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December 21, 2022

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17105-3265

**In re: State Tax Adjustment Surcharge (STAS)
Docket No. M-2022-3037158**

Dear Secretary Chiavetta:

On November 9, 2022, the Pennsylvania Public Utility Commission (“Commission”) issued a Secretarial Letter to all jurisdictional fixed utilities subject to Pennsylvania Corporate Net Income Tax (“CNIT”) regarding House Bill 1342 signed into law on July 8, 2022 as Act 53 of 2022 (“Act 53”), followed by a Secretarial Letter issued on December 15, 2022, to provide additional guidance, information and clarification to the November 9 Secretarial Letter. Act 53 includes a nine-year phase down of the CNIT beginning January 1, 2023 through January 1, 2031. Pursuant to 52 Pa. Code § 69.51, this reduction in the CNIT would require PAWC to file a recomputed STAS within 10 days of the effective date of the tax rate change.

In response to the passage of Act 53, on August 19, 2022, Pennsylvania-American Water Company (“PAWC” or the “Company”) submitted rebuttal testimony and exhibits in its then pending base rate case at Docket No. R-2022-3031372, which included the reduced CNIT of 8.99% to be effective January 1, 2023. On December 8, 2022, the Commission issued an order at this docket, approving new base rates effective on January 28, 2023 that reflect the reduced CNIT for 2023. Thus, if PAWC were to file for a STAS to be effective on January 1, 2023, the STAS would only be in effect for 28 days until new base rates were effective.

The calculated negative surcharge for this period of 28 days results in a diminutive amount of 0.27% or \$163,402. The impact on January 2023 bills would be approximately \$0.17 for the average residential customer and \$0.82 for the average commercial customer. In addition, implementing a billing system change to apply this surcharge for such a short time period would result in an administrative burden to the Company. Accordingly, PAWC does not intend to

implement a STAS until the end of the fully projected future test year, or January 1, 2024. In January 2023, the Company will record a regulatory liability of the \$163,402, plus interest, which would have otherwise been flowed through the STAS, and will incorporate this amount as a reconciling item in the 2024 STAS.

The calculation for the \$163,402 negative surcharge, as well as the average bill impacts, are included as Attachment 1.

Should you have any questions concerning this letter, please contact me.

Sincerely,



Elizabeth Rose Triscari

cc: All Parties on the Attached Certificate of Service (*via electronic mail*)
Erin Laudenslager, Manager, Bureau of Technical Utility Services (*via electronic mail*)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: State Tax Adjustment Surcharge : Docket No. M-2022-3037158
("STAS") : :

CERTIFICATE OF SERVICE

I hereby certify that I am this day serving the above-referenced filing upon the persons and in the manner indicated below, which service satisfies the requirements of 52 Pa. Code §1.54 (relating to service by a party).

Service in the manner listed below addressed as follows on December 21, 2022

Patrick Cicero, Consumer Advocate
Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
(via electronic mail)

NazAarah Sabree, Small Business Advocate
Office of Small Business Advocate
555 Walnut Street
1st Floor, Forum Place
Harrisburg, PA 17101
(via electronic mail)

Richard Kanaskie, Director
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement
400 North Street
PO Box 3265
Harrisburg, PA 17105
(via electronic mail)



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**Pennsylvania-American Water Company
Comparison of State Income Tax Rate Calculations**

**Commission Approved
Rate Case at Docket No. R-
2020-3019369
Effective January 1, 2022**

LINE NO.	DESCRIPTION	
1	Operating Revenues	\$786,319,049
2	Less: O&M Expenses	259,565,167
3	Book Depreciation	166,141,590
4	Utility Operating Income Before Taxes	\$360,612,292
5	Less: Interest Expense	79,131,664
6	Taxable Operating Income	281,480,628
7	Add: Premature Property Losses / Amortizations	(6,860,712)
8	Depr - Straight Line-Remaining Life (Including COR)	173,002,302
9	Taxable Meals & Entertainment	104,859
10	Total	166,246,449
	Deduct:	
11	Tax Depreciation:	
12	State Tax Depreciation Adjustments	234,720,730
13	Total	234,720,730
14	State Taxable Income	213,006,347
15	State Income Tax Rate at 9.99%	21,279,334
16	State Income Tax Rate at 8.99%	19,149,271
17	Effect of State Tax Rate Change on Income	(2,130,063)

Pennsylvania-American Water Company
Calculation of State Tax Adjustment Surcharge
For the period January 1, 2023 - January 28, 2023

State Income Tax

In Base Rates @ 9.99%	\$21,279,334
CNIT @ 8.99%	19,149,271
<u>Difference</u>	<u>(2,130,063)</u>

Annual Authorized Revenues	\$786,319,049
Projected Revenue for 28 days	60,320,365

STAS Surcharge -0.27%

STAS Projected Revenue (163,402)

Projected Monthly Bill Impacts:


Average Monthly Residential Bill	\$62.80
STAS bill credit	(\$0.17)

Average Monthly Commercial Bill	\$301.27
STAS bill credit	(\$0.82)

VERIFICATION

I, Ashley E. Everette, hereby state that the facts above set forth above 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 made herein are made subject to the penalties of 18 Pa. Cons. Stat. §4904 relating to unsworn falsification to authorities.

Dated: 12/21/2022



Ashley E. Everette, Senior Director of Rates and
Regulatory
American Water Works Service Company