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

BUREAU OF INVESTIGATION & ENFORCEMENT

March 26, 2024

<u>Via Electronic Filing</u>
Secretary Rosemary Chiavetta
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v.
Pennsylvania-American Water Company
Docket Nos. R-2023-3043189 (Water)
R-2023-3043190 (Wastewater)
I&E Main Brief

Dear Secretary Chiavetta:

Enclosed for electronic filing please find the Main Brief of the Bureau of Investigation and Enforcement in the above-captioned proceeding.

Copies are being served on parties of record per the attached Certificate of Service. Should you have any questions, please do not hesitate to contact me.

Respectfully,

Carrie B. Wright

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Per Certificate of Service

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket Nos. R-2023-3043189
	:	R-2023-3043190
Pennsylvania-American Water Company	:	

MAIN BRIEF
OF THE
BUREAU OF INVESTIGATION AND ENFORCEMENT

Carrie B. Wright
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Dated: March 26, 2024

TABLE OF CONTENTS

Appendix A – Tables

Appendix B – I&E Witness Kubas Exhibits

Appendix C – Proposed Findings of Fact

Appendix D – Proposed Conclusions of Law

Appendix E – Proposed Ordering Paragraphs

TABLE OF AUTHORITIES

Cases

Statutes

I. INTRODUCTION

A. Description of the Party Submitting the Brief

Through its bureaus and offices, the Pennsylvania Public Utility Commission (PUC or Commission) has the authority to take appropriate enforcement actions that are necessary to ensure compliance with the Public Utility Code and Commission regulations and orders.[1] The Commission established the Bureau of Investigation and Enforcement (I&E) to serve as the prosecuting bureau of the Commission and to represent the public interest in ratemaking and utility service matters and to enforce compliance with the Public Utility Code.[2] By representing the public interest in rate proceedings before the Commission, I&E works to balance the interest of customers, utilities, and the regulated community as a whole to ensure that a utility's rates are just, reasonable, and nondiscriminatory.[3]

B. Procedural History

On November 8, 2023, Pennsylvania American Water Company (PAWC), filed Supplement No. 45 to Tariff Water Pa. P.U.C. No. 5 which proposed an annual operating revenue increase of $199.2 million (24.2%), to become effective January 7, 2024. In addition, on November 8, 2023, Pennsylvania American Water Company – Wastewater Division ((PAWC Wastewater) (collectively, the Company)) filed Supplement No. 47 to Tariff Wastewater Pa. P.U.C. No. 16 which proposed an annual operating revenue increase of approximately $4.7 million (2.5%). The Company used the Fully Projected Future Test Year (FPFTY) ending June 30, 2025 as the basis for its rate increase request.

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1 Act 129 of 2008, 66 Pa. C.S. § 308.2(a)(11); 66 Pa. C.S. § 101 *et seq*.; 52 Pa. Code § 1.1 *et seq*.

2 *Implementation of Act 129 of 2008; Organization of Bureaus and Offices,* Docket No. M-2008-2071852 (Order entered August 11, 2011).

3 *See* 66 Pa. C.S. §§ 1301, 1304.

On December 21, 2023, pursuant to 66 Pa. C.S. § 1308(d), the Commission ordered suspension of the proposed tariff changes until August 7, 2024, unless permitted by Commission Order to become effective at an earlier date. The Commission directed that the case be assigned to the Office of Administrative Law Judge (OALJ) for scheduling of hearings as may be necessary for the Administrative Law Judge (ALJ) to render a Recommended Decision. On December 22, 2023, the Company filed a tariff supplement, voluntarily suspending its proposed tariff. A Prehearing Conference was held on January 3, 2024 at 10:00 a.m., before Deputy Chief Administrative Law Judge Christoper P. Pell and Administrative Law Judge John Coogan (the ALJs). Pursuant to the procedural schedule agreed to at the Prehearing Conference, the parties exchanged direct, rebuttal, and surrebuttal testimony, as well as oral rejoinder outlines. In accordance with the litigation schedule, I&E served the following testimony and exhibits:

- I&E Statement No. 1, I&E Exhibit No. 1, I&E Statement No. 1-R, I&E Statement No. 1-SR, and I&E Exhibit No. 1-SR, the prepared direct, rebuttal, and surrebuttal testimony and exhibits of I&E witness Vanessa Okum, who addressed the Company's operating and maintenance expenses, and overall revenue requirement;

- I&E Statement No. 2, I&E Exhibit No. 2, I&E Statement No. 2-R, and I&E Statement No. 2-SR, the prepared direct, rebuttal, and surrebuttal testimony and exhibit of I&E witness DC Patel, who addressed the Company's rate of return;

- I&E Statement No. 3, I&E Exhibit No. 3, I&E Exhibit No. 3, Sch. 1-Corrected[4], I&E Statement No. 1-R, and I&E Statement No. 3-SR, the prepared direct and surrebuttal testimony and exhibits of I&E witness Joseph Kubas who addressed the Company's wastewater rate base and rate structure.

- I&E Statement No. 4, I&E Exhibit No. 4, I&E Statement No. 4-R, and I&E Statement No. 4-SR, the prepared direct, rebuttal, and surrebuttal testimony and exhibits of I&E witness Ethan Cline who addressed the Company's water rate base and rate structure.

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[4] Mr. Kubas inadvertently increased the Water "Additional Revenue" line 2 Column C when the Additional Revenue from BASA and Brentwood were removed. The attached corrected exhibit reduces the increase allocated to the water operations by the amount of the additional revenue needed to operate BASA and Brentwood.

Hearings were held telephonically on March 7 and March 8, 2024. I&E now files this Main Brief pursuant to the procedural schedule established in this case.

C. Overview of PAWC's Filing

While not all details are addressed in this section, below are the main features of PAWC's base rate case filing. All other issues addressed by I&E are addressed in detail in the body of this brief.

As noted above, PAWC is requesting a total annual revenue increase of $203,945,911 (or 20.2%) based upon the FPFTY pro forma revenue requirement,[5] which reflects a total rate base claim for the combined water and wastewater operations. PAWC used the year ended June 30, 2023 as the historic test year (HTY), the year ending June 30, 2024 as the future test year (FTY), and the year ending June 30, 2025 as the FPFTY in this proceeding.[6] It is important to note that this rate increase is set to become effective only approximately 9 months after PAWC received its most recent rate increase.

The Company requested a Water Operations revenue increase of $199,237,084, which includes $71,087,394 (or 35.68% of the total Water Operations increase) allocated from the various Wastewater Operations per the Act 11 provision. The Company proposes to recover the remaining approximately $4.7 million increase from wastewater customers.

In its filling, the Company's revenue increase includes two pending acquisitions: Butler Area Sewer Authority (BASA) and the Borough of Brentwood (Brentwood) wastewater collection system. Additionally, PAWC has included O&M expenses for costs associated with the following planned acquisitions: Audubon Water, Farmington Water, Farmington Wastewater,

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5 PAWC Exhibit No. 3-A, p. A.
6 PAWC Statement No. 5, pp. 2-3.

and Sadsbury Wastewater.[7] None of these systems are currently owned by PAWC and there is no definitive date by which PAWC's ownership will be effectuated. I&E has therefore recommended that all costs associated with these systems be denied.

Additionally, PAWC's filing requests the Commission grant an inflated 10.95% return on equity (ROE) to its Water and Wastewater Operations. As part of this overall ROE claim, PAWC requests the Commission grant it an additional 25 basis points to its ROE for management performance.

The Company proposed two alternative ratemaking mechanisms; a revenue decoupling mechanism (RDM) and an Environmental Compliance Investment Charge (ECIC) both of which are opposed by I&E. PAWC also proposes a new wastewater rate design to base wastewater bills for the summer on winter consumption. PAWC proposes deferred accounting treatment and trackers for its Pension and Other Post Employee Benefits (OPEB) claims.

D. Legal Standards and Burden of Proof

The Public Utility Code (Code) mandates that "[e]very rate made, demanded, or received by any public utility . . . shall be just and reasonable, and in conformity with regulations or orders of the commission."[8] As set forth in Section 315(a) of the Code, PAWC has the burden of proving that its rates are just and reasonable in this proceeding:

> (a) **Reasonableness of rates. —** In any proceeding upon the motion of the commission, involving any proposed or existing rate of any public utility, or in any proceeding upon complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility.[9]

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[7] PAWC Exhibit No. 3-B, pp. 303-308.
[8] 66 Pa. C.S. § 1301.
[9] 66 Pa. C.S. § 315(a).

The Commonwealth Court has interpreted this principle as follows:

> Section 315(a) of the Public Utility Code, 66 Pa. C.S. § 315(a), places the burden of proving the justness and reasonableness of a proposed rate hike squarely on the utility. It is well-established that the evidence adduced by a utility to meet this burden must be substantial.[10]

It is axiomatic that the burden of proof in any proceeding involving a utility's existing or proposed rates is on the utility.[11] PAWC must satisfy its burden of proof by presenting a preponderance of evidence.[12] A preponderance of the evidence is such evidence that is more convincing, by even the smallest amount, than that presented by another party.[13] The Company must produce substantial evidence to satisfy its burden of proof.[14] Substantial evidence is "such relevant and competent evidence having a rational probative force which a reasonable mind might accept as adequate to support a conclusion."[15]

If a preponderance of evidence is submitted, the burden of going forward with competing evidence shifts to opposing parties to produce credible evidence of at least equal weight. The Commission and the Courts have held that the burden of proof does not shift to the party challenging a requested rate increase.[16] While the burden going forward may shift back and forth between parties, the ultimate burden of establishing the justness and reasonableness of every component of a requested rate increase remains on the utility. In contrast, there is no

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10 *Lower Frederick Township v. Pa. P.U.C.*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980). *See also*, *Brockway Glass v. Pa. P.U.C.*, 437 A.2d 1067 (Pa. Cmwlth. 1981).

11 *See* 66 Pa. C.S. §§ 1301, 315(a) ; *Brockway Glass Co. v. Pennsylvania Public Utility Commission,* 437 A.2d 1067 (Pa. Commw. 1981) ; *Lower Frederick Twp. v. Pennsylvania Public Utility Commission*, 409 A.2d 505 (Pa. Commw. 1980) .

12 *Samuel J. Lansberry, Inc. v. Pennsylvania Public Utility Commission*, 578 A.2d 600 (Pa. Commw. 1990).

13 *Se-Ling Hosiery v. Margulies*, 70 A.2d 854 (Pa. 1950).

14 *Brockway Glass v. Pa. P.U.C.*, 437 A.2d 1067 (Pa. Cmwlth. 1981) ; *Lower Frederick Township v. Pa. P.U.C.*, 409 A.2d 505 (Pa. Cmwlth. 1980).

15 *Dutchland Tours, Inc. v. Pa. P.U.C.*, 337 A.2d 922, 925 (Pa. Cmwlth. 1975).

16 *Pa. P.U.C. v. PPL Electric Utilities Corporation,* 2012 WL 6758304 (Pa. P.U.C. 2012)*; Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, 2004 WL 2314523 (Pa. P.U.C. 2004).

similar burden placed on an intervener to justify a proposed adjustment to the company's filing.[17] The Commission has aptly summarized this burden as follows:

> There is no presumption of reasonableness, which attaches to a utility's claims, at least none which survives the raising of credible issues regarding a utility's claims. A utility's burden is to affirmatively establish the reasonableness of its claim. It is not the burden of another party to disprove the reasonableness of a utility's claims.[18]

I&E asserts that PAWC has failed to meet its burden with respect to a number of its ratemaking claims. Therefore, I&E respectfully requests that the Administrative Law Judges and the Commission adopt the adjustments and the overall revenue requirement set forth in the evidence presented by I&E as summarized in this Main Brief.

II. SUMMARY OF ARGUMENT

I&E avers that PAWC has failed to fully carry its burden of proof with respect to its proposed revenue increase of $203,945,911, updated in Rebuttal to $204,291,164. To the contrary, I&E's presentation of expert witness testimony demonstrates that PAWC should receive a revenue increase of no more than $56,050,684.[19] Broken down further, this represents an increase of $29,343,583 to PAWC water operations; an increase of $19,925,077 to PAWC Wastewater Sanitary Sewer Systems (SSS)operations; and an increase of $6,782,024 to PAWC Wastewater Combined Sewer Systems (CSS) operations.[20] I&E's recommendation is based upon specific adjustments offered by I&E witnesses, as set forth herein and summarized in the tables attached to this brief as Appendix A.

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[17] *Berner v. Pa. PUC*, 382 Pa. 622, 116 A.2d 738 (1955).
[18] *Pa. P.U.C. v. Equitable Gas Co.*, 57 Pa. PUC 423, 444 n.37 (1983).
[19] I&E St. No. 1-SR, p. 14.
[20] I&E St. No. 1-SR, pp. 10-13.

III. OVERALL POSITION ON RATE INCREASE

I&E generally opposes certain portions of PAWC's proposed rate increase.

A. Rate Base

I&E is recommending a total fair value for PAWC's water rate base of $4,688,960,669. I&E is recommending a total fair value for PAWC Wastewater's SSS rate base of $646,311,450. In addition, I&E is recommending a total fair value for PAWC Wastewater's CSS rate base of $480,501,661.

B. Revenues

I&E recommends that $12,814,193 of present rate revenue from the proposed BASA acquisition and $1,824,191 of present rate revenue from the proposed Brentwood[21] acquisition be excluded from rate recovery. I&E also recommends that $322,926 of present rate revenue from the Farmington acquisition and $471,228 of present rate revenue from the Sadsbury acquisition be excluded from this case.

C. Expenses

I&E witness Okum makes various adjustments to Pension Expense, OPEB Expense, Acquisition O&M Expense, and comments on Credit Card and E-Check Transaction Fees, which are detailed in the Expense portion of the Brief below.

In addition, Ms. Okum puts forth testimony opposing PAWC's proposed Pension and OPEB tracker, as well as its Production Expense tracker.

D. Taxes

I&E made no specific adjustments to PAWC's claim for taxes. Any flow-through effect resulting from the various I&E recommendations are captured in the tables attached to this brief.

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[21] It is I&E's understanding that it is the Company's intent to remove Brentwood from this filing, however, for purposes of clarity, I&E has noted this recommendation related to Brentwood.

E. Rate of Return

I&E witness Patel recommends the following rates of return for the Company:

I&E **Summary of Cost of Capital** Pennsylvania-American Water Company - Water Operations			
Type of Capital	**Ratio**	**Cost Rate**	**Weighted Cost Rate**
Long-Term Debt	44.01%	4.76%	2.09%
Preferred Stock	0.00%	0.00%	0.00%
Common Equity	55.99%	8.45%	4.73%
Total	**100.00%**		**6.82%**

I&E **Summary of Cost of Capital** Pennsylvania-American Water Company - Wastewater Operations			
Type of Capital	**Ratio**	**Cost Rate**	**Weighted Cost Rate**
Long-Term Debt	42.73%	4.76%	2.03%
Wastewater Specific Debt	4.40%	2.67%	0.12%
Preferred Stock	0.00%	0.00%	0.00%
Common Equity	52.87%	8.45%	4.47%
Total	**100.00%**		**6.62%**

F. Rate Structure and Rate Design

Both I&E witness Kubas and Witness Cline base their rate design proposals on the Company's cost of service studies as explained in detail below. The I&E witnesses designed rates with cost causation in mind and the goal of ensuring that water and wastewater customers pay their cost to serve. The rates designed by I&E will need to be scaled back, if the Commission grants less than a full increase, which I&E and other parties to this proceeding have proposed. The I&E scale back proposals for both water and wastewater customers are discussed in detail below.

G. Alternative Ratemaking Requests

The Company proposed two alternative ratemaking mechanisms comprised of a Revenue Decoupling Mechanism and an Environmental Compliance Investment Charge, both of which I&E opposed for the reasons detailed below.

H. Low-Income Customer Assistance

Regarding low-income customer assistance, I&E witness Okum testifies that any increase to the Company's hardship fund approved in this proceeding be funded by the Company's shareholders. Additionally, Ms. Okum recommends that if the Commission approve the line-replacement program proposed by CAUSE-PA witness Geller, that the program be funded entirely by shareholders.

Lastly, Ms. Okum testifies that to the extent a Comprehensive Universal Service Plan is required for water and wastewater utilities, that the Commission provide statewide guidance and not single only PAWC for providing a plan.

I. Service Quality and Customer Service Issues

I&E took no position on these issues.

J. Miscellaneous Issues

Apart from the issue described above, and as more fully explained in more detail below, I&E did not make further recommendations or adjustments to PAWC's claims in this proceeding.

IV. RATE BASE

Rate base is the depreciated original cost of a utility's investment in plant a utility has in place to serve customers, plus other additions and deductions that the Commission determines to be necessary in order to keep the utility operating and providing safe and reliable service to its customers. For utility plant to be included in rates, the plant must be used and useful in the provision of utility service to the customers. Therefore, by definition, only plant currently providing or capable of providing utility service to customers or plant projected to be completed and in service by the end of the FPFTY is eligible to be reflected in rates.

The depreciated original cost is determined by subtracting the book reserve, which is the accumulation of all prior annual depreciation expense, and other items such as retirements and salvage value from the original cost of the plant in service at the end of the fully projected future test year. Some of the additions to the depreciated original cost of a company's investment in utility include acquisition adjustments, materials and supplies, prepayments, and cash working capital. Some of the deductions include deferred income taxes and customer deposits. Some additions are applicable to a specific utility or utility type.

PAWC has included in this filing various water and wastewater acquisitions that are currently pending before the Commission; however, it does not yet have Commission approval to acquire these systems and, as a result, it does not currently own them. These systems include the Bulter Area Sewer Authority wastewater system (BASA), Brentwood wastewater system, the Farmington Township (Farmington) water and wastewater system, the Sadsbury wastewater system, and the Audubon Water Company (AWC) water system. At the evidentiary hearing, PAWC witness Ashley Everette explained that the Company agreed to remove the Brentwood revenue requirement from its claims in this proceeding.[22] Therefore, while some references to Brentwood may be made in the I&E brief for the purposes of clarity, it is I&E's understanding that the Company is removing the system from this case.

[22] Tr. at 1970.

I&E recommends that all costs be denied with respect to the remaining systems identified above. PAWC has the burden to demonstrate that the property is actually used and useful in the public service.[23] The Brentwood, Farmington, Sadsbury and Audubon acquisitions have not closed as they have not been approved by this Commission. Property that is not owned by PAWC is not used and useful in service to its customers. Therefore, PAWC has not met its burden of proving that ratemaking recovery is in the public interest.

PAWC currently has eleven different wastewater rate zones with various rates, with eight in the Sanitary Sewer System (SSS) Group, which only includes sanitary systems, and three zones in the Combined Sewer System (CSS) Group, which include systems that treat both sanitary and storm water flows.

Where appropriate, I&E has separated the rate base issues for water and wastewater in this proceeding.

A. Utility Plant In Service

1. Fair Value – Water

I&E is recommending a total fair value for PAWC's water rate base of $4,688,960,669.[24] In determining the appropriate water rates base, I&E disagrees with PAWC proposal to include the Farmington and AWC water distribution systems as the acquisitions have not yet been approved by the Commission. The Farmington application was filed on August 28, 2023, and the AWC application was filed on September 21, 2023. According to PAWC witness Abruzzo, these acquisitions were included in the filing because PAWC anticipates them closing before the end of the FPFTY.[25]

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23 *Bell Tel. Co. v. Pa. P.U.C.*, 408 A.2d 917, 925 (Pa. Cmwlth. Ct. 1979).
24 Appendix A, I&E Table I - Water Operations, column F, line 22.
25 PAWC Statement No. 6-R, p. 12.

Requesting rate recovery in this proceeding is improper because there is no way to know whether and when those transactions will be approved. The public interest requires that ratepayers pay a return of and on assets that are used and useful in the public service. If PAWC does not yet own the assets, they are not used and useful in the public service to PAWC ratepayers. As I&E witness Cline explains:

> …including any not as yet acquired system in a base rate case based on the mere speculation that the acquisition will close no later than the end of the FPFTY, is not in the public interest. Utilities are entitled to earn a fair return on the value of their rate base, and it is unfair to require utility customers to pay for this return when PAWC does not currently own the assets and cannot guarantee it will own the assets by the end of the FPFTY. Assets the Company does not own cannot be considered used and useful in public service. Additionally, the Company provided insufficient support for its proposal to include the Farmington and AWC systems in the present base rate case. Lastly, there is no guarantee that the Commission will approve either acquisition.
>
> Treating potential acquisitions as a fait accompli regardless of the status of the actual acquisition to begin recovering costs as early as possible is not in the public interest and is harmful to ratepayers. [26]

PAWC does not yet own these systems and will not own them until the Commission issues an order and PAWC is able to close the transactions. Allowing rate recovery of pending acquisitions, regardless of the status of the actual acquisition, is not in the public interest and is harmful to ratepayers. Including these systems in rates now is inappropriate because the Commission might require a change in the purchase price or deny the proposed transaction in its entirety. Therefore, PAWC ratepayers would pay for a return of and a return on the Farmington and AWC assets and expenses that could be inaccurate for the entire period between the implementation of rates in this case and the implementation of rates in the next subsequent case. It is unreasonable and contrary to sound ratemaking principles to allow rate recovery for

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[26] I&E Statement No. 4, pp. 5-6.

acquisitions where the acquisition dockets are currently pending and no closing dates have been established.

For example, the Company included the Farmington and AWC systems in the current filing each with a claim for the amortization of utility plant acquisition adjustments based upon the purchase price and depreciated original cost of each system. Through the acquisition proceedings it is possible that errors could be identified that would affect the amortization claim in this proceeding. These potential changes would not be reflected in this case, because it is possible, if not likely, that this base rate case will conclude with a Commission Order before an Order is issued for either of the Farmington Township or AWC acquisition cases. Thus, the Company would be recovering amounts associated with these acquisition adjustments in rates that may be inaccurate and could not be remedied until the next base rate case.

Further, prematurely including these pending acquisitions in rates severely limits the effectiveness of any public input hearings as it essentially preapproves the request and removes the opportunity for customers to make their voices heard regarding the potential sale of their water or wastewater utility. No incentive exists for a customer to speak up regarding an acquisition if the Commission has already allowed it to be included for rate recovery before issuance of an order approving PAWC's ownership. This stands directly opposed to the public interest.

For the reasons described above, I&E witness Cline recommends that the Commission remove the revenue requirement for the Farmington Township and AWC water systems from the present proceeding, including all costs, revenues, taxes, and amortizations. Because PAWC does not own the systems, PAWC cannot meet its burden of demonstrating that these assets are used and useful in public service. The table below shows the net plant in service, acquisition adjustments and amortizations, transaction costs and amortizations, depreciation expense, and revenues, as shown on PAWC Ex. 3-C, pp. 72-77 that should be removed:

	Farmington Township	AWC
Net Plant	$2,502,811	$360,229
Acquisition Adjustment	$215,489	$7,639,771
Acquisition Adjustment Amortization Expense	$21,549	$763,977
Transaction Costs	$54,825	$117,954
Transaction Costs Amortization Expense	$5,483	$11,795
Depreciation Expense	$607,272	$310,188
Revenue	$266,371	$2,965,024

2. Fair Value - Wastewater

I&E is recommending a total fair value for PAWC Wastewater SSS rate base of $646,311,450.[27] In addition, I&E is recommending a total fair value for PAWC Wastewater CSS rate base of $480,501,661.[28]

I&E witness Kubas recommends that the rate base, expenses, taxes, revenue, and corresponding revenue shortfall from the Brentwood system be excluded from this case.[29] It is I&E's understanding from the Rejoinder Testimony of I&E witness Ashley Everette, that the Company has agreed to do so.[30]

In addition, Mr. Kubas recommended that the rate base, expenses, taxes, and revenue from the BASA system be excluded from this case.[31] His recommendation is based largely on the fact that PAWC does not own the system, and the transaction closing date, if any, is unknown.[32] For the same reason, Mr. Kubas recommends the rate base, expenses, taxes, and

27 Appendix A, I&E Table I - Wastewater SSS Operations, column F, line 22.
28 Appendix A, I&E Table I – Wastewater CSS Operations, column F, line 22.
29 I&E Statement No. 3, p. 4.
30 Tr. at 1970.
31 I&E Statement No. 3, p. 6.
32 *Id*.

revenue from the Farmington wastewater system[33] and Sadsbury wastewater system[34] be excluded from this case.

Regarding Wastewater SSS Operations, the Company claimed rate base of $649,330,622 for the FPFTY ending June 30, 2025.[35] The Company is reflecting $1,935,612 of net plant as a result of the Sadsbury acquisition and $932,272 of net plant as a result of the Farmington acquisition. In addition, PAWC is claiming $27,482,112 of annual depreciation expense for the FPFTY ending June 30, 2025, of which $24,342 associated with Sadsbury and $11,611 associated with Farmington should be removed.[36] The determination of this net plant and the references used to arrive at these net plant amounts are shown on I&E Ex. No. 3, Schedule 28 lines 1-5 and 11-15. For the reasons discussed above, I&E witness Kubas recommends these amounts associated with the Farmington and Sadsbury acquisitions be removed from the Company's filing. As explained above, only plant that is used and useful can be included in rate base and recovered from customers. Plant that PAWC does not own is, by definition, not used and useful in service to PAWC's customers. As PAWC has not carried its burden of proving this plant is used and useful, it should be excluded from rates.

B. Depreciation Reserve

I&E did not provide testimony specifically related to depreciation reserve.

C. Cash Working Capital

For ratemaking purposes, cash working capital (CWC) is the capital needed to operate a utility between the rendition of service and the receipt of revenues in payment for services

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33 *Id.* at 7.
34 *Id.* at 8.
35 PAWC Volume 3, p. 96.
36 I&E Statement No. 3, pp. 80-81.

rendered.[37] In short, CWC covers the lag between the payment of operating expenses and the receipt of revenues from ratepayers. All cash-based expenses are included in the Company's overall CWC claim; therefore, any adjustments to the Company's O&M expense claims impact the CWC allowance.

The Company calculates its CWC claim by using a lead/lag study. Briefly, the CWC requirement is calculated by multiplying the net leg days (revenue lag days less expense lag days) by the average operating expense per day (total operating expenses ÷ 365 days). A lead/lag study measures the differences in time between: (1) the time services are rendered until payment of those services is received; and (2) the time between the point when a utility has incurred an expense and the actual payment of the expense. Stating this in a different way, the lead/lag study measures how many days exist on average between the midpoint of the service period and the date the payment is made.

I&E accepts the Company's use of the lead/lag method but disagrees with the Company's CWC claim. The Company's CWC claim was updated in Rebuttal testimony and is reflected in the table below:

	FPFTY Updated Claim	**PAWC filing[38]**
Water Operations	$23,152,054	Exhibit No. 3-A Revised, p. 35R
Wastewater SSS Ops.	$2,235,324	Exhibit No. 3-A Revised, p. 101R
Wastewater CSS Ops.	$1,881,933	Exhibit No. 3-A Revised, p. 221R
Total	$27,269,311	

In surrebuttal testimony, I&E witness Okum presented an update to her CWC recommendation to reflect certain adjustments that she withdrew. Based on the Company's updated CWC claim

[37] I&E Statement No. 1, p. 37.
[38] I&E Statement No. 1-SR, p. 35.

and Ms. Okum's updated O&M adjustments, the following table shows I&E's CWC recommendation:

	Updated Claim	**Updated I&E Allowance**	**Adjustment[39]**
Water Operations	$23,152,054	$22,063,423	($1,088,631)
Wastewater SSS Ops.	$2,235,324	$2,204,399	($30,925)
Wastewater CSS Ops.	$1,881,933	$1,881,933	$0
Total	**$27,269,311**	**$26,149,755**	**($1,119,556)**

The table above is based on the Company's CWC claim as revised in Rebuttal testimony.[40] I&E ultimately recommended that PAWC's O&M expense claims be reduced by $8,111,532 for water operations and $504,709 for wastewater SSS operations, which reduced the Company's CWC allowance by $1,119,556 as shown above. No O&M adjustments were made by I&E to Wastewater CSS operations, therefore, there is no corresponding CWC adjustment shown in the above table. Because I&E's recommended expense adjustments are prudent for the reasons discussed herein, I&E's recommended CWC allowance of $26,149,755 ($27,269,311-$1,119,556)[41] is reasonable.

However, as explained by Ms. Okum "[a]ll adjustments to the Company's claims for revenues, expenses, taxes, and rate base must be continually brought together for each operating unit in the Administrative Law Judge's Recommended Decision and again in the Commission's Final Order. This process, known as iteration, effectively prevents the determination of a precise calculation until all adjustments have been made to the Company's claims."[42] As a result, this

39 I&E Statement No. 1-SR, p. 36.
40 I&E Statement No. 1-SR, p. 35.
41 I&E Statement No. 1-SR, p. 4.
42 I&E Statement No. 1-SR, p. 37.

number would be subject to change based on any other expense adjustments the ALJs may adopt in their Recommended Decision, or those that the Commission may adopt in their final Order.

D. Acquisition Adjustment and Amortization Expense

An Acquisition adjustment occurs when a utility purchases another system for more or less than the book value. It can also include transaction costs incurred to acquire a system and is typically claimed in rate base and amortized over a reasonable period of time. Annual amortization expense is an operating expense. It represents the recovery or refund of regulatory assets and liabilities over an agreed upon period of time. Regulatory assets and liabilities may or may not be included in a company's rate base.

PAWC is claiming $3,749,235 of Acquisition Adjustment in the FPFTY.[43]

For the Sadsbury system, the Company is projecting that the purchase price will be $945,612 less than the net book value of the Sadsbury plant.[44] Because it is a negative Acquisition Adjustment, the Company is required to amortize the adjustment as a credit back to customers over 10 years. While there is no rate base adjustment, the Company is claiming a negative $94,561 ($945,612 /10) Acquisition Adjustment expense be credited back to customers over 10 years. As I&E has recommended the Sadsbury acquisition be removed from this proceeding in total, it will also be necessary to remove this negative acquisition adjustment.[45]

I&E witness Kubas recommends that $83,085 of Transaction Costs related to the Sadsbury system and $51,761 of Transaction Costs related to the Farmington system included in the Acquisition Adjustments be removed from the total Acquisition Adjustment claimed in rate base. These systems are not yet owned by PAWC, therefore PAWC should not be able to include

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43 PAWC Volume 3, Ex. 3-A, p. 96, line 16 and p. 106.
44 PAWC Volume 4, Ex. 3-B, p. 344.
45 I&E Statement No. 3, p. 83.

the corresponding Transaction Costs incurred to acquire these systems as part of the total Acquisition Adjustment in rate base from these systems in the SSS Operations.

If the Commission adopts I&E's recommendation to exclude the Sadsbury and Farmington system, there should be a corresponding $9,147 reduction of amortization expense claimed for the Sadsbury system and $5,699 claimed for the Farmington System.[46] As described above, these systems are not yet owned by PAWC and it is premature to allow PAWC to recover these corresponding transaction expense in this case. In addition, if the $83,085 of Transaction Costs related to the Sadsbury system and $51,761 of Transaction Costs related to the Farmington system be removed from the total Acquisition Adjustment claimed in rate base, there should be a corresponding reduction of $8,358 of Annual Amortization related to the Sadsbury system and a reduction of $5,224 of Annual Amortization related to the Farmington system.[47]

E. Annual Depreciation Expense

Investors provide the capital funds to pay for the installation of utility plant used to provide utility service to customers. The Commission's *Guide to Utility Ratemaking*, explains that the "…capital employed to purchase utility plant is recovered from ratepayers through depreciation expense that is accumulated over the life of the asset."[48] Annual depreciation expense is an operating expense that represents the loss of service value of plant over the life of the plant.[49] PAWC is claiming $27,482,112 of annual depreciation expense for the FPFTY.[50]

I&E witness Kubas recommends that $24,342 of annual depreciation expense associated with the Sadsbury wastewater system and $11,611 associated with the Farmington wastewater

46 PAWC Volume 3, SSS Operations, page 130.
47 I&E Statement No. 3, pp. 84-85, citing I&E Ex. No. 3, Sch. 28, lines 10 and 18.
48 *A Guide to Utility Ratemaking*, Cawley and Kennard (2018 Edition), p. 107.
49 I&E Statement No. 3, p. 80.
50 PAWC Volume 3, p. 76, line 3.

system be removed from the SSS Operations annual depreciation expense.[51] Mr. Kubas explains that the filing did not contain a breakdown of annual depreciation expense for the Farmington System; therefore, he applied the approximately 1.26% composite depreciation rate applicable in the Sadsbury system to the Farmington system net plant to arrive at the $11,611 ($923,272 X 0.012576) of Farmington annual depreciation expense.[52]

This recommendation is consistent with the I&E recommendation that these systems be removed from this filing as there is no certain date when PAWC will actually own them. As PAWC is not currently the owner of the systems, PAWC should not be able to include the annual depreciation expense therefrom.

F. Reporting – Utility Plant in Service

I&E recommends that the Company provide I&E and the Office of Consumer Advocate (OCA) with updates to PAWC Ex. 3-A, pp. 26, 97, 146, 179, and 218 no later than December 1, 2025, under this docket number. PAWC's updates should include actual plant additions and retirements for the twelve months ending June 30, 2024 and for the twelve months ending June 30, 2025.

The Company is estimating that it will add approximately $742,020,7140 of plant additions in the FTY ending June 30, 2024 and approximately $797,874,110 of plant additions in the FPFTY. There is value in determining how closely PAWC's projected investments in future facility comport with the actual investments that are made by the end of the FTY and the FPFTY. Determining the correlation between PAWC's projected and actual plant additions and retirements will help verify the validity of PAWC's projections.

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51 I&E Statement No. 3, pp. 80-81. *See also* I&E Exhibit No. 3, Sch. 28, lines 6-8.
52 *Id.* at 81.

PAWC has indicated that it agrees with I&E's reporting requirement recommendation and that it will provide the updates as I&E requested.[53]

G. Conclusion and Summary Regarding Removal of Systems Pending Acquisition.

I&E recommends that the Commission remove the revenue requirement for the Farmington and Sadsbury systems from the present proceeding including all costs, revenues, taxes, and amortizations. The table below shows the net plant in service, acquisition adjustment accrued and annual, depreciation expense, and revenues that would need to be removed:[54]

	Farmington Township	Sadsbury
Net Plant- Rate Base	$923,272	$1,935,612
Transaction Costs - Rate Base	$51,761	$83,085
Transaction Costs – Accrued Amortization	-$5,224	-$8,385
Acquisition Adjustment – Annual Expense		-$94,561
Transaction Costs Amortization Expense	$5,699	$9,147
Depreciation Expense	$11,611	$24,342
Present Rate Revenue	$322,926	$471,228

In addition I&E recommends the Commission disallow the present and proposed rate revenue, rate base, expenses, amortizations, and taxes related to the BASA systems as summarized on the following table:[55]

53 PAWC Statement No. 4-R, p. 7.
54 I&E Statement No. 3, p. 85.
55 I&E Statement No. 3, p. 86. Brentwood is not shown on this table as it is I&E's understanding the Company has already agreed to the removal of this system from the instant proceeding.

	Present Rate BASA	Proposed Rate BASA
Rate Base	$231,624,479	$231,536,917
Revenue	$11,847,402	$38,135,710
Expenses and Income Taxes	$12,225,420	$19,751,679
Income Deductions	$4,979,926	$4,978,043

As explained above, I&E is recommending a total fair value for PAWC water rate base of $4,688,960,669,[56] a total fair value for PAWC wastewater SSS rate base of $646,311,450,[57] and, in addition, I&E is recommending a total fair value for PAWC wastewater CSS rate base of $480,501,661.[58]

V. REVENUES

A. Present Rate Revenue

I&E recommends that $12,814,193 of present rate revenue from BASA and $1,824,191 of present rate revenue from Brentwood[59] be excluded from rate recovery. I&E also recommends that $322,926 of present rate revenue from Farmington and $471,228 of present rate revenue from Sadsbury be excluded from this case.[60] As explained above, these are systems that PAWC does not currently own, and it is unclear at what point PAWC will actually own these systems. As such it is I&E's recommendation that all inclusion of these pending acquisitions be removed from the instant proceeding.

56 Appendix A, I&E Table I - Water Operations, column F, line 22.
57 Appendix A, I&E Table I - Wastewater SSS Operations, column F, line 22.
58 Appendix A, I&E Table I – Wastewater CSS Operations, column F, line 22.
59 It is I&E's understanding that it is the Company's intent to remove Brentwood from this filing, however, for purposes of clarity, I&E has noted this recommendation related to Brentwood.
60 I&E Statement No.3-R, p. 17.

B. Late Payment Revenue

Late Payment Revenue is received from a customer when that customer does not pay their bill on time. Since it is based upon a percentage of a customer's bill, typically an increase in base rates will result in Late Payment Revenues to increasing by the same percentage bills increase.

In Wastewater SSS Operations, PAWC collects late payment fees in Other Operating Revenue.[61] The Company is projecting it will collect $3,241,057 of Other Operating Revenue in the SSS Operations, which includes a projected late payment revenue increase of $8,332 ($472,013 - $463,681).[62]

I&E witness Kubas recommends that Other Operating Revenue be increased by $154,448, from $3,241,057 to $3,395,504 to appropriately reflect additional late payment revenue.[63] To arrive at this amount, Mr. Kubas multiplied the present rate late payment revenue of $463,681 by the 35.1% increase in tariff rates to arrive at the $162,780 ($463,681 X 35.106%), and then subtracted the $8,332 increase the Company reflected to arrive at I&E's late payment revenue increase of $154,448.[64]

VI. EXPENSES

A public utility is entitled to recover all of its reasonably incurred expenses necessary to provide service to customers.[65] The public utility requesting a rate increase and seeking to recover expenses has the burden of showing that the rate requested, including all claimed

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61 PAWC Volume 9, Ex. 10-B, p. 33.
62 I&E Statement No. 3, p. 54, citing PAWC Volume 9, Ex. 10-B, p. 33.
63 *Id.* at 54.
64 *Id.*
65 *Butler Township Water Company v. Pa. P.U.C.,* 473 A.2d 219, 221 (Pa. Cmwlth. 1984); *UGI Corp. v. Pa. P.U.C.*, 410 A.2d 923, 932 (Pa. Cmwlth. 1980); *Western Pennsylvania Water Company v. Pa. P.U.C.*, 422 A.2d 906, 908 (Pa. Cmwlth. 1980).

expenses, is just and reasonable.[66] To the extent that expenses are not reasonably incurred, imprudently incurred, or abnormally overstated during the test year, they should be disallowed and found not recoverable through rates.[67]

Accordingly, Operating and Maintenance (O&M) expenses, if properly incurred, may justly inform a rate increase proposal. However, if expenses are unreasonable, e.g., overstated, abnormal, unnecessary, or simply have not been incurred for the test year, they should not be relied upon. As explained above, the Company has the burden of proof regarding the justness and reasonableness of each expense.

I&E witness Okum address the Company's O&M expenses. The tables below show her recommendations, which are discussed in further detail below:

Water Operations:[68]

	Updated Company Claim	**Updated Recommended Allowance**	**Updated I&E Adjustment**
O&M Expenses:			
Pension	$971,071	($3,800,736)	($4,771,807)
OPEBs	($6,496,737)	($8,160,753)	($1,664,016)
Acquisition O&M	$1,675,709	$0	($1,675,709)
Total O&M Expense Adjustments			**($8,111,532)**
Rate Base:			
Cash Working Capital	$23,152,054	$22,063,423	($1,088,631)
Total Rate Base Adjustments			**($1,088,631)**

66 66 Pa. C.S. § 315(a) ; *See also Cup v. Pa. P.U.C.*, 556 A.2d 470 (Pa. Commw. 1989).
67 *Cup v. Pa. P.U.C.*, 556 A.2d 470 (Pa. Commw. 1989).
68 I&E Statement No. 1-SR, p. 10.

Wastewater SSS Operations:

	Company Claim	Recommended Allowance	I&E Adjustment
O&M Expenses:			
Acquisition O&M	$504,709	$0	($504,709)
Total O&M Expense Adjustments			**($504,709)**
Rate Base:			
Cash Working Capital	$2,235,324	$2,204,399	($30,925)
Total Rate Base Adjustments			**($30,925)**

A. Payroll Costs – Vacancy Rate

I&E did not make an adjustment to this expense.

B. Annualized Performance Pay

I&E withdrew this adjustment in Surrebuttal testimony.[69]

C. Group Insurance Expense

I&E did not make an adjustment to this expense.

D. 401K, Defined Contribution Plan and Employee Stock Purchase Plan

I&E did not make an adjustment to this expense.

E. Stock Based Compensation Expense – AWW Executives

I&E did not make an adjustment to this expense.

F. Executive Prerequisites (AWW Executives Dividend Equivalents)

I&E did not make an adjustment to this expense.

[69] I&E Statement No. 1, p 16.

G. Payroll Tax

As noted above, I&E withdrew its performance pay adjustment in Surrebuttal testimony. As the I&E payroll tax expense adjustment was the result of the I&E performance pay adjustment, I&E withdrew its payroll tax expense adjustment in Surrebuttal testimony as well.[70]

H. Insurance Other Than Group

I&E did not make an adjustment to this expense.

I. Uncollectible Expense

I&E did not make an adjustment to this expense.

J. Arrearage Management Plan (AMP) Credits - Uncollectible Expense

I&E did not make an adjustment to this expense.

K. Acquisition Related Expense

As part of the acquisition O&M claim, the Company has included various O&M expenses for the following potential acquisitions: Farmington Water, Audubon Water, Farmington Wastewater, Sadsbury Wastewater, BASA Wastewater, and Brentwood Wastewater.[71] The following table shows the Company's allocation of O&M expense among Water Operations and Wastewater SSS Operations:

Acquisition O&M Expense:	**FPFTY[72]**
Water Operations	$1,675,709
Wastewater SSS Operations	$504,709
Total PAWC Expense	**$2,180,418**

70 I&E Statement No. 1-SR, p. 17.
71 PAWC Exhibit No. 3-B, pp. 303-308.
72 I&E Statement No. 1, p. 26.

According to PAWC witness Lori O'Malley, the Company has made adjustments to annualize the O&M expenses not fully recognized in the HTY for the Company's pending acquisitions.[73] I&E disagrees with the Company's claims as discussed below.

As discussed above, it is not appropriate for the Company to claim and recover expenses for utilities that it does not own. With the exception of BASA , the Commission has not yet made a ruling on any of these acquisitions. The BASA decision is currently under appeal and the outcome is, therefore, unknown. Due to the uncertainty surrounding each of these acquisitions, I&E recommends disallowance of the entire claim.

PAWC witness Abruzzo disagrees with I&E that an acquisition should be included in the first base rate case filed after an acquisition has been closed, believing instead that the test should be whether the acquisition is likely to close within the FPFTY. He suggests that to give the Commission this certainty, it is sufficient to have a final, unappealable order approving the acquisition before the Commission enters its order in this base rate case proceeding. Mr. Abruzzo also suggests that I&E's position would encourage utilities to file one rate case after another to minimize regulatory lag in placing acquisitions into rates.[74]

The reasoning espoused by witness Abruzzo is insufficient to change I&E's position. First, the test cannot be whether the acquisition is "likely" to close within the FPFTY. Whether an entire acquisition is "likely" to close within the FPFTY is far too speculative to be relied on. It is accepted that a utility can include plant that it projects to be in service in the FPFTY in rate base in base rate case. Those situations generally related to capital improvements related to plant that the utility already owns. Furthermore, once the FPFTY was implemented in Pennsylvania, I&E began to request reports from the various utilities that filed base rate cases to determine how

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[73] PAWC Statement No. 5, p. 27.
[74] PAWC Statement No. 6-R, pp. 14-15.

close those plant additions projections matched the actual investments made by the end of the FPFTY. In turn, this helps to verify in the utilities next base rate case how closely their projections match their actual investments. In an instance such as this, there is no way to reliably know that by the end of the FPFTY PAWC will actually own these systems.

Further, to Mr. Abruzzo's second point that it would be sufficient for the Commission to have a final unappealable order by the end of the FPFTY to include these systems in rates, there is at this point no guarantee that this will occur. In addition, while the Commission order may be unappealable, there are likely avenues through which either PAWC or the utility to be acquired could still exit the purchase.

Lastly to Mr. Abruzzo's point that I&E's position would encourage utilities to file one rate case after another to minimize regulatory lag in placing acquisitions into rates, Mr. Abruzzo has provided no evidence of this actually occurring. There are various factors that go into determining when to file a base rate case and this would be just one of many.

It is simply not in the public interest for PAWC to require its already burdened ratepayers to pay for assets that PAWC does not own. If the transactions are included in rates but are ultimately changed or disallowed, the parties are then left in the unenviable position of having to unwind these systems from an already complex rate filing. They are also left with determining the appropriate remedy to customers who have been charged rates based on PAWC's speculative ownership of certain water and wastewater systems. I&E submits that given this uncertainty, these systems must be excluded from this filing. They should only be included, if at all, in the next base rate case PAWC files in which it actually owns them.

1. Water Operations

For the reasons stated above, I&E recommends disallowance of PAWC's claim of $1,675,709 for Water Operations O&M expense.[75]

2. Wastewater SSS Operations

For the reasons stated above, I&E recommends a disallowance of $504,709 of acquisition related O&M expense for Wastewater SSS Operations.[76]

L. Interest Synchronization

I&E did not make an adjustment to this expense.

M. Amortization Expense

Annual amortization expense is an operating expense. It represents the recovery or refund of regulatory assets and liabilities over an agreed upon period of time. Regulatory assets and liabilities may or may not be included in a company's rate base.[77]

I&E witness Kubas explains that if the Commission agrees with the recommendation to exclude the Sadsbury and Farmington systems, there should be a corresponding $9,147 reduction of amortization expense claimed for the Sadsbury system and $5,699 claimed for the Farmington system as shown on PAWC Volume 3, SSS Operations, page 130.[78] As previously noted these systems are not yet owned by PAWC and, therefore, it is premature to allow PAWC to recover these corresponding transaction expense in this case.

The Company also claimed a negative plant acquisition adjustment in the total amortization expense related to the Sadsbury system. For the Sadsbury system, the Company is projecting that the purchase price will be $945,612 less than the net book value of the Sadsbury

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75 I&E Statement No. 1, p. 27.
76 I&E Statement No. 1, p. 27.
77 I&E Statement No. 3, p. 81.
78 I&E Statement No. 3, p. 82.

plant. This $945,612 is shown on PAWC Volume 4, Ex. 3-B, p. 344. Because it is a negative Acquisition Adjustment, the Company is required to amortize the adjustment as a credit back to customers over 10 years. While there is no rate base adjustment, the Company is claiming a negative $94,561 ($945,612 /10) Acquisition Adjustment expense be credited back to customers over 10 years (PAWC Volume 3, Ex. 3-A, p. 130). If the Commission agrees with the I&E recommendation to remove the plant, revenue, expenses, taxes, and amortizations related to the Sadsbury system, the Commission should also remove the negative $94,561 Annual Amortization expense credit related to the Sadsbury system shown on PAWC Volume 3, Ex. 3-A, p. 130. Since the system has not yet been acquired, the Company should not be required to credit this $94,561 Annual Amortization expense back to customers.

N. Call Center Expense

I&E did not make an adjustment to this expense.

O. Depreciation Expense

I&E's only depreciation expense adjustment is discussed above in the "Annual Depreciation Expense" portion of the brief.

P. Pension and Other Post Employment Benefits (OPEB) Expense and Request for Deferred Regulatory Accounting Treatment

1. Pension and OPEB Tracker

The Company is requesting Commission authorization to defer and record any amounts above or below the projected level of pension and OPEB expenses into separate regulatory accounts.[79] PAWC witness J. Cas Swiz states that these costs are difficult to predict and that the associated claims in this case are based off projections calculated by WTW, formerly Willis Towers Watson, a national actuarial firm. Mr. Swiz explains that despite the sound and well-

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79 PAWC Statement No. 8, p. 10.

established actuarial methods used in the reports from WTW, pension and OPEB costs exhibit volatility due to several variables and are difficult to forecast. He uses this argument to support establishment of regulatory assets which would track the difference between the Commission-approved pension and OPEB expenses included in base rates and the actual expense incurred.[80]

The Company would track actual pension and OPEB expenses along with Commission-approved amounts included for recovery in base rates. Each month, actual expenses would be compared to the monthly amount authorized for recovery in base rates (annual amount divided by twelve). Actual costs above or below the authorized amount would be credited or debited to the applicable pension or OPEB deferral account. The Company would continue to defer the net balance in those accounts until the end of its next base rate case, where it would seek rate recovery via amortization of the regulatory asset or liability.[81]

I&E recommends that the proposed pension and OPEB tracker be denied.[82] Typically, the Commission has permitted extraordinary, unanticipated, non-recurring, and substantial expenses to be deferred for accounting purposes. Examples of these types of costs include those costs to make repairs in order to avoid and imminent threat to public health and safety, hurricane damage, and across the board accounting changes that would have a significant financial impact on a utility.[83] The Commission has stated "the standard which a utility must meet when seeking Commission authorization for deferral accounting is whether, based on Commission precedent, the expense item appears to be within the scope of the type of items that the Commission has

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80 PAWC Statement No. 8, pp. 12-15.
81 PAWC Statement No. 8, p. 15.
82 I&E Statement No. 1, p. 20.
83 *Petition of Pennsylvania Util. Co., Inc.,* 2012 PaPUC LEXIS 1124, at 2-3; *see also Petition of Pike County Light and Power Co.,* 2012 PaPUC LEXIS 939 at 5-6; *Petition of Columbia Gas of Pa. Inc.,* 2012 PaPUC LEXIS 836.

allowed as an exception to the general rule against retroactive recovery of past expense."[84] Deferred accounting treatment may be granted is the expense is: 1) extraordinary; 2) unanticipated; 3) non-recurring; and 4) substantial.[85] In *Popowsky v. Pa. P.U.C.* , it was noted that:

> Extraordinary cannot mean merely unanticipated, because then every unexpected occurrence or failure to predict an item would be recoverable and the exception would overwhelm the rule, making test years meaningless. To be extraordinary, it must also be a substantial, one-time expense or a substantial item that will not appear as a continuing expense and could otherwise never be recovered in rates because, like the weather-related expenses, it would be normalized out of the test year as abnormal.[86]

While these costs have sometimes been substantial in the past, the costs are not extraordinary because pension and OPEB costs are routine expenses incurred by PAWC as well as many other water and wastewater utilities. These expenses are not one-time expenses and occur year after year. Secondly, the costs are not unanticipated because they are a part of contractual agreements with past employees. Finally, the expenses cannot be categorized as non-recurring while also being forecasted on an annual basis. As the Company's pension and OPEB expenses may have only met one of four criteria to be considered for regulatory asset treatment, it is not appropriate for the Commission to grant approval for the Company to defer these costs.

Pension and OPEB expenses are normal, expected, recurring costs for which the Company cannot expect a virtually guaranteed dollar-for-dollar recovery. Pensions and OPEB costs do not meet the requirements for deferral treatment, and I&E recommends that the Commission deny the Company's request.

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84 *Petition of Columbia Gas of Pa., Inc. for Authority to Defer for Accounting and Financial Purposes Certain Start Up Expenses Assoc. with the Redesign of Upgrade of Financial Processes and Info. Systems*, Docket No. P-2012-2319920 (Order Entered December 5, 2012).

85 *Id.*

86 *Popowsky v. Pa. Publ. Util. Comm'n*, 642 A.2d 648, 652 (Pa. Cmmwlth 1994).

2. Pension Expense

The Company is claiming pension expense of $22,218 for Water Operations in the FPFTY but is not claiming any pension expense for Wastewater SSS Operations or Wastewater CSS Operations.[87] The Company started with a report furnished by its actuary, Willis Towers Watson, which reflects pension costs for 2023 in accordance with ASC 715. The Company then reduced the amount by the capitalized portion to determine the portion of total pension costs to be recorded as an expense. In addition, the Company's claim reflects a credit for the amortization of a deferred pension asset created during the Company's switch to the accrual accounting method. This deferred asset was approved in a previous rate case at Docket No. R-2017-2595853.[88]

I&E recommends a negative allowance of ($3,800,736) for pension expense, or reduction of $3,822,954 [$22,218 - ($3,800,736)] to the Company's FPFTY claim for Water Operations.[89] This recommendation is based on a three-year average of historic actuals for pension expense,[90] as shown below. If the Company continues this approach in future base rate proceedings it will allow the expense to normalize over time and address PAWC's concern about over-recovery of pension expense without the need for a tracker.

In Rebuttal testimony, PAWC witness Swiz also mentions the updated claim to pension expenses and argues specifically against the methodology discussed above. Mr. Swiz disagrees with that the I&E recommendation "will allow the expense to normalize over time and address PAWC's concern about over-recovery of pension expense without the need for a tracker." He explains that this approach will have no impact on the actual expenses incurred, and that

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87 PAWC Exhibit No. 3-A, p. 52.
88 PAWC Statement No. 5, pp. 12-13.
89 I&E Statement No. 1, p. 22.
90 I&E Exhibit No. 1, Schedule 4.

historical information does not inform how future expenses will be recorded. He states that, going back to 2014, using a three-year historic average would result in even larger variances than the Company experienced using its own forecasting methodology.[91]

Mr. Swiz is incorrect for several reasons. First, Mr. Swiz is falsely characterizing the Company's forecasted amounts as an "authorized expense" as the Company's recent cases (at least the past three cases at Docket Nos. R-2017-2595853, R-2020-3019369, and R-2022-3031672) have all resulted in settlement with no specific monetary value assigned to pension expense. Therefore, the variance column in the tables[92] presented by PAWC witness Swiz are void as a comparison because the applicable rates in each period were not calculated based on this number. Second, I&E witness Okum was unable to verify the data presented in Mr. Swiz's analysis and takes issue specifically with the data presented for the year 2022 as there was no rate change in that year. Finally, per its base rate case settlement, the Company switched to the accrual accounting method for ratemaking purposes to calculate its pension expense claims in 2018.[93] Consequently, the data prior to that year is not relevant to this analysis.

Additionally, in PGW's 2023 base rate case (*PGW 2023)* the Commission adopted a three-year normalization of rate case expense.[94] Therefore, I&E continues to recommend using a three-year average of historic actual expenses for pension based on the evidence presented and relevant case law.

3. OPEB Expense

The Company is claiming OPEB expense of ($5,817,327) for Water Operations, $9,810

91 PAWC Statement No. 8-R, pp. 6-8.
92 PAWC Statement No. 8-R, p. 7.
93 *Pa. P.U.C. v. Pennsylvania American Water Co.,* Docket No. R-2017-2595853, Joint Petition for Settlement, paragraph 17, p. 8 (Order entered December 7, 2017).
94 *Pa. P.U.C. v. PGW,* Docket No. R-2023-3037933, p. 883 (Order entered November 9, 2023) .

for Wastewater SSS Operations, and $32,234 for Wastewater CSS Operations in the FPFTY.[95]

I&E witness Okum disagrees with the Company's claim and recommends the use of a historical three year average for OPEB expense. This results in a reduction of $1,664,016 [($8,160,753) - ($6,496,737)] to the Company's FPFTY claim.[96] This was an update to Ms. Okum's position in Direct testimony[97] as a result of the Company's updates FPFTY claim in Rebuttal testimony wherein the Company's claim was updated from $ (5,817,327) to $(6,496,737)[98] to account for the 2024 actuarial report furnished for the Company by Willis Towers Watson. Ms. Okum did not address the OPEB claims for Wastewater SSS Operations or Wastewater CSS Operations since these claims are made up entirely of $600 contributions per union employee for those who are not eligible for retiree medical benefits under the OPEB plan.[99]

Using the three-year historical average as Witness Okum recommends will allow the expense to normalize over time and address any concerns about over-recovery without the need for a tracker. PAWC Witness Swiz disagrees with the use of a historical three year average stating that this approach will have no impact on the actual expenses incurred, and that historical information does demonstrate how future expenses will be recorded. Additionally he claims that, going back to 2014, using a three-year historic average would result in even larger variances than the Company experienced using its own forecasting methodology.[100]

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95 PAWC Exhibit No. 3-A, pp. 51, 116, and 236.
96 I&E Statement No. 1-SR, p. 26.
97 In direct testimony, Witness Okum recommended the following which was still based upon a historical three year average: a negative allowance of ($8,160,753) for OPEB expenses, or a reduction of $2,343,426 [($8,160,753) - ($5,817,327)] to the Company's as-filed FPFTY claim. (I&E Statement No. 1, p. 24).
98 PAWC Exhibit No. 3-A Revised, p. 51R.
99 I&E Statement No. 1. pp. 24-25.
100 PAWC Statement No. 8-R, pp. 6-8.

I&E witness Okum disagrees with Mr. Swiz's rationale. She explains:

> Mr. Swiz is falsely characterizing the Company's forecasted amounts as an "authorized expense" as the Company's recent cases (at least the past three cases at Docket Nos. R-2017-2595853, R-2020-3019369, and R-2022-3031672) have all resulted in settlement with no specific monetary value assigned to OPEB expense. Therefore, the variance column is null and void as a comparison because the applicable rates in each period were not calculated based on this number.
>
> Additionally, I am unable to verify the data presented in Mr. Swiz's analysis and take issue specifically with the data presented for the year 2022 as there was no rate change in that year...[101]

The approach recommended by I&E witness Okum is consistent with prior Commission determinations. In the 2023 PGW Base Rate Case (*PGW 2023)* the Commission stated, "…similar to PGWs pension expense claim, a three-year normalization of the Company's claim for OPEB expense is appropriate."[102] In addition, in a recent PECO Gas base rate Case (*PECO Gas 2021*) the Commission stated the following regarding a three-year average of OPEB expense:

> We agree with the ALJ's recommendation that the OCA's proposed adjustment to OPEB expense, in which actual and projected OPEB expense for the years 2020-2022 are averaged, will reflect a level of OPEB expense that is more accurate and reasonable. We are persuaded by the OCA's argument that its proposed adjustment calculation, which utilizes the Company's actual and estimated OPEB costs from 2020-2022, will include the projected increase in OPEB expenses that will result from the expiration of the prior service credit amortization.[103]

The evidence presented by I&E and the relevant case law demonstrate that a three-year average for OPEB expense is the appropriate measure. Therefore, I&E witness Okum's

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[101] I&E Statement No. 1-SR, pp. 25-26.

[102] *Pa. P.U.C. v. PGW,* Docket No. R-2023-3037933, p. 86 (Order entered November 9, 2023) .

[103] *Pa. P.U.C. v. PECO Energy Co. – Gas Division,* Docket No. R-2020-3018929, p. 90 (Order entered June 22, 2021).

recommendation should be adopted.

Q. Production Expense and Request for Deferred Regulatory Accounting Treatment

For largely the same reasons as described above related to the Pension and OPEB tracker, I&E recommends denial of the Companies' proposed Production Expense Tracker.

The Company is requesting Commission authorization to defer and record any amounts above or below the projected level of production expenses into separate regulatory accounts.[104] The Company defines production expenses as the costs incurred to provide water and wastewater services to its customers, including purchased water and wastewater treatment, chemicals, fuel and power, and waste disposal.[105] PAWC witness J. Cas Swiz argues that these expenses can materially increase or decrease based on the prices charged by suppliers, and are needed to provide safe and reliable water and wastewater service to customers. Mr. Swiz asserts that market conditions impacting production expenses represent an extraordinary combination of circumstances that are expected to continue to produce significant price volatility over the next several years. He uses this argument to support establishing regulatory assets to track the difference between the individual Commission-approved production expenses included in base rates and the actual expense incurred.[106]

The Company would maintain separate regulatory accounts for purchased water and wastewater treatment, chemicals, fuel and power, and waste disposal. Beginning the first month after rates from the instant proceeding take effect, the Company would record the difference between actual costs and Commission-approved amounts included for recovery in rate base (which assumes PAWC claimed amounts are approved in the event of a black box settlement).

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[104] PAWC Statement No. 8, p. 10.
[105] PAWC Statement No. 8, p. 17.
[106] PAWC Statement No. 8, pp. 18-20.

The total amount authorized in the instant proceeding for all production expense items would be unitized (cost per 1,000 gallons) by taking the total expenses divided by overall water and wastewater usage used to derive rates and charges in this proceeding. This rate would be multiplied by monthly usage to determine the authorized amount collected in the current month, which would be compared to actual monthly expense. The difference would be recorded in the appropriate regulatory accounts and would accumulate until the next rate case when it is presented for collection via amortization.[107]

As succinctly stated by the Office of Small Business Advocate (OSBA) witness Higgins:

> Ratemaking is not intended to be a simple exercise in expense reimbursement. Rates are set with the expectation that utility management will run the business as efficiently as possible, while providing safe and reliable service to customers and meeting its other regulatory responsibilities. In so doing, the Company is given the opportunity to achieve or exceed its authorized return to its shareholders. As part of this arrangement, utility management should be expected to cope with normal business risks and the operation of economic forces, without resorting to single issue ratemaking, such as the requested deferred accounting treatment, except in circumstances of compelling public interest.[108]

The expenses in question are not extraordinary, unanticipated, or non-recurring, and while in some instance they may be substantial expenses they do not meet the requirements to be deferred for accounting purposes.

Unlike Pension and OPEB expense, I&E did not make an adjustment to production expense in this case.[109]

R. Miscellaneous Expense Adjustment – Credit Card and E-check Fees

I&E witness Okum determined there was a discrepancy in the Company's claim for

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[107] PAWC Statement No. 8, pp. 19-20.
[108] OSBA Statement No. 1, pp. 47-48.
[109] I&E Statement No. 1, p. 33.

credit card and e-check fees.[110] The Company acknowledges that PAWC Exhibit 3-B shows the correct amounts. PAWC witness Lori O'Malley states that the adjustment reduces the Company's original claim for miscellaneous expense by $182,738.[111] She points to PAWC Exhibit 3-A Revised, p. 64R where the change is reflected in the revised filing and to PAWC Exhibit LNO-4R for supporting calculations.

As a result, this should be reflected in the ALJs' Recommended Decision and the Commission's final Order in this proceeding.

VII. TAXES

I&E made no specific recommendations related to adjustments to taxes. Any such adjustments would simply be the result of the flow-through of other I&E adjustments. As noted by I&E witness Okum, "[a]ll adjustments to the Company's claims for revenues, expenses, taxes, and rate base must be continually brought together in the Administrative Law Judge's Recommended Decision and again in the Commission's Final Order."[112] As such, all adjustments to taxes related to I&E's recommendations occur as a result of this principle and not as a result of a specific tax adjustment.

VIII. RATE OF RETURN

A. Summary

A rate of return allows payment to a utility's debt holders with interest and fair compensation for its equity shareholders. Rate of return is expressed as the amount of revenue an investment generates in the form of net income and is usually expressed as a percentage of the amount of capital invested over a given period of time.

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110 I&E Statement No. 1-R, p. 4.
111 PAWC Statement No. 5, p. 7.
112 I&E Statement No. 1-SR, p. 40.

In *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*[113] and *Federal Power Commission v. Hope Natural Gas Co.*[114] the U.S. Supreme Court expressed the legal standards for determining rates of return. In *Bluefield,* the U.S. Supreme Court stated:

> 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; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial 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 too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.[115]

The U.S. Supreme Court affirmed these principles in *Hope Natural Gas,* stating:

> 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 equity owner should be commensurate with returns on investments 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.[116]

Therefore, the principles followed by regulators through the U.S. to measure a fair rate of return include the following:

- A utility is entitled to a return similar to that being earned by other enterprises with corresponding risks and uncertainties, but not as high as those earned by highly profitable or speculative ventures;

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113 262 U.S. 679 (1923) ("*Bluefield*") .
114 320 U.S. 591 (1944) ("*Hope Natural Gas*").
115 *Bluefield*, 262 U.S. 679, 692-93.
116 *Hope Natural Gas,* 320 U.S. 591, 603.

- A utility is entitled to a return level reasonably sufficient to assure financial soundness;
- A utility is entitled to a return sufficient to maintain and support its credit and raise necessary capital;
- A fair return can change (increase or decrease) along with economic conditions and capital markets.[117]

In accordance with these principles, I&E witness DC Patel recommends the following rate of return for PAWC:[118]

I&E **Summary of Cost of Capital** Pennsylvania-American Water Company - Water Operations			
Type of Capital	**Ratio**	**Cost Rate**	**Weighted Cost Rate**
Long-Term Debt	44.01%	4.76%	2.09%
Preferred Stock	0.00%	0.00%	0.00%
Common Equity	55.99%	8.45%	4.73%
Total	**100.00%**		**6.82%**

In addition, I&E witness Patel recommends the following rate of return for PAWC wastewater division:[119]

I&E **Summary of Cost of Capital** Pennsylvania-American Water Company - Wastewater Operations			
Type of Capital	**Ratio**	**Cost Rate**	**Weighted Cost Rate**
Long-Term Debt	42.73%	4.76%	2.03%
Wastewater Specific Debt	4.40%	2.67%	0.12%
Preferred Stock	0.00%	0.00%	0.00%
Common Equity	52.87%	8.45%	4.47%
Total	**100.00%**		**6.62%**

117 I&E Statement No. 2, pp. 3-4. *See also Pennsylvania Gas & Water Company v. Pa. P.U.C.*, 341 A.2d 239, 249-252 (Pa. Cmwlth. 1975).
118 I&E Statement No. 2-SR, p. 44.
119 I&E Statement No. 2-SR, p. 44.

I&E witness Patel accepts PAWC's claimed cost rates of long-term debt as these cost rates are based on projected actual costs and are representative of the industry.[120] Mr. Patel also recommends using the Company's capital structure for both water and wastewater as they fall within his proxy group's capital structures.[121] However, I&E witness Patel rejects the Company's method for calculating return on common equity. Instead, I&E witness Patel calculates his recommended return on equity pursuant to the Discounted Cash Flow (DCF) methodology frequently used by the Commission while using the Capital Asset Pricing Model (CAPM) as an alternate means to verify the reasonableness of his return.

B. Proxy Group

A proxy (or barometer) group is a group of companies that act as a benchmark for determining the utility's rate of return. A proxy group is also typically used because using data exclusively from one company may be less reliable than using a group of companies because the data for one company may be subject to short-term anomalies that distort its return on equity. Use of a proxy group smooths these potential anomalies. Use of a proxy group also satisfies the long-established principle of utility regulation that seeks to provide the utility the opportunity to earn a return equal to that of similar risk enterprises.[122]

I&E witness Patel selected his proxy group based on the following criteria:[123]

1. Fifty percent or more of the company's revenues must be generated from the regulated water utility industry;

2. The company's stock must be publicly traded;

3. Investment information for the company must be available from more than one source, which includes Value Line;

[120] I&E St. No. 2, pp. 17-18.
[121] I&E St. No. 2, p. 16.
[122] I&E Statement No. 2, pp. 9.
[123] I&E Statement No. 2, pp. 9-10.

4. The company must not be currently involved in an announced merger or material acquisition; and

5. The company must have four consecutive years of historic earnings data.

I&E witness Patel's proxy group comprises American Water Works, American States Water Company, California Water Services Group, Middlesex Water Company, and SJW Group.[124]

Ms. Bulkley determined her proxy group by using the following criteria:

1. Pay consistent quarterly cash dividends because companies that do not, cannot be analyzed using the Constant Growth DCF model.

2. Have investment grade long-term issuer ratings from S&P and/or Moody's.

3. Are covered by at least two utility industry analysts.

4. Have positive long-term earnings growth forecasts from at least two utility industry equity analysts.

5. Derive more than 70% of their total operating income from regulated operations.

6. Were not parties to a merger or transformative transaction during the analytical periods relied on.[125]

In addition, Ms. Bulkley considered the thirty-six companies in Value Lines Electric Utility groups to which she applied the criteria listed above, along with two additional criteria:

1. Have owned electric generation comprising less than 10% of the Company's MWh sales to ultimate customers to ensure that the electric utilities included did not own a substantial amount of generation, and therefore, had operations that were primarily transmission and distribution.

2. Own water operations.[126]

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[124] I&E Statement No. 2, p. 11.
[125] PAWC Statement No. 13, p. 25.
[126] PAWC Statement No. 13, pp. 25-26.

Resulting from Ms. Bulkley's criteria, the Company's proxy group contains 11 companies consisting of: American States Water Company, Atmos Energy Corporation, California Water Service Group, Essential Utilities, Inc., Eversource Energy, Middlesex Water Company, NiSource, Inc., Northwest Natural Gas Company, ONE Gas, Inc., SJW Group, and Spire, Inc.[127]

The Company's proxy group included four of the five companies utilized by I&E; however, I&E included PAWC's parent company American Water Works Company (AWK) and I&E excluded all electric and natural gas companies that were included by PAWC witness Bulkley. I&E's proxy group is the appropriate proxy group to use in this instance for various reasons. First, it does not appear that there is a good reason to exclude AWK from the proxy group. PAWC witness Bulkley merely mentions that it is her practice to exclude a subject company or its parent company from her proxy group.[128] However, as I&E witness Patel explains, AWK is a large company that operates and has experience in many states and numerous divisions, thereby making it appropriate for inclusion in the proxy group.[129] In rebuttal testimony Ms. Bulkley notes, that including AWK in the proxy group creates circularity because as PAWC contributes to the ROE of AWK.[130] However, the circularity would occur if PAWC alone was included in the proxy group. As explained by I&E witness Patel, AWK has vast operations across many states and numerous divisions and its required compliance to an equal number of state regulatory bodies eliminates the potential for the circularity effect Ms. Bulkley describes. It is not uncommon for this Commission to include a parent company in a proxy group for the purposes of determining the appropriate rate of return. In the *Aqua 2021*

[127] PAWC St. No. 13, p. 26.
[128] PAWC St. No. 13, p. 26.
[129] I&E St. No. 2, p. 12.
[130] PAWC Statement No. 13-R, pp. 19-20.

base rate case, the Commission adopted I&E's proxy group, which included Aqua's parent company, Essential Utilities.[131] In the *Columbia Gas 2021* base rate case, the Commission adopted I&E's proxy group, which included the Columbia parent company, NiSource.[132] This demonstrates that it is often appropriate to include the parent company in the proxy group when determining a utilities rate of return.

Regarding the inclusion of gas and electric utilities in her proxy group, PAWC witness Bulkley notes that she included these companies because of the small number of water companies that were available to include in her proxy group.[133] In addition, she indicates that as these electric and natural gas companies generate 70% or more of their operating revenues from regulated operations, this is similar to PAWC water operations, PAWC wastewater operations, and the water utilities she has included in her proxy group.[134]

Regarding the exclusion of Essential Utilities, Inc., which has water, wastewater, and gas segments, Mr. Patel notes that a utilities revenue composition of the appropriate measure to gauge when developing a proxy group.[135] PAWC witness Bulkley instead, relies on operating income when including Essential in her proxy group. As explained by Mr. Patel, a company's net income depends on various factors such as management efficiency, operational and financial efficiency, O&M cost containment, capital expenditures and the like.[136] When considering this information, it is clear that revenue composition is the more appropriate measure because a proxy group should establish a set of companies that are of a similar risk profile to the subject

131 *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 and R-2021-3027386 (Order entered May 16, 2022) p. 134.

132 *Pa. P.U.C. v. Columbia Gas of Pa., Inc.,* Docket No. R-2020-3018835 (Order Entered February 19, 2021) p. 110.

133 PAWC St. No. 13, p. 27.

134 PAWC St. No. 13, p. 27.

135 I&E St. No. 2-SR, p. 14.

136 I&E St. No. 2-SR, p. 14.

utility. In this instance Essential is not comparable because less than 50% of its revenues come from the regulated water sector.

The Commission affirmed its standard of relying on percentage of revenue for determining whether a company should be included in a proxy group in the *Columbia Water 2023* base rate. Therein, the Commission once again explained that a company's revenue, rather than operating income, was the appropriate measure to gauge whether to include a utility in a proxy group. In that decision the Commission stated:

> In *Columbia Gas 2021*, we stated the following regarding the proxy group at issue in that proceeding:
>
> > First, as I&E and the ALJ pointed out, a company's revenues represent the percentage of cash flow the company receives from each business line related to providing a good or service. Therefore, if less than fifty percent of revenues come from the regulated gas sector, the company is not comparable to the subject utility as it does not provide a similar level of regulated business…
>
> As further noted by I&E, while two companies or segments can have the same level of revenue, their net operating income may vary greatly, depending on their performance and decisions. The purpose of a proxy group is to compile a set of companies that have similar risks to the subject utility. As such, we are of the same opinion, as in our decisions in *Columbia Gas 2021* and *PECO 2021*, that if less than 50% of a utility's revenues come from the regulated business sector, the company is not comparable to the subject utility as it does not provide a similar level of regulated business.
>
> Based on the specific record developed in the instant case, we find that the percentage of revenues generated from regulated utility operations, in this instance regulated water utility operations, is the appropriate criterion to include when setting Columbia's proxy group. Therefore, we concur with I&E that Essential Utilities should be excluded from the proxy group that we will use in setting the authorized ROE and the resulting overall rate of return for Columbia in this proceeding.[137]

[137] *Pa. P.U.C. v. Columbia Water Company*, Docket No. R-2023-3040258, pp.75-76, and 77 (Order entered January 18, 2024).

I&E maintains that the proxy group developed by I&E witness Patel is the appropriate proxy group to use in this proceeding. Companies that are in the water industry are the most representative of the financial and operational risks faced by PAWC. Using gas and electric utilities in the proxy group can distort the information that the proxy group provides. As Mr. Patel notes, electric and gas utilities are dissimilar from water and wastewater utilities because electric and gas customer can shop for a supplier.[138] Simply put, the water and wastewater utilities in Pennsylvania have less risk of losing customers than gas and electric companies whose customers have the option to look for supply alternatives or to switch fuel sources. In addition, Mr. Patel notes that each different utility industry faces different operational, safety, and weather-related risk.[139] As demonstrated, gas and electricity utilities are not substantially similar to water and wastewater utilities, and, thus, including them in the proxy group off which to base the rate of return and return on equity would not be appropriate.

I&E recommends the use of its proxy group that excludes all gas and electric utilities, and includes PAWC's parent company AWK because I&E's proxy group is comprised of companies that are substantially comparable to PAWC and PAWC-WD.

C. Capital Structure

A utility's capital structure is comprised of long-term debt and common equity and represents how the utility has financed its rate base with various sources of funds. PAWC's claimed capital structure for Water Operations consists of 44.01% long-term debt and 55.99% common equity. PAWC-WD's claimed capital structure consists of 42.73% long-term debt, 4.40% wastewater specific debt, and 52.87% equity.

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[138] I&E St. No. 2, p. 14.
[139] I&E St. No. 2, p. 14.

I&E witness Patel recommends using the Company's claimed capital structures for both water and wastewater as these capital structures fall withing the range of Mr. Patel's proxy group.[140]

D. Cost of Long-Term Debt

I&E accepts PAWC and PAWC-WD's claimed cost rate of long-term debt of 4.76% for water and wastewater, as well as the 2.67% cost rate of long-term debt for wastewater specific issuances.[141] I&E witness Patel opines the Company's claimed cost rate of long-term debt is reasonable as it is representative of the industry. The implied long-term cost of debt range of I&E witness Patel's proxy group is 3.19% to 5.67%.[142] The Company's cost rate of long-term debt for Water Operations of 4.76% falls within the proxy group. While the 2.67% (updated by PAWC witness Bulkley in Rebuttal from 2.62%) is slightly below this range, it is sufficiently close to the low end of the range, and therefore is appropriate to use for this proceeding.[143]

E. Return on Common Equity

1. Introduction

As recommended by I&E witness Patel, an 8.45% return on common equity for both PAWC Water Operations and PAWC Wastewater Operations, based upon I&E witness Patel's use of a similarly-situated proxy group of companies, best balances the interests of the ratepayers and the Company.

2. I&E's Discounted Cash Flow Analysis

Although there are four methods commonly presented to estimate the cost of common equity, I&E witness Patel uses the DCF method applied to his proxy group of similar utilities to

140 I&E St. No. 2, p. 16.
141 I&E St. No. 2-SR, p. 43.
142 I&E Statement No. 2, p. 18.
143 I&E Statement No. 2, pp. 17-18.

calculate a fair return on equity. I&E witness Patel's analysis is in accordance with the Commission's historical use of the DCF as the primary methodology to determine a utility's cost of equity.[144]

In sum, the DCF is the "dividend discount model" of financial theory, which maintains that the value (price) of any security or commodity is the discounted present value of all future cash flows. The DCF model assumes that investors evaluate stocks in the classical economic framework, which maintains that the value of a financial asset is determined by its earning power, or its ability to generate future cash flows.[145]

The DCF recognizes the time value of money, is forward-looking, and has wide-spread regulatory acceptance. I&E witness Patel confirms the reasonableness of his DCF calculation with a comparison to the CAPM results because the Commission has expressed an interest in having results from another methodology as a point of comparison. While the CAPM is also forward-looking, and is based on the concept of risk and return, it and the other methodologies have flaws that should discount their use as primary determinants.

I&E witness Patel recommends a cost of common equity of 8.45% for both the water and wastewater divisions[146]. This recommendation includes a dividend yield of 2.15% and a recommended growth rate of 6.30%.[147] I&E witness Patel's analysis uses a spot dividend yield, a 52-week dividend yield, and earnings growth forecasts. I&E witness Patel employs the

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[144] *See Pa. P.U.C. v. UGI Utilities, Inc. – Electric Division,* Docket No. R-2017-2640058 (Order entered October 25, 2018) ("*UGI Utilities, Inc. – Electric Division"*), pp. 104-106, 121; *Pa. P.U.C. v. City of DuBois – Bureau of Water*, Docket No. R-2016-2554150 (Order entered March 28, 2017) ("*City of DuBois – Bureau of Water*"), pp. 96-98; *Pa. P.U.C. v. PECO Energy Co*., 87 Pa. PUC 184, 212 (Pa. P.U.C. 1997); *Pa. P.U.C. v. Philadelphia Suburban Water Co*., 71 Pa. PUC 593, 623-32 (Pa. P.U.C. 1989); *Pa. P.U.C. v. Western Pennsylvania Water Co*., 67 Pa. PUC 529, 559-70 (Pa. P.U.C. 1988); *Pa. P.U.C. v. Consumers Pennsylvania Water Company – Roaring Creek Division*, 87 Pa. PUC 826 (Pa. P.U.C. 1997); *Pa. P.U.C. v.* C*ity of Bethlehem*, 84 Pa. PUC 275, 304-05 (Pa. P.U.C. 1995); *Pa. P.U.C. v. Media Borough*, 77 Pa. PUC 446, 481 (Pa. P.U.C. 1992).

[145] I&E Statement No. 2, p. 19.

[146] I&E Exhibit No. 2, Sch. 1.

[147] I&E Statement No. 2, p. 31.

standard DCF model formula, $K = D_1/P_0 + g$, where K = the cost of equity, D_1 = the dividend expected during the year; P_0 = the current price of the stock; and g = the expected growth rate. When a forecast of D_1 is not available, D_0 (the current dividend) must be adjusted by ½ the expected growth rate in order to account for changes in the dividend paid in period 1.[148] However, since forecasts were available for all companies in Mr. Patel's proxy group, no dividend adjustments were necessary.

a) Dividend yields

A representative yield must be calculated over a time frame sufficient to avoid short-term anomalies and stale data. I&E witness Patel's dividend yield calculation places equal emphasis on the most recent spot (2.24%) and 52-week average (2.06%) dividend yields resulting in an average dividend yield of 2.15%.[149]

b) Growth rates

I&E witness Patel used earnings growth forecasts to calculate his expected growth rate. His earnings forecasts are developed from projected growth rates using 5-year estimates from established forecasting entities for his proxy group of companies, yielding an average 5-year growth forecast of 6.30%.[150]

c) Comparison to CAPM

While I&E considers the DCF method superior for determining the rate of return for the current economic market because it measures the cost of equity directly, I&E also recognizes that no method can perfectly predict the return on equity, which is why I&E also uses the CAPM as a comparison to the DCF. I&E witness Patel's analysis of a return on equity using the CAPM

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148 I&E Statement No. 2, p. 30.
149 I&E Statement No. 2, p. 30.
150 I&E Exhibit No. 2, Sch. 5.

methodology uses the standard CAPM formula $K = R_f + \beta(R_m - R_f)$, where K = the cost of equity, R_f = the risk-free rate of return; β = beta, which measures the systematic risk of an asset, and R_m = the expected rate of return on the overall stock.[151]

For his CAPM analysis, I&E witness Patel chose the risk-free rate of return (R_f) from the projected yield on 10-year Treasury Bonds as the most stable risk-free measure. With this choice, I&E witness Patel balanced out issues related to use of long-term bonds and short-term T-Bills. For his beta, I&E witness Patel used the average of the betas from the Value Line Investment Survey.[152] The average beta for Mr. Patel's proxy group was 0.80.[153] To arrive at a representative expected return on the overall stock market, I&E witness Patel reviewed Value Line's 1700 stocks and the S&P 500 Index. The result of the overall stock market returns based on I&E witness Patel's CAPM analysis is 12.05%.[154] This, in turn, yields a cost of equity result of 10.44%.[155]

I&E witness Patel gave no specific weight to his CAPM results because of his concerns that unlike the DCF, which measures the cost of equity directly by measuring the discounted present value of future cash flows, the CAPM measures the cost of equity indirectly and can be manipulated by the time period used. However, I&E submits that for purposes of providing another point of comparison, the 10.44% CAPM analysis confirms the reasonableness of I&E witness Patel's 8.45% return under his DCF calculation.

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151 I&E Statement No. 2, pp. 31-32.
152 I&E Statement No. 2, p. 34.
153 I&E Statement No. 2, p. 32.
154 I&E Statement No. 2, p. 34.
155 I&E Statement No. 2, p. 34.

d) Conclusion Regarding I&E's ROE

In consideration of the above and the record evidence presented, I&E recommends that the Company should be afforded the opportunity to earn an overall rate of return of 6.82% for Water Operations and 6.62% for Wastewater Operations. I&E recommends an overall ROE for both Water and Wastewater Operations of 8.45%.

F. The Company's Proposed Return on Common Equity

PAWC witness Bulkley relies on the DCF, CAPM, and Empirical Capital Asset Pricing Model (ECAPM) methodologies in presenting her recommended return on equity. Based on these various methods, Ms. Bulkley arrives at an ROE range from 10.00 to 11.25 percent, of which she notes her belief that a 10.95% ROE would be appropriate.[156]

PAWC witness Bulkley's recommends a common equity adjustment referred to as a management performance adjustment. Specifically, she recommends a 25 basis points upwards adjustment to reflect management performance by PAWC.[157]

I&E witness Patel opposes PAWC witness Bulkley's calculated return on equity for several reasons. First, as stated above in the discussion of proxy groups, PAWC witness Bulkley's selected proxy group is flawed as discussed above, making her results unusable. Second, Ms. Bulkley gives undue weight to the CAPM and ECAPM methods. Third, PAWC witness Bulkley's adjustment for management performance is unsupported and inappropriate.

I&E witness Patel explains that aside from including gas and electric utilities in her analysis section, the primary issue with Ms. Bulkley's DCF analysis is her elimination of the low-end results and considering mean and high-end DCF results to support her speculative claim of expected underperformance of utility stocks over the near term caused by elevated interest

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[156] PAWC Statement No. 13, p. 65.
[157] PAWC Statement No. 13, pp. 57, and PAWC Statement No. 1, p. 33.

rates and yields on long-term government bonds, which exceed the dividend yield.[158]

Specifically:

> Ms. Bulkley dismisses the low-end results of her DCF analysis; however, she does not take issue with results that are significantly higher than the average calculated ROE. For example, she excludes the lowest results of Middlesex Water Company: (a) 30-day, 90-day, and 180-day mean low DCF results of 4.63%, 4.41%, and 4.37% respectively; (b) 30-day, 90-day, and 180-day mean DCF results of 5.79%, 5.57%, and 5.53% respectively; and (c) 30-day, 90-day, and 180-day mean high DCF results of 6.96%, 6.73%, and 6.69% respectively from her proxy group DCF results analysis (PAWC Exhibit No. 13-A, Schedule 3, pp. 1-3). However, she includes the top-end results of NiSource Inc.'s (a natural gas distribution company): (a) 30-day, 90-day, and 180-day mean low DCF results of 10.81%, 10.64%, and 10.58% respectively; (b) 30-day, 90-day, and 180-day mean DCF results of 11.87%, 11.69%, and 11.64% respectively; and (c) 30-day, 90-day, and 180-day mean high DCF results of 13.67%, 13.49%, and 13.44% respectively in her proxy group individual company DCF result analysis (PAWC Exhibit No. 13-A, Schedule 3, pp. 1-3).[159]

Doing this undermines the purpose of the proxy group which is to employ a group of similarly situated companies, in this case, water utilities, to smooth out any anomalous data points in an ROE analysis. In addition, removing low-end results, while simultaneously retaining the high end results only serve to inflate the results and skew the ROE in PAWC's favor.

1. PAWC's Use of the CAPM, and ECAPM methods.

After forming her proxy group, PAWC witness Bulkey calculated common equity costs with data inputs specific to these companies using in addition to the DCF, the CAPM, and ECAPM methods. By contrast, I&E witness Patel recommended using the DCF method as the primary method to determine the cost of common equity and using the results of the CAPM as a

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[158] I&E Statement No. 2, p 44.
[159] I&E Statement No. 2, p. 45.

comparison to the DCF results.[160] As witness Patel explains:

> use of the DCF as a primary method in determining an appropriate ROE already sufficiently takes recent inflationary trends into consideration. As mentioned above, the DCF includes a spot stock price in the dividend yield calculation and analysts who generate forecasted earnings growth should take inflation into consideration as well, so it contains the most up-to-date projected information of any model. In other words, the inputs of the DCF capture all known economic factors, including inflation.[161]

I&E witness Patel's analysis is consistent with the methodology often endorsed by the Commission in base rate proceedings and should be approved here. Just recently, the Commission affirmed reliance primarily on the DCF and rejected giving equal weight to the other methodologies. In *City of Dubois – Bureau of Water*, the Commission stated:

> [T]he City's cost of equity in this proceeding should be based upon the use of the DCF methodology, with the other methodology results used as a check on the reasonableness of the DCF results. We note that we have primarily relied upon the DCF methodology in arriving at previous determinations of the proper cost of equity and utilized the results of methods other than the DCF, such as the CAPM and RP methods, as a check upon the reasonableness of the DCF derived equity return calculation, tempered by informed judgement. We are not persuaded by the arguments of the City that we should assign equal weight to the multiple methodologies.[162]

In *UGI Utilities, Inc. – Electric Division*, the Commission stated:

> The ALJs adopted the positions of I&E and the OCA that the DCF method should be the primary method used to determine the cost of common equity, and that the results of the CAPM should be used as a comparison to the DCF results. The ALJs found no reason to deviate from these preferred methods in this proceeding. Therefore, the ALJs recommended against the use of the RP and CE methods proffered by UGI. Further, the ALJs noted that the companies analyzed under the CE model are too dissimilar to a regulated public utility company. R.D. at 60, 76, 81-82 …[W]e shall adopt the positions of I&E and the OCA and shall base our determination of the appropriate cost of equity on the results of the DCF method and

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160 I&E Statement No. 2, pp. 33-35.
161 I&E Statement No. 2, p. 35.
162 *City of DuBois – Bureau of Water*, pp. 96-97.

> shall use the CAPM results as a comparison thereto. As both Parties noted, the use of the DCF model has historically been our preferred methodology. This was recently affirmed in *Pa. PUC, et. al v. City of Dubois-Bureau of Water*, Docket No. R-2016-2554150, *et. al.* (Order entered March 28, 2017). Like the ALJs, we find no reason to deviate from the use of this method in the instant case. Accordingly, we shall deny UGI's Exceptions on this issue.[163]

Even more recently, in both *Columbia Gas*[164] and *PECO Energy Company – Gas Division* decision,[165] the Commission affirmed I&E's use of the DCF methodology as the primary methodology to determine the return on equity with the CAPM as a comparison.

In fact the Commission has explained that it is only in very specific instances that it will vary from the methodology utilized by I&E. In the PPL's 2012 base rate case (*PPL 2012*) the Commission explained:

> As such, where evidence based on the CAPM and RP methods suggest that the DCF-only results may understate the utility's current cost of equity capital, we will give consideration to those other methods, to some degree, in determining the appropriate range of reasonableness for our equity return determination.[166]

No evidence has been presented that would indicate the DCF-only results presented by I&E witness Patel would understate PAWC's current cost of equity capital. Therefore, the methodology used by I&E witness Patel is appropriate.

As endorsed by the Commission, I&E witness Patel uses the CAPM method as a comparison to the DCF results. There are disadvantages associated with the CAPM and it should not be used as a primary method. The CAPM is a less reliable model because it measures the cost of equity indirectly and risk premiums vary depending on the debt and equity being

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[163] *UGI Utilities, Inc. – Electric Division,* pp. 103-106.
[164] *Pa. P.U.C. v. Columbia Gas*, Docket No. R-2020-3018835, Opinion and Order, p. 127 (Order entered February 19, 2021) .
[165] *Pa. P.U.C. v. PECO Energy Company – Gas Division,* Docket No. R-2020-3018929, Opinion and Order, p. 171 (Order entered June 22, 2021).
[166] *Pa. P.U.C. v. PPL Electric Utilities, Inc.*, Docket No. R-2012-2290597 Opinion and Order, p. 81 (Order entered December 5, 2012).

compared. The CAPM uses U.S. Treasury Bonds and, typically, the return of the S&P 500 as proxies for the risk-free rate and overall market return, respectively. However, its result can be manipulated based on the inputs used; therefore, it introduces a greater amount of subjectivity with respect to determining the cost of equity of a given company.[167] CAPM has also been subject to criticism from academic literature.

Ms. Bulkley performs several variations of analyses for her CAPM. She provides one analysis using betas from Value Line reports (August 25, 2023 and October 6, 2023), another analysis employing Bloomberg betas (October 31, 2023), and a third analysis using long-term average betas from Value Line (2013 through 2022). Within those sets, she provides subsets using three risk-free rates including the current 30-day average yield on 30-year U.S. Treasury Bonds, the near term projected 30-year U.S. Treasury Bond yield for Q1-2024 through Q1-2025, and the long term projected 30-year U.S. Treasury Bond yield for 2025-2029. She calculates the expected return on the S&P 500 Index for each company in the entire S&P 500 Index using the data published by Bloomberg Professional (October 31, 2023). Finally, Ms. Bulkley includes an ECAPM analysis paired with each result of her standard CAPM analysis for the proxy group companies.[168]

I&E witness Patel recommends the Commission reject PAWC witness Bulkley's method of calculating the risk-free rate used for her CAPM analysis.[169] PAWC witness Bulkley's claim is based upon expected yields on 30-year U.S. Treasury Bonds. The use of 30 year treasury bonds is not appropriate. Long-term Treasury Bonds have substantial maturity risk associated with the market risk and the risk of unexpected inflation and normally offer higher yields to

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167 I&E Statement No. 2, p. 35.
168 PAWC Statement No. 13, pp. 39-43 and PAWC Exhibit 13-A, Schedule 5-7.
169 I&E Statement No. 2, pp. 49-50.

compensate investors for these risks.[170] Using the 10-year Treasury Note is more appropriate to balance the short-term volatility risk and the long-term inflation risk.

Additionally, the Commission has recognized the 10-year Treasury Note as the superior measure for the risk-free rate by stating the following: [171]

> We agree with I&E and the ALJs that using the yield on the 10-year Treasury Note provides a better measure of the risk-free rate of return than using the yield on the 30-year Treasury Bond, as recommended by UGI. In our view, using the 10-year Treasury Note balances the shortcomings of the short-term T-Bill and the 30-year Treasury Bond. Although long-term Treasury Bonds have less risk of being influenced by federal policies, they have substantial maturity risk associated with the market risk. In addition, long-term Treasury Bonds bear the risk of unexpected inflation.

In sum, I&E witness Patel's use of the yield on a 10-year Treasury Note is appropriate because it better reflects the life of the underlying investment and has been recognized by this Commission as the appropriate measure of the risk-free rate.

I&E witness Patel excluded the ECAPM method from his analysis because it has essentially the same flaws as the CAPM but with a further measure of subjectivity.[172]

I&E witness Patel objects to Ms. Bulkley's use of an empirical capital asset pricing model (ECAPM) to adjust her CAPM results upward. Specifically, I&E witness Patel asserts ECAPM merely adds a measure of subjectivity to the CAPM as an attempt to refine its predicted Security Market Line (SML) through an additional factor that corrects none of the underlying problems of the model.[173] I&E witness Patel explains ECAPM is a modified version of the CAPM which attempts to address the belief that actual risk versus return correlation is flatter

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[170] I&E Statement No. 2, p. 49.

[171] *Pa. P.U.C. v. UGI Utilities, Inc. – Electric Division*, Docket No. R-2017-2640058, p. 99 (Order entered October 25, 2018).

[172] I&E Statement No. 2, p. 50.

[173] I&E Statement No.2, p. 50.

than what is predicted by the CAPM.[174] The implication is that the CAPM under-estimates returns with lower levels of risk and over-estimates the returns associated with higher levels of risk. It is assumed that the resulting flattened SML addresses the claimed inaccuracy of the CAPM.

Recently in the Columbia Water base rate case (*Columbia Water 2023*) the Commission agreed with I&E that the ECAPM should be rejected. There the Commission stated:

> Upon our consideration of the record evidence, we agree with the ALJs' determination that Columbia's ECAPM is inappropriate. The ALJs heavily relied on I&E's criticism of the ECAPM to justify its rejection. We agree with I&E's rationale, particularly that the ECAPM adds subjectivity to the CAPM as an attempt to refine its predicted SML. Additionally, we are persuaded by I&E's assertion that while some studies indicate that the ECAPM inaccurately defines the SML, the degree to which the CAPM requires adjustment is variable.[175]

I&E witness Patel recalculates Mr. Bulkley's CAPM analysis by removing gas and electric companies from her proxy group, using a 10-year Treasury Note, and eliminating the ECAPM analysis. This recalculation maintains Ms. Bulkley's forecasted market return, as well as separate analyses for the Value Line betas, Bloomberg betas, and Value Line long-term average betas from 2013 through 2022. The overall average result of this recalculation below yields a 9.81% CAPM result, which is lower than I&E witness Patel's CAPM result of 10.44%.[176]

Because of the flaws associated with these methods, the results of PAWC witness Bulkley's CAPM and ECAPM analysis should be disregarded.

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[174] I&E Statement No. 2, p. 50.

[175] *Pa. P.U.C. v. Columbia Water Company*, Docket No. R-2023-3040258, p. 105 (Order entered January 18, 2024).

[176] I&E Statement No. 2, p. 51.

G. Business Risks and Management Performance

1. Business Risk

Regarding business risk PAWC witness Bulkley explains that PAWC will spend approximately $1.00 billion on capital investments through the FPFTY to replace aging infrastructure and to comply with various regulations and recent acquisitions of utility systems and claims in general that the additional pressure on cash flows associated with high levels of capital expenditures exerts corresponding pressure on credit metrics and credit ratings.[177] As I&E witness Patel explains, capital spending is nothing particularly unique to PAWC.[178] Aging infrastructure is a common problem for water and wastewater utilities in Pennsylvania that generally requires significant investment. As Mr. Patel explains, this simply positions PAWC similarly to the other water utilities in her proxy group, and further, as Ms. Bulkley acknowledges each of the industries in her proxy group face similar risks.[179]

Additionally, Ms. Bulkley discusses stock issue flotation costs which are the costs associated with the sale of new issues of common stock of the parent company, which include out-of-pocket expenditures for preparation, filing, underwriting, and other issuance costs. She calculates the impact on the proxy group's cost of equity of six basis points (i.e., 0.6 percent) based on the mean and median values and states that her final ROE results do not incorporate an explicit adjustment for flotation costs.[180] However, these costs are, in fact, accounted for and recovered as an O&M expense or amortized over time on the books of the issuing company. Therefore, it would be inappropriate to take into account the potential impact thereof to seek a higher ROE in a base rate case.

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177 PAWC Statement No. 13, p. 49.
178 I&E Statement No. 2, p. 54.
179 I&E Statement No. 2, p. 54-55.
180 PAWC Statement No. 13, pp. 46-49.

In addition, Ms. Bulkley acknowledges the Distribution System Improvement Charge (DSIC), which allows PAWC to recover the costs associated with replacing and repairing aging water and wastewater infrastructure. The Company is proposing an ECIC recovery mechanism, which would allow for the recovery of the fixed costs associated with certain non-revenue producing, non DSIC-eligible projects between rate cases that are related to environmental requirements.[181] Additionally, Ms. Bulkley lends her support to PAWC's proposed RDM discussed by Company witness Charles B. Rea to insulate the Company from revenue volatility caused by seasonal weather conditions and continuing trends in declining use per customer in the residential, commercial, and municipal customer classes to support her recommended ROE range.[182] She claims that if the RDM is not authorized, PAWC will have greater risks than the proxy group.[183]

The DSIC, along with the ECIC and RDM, if approved, would all serve to lessen the Company's business risk. Nothing demonstrates that PAWC is any riskier that other water and wastewater utilities. Therefore, business risk is already accounted for in I&E witness Patel's proxy group and does not need to be further accounted for when setting PAWC's ROE.

2. Management Performance

The essence of true strong management performance is earning a higher return through efficient use of resources and cost cutting measures. The greater net income resulting from cost savings and true efficiency in management and operations is then available to be passed on to shareholders. Therefore, PAWC, or any utility, should not be awarded additional rate of return basis points for doing what they are required to do in order to provide adequate, efficient, safe,

181 PAWC Statement No. 13, p. 50, lines 26-28 and p. 51 lines 1-2.
182 PAWC Statement No. 13, p. 53, lines 7-10.
183 PAWC Statement No. 13, p. 54, lines 13-14.

and reasonable service under 66 Pa. C.S.A. § 1501 and for increasing profits as they are incentivized to do by their board of directors and shareholders.[184]

In this proceeding, the Company has requested a 25 basis point addition to its ROE for "management performance." As explained by I&E witness Patel and OCA witness Garrett, this 25 basis point addition would amount to approximately $11.8 million per year in rates.[185] This amount is unsupported and excessive, and must be denied.

The Commission affirmed the Administrative Law Judge's denial of management performance points in *Columbia Gas 2021*. The Commission summarized the Recommended Decision and stated:

> [The ALJ] agreed with I&E, the OCA, and the OSBA that Columbia failed to provide sufficient evidence to support its proposal for an additional twenty-basis points for "strong management performance." The ALJ reasoned that while effective operating and maintenance cost measures should flow through to ratepayers and/or investors, Columbia's proposal defeats the purpose of cutting expenses to benefit ratepayers, particularly during a pandemic when so many ratepayers have experienced reduced household income from job loss or reduction in hours. Therefore, the ALJ recommended that no upward management effectiveness adjustment be made to the Company's cost of equity.[186]

Ms. Bulkley refers to Sections 523(a) and (b) that lists efficiency, effectiveness, and adequacy of service factors as well as the management effectiveness and operating efficiency that the Commission shall consider in evaluating the performance of water and wastewater utilities. She also refers to 52 Pa. Code § 69.711, which outlines the Commission's acquisition incentives, including rate of return premiums, acquisition adjustments, deferral of acquisition improvement costs and plant improvement surcharges to encourage the acquisition of troubled

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184 I&E Statement No. 2, p. 81.
185 I&E Statement No. 2, p. 80 and OCA Statement No. 2, p. 50.
186 *Pa. P.U.C. v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835, p. 134 (Order entered February 19, 2021).

water and wastewater systems by viable utilities (PAWC Statement No. 13, p. 57, lines 11-18). She largely refers to PAWC witness Ashley Everette's testimony (PAWC Statement No. 1) to support the Company's management performance claims. Ultimately, Ms. Bulkley suggests that a reasonable range of ROE estimates for PAWC is from 10.00% to 11.25% and specifically recommends an ROE of 10.95%, which she acknowledges is at the high end of the reasonable range to account for the Company's claimed excellent management performance (PAWC Statement No. 13, p. 59, lines 3-6).

Ms. Everette supports Ms. Bulkley's recommended ROE of 10.95% - at the upper end of her ROE estimated range (10.00% - 11.25%) in recognition of claimed superior management performance (PAWC Statement No. 1, p. 33. lines 9-12). Further, she opines that if the Commission were to approve a rate of ROE that is lower than the upper end of Ms. Bulkley's recommended range, it should add (for a management performance reward) no less than 25 basis points to its market-determined rate of return (PAWC Statement No. 1, p. 33. lines 12-15).

Ms. Everette identifies eight specific factors that she claims demonstrates the Company's "exemplary management performance." These factors include the Company's dedication to assisting its low-income and payment-troubled customers, environmental efforts and a commitment to water quality, strong safety performance, the Company's commitment to operational and water efficiency, significant infrastructure investment, community engagement and consumer education initiatives, efforts to eliminate problems of small, troubled, and nonviable water and wastewater systems through acquisitions, and efforts to extend water service to untapped service areas (PAWC Statement No. 1, p. 33, lines 18-22 and p. 34, lines 1-6).

I&E rejects the Company's arguments and asserts that, first, many of the arguments presented by PAWC fall within the categories of reliability, customer satisfaction, and safety which are required of every public utility company under 66 Pa. C.S.A. § 1501.[187] Second, the Company passes on capital expenditures to its ratepayers via base or it can utilize a DSIC for capital expenditure recovery.[188] Additionally, if the Company is as effective at controlling operating and maintenance costs those savings should flow through to ratepayers and/or investors, but through this adder, the claimed savings to the ratepayers would likely be offset by the addition of basis points for management performance as ratepayers would have to fund the additional costs. This would defeat the purpose of cutting expenses to benefit ratepayers.

Additionally, a review of the Management and Operations Audit Report, prepared by the Commission's Bureau of Audits, illustrates the following summary of findings which demonstrates that out of the twelve functional areas, PAWC does not meet expectations in any:[189]

Functional Area	Meets Expected Performance Level	Minor Improvement Necessary	Moderate Improvement Necessary	Significant Improvement Necessary	Major Improvement Necessary
Executive Management and Organizational Structure		X			
Corporate Governance		X			
Cost Allocations and Affiliated Interests			X		
Financial Management		X			
Water Operations			X		
Wastewater Operations		X			

187 I&E St. No. 2, p. 71.
188 I&E Statement No. 2, p. 71.
189 Management and Operations Audit of Pennsylvania-American Water Company, prepared by The Pennsylvania Public Utility Commission, Bureau of Audits at Docket No. D-2022-3035217, October 2023.

Emergency Preparedness			X		
Purchasing and Materials Management		X			
Customer Service			X		
Information Technology		X			
Fleet Management		X			
Human Resources and Diversity		X			

I&E acknowledges that in its Order in the most recent Aqua Pennsylvania base rate case (*Aqua 2022)* the Commission granted Aqua an award of 25 basis points for management performance.[190] Therein, the Commission explained:

> Based upon our informed judgment, which includes consideration of *a variety of factors* ("emphasis added") including increasing inflation leading to increases in interest rates and capital costs since the rate filing, we determine that a base ROE of 9.75% is reasonable and appropriate for Aqua. When combined with our upward adjustment of 25 basis points to the Company's ROE for management effectiveness, this will produce a final authorized ROE for Aqua of 10.00% (*i.e.*, 9.75% + 0.25% = 10.00%).[191]

In addition, the Commission explained that the additional 25 basis points were appropriate given that "…Aqua carries a roster of large and complex emergency aid matters *unlike any other Pennsylvania utility* (emphasis added)."[192] Notably, the Commission has specifically distinguished Aqua from other Pennsylvania utilities as taking on matters that other utilities do not. Therefore, while I&E disagreed, the Commission found it appropriate to award Aqua for their endeavors.

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190 *Pa. P.U.C. v. Aqua Pa., Inc.*, Docket Nos. R-2021-3027385 and R-2021-3047386 (Order entered May 16, 2022).
191 *Id.* at 178.
192 *Id.* at 173.

In contrast, PAWC has not presented evidence which should persuade the Commission that granting additional basis points for management performance is warranted. Additionally, PAWC witness Bulkley's requested ROE is far above what has been approved in recent Commission history. PAWC has neither demonstrated that it is entitled to management performance points added to its ROE and has failed to demonstrate why its customers should be burdened by the cost. Therefore, the management performance points requested by PAWC should be denied.

H. Conclusion

PAWC's claimed rate of return overstates its need for a revenue increase. PAWC's requested rate of return is not supported by a reasonable measure of returns in today's market. The evidence demonstrates that PAWC's claim for a return on equity of 10.95% and an overall rate of return of 8.22% for water and 7.94% for wastewater overstates what reasonable investors should expect from a regulated public utility and is not necessary for PAWC to safely and reliably provide service to its ratepayers.

When adjusted by I&E to more reasonable levels that approximate expected returns in today's economy for similarly-situated water utilities, PAWC's evidentiary support for its $203,945,911 rate increase is substantially reduced. As demonstrated by I&E witness Patel, the appropriate overall rate of return that will result in just and reasonable rates is 6.82% for PAWC water operations and 6.62% for PAWC wastewater operations with an included 8.45% cost rate of common equity.

IX. RATE STRUCTURE

A utility's rate structure reflects how a proposed revenue increase will be allocated among rate classes. Under Section 1304 of the Public Utility Code, the rate structure cannot either advantage or disadvantage a class or contain an unreasonable difference in rates.[193] To survive a challenge under Section 1304, a utility must show any difference can be justified by the difference in costs to deliver service to each class.[194]

A properly designed rate structure will not unduly burden one class of ratepayers to the benefit of another. Under the Public Utility Code, "[n]o public utility shall … make or grant any unreasonable preference to any person, corporation … No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service."[195] Differences in rates charged to different classes are permissible so long as there is reasonable basis for the discrepancy.[196] Generally "public utility rates should enable the utility to recover its cost of providing service and should allocate this cost among the utility's customers in a just, reasonable and nondiscriminatory manner."[197]

I&E witness Joseph Kubas details I&E's proposed wastewater rate design and I&E witness Ethan Cline details I&E's proposed water rate design in their direct and surrebuttal testimony and accompanying exhibits. In order to arrive at a final proposed wastewater rate structure, I&E first had to calculate a final Act 11 subsidy to be shifted to the water customers. PAWC originally proposed a $71,087,394 subsidy from its water operations.[198] I&E reduced that to $357,517 if the Commission were to grant PAWC's full requested increase in its rate structure proposal in direct testimony.[199] At the increase proposed by I&E no Act 11 subsidy is necessary.

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193 66 Pa. C.S. § 1304. Accordingly, if there is a reasonable basis for a difference, a utility may charge different rates for different classes of customers. *See Peoples Natural Gas Company v. Pa. P.U.C.*, 409 A.2d 446 (Pa. Cmwlth. 1979).

194 *Philadelphia Suburban Water Company v. Pa. P.U.C.*, 808 A.2d 1044, 1060 (Pa. Cmwlth. 2002).

195 66 Pa. C.S. § 1304.

196 *See generally, Peoples Natural Gas Company v. Pa. P.U.C.*, 409 A.2d 446 (Pa. Commw.1979) .

197 *See generally Pa. P.U.C. v. West Penn Power*, 73 Pa. P.U.C. 454, 510, 199 PUR 4th 110 (1990).

198 I&E Statement No. 4, p. 11.

199 I&E St. No. 4, p. 14, *citing* I&E Exhibit No. 4, Sch. 1, columns C and D, line 3.

The Company responded to I&E's Act 11 subsidy proposal in its rebuttal and I&E evaluated the Company's response.[200] In consideration of the above and the record evidence presented by I&E, I&E recommends no Act 11 subsidy is needed in this proceeding.

A. Cost of Service Studies

I&E makes various recommendations based on the COSSs presented by PAWC which are explained below.

An important element of designing rates is the relative rate of return. The rate of return is the Commission authorized return on rate base that is determined in a base rate proceeding; this is the return the Company and shareholders earn on the rate base investment. A relative rate of return indicates how the rate of return of each customer class compares to the system average rate of return. In general, a relative rate of return that provides revenue equal to its cost to serve would have a relative rate of return equal to 1.0. If a class of service has a relative rate of return below 1.0, the revenue received from that class does not cover the cost of providing service to that class. If a class of service has a relative rate of return above 1.0, the revenue received from that class exceeds the cost of providing service to that class.

1. Water Operations

Regarding the COSS for Water Operations, I&E witness Cline made no recommended changes. Additionally, regarding the customer cost analysis, witness Cline recommended the results of the Company's more direct customer cost be used to determine the customer charge. The customer charges are discussed in more detail below.

[200] I&E St. No. 5-SR, pp. 5-8.

2. Wastewater Operations

I&E witness Kubas did not recommend changes to the Company's COSS for wastewater operations. Mr. Kubas notes that he used the Company's COSS to develop his various wastewater rates that move the relative rate of return for each class toward 0.[201]

3. Cost of Service Studies for Future General Rate Increases

I&E witness Kubas recommended that in the next base rate case filed by PAWC it provide a separate COSS for BASA in the event that PAWC owns the system at that point.[202] Witness Kubas provided several reason this was necessary: First, I&E believes that because PAWC does not own BASA it is appropriate to excluded BASA system revenue and expenses in this case making the BASA COSS premature. The review in the next base rate case after which PAWC closes on BASA will then include plant in service, allocation factors, and expenses that have not been reviewed or addressed by I&E in this case. Second, the present rate revenue from BASA shown in this case is so far below the cost of providing service to BASA customers, the public and the Commission should be aware of the subsidy being provided to BASA in the next base rate case after PAWC officially closes on BASA.

In addition, while I&E understands it is the Company's intent to eliminate Brentwood from the current filing, witness Kubas recommended that PAWC provide a COSS for Brentwood should PAWC own Brentwood by its next rate case filing. As explained for BASA, as PAWC does not currently own the system, it must be excluded from rates. Therefore, the current COSS is premature. First, as described by the Company in the *Brentwood Application* at A-2021-3024058, some of the flow carried by the Brentwood plant is from what the Company refers to as "non-customers." Since only plant "used and useful" to serve customers can be recovered from

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[201] I&E Statement No. 3, pp. 17-18.
[202] I&E Statement 3, pp. 73-74.

customers, plant in service to serve "non-customers" should be identified and excluded from rate base. Second, Brentwood customers will also pay a separate treatment fee. With no treatment costs in base rates, it could be reasonable to establish a lower rate for Brentwood customers than other SSS customers that have treatment costs recovered in their usage rates. The two primary inputs for cost allocation are the number of customers, and flow. Almost all allocations in a COSS are based on one of these inputs. The Company has no idea how much flow is coming into the system from "non-customers" and how much flow is going out of the system from a combination of "non-customers" and Brentwood customers.[203] This lack of data indicates that the Brentwood COSS filed in this case is totally speculative and not based on any known and measurable data.

As explained above, a properly designed rate structure will not unduly burden one class of ratepayers to the benefit of another. Differences in rates charged to different classes are permissible so long as there is reasonable basis for the discrepancy.[204] Generally "public utility rates should enable the utility to recover its cost of providing service and should allocate this cost among the utility's customers in a just, reasonable and nondiscriminatory manner."[205] Having the specific COSSs for each of these systems, if owned by PAWC, will ensure that the rates charged to these customers are appropriate. Therefore, I&E recommends that when PAWC files its next base rate case, should it then own the BASA and/or Brentwood systems, a separate COSS be provided for each system to ensure the rates charge thereto are just, reasonable, non-discriminatory, and in the public interest.

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[203] I&E Ex. No. 3 Sch. 29.
[204] *See generally, Peoples Natural Gas Company v. Pa. P.U.C.*, 409 A.2d 446 (Pa. Commw.1979) .
[205] *See generally Pa. P.U.C. v. West Penn Power*, 73 Pa. P.U.C. 454, 510, 199 PUR 4th 110 (1990).

4. Allocation of AMP Costs and Administrative Costs for H2O Programs

I&E did not take a position on these issues.

B. Revenue Allocation and Act 11

1. Revenue Allocation

Revenue allocation is described as the allocation of revenue responsibility between rate classes.[206] It is routinely accepted that for class revenue allocation purposes, cost of service is the "polestar."[207]

2. Act 11

Concerning wastewater rates, the Company notes that cost causation is an important goal in establishing rates and that cost causation is the foundation of its wastewater rates.[208] However, rather than proposing wastewater rates that recover the cost of service, the Company proposed various wastewater decrease, proposed certain wastewater rates not increase, and in some instance proposed wastewater increases. Based on witness Kubas' review of the proposed rates, it appears that rather than cost causation, the primary goal of the Company's wastewater rates was to limit the average bill of a residential wastewater customer to make them comparable to the average water customer's bill.[209]

Section 1311(c) of the Public Utility Code,[210] more commonly referred to as Act 11, permits utilities that provide both water and wastewater service to combine the revenue requirements by allocating a portion of the wastewater revenue requirement to the water

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206 *Ratemaking Guide*, p. 138.
207 *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010 (Pa. Commw. 2006).
208 PAWC Statement 10, pp. 28-30.
209 I&E Statement No. 3, pp. 9-10.
210 66 Pa. C.S. § 1311(c).

customer base if doing so is in the "public interest."[211] Section 1311(c) , however, does not specify how the Commission should determine rates, nor does it dictate the percent or amount of revenue that should be allocated or shifted, leaving the Commission wide latitude in applying Act 11.[212] What is required, however, is that it must be in the public interest for the utility to allocate a portion of its wastewater revenue requirement to the combined water and wastewater customer base.[213] In this case, I&E witness Kubas applied his knowledge and experience in rate making design and revenue allocation to craft a rate design that both respects cost of service principles and is in the public interest. The Company is proposing that PAWC's water customers subsidize wastewater customers by $71,087,394.[214]

In this case simply removing BASA and Brentwood[215] systems from this proceeding reduces the Act 11 subsidy to $47,969,463.[216] Based upon I&E's proposed wastewater rates, the total subsidy needed to operate the SSS Operations wastewater systems is $357,517.[217] This $357,517 is the amount necessary based on PAWC's full requested increase being approved. At the I&E proposed increase, there need not be a subsidy at all.[218]

The Company criticizes I&E's position stating that I&E's Act 11 allocation, or lack thereof, will result in rates that are too high relative to the average water bill and may result in rate shock for wastewater customers.[219] This argument is simply without merit. As witness Kubas explains, the Company has already proposed that Zone 1 Residential water customers bill

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211 *Id.*
212 *Ratemaking Guide*, p. 141.
213 66 Pa. C.S. § 1311(c).
214 PAWC Volume 3, Ex. 3-A, p. 1.
215 As noted previously, PAWC has agreed in Rejoinder testimony to remove the Brentwood system from this proceeding. Tr. at 1970.
216 I&E Statement No. 3, p. 12.
217 I&E Statement No. 3, p. 12, and I&E Exhibit No. 3, Sch. 1, columns C and D, line. 33.
218 I&E Statement No. 1, p. 12.
219 PAWC St. No. 1, p. 23-24, and St. No. 10-R, pp. 58-59.

should increase by 24.9%, while under his proposal, the bill of an average rate Zone 1 Residential SSS wastewater customer would increase by 25.3%.[220] Therefore, the I&E increases are in-line with what the Company is already proposing.

C. Tariff Structure

1. Residential Customer Charge

A customer cost analysis is a part of a cost of service study that is used to determine the appropriate fixed customer charges for the various classes and meter sizes. It is necessary to perform a customer cost analysis because a fixed customer charge represents the revenue that the Company is guaranteed to receive each month, regardless of the level of usage. As acknowledged in the seventh edition of the American Water Works Association M1 Manual, there is a tradeoff between revenue stability from a high customer charge, and affordability and conservation from a low customer charge and higher usage rates.[221]

There are two different types of customer costs: direct and indirect. A direct customer cost is a cost that changes with the increase or decrease of a single customer. An indirect customer cost is a customer related cost that does not change with the increase or decrease of a single customer. Fixed costs assigned to the customer charge are limited to those fixed costs for which there is a direct impact from an individual customer. For example, each individual customer requires a meter and a bill. Therefore, fixed costs associated with meters and billing are properly attributable to the fixed customer charge. The Commission has allowed, in past instances, certain indirect customer costs to be included in a customer cost analysis and thus

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220 I&E Statement No. 4-SR, p. 24.

221 AWWA Manual of Water Supply Practices M1 Principles of Water Rates, Fees, Charges, Seventh Edition. pp. 154-155.

recovered in a customer charge. As an example, in previous cases, the Commission has allowed the indirect cost of Employee Pension and Benefits.

For water customers, I&E recommends a residential customer charge of $20.00. For the various wastewater rate zones, I&E witness Kubas recommends the customer charge be set at $15.00. The I&E customer charge proposals are discussed in further detail and in the I&E testimony and exhibits.

i. Water Customer Charges

In this proceeding, Company provided two customer cost analyses for the FPFTY.[222] The results of the first cost analysis, includes all costs being allocated to the customer cost function and results in a unit cost of $24.63 per month in the FPFTY.[223]

Additionally, PAWC provided a second customer cost analysis that relies on the allocation of costs more directly applicable to customers. The result of the more direct customer cost analysis is $19.31 per month per customer in the FPFTY.[224] In Rebuttal testimony, the Company updated its direct customer cost analysis resulted in a $20.26 per 5/8" residential customer cost.[225]

I&E witness Ethan Cline recommends that the second customer cost analysis which relies on the allocation of costs more directly applicable to customers be used to determine the customer charge for water customers.[226] His recommendation is based on the fact that costs that are recovered from customers are continuously increasing, even between rate cases, with surcharges such the DSIC. Therefore, it is appropriate to limit the increase in the customer

222 PAWC Exhibit 12-A, Appendix A, Attachment RS1j.
223 I&E Statement No. 4, p. 30.
224 PAWC Ex. 12-A, Appendix A, Attachments RS1j, p. 2 of 3.
225 I&E Statement No. 4-SR, p. 26.
226 I&E Statement No. 4, p. 31.

charges and to consider the affordability of rates through a lower customer charge and higher usage rate. Additionally, the Commission has traditionally relied on customer cost analyses based on direct cost allocations to determine customer charges.

Based on this customer cost analysis, I&E witness Cline recommended the following residential customer charges in his Direct testimony:

Rate Zone 1, 2, 4, and 5 Residential Customer Charges[227]			
Meter Size	Present Rate	I&E Proposed Rate	Revenue Percent Increase
5/8 – inch	$17.50	$19.50	11.4%
3/4-inch	$17.50	$19.50	11.4%
1-inch	$17.50	$19.50	11.4%
1 1/2-inch	$17.50	$19.50	11.4%
2-inch	$121.80	$132.00	8.4%
3-inch	$227.20	$246.00	8.3%
4-inch	$285.10	$308.00	8.0%
6-inch	$426.80	$461.00	8.0%
8-inch	$826.30	$893.00	8.1%

However, as explained above, in Rebuttal testimony, the Company updated its direct customer cost analysis resulted in a $20.26 per 5/8" residential customer cost. As a result, Witness Cline withdrew his recommendation to set the 5/8" residential customer charge at $19.50 and accepted the Company's proposed $20.00.[228] Mr. Cline did not change the remaining customer charges. Therefore, the customer charge for 5/8", 3/4", 1", and 1-1/2" should all be set at $20.00 rather than the $19.50 as originally presented by I&E witness Cline. The customer charges presented by I&E would all be the result of the Commission granting PAWC its full requested increase. In the event that less than the full requested increase is granted, I&E recommends these customer charges be scaled back as discussed in further detail in the scale back portion of this brief.

[227] I&E Statement No. 4, p. 34.
[228] I&E Statement No. 4-SR, p. 26.

Regarding residential customers with meter sizes over 2", commercial, and municipal customers, I&E witness Cline accepted the Company's proposed customer charges for those customers as all increases were in the 7%-8% range which Mr. Cline finds to be reasonable for a customer charge.[229] In addition, Mr. Cline did not make any adjustments to the Company's proposed customer charge for the Industrial and Other Water Utilities Monthly – Groups A and B, because while those classes have a larger percentage increase in their customer charge, the percent increase for an average industrial customer is reasonable.[230]

ii. Wastewater Customer Charges

As noted above, the Company provided one COSS for the SSS Operations - Zones 1, 2, 5, 7, 8, and 9.[231] This COSS included a customer cost analysis that claims the SSS Operations wastewater customer cost is comprised of $13.87 per month of direct customer costs, and $29.63 per month of Inflow and Infiltration (I&I) costs for a total cost of $43.50 for a Residential customer.[232]

Regarding Wastewater SSS Operations, I&E witness Kubas recommends a $15.00 per month customer charge, which is an increase of $0.70.[233] Mr. Kubas explains that the $15.00 per month customer charge will recover more than the direct customer cost of $13.87 per month plus a small portion of the I&I costs identified by the Company. Furthermore, this 4.9% increase will provide sufficient revenue, while limiting the increase to low-usage residential customers. Regarding the inclusion of I&I costs, Mr. Kubas notes that these costs relate to flow, which does not vary with the number of customers.[234] Nonetheless, Mr. Kubas notes that it is appropriate to

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229 I&E Statement No. 4, pp. 34-35.
230 I&E Statement No. 4, p. 35.
231 PAWC Volume 17, Ex. 12-B.
232 PAWC Volume 17, Ex. 12-B, Sch. RS1 j. Responses p. 2.
233 I&E Statement No. 3, p. 19.
234 I&E Statement No. 3, p. 19.

recover a small portion of these costs through the customer charge, but it would be improper to recover more than a small portion of those I&I costs through this mechanism.[235]

For Wastewater SSS Operations commercial customers, I&E witness Kubas recommends a customer charge of $36.70, or an increase of $1.70 from the current $35.00 customer charge.[236] This is a 4.9% increase, which matches the increase Mr. Kubas recommended for residential customers.[237]

2. Water Rate Design

The Company's filing includes primarily six different rate zones. Most of PAWC's customers are included in Rate Zone 1 – PAWC and pay the Rate Zone 1 rates. Customers in the remaining rate zones pay present rates that are different from Rate Zone 1 present rates. The remaining rate zones are as follows: Rate Zone 2 – Valley, Rate Zone 3 – SLIBCO, Rate Zone 4 – Turbotville, Rate Zone 5 – Steelton, Rate Zone X – Audubon, and Rate Zone X - Farmington. It should be noted that, per the I&E recommendation that Audubon and Farmington be removed from this case, the Audubon and Farmington rate zones should also be removed in this case, and, therefore, I&E will not address proposed rate changes for those customers.

The Company is proposing to consolidate the monthly metered rates for all classes of customers in Rate Zone 2 – Valley, Rate Zone 3 – SLIBCO, Rate Zone 4 – Turbotville, and Rate Zone 5 - Steelton into Rate Zone 1 in the FPFTY.[238] In I&E witness Cline's opinion, the rates proposed by the Company that merge the various rate zones described above into Rate Zone 1,

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[235] I&E Statement No. 3, p. 19.
[236] I&E Statement No. 3, p. 26.
[237] I&E Statement no. 3, pp. 26-27.
[238] PAWC Statement No. 10, p. 35.

are reasonable, except for the proposal to merge Rate Zone 2 – Valley usage rates into Rate Zone 1.[239]

As a result of the revenue produced by the customer charge being decreased based on I&E's recommended customer charges compared to the Company's proposed customer charges, **under the fully requested revenue increase**, the proposed usage rates for the Rate Zone 1 residential class would need to increase slightly, as would the usage rates for any Rate Zones that are being proposed to merge with Rate Zone 1 rates.[240] However, because of I&E's recommendations regarding the Act 11 subsidy, as well as the adjustments made by I&E witnesses Patel and Okum, it is more likely that the usage rate will be subject to a scale back rather than an increase. Therefore, I&E witness Cline did not calculate what the increase would be at the fully proposed increase.

I&E witness Cline recommended adopting the Company's proposed customer charges for the Commercial, Municipal, Industrial, and Other Water Utilities Monthly – Groups A and B rate classes.[241]

Regarding Rate Zone 2, the Company is proposing to set Rate Zone 2 residential and commercial usage rates equal to Rate Zone 1.[242] The Company's proposal to set Rate Zone 2 residential and commercial usage rates equal to Rate Zone 1 would result in the bill for an average Rate Zone 2 residential customer to increase by 63.64%, and the average bill for a commercial customer would increase by 64.37%.[243] For residential customers in Rate Zone 2, the proposed percent increase is at least double that of the average residential customers in the

[239] I&E Statement No. 4-SR, p. 21.
[240] I&E Statement No. 4, p. 36.
[241] I&E Statement No. 4, pp. 34-35.
[242] PAWC Exhibit 10-A, pp. 4 and 11.
[243] PAWC Ex. 10-A, pp. 77, 83.

other rate zones. For Rate Zone 2 commercial customers, the disparity between the percent increases for the other rate zones, apart from Rate Zone 4, is even greater than that of the residential customers. The table presented below shows I&E witness Cline's recommendation regarding Rate Zone 2:

Rate Zone 2 Residential and Commercial Usage Rates[244]			
Usage Level	Present Rate per hundred gal.	I&E Proposed Rate per hundred gal.	Revenue Percent Increase
Residential			
First 3,400 gal.	$1.1000	$1.6000	45.5%
Over 3,400 gal.	$1.1000	$1.6000	45.5%
Commercial			
First 16,000 gal.	$1.1000	$1.6500	55%
Over 16,000 gal.	$1.1000	$1.2540	14%

Witness Cline selected a $1.6 per hundred-gallon usage rate for residential customers because it generated a reasonable percent increase on the total bill of a Rate Zone 2 residential customer. The analysis for Rate Zone 2 Commercial customers were similar, however, Mr. Cline kept the second block usage rate at approximately 76% of the first block, which is the same ratio as the Company's proposed rates.[245] The percentages resulting from Mr. Clines recommendation are reasonable and should be adopted.

I&E witness Cline agrees with the Company's recommendation to set Rate Zone 3 commercial and municipal usage rates equal to Rate Zone 1.[246]

In addition, the Company has proposed to set Rate Zone 4 usage rates for residential, commercial, and municipal customers equal to Rate Zone 1. I&E witness Cline agrees with the Company's recommendation in part. Witness Cline explains the Company's proposal to set the

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[244] I&E Statement No. 4, p. 38.
[245] I&E Statement No. 4, p. 38.
[246] I&E Statement No. 4, p. 39.

Rate Zone 4 residential and municipal rates equal to Rate Zone 1 is reasonable, but the Company's proposal to set Rate Zone 4 commercial usage rates equal to Rate Zone 1 would result in the bill for an average Rate Zone 4 commercial customer to increase by 68.56%.[247] This increase is unnecessarily large when compared to the increase proposed for Rate Zone 1 commercial customers. Compared to the proposed increase for Rate Zone 1 commercial customers the 68.65% is far too large. To remedy this, Mr. Cline set the Rate Zone 4 commercial usage rates equal to those of Rate Zone 2 so that Rate Zone 2 and Rate Zone 4 can be merged after this base rate case and likely merged with Rate Zone 1 after the next base rate case.[248] The effect of this is that the percentage increases become far more reasonable. Witness Cline recommends the following usage rates as set forth in the table below:

Rate Zone 4 Residential and Commercial Usage Rates[249]			
Usage Level	Present Rate per hundred gal.	I&E Proposed Rate per hundred gal.	Revenue Percent Increase
Commercial			
First 16,000 gal.	$1.1000	$1.6500	55%
Over 16,000 gal.	$1.1000	$1.2540	14%

Lastly, regarding Rate Zone 5, I&E witness Cline accepts the Company's proposal to set Rate Zone 5 residential, commercial, municipal, and industrial rates equal to that of Rate Zone 1.[250]

3. Wastewater Rate Design

The Company provided on COSS for wastewater SSS Operations – Zones 1, 2, 5, 7, 8, and 9. This COSS included a customer cost analysis that claims the SSS Operations wastewater customer cost is comprised of $13.87 per month of direct customer costs, and $29.63 per month

[247] I&E Statement No. 4, pp. 39-40.
[248] I&E Statement No. 4, p. 40.
[249] I&E Statement No. 4, p. 40.
[250] I&E Statement No. 4, p. 41.

of Inflow and Infiltration (I&I) costs for a total cost of $43.50 for a Residential customer.[251] The Company proposed that present rate revenue be decreased from $95,470,866 to $95,301,613 which is a decrease of $169,253 or 0.2% which creates a revenue shortfall of $31,962,411.[252] I&E witness Kubas' goal was to reduce the $31,962,411 subsidy the Company claims is needed in the SSS Operations.[253] Most PAWC waster customers are not wastewater customers, which would make it unreasonable for them to subsidize wastewater customers to the extent PAWC has proposed. OCA witness Hoover explains that PAWC has approximately nine times the water customers than wastewater customers.[254] The total increase in the SSS system that is recommend by Mr. Kubas is $32,265,198 which results in a remaining subsidy in the SSS Operations of $321,682.[255] Mr. Kubas used the Company's COSS to develop the various wastewater rates that moves the relative rate of return of each class towards 1.0.[256]

In the Wastewater SSS Operations, the Company charges Caln, West Brandywine, the VA Medical Center (VA), St Lawrence Borough (St. Lawrence) in Zone 1, and various Bulk contracts in Zone 7 are charged special municipal rates.[257] For Caln, West Brandywine, and the VA, the Company proposed the customer charge increase from $415.00 to $430.00 per month and the usage $1.450 per hundred gallons to $1.490 per hundred gallons; for St. Lawrence, the Company does not charge a customer charge but did propose to increase the present usage rate of $0.400 per hundred gallons to $0.412 per hundred gallons.[258] However, it is I&E's position that these customers should receive a higher percentage increase. Rates should be based on cost. A

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251 I&E Statement No. 3, p.15.
252 I&E Statement No. 4, pp. 15-16.
253 I&E Statement No. 4, p. 17.
254 OCA Statement No. 1, p. 7.
255 I&E Statement No. 4, p. 17.
256 I&E Statement No. 4, p. 17.
257 PAWC Volume 9, Ex, 10-B, p. 31.
258 PAWC Volume 9, Ex. 10-B, p 31.

review of the rates charged to the VA/Bulk class demonstrates that the rates proposed are not cost based. After applying PAWC's increase, the relative rate of return for these customers is 0.87, which demonstrates they are not paying their cost to serve.[259] Therefore, Mr. Kubas recommends rates that move these customers closer to the cost to serve. For Caln, West Brandywine, and the VA, I&E witness Kubas recommends a monthly charge of $456.50 and a usage rate of $1.680 per hundred gallons.[260] In addition, Mr. Kubas recommends the Company begin to charge St. Lawrence a monthly customer charge of $456.50 in accordance with the general tariff provision requiring all customers to pay a monthly customer charge.[261]

For the York Bulk customers, PAWC has proposed to charge two different usage rates. For the first rate, the Company proposed the present usage rate be increased from $0.3750 per hundred gallons to $0.4123 per hundred gallons. For the second usage rate, the Company proposed the present usage rate of $0.249 per hundred gallons increase to $0.2737 per hundred gallons. These 9.9% increases are over the two-year period 2023-2025 which results in an annual increase of approximately 4.45% per year.[262] The Company limited these increases claiming these customers have competitive alternatives. I&E witness Kubas finds the Company's argument that these customers have competitive alternatives to be speculative at best and recommends further increases to these rates of approximately 50% as shown in Appendix B, p. 3 of this brief. This is a copy of I&E Exhibit 3, Sch. 3, p. 2 which was included with Mr. Kubas' testimony.

Under present rates, the York Bulk Users are receiving a subsidy from the other customers of $9,879,620 even after contributing $7,702,598 of revenue, putting the low level of

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[259] I&E Statement No. 3, p. 45.
[260] *Id*. at 46.
[261] *Id.*
[262] PAWC Volume 9, Exh. 10-B, p. 31.

revenue from these bulk customers into perspective.[263] The Company has not provided sufficient evidence to demonstrate these customers have a competitive alternative, and without that information, the rates must be increased to move these customers close to their cost to serve. After applying Mr. Kubas' suggested rate design, the York Bulk Customers will still receive a significant subsidy of $7,999,227.[264] This demonstrates the reasonableness of the I&E recommendation, as the subsidy has not been completely eliminated. Mr. Kubas does, however, recommend that this subsidy continue to be decreased in future cases.[265]

Regarding Wastewater CSS Operations the Company provided a The Company provided one COSS for the CSS Operations - Zones 3, 4, and 6 which did not include a customer cost analysis.[266] The Company proposed that present rate revenue be decreased from $78,636,222 to $78,409,294, which is a decrease of $226,926 or 0.30%.[267] To achieve this reduction, the Company proposed to increase and decrease various customer charges, usage rates, and flat rates.[268] When designing rates for Wastewater CSS Operations, I&E witness Kubas' goal was to reduce the $16,007,052 subsidy the Company claims is needed to fund the CSS Operations. The proposed rates are shown on I&E Ex. No. 3, Sch 17, p. 1, column D. The proposed revenue by class and zone as well as the increases by class are shown on I&E Ex. No. 3, Sch. 16. Mr. Kubas recommends a total increase in the CSS system of $15,744,287.[269] This recommendation reduces the CSS Operations subsidy to $35,835.[270] Under Mr. Kubas' proposal the highest average bill increase, 47.7%, goes to industrial customers.[271] As with wastewater SSS

263 I&E Statement No. 3, p. 49.
264 *Id.* at 53.
265 *Id.*
266 *Id.* at 57.
267 PAWC Volume 9, Ex. 10-C, p. 1.
268 PAWC Volume 9, Ex. 10-C, pp. 3-38.
269 I&E Statement No. 3, pp. 57-58, citing I&E Ex. No. 3, Sch 16, column G, line 14.
270 I&E Statement No. 3, p. 58, citing I&E Ex. No. 3, Sch 1, column H, line 3.
271 *Id.* at 58.

Operations, Mr. Kubas' goal for Wastewater CSS Operations was to move the relative rate of return toward 1.

Attached to this Brief as Appendix B, p. 1, is a summary of the I&E wastewater revenue recommendations described below is provided on I&E Ex. No. 3, Sch. 1 Corrected. On this exhibit, column B shows the total PAWC operations, column C shows PAWC water operations, column D shows total Wastewater Operations, and columns E through H show the various Wastewater Operations. Line 1 shows the present rate revenue from each operation, line 2 shows the additional revenue requirement the Company claimed, line 3 shows the Act 11 allocation, line 4 shows the proposed revenue requested by the Company reallocated by I&E, line 5 shows the increase, and line 6 shows the percentage increase.

Specific to the rates, Appendix B, p. 2-3 is a copy of I&E Exhibit No. 3, Sch. 3 which shows the I&E proposed rate design for the various Wastewater SSS Operations rate zone. Appendix B, p. 4 is a copy of I&E Exhibit No. 3, Sch. 16 which shows the I&E proposed rate design for the various Wastewater CSS Operations rate zone.

The rates proposed by I&E all serve to move customers closer to their cost to serve and represent reasonable increases. The I&E recommended rates should therefore be adopted.

4. Winter Averaging Proposal

The Company is proposing to change the way that it determines the volumetric component of bills for residential customers. Currently, wastewater usage is based upon actual water usage. In the proposal, the wastewater usage volume of a Residential customer will be adjusted downward to account for water purchased, but not entering the wastewater system. The Company refers to this plan as winter averaging.

Initially, I&E proposed two conditions related to the winter averaging proposal set forth by PAWC. First, that none of the revenue shortfall from this proposal be recovered from other wastewater customers or water customers as the program was designed to help only residential wastewater customers, who should, thereby, be the ones to fund the program and any resulting shortfall should be recovered from residential wastewater rates. Second, that the Commission determine that the proposal is approved initially as a temporary program to permit the resulting revenue impacts to be evaluated in the first rate case following its implementation.[272] I&E witness Kubas explained that new proposal such as these reduce revenue, and therefore, should not be approved in perpetuity.[273] The outcome of these types of proposals should be reviewed and studied in the next base rate case following their implementation. At that point, the Commission and the parties would have sufficient information to make a determination as to whether the program should be continued as is, modified, or ended in its entirety.[274]

While PAWC witness Rea notes that he agrees that revenue differences resulting from this program should be recovered from other wastewater customers and explains that this is, in fact, the way the program is set up, he disagrees with Mr. Kubas that the program should only be approved as a temporary program.[275] Mr. Rea states that it would not be practical to approve this program as temporary with the results being examined in a future base rate case because to do so would require the Company engage in "shadow billing."[276] Shadow billing would involve tracking the customer's bills as if this proposal did not exist to see what those bills would have been in order to provide the necessary comparison.

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[272] I&E Statement No. 3, p. 55.
[273] I&E Statement No. 3, p. 55.
[274] I&E Statement No. 3, p. 56.
[275] PAWC Statement No. 10-R, p. 54.
[276] PAWC Statement No. 10-R, p. 54.

As a result, I&E recommended in Surrebuttal testimony that the program not be approve. It is important that when approving these types of programs, the Commission is afforded the opportunity to see if the program is causing more harm than good to ratepayers. In this instance, the only issue with approving this program as temporary appears to be that PAWC does not want to track multiple sets of numbers. As a result, Mr. Kubas recommends the program be denied.[277]

OCA witness Colton and CAUSE-PA witness Geller explain that this program has the potential to have a disproportionate impact on low-income customers. OCA witness Colton notes the following flaw in the winter averaging proposal:

> The three-month average median bill (i.e., the average 1 of the median bills for January through March) ($62.06) did not substantially differ from the average of the median bills for the remaining nine months ($63.49). In fact, the January 2023 median residential bill ($67.43) was identical to the median residential bills in both June 2023 and July 2022 and *higher* than the median residential bills in each of the other seven non-winter months.
>
> The same is true for low-income customers. The winter average bill ($35.10) is higher than two of the nine non-winter months (November and May: $33.45) and nearly identical to August and December ($35.12). The January median low-income bill ($38.29) is identical to the September median bill, and nearly identical to the July median bill ($38.24). It is higher than each of the bills in the seven other non-winter months. The February median low-income bill ($34.31) was higher than the November and May low-income median bills ($33.45) and nearly identical to the low-income median bill in October ($33.45).[278]

In addition, OCA witness Colton notes that low-income customer are less likely to have substantial outdoor summer consumption and because of this, those households are less likely to have their summer wastewater bills capped at a lower level than those bills have historically been.[279] Therefore, as explained by OCA witness Colton, these are the ratepayers that "…will

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[277] I&E Statement No. 3-SR, p. 38.
[278] OCA Statement No. 5, p. 98.
[279] OCA Statement No. 5, p. 105.

fall within that population of customers who are called upon to bear the burden of foregone revenue…with little opportunity to be the recipient of any reduced bills."[280]

CAUSE-PA witness Geller expresses a similar concern:

> During non-winter months, outdoor water usage for activities such as landscape irrigation and swimming pools makes up a sizable share of residential water use.32 Similarly, higher income families who have the sufficient funds to practice outdoor discretionary water usage during non-winter months will use more water compared to lower income families, and those who live in apartments or smaller properties. As proposed, I am concerned that the winter averaging methodology improperly shifts the revenue burden from higher income customers who reside in single-family homes to customers with lower income, and those that live in apartments or smaller properties.[281]

As a result, both OCA and CAUSE-PA recommend the Commission reject PAWC's winter averaging proposal. After considering the arguments presented by OCA and CAUSE-PA regarding the disproportionate adverse impact on low-income customers, combined with the Company's refusal to adopt the program as temporary, I&E witness Kubas recommends the winter averaging program be rejected in its entirety.[282]

D. Summary Including Scale Back of Rates

1. Water Scale Back of Rates

If the Commission grants less than the Company's requested increase and adopts the I&E customer charges, the Company's proposed rates would be reduced, or scaled back, to produce the revenue requirement allowed by the Commission. The first step that must be completed in any scale back is to determine the revenue requirements and scale backs of the wastewater operations. The wastewater operations revenue requirement must be set first because that will determine the

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[280] OCA Statement No. 5, p. 105.
[281] CAUSE-PA Statement No. 1, p 13.
[282] I&E Statement No. 3-SR, pp. 38-39.

amount of revenue requirement that must be allocated to Water Operations under Act 11. Once the wastewater to water allocation is determined, then the full Water Operations revenue requirement will be known, and those rates can be scaled back. I&E recommends that any scale back be netted against the subsidy the Commission determines for the wastewater operations.

If the Commission grants an increase less than the fully requested increase for Water Operations, I&E witness Cline recommends that the usage rates and customer charges be decreased to produce the revenue level the Commission approves. Because the $20.00 per month customer charge is based upon the direct customer cost, any reduction in any of the ratemaking inputs by the Commission would reduce the inputs used in the customer cost analysis that was used to determine the $20.00 per month customer charge. The Commission recently reaffirmed its commitment to including the customer charge in the scale back of rates in the *PGW 2023* base rate case.[283]

In addition, I&E recommends that the usage rates for the Rate Zone 2 residential and commercial and the Rate Zone 4 commercial rate classes not be scaled back as long as they remain lower than the usage rates in Rate Zone 1.

2. Wastewater Scale Back of Rates

i. SSS Operations

If the Commission grants less than the full increase for the SSS Operations, I&E recommends the following steps to reduce revenue and rates for SSS Operations customers. First, any subsidy from Water customers should be eliminated. That way, water customers will not subsidize any of the SSS Operations.

The scale back should start with the Zone 1, 2, and 5 Residential usage rate, reducing it to achieve the desired level of increase together with a reduction in the Non-Residential usage rate

283 *Pa. P.U.C. v. Phila. Gas Works*, Docket No. R-2023-3037933, pp. 157 and 166 (Order entered November 9, 2023).

proportional to the percentage increase that I proposed for each rate under the full increase. For example, if the general Residential usage rate is scaled back 50%, the Residential usage rate would increase 15.05% (30.1% X 50%). The increase in the general Non-Residential usage rate should be approximately 24.9% (49.8% X 50%). This will keep the total increase in the Residential class and No-Residential class relatively proportional. The Special Commercial rate of $2.350 per hundred gallons for Cleveland Cliffs and Victory Brewing should be similarly scaled back based upon the 67.9% increase shown on I&E Ex. No. 3, Sch. 3, p. 1, line 11. The Special Commercial flat monthly charges shown on I&E Ex. No. 3, Sch. 3, p. 1, lines 13-16 and line 18 should also be similarly scaled back. The Non-Residential flat rate of $150.00 per month should not be scaled back since it is below the average bill of a Non-Residential customer. The special customer charge of $465.50 per month should not be scaled back because the increase is only 10.0%.[284] The usage rates for Caln, West Brandywine, the VA, and St. Lawrence should not be scaled back because the rates are below the corresponding usage rate in Zone 1.[285] The customer charge and usage rate paid by Rainbow Washhouse where the usage rate that I&E proposes is below the present Commercial usage rate, should not be scaled back.[286]

In Zones 7 and 9, the general usage rates should not be scaled back since they are below the Zone 1 usage rate. The Zone 8 Residential and Commercial flat charge can be made the same as the corresponding Zone 1 flat charge. However, the Butler Township flat rate of $40.00 per month and the Zone 9 flat rate of $75.00 should not be scaled back because they are below the $132.00 per month flat rate proposed by I&E in Zone 1. The Bulk rates for the York Bulk

[284] I&E Ex. No. 3, Sch. 3, p. 1, line 19.
[285] I&E Ex. No. 3, Sch. 3, p. 1, lines 20-21.
[286] I&E Ex. No. 3, Sch. 3, lines 35-38.

customers and the Bulk rates in Royersford should not be scaled back since the revenue received from these classes is so far below the cost to provide service to these classes.[287]

ii. CSS Operations

Regarding CSS operations, I&E recommends that the customer charges not be scaled back. In Zone 4, the charge decreased, thus no further decrease is appropriate.

Regarding Residential flat rate customers, I&E witness Kubas recommends that the Residential flat rate be adjusted downward based upon the final average Residential Zone 1 bill established when rates are scaled back.[288][289] The scale back should start with the Zone 3, 4, and 6 Residential, reducing the usage rate to achieve the desired level of increase together with a reduction in the Non-Residential usage rate proportional to the percentage increase that Witness Kubas proposed for each rate under the full increase. For example, if the general Residential usage rate is scaled back 50% which would result in the general Residential usage rate increasing 11.7% (23.4% X 50%). The increase in the general Non-Residential usage rate should be approximately 24.7% (49.4% X 50%).[290] This will keep the total increase in the Residential class and No-Residential class relatively proportional. Finally, the Bulk rates in Zone 6 should not be scaled back since they are not being increased.[291]

3. Summary

I&E's customer cost analysis, customer charge, and scale back proposals are based on sound Commission ratemaking policies and precedent and should be adopted in total.

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287 I&E Ex. No. 3, Sch. 3, p. 2, line 1-21.
288 I&E Ex. No. 3, Sch 3, p. 1, lines 4-5.
289 I&E Statement No. 3-SR, p. 27.
290 I&E Ex. No. 3, Sch 17, lines 2 and 5.
291 I&E Ex. No. 3, Sch 17, lines 22-24.

X. ALTERNATIVE RATEMAKING REQUESTS

I&E opposes both Alternative Ratemaking Requests proposed by PAWC in this proceeding.

Section 1330 of the Public Utility Code allows public utilities to propose alternative rate making mechanisms.[292] This Code section includes a "declaration of policy" that reads, in part, as follows:

> Innovations in utility operations and information technologies are creating new opportunities for all customers, and it is in the public interest for the commission to approve just and reasonable rates and rate mechanisms to facilitate customer access to these new opportunities while ensuring that utility infrastructure costs are reasonably allocated to and recovered from customers and market participants consistent with the use of the infrastructure.[293]

In evaluating a proposed alternative ratemaking mechanism, the Commission will consider 14 factors:

> (1) How the ratemaking mechanism and rate design align revenues with cost causation principles as to both fixed and variable costs.
>
> (2) How the ratemaking mechanism and rate design impact the fixed utility's capacity utilization.
>
> (3) Whether the ratemaking mechanism and rate design reflect the level of demand associated with the customer's anticipated consumption levels.
>
> (4) How the ratemaking mechanism and rate design limit or eliminate interclass and intraclass cost shifting.
>
> (5) How the ratemaking mechanism and rate design limit or eliminate disincentives for the promotion of efficiency programs.
>
> (6) How the ratemaking mechanism and rate design impact customer incentives to employ efficiency measures and distributed energy resources.

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[292] 66 Pa. C.S. § 1330.
[293] 66 Pa. C.S. § 1330(a)(1).

(7) How the ratemaking mechanism and rate design impact low-income customers and support consumer assistance programs.

(8) How the ratemaking mechanism and rate design impact customer rate stability principles.

(9) How weather impacts utility revenue under the ratemaking mechanism and rate design.

(10) How the ratemaking mechanism and rate design impact the frequency of rate case filings and affect regulatory lag.

(11) If or how the ratemaking mechanism and rate design interact with other revenue sources, such as Section 1307 automatic adjustment surcharges, 66 Pa. C.S. § 1307 (relating to sliding scale of rates; adjustments), riders such as 66 Pa. C.S. § 2804(9) (relating to standards for restructuring of electric industry) or system improvement charges, 66 Pa. C.S. § 1353 (relating to distribution system improvement charge).

(12) Whether the alternative ratemaking mechanism and rate design include appropriate consumer protections.

(13) Whether the alternative ratemaking mechanism and rate design are understandable to consumers.

(14) How the ratemaking mechanism and rate design will support improvements in utility reliability.[294]

In addition, it is required that the utility proposing the alternative ratemaking mechanism explain how these factors have been met.[295]

A. Revenue Decoupling Mechanism (RDM)

The proposed RDM is an alternative rate design mechanism whose purpose is to more reliably recover the revenue requirement and associated fixed costs approved by the Commission in this case. In other words, the Company is proposing to stabilize its revenue level received from customers by charging or crediting the difference between the revenue requirement and fixed cost authorized in this case and actual revenues to customers in the subsequent year.[296]

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[294] 52 Pa. Code § 69.3302(a).
[295] 52 Pa. Code § 69.3302(b).
[296] PAWC Statement No. 10, pp. 86-87.

The Company believes the primary factors that cause revenue volatility as seasonal weather conditions and the declining use for residential, commercial, and municipal customers.[297]

The Company would apply the RDM to its water and wastewater service, with separate tariffs and separate recovery mechanisms for each service for all customers in the residential, commercial, industrial, municipal, and sales for resale classes except those customers taking service under contract rates.[298] PAWC is proposing to exempt any future acquisition customers from the RDM surcharge provided they are customers of a system that is not included in this case and to delay any assessment of the charge until a future rate proceeding .[299]

The Company proposes to compare actual revenues recovered from eligible water and wastewater customers in a given month or year to the revenues that would result from applying the RDM cost-components. If the actual revenues are short of the revenue requirement, the Company intends to charge the reconciliation amount as a volumetric rate from April 1 through December 31 for that calendar year. If the actual revenue is larger than the revenue requirement, the credit would be issued as a volumetric credit during the same period.[300]

The Company generated a set of rate components (residential fixed charge, nonresidential fixed charge, and volumetric charge) based on its COSS study and the concept of Straight Fixed Variable (SFV) pricing. The residential fixed charges are applied to all residential customers regardless of meter size or enrollment in the Bill Discount Program (BDP), and the nonresidential fixed charges are applied to all commercial, industrial, municipal, and sales for

297 PAWC Statement No. 10, p. 78.
298 PAWC St. No. 10, p. 86.
299 PAWC St. No. 10, p. 88.
300 PAWC St. No. 10, pp. 92-94.

resale customers regardless of meter size or rate structure, though the RDM does not apply contract customers.[301]

SFV pricing is a rate design that collects a utility's fixed costs through fixed charges and a utility's variable costs through volumetric charges.[302] PAWC witness Rea claims that over 95% of the Company's costs are fixed costs.[303] Therefore, under SFV pricing, the Company would collect 95% of its revenues through fixed costs rather than volumetric costs.

According to witness Rea "SFV is arguably not consistent with generally accepted cost-causation principles at a customer class level because fixed costs between classes vary more than may be reflected in SFV rate components. On its own, SFV pricing also has the potential to reduce incentives to use utility service efficiently and can disadvantage lower-income customers from an affordability perspective if fixed charges are set too high."[304]

The only support that the Company provides for including the SFV pricing-based rate components in the calculation of the goal revenue is that it provides additional revenue stability for the Company. However, revenue stability for the Company, is not sufficient to support an RDM. The RDM bases monthly or annual goal revenues on rate components that are not consistent with cost-causation principles, has the potential to reduce incentives to use utility service efficiently, and can disadvantage lower-income customers from an affordability perspective. The seventh edition of the American Water Works Association M1 Manual explains there is a tradeoff between revenue stability from a high customer charge, and affordability and conservation from a low customer charge and higher usage rates.[305]

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301 PAWC Statement No. 10, p. 94.
302 PAWC Statement No. 10, p. 90.
303 PAWC Statement No. 10, p. 86.
304 PAWC Statement No. 10, pp. 90-91.
305 AWWA Manual of Water Supply Practices M1 Principles of Water Rates, Fees, Charges, Seventh Edition. pp. 154-155.

I&E witness Cline explains, "SFV pricing strays too far from the concerns of affordability and conservation in the name of revenue stability for the Company."[306]

I&E does not agree that the Company has established a need for revenue stabilization, especially when it is also simultaneously proposing a declining usage adjustment in this case. The proposed RDM will devalue conservation efforts undertaken by customers that can afford efficiency measures and harm customers who cannot afford these measures by assessing an additional charge to all customers. Furthermore, the proposal does not achieve the policy goals supported based on the Commission's policy statement associated with Section 1330 of the Code, or the Code itself. Finally, it is likely to cause rate confusion with yet another surcharge on PAWC's customer bills.

Generally, the sole way for a utility customer to reduce their bill is through conservation efforts. This is particularly true for water customers. Unlike gas and electric utilities, there is no way for a water customer to shop for a new supplier. As explained by OCA witness Mierzwa, the RDM will force these customers who take measures to reduce their water consumption to share some, or nearly all, of their bill savings with the utility.[307]

The purpose of revenue stabilization is to remove the inherent risk of not recovering the full amount of revenue requirement allowed by the Commission due to changes in usage. However, through Act 11 and the FPFTY, the Company is permitted to build into its revenue requirement an adjustment for revenue lost due to a decline in usage that is projected to occur after rates go into effect. Between the frequent base rate cases filed by the Company, only one and a half years since the last previous filing, the FPFTY, and the DSIC, the Company has demonstrated no need for further revenue stabilization measures.

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306 I&E Statement No. 4, p. 14.
307 OCA Statement No. 4, p. 58.

PAWC is proposing adjustments for the normalization of the actual billing determinants for the 12-month period ended June 30, 2025. PAWC alleges that the need for the adjustment is related to trends in declining use, weather normalization, and the impact of the COVID-public health emergency on water consumption for PAWC's water customers[308] I&E did not contest PAWC's adjustment for declining usage in this case.[309] Given the Company's rate case filing frequency, it is not necessary to add an additional revenue stabilization measure as the Company has already adjusted for anticipated declining usage in the FPFTY in the instant case.

Additionally, PAWC has not demonstrated that the RDM would even decrease the need to file base rate cases. In fact, the Company notes, "if future rate cases are driven by future investment needs and associated cost recovery, the RDM would not reduce the need for such cases."[310] The main driver of the Company's most recent four base rate cases seems to be its investment in infrastructure. Taking into account that the Company has not indicated that it will not continue to make substantial infrastructure investments, it does not appear likely that the RDM would lessen the frequency with which PAWC files base rate cases. Taking all this into account indicates that all the benefits of the RDM would flow to PAWC, while all the risk of having to return cost savings achieve through conservation would fall on PAWC's ratepayers.

Furthermore, the Company has no history of an inability to attract capital. This is particularly true when considering that PAWC was able to generate approximately $262 million to acquire new water and wastewater systems since the last base rate case despite an overall continuing decline in usage.[311]

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308 PAWC Statement No. 10, pp 52-72.
309 I&E Statement No. 4, p. 16.
310 PAWC Exhibit No. CBR-10.
311 I&E Exhibit No. 4, Sch. 4.

For the RDM to be approved, it should have some benefit to customers; however, in this case, it not only would not provide any benefit, but it may harm customers by causing them to overpay and negating any cost incentive to conserve water. Customers who undertake conservation efforts will see their savings eroded and their investment payback time increased as the Company is permitted to increase rates in response to usage declines.

Further, customers who lack the financial means to undertake conservation efforts such as low-flow toilets, low flow faucets, and the like, will be penalized by the RDM, which increases rates to address usage reductions. PAWC has specifically stated in its response to OCA 6-59 that the RDM does not account for low-income participation.[312] Therefore, there are potentially many customers whose ability to pay may be compromised as their rates increase to address conservation efforts undertaken by those more able to afford such measures, or from more low-income customers enrolling in the BDP than was originally anticipated.[313] Finally, as described above, there is no expectation it will lead to fewer base rate cases. The facts show that customers would be harmed by the proposal and all benefits will flow only to the Company; therefore, there is no demonstrated need for the RDM.

Regarding the 14 factors that must be considered as part of an alternative ratemaking mechanism consideration, I&E witness Cline disagreed with the following:

> (6) how the ratemaking and rate design impact customer incentives to employ efficiency measures and distributed energy resources;
>
> (7) how the ratemaking mechanism and rate design impact low-income customers and support consumer assistance programs;
>
> (8) how the ratemaking mechanism and rate design impact customer rate stability principles; and

312 I&E Ex. No. 4, Sch. 5.
313 I&E Ex. No. 4, Sch. 6.

(13) whether the alternative ratemaking mechanism and rate design are understandable to consumers.[314]

The RDM is unlikely to serve to encourage water efficiency and conservation, and is, in fact, likely to discourage conservation as cost savings are eroded. As witness Cline explains, the RDM will appear as a random surcharge or credit on their bill that is completely removed from their own usage and will create confusion. Specifically, by calculating the RDM based on a total class-wide (or multiple classes in the case of non-residential customers) basis, a single customer, particularly low-usage customers, will be unable to affect whether they are assessed an additional surcharge or a credit on their bill in the subsequent year. It is the bill based on base charges where the customer can see an impact of their own conservation efforts that would encourage water efficiency and conservation. The only thing the RDM provides customers is the fear that the savings derived from conservation efforts will be lessened or eliminated, thus removing any real incentive to conserve.[315] Regarding low-income customers, Mr. Cline notes that there are potentially many customers who cannot undertake their own cost saving measures (such as installing low-flow appliances, faucets, or toilets).[316] However, there are also those customers who do have the funds to install water saving devices in their homes. Mr. Cline explains "there are potentially many customers…whose ability to pay may be compromised as their rates increase to address conservation efforts undertaken by more affluent customers or from more low-income customers enrolling in the BDP than was originally anticipated."[317]

In addition, Mr. Cline explains the RDM will be inherently confusing or PAWC ratepayers. The Company's proposal to determine the credit or surcharge based on a total class

[314] I&E Statement No. 4, p. 21.
[315] I&E Statement No. 4, p. 22.
[316] I&E Statement No. 4, p. 23.
[317] I&E Statement No. 4, p. 23.

basis results in customers being completely unaware and unable to control or predict whether they will be receiving a surcharge or credit from the RDM for the following year. As Mr. Cline explains, "[a]dditionally, the entire concept of the RDM introduces rate confusion for customers. Essentially, PAWC is telling customers that it will charge one set of rates from January through March, but that in April their rates will be adjusted based on the comparison of their revenues (but not just theirs, the revenue from all of the other customers as well) from the previous year to the revenues generated by some other rate that was not included or mentioned on their bill at all."[318]

Currently, the only means by which a water customer may effect a reduction to their will is through conservation. With the frequent base rate cases and increasing rates customers are already facing, along with the potential for the RDM to erode the benefits of conservation, it would not be in the public interest for the Commission to approve this alternative rate mechanism. Simply put, the risk to ratepayers of seeing their conservation savings eroded is not worth the benefit of proving this type of revenue stabilization to PAWC.

B. Environmental Compliance Investment Charge (ECIC)

The other alternative ratemaking mechanism proposed by the Company is the ECIC. The ECIC, "is a rate adjustment clause designed to reflect and recover, between rate cases, the costs imposed on the Company to address and comply with continuously evolving government-mandated environmental standards that are beyond the Company's control and difficult to estimate at any single point in time."[319] According to PAWC witness Aiton, the ECIC will provide the Company a reasonable opportunity to recover capital costs and expenses incurred after June 30, 2025 to comply with the new federal standards related to per- and polyfluoroalkyl

[318] I&E Statement No. 4, p. 24.
[319] PAWC Statement No. 8, p. 12.

substances (PFAS).[320] The Company estimates this will require an investment in the range of $200 million of work before the end of 2027.

Per PAWC witness Swiz, the ECIC will be a percentage carried to two decimal places applied to the total amount billed to each customer excluding the State Tax Adjustment Surcharge (STAS) and the DSIC. Mr. Swiz further proposed that the ECIC would be subject to audit and reconciliation at intervals determined by the Commission.[321]

I&E opposes the implementation of the ECIC for several reasons. First, the proposed environmental compliance plan would be filed outside the parameters of a base rate case, disrupting the ability of the Commission to review the data in the context of the total impact to ratepayers and with respect to other expenses that may be increasing or decreasing between rate cases, which constitutes single-issue ratemaking.

Second, I&E disagrees with Mr. Swiz's assertion that the ECIC will not impact efficiency incentives.[322] The fact that changing regulations require the Company to make investments or increase spending in certain areas does not mean they should be virtually guaranteed recovery of all environmental compliance projects it undertakes no matter what. There may be more than one option for compliance or other ways to save money, but the ECIC could take away the incentive for the Company to explore the options if it can rely on guaranteed recovery.

Third, I&E witness Okum explains, "…it is difficult to adequately evaluate the impact of such a charge when the Company has not provided any measurable data associated with the charge."[323] The Company has not projected any data related to the ECIC.[324] The Company

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[320] PAWC Statement No. 4, pp. 25-27.
[321] PAWC Statement No. 8, p. 29.
[322] PAWC Statement No. 8, Exhibit JCS-1, p. 1.
[323] I&E Statement No. 1, p. 35.
[324] I&E Exhibit No. 1, Schedule 7.

argues in response to I&E-RE-46-D[325] it plans to submit an environmental plan to the Commission before implementing the charge, therefore, the expense won't be unknown. However, the fact remains that the Company has not provided any forecasted data, so costs are, in fact, entirely unknown at this time. It is difficult, if not impossible, to evaluate the mechanism and methodology without better understanding the impact to ratepayers.

Finally, although environmental issues will be ongoing as environmental science continues to evolve, the implementation of such a charge indefinitely seems, in I&E's view unnecessary. Environmental compliance has always been a normal part of a utility's expenditures and will be a normal part of PAWC's expenditures whether the ECIC is approve or not. All water and wastewater utilities nationwide face these same emerging contaminant issues. In I&E's view implementing a rider recovery mechanism for just one company before any universal Commission action could occur and before any potential government funding has been established is simply premature. I&E does not dispute that a utility should generally be able to recover costs associated with environmental compliance; however, I&E does not believe that an open-ended surcharge, such as what has been proposed by PAWC, is the proper way to do so, and certainly not while there are still so many unknowns.

As explained above, the issue of environmental rules changes to deal with PFAS and other issues is an industry-wide concern facing all water utilities in the Commonwealth. At this juncture, final regulations have not been formulated, and the Commission has not had the opportunity to react to this situation on a utility-wide basis as it has done in other areas such as COVID cost impacts. Furthermore, this is not a concern that is limited just to Pennsylvania

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325 I&E Exhibit No. 1, Schedule 8.

utilities, and like other issues such as lead, there may be federal or state programs and funding that have yet to be established to address this problem on a nationwide or state basis.

Therefore, approval of the ECIC in this proceeding would be premature and would not be in the public interest.

XI. LOW-INCOME CUSTOMER ASSISTANCE

A. Summary

I&E's recommendations related to PAWC's low-income customer programs generally related mainly to how these programs are funded. Specifically, regarding CAUSE-PA witness Geller's recommendation to increase funding for the Hardship Fund and creation of a conservation and line repair and replacement program, if ultimately approved I&E maintains that funding of these programs should be the responsibility of PAWC shareholders and not ratepayers.

Further, regarding the recommendation made by OCA witness Colton and CAUSE-PA witness Geller that PAWC be required to prepare a written universal service program, I&E maintains that rather than singling out PAWC for this requirement, if the Commission believes written universal service plans are appropriate for water and wastewater utilities, that this be done on a statewide basis as it has been for electric and natural gas utilities.

B. Affordability Analysis

I&E witness Kubas recommends that the Commission not rely on the Company's affordability analysis to justify limiting PAWC's wastewater rates for three reasons. First, I&E does not believe that making the average bills of water and wastewater customers comparable should be the primary goal as there is a substantial difference in operating costs between water and wastewater systems. In fact, cost causation, should be the primary factor in setting rates.

There is no rate making criteria that would imply that water customers and wastewater customers should have comparable rates. Second, the analysis ignores the fact that water customer who do not receive wastewater service from PAWC will incur their own wastewater costs that may or may not be comparable to their PAWC water rates while they subsidize PAWC wastewater customers to provide them with comparable rates. Third, the analysis ignores the benefits the Company claims that could or have accrued to customers in acquired systems. As an example, the analysis ignores the potential local tax reductions PAWC claimed a customer may receive after the wastewater system was acquired by PAWC. Therefore, the affordability analysis is flawed and should not be used to establish wastewater rates.[326]

C. H2O Bill Discount Program Design

I&E made no recommendations related to PAWC's H2O Bill Discount Program.

D. Hardship Fund

CAUSE-PA witness Harry Geller recommended that PAWC increase its hardship fund by $1 million over its existing funding levels and that any unspent amount be rolled over to the budget for the following year.[327] While witness Geller made other recommendations related to the hardship fund, the only issue addressed by I&E witness Okum related to the funding source of the $1 million increase. In Direct testimony, PAWC witness Everette explains that the hardship program is funded by PAWC shareholders and donations from customers.[328]

I&E witness Okum noted that Mr. Geller did not specify a funding source for the increase of $1 million, so while she did not oppose the increase, she recommended that the Commission

[326] I&E Statement No. 3, pp. 13-14.
[327] CAUSE-PA Statement No. 1, p. 52.
[328] PAWC Statement No. 1, p. 12.

specify that the funding source continue to be PAWC shareholders.[329] In surrebuttal testimony, CAUSE-PA witness Geller indicated his agreement with this recommendation.[330]

E. Conservation Assistance

CAUSE-PA witness Geller recommends the Company implement a comprehensive conservation and line repair and replacement program for all customer at or below 200% of the federal poverty level (FPL).[331]

I&E witness Okum described two issues with this program. First, Mr. Geller does not specify a funding source, and second, Mr. Geller presents no budget or cap for this program.[332] Therefore, Ms. Okum recommended that if approved, the program should be funded by shareholders and not by ratepayers.[333] As Ms. Okum explained, these efforts will focus on water conservation inside individual customers homes and assistance with repairing and replacing service lines on individual customers property.[334] Therefore, it would be inappropriate to ask all ratepayers to fund this program. While CAUSE-PA witness Geller disagrees that these programs benefit individual customers stating that these programs have tangible benefits for all ratepayers because the program will help to control usage and high bills for homes in need of repairs, and assisting these customers to better control high usage will help to reduce universal service program costs.[335]

While there are some areas of disagreement, CAUSE-PA witness Geller never specifically disagrees with I&E witness Okum's recommendation that the program be funded by shareholders. I&E does not disagree that there may be some minor benefits that flow to all

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329 I&E Statement No. 1-R, p. 3.
330 CAUSE-PA Statement No. 1-SR, p. 4.
331 CAUSE-PA Statement No. 1, p. 63.
332 I&E Statement No. 1-R, p. 4.
333 I&E Statement No. 1-R, p. 4.
334 I&E Statement No. 1-R, p. 4.
335 CAUSE-PA Statement No. 1-SR, pp. 5-6.

ratepayers as a result of this program, the fact remains that this program is largely focused specifically on individual customers' homes. Therefore, I&E continues to recommend that if the program is ultimately approved, it should be funded by shareholders rather than ratepayers.

F. Low-Income Customer Outreach, Screening, and Intake

I&E took no position on these issues.

G. Data Collection, Reporting, and Monitoring of Low-Income Programs

I&E took no position on these issues.

H. Comprehensive Written Universal Service Plan

Both OCA witness Roger Colton and CAUSE-PA witness Geller recommend that PAWC should be required to develop a written comprehensive universal service plan, which OCA recommends be filed with the Bureau of Consumer Services for review by interested parties.[336]

Currently, only electric and natural gas utilities are required to develop universal service plans.[337] As a result, I&E witness Okum recommends that rather than a singular requirement for PAWC to file a universal service plan, if the Commission wishes to implement the requirement for a universal service plan for water and wastewater utilities, that it be done on a statewide basis.[338] PAWC witness Tawana Dean similarly notes that currently only electric and natural gas companies are required to create a universal service plan. Ms. Dean further states that "PAWC should not be required to adopt a universal service plan unless Pennsylvania law is modified to expand this requirement…to water and wastewater utilities."[339]

In addition, I&E witness Okum explains, that even if the Commission were to approve a universal service plan for PAWC on a standalone basis, low-income benefits flow through base

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336 CAUSE-PA Statement No. 1, p. 56 and OCA Statement No. 5, p. 67.
337 52 Pa. C.S. § 69.261.
338 I&E Statement No. 1-R, pp. 5-6.
339 PAWC Statement No. 14-R, p. 12.

rates. Therefore, even if periodic reports were filed with BCS and reviewed by interested parties, in that particular forum there would be no avenue to make any necessary changes to base rates.[340]

Therefore, I&E recommends that rather than singling out PAWC to provide a written universal service plan, if the Commission believes that universal services plans are appropriate for water and wastewater utilities, it provide statewide guidance for all water and wastewater utilities as it has done in the gas and electric industries.

I. Administration of PAWC's Low-Income Assistance Programs

I&E took no position on these issues.

XII. SERVICE QUALITY AND CUSTOMER SERVICE ISSUES

I&E made no recommendations related to service quality and customer service issues.

XIII. MISCELLANEOUS

A. Customer Notices Related to Rate Changes

I&E did not make any recommendations related to customer notices.

B. Tariff Changes (not addressed above)

I&E did not make any further recommendations related to tariff changes, apart from those mentioned in the above sections.

XIV. CONCLUSION

PAWC has failed to satisfy its burden of proof with respect to its proposed revenue increase of $203,945,911, updated in Rebuttal to $204,291,164. To the contrary, I&E's presentation of expert witness testimony demonstrates that PAWC should receive a revenue increase of no more than $56,050,684. Broken down further, this represents an increase of

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340 I&E Statement No. 1-R, pp. 5-6.

$29,343,583 to water operations; an increase of $19,925,077 to wastewater SSS operations; and an increase of $6,782,024 to wastewater CSS operations. The Company's ratemaking claims must be amended to reflect the necessary and appropriate adjustments proposed by the Bureau of Investigation & Enforcement's fixed utility financial analyst and engineering witnesses. Accordingly, the Bureau of Investigation & Enforcement respectfully requests the Administrative Law Judges and the Commission adopt its recommendations in this proceeding, including all adjustments and modifications as supported herein and reflected on the attached I&E tables, and grant Pennsylvania-American Water Company a rate increase of no more than $56,050,684.

Respectfully submitted,

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Dated: March 26, 2024

APPENDIX A

Act 11 Allocation

	Pennsylvania-American Water Company I&E Recommended - Combined Water & Wastewater Revenue Requirement Summary Docket Nos. R-2023-3043189 and R-2023-3043190				
Line No.		**Total Company**	**Water Operations**	**WW - SSS General Ops.**	**WW CSS Operations**
		(A)	(B)	(C)	(D)
1	Present Rate Revenue	$ 994,198,720	$ 820,885,791	$ 94,676,713	$ 78,636,216
2	Additional Revenue Requirement	$ 56,050,684	$ 29,343,583	$ 19,925,077	$ 6,782,024
3	Act 11 Allocation	$ -	$ -	$ -	$ -
4	Proposed Revenues	$ 1,050,249,404	$ 850,229,374	$ 114,601,790	$ 85,418,240
5	Rate Increase/(Decrease) - $	$ 56,050,684	$ 29,343,583	$ 19,925,077	$ 6,782,024
6	Rate Increase/(Decrease) - %	5.6%	3.6%	21.0%	8.6%

TABLE I
Pennsylvania-American Water Company - Water Operations
INCOME SUMMARY
Docket Nos. R-2023-3043189 and R-2023-3043190

	Pro Forma Present Rates (1)	Company Adjustments (1)	Pro Forma Present Rates Adjusted (1)	I&E Adjustments	I&E Pro Forma Present Rates	I&E Revenue Increase	Total Allowable Revenues
	$	$	$	$	$	$	$
Operating Revenue	824,117,186	0	824,117,186	(3,231,395)	820,885,791	29,343,583	850,229,374
Expenses:							
O&M Expense	256,103,636	0	256,103,636	(8,111,532)	247,992,104	345,081	248,337,185
Depreciation	212,360,703	0	212,360,703	(1,720,264)	210,640,439	0	210,640,439
Taxes, Other	14,335,910	0	14,335,910	(20,588)	14,315,322	186,961	14,502,283
Income Taxes:							
State	13,414,819	0	13,414,819	549,744	13,964,563	2,302,042	16,266,605
Federal	34,032,905	0	34,032,905	1,329,435	35,362,340	5,566,995	40,929,336
Deferred Taxes/ITC	(233,592)	0	(233,592)	0	(233,592)	0	(233,592)
Total Expenses	530,014,381	0	530,014,381	(7,973,205)	522,041,177	8,401,079	530,442,256
Net Inc. Available for Return	294,102,805	0	294,102,805	4,741,810	298,844,614	20,942,504	319,787,118
Rate Base	4,700,940,379	0	4,700,940,379	(11,979,710)	4,688,960,669		4,688,960,669
Rate of Return	6.26%		6.26%		6.37%		6.82%

TABLE I(A)

Pennsylvania-American Water Company - Water Operations

RATE OF RETURN

Docket Nos. R-2023-3043189 and R-2023-3043190

	Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
Total Cost of Debt			2.09000000%		
Long-term Debt	44.01%	4.76%	2.09000000%		2.09%
Short-term Debt	0.00%	0.00%	0.00000000%		
Preferred Stock	0.00%	0.00%	0.00000000%	0.726879	0.00%
Common Equity	55.99%	8.45%	4.73000000%	0.726879	6.51%
	100.00%		6.82000000%		8.60%
Pre-Tax Interest Coverage	4.11				
After-Tax Interest Coverage	3.26				

TABLE I(B)	
Pennsylvania-American Water Company - Water Operations	
REVENUE FACTOR	
Docket Nos. R-2023-3043189 and R-2023-3043190	
100%	1.00000000
Less:	
Uncollectible Accounts Factor (*)	0.01176000
PUC, OCA, OSBA Assessment Factors (*)	0.00637145
Gross Receipts Tax	0.00000000
Other Tax Factors (adjust for rounding)	0.00000000
	0.98186855
State Income Tax Rate (*)	0.07990000
Effective State Income Tax Rate	0.07845100
Factor After Local and State Taxes	0.90341755
Federal Income Tax Rate (*)	0.21000000
Effective Federal Income Tax Rate	0.18971800
Revenue Factor (100% - Effective Tax Rates)	0.71370000

TABLE II
Pennsylvania-American Water Company - Water Operations
SUMMARY OF ADJUSTMENTS
Docket Nos. R-2023-3043189 and R-2023-3043190

Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	$	$	$	$	$	$	$
RATE BASE:							
CWC:							
Int. & Div. (Table IV)	(IV!B38)						
Taxes (Table V)	(V!P34)						
O & M (Table VI)	(VI!B42)						
CWC	(1,088,631)						
Audubon / Farmington Plant	(2,863,040)						
Audubon / Farmington Acq Adj.	(7,855,260)						
Audubon / Farmington Trans. Cost	(172,779)						
REVENUES:							
Audubon Revenue Adjustment		(2,965,024)			(18,891)	(235,396)	(569,255)
Farminton Revenue Adjustment		(266,371)			(1,697)	(21,147)	(51,141)
EXPENSES:							
Pension Expense			-4,771,807			381,267	922,013
OPEB Expense			-1,664,016			132,955	321,523
Acquisition O&M			-1,675,709			133,889	323,782
						0	0
Audubon / Farmington Depreciation				(917,460)		73,305	177,273
Audubon / Farmington Acq Amort.				(785,526)		62,764	151,780
Audubon Transaction Costs				(11,795)		942	2,279
Farmington Transaction Costs				(5,483)		438	1,059
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
TAXES:							
Interest Synchronization (Table III)						20,727	50,123
TOTALS	(11,979,710)	(3,231,395)	(8,111,532)	(1,720,264)	(20,588)	549,744	1,329,436

TABLE III	
Pennsylvania-American Water Company - Water Operations	
INTEREST SYNCHRONIZATION	
Docket Nos. R-2023-3043189 and R-2023-3043190	
	Amount
Company Rate Base Claim	$ 4,700,940,379
I&E Rate Base Adjustments	(11,979,710)
I&E Rate Base	4,688,960,669
Weighted Cost of Debt	2.09000000%
I&E Interest Expense	97,999,278
Company Claim (1)	98,258,688
Total I&E Adjustment	259,410
Company Adjustment	0
Net I&E Interest Adjustment	259,410
State Income Tax Rate	7.99%
State Income Tax Adjustment	20,727
Net I&E Interest Adjustment	259,410
State Income Tax Adjustment	20,727
Net I&E Adjustment for F.I.T.	238,683
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment	$ 50,123

TABLE IV

Pennsylvania-American Water Company - Water Operations

CASH WORKING CAPITAL - Interest and Dividends

Docket Nos. R-2023-3043189 and R-2023-3043190

Accrued Interest			Preferred Stock Dividends	
	Long-Term Debt	Short-Term Debt		
Company Rate Base Claim	$4,700,940,379	$4,700,940,379	Company Rate Base Claim	$4,700,940,379
I&E Rate Base Adjustments	($11,979,710)	($11,979,710)	I&E Rate Base Adjustments	($11,979,710)
I&E Rate Base	$4,688,960,669	$4,688,960,669	I&E Rate Base	$4,688,960,669
Weighted Cost of Debt	2.09000000%	0.00%	Weighted Cost Pref. Stock	0.00000000%
I&E Annual Interest Exp.	$97,999,278	$0	I&E Preferred Dividends	$0
Average Revenue Lag Days	0.0	0.0	Average Revenue Lag Days	0.0
Average Expense Lag Days	0.0	0.0	Average Expense Lag Days	0.0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
Working Capital Adjustment				
I&E Daily Interest Exp.	$268,491	$0	I&E Daily Dividends	$0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
I&E Working Capital	$0	$0		$0
Company Claim (1)	$0	$0	Company Claim (1)	$0
I&E Adjustment	$0	$0		$0
Total Interest & Dividend Adj.	$0			

TABLE V
Pennsylvania-American Water Company - Water Operations
CASH WORKING CAPITAL -TAXES
Docket Nos. R-2023-3043189 and R-2023-3043190

Description	Company Proforma Tax Expense Present Rates	I&E Adjustments	I&E Pro forma Tax Expense Present Rates	ALJ Allowance	I&E Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
PUC Assessment	$0	$0	$0	$186,961	$186,961	$512.22	0.00	$0
Public Utility Realty	$0	$0	$0		$0	$0.00	0.00	$0
Capital Stock Tax	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
State Income Tax	$0	$549,744	$549,744	$2,302,042	$2,851,786	$7,813.11	0.00	$0
Federal Income Tax	$0	$1,329,436	$1,329,436	$5,566,995	$6,896,431	$18,894.33	0.00	$0
	$0	$1,879,180	$1,879,180	$8,055,998	$9,935,178			

TABLE VI

Pennsylvania-American Water Company - Water Operations

CASH WORKING CAPITAL -- O & M EXPENSE

Docket Nos. R-2023-3043189 and R-2023-3043190

Description	Company Pro forma FTY Expense	I&E	I&E Pro forma Expenses	Lag Days	Lag Dollars
Service Company	$0	$0	$0	0.00	$0
Chemicals	$0	$0	$0	0.00	$0
Group Insurance	$0	$0	$0	0.00	$0
Insurance, Other	$0	$0	$0	0.00	$0
Labor	$0	$0	$0	0.00	$0
Leased Equip./Rent	$0	$0	$0	0.00	$0
Leased Vehicles	$0	$0	$0	0.00	$0
Miscellaneous	$0	$0	$0	0.00	$0
Natural Gas	$0	$0	$0	0.00	$0
Power	$0	$0	$0	0.00	$0
Purchased Water	$0	$0	$0	0.00	$0
Telephone	$0	$0	$0	0.00	$0
Waste Disposal	$0	$0	$0	0.00	$0
Post Retirement Benefits	$0	$0	$0	0.00	$0
Pensions	$0	$0	$0	0.00	$0

TABLE I							
Pennsylvania-American Water Company - WW SSS General Operations							
INCOME SUMMARY							
Docket Nos. R-2023-3043189 and R-2023-3043190							
	Pro Forma Present Rates (1)	Company Adjustments (1)	Pro Forma Present Rates Adjusted (1)	I&E Adjustments	I&E Pro Forma Present Rates	I&E Revenue Increase	Total Allowable Revenues
	$	$	$	$	$	$	$
Operating Revenue	95,470,867	0	95,470,867	(794,154)	94,676,713	19,925,077	114,601,790
Expenses:							
O&M Expense	26,066,392	0	26,066,392	(504,709)	25,561,683	234,319	25,796,002
Depreciation	27,406,489	0	27,406,489	43,762	27,450,251	0	27,450,251
Taxes, Other	3,221,051	0	3,221,051	(5,060)	3,215,991	126,952	3,342,943
Income Taxes:							
State	2,901,678	0	2,901,678	(20,840)	2,880,838	1,563,148	4,443,986
Federal	7,053,052	0	7,053,052	(50,400)	7,002,652	3,780,138	10,782,790
Deferred Taxes/ITC	0	0	0	0	0	0	0
Total Expenses	66,648,662	0	66,648,662	(537,247)	66,111,415	5,704,557	71,815,972
Net Inc. Available for Return	28,822,205	0	28,822,205	(256,907)	28,565,298	14,220,520	42,785,818
Rate Base	649,336,105	0	649,336,105	(3,024,655)	646,311,450		646,311,450
Rate of Return	4.44%		4.44%		4.42%		6.62%

TABLE I(A)					
Pennsylvania-American Water Company - WW SSS General Operations					
RATE OF RETURN					
Docket Nos. R-2023-3043189 and R-2023-3043190					
	Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
Total Cost of Debt			2.15000000%		
Long-term Debt	42.73%	4.76%	2.03000000%		2.03%
Short-term Debt	4.40%	2.67%	0.12000000%		
Preferred Stock	0.00%	0.00%	0.00000000%	0.726879	0.00%
Common Equity	52.87%	8.45%	4.47000000%	0.726879	6.15%
	100.00%		6.62000000%		8.18%
Pre-Tax Interest Coverage	4.03				
After-Tax Interest Coverage	3.26				

TABLE I(B)	
ennsylvania-American Water Company - WW SSS General Operation	
REVENUE FACTOR	
Docket Nos. R-2023-3043189 and R-2023-3043190	
100%	1.00000000
Less:	
Uncollectible Accounts Factor (*)	0.01176000
PUC, OCA, OSBA Assessment Factors (*)	0.00637145
Gross Receipts Tax	0.00000000
Other Tax Factors (adjust for rounding)	0.00000000
	0.98186855
State Income Tax Rate (*)	0.07990000
Effective State Income Tax Rate	0.07845100
Factor After Local and State Taxes	0.90341755
Federal Income Tax Rate (*)	0.21000000
Effective Federal Income Tax Rate	0.18971800
Revenue Factor (100% - Effective Tax Rates)	0.71370000

TABLE II
Pennsylvania-American Water Company - WW SSS General Operations
SUMMARY OF ADJUSTMENTS
Docket Nos. R-2023-3043189 and R-2023-3043190

Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	$	$	$	$	$	$	$
RATE BASE:							
CWC:							
Int. & Div. (Table IV)	(IV!B38)						
Taxes (Table V)	(V!P34)						
O & M (Table VI)	(VI!B42)						
CWC	(30,925)						
Sadsbury/Farmington Plant	(2,858,884)						
Sadsbury/Farmington Acq Adj.	(134,846)						
REVENUES:							
Farmington Revenues		(322,926)			(2,058)	(25,637)	(61,999)
Sadsbury Revenues		(471,228)			(3,002)	(37,411)	(90,471)
EXPENSES:							
Acquisition O&M			(504,709)			40,326	97,520
						0	0
Farmington/Sadsbury Depr.				(35,953)		2,873	6,947
Sadsbury Acq. Amort.				94,561		(7,555)	(18,271)
Farmington Transaction Cost				(5,699)		455	1,101
Sadsbury Transaction Cost				(9,147)		731	1,767
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
TAXES:							
Interest Synchronization (Table III)						5,378	13,006
TOTALS	(3,024,655)	(794,154)	(504,709)	43,762	(5,060)	(20,840)	(50,400)

TABLE III	
Pennsylvania-American Water Company - WW SSS General Operations	
INTEREST SYNCHRONIZATION	
Docket Nos. R-2023-3043189 and R-2023-3043190	
	Amount
Company Rate Base Claim	$ 649,336,105
I&E Rate Base Adjustments	(3,024,655)
I&E Rate Base	646,311,450
Weighted Cost of Debt	2.15000000%
I&E Interest Expense	13,895,696
Company Claim (1)	13,963,009
Total I&E Adjustment	67,313
Company Adjustment	0
Net I&E Interest Adjustment	67,313
State Income Tax Rate	7.99%
State Income Tax Adjustment	5,378
Net I&E Interest Adjustment	67,313
State Income Tax Adjustment	5,378
Net I&E Adjustment for F.I.T.	61,935
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment	$ 13,006

TABLE IV				
Pennsylvania-American Water Company - WW SSS General Operations				
CASH WORKING CAPITAL - Interest and Dividends				
Docket Nos. R-2023-3043189 and R-2023-3043190				
Accrued Interest			Preferred Stock Dividends	
	Long-Term Debt	Short-Term Debt		
Company Rate Base Claim	$649,336,105	$649,336,105	Company Rate Base Claim	$649,336,105
I&E Rate Base Adjustments	($3,024,655)	($3,024,655)	I&E Rate Base Adjustments	($3,024,655)
I&E Rate Base	$646,311,450	$646,311,450	I&E Rate Base	$646,311,450
Weighted Cost of Debt	2.03000000%	0.12%	Weighted Cost Pref. Stock	0.00000000%
I&E Annual Interest Exp.	$13,120,122	$775,574	I&E Preferred Dividends	$0
Average Revenue Lag Days	0.0	0.0	Average Revenue Lag Days	0.0
Average Expense Lag Days	0.0	0.0	Average Expense Lag Days	0.0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
Working Capital Adjustment				
I&E Daily Interest Exp.	$35,946	$2,125	I&E Daily Dividends	$0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
I&E Working Capital	$0	$0		$0
Company Claim (1)	$0	$0	Company Claim (1)	$0
I&E Adjustment	$0	$0		$0
Total Interest & Dividend Adj.	$0			

TABLE V								
Pennsylvania-American Water Company - WW SSS General Operations								
CASH WORKING CAPITAL -TAXES								
Docket Nos. R-2023-3043189 and R-2023-3043190								
Description	Company Proforma Tax Expense Present Rates	I&E Adjustments	I&E Pro forma Tax Expense Present Rates	I&E Allowance	I&E Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
PUC Assessment	$0	$0	$0	$126,952	$126,952	$347.81	0.00	$0
Public Utility Realty	$0	$0	$0		$0	$0.00	0.00	$0
Capital Stock Tax	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
State Income Tax	$0	($20,840)	($20,840)	$1,563,148	$1,542,308	$4,225.50	0.00	$0
Federal Income Tax	$0	($50,400)	($50,400)	$3,780,138	$3,729,738	$10,218.46	0.00	$0
	$0	($71,240)	($71,240)	$5,470,238	$5,398,998			

TABLE VI									
Pennsylvania-American Water Company - WW SSS General Operations									
CASH WORKING CAPITAL -- O & M EXPENSE									
Docket Nos. R-2023-3043189 and R-2023-3043190									
	Company								
	Pro forma				I&E				
	FTY		I&E		Pro forma				
Description	Expense				Expenses		Lag Days		Lag Dollars
Service Company	$0		$0		$0		0.00		$0
Chemicals	$0		$0		$0		0.00		$0
Group Insurance	$0		$0		$0		0.00		$0
Insurance, Other	$0		$0		$0		0.00		$0
Labor	$0		$0		$0		0.00		$0
Leased Equip./Rent	$0		$0		$0		0.00		$0
Leased Vehicles	$0		$0		$0		0.00		$0
Miscellaneous	$0		$0		$0		0.00		$0
Natural Gas	$0		$0		$0		0.00		$0
Power	$0		$0		$0		0.00		$0
Purchased Water	$0		$0		$0		0.00		$0
Telephone	$0		$0		$0		0.00		$0
Waste Disposal	$0		$0		$0		0.00		$0
Post Retirement Benefits	$0		$0		$0		0.00		$0
Pensions	$0		$0		$0		0.00		$0
	$0		$0		$0		#DIV/0!		$0

TABLE I
Pennsylvania-American Water Company - WW CSS Operations
INCOME SUMMARY
Docket Nos. R-2023-3043189 and R-2023-3043190

	Pro Forma Present Rates (1)	Company Adjustments (1)	Pro Forma Present Rates Adjusted (1)	I&E Adjustments	I&E Pro Forma Present Rates	I&E Revenue Increase (2)	Total Allowable Revenues
	$	$	$	$	$	$	$
Operating Revenue	78,636,216	0	78,636,216	0	78,636,216	6,782,024	85,418,240
Expenses:							
O&M Expense	21,459,340	0	21,459,340	0	21,459,340	79,757	21,539,097
Depreciation	20,497,016	0	20,497,016	0	20,497,016	0	20,497,016
Taxes, Other	2,232,035	0	2,232,035	0	2,232,035	43,211	2,275,246
Income Taxes:							
State	1,981,769	0	1,981,769	91	1,981,860	532,059	2,513,919
Federal	4,901,064	0	4,901,064	219	4,901,283	1,286,669	6,187,952
Deferred Taxes/ITC	0	0	0	0	0	0	0
Total Expenses	51,071,224	0	51,071,224	310	51,071,534	1,941,696	53,013,230
Net Inc. Available for Return	27,564,992	0	27,564,992	(310)	27,564,682	4,840,328	32,405,010
Rate Base	489,501,661	0	489,501,661	0	489,501,661		489,501,661
Rate of Return	5.63%		5.63%		5.63%		6.62%

TABLE I(A)								
Pennsylvania-American Water Company - WW CSS Operations								
RATE OF RETURN								
Docket Nos. R-2023-3043189 and R-2023-3043190								
	Structure		Cost		After-Tax Weighted Cost		Effective Tax Rate Complement		Pre-Tax Weighted Cost Rate
Total Cost of Debt					2.15000000%				
Long-term Debt	42.73%		4.76%		2.03000000%				2.03%
Short-term Debt	4.40%		2.67%		0.12000000%				
Preferred Stock	0.00%		0.00%		0.00000000%		0.726879		0.00%
Common Equity	52.87%		8.45%		4.47000000%		0.726879		6.15%
	100.00%				6.62000000%				8.18%
Pre-Tax Interest Coverage	4.03								
After-Tax Interest Coverage	3.26								

TABLE I(B)	
Pennsylvania-American Water Company - WW CSS Operations	
REVENUE FACTOR	
Docket Nos. R-2023-3043189 and R-2023-3043190	
100%	1.00000000
Less:	
Uncollectible Accounts Factor (*)	0.01176000
PUC, OCA, OSBA Assessment Factors (*)	0.00637145
Gross Receipts Tax	0.00000000
Other Tax Factors (adjust for rounding)	0.00000000
	0.98186855
State Income Tax Rate (*)	0.07990000
Effective State Income Tax Rate	0.07845100
Factor After Local and State Taxes	0.90341755
Federal Income Tax Rate (*)	0.21000000
Effective Federal Income Tax Rate	0.18971800
Revenue Factor (100% - Effective Tax Rates)	0.71370000

TABLE II
Pennsylvania-American Water Company - WW CSS Operations
SUMMARY OF ADJUSTMENTS
Docket Nos. R-2023-3043189 and R-2023-3043190

Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	$	$	$	$	$	$	$
RATE BASE:							
CWC:							
Int. & Div. (Table IV)	(IV!B38)						
Taxes (Table V)	(V!P34)						
O & M (Table VI)	(VI!B42)						
REVENUES:							
						0	0
EXPENSES:							
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
TAXES:							
Interest Synchronization (Table III)						91	219
TOTALS	0	0	0	0	0	91	219

TABLE III	
Pennsylvania-American Water Company - WW CSS Operations	
INTEREST SYNCHRONIZATION	
Docket Nos. R-2023-3043189 and R-2023-3043190	
	Amount
Company Rate Base Claim	489,501,661
I&E Rate Base Adjustments	0
I&E Rate Base	489,501,661
Weighted Cost of Debt	2.15000000%
I&E Interest Expense	10,524,286
Company Claim (1)	10,525,420
Total I&E Adjustment	1,134
Company Adjustment	0
Net I&E Interest Adjustment	1,134
State Income Tax Rate	7.99%
State Income Tax Adjustment	91
Net I&E Interest Adjustment	1,134
State Income Tax Adjustment	91
Net I&E Adjustment for Federal Income Tax	1,043
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment	219

TABLE IV					
Pennsylvania-American Water Company - WW CSS Operations					
CASH WORKING CAPITAL - Interest and Dividends					
Docket Nos. R-2023-3043189 and R-2023-3043190					
Accrued Interest				Preferred Stock Dividends	
	Long-Term Debt		Short-Term Debt		
Company Rate Base Claim	$489,501,661		$489,501,661	Company Rate Base Claim	$489,501,661
I&E Rate Base Adjustments	$0		$0	I&E Rate Base Adjustments	$0
I&E Rate Base	$489,501,661		$489,501,661	I&E Rate Base	$489,501,661
Weighted Cost of Debt	2.03000000%		0.12%	Weighted Cost Pref. Stock	0.00000000%
I&E Annual Interest Exp.	$9,936,884		$587,402	I&E Preferred Dividends	$0
Average Revenue Lag Days	0.0		0.0	Average Revenue Lag Days	0.0
Average Expense Lag Days	0.0		0.0	Average Expense Lag Days	0.0
Net Lag Days	0.0		0.0	Net Lag Days	0.0
Working Capital Adjustment					
I&E Daily Interest Exp.	$27,224		$1,609	I&E Daily Dividends	$0
Net Lag Days	0.0		0.0	Net Lag Days	0.0
I&E Working Capital	$0		$0		$0
Company Claim (1)	$0		$0	Company Claim (1)	$0
I&E Adjustment	$0		$0		$0
Total Interest & Dividend Adj.	$0				

TABLE V
Pennsylvania-American Water Company - WW CSS Operations
CASH WORKING CAPITAL -TAXES
Docket Nos. R-2023-3043189 and R-2023-3043190

Description	Company Proforma Tax Expense Present Rates	I&E Adjustments	I&E Pro forma Tax Expense Present Rates	I&E Allowance	I&E Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
PUC Assessment	$0	$0	$0	$43,211	$43,211	$118.39	0.00	$0
Public Utility Realty	$0	$0	$0		$0	$0.00	0.00	$0
Capital Stock Tax	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
State Income Tax	$0	$91	$91	$532,059	$532,150	$1,457.95	0.00	$0
Federal Income Tax	$0	$219	$219	$1,286,669	$1,286,888	$3,525.72	0.00	$0
	$0	$310	$310	$1,861,939	$1,862,249			
						ALJ Allowance		0
						Company Claim (1)		0
						I&E Adjustment		0

TABLE VI

Pennsylvania-American Water Company - WW CSS Operations

CASH WORKING CAPITAL -- O & M EXPENSE

Docket Nos. R-2023-3043189 and R-2023-3043190

Description	Company Pro forma FTY Expense	I&E	I&E Pro forma Expenses	Lag Days	Lag Dollars
Service Company	$0	$0	$0	0.00	$0
Chemicals	$0	$0	$0	0.00	$0
Group Insurance	$0	$0	$0	0.00	$0
Insurance, Other	$0	$0	$0	0.00	$0
Labor	$0	$0	$0	0.00	$0
Leased Equip./Rent	$0	$0	$0	0.00	$0
Leased Vehicles	$0	$0	$0	0.00	$0
Miscellaneous	$0	$0	$0	0.00	$0
Natural Gas	$0	$0	$0	0.00	$0
Power	$0	$0	$0	0.00	$0
Purchased Water	$0	$0	$0	0.00	$0
Telephone	$0	$0	$0	0.00	$0
Waste Disposal	$0	$0	$0	0.00	$0
Post Retirement Benefits	$0	$0	$0	0.00	$0
Pensions	$0	$0	$0	0.00	$0
	$0	$0	$0	#DIV/0!	$0

APPENDIX B

Exhibit No. 3
Schedule 1
Corrected 2-12-24

Pennsylvania-American Water Company
Exhibit 3-A Act 11 Summary
I&E
R-2023-3041389 and 3041390

		Total System	Water Operations	Total Wastewater	SSS Wastewater	BASA Wastewater	Brentwood Wastewater	CSS Wastewater
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
1	Present Rate Revenue	$998,224,270	$824,117,186	$174,107,084	$95,470,866	$0	$0	$78,636,218
2	Additional Revenue Requirement	$175,722,966	$128,149,690	$47,573,276	$31,793,150	$0	$0	$15,780,126
3	Act 11 Allocation	$0	$357,517	-$357,517	-$321,682	$0	$0	-$35,835
4	Proposed Revenue	$1,173,947,236	$824,474,703	$221,322,843	$126,942,334	$0	$0	$94,380,509
5	Rate Increase*	$175,722,966	$128,507,207	$47,215,759	$31,471,468	$0	$0	$15,744,291
6	Percentage Increase	17.6%	15.6%	27.1%	33.0%			20.0%

The lower Rate increase of $175,722,966 reflects the removal of $26,288,308 additional revneue for BASA and the $1,934,637 additional revneue for Brentwood.

Exhibit No. 3
Schedule 3
Page 1 of 2

Pennsylvania-American Water Company
Proposed General Wastewater Rate Design (not including special rates)
Volumetric Rates are in $ per hundred gallons
R-2023-3041390

	SSS Rates Zone 1 - PAWC	Present Rate	Dollar Increase	Proposed Rate	Percent Increase
	(A)	(B)	(C)	(D)	(E)
1	Residential Service Charge	$14.30	$0.70	**$15.00**	4.9%
2	Non-Residential Service Charge	$35.00	$1.70	**$36.70**	4.9%
3	Bulk Service	$35.00	$15.00	**$50.00**	42.9%
4	Residential Usage (per 100 gallons)	$2.8750	$0.8650	**$3.7400**	30.1%
5	Non-Residential Usage (per 100 gallons)	$2.1030	$1.0470	**$3.1500**	49.8%
6	Residential Unmetered	$106.00	$26.00	$132.00	24.5%
7	Non Residential Unmetered	$106.00	$44.00	**$150.00**	41.5%
8	Upper Pottsgrove: Non-Residential Service Charge	$63.60	-$26.90	$36.70	-42.3%
9	Upper Pottsgrove: Non-Residential Volumetric Charge	$0.5653	$1.7847	**$2.3500**	315.7%
10	Cleveland Cliffs and Victory Brewing Service Charge	$415.00	$41.50	**$456.50**	10.0%
11	Cleveland Cliffs and Victory Brewing Volumetric Charge	$1.4000	$0.9500	**$2.3500**	67.9%
12	Special Rate (Flat):				
13	Knouse Foods	$8,340.00	$3,753.00	**$12,093.00**	45.0%
14	Penn State Special Metals	$2,870.00	$1,291.50	**$4,161.50**	45.0%
15	PSC Metals	$1,110.00	$499.50	**$1,609.50**	45.0%
16	Ipsco Kopper Tubilers	$17,240.00	$7,758.00	**$24,998.00**	45.0%
17	Special Rate (Flat):				
18	Strattanville Borough	$6,200.00	$2,480.00	**$8,680.00**	40.0%
19	Special Rate (Caln, West Brandywine, VA Med)	$415.00	$41.50	**$456.50**	10.0%
20	Special Rate (Caln, West Brandywine, VA Med)	$1.4500	$0.2300	**$1.6800**	15.9%
21	St Lawrence Borough	$0.4000	$0.2300	**$0.6300**	57.5%

	Zone 2 - New Cumberland	Present Rate	Dollar Increase	Proposed Rate	Percent Increase
22	Residential Service Charge	$14.30	$0.70	$15.00	4.9%
23	Non-Residential Service Charge	$35.00	$1.70	$36.70	4.9%
24	Residential Usage (per 100 gallons)	$2.4500	$1.2900	$3.7400	52.7%
25	Non-Residential Usage (per 100 gallons)	$1.9000	$1.2500	$3.1500	65.8%

	Zone 5 - Valley	Present Rate	Dollar Increase	Proposed Rate	Percent Increase
26	Residential Service Charge	$14.30	$0.70	$15.00	4.9%
27	Residential Usage (per 100 gallons)	$2.8750	$0.8650	$3.7400	30.1%
28	Non-Residential Service Charge	$35.00	$1.70	$36.70	4.9%
29	Non-Residential Usage (per 100 gallons)	$2.1030	$1.0470	$3.1500	49.8%
30	Residential Unmetered	$106.00	$26.00	$132.00	24.5%
31	Non Residential Unmetered	$106.00	$44.00	$150.00	41.5%
32	Westwood Fire Company				
33	Service Charge	$0.00	$36.70	$36.70	0.0%
34	Usage Charge (per 100 gallons)	$2.1030	$1.0470	$3.1500	49.8%
35	Rainbow Washhouse Inc				
36	Service Charge	$75.00	$0.00	**$75.00**	0.0%
37	First 2,000 Gallons	$0.0000	$0.3800	**$0.3800**	0.0%
38	All Over 2,000 Gallons	$0.2100	$0.1700	**$0.3800**	81.0%

Pennsylvania-American Water Company
Proposed General Wastewater Rate Design (not including special rates)
Volumetric Rates are in $ per hundred gallons
R-2023-3041390

	SSS Rates Zone 7 - York	Present Rate	Dollar Increase	Proposed Rate	Percent Increase
	(A)	(B)	(C)	(D)	(E)
1	Residential Service Charge	$18.00	-$3.00	$15.00	-16.7%
2	Residential First 2,000 Gallons	$0.0000	$1.3180	**$1.3180**	0.0%
3	Residential All Over 2,000 Gallons	$2.7375	$1.0025	$3.7400	36.6%
4	Non-Residential Service Charge	$30.00	$6.70	$36.70	22.3%
5	Non-Residential First 2,000 Gallons	$0.0000	$0.6010	**$0.6010**	
6	Non-Residential All Over 2,000 Gallons	$1.6380	$1.1620	**$2.8000**	70.9%
7	Bulk Rate A (per 100 gallons)	$0.3750	$0.1875	**$0.5625**	50.0%
8	Bulk Rate B (per 100 gallons)	$0.2490	$0.1245	**$0.3735**	50.0%
	Zone 8- Foster Township	Present Rate	Dollar Increase	Proposed Rate	Percent Increase
9	Unmetered	$106.00	$26.00	$132.00	24.5%
10	Non Residential Unmetered	$106.00	$44.00	$150.00	41.5%
11	Butler Township per EDU	$15.00	$25.00	**$40.00**	166.7%
	Zone 9 - Royersford	Present Rate	Dollar Increase	Proposed Rate	Percent Increase
12	Residential: Service Charge	$48.00	-$33.00	$15.00	-68.8%
13	Residential Flat Rate Per EDU	$50.00	$25.00	**$75.00**	50.0%
14	Residential: First 3,000 Gallons	$0.0000	$2.2000	**$2.2000**	0.0%
15	Residential: Over 3,000 Gallons	$0.9400	$1.2600	**$2.2000**	134.0%
16	Non-Residential: Service Charge	$48.00	-$11.30	**$36.70**	-23.5%
17	Non-Residential Flat Rtae Per EDU	$67.00	$46.00	**$113.00**	68.7%
18	Non-Residential: First 3,000 Gallons	$0.0000	$1.5800	**$1.5800**	0.0%
19	Non-Residential: Over 3,000 Gallons	$0.9400	$0.6400	**$1.5800**	68.1%
	BULK: Per EDU	$48.00	$2.00	**$50.00**	4.2%
20	BULK: First 3,000 Gallons	$0.0000	$1.4800	**$1.4800**	0.0%
21	BULK: Over 3,000 Gallons	$0.9400	$0.1491	**$1.0891**	15.9%

Exhibit No. 3
Schedule 4
Page 1 of 4

PENNSYLVANIA-AMERICAN WATER COMPANY
WASTEWATER SSS OPERATIONS
SUMMARY OF APPLICATION OF PRESENT AND PROPOSED RATES
FOR THE TWELVE MONTHS ENDING JUNE 30, 2025

	Rate Zone	Residential	Commercial	Industrial	Municipal	Bulk	Total Revenues
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
	Present Rate Application						
1	Zone 1 - Most WW Areas	$39,323,052	$10,183,912	$1,830,201	$931,880	$1,938,536	$54,207,581
2	Zone 2 - New Cumberland	$2,880,248	$514,850	$0	$26,451		$3,421,549
3	Zone 5 - Valley WW	$3,729,117	$378,045	$0	$93,482		$4,200,644
4	Zone 7 - York WW	$14,076,537	$5,221,440	$10,512	$315,566	$7,425,108	$27,049,163
5	Zone 8 - Foster Township	$646,340	$45,001	$493,723	$13,646		$1,198,710
6	Zone 9 -Royersford WW	$792,301	$456,488	$17,883	$19,208	$80,885	$1,366,765
7	Zone XX - Farmington WW	$0	$0	$0	$0		$0
8	Zone XX - Sadsbury WW	$0	$0	$0	$0		$0
		$61,447,595	$16,799,736	$2,352,319	$1,400,233	$9,444,529	$91,444,412
9	IPP Surcharge						$1,835,040
10	Other Revenues						$1,397,685
11	**Total WW SSS**	$61,447,595	$16,799,736	$2,352,319	$1,400,233	$9,444,529	$94,677,137
	Proposed Rate Application						
12	Zone 1 - Most WW Areas	$48,011,563	$14,693,592	$2,849,189	$1,358,319	$2,311,608	$69,224,271
13	Zone 2 - New Cumberland	$3,956,241	$773,274	$0	$40,824		$4,770,339
14	Zone 5 - Valley WW	$4,552,909	$531,983	$0	$137,772		$5,222,664
15	Zone 7 - York WW	$20,695,382	$8,738,293	$17,497	$530,135	$10,508,639	$40,489,946
16	Zone 8 - Foster Township	$796,392	$63,000	$691,200	$36,000		$1,586,592
17	Zone 9 -Royersford WW	$1,263,968	$792,277	$28,172	$32,878	$135,723	$2,253,018
18	Zone XX - Farmington WW	$0	$0	$0	$0		$0
19	Zone XX - Sadsbury WW	$0	$0	$0	$0		$0
		$79,276,455	$25,592,419	$3,586,058	$2,135,928	$12,955,970	$123,546,830
20	IPP Surcharge						$1,835,040
21	Other Revenues						$1,560,465
22	**Total WW SSS**	$79,276,455	$25,592,419	$3,586,058	$2,135,928	$12,955,970	$126,942,335
23	Change in Revenues	$17,828,860	$8,792,683	$1,233,739	$735,695	$3,511,441	$32,265,198
24	% Change in Revenues	29.0%	52.3%	52.4%	52.5%	37.2%	35.3%
25	Company Original Proposal	-$1,784,057	$1,246,948	-$23,239	$48,331	$334,432	-$169,253
26	Additional LPR						$154,448
27	**I&E Additional Revenue**	**$19,612,917**	**$7,545,735**	**$1,256,978**	**$687,364**	**$3,177,009**	**$32,434,451**

I&E Exhibit No. 3
Schedule 16

PENNSYLVANIA-AMERICAN WATER COMPANY
WASTEWATER CSS OPERATIONS
SUMMARY OF APPLICATION OF PRESENT AND PROPOSED RATES

	Rate Zone	Residential	Commercial	Industrial	Municipal	Bulk	Total Revenues
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
	Present Rate Application						
1	Zone 3 - Scranton WW	$33,227,937	$15,900,531	$2,240,339	$488,104	$1,207,931	$53,064,842
2	Zone 4 - Kane WW	$2,108,564	$507,998	$20,255	$115,789	$0	$2,752,606
3	Zone 6 - McKeesport WW	$10,838,789	$3,788,874	$8,194	$387,658	$7,121,888	$22,145,403
		$46,175,290	$20,197,403	$2,268,788	$991,551	$8,329,819	$77,962,851
4	IPP Surcharge						$226,040
5	Other Revenues						$447,331
6	**Total WW CSS**	$46,175,290	$20,197,403	$2,268,788	$991,551	$8,329,819	$78,636,222
	Proposed Rate Application						
7	Zone 3 - Scranton WW	$39,139,769	$22,690,465	$3,294,191	$712,696	$1,574,617	$67,411,738
8	Zone 4 - Kane WW	$2,112,495	$635,373	$26,973	$155,466	$0	$2,930,307
9	Zone 6 - McKeesport WW	$11,291,521	$4,479,091	$9,748	$460,190	$7,045,793	$23,286,343
10	**Total WW CSS**	$52,543,784	$27,804,929	$3,330,912	$1,328,352	$8,620,410	$93,628,387
11	IPP Surcharge						$226,040
12	Other Revenues						$526,081
13	**Total WW CSS**	$52,543,784	$27,804,929	$3,330,912	$1,328,352	$8,620,410	$94,380,509
14	Change in Revenues	$6,368,494	$7,607,526	$1,062,124	$336,801	$290,591	$15,744,287
15	% Change in Revenues	13.8%	37.7%	46.8%	34.0%	3.5%	20.2%
16	Company Original Proposal	$172,192	-$286,935	-$934	-$35,165	-$76,082	-$226,924
17	Additional LPR						$78,751
18	**I&E Additional Revenue**	**$6,196,302**	**$7,894,461**	**$1,063,058**	**$371,966**	**$366,673**	**$15,971,211**

I&E Exhibit No. 3
Schedule 17

Pennsylvania-American Water Company
Proposed General Wastewater Rate Design (not including special rates)
Volumetric Rates are in $ per hundred gallons
R-2023-3041390

	CSS Rates Zone 3 - Scranton	Present Rate	Dollar Increase	Proposed Rate	Percent Increase
	(A)	(B)	(C)	(D)	(E)
1	Residential Service Charge	$19.50	$0.50	**$20.00**	2.6%
2	Residential Usage (per 100 gallons)	$2.3510	$0.5490	**$2.9000**	23.4%
3	Unmetered Service	$95.00	$18.00	**$113.00**	18.9%
4	Non-Residential Service Charge	$35.00	$5.00	**$40.00**	14.3%
5	Usage per 100 gallons)	$1.7270	$0.8530	**$2.5800**	49.4%
6					
	Zone 4 - Kane	Present Rate	Dollar Increase	Proposed Rate	Percent Increase
7	Residential 5/8" Service Charge	$40.00	-$20.00	$20.00	-50.0%
8	Residential Other Meter Sizes	$100.00	-$80.00	$20.00	-80.0%
9	Residential Unmetered Service	$110.00	$3.00	$113.00	2.7%
10	Residential: First 10,000 Gallons	$2.1000	$0.8000	$2.9000	38.1%
11	Residential: Over 10,000 Gallons	$1.8000	$1.1000	$2.9000	61.1%
12	Non-Residential 5/8" Service Charge	$40.00	$0.00	$40.00	0.0%
13	Non-Residential Other Meter Sizes	$100.00	-$60.00	$40.00	-60.0%
14	Non-Residential: First 10,000 Gallons	$2.1000	$0.4800	$2.5800	22.9%
15	Non-Residential: Over 10,000 Gallons	$1.8000	$0.7800	$2.5800	43.3%
	Zone 6 - McKeesport / Port Vue	Present Rate	Dollar Increase	Proposed Rate	Percent Increase
16	Residential Service Charge	$14.30	$5.70	$20.00	39.9%
17	Residential Usage (per 100 gallons)	$2.8750	$0.0250	$2.9000	0.9%
18	McKeesport: Non-Residential Service Charge	$35.00	$5.00	$40.00	14.3%
19	McKeesport: Non-Residential Usage (per 100 gallons)	$2.1416	$0.4384	$2.5800	20.5%
20	Port Vue: Non-Residential Service Charge	$14.30	$25.70	$40.00	179.7%
21	Port Vue: Non-Residential Usage (per 100 gallons)	$2.8750	-$0.2950	$2.5800	-10.3%
22	McKeesport Bulk - Monthly Charge	$86.00	$0.00	$86.00	0.0%
23	McKeesport Bulk - Quarterly Charge	$258.00	$0.00	$258.00	0.0%
24	McKeesport Bulk - Usage Charge	$1.6680	$0.0000	**$1.6680**	0.0%

APPENDIX C

PROPOSED FINDINGS OF FACT

Generally

1. The Butler Area Sewer Authority, Brentwood Wastewater System, Sadsbury System, Farmington System, and Audubon System must be removed from this filing as PAWC does not own them.

Rate Base

2. A total fair value for PAWC's water rate base of $4,688,960,669 is appropriate.

3. I&E is recommending a total fair value for PAWC Wastewater's SSS rate base of $646,311,450.

4. In addition, a total fair value for PAWC Wastewater's CSS rate base of $480,501,661 is appropriate.

5. For ratemaking purposes, cash working capital is the capital needed to operate a utility between the rendition of service and the receipt of revenues in payment for services rendered. I&E Statement No. 1, pp. 37-38.

6. Based on I&E's O&M adjustments the following CWC adjustments are appropriate:

	Updated Claim	Updated I&E Allowance	Adjustment
Water Operations	$23,152,054	$22,063,423	($1,088,631)
Wastewater SSS Ops.	$2,235,324	$2,204,399	($30,925)
Wastewater CSS Ops.	$1,881,933	$1,881,933	$0
Total	**$27,269,311**	**$26,149,755**	**($1,119,556)**

I&E Statement No. 1-SR, p. 36.

Expenses

7. For Pension Expense, a negative allowance of ($3,800,736) for pension expense, or a reduction of $3,822,954 [$22,218 - ($3,800,736)] to the Company's FPFTY claim for Water Operations based a three-year average of historic actuals is appropriate. I&E Statement No. 1-SR, pp. 20-21.

8. Regarding OPEB expense a historic three-year average is appropriate and results in a reduction of $1,664,016 [($8,160,753) - ($6,496,737)] to the Company's FPFTY claim. I&E Statement No. 1-SR, p. 26.

9. Regarding credit card and e-check fees, the Company's revised claim of $1,545,547 for Water Operations, or a reduction of $182,738 ($1,728,285- $1,545,547) to the as-filed claim is appropriate. I&E Statement No. 1, p. 30.

Fair Rate of Return

10. Rate of return is one of the components of the revenue requirement formula, which is RR = E + D + T + (RB x ROR), where RR = Revenue Requirement; E = Operating Expense; D = Depreciation Expense; T = Taxes; RB = Rate Base; and ROR = Overall Rate of Return. I&E Statement No. 2, pp. 2-3.

11. Including PAWC's parent company, American Waterworks, in the proxy group used to determine the return on equity is appropriate. I&E Statement No. 2-SR, p. 13-15.

12. It is inappropriate to include gas and electric companies in the proxy group used to determine the rate of return for a water and wastewater utility. I&E Statement No. 2, pp. 13-14 and I&E Statement No. 2-SR, p. 16-17.

13. PAWC's actual capital structure for water operations includes 44.01% Long-Term Debt and 55.99% Common Equity. I&E Statement No. 2, p. 6

14. PAWC's actual capital structure for wastewater operations includes 42.73% Long-Term Debt, 4.40% Wastewater Specific Debt, and 52.87% Common Equity. I&E Statement No. 2, p. 6.

15. PAWC's cost of long-term debt is 4.76%. I&E Statement No. 2-SR, pp. 5-6.

16. PAWC proposes a cost of common equity for water operations of 10.95%. I&E Statement No. 2, p. 6.

17. PAWC proposes a cost of common equity for wastewater operations of 10.95%. I&E Statement No. 2, p. 6.

18. Based on the actual capital structure, cost of long-term debt, and cost of common equity, the appropriate rate of return for water operations is 6.82%. I&E Statement No. 2-SR, p. 41.

19. Based on the actual capital structure, cost of long-term debt, and cost of common equity, the appropriate rate of return for wastewater operations is 6.22%. I&E Statement No. 2-SR, p. 41

20. A management performance adjustment the to return on equity is not appropriate for PAWC. I&E Statement No. 2, pp. 71-82, and I&E Statement No. 2-SR, pp. 32-37.

21. A CAPM analysis is appropriate for a check of the DCF results. I&E Statement No. 2, p. 29.

22. The ECAPM is flawed and injects a further measure of subjectivity into the already flawed CAPM analysis. I&E Statement No. 2, pp. 51-51.

Rate Structure and Rate Design

23. The rates designed by I&E are designed with cost causation in mind and should be approved.

24. The scale back of rates as described by I&E witness Kubas and I&E witness Cline are appropriate. I&E Statement No. 3, pp. 75-77 and I&E Statement No. 4, p. 41-44.

25. The Customer Charges described by I&E witness Kubas and I&E witness Cline are based on direct customer costs and are appropriate.

Alternative Ratemaking Requests

26. The revenue decoupling mechanism proposed by PAWC must be denied. I&E Statement No. 1, p. 37 and I&E Statement No. 4, p. 24.

27. The RDM could serve as a disincentive to conservation.

28. The RDM has the potential to erode cost savings resulting from conservation efforts.

29. The Environmental Compliance and Investment Charge proposed by PAWC must be denied. I&E Statement No. 1, p. 37 and I&E Statement No. 4, p. 26.

30. The Company has not provided sufficient data related to the expense; therefore, it is too difficult to evaluate this mechanism and the impact on ratepayers without this information. I&E Statement No. 1, pp. 35-36.

Low-Income Customer Assistance

31. Any increase to the hardship fund should be funded by shareholders. I&E Statement No. 1-R, pp. 3, and CAUSE-PA Statement No. 1-SR, p. 4.

32. CAUSE-PA's proposed line replacement program focuses on conservation efforts inside customer's homes; therefore, this program should be funded by shareholders and not ratepayers. I&E Statement No. 1-R, p. 4.

33. If a comprehensive written universal service plan is required, the Commission should provide statewide guidance and not just make the requirement for PAWC. I&E Statement No. 1-R, pp. 5-6.

APPENDIX D

PROPOSED CONCLUSIONS OF LAW

1. The Company carries the burden of proof to show its rate proposal is just and reasonable. 66 Pa.C.S. § 315(a); *Irwin A. Popowsky v. Pa. P.U.C.*, 674 A.2d 1149 (Pa. Cmwlth. 1996).

2. PAWC must satisfy its burden of proof by presenting a preponderance of evidence. *Samuel J. Lansberry, Inc. v. Pennsylvania Public Utility Commission*, 578 A.2d 600 (Pa. Cmwlth. 1990).

3. A preponderance of the evidence is evidence that is more convincing, by even the smallest amount, than that presented by another party. *Se-Ling Hosiery v. Margulies*, 70 A.2d 854 (Pa. 1950).

4. In base rate cases, the Commission has affirmed the utility's burden to establish the justness and reasonableness of every component of its rate request. *Pa. P.U.C. v. PPL Electric Utilities Corporation,* 2012 WL 6758304 (Pa. P.U.C. 2012)*; Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, 2004 WL 2314523 (Pa. P.U.C. 2004).

5. The burden of proof does not shift to parties challenging a requested rate increase. *Pa. P.U.C. v. PPL Electric Utilities Corporation,* 2012 WL 6758304 (Pa. P.U.C. 2012)*; Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, 2004 WL 2314523 (Pa. P.U.C. 2004).

6. The Company must produce substantial evidence to satisfy its burden of proof. *Brockaway Glass v. Pa. P.U.C.*, 437 A.2d 1067 (Pa. Cmwlth. 1981); *Lower Frederick Township v. Pa. P.U.C.*, 409 A.2d 505 (Pa. Cmwlth. 1980).

7. Substantial evidence is "such relevant and competent evidence having a rational probative force which a reasonable mind might accept as adequate to support a conclusion." *Dutchland Tours, Inc. v. Pa. P.U.C.*, 337 A.2d 922, 925 (Pa. Cmwlth. 1975).

Expenses

8. A public utility is entitled to recover all of its reasonably incurred expenses necessary to provide service to customers. *Butler Township Water Company v. Pa. P.U.C.,* 473 A.2d 219, 221 (Pa. Cmwlth. 1984); *UGI Corp. v. Pa. P.U.C.*, 410 A.2d 923, 932 (Pa. Cmwlth. 1980); *Western Pennsylvania Water Company v. Pa. P.U.C.*, 422 A.2d 906, 908 (Pa. Cmwlth. 1980).

9. The public utility requesting a rate increase and seeking to recover expenses has the burden of showing that the rate requested, including all claimed expenses, is just and reasonable. 66 Pa. C.S. § 315(a); *See also Cup v. Pa. P.U.C.*, 556 A.2d 470 (Pa. Commw. 1989).

10. To the extent that expenses are not reasonably incurred, imprudently incurred, or abnormally overstated during the test year, they should be disallowed and found not recoverable through rates. *Cup v. Pa. P.U.C.*, 556 A.2d 470 (Pa. Commw. 1989).

Fair Rate of Return

11. A utility is entitled to a return similar to that being earned by other enterprises with corresponding risks and uncertainties, but not as high as those earned by highly profitable or speculative ventures. *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*, 292 U.S. 679 (1923); *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *Pennsylvania Gas & Water Company v. Pa. P.U.C.*, 341 A.2d 239, 249-252 (Pa. Cmwlth. 1975).

12. A utility is entitled to a return level reasonably sufficient to assure financial soundness. *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*, 292 U.S. 679 (1923); *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *Pennsylvania Gas & Water Company v. Pa. P.U.C.*, 341 A.2d 239, 249-252 (Pa. Cmwlth. 1975).

13. A utility is entitled to a return sufficient to maintain and support its credit and raise necessary capital. *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*, 292 U.S. 679 (1923); *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *Pennsylvania Gas & Water Company v. Pa. P.U.C.*, 341 A.2d 239, 249-252 (Pa. Cmwlth. 1975).

14. A fair return can change (increase or decrease) along with economic conditions and capital markets. *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*, 292 U.S. 679 (1923); *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *Pennsylvania Gas & Water Company v. Pa. P.U.C.*, 341 A.2d 239, 249-252 (Pa. Cmwlth. 1975).

15. The PUC historically uses the DCF as the primary methodology to determine a utility's cost of equity. *Pa. P.U.C. v. UGI Utilities, Inc. – Electric Division,* Docket No. R-2017-2640058 (Order entered October 25, 2018), pp. 104-106, 121; *Pa. P.U.C. v. City of DuBois – Bureau of Water*; Docket No. R-2016-2554150 (Order Entered March 28, 2017), pp. 96-98; *Pa. P.U.C. v. PECO Energy Co*., 87 Pa. PUC 184, 212 (Pa. P.U.C. 1997); *Pa. P.U.C. v. Philadelphia Suburban Water Co*., 71 Pa. PUC 593, 623-32 (Pa. P.U.C. 1989); *Pa. P.U.C. v. Western Pennsylvania Water Co*., 67 Pa. PUC 529, 559-70 (Pa. P.U.C. 1988); *Pa. P.U.C. v. Consumers Pennsylvania Water Company – Roaring Creek Division*, 87 Pa. PUC 826 (Pa. P.U.C. 1997). *Pa. P.U.C. v.* City *of Bethlehem)*, 84 Pa. PUC 275, 304-05 (Pa. P.U.C. 1995); *Pa. P.U.C. v. Media Borough*, 77 Pa. PUC 446, 481 (Pa. P.U.C. 1992).

16. The PUC recognizes the 10-year Treasury Note as the superior measure for the risk-free rate. *Pa. P.U.C. v. UGI Utilities, Inc. – Electric Division,* Docket No. R-2017-2640058 (Order Entered October 25, 2018), p. 99.

Customer Rate Structure

17. A utility's rate structure cannot either advantage of disadvantage a class, or contain an unreasonable difference in rates. 66 Pa.C.S. §1304.

18. If there is a reasonable basis for a difference, a utility may charge different rates for different classes of customers. *Peoples Natural Gas Company v. Pa. P.U.C.*, 409 A.2d 446 (Pa. Cmwlth 1979).

19. Establishment of a rate structure is an administrative function peculiarly within the expertise of the Commission. *Emporium Water Company v. Pa. Pub. Util. Comm.,* 955 A.2d 456, 461 (Pa. Commw. 2008); *City of Lancaster v. Pa. Pub. Util. Comm.*, 769 A.2d 567, 571-72 (Pa. Commw. 2001). The question of reasonableness of rates and the difference between rates in their respective classes is an administrative question for the Commission to decide. *Pennsylvania Power & Light Co. v. Pa. Pub. Util. Comm.,* 516 A.2d 426 (Pa. Commw. 1986); *Park Towne v. Pa. Pub. Util. Comm.,* 43 A.2d 610 (1981).

20. The basic factor in allocating revenue is to have the rates reflect the cost of service. *Lloyd v. Pa. Pub. Util. Comm.,* 904 A.2d 1010, 1020 (Pa. Commw. 2006)

21. A utility must show any difference in rates can be justified by the difference in costs to deliver service to each class. *Philadelphia Suburban Water Company v. Pa. P.U.C.*, 808 A.2d 1044, 1060 (Pa. Cmwlth. 2002).

22. Section 1311(c) of the Public Utility Code, more commonly referred to as Act 11, permits utilities that provide both water and wastewater service to combine the revenue requirements by allocating a portion of the wastewater revenue requirement to the water customer base if doing so is in the "public interest.". 66 Pa. C.S. § 1311.

23. Section 1311(c) of the Public Utility Code does not specify how the Commission should determine rates, nor does it dictate the percent or amount of revenue that should be allocated or shifted, leaving the Commission wide latitude in applying Act 11. 66 Pa. C.S. § 1311(c).

24. Act 58 of 2017 set forth statutory standards for alternative ratemaking, but does not expressly determine which alternative rate methodologies, if any, are to be used. 66 Pa. C.S. § 1330; *Implementation of Act 58 of 2018 Alternative Ratemaking for Utilities*, Docket No. M-2018-3003269 (Order entered April 25, 2019), p.3.

25. "Scale back" of rates is an accepted rate making process that is applied to the final rate structure after the Commission approves the Company's new total revenue requirement.

Alternative Ratemaking

26. Commission regulations concerning alternative distribution ratemaking mechanisms and rate designs are designed to promote efficiency, avoid unnecessary future capital investments, reflect cost of service principles, consider customer impacts, and establish a rate structure that is just and reasonable. 52 Pa. Code § 69.3301.

27. Commission regulations concerning alternative ratemaking include fourteen non-exclusive factors for consideration when determining just and reasonable alternative distribution ratemaking mechanisms and rate designs. 52 Pa. Code § 69.3302.

APPENDIX E

<u>PROPOSED ORDERING PARAGRAPHS</u>

THEREFORE, IT IS RECOMMENDED:

1. The Pennsylvania American Water Company shall not place into effect the rates contained in its filing, which have been found to be unjust and unreasonable and therefore, unlawful.

2. That Pennsylvania American Water Company shall be permitted to file tariffs, tariff supplements or tariff revisions containing proposed rates, rules and regulations to increase annual revenues in the total amount of not more than $56,050,684

3. That Pennsylvania American Water Company's Revenue Decoupling Mechanism is denied.

4. That Pennsylvania American Water Company's Environmental Compliance and Investment Charge is denied.

5. That Pennsylvania American Water Company's request for a Pension and OPEB tracker is denied.

6. That Pennsylvania American Water Company's request for a Production Expense Tracker is denied.

7. That any rate base, expenses, taxes, revenue, and corresponding revenue shortfall from the Butler Areas Sewer Authority, Brentwood Wastewater System, Audubon System, Farmington System, and Sadsbury System be excluded from this case.

8. That Pennsylvania American Water Company's tariffs, tariff Supplements or tariff revisions may be filed to be effective on at least one day's notice after entry of the Commission's Final Order, for service rendered on and after the date of entry of the Commission's Final Order in this matter.

9. That Pennsylvania American Water Company shall allocate the authorized increase in operating revenues to each customer class and rate schedule within each class in the manner set forth in the Recommended Decision.

10. That Pennsylvania American Water Company shall comply with all directives, conclusions and recommendations in this Recommended Decision that are not the subject of individual ordering paragraphs as fully as if they were the subject of specific ordering paragraphs.

11. That, upon acceptance and approval by the Commission of the tariff supplements filed by Pennsylvania American Water Company, consistent with its Final Order, the investigation at Docket Nos. R-2023-3043189 and R-2023-3043190 be marked closed.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket Nos. R-2023-3043189 (Water)
	:	R-2023-3043190 (Wastewater)
Pennsylvania-American Water Company	:	

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Main Brief** dated March 26, 2024, in the manner and upon the persons listed below:

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