatal	ФЕО БОО ООО	¢16 150 620	¢0 670 977	¢10 020 407	25.00/
0	Subtotal	\$52,523,323	\$16,159,620	\$2,670,877	\$18,830,497	35.9%
7	Other Revenue	<u>\$1,119,149</u>	<u>\$22,876</u>		<u>\$22,876</u>	2.0%
8	Total Company	\$53,642,472	\$16,182,496		\$18,853,373	30.2%

Source:	Exh. No. FVIII,	Schedule	OSBA
	Schedule A	BK-2W	Table 1

#### Note:

#### Company Proposed Allocation of its Claimed Increase in its Water Service Revenue Requirement, with OSBA's Allocation of York's Act 11 Revenue Requirement of \$2.7 million Gravity System (Future Test Period Ending February 29, 2024)

				OSBA		
		Present	York	Allocation of		
		Base	Proposed	York Act 11	Total	%
Line	<b>Classification</b>	<u>Revenue 1/</u>	<u>Increase</u>	<u>Rev. Req.</u>	<u>Increase</u>	<u>Inc.</u>
		1	2	3	4=2+3	5=4/1
1	Residential	\$9,781,992	\$2,955,444	\$571,564	\$3,527,008	36.1%
2	Commercial	\$3,610,022	\$1,418,170	\$238,886	\$1,657,056	45.9%
3	Industrial	\$851,750	\$387,235	\$0	\$387,235	45.5%
4	Private Fire	\$673,909	\$240,608	\$0	\$240,608	35.7%
5	Public Fire	<u>\$268,062</u>	<u>\$55,732</u>	<u>\$0</u>	<u>\$55,732</u>	20.8%
6	Total Gravity	\$15,185,735	\$5,057,189	\$810,450	\$5,867,639	38.6%
	Source:	Exh. No. FVIII,	Schedule	OSBA		

Schedule A BK-2W Table 1

#### Note:

#### Company Proposed Allocation of its Claimed Increase in its Water Service Revenue Requirement, with OSBA's Allocation of York's Act 11 Revenue Requirement of \$2.7 million Repumped System (Future Test Period Ending February 29, 2024)

				OSBA		
		Present	York	Allocation of		
		Base	Proposed	York Act 11	Total	%
Line	<u>Classification</u>	<u>Revenue 1/</u>	<u>Increase</u>	<u>Rev. Req.</u>	<u>Increase</u>	<u>Inc.</u>
		1	2	3	4=2+3	5=4/1
1	Residential	\$24,687,304	\$6,662,584	\$1,406,822	\$8,069,406	32.7%
2	Commercial	\$6,957,041	\$2,592,075	\$453,605	\$3,045,680	43.8%
3	Industrial	\$3,223,353	\$1,305,347	\$0	\$1,305,347	40.5%
Ŭ	inddollar	<i><b>Q</b></i> <b>0</b> ,220,000	¢1,000,011	ψŬ	¢1,000,011	10.070
4	Private Fire	\$1,345,427	\$337,712	\$0	\$337,712	25.1%
5	Public Fire	<u>\$1,124,463</u>	<u>\$204,713</u>	<u>\$0</u>	<u>\$204,713</u>	18.2%
6	Total Repumped	\$37,337,588	\$11,102,431	\$1,860,427	\$12,962,858	34.7%

Source:	Exh. No. FVIII,	Schedule	OSBA
	Schedule A	BK-2W	Table 1

Note:

#### Company Proposed Allocation of its Claimed Increase in its Water Service Revenue Requirement, with OSBA's Recommended Act 11 Revenue Requirement of \$1.7 million Total System (Future Test Period Ending February 29, 2024)

				OSBA		
		Present	York	Allocation of	<b>-</b> / /	0/
Line	Classification	Base	Proposed	York Act 11	Total	%
Line	<u>Classification</u>	<u>Revenue 1/</u> 1	<u>Increase</u> 2	<u>Rev. Req.</u> 3	<u>Increase</u> 4=2+3	<u>lnc.</u> 5=4/1
		I	Z	5	4-2-5	5-4/1
1	Residential	\$34,469,296	\$9,618,028	\$1,051,614	\$10,669,642	31.0%
2	Commercial	\$10,567,063	\$4,010,245	\$647,568	\$4,657,813	44.1%
3	Industrial	\$4,075,103	\$1,692,582	\$0	\$1,692,582	41.5%
U	industrial	ψ-,070,100	ψ1,002,002	ψŪ	ψ1,002,002	41.070
4	Private Fire	\$2,019,336	\$578,320	\$0	\$578,320	28.6%
_		• · · ·			•	
5	Public Fire	<u>\$1,392,525</u>	<u>\$260,445</u>	<u>\$0</u>	<u>\$260,445</u>	18.7%
6	Subtotal	\$52,523,323	\$16,159,620	\$1,699,182	\$17,858,802	34.0%
U	Cubiotal	ψ02,020,020	ψ10,100,020	ψ1,000,10Z	ψ17,000,002	04.070
7	Other Revenue	<u>\$1,119,149</u>	<u>\$22,876</u>		<u>\$22,876</u>	2.0%
8	Total Company	\$53,642,472	\$16,182,496		\$17,881,678	33.3%

Source:	Exh. No. FVIII,	Schedule	Schedule
	Schedule A	BK-2W	BK-4WW

#### Note:

#### Company Proposed Allocation of its Claimed Increase in its Water Service Revenue Requirement, with OSBA's Recommended Act 11 Revenue Requirement of \$1.7 million Gravity System (Future Test Period Ending February 29, 2024)

			OSBA		
	Present	York	Allocation of		
		•			%
<u>Classification</u>	<u>Revenue 1/</u>	<u>Increase</u>		Increase	<u>lnc.</u>
	1	2	3	4=2+3	5=4/1
Residential	\$9,781,992	\$2,955,444	\$303,816	\$3,259,260	33.3%
Commercial	\$3,610,022	\$1,418,170	\$223,389	\$1,641,559	45.5%
		<b>\$207 005</b>	<b>\$</b> 0		
Industrial	\$851,750	\$387,235	\$0	\$387,235	45.5%
Private Fire	\$673.909	\$240.608	\$0	\$240.608	35.7%
	+	+ ,	÷ -	<b>+</b>	
Public Fire	<u>\$268,062</u>	<u>\$55,732</u>	<u>\$0</u>	<u>\$55,732</u>	20.8%
Total Gravity	\$15,185,735	\$5,057,189	\$527,205	\$5,584,394	36.8%
Source:	Exh. No. FVIII,	Schedule	Schedule		
	Commercial Industrial Private Fire Public Fire Total Gravity	ClassificationBase Revenue 1/ 1Residential\$9,781,992Commercial\$3,610,022Industrial\$851,750Private Fire\$673,909Public Fire\$268,062Total Gravity\$15,185,735	ClassificationBase Revenue 1/ 1Proposed Increase 2Residential\$9,781,992\$2,955,444Commercial\$3,610,022\$1,418,170Industrial\$851,750\$387,235Private Fire\$673,909\$240,608Public Fire\$268,062\$55,732Total Gravity\$15,185,735\$5,057,189	Present Base Revenue 1/ 1York Proposed Increase 2Allocation of York Act 11 Rev. Req. 3Residential\$9,781,992\$2,955,444\$303,816Commercial\$3,610,022\$1,418,170\$223,389Industrial\$851,750\$387,235\$0Private Fire\$673,909\$240,608\$0Public Fire\$268,062\$55,732\$0Total Gravity\$15,185,735\$5,057,189\$527,205	Present Base Revenue 1/ 1         York Proposed 2         Allocation of York Act 11 Rev. Req. 3         Total Increase 4=2+3           Residential         \$9,781,992         \$2,955,444         \$303,816         \$3,259,260           Commercial         \$3,610,022         \$1,418,170         \$223,389         \$1,641,559           Industrial         \$851,750         \$387,235         \$0         \$387,235           Private Fire         \$673,909         \$240,608         \$0         \$240,608           Public Fire         \$268,062         \$55,732         \$0         \$55,732           Total Gravity         \$15,185,735         \$5,057,189         \$527,205         \$5,584,394

rce:	Exh. No. FVIII,	Schedule	Schedule
	Schedule A	BK-2W	BK-4WW

#### Note:

#### Company Proposed Allocation of its Claimed Increase in its Water Service Revenue Requirement, with OSBA's Recommended Act 11 Revenue Requirement of \$1.7 million Repumped System (Future Test Period Ending February 29, 2024)

				OSBA		
		Present	York	Allocation of		
		Base	Proposed	York Act 11	Total	%
<u>Line</u>	<u>Classification</u>	<u>Revenue 1/</u>	<u>Increase</u>	<u>Rev. Req.</u>	<u>Increase</u>	<u>lnc.</u>
		1	2	3	4=2+3	5=4/1
1	Residential	\$24,687,304	\$6,662,584	\$747,798	\$7,410,382	30.0%
		<i>+_</i> , <i>,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,</i>	+ - ; = ; :	<i>•••••••••••••••••••••••••••••••••••••</i>	<i>••••••••••</i>	
2	Commercial	\$6,957,041	\$2,592,075	\$424,179	\$3,016,254	43.4%
2	Inductrial	¢0,000,050	¢1 205 247	¢o	¢1 005 047	40 50/
3	Industrial	\$3,223,353	\$1,305,347	\$0	\$1,305,347	40.5%
4	Private Fire	\$1,345,427	\$337,712	\$0	\$337,712	25.1%
5	Public Fire	<u>\$1,124,463</u>	<u>\$204,713</u>	<u>\$0</u>	<u>\$204,713</u>	18.2%
6	Total Repumped	\$37,337,588	\$11,102,431	\$1,171,977	\$12,274,408	32.9%
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Source: Exh. No. FVIII,		Schedule	Schedule		
	Schedule A	BK-2W	BK-4WW		

#### Note:

# EXHIBIT BK-1 WW

Schedules BK-1WW through BK-4WW

#### Company Proposed Allocation of its Requested Increase in Total Base Wastewater Revenue (Future Test Period Ending February 29, 2024)

		Present Base	Proposed Increase		
<u>Line</u>	<b>Classification</b>	Revenue 1/	Amount	Percent	
		1	2	3	
1	Residential	\$3,713,704	\$1,242,555	33.5%	
2	Non-Residential	<u>\$443,699</u>	<u>\$214,190</u>	48.3%	
3	Total Sales	\$4,157,403	\$1,456,745	35.0%	
4	Other Revenue	<u>\$4,861</u>	<u>\$0</u>	0.0%	
5	Total Company	\$4,162,264	\$1,456,745	35.0%	

Source: Exhibit No. FVIII-WA, Schedule A

### OSBA Recommended Increases in Base Wastewater Revenues, by Customer Class (Future Test Period Ending February 29, 2024)

		Present Base	OSBA Recommended	Recomm. Increase		
<u>Line</u>	<b>Classification</b>	<u>Revenue 1/</u>	Revenue	Amount	Percent	
		1	2	3=2-1	4=3/1	
1	Residential	\$3,713,704	\$5,883,031	\$2,169,327	58.4%	
2	Non-Residential	<u>\$443,699</u>	<u>\$702,812</u>	<u>\$259,113</u>	58.4%	
3	Total Sales	\$4,157,403	\$6,585,843	\$2,428,440	58.4%	
4	Other Revenue	<u>\$4,861</u>	<u>\$4,861</u>	<u>\$0</u>	0.0%	
5	Total Company	\$4,162,264	\$6,590,704	\$2,428,440	58.3%	

Source: Exh. No. FVIII-WA, Sch. BK-3WW Schedule A

Note:

#### THE YORK WATER COMPANY APPLICATION OF OSBA RECOMMENDED RATES TO CONSUMPTION ANALYSIS WASTEWATER OPERATIONS FOR THE TWELVE MONTHS ENDED FEBRUARY 29, 2024

Rate Block, 100 Gallons (1)	Pro Forma Number of Bills (2)	Pro Forma Consumption, 100 Gallons (3)		OSBA Base Rates (4)		ovenue at OSBA <u>se Rates</u> (5)
	RESIDEN	TIAL				
<u>Metered</u> Minimum Charge 1 Minimum Charge 2 Customer Charge	8,102 7,916 24,564 40,582	192,282 187,860  380,142	\$	87.50 87.50 78.03		708,954 692,650 <u>1,916,729</u> 3,318,333
Over 4,000 Gallons - Rate 1 Over 4,000 Gallons - Rate 2 First 3,500 gallons Next 3,500 gallons Over 7,000 gallons	- - - - - -	49,174 53,250 633,978 153,372 31,764 921,538		0.7617 0.7617 0.7617 1.0000 1.2500		37,456 40,561 482,901 153,372 <u>39,705</u> 753,995
Total Residential -Metered	40,582	1,301,680				4,072,328
<u>Unmetered</u> Unmetered Rate 1 Unmetered Rate 2 Unmetered Rate 3 Unmetered Rate 4 Total Residential - Unmetered Total Residential	2,830 20,707 1,370 2,200 27,107 67,689	- - - - - 1,301,680	\$ \$ \$ \$	87.50 60.40 87.50 87.50		247,625 1,250,703 119,875 192,500 1,810,703 5,883,031
Total Residential	07,009	1,301,000				5,005,051
<u>CO</u>	MMERCIAL AND	DINDUSTRIAL				
<u>Metered</u> Minimum Charge 1 Minimum Charge 2 Customer Charge	464 470 <u>360</u> 1,294	13,782 13,945  27,727	\$	87.50 87.50 78.03	\$	40,600 41,081 28,091 109,772
Over 4,000 Gallons - Rate 1 Over 4,000 Gallons - Rate 2 First 3,500 gallons Next 3,500 gallons Over 7,000 gallons	- - - - - -	6,732 8,866 7,597 5,016 <u>64,392</u> 92,603	\$	0.7617 0.7617 0.7617 1.0000 1.2500	\$	5,128 6,753 5,787 5,016 80,490 103,174
Total Commercial and Industrial -Metered	1,294	120,330				212,946
<u>Unmetered</u> Unmetered Rate 1 Unmetered Rate 2 Unmetered Rate 3 Unmetered Rate 4 Total Commercial and Industrial - Unmetered	- 6,527 132 <u>36</u> 6,695	- - - -	\$\$\$\$	87.50 72.80 87.50 87.50	\$	475,166 11,550 3,150 489,866
Total Commercial and Industrial	7,989	120,330			\$	702,812
Total - All Classes	75,678	1,422,010			\$ 6	6,585,843

#### THE YORK WATER COMPANY

### Summary of Class Contribbutions to OSBA's Recommended Act 11 Revenue Requirement of \$1.7 m. (Future Test Period Ending February 29, 2024)

			Total	
		Total	OSBA	OSBA
		Claimed WW	Recomm.	Act 11
<u>Line</u>	<b>Classification</b>	Cost of Service	<u>Revenues</u>	<u>Subsidy</u>
		1	2	3
1	Residential	\$6,934,645	\$5,883,031	\$1,051,614
2	Non-Residential	<u>\$1,350,380</u>	<u>\$702,812</u>	<u>\$647,568</u>
3	Total Sales	\$8,285,025	\$6,585,843	\$1,699,182
4	Other Revenue	<u>\$4,861</u>	<u>\$4,861</u>	<u>\$0</u>
5	Total Company	\$8,289,886	\$6,590,704	\$1,699,182

Source: Exh. No. FVIII-WA, Sch. BK-2WW Schedule A

## **EXHIBIT BK-1 IR**

## **REFERENCED INTERROGATORY RESPONSES**

OSBA-I-5

I&E-RS-1-D (Wastewater)

#### Pennsylvania Public Utility Commission v. The York Water Company Docket No. R-2022-3031340

#### Office of Small Business Advocate Interrogatories Set 1

#### OFFICE OF SMALL BUSINESS ADVOCATE INTERROGATORY OSBA SET 1, NO. 5

Reference Schedule H of Exhibit No. FVIII. Please explain in detail how the Company determined that water service customers should recover \$2.671 million of the Company's claimed wastewater service revenue requirement.

#### **RESPONDENT:**

C. E. Heppenstall Gannett Fleming

#### DATE:

June 27, 2022

#### **RESPONSE:**

The amount of wastewater cost of service to be recovered from water customers was based on the difference between the total pro forma wastewater cost of service and the proposed revenues from wastewater customers based on a 35% increase to existing wastewater rates.

# PENNSYLVANIA PUBLIC UTILITY COMMISSION v.

#### THE YORK WATER COMPANY - WASTEWATER DOCKET NO. R-2022-3032806

#### BUREAU OF INVESTIGATION AND ENFORCEMENT INTERROGATORIES SET RS

# BUREAU OF INVESTIGATION AND ENFORCEMENT INTERROGATORY I&E-RS-1-D

Reference York Exhibit FII-2, page 10 showing present and proposed revenue for both water and wastewater. Provide the following:

A. An explanation as to why the increase to wastewater customers is limited to 35%.

B. All studies, analysis, or supporting back-up information that 35% is the highest increase that should apply to wastewater revenue.

C. Any Commission order or prior specific agreements approved by the Commission that limits the increase to 35%.

#### **RESPONDENT:**

M. E. Poff CFO

#### DATE:

June 29, 2022

#### **RESPONSE:**

- A. The increase to wastewater customers was established at 35% to move the rates toward reflecting full cost of service but limiting it to avoid rate shock that would be associated with reflecting full cost of service.
- B. The Company has no studies, analysis, or supporting back-up information to provide.
- C. The Company is not aware of any orders or agreements that limits the increase to 35%.

## APPENDIX

#### APPENDIX

### **Qualifications of Brian Kalcic**

Mr. Kalcic graduated from Benedictine University with a Bachelor of Arts degree in Economics in December 1974. In May 1977 he received a Master of Arts degree in Economics from Washington University, St. Louis. In addition, he completed all course requirements at Washington University for a Ph.D. in Economics.

From 1977 to 1982, Mr. Kalcic taught courses in economics at both Washington University and Webster University, including Microeconomic and Macroeconomic Theory, Labor Economics and Public Finance.

During 1980 and 1981, Mr. Kalcic was a consultant to the Equal Employment Opportunity Commission, St. Louis District Office. His responsibilities included data collection and organization, statistical analysis and trial testimony.

From 1982 to 1996, Mr. Kalcic was employed by the firm of Cook, Eisdorfer & Associates, Inc. During that time, he participated in the analysis of electric, gas and water utility rate case filings. His primary responsibilities included cost-of-service and economic analysis, model building, and statistical analysis.

In March 1996, Mr. Kalcic founded Excel Consulting, a consulting practice that offers business and regulatory analysis.

Mr. Kalcic has previously testified before the state regulatory commissions of Delaware, Indiana, Kansas, Kentucky, Maine, Massachusetts, Minnesota, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, and Texas, and also before the Bonneville Power Administration.

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2022-3031340
	:	Docket No. R-2022-3032806
	:	
The York Water Company	:	

#### **VERIFICATION**

I, Brian Kalcic, hereby state that the facts set forth in my Direct Testimony labeled OSBA Statement No. 1 are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to unsworn falsification to authorities).

Date: August 18, 2022

Prim / Calu

(Signature)

Brian Kalcic

**OSBA STATEMENT NO. 1-R** 

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

#### **PENNSYLVANIA PUBLIC UTILITY COMMISSION** :

<b>v.</b>	:	Docket No. R-2022-3031340
	:	Docket No. R-2022-3032806
THE YORK WATER COMPANY	:	

**Rebuttal Testimony of** 

#### **BRIAN KALCIC**

#### On Behalf of the

#### Pennsylvania Office of Small Business Advocate

**Topics:** 

Water Cost-of-Service Study & Revenue Allocation Allocation of Act 11 Revenue Requirement Wastewater Rates Scale Back of Rates

Date Served: September 16, 2022

Date Submitted for the Record:

1	Q.	Please state your name and business address.
2	А.	Brian Kalcic, 7330 Dorset Avenue, St. Louis, Missouri 63130.
3		
4	Q.	Have you previously submitted testimony in this proceeding?
5	A.	Yes.
6		
7	Q.	What is the subject of your rebuttal testimony?
8	A.	I will respond to certain issues raised in the direct testimony of the following
9		witnesses: 1) Jerome D. Mierzwa, on behalf of the OCA; and 2) Ethan H. Cline on
10		behalf of I&E.
11		
12		OCA Witness Mierzwa
13 14	Q.	Does Mr. Mierzwa accept the Company's filed water cost-of-service study
15		("WCOSS") in this proceeding?
16	A.	No. In Mr. Mierzwa's view, the Company's Base, Extra-Capacity ("BEC")
17		WCOSS employs (i) inappropriate system maximum day and hour capacity ratios
18		and (ii) inappropriate maximum-day ("max-day") and maximum-hour ("max-
19		hour") <i>class</i> capacity factors. <sup>1</sup>
20		
21	Q.	Please summarize the major components of the BEC cost methodology that is
22		used in the Company's WCOSS.

<sup>&</sup>lt;sup>1</sup> See page 3 of OCA Statement 4.

1	A.	By way of background, the BEC methodology consists of two primary steps. First,
2		the utility's system-wide revenue requirement is <i>classified</i> (or split) into various
3		functional cost categories, namely: 1) base; 2) extra capacity (which consists of
4		maximum day and maximum hour costs); 3) customer; and 4) fire protection costs.
5		Second, each functional cost category is <i>allocated</i> to rate classes in accordance with
6		a factor that reflects relative cost responsibility. As such, the BEC classification
7		and allocation steps combine to produce a measure of total cost of service, by rate
8		class.
9		
10	Q.	What role do system maximum day and maximum hour capacity ratios serve
11		in the BEC cost methodology?
12	A.	The BEC methodology uses system maximum day and maximum hour ratios to
13		determine the level of costs that are classified as base-, maximum day- and
14		maximum hour-related in the WCOSS. All else equal, the greater the level of usage
15		on the system maximum day and in the system maximum hour, compared to the
16		level of average daily usage level on the system over the test year, the greater the
17		amount of costs deemed to be (i.e., classified as) either maximum day and/or
18		maximum hour related, as opposed to base (or average day) related.
19		
20	Q.	What system maximum day and maximum hour ratios does the Company
21		employ in its WCOSS?

1	A.	The Company uses system maximum day and maximum hour ratios of 1.52 and
2		1.84, respectively, which represent the highest actual maximum day and hour
3		demands, respectively, measured on York's system over the period 2000-2021.
4		
5	Q.	Why does Mr. Mierzwa claim that the Company's system capacity ratios are
6		inappropriate?
7	A.	In Mr. Mierzwa's view, the system ratios used by the Company are outdated.
8		
9	Q.	What system maximum day and maximum hour ratios does Mr. Mierzwa
10		recommend?
11	A.	In the OCA's WCOSS, Mr. Mierzwa employs system maximum day and maximum
12		hour ratios of 1.35 and 1.65, respectively, which represent the highest actual
13		demands measured on York's system over the period 2015-2021.
14		
15	Q.	Do you agree that it is reasonable to use the period 2015-2021 to determine the
16		system maximum day and hour demand ratios to be used in a BEC cost study
17		of York's water system?
18	A.	No. First, the system capacity ratios used in the BEC methodology are intended (i)
19		to reflect how a utility's system is designed or, alternatively, (ii) to identify the
20		functions that utility facilities serve, i.e., base, maximum day or maximum hour.
21		The fact that the actual system maximum day and maximum hour demands
22		experienced on the York system over the last seven years have not reached the

1		highest levels recorded since 2000 does not mean that the Company's system is no
2		longer designed to meet those historical demands.
3		Second, I would point out that the system maximum day demand of 1.52
4		used in the Company's WCOSS occurred relatively recently - in 2010, which is
5		only five years prior to the start of Mr. Mierzwa's proposed review period.
6		Similarly, I would note that while Mr. Mierzwa proposes to use a system maximum
7		hour ratio of 1.65 in the OCA's WCOSS, the Company's system has experienced
8		actual maximum hour usage levels in excess of 1.65 in three of the last twelve
9		years. In other words, the actual levels of maximum day and maximum hour
10		demands experienced on York's system in recent years would suggest that the
11		OCA's proposed ratios are unreasonably low.
10		
12		
12	Q.	Mr. Kalcic, please turn now to Mr. Mierzwa's second area of disagreement
	Q.	Mr. Kalcic, please turn now to Mr. Mierzwa's second area of disagreement with the Company's WCOSS – class capacity factors. What are class capacity
13	Q.	
13 14	<b>Q.</b> A.	with the Company's WCOSS – class capacity factors. What are class capacity
13 14 15		with the Company's WCOSS – class capacity factors. What are class capacity factors, and what role do such factors play in the BEC cost methodology?
13 14 15 16		with the Company's WCOSS – class capacity factors. What are class capacity factors, and what role do such factors play in the BEC cost methodology? The BEC methodology uses two types of capacity factors: 1) a max-day factor; and
13 14 15 16 17		<ul> <li>with the Company's WCOSS – class capacity factors. What are class capacity factors, and what role do such factors play in the BEC cost methodology?</li> <li>The BEC methodology uses two types of capacity factors: 1) a max-day factor; and 2) a max-hour factor. The max-day factor for each class is intended to reflect the</li> </ul>
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> </ol>		<ul> <li>with the Company's WCOSS – class capacity factors. What are class capacity</li> <li>factors, and what role do such factors play in the BEC cost methodology?</li> <li>The BEC methodology uses two types of capacity factors: 1) a max-day factor; and</li> <li>2) a max-hour factor. The max-day factor for each class is intended to reflect the</li> <li>ratio of the class's maximum day usage to its average day usage. Similarly, the</li> </ul>
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> <li>19</li> </ol>		<ul> <li>with the Company's WCOSS – class capacity factors. What are class capacity</li> <li>factors, and what role do such factors play in the BEC cost methodology?</li> <li>The BEC methodology uses two types of capacity factors: 1) a max-day factor; and</li> <li>2) a max-hour factor. The max-day factor for each class is intended to reflect the</li> <li>ratio of the class's maximum day usage to its average day usage. Similarly, the</li> <li>max-hour factor for each class is intended to reflect the ratio of the class's</li> </ul>
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> <li>19</li> <li>20</li> </ol>		with the Company's WCOSS – class capacity factors. What are class capacity factors, and what role do such factors play in the BEC cost methodology? The BEC methodology uses two types of capacity factors: 1) a max-day factor; and 2) a max-hour factor. The max-day factor for each class is intended to reflect the ratio of the class's maximum day usage to its average day usage. Similarly, the max-hour factor for each class is intended to reflect the ratio of the class's maximum hour usage to its average hourly usage.

1		
2	Q.	Are the class capacity factor values that appear in the Company's WCOSS the
3		same as those used in York's prior rate cases?
4	A.	Yes.
5		
6	Q.	Why then does Mr. Mierzwa claim that the Company's class capacity factors
7		are inappropriate?
8	A.	In Mr. Mierzwa's opinion, the Company's capacity factors are outdated, since the
9		factors are based, in part, on customer demand studies that were conducted in 1976-
10		1977. <sup>2</sup>
11		
12	Q.	Did Mr. Mierzwa develop alternate class capacity factors for use in this
13		proceeding?
14	A.	Yes, based on the procedure described in an appendix to the American Water
15		Works Association's Manual of Water Supply Practices ("AWWA Manual").
16		
17	Q.	Does the AWWA procedure rely on a direct measurement of class capacity
18		factors, as in a customer demand study?
19	A.	No. The intent of the AWWA methodology is to provide an <i>estimate</i> of class max-
20		day and max-hour usage ratios when actual class usage information (such as that
21		obtained from a customer demand study) is unavailable.

<sup>&</sup>lt;sup>2</sup> A demand study measures actual customer demand and usage levels from a statistically representative sample of customers, by class, over a period of time.

1		
2	Q.	Please provide a general overview of how the AWWA procedure estimates
3		class max-day capacity factors.
4	A.	The AWWA procedure employs three steps. First, a class maximum month (max-
5		month) ratio is calculated by dividing: a) the average day consumption in the
6		class's maximum-usage month; by b) the class's annual average day consumption.
7		Second, the class max-month ratios from Step 1 are multiplied by the ratio of the
8		system maximum day usage to the average usage in the system maximum month. <sup>3</sup>
9		Third, the cumulative class ratios from Steps 1 and 2 are multiplied by an
10		adjustment factor that is intended to recognize the daily and weekly fluctuations in
11		maximum day demand across customer classes.
12		
13	Q.	Did Mr. Mierzwa employ these three steps when estimating class max-day
14		capacity factors for York's system?
15	A.	Yes, he did.
16		
17	Q.	How did Mr. Mierzwa determine the class max-day variance adjustment
18		factors (i.e., Step 3 in the AWWA methodology) to be used in his analysis?
19	A.	To my knowledge Mr. Mierzwa undertook no specific empirical analysis to
20		determine appropriate max-day variance factors for York's system. Instead, Mr.
21		Mierzwa simply employed the same max-day variance factors that appear in the
22		AWWA Manual.

<sup>&</sup>lt;sup>3</sup> Note that this adjustment factor is the same for all rate classes.

1		
2	Q.	Is it reasonable to use the AWWA's class variance factors for York's system?
3	A.	No, because class variance factors play too important a role in determining class
4		capacity factors (in the AWWA methodology) to simply adopt the example variance
5		factors that are used in the AWWA Manual.
6		
7	Q.	Please explain.
8	A.	As previous discussed, the max-day capacity factor for each class is intended to
9		reflect the ratio of the class's maximum day usage to its average day usage. By
10		definition, the first two steps of the AWWA methodology, which utilize only
11		readily available monthly usage data, cannot measure (or capture) daily fluctuations
12		in demand across customer classes. In that sense, the AWWA methodology
13		requires a representative set of class variance factors (for Step 3) in order to provide
14		a reasonable estimate of the max-day factor for each class. The OCA has provided
15		no evidence that the example class variance factors that appear in the AWWA
16		Manual are appropriate for York's system.
17		
18	Q.	Do you have any other comment?
19	A.	Yes. If a different set of class variance factors were to be used in the OCA's
20		analysis, the resulting class max-day factors would differ from those used in the
21		OCA's COSS. In other words, Step 3 of the AWWA procedure is determinative of
22		the final result of the AWWA methodology. As such, there is all the more reason to

1		ensure that the class variance factors used in the AWWA procedure are
2		representative for the customer classes on a given utility system.
3		
4	Q.	Mr. Kalcic, how does the AWWA methodology estimate class max-hour
5		capacity factors?
6	A.	The AWWA approach estimates class max-hour capacity factors by multiplying the
7		(previously estimated) class max-day capacity factors by an adjustment factor that is
8		intended to recognize the daily and weekly fluctuations in maximum hour demand
9		across rate classes.
10		
11	Q.	How did Mr. Mierzwa determine the class <i>max-hour</i> variance factors to be
12		used in his max-hour capacity factor analysis?
13	A.	To my knowledge, Mr. Mierzwa undertook no specific empirical analysis to
14		determine appropriate max-hour variance factors for York's system. Once again,
15		Mr. Mierzwa simply employed the same example max-hour variance factors that
16		appear in AWWA Manual.
17		
18	Q.	Do you find the OCA's class max-hour capacity factor analysis appropriate?
19	A.	No. As in the case of the class max-day capacity factor procedure, the AWWA
20		methodology requires a representative set of max-hour variance factors in order to
21		provide a reasonable estimate of the max-hour factor for each class. The OCA has
22		provided no evidence that the example max-hour variance factors that appear in the
23		AWWA Manual are appropriate for York's system.

1		
2	Q.	Does the OCA's use of alternative system demand ratios and class capacity
3		factors have a significant impact on class cost-of-service outcomes in this
4		proceeding?
5	A.	Yes. Table 1-R below compares each class's total allocated cost of service,
6		exclusive of Act 11 considerations, under: 1) the Company's WCOSS; and 2) the
7		OCA's WCOSS. As shown in Table 1-R, the OCA's WCOSS shifts approximately
8		\$1.3 million of revenue responsibility from Residential customers to Commercial,
9		Industrial, and Fire Protection customers.
10		
11		Table 1-R
12		Comparison of Company and OCA WCOSS Results,
13		Exclusive of Act 11 Considerations
14		
		Company OC 1

	Company	OCA	
Class	WCOSS	WCOSS	Difference
	(1)	(2)	(3) = (2)-(1)
Residential	\$44,087,738	\$42,819,383	-\$1,268,355
Commercial	\$14,577,070	\$15,325,308	\$748,238
Industrial	\$5,767,906	\$6,053,924	\$288,018
Private Fire	\$2,597,596	\$2,735,857	\$138,261
Public Fire	<u>\$1,653,008</u>	<u>\$1,745,442</u>	<u>\$92,434</u>
Total	\$68,683,318	\$68,679,914	-\$3,404

<sup>15</sup> 

Source: York Exh. No. FVIII, Sch. D & OCA WCOSS Workpapers.

16

## 17 Q. Does Mr. Mierzwa use the results of his WCOSS to determine the OCA's

18 proposed class increases, at York's claimed revenue requirement level?

1	A.	Yes. Mr. Mierzwa's proposed class increases are based on moving all classes to
2		full cost of service, based on the OCA's WCOSS. <sup>4</sup>
3		
4	Q.	Do you agree that it is appropriate to use the results of the OCA's WCOSS to
5		determine class increases in this proceeding?
6	A.	No. First, the OCA has not provided valid evidence that the system maximum
7		demand levels used in the Company's WCOSS are outdated. Second, as previously
8		discussed, the OCA's class capacity factor analysis is deficient. Third, the system
9		demand ratios and class capacity factors used in the OCA's WCOSS are
10		unreasonably low and have a significant impact on reported class cost-of-service
11		indications. As such, it would not be appropriate to adopt the OCA's WCOSS and
12		it would not be reasonable to rely on the OCA's WCOSS results to determine final
13		class increases in this proceeding.
14		
15	Q.	What do you recommend?
16	A.	I recommend that the Commission reject the OCA's proposed WCOSS and class
17		revenue allocation for water service.
18		
19	Q.	On pages 22-23 of OCA Statement 4, Mr. Mierzwa discusses the Company's
20		proposed method of allocating Act 11 revenue responsibility to water service
21		classes. Mr. Mierzwa finds the Company's proposal to allocate Act 11
22		revenues based on the cost of water service "generally reasonable," but

<sup>&</sup>lt;sup>4</sup> See Table 4 on page 17 of OCA Statement 4.

1		recommends that the Industrial and Private Fire Protection classes not be
2		excluded from an allocation of Act 11 revenues. Do you agree with the OCA's
3		modified method of allocating Act 11 revenues to water service classes?
4	A.	I do not. As I discussed in my direct testimony, York's proposed method of
5		allocating Act 11 revenues is inconsistent with the manner by which the Company
6		determines its Act 11 revenue requirement shortfall. The OCA's proposal to
7		include the Industrial and Private Fire Protection classes in the allocation does
8		nothing to change that fact.
9		Instead, York's Act 11 revenue requirement should be allocated to water
10		service classes based on wastewater class contributions to the Company's Act 11
11		revenue requirement shortfall. Doing so will ensure that wastewater subsidies are
12		properly recovered from water customers on a revenue neutral basis, by customer
13		class.
14		
15	Q.	On pages 23-24 of OCA Statement 4, Mr. Mierzwa discusses the magnitude of
16		the Company's proposed Act 11 revenue requirement. Mr. Mierzwa finds that
17		the Company's proposed Act 11 wastewater subsidy is "not reasonable," and
18		recommends that York's Act 11 revenue requirement of \$2.67 million be
19		reduced by \$625,000. How would the OCA's proposed reduction to York's Act
20		11 wastewater subsidy impact the Company's overall wastewater increase?
21	A.	The OCA's proposal would result in an overall wastewater increase of \$2.082
22		million or 50.1%, compared to the Company's proposed increase of \$1.456 million
23		or 35.0%.

1		
2	Q.	How would the OCA's proposed reduction to York's Act 11 wastewater
3		subsidy impact the Company's proposed wastewater <i>class</i> increases?
4	A.	Since Mr. Mierzwa does not provide an alternative wastewater rate design and
5		proof of revenue that would implement the OCA's overall proposed wastewater
6		increase of \$2.082 million, it is not clear to the OSBA what class increases would
7		result. However, on page 24 of OCA Statement 4, at Table 5, Mr. Mierzwa appears
8		to suggest that the OCA is seeking to implement Residential and Non-Residential
9		wastewater class increases of 45.9% and 84.8%, respectively.
10		
11	Q.	Would it be reasonable to implement a Non-Residential wastewater class
12		increase of 84.8% in this proceeding?
13	A.	Certainly not. To put the OCA's proposed Non-Residential increase of 84.8% in
14		perspective, the highest class increase proposed by York, I&E and the OSBA in this
15		case is 48.3%, 53.0%, and 58.4%, respectively. <sup>5</sup> The OCA's proposed Non-
16		Residential increase of 84.8% is clearly an outlier in this case, and would violate the
17		traditional ratemaking principle of gradualism. The Commission should reject it.
18		
19		<u>I&amp;E Witness Cline</u>
20 21	Q.	What is I&E's position regarding the Company's proposed Act 11 revenue
22		requirement?

<sup>&</sup>lt;sup>5</sup> See Schedules BK-1WW and BK-2WW, and I&E Exhibit No. 3, Schedule 7.

1	A.	I&E recommends that the Company's proposed Act 11 revenue requirement be
2		reduced to \$0.844 million, based on I&E's i) recommended reduction to the
3		Company's requested wastewater revenue requirement and ii) recommended
4		increase in overall wastewater revenues. <sup>6</sup>
5		
6	Q.	Does Mr. Cline specify how I&E's proposed Act 11 revenue requirement
7		should be allocated to the Company's water service classes?
8	A.	No, he does not.
9		
10	Q.	In the event the Commission were to adopt I&E's proposed Act 11 revenue
11		requirement, how should Act 11 revenues be allocated to water classes?
12	A.	As I have previously testified, York's approved Act 11 revenue requirement should
13		be allocated to water service classes based on wastewater class contributions to the
14		Company's Act 11 revenue requirement shortfall.
15		
16	Q.	On pages 22-24 of I&E Statement No. 3, Mr. Cline discusses I&E's scale back
17		proposal for water service customers. In the event that the Commission
18		awards York a final water increase that is less than its requested amount, Mr.
19		Cline recommends that the Company's proposed customer charges and usage
20		rates be adjusted "so that the increase by class is proportional to what the
21		Company proposed to produce the revenue level the Commission approves."
22		Do you agree with I&E's scale back proposal?

<sup>&</sup>lt;sup>6</sup> See I&E Statement No. 3 at page 6.

## Rebuttal Testimony of Brian Kalcic

1	A.	I do not agree. Under I&E's proposal, the Company's proposed class water
2		increases, inclusive of Act 11, would be subject to a single scale back at the
3		conclusion of this case. However, as I discussed on pages 13-14 of OSBA
4		Statement No. 1, there should be a <i>separate</i> scale back applied to the i) water cost
5		of service component and ii) Act 11 revenue requirement component of the
6		Company's proposed class increases.
7		For example, to the extent the Company's proposed Act 11 revenue
8		requirement is reduced, the reduction should be applied/credited solely to the water
9		classes originally allocated Act 11 revenue responsibility. To do so, a separate
10		scale back must be applied to York's proposed allocation of Act 11 revenues.
11		
	0	
12	Q.	What would be the result of adopting I&E's scale back proposal for the
12 13	Q.	What would be the result of adopting I&E's scale back proposal for the Company's water operations?
	<b>Q.</b> A.	
13		Company's water operations?
13 14		<b>Company's water operations?</b> I&E's proposal to scale back water rates so that final water class increases are
13 14 15		<b>Company's water operations?</b> I&E's proposal to scale back water rates so that final water class increases are proportional to York's filed increases, <i>inclusive of Act 11</i> , would (i) fail to collect
13 14 15 16		<b>Company's water operations?</b> I&E's proposal to scale back water rates so that final water class increases are proportional to York's filed increases, <i>inclusive of Act 11</i> , would (i) fail to collect final Act 11 wastewater subsidies from water customers on a revenue neutral basis,
13 14 15 16 17		<b>Company's water operations?</b> I&E's proposal to scale back water rates so that final water class increases are proportional to York's filed increases, <i>inclusive of Act 11</i> , would (i) fail to collect final Act 11 wastewater subsidies from water customers on a revenue neutral basis, by customer class, and (ii) improperly credit a portion of any reduction in the
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> </ol>		<b>Company's water operations?</b> I&E's proposal to scale back water rates so that final water class increases are proportional to York's filed increases, <i>inclusive of Act 11</i> , would (i) fail to collect final Act 11 wastewater subsidies from water customers on a revenue neutral basis, by customer class, and (ii) improperly credit a portion of any reduction in the Company's proposed Act 11 revenue requirement to classes that were not originally
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> <li>19</li> </ol>		Company's water operations? I&E's proposal to scale back water rates so that final water class increases are proportional to York's filed increases, <i>inclusive of Act 11</i> , would (i) fail to collect final Act 11 wastewater subsidies from water customers on a revenue neutral basis, by customer class, and (ii) improperly credit a portion of any reduction in the Company's proposed Act 11 revenue requirement to classes that were not originally assigned Act 11 revenue responsibility.
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> <li>19</li> <li>20</li> </ol>		Company's water operations? I&E's proposal to scale back water rates so that final water class increases are proportional to York's filed increases, <i>inclusive of Act 11</i> , would (i) fail to collect final Act 11 wastewater subsidies from water customers on a revenue neutral basis, by customer class, and (ii) improperly credit a portion of any reduction in the Company's proposed Act 11 revenue requirement to classes that were not originally assigned Act 11 revenue responsibility. For example, if a single scale back were to be applied to the Company's

## Rebuttal Testimony of Brian Kalcic

1		and ii) proposed Act 11 revenue requirement. As a result, those water classes that
2		were not originally assigned Act 11 revenue responsibility, i.e., the Company's
3		Industrial and Fire Protection classes, would see their original proposed increases
4		reduced, in part, due to reductions in the Company's Act 11 revenue requirement.
5		There is simply no valid basis for sharing a reduction in York's proposed Act
6		11 revenue requirement with the Company's Industrial and Fire Protection classes.
7		
8	Q.	What do you recommend?
9	A.	I recommend that the Commission reject I&E's scale back proposal for water
10		service customers.
11		
12	Q.	Does this conclude your rebuttal testimony?
13	A.	Yes.

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
<b>v.</b>	: Docket No. R-2022-3031340	)
	: Docket No. R-2022-3032806	5
	:	
The York Water Company	:	

#### **VERIFICATION**

I, Brian Kalcic, hereby state that the facts set forth in my Rebuttal Testimony labeled OSBA Statement No. 1-R are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to unsworn falsification to authorities).

Brian / Calin

(Signature)

Date: September 15, 2022

Brian Kalcic

**OSBA STATEMENT NO. 1-S** 

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

#### **PENNSYLVANIA PUBLIC UTILITY COMMISSION** :

<b>V.</b>	:	Docket No. R-2022-3031340
	:	Docket No. R-2022-3032806
THE YORK WATER COMPANY	:	

Surrebuttal Testimony of

#### **BRIAN KALCIC**

#### On Behalf of the

#### Pennsylvania Office of Small Business Advocate

**Topics:** 

Allocation of Act 11 Revenue Requirement Wastewater Rates Scale Back of Rates

Date Served: September 28, 2022

Date Submitted for the Record:

1	Q.	Please state your name and business address.
2	A.	Brian Kalcic, 7330 Dorset Avenue, St. Louis, Missouri 63130.
3		
4	Q.	Have you previously submitted testimony in this proceeding?
5	A.	Yes.
6		
7	Q.	What is the subject of your rebuttal testimony?
8	A.	I will respond to the rebuttal testimony of the following witnesses: 1) Constance E.
9		Heppenstall, on behalf of the Company; and 2) Jerome D. Mierzwa, on behalf of the
10		OCA.
11		
12		<u>Company Witness Heppenstall</u>
13 14	Q.	On pages 1-2 of York Statement No. 108-R, Ms. Heppenstall discusses your
15		proposal to recover Act 11 wastewater subsidies from water customers on a
16		revenue-neutral basis, by customer class. Ms. Heppenstall states that even
17		though your Act 11 allocation methodology differs from the Company's
18		proposal, you support "the Company's revenue allocation as the different
19		methodologies produce similar results." Do you have any comment?
20	А.	Yes. As I stated in my direct testimony, the two methodologies happen to produce
21		similar results at the Company's proposed level of Act 11 revenues. The results
22		may be expected to differ if the Commission approves an Act 11 revenue
23		requirement that is higher or lower than York's proposed level of \$2.7 million.

1		So that the record is clear, I want to reiterate that the OSBA recommends the
2		Company's approved Act 11 revenue requirement be recovered from water service
3		customers on a revenue-neutral basis, by customer class.
4		
5	Q.	Continuing on page 2 of York Statement No. 108-R, Ms. Heppenstall states
6		that York agrees with your "recommendation that the water class increases
7		(except public fire) be scaled back proportionally, understanding that the scale
8		back is dependent on the awarded wastewater revenue requirement and the
9		final level of wastewater rates." Is that an accurate characterization of your
10		scale back proposal?
11	А.	Ms. Heppenstall has accurately characterized my scale back proposal in the event
12		the Commission grants York a water revenue increase, exclusive of Act 11, that is
13		less than the Company's filed request of \$16.2 million. Again, so that the record is
14		clear, I also recommend that a <i>separate</i> scale back be applied to the Act 11
15		revenues assigned to water service classes. <sup>1</sup>
16		
17	Q.	Finally, on page 2 of York Statement No. 108-R, Ms. Heppenstall disagrees
18		with your recommended wastewater increase of 58.4%, arguing that such an
19		increase would i) cause rate shock and ii) be unreasonable given that this
20		proceeding constitutes the first rate increase applicable to certain customers
21		since York acquired their former wastewater systems. Please respond.

<sup>1</sup> See OSBA Statement No. 1 at pages 13-14, and pages 19-20.

1	A.	First, I would point out that while the OSBA's recommended wastewater increase is
2		significant at 58.4%, such an increase is less than 2.0 times the OSBA's overall
3		proposed water rate increase – a rate limit that is not unusual for base rate
4		proceedings. Second, the Company's proposed base rate wastewater increase of
5		35% is actually less than its proposed base rate water service increase of 35.9%. In
6		that respect, York's proposed wastewater increase is clearly insufficient, in as much
7		as water service customers are subsidizing York's wastewater operations. Third,
8		wastewater rates should move toward cost in each York rate proceeding. The fact
9		that this rate case constitutes the first rate increase applicable to certain wastewater
10		customers is not a valid rationale for York's decision to assign wastewater
11		customers a non-cost based increase in this proceeding.
12		
12		
12		<u>OCA Witness Mierzwa</u>
13 14	0	
13 14 15	Q.	On pages 2-3 of OCA Statement 4R, Mr. Mierzwa disagrees with your
13 14	Q.	
13 14 15	Q.	On pages 2-3 of OCA Statement 4R, Mr. Mierzwa disagrees with your
13 14 15 16	Q.	On pages 2-3 of OCA Statement 4R, Mr. Mierzwa disagrees with your adoption of the Company's proposed water revenue allocation, exclusive of Act
13 14 15 16 17	Q.	On pages 2-3 of OCA Statement 4R, Mr. Mierzwa disagrees with your adoption of the Company's proposed water revenue allocation, exclusive of Act 11 considerations, since the revenue allocation is based on the Company's
13 14 15 16 17 18	Q.	On pages 2-3 of OCA Statement 4R, Mr. Mierzwa disagrees with your adoption of the Company's proposed water revenue allocation, exclusive of Act 11 considerations, since the revenue allocation is based on the Company's water cost-of-service study ("WCOSS"). In Mr. Mierzwa's view, the
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> <li>19</li> </ol>	Q.	On pages 2-3 of OCA Statement 4R, Mr. Mierzwa disagrees with your adoption of the Company's proposed water revenue allocation, exclusive of Act 11 considerations, since the revenue allocation is based on the Company's water cost-of-service study ("WCOSS"). In Mr. Mierzwa's view, the Company's WCOSS employs outdated system-wide demand and class capacity
<ol> <li>13</li> <li>14</li> <li>15</li> <li>16</li> <li>17</li> <li>18</li> <li>19</li> <li>20</li> </ol>	Q.	On pages 2-3 of OCA Statement 4R, Mr. Mierzwa disagrees with your adoption of the Company's proposed water revenue allocation, exclusive of Act 11 considerations, since the revenue allocation is based on the Company's water cost-of-service study ("WCOSS"). In Mr. Mierzwa's view, the Company's WCOSS employs outdated system-wide demand and class capacity factor data. As a consequence, Mr. Mierzwa argues that the Commission

1		reflects "the usage characteristics of York's current customers." Do you agree			
2		that the Commission should adopt the OCA's WCOSS in this proceeding?			
3	A.	I do not. I discuss the deficiencies inherent in the OCA's WCOSS in my rebuttal			
4		testimony. <sup>2</sup> In short, while Mr. Mierzwa employs alternative (i) system-wide			
5		maximum day and maximum hour demand values and (ii) class maximum day and			
6		maximum hour capacity factors in the OCA's WCOSS, neither modification to the			
7		Company's WCOSS is warranted.			
8					
9	Q.	On pages 3-4 of OCA Statement 4R, Mr. Mierzwa discusses your proposal to			
10		allocate Act 11 revenues to water classes based on corresponding wastewater			
11		class contributions to the Company's overall Act 11 revenue requirement			
12		shortfall. Mr. Mierzwa disagrees with your recommendation. He argues that			
13		since less than 7% of York's water customers are also wastewater customers,			
14		"there is no cost basis to assign unrecovered wastewater costs of a particular			
15		class to water customers in that same class that do not receive wastewater			
16		service from York and pay another provider for wastewater service." Is Mr.			
17		Mierzwa's point valid?			
18	A.	No. The fact that the Company has many more water customers than wastewater			
19		customers necessarily means that relatively few of York's water customers will also			
20		be York wastewater customers. However, independent of the identity of their			
21		wastewater providers, why should York's residential water customers subsidize the			

<sup>&</sup>lt;sup>2</sup> See OSBA Statement No. 1-R, at pages 3-10.

1		rates paid by York's commercial wastewater customers, or vice versa? Mr.
2		Mierzwa offers no valid rationale in support of such an outcome.
3		Moreover, I am confident that if York's wastewater rates were ever to
4		recover 100% of the Residential class's allocated wastewater revenue requirement,
5		the OCA would express little interest in receiving any Act 11 revenue allocation in
6		a subsequent York base rate case.
7		
8	Q.	On pages 5-6 of OCA Statement 4R, Mr. Mierzwa discusses his disagreement
9		with your proposal to reduce York's filed Act 11 revenue requirement by \$1.0
10		million, by assigning the Company's wastewater classes a uniform increase of
11		58.3%. He argues that since the Company's residential wastewater customers
12		contribute toward, or pay, a greater percentage of their indicated cost of
13		service than non-residential customers, "the Non-Residential class should
14		receive an increase which is greater than the increase assigned to the
15		Residential class in order to provide additional movement toward the[ir]
16		indicated cost of service." What is your response?
17	A.	My recommended wastewater class increases are intended to minimize the overall
18		level of Act 11 revenues to be recovered from water service customers, without
19		imposing an undue rate impact on any wastewater class. Unlike Mr. Mierzwa's
20		proposal to assign non-residential wastewater customers an increase of 84.8%, the
21		OSBA's proposal would limit class increases to 58.4%, or 1.75 times the OSBA's
22		recommended increase to York's water service customers. Moreover, the fact that
23		the non-Residential wastewater class does not receive a greater increase than the

1		Residential class under my proposal should be immaterial to the OCA, since the
2		remaining subsidy received by non-residential wastewater customers in this
3		proceeding is to be recovered solely from <i>commercial</i> water customers under the
4		OSBA's Act 11 allocation proposal.
5		
6	Q.	Does this conclude your surrebuttal testimony?
7	A.	Yes.

#### BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
<b>V.</b>	:	Docket No. R-2022-3031340
	:	Docket No. R-2022-3032806
	:	
The York Water Company		

#### **VERIFICATION**

I, Brian Kalcic, hereby state that the facts set forth in my Surrebuttal Testimony labeled OSBA Statement No. 1-S are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to unsworn falsification to authorities).

Brian Halu

(Signature)

Brian Kalcic

Date: September 27, 2022