Morgan Lewis

Kenneth M. Kulak
Partner
+1.215.963.5384
ken.kulak@morganlewis.com

March 26, 2024

VIA eFILING

Rosemary Chiavetta, Secretary
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 and R-2023-3043190**

Dear Secretary Chiavetta:

Enclosed for filing in the above-captioned proceedings is the public version of the **Main Brief of Pennsylvania-American Water Company** (the "Brief").

As evidenced by the Certificate of Service, copies of the Brief are being served upon Deputy Chief Administrative Law Judge Christopher P. Pell, Administrative Law Judge John Coogan, and all parties of record.

If you have any questions, please contact me directly at 215.963.5384.

Very truly yours,

Kenneth M. Kulak

KMK/tp
Enclosures

c: Deputy Chief Administrative Law Judge Christopher P. Pell (w/encls.)
Administrative Law Judge John Coogan (w/encls.)
Per Certificate of Service (w/encls.)

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	**DOCKET NOS.: R-2023-3043189 (Water)**
v.	:	**R-2023-3043190 (Wastewater)**
PENNSYLVANIA-AMERICAN WATER COMPANY	:	

CERTIFICATE OF SERVICE

I hereby certify and affirm that I have this day served a true and correct copy of the **Main Brief of Pennsylvania-American Water Company** on the following persons, in the manner specified below, in accordance with the requirements of 52 Pa. Code Section 1.54:

VIA ELECTRONIC MAIL

The Honorable Christopher P. Pell
Deputy Chief Administrative Law Judge
Pennsylvania Public Utility Commission
801 Market Street – Suite 4063
Philadelphia, PA 19107
cpell@pa.gov

The Honorable John Coogan
Administrative Law Judge
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120
jcoogan@pa.gov
pmcneal@pa.gov

Erin L. Gannon*
Melanie J. El Atieh*
David T. Evrard*
Andrew J. Zerby*
Office of Consumer Advocate
Forum Place – 5th Floor
555 Walnut Street
Harrisburg, PA 17101
OCAPAWC2023@paoca.org
Counsel for OCA

Carrie B. Wright*
Bureau of Investigation and & Enforcement
Pennsylvania Public Utility Commission
Commerce Keystone Building
400 North Street, 2nd Floor
Harrisburg PA 17120
carwright@pa.gov
Counsel for I&E

***executed confidentiality agreement**

Steven C. Gray*
Rebecca Lyttle*
Office of Small Business Advocate
Forum Place
555 Walnut Street, 1st Floor
Harrisburg, PA 17101
sgray@pa.gov
relyttle@pa.gov
Counsel for OSBA

Joseph L. Vullo*
Burke Vullo Reilly Roberts
1460 Wyoming Avenue
Forty Fort, PA 18704
jlvullo@bvrrlaw.com
Counsel for Commission on Economic Opportunity

Adeolu A. Bakare*
Charis Mincavage*
McNees Wallace & Nurick LLC
100 Pine Street
Harrisburg, PA 17101
abakare@mcneeslaw.com
cmincavage@mcneeslaw.com
Counsel for Pennsylvania-American Water Large Users Group

Ria Pereira*
John Sweet*
Elizabeth Marx*
Lauren Berman*
The Pennsylvania Utility Law Project
Harry Geller
118 Locust Street
Harrisburg, PA 17101
rpereira@pautilitylawproject.org
jsweet@pautilitylawproject.org
emarx@pautilitylawproject.org
lberman@pautilitylawproject.org
pulp@pautilitylawproject.org
Counsel for CAUSE-PA

Kurt J. Boehm*
Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202
kboehm@bkllawfirm.com
jkylercohn@bkllawfirm.com
Counsel for Cleveland-Cliffs Steel

Sean M. Gallagher
Gallagher Law Group
110 East Diamond Street, Suite 101
Butler, PA 16001
smgallagher@gallagher.legal
Counsel for Cleveland-Cliffs Steel

Joan E. London
Kozloff Stoudt
2640 Westview Drive
Wyomissing, PA 19610
jlondon@kozloffstoudt.com
Counsel for Borough of St. Lawrence, Berks County

J. Chadwick Schnee
Schnee Legal Services, LLC
74 East Main Street, #648
Lititz, PA 17543
chadwick@schneelegal.com
Counsel for Exeter Township

Karen O. Moury
Eckert Seamans Cherin & Mellott, LLC
213 Market Street, 8th Floor
Harrisburg, PA 17101
kmoury@eckertseamans.com
Counsel for Victory Brewing Company

Lauren M. Burge
Eckert Seamans Cherin & Mellott, LLC
600 Grant Street, 44th Floor
Pittsburgh, PA 15219
lburge@eckertseamans.com
Counsel for Victory Brewing Company

Jessica Eskra
Katherine "Katie" Kennedy
City of Scranton Law Department
340 North Washington Avenue
Scranton, PA 18503
jeskra@scrantonpa.gov
kkennedy@scrantonpa.gov
Counsel for City of Scranton

Kyle Donahue
621 Gibbons Street
Scranton, PA 18505
kyle.23.donahue@gmail.com

Robert Ralls
254 Red Haven Road
New Cumberland, PA 17070
rralls73@yahoo.com

CONSULTANTS – WITNESSES

Ralph C. Smith*
Mark S. Dady*
Megan Eliasz*
Dawn Bisdorf*
Larkin & Associates, PLLC
15728 Farmington Road
Livonia, MI 48154
OCAPAWC2023@paoca.org
Consultant for OCA

David Garrett*
Resolve Utility Consulting PLCC
101 Park Avenue, Suite 1125
Oklahoma City, OK 73102
OCAPAWC2023@paoca.org
Consultant for OCA

Jerome D. Mierzwa*
Exeter Associates, Inc.
10480 Little Patuxent Parkway, Suite 300
Columbia, MD 21044
OCAPAWC2023@paoca.org
Consultant for OCA

Terry L. Fought*
780 Cardinal Drive
Harrisburg, PA 17111
OCAPAWC2023@paoca.org
Consultant for OCA

Barbara Alexander*
Barbara Alexander Consulting, LLC
44 Beech Street
Hallowell, ME 04347
OCAPAWC2023@paoca.org
Consultant for OCA

Roger Colton*
Fisher Sheehan & Colton
34 Warwick Road
Belmont, MA 02478
OCAPAWC2023@paoca.org
Consultant for OCA

Lisa Gumby*
lgumby@pa.gov
Consultant for I&E

Joseph Kubas*
jkubas@pa.gov
Consultant for I&E

DC Patel*
dupatel@pa.gov
Consultant for I&E

Christian Yingling*
chryinglin@pa.gov
Consultant for I&E

Brian Kalcic*
d/b/a Excel Consulting
7330 Dorset Avenue
St. Louis, MO 63130
excel.consulting@sbcglobal.net
Consultant for OSBA

Harry Geller*
118 Locust Street
Harrisburg, PA 17101
hgeller@pautilitylawproject.org
Consultant for CAUSE-PA

Christine Wilson*
cswilson@pa.gov
Consultant for I&E

Ethan Cline*
etcline@pa.gov
Consultant for I&E

Vanessa Okum*
vokum@pa.gov
Consultant for I&E

Alicia Claypool*
alclaypool@pa.gov
Consultant for I&E

Kevin Higgin*
Courtney Higgins*
Shantell Garrett
Energy Strategies
111 East Broadway, Suite 1200
Salt Lake City, UT 84111
khiggins@energystrat.com
chiggins@energystrat.com
sgarrett@energystrat.com
Consultants for OSBA

Richard A. Baudino*
J. Kennedy & Associates
1347 Frye Road
Westfield, NC 27053
rbaudino@jkenn.com
Consultant for Cleveland-Cliffs Steel

Billie S. LaConte*
Kitty A. Turner
J. Pollock, Inc.
bsl@jpollockinc.com
kat@jpollockinc.com
Consultants for PAWLUG

Robert J. May, P.E.
Council President
Allison Leinbach
Borough Manager
3540 St. Lawrence Avenue
Reading, PA 19606
rjmay@aol.com
aleinbach@ptd.net
Consultants for Borough of St. Lawrence

Kenneth M. Kulak (Pa. No. 75509)
Mark A. Lazaroff (Pa. No. 315407)
Catherine G. Vasudevan (Pa. No. 210254)
Brooke E. McGlinn (Pa. No. 204918)
Morgan, Lewis & Bockius LLP
2222 Market Street
Philadelphia, PA 19103
215.963.5384 (bus)
215.963.5001 (fax)
ken.kulak@morganlewis.com
mark.lazaroff@morganlewis.com
catherine.vasudevan@morganlewis.com
brooke.mcglinn@morganlewis.com

Counsel for
Pennsylvania-American Water Company

Dated: March 26, 2024

DB1/ 145253987.1

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:		
v.	:	**DOCKET NOS.:**	**R-2023-3043189 (Water)**
PENNSYLVANIA-AMERICAN WATER COMPANY	:		**R-2023-3043190 (Wastewater)**

MAIN BRIEF OF PENNSYLVANIA-AMERICAN WATER COMPANY

PUBLIC VERSION

Before Deputy Chief Administrative Law Judge Christopher P. Pell and Administrative Law Judge John M. Coogan

Elizabeth Rose Triscari (PA No. 306921)
Teresa K. Harrold (PA No. 311082)
Erin K. Fure (PA No. 312245)
Pennsylvania-American Water Company
852 Wesley Drive
Mechanicsburg, PA 17055
717.550.1570 (bus)
elizabeth.triscari@amwater.com
teresa.harrold@amwater.com
erin.fure@amwater.com

Counsel for
Pennsylvania-American Water Company

Kenneth M. Kulak (PA No. 75509)
Mark A. Lazaroff (PA No. 315407)
Catherine G. Vasudevan (PA No. 210254)
Brooke E. McGlinn (PA No. 204918)
Morgan, Lewis & Bockius LLP
2222 Market Street
Philadelphia, PA 19103-3007
215.963.5384 (bus)
215.963.5001 (fax)
ken.kulak@morganlewis.com
mark.lazaroff@morganlewis.com
catherine.vasudevan@morganlewis.com
brooke.mcglinn@morganlewis.com

Counsel for
Pennsylvania-American Water Company

Dated: March 26, 2024

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I. INTRODUCTION AND OVERVIEW

A. Description of the Party Submitting Brief

Pennsylvania-American Water Company ("PAWC" or the "Company") is a "public utility" as defined in 66 Pa.C.S. § 102.[1] PAWC furnishes water and wastewater services to approximately 780,000 customers in a service area covering portions of 37 counties across Pennsylvania.[2] PAWC is a subsidiary of American Water Works Company, Inc. ("American Water").

B. Procedural History

On November 8, 2023, PAWC initiated this rate case by filing Supplement No. 45 to Tariff Water – Pa. P.U.C. No. 5 and Supplement No. 47 to Tariff Wastewater – Pa. P.U.C. No. 16 requesting Pennsylvania Public Utility Commission ("Commission" or "PUC") approval of an increase in its total annual operating revenues to become effective January 7, 2024. The requested increase equaled $203.9 million or approximately 20.2% above the level of pro forma revenues for the fully projected future test year ("FPFTY") ending June 30, 2025.[3] PAWC's supporting information included the prepared direct testimony of 13 initial witnesses and the various exhibits sponsored by those witnesses. Considerable additional information was provided in response to interrogatories and data requests, comprising a cumulative total of 966 questions with 1,795 subparts.

On December 21, 2023, the PUC instituted an investigation of PAWC's existing and proposed rates and the Company's proposed tariffs were suspended by operation of law until August 7, 2024. This matter was subsequently assigned to Deputy Chief Administrative Law

[1] Hereafter all references to a "Section" are to the Pennsylvania Public Utility Code ("Code"), 66 Pa.C.S. §§ 101 et seq., unless indicated otherwise.
[2] PAWC St. 2, pp. 2-3.
[3] PAWC St. 1, p. 7.

Judge Christopher P. Pell and Administrative Law Judge ("ALJ") John Coogan for purposes of conducting hearings and issuing a recommended decision.

In addition to the Commission's Bureau of Investigation and Enforcement ("I&E"), several parties participated actively in this proceeding: the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), the Borough of St. Lawrence, the City of Scranton, Cleveland-Cliffs Steel ("CCS"), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA"), the Commission on Economic Opportunity ("CEO"), Exeter Township, the Pennsylvania-American Large Users Group ("PAWLUG"), State Representative Kyle Donahue, Robert Ralls, and Victory Brewing Company ("Victory"). A telephonic Prehearing Conference was held on January 4, 2024, eight in-person public input hearings were held on January 29, 30 and 31 and February 6, 2024, and four telephonic public input hearings were held on February 5 and 7, 2024.

In accordance with Prehearing Order #1 issued on January 5, 2024, I&E, the OCA, the OSBA, CAUSE-PA, CEO, City of Scranton, CCS, Exeter Township, PAWLUG and Kyle Donahue submitted a total of 20 written statements of direct testimony and accompanying exhibits on February 1, 2024. On February 13, 2024, the OCA and the Borough of St. Lawrence submitted a total of four written statements of supplemental direct testimony and accompanying exhibits. On February 21, 2024, PAWC, I&E, the OCA, the OSBA, CCS, and PAWLUG submitted a total of 25 written statements of rebuttal testimony and accompanying exhibits. On March 4, 2024, PAWC, I&E, the OCA, the OSBA, CAUSE-PA, CCS, and PAWLUG submitted a total of 17 written statements of surrebuttal testimony and accompanying exhibits.

Telephonic evidentiary hearings were held on March 7 and 8, 2024. At the hearings, PAWC witnesses Ashley E. Everette, James Runzer, E. Christopher Abruzzo, J. Cas Swiz, Charles B. Rea, Ann E. Bulkley, Tawana Dean, and Paul Hibbard presented oral rejoinder testimony and were cross-examined by counsel for other parties. PAWC witness Constance E. Heppenstall, I&E witnesses D.C. Patel and Joseph Kubas, and OCA witness Christine Maloni Hoover were also cross-examined. In addition, the written testimony and exhibits of all parties were admitted into evidence.

C. Overview of PAWC's Filing

PAWC last increased its base rates effective January 28, 2023. Since that time, and through the FPFTY, the Company has or will spend over $1 billion in capital investment to continue to provide safe and reliable service to customers, while facing inflationary pressures driving increases in the costs to provide high quality water and wastewater service.[4] Absent rate relief, PAWC's water and wastewater operations are projected to produce an overall return on invested capital of 5.78% for the FPFTY.[5] The indicated return on common equity under present rates is anticipated to be only 6.63% as of June 30, 2025, which is far less than required to provide the Company with a reasonable opportunity to attract capital.[6]

In its initial filing, the Company also sought approval of two alternative ratemaking mechanisms. First, PAWC proposed to implement a Revenue Decoupling Mechanism ("RDM") to provide revenue stability that allows the Company to more effectively manage and invest in the infrastructure to continue safe and reliable water service to customers.[7] Second, PAWC proposed an Environmental Compliance Investment Charge ("ECIC") to support full and timely rate recognition of PAWC's costs to comply with new and updated environmental mandates in a

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[4] *Id.*, pp. 7-8.
[5] *Id.*, p. 9.
[6] PAWC St. 1, p. 9; PAWC St. 13, pp. 11-12.
[7] PAWC St. 1, pp. 23-26; PAWC St. 10, pp. 86-106.

prudent and efficient manner as they emerge.[8] Additionally, PAWC proposed to rely upon Section 1311(c) to mitigate the increases on wastewater customers by recovering a portion of the Company's wastewater revenue requirement from its total water and wastewater customer base.[9]

D. Legal Standards (Burden of Proof)

While Section 315(a) provides that a utility has the burden to prove that proposed rates are just and reasonable, it "cannot reasonably be read to place the burden of proof on the utility with respect to an issue the utility did not include in its general rate case filing."[10] A party proposing an adjustment to a ratemaking claim bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment,[11] and Section 332(a) establishes a burden of proof separate from that in Section 315 for those entities that propose a rule or order. Rejecting evidence contrary to a public utility's position is not an impermissible shifting of the evidentiary burden.[12]

II. SUMMARY OF ARGUMENT

PAWC is seeking a rate increase because the Company will invest about $1 billion in its water and wastewater systems between January 1, 2024 and June 30, 2025. The Company's current base rates are no longer sufficient to provide a reasonable return on its investments to support the continued provision of safe, efficient, and reliable water and wastewater services essential to PAWC customers. The Company also needs to address infrastructure concerns across Pennsylvania in accordance with evolving drinking water and environmental standards. As explained in Section III below, the extensive data submitted in PAWC's initial filing and

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[8] PAWC St. 1, pp. 26-27; PAWC St. 8, pp. 21-30.
[9] PAWC St. 1, pp. 19-22.
[10] *Pa. P.U.C. v. UGI Utils., Inc. – Elec. Div.*, Docket No. R-2017-2640058 (Opinion and Order entered Oct. 4, 2018) ("*UGI Electric 2018*"), p. 7.
[11] *NRG Energy, Inc. v. Pa. P.U.C.*, 233 A.3d 936, 950-51 (Pa. Commw. Ct. 2020).
[12] *U.S. Steel Corp. v. Pa. P.U.C.*, 456 A.2d 686 (Pa. Commw. Ct. 1983).

evidence presented by 16 Company witnesses in this case clearly demonstrates that the proposed rate increase is just and reasonable.

Sections IV to XIII of this Brief address the opposing party positions regarding PAWC's proposed rate increase, revenue requirement, revenue allocation and rate design, tariff structure, affordability of rates, alternative ratemaking, and quality of service. The major contested issues addressed in those sections are summarized below.

Rate Base. No party has challenged the set of improvement projects and investments reflected in PAWC's claimed utility plant-in-service. Contrary to the arguments advanced by I&E, the OCA, and the OSBA, PAWC's revenue requirement (rate base, revenues, expenses and taxes) properly includes water or wastewater systems that PAWC expects to acquire from Audubon Water Company ("AWC"), Butler Area Sewer Authority ("BASA"), Farmington Township ("Farmington") and Sadsbury Township Municipal Authority ("Sadsbury"). Notably, after non-Company direct testimony was submitted in this case, PAWC agreed to remove the to-be-acquired Borough of Brentwood ("Brentwood") wastewater system from the Company's revenue requirement and to implement proposed rates including the BASA wastewater system ("Step 2 Rates") only upon closing of the acquisition.[13]

Expenses. As discussed in Section VI below, adjustments to PAWC's expense claims proposed by I&E, the OCA, the OSBA and PAWLUG should not be adopted because they are unsupported by record evidence and, in some cases, depart from prior PUC decisions. In addition, PAWC's proposed deferral mechanisms for pension, other post-employment benefits ("OPEB") and production expenses are appropriate because those expense items are subject to material change from forecasts in rate cases due to events outside of the Company's control.

[13] Tr. 1970; *see also* PAWC St. 1-R, pp. 5-6.

Rate of Return. PAWC presented expert evidence to justify an overall return of 8.17% based on the Company's actual capital structure, long-term cost of debt, and a cost of equity of 10.95%, which incorporates recognition of PAWC's exemplary management performance. I&E recommends a clearly deficient return on equity ("ROE") of 8.45% derived from a single discounted cash flow ("DCF") analysis and without any recognition of PAWC's management performance. I&E's ROE is unreasonable given that it is below any authorized return for a U.S. water utility since at least 2010, it does not reflect the marked increase in interest rates since 2022 and stands in stark contrast with the recently authorized returns for other Pennsylvania water utilities.[14] The OCA recommends a similarly deficient ROE of 9.1% (assuming the OCA's improper hypothetical capital structure) or 8.7% (utilizing PAWC's proposed capital structure). OSBA relies upon a "proxy" cost of equity of 9.65% based on the Commission's most recently approved ROE for the Distribution System Improvement Charge ("DSIC") to calculate a proposed revenue requirement, acknowledging its proposal was not intended to supplant the Commission's consideration of traditional cost of equity analyses. PAWLUG recommends an ROE at the lower end of the range of reasonableness the Commission deems reasonable based primarily on its expert's general opinion that PAWC's proposed ROE is excessive.

Revenue Allocation and Rate Design. PAWC's proposed rates reasonably allocate the increase in water and wastewater revenues among customer rate classes. PAWC's proposed reallocation of a portion of its wastewater revenue requirement to water customers pursuant to Section 1311(c) is in the public interest to mitigate large rate increases to wastewater customers.

[14] *See Pa. P.U.C. v. Aqua Pa., Inc.*, Docket Nos. R-2021-3027385 and R-2021-3027386 (Opinion and Order entered May 16, 2022) ("*Aqua 2022*"), pp. 178, 180-181; *Pa. P.U.C. v. Columbia Water Co.*, Docket No. R-2023-3040258 (Opinion and Order entered Jan. 18, 2024) ("*Columbia Water 2024*"), pp. 108, 113.

The Company's wastewater rate design appropriately includes a winter averaging mechanism to address the potential mismatch between water and wastewater usage during summer months.

Alternative Ratemaking Proposals. The ECIC and RDM are reasonable and consistent with the distribution rate policy considerations set forth in the Commission's regulations at 52 Pa. Code § 69.3302. If approved, (i) the RDM will improve PAWC's ability to recover its Commission-approved revenue requirement and reduce revenue volatility for the benefit of customers and PAWC; and (ii) the ECIC will support full and timely rate recognition of the costs PAWC incurs between base rate cases to address changing environmental mandates while eliminating a major driver of the need for rate relief in the future.

Low-Income Customer Assistance. PAWC offers a robust and growing portfolio of programs to assist low-income customers, including a tiered Bill Discount Program ("BDP"), Hardship Grants, and, later this year, an Arrearage Management Program ("AMP"). The Company's diverse array of outreach efforts has driven a significant increase in BDP participation over the last few years. In this proceeding, the Company has proposed to raise the BDP income eligibility threshold from 150% of the Federal Poverty Level ("FPL") to 200% of FPL to address affordability issues for a significant number of additional customers (estimated to be over 50,000 residential water customers and over 10,000 residential wastewater customers). While PAWC did not propose to modify the discount levels in the existing BDP tiers, the Company does not oppose the changes to tier discount levels OCA and CAUSE-PA proposed in this case and defers to the Commission regarding the appropriate tier discount levels.

Customer Service. The OCA's unreasonable characterization of PAWC's customer service as "poor" rests largely on call wait times and ignores many other key indicators of overall customer satisfaction, including quality and value of service. Ms. Degillio's testimony in this case details the Company's robust customer feedback process employed to develop customer service performance objectives. Mr. Runzer's testimony discusses the Company's ongoing operational enhancements for the benefit of customers and the environment to deliver high-quality drinking water and wastewater services to PAWC's customers.

For the reasons explained below in detail, the Company's request for rate relief, alternative ratemaking proposals, and proposed tariffs should be approved.

III. OVERALL POSITION ON RATE INCREASE

As documented in the American Society of Civil Engineers most recent Report Card for Pennsylvania's Infrastructure, aging water and wastewater systems across the Commonwealth are in dire need of upgrades.[15] The main reason PAWC is currently seeking to increase rates is the substantial capital investment PAWC is making – and will continue to make – to address infrastructure concerns and provide essential water and wastewater service to more than 780,000 customers in Pennsylvania. None of the parties opposing the rate increase disagree with PAWC's plan to invest more than $1 billion in its infrastructure before the end of the FPFTY. They also have not challenged the prudence or reasonableness of PAWC's ongoing replacement of its mains, meters, and lines, or any of the other investments that PAWC makes every day to meet or exceed environmental and public health standards, address aging infrastructure, and enhance the reliability and resiliency of its systems.[16]

The Company is keenly aware of the costs of investment that are reflected in the proposed rates for customers in this proceeding. As PAWC President Justin Ladner testified, despite the $1 billion that PAWC plans to invest in its systems, the average residential water

[15] PAWC St. No. 3, pp. 10-11; *see also* Pennsylvania State Council of the American Society of Civil Engineers, 2022 Report Card for Pennsylvania's Infrastructure (Nov. 15, 2023), pp. 36-38, 146-150, available at https://infrastructurereportcard.org/wp-content/uploads/2016/10/PA-Report-Card-2022.pdf.
[16] PAWC St. 15-R, pp. 3-4.

customer will only pay approximately 2 cents per gallon under PAWC's proposed rates, or about $2.90 per day for all of their water needs for drinking, cooking, cleaning and sanitation.[17] These reasonable costs also reflect PAWC's careful management of operations and maintenance ("O&M") expenses, which have increased less than inflation over the last ten years.[18] And for those qualifying customers who need assistance in paying their water and wastewater utility bills, PAWC is proposing to expand its low-income BDP, in addition to its recently approved AMP.[19]

The basic principles for consideration of PAWC's rate increase are well established. As PAWC witness Paul Hibbard, former chair of the Massachusetts Department of Public Utilities, explained:

> Public utilities are generally obligated through law and regulation to reliably meet the needs of all customers within their service territory. The utilities in turn are allowed to collect the costs of serving customers through commission-approved cost of service rates, including operating expenses and a return of and on prudently-incurred capital investment. Rates are set in order to allow the utility an opportunity to earn a fair return on the value of the property which it employs for the convenience of the public, with the rate of return designed to approximate the return being earned at the same time in businesses that face similar risks and uncertainties. This level of return on investment is designed to assure confidence in the financial soundness of the utility and to be sufficient to enable the utility to maintain credit and attract the capital needed to reliably meet customer needs over time.[20]

OCA witness Hoover initially claimed that the Commission could enforce the "regulatory compact," which permits PAWC to exclusively provide water and wastewater services within its territory boundaries, by using deterrent tools, such as rejecting rate increases in whole or in part, in an effort to focus on consumer needs instead of investor needs.[21] However, Ms. Hoover subsequently clarified that the OCA was not seeking to disallow PAWC's reasonable and

[17] PAWC St. 15-R, p. 4.
[18] PAWC St. 1, p. 9.
[19] PAWC St. 10, pp. 23-26.
[20] PAWC St. 16-R, p. 9.
[21] OCA St. 1, pp. 20-22, 28.

prudent costs or deny the Company an opportunity to earn a fair rate of return.[22] In the remainder of this Brief, PAWC addresses the misguided objections of the OCA and other parties to the Company's reasonable and prudent costs, and also demonstrates why the cost of equity proposed by the OCA and I&E is plainly inadequate.

With respect to acquisitions, as PAWC witnesses Ladner and Everette testified, PAWC has a long history of acquiring troubled water and wastewater systems and then addressing the infrastructure challenges of those systems.[23] PAWC witness Bruce Aiton also testified regarding the extensive investment that PAWC has made acquired systems, resulting in many of those systems returning to compliance with environmental laws and ensuring that the customers served by those systems have safe and reliable service.[24]

The testimony of PAWC witness Abruzzo, a former Secretary of the Pennsylvania Department of Environmental Protection ("PADEP"), made clear that Pennsylvania law and policy have long supported and encouraged the acquisition of municipal water and wastewater systems, promoting the regionalization and consolidation of those systems and facilitating the maintenance and replacement of public infrastructure.[25] In light of the concerns parties have raised in this proceeding with the Company's acquisitions that have not yet closed, PAWC has revised its request for rate relief to remove the Brentwood acquisition and to incorporate Step 2 Rates for the BASA acquisition to ensure that customers do not pay higher rates reflecting the PUC-approved BASA ratemaking rate base until that transaction closes.

[22] OCA St. 1-SR, pp. 8; Tr. 2174-75.
[23] PAWC St. 1, pp. 42-45; PAWC St. 15-R, pp. 11-12.
[24] PAWC St. 3-R, pp. 5-13.
[25] PAWC St. 6, pp. 6, 23.

IV. RATE BASE

PAWC's final claimed rate base of $6,071,315,148[26] (Appendix A) consists of the depreciated original cost of its utility plant-in-service at June 30, 2025, together with rate base additions and deductions made in accordance with accepted ratemaking procedures.[27] The discussion below addresses only those rate base claims that remain contested at the close of the record in this case.

A. Utility Plant-In-Service

The increase in PAWC's utility plant-in-service since its last base rate case is the single largest factor driving the Company's need for an increase in revenues. Since the end of the FPFTY in its last case (December 31, 2023), through the end of the FPFTY in this case (June 30, 2025), PAWC will have invested over $1 billion in new or replacement plant, and the overwhelming portion of this investment is in source of supply, treatment, distribution and collection assets.[28] Part of this investment is also being used to improve service to small and troubled water and wastewater systems that PAWC has acquired in furtherance of the Commission's policy that larger, viable water and wastewater companies acquire small, troubled systems and make the necessary improvement to provide safe and reliable service.[29] To address these diverse capital needs, PAWC must raise substantial amounts of debt and equity and, in the

[26] Sum of Water, Wastewater Sanitary Sewer System ("SSS") General, Wastewater Combined Sewer System ("CSS"), and BASA Operations.
[27] *See* PAWC St. 4, pp. 9-20; PAWC Ex. 3-A Revised, pp. 25R, 96R, 145R, 217R.
[28] PAWC St. 1, p. 8; PAWC St. 3, pp. 9-11.
[29] PAWC St. 1, p. 8.

process, demonstrate its ability to provide a reasonable return in order to convince investors to commit their funds to the Company.[30]

The only challenge to PAWC's claimed plant-in-service as of the end of the FPFTY arises from various parties' position that the AWC, BASA, Farmington, and Sadsbury acquisitions should be excluded from the Company's revenue requirement in this case. According to I&E witnesses Vanessa Okum, Ethan H. Cline and Kubas, it is premature to include any of those in rates before the acquisitions close.[31] OCA witness Smith proposes two conditions precedent for inclusion of to-be-acquired systems in rates: (1) a final Commission Order approving the acquisition and (2) no uncertainty as to whether the utility will close on the acquisition for reasons other than PUC approval.[32] Assuming the AWC and BASA acquisitions close, OSBA witness Kevin C. Higgins proposes "mitigation" adjustments that would (1) deny the Company recovery of all amortization expense and rate base related to the AWC acquisition in excess of the net book value of AWC's assets and (2) require PAWC shareholders to absorb a portion of the PUC-approved ratemaking rate base for the BASA acquisition.[33]

PAWC's requested revenue requirement properly includes the AWC, BASA, Farmington and Sadsbury acquisitions that Company witness Abruzzo testified are expected to close before the end of the FPFTY:

- **BASA**. As of the date of the hearing, this acquisition had been approved by the Commission but was pending in the Commonwealth Court of Pennsylvania ("Commonwealth Court"). Based on the expedited litigation schedule that the Commonwealth Court has established, PAWC anticipates a decision will be rendered in April or May 2024. If that decision is favorable and is not appealed to the Supreme Court of Pennsylvania, PAWC will close on the transaction before the end of the FPFTY. If the decision is appealed to the Supreme Court, it is unlikely that the

[30] *Id.*
[31] I&E Sts. 1, p. 7 & 1-SR, p. 7; I&E Sts. 3, pp. 4, 6-8 & 3-SR, pp. 11, 13 and 15; I&E Sts. 4, p. 5 & 4-SR, p. 9.
[32] OCA Sts. 2, p. 19 & 2-SR, p. 21.
[33] OSBA St. 1, pp. 20-26, 28-30.

Supreme Court will accept the case.[34] As previously discussed, PAWC has also proposed Step 2 Rates for the BASA acquisition to ensure that customers do not pay higher rates reflecting the PUC-approved BASA ratemaking rate base until that transaction closes.

- **Sadsbury**. A unanimous settlement was submitted to the presiding ALJ on February 21, 2024. PAWC believes it is very likely that the Commission will approve the unanimous settlement this summer. If so, the transaction will close well before the end of the FPFTY.[35]

- **Farmington**. The parties are continuing to engage in informal discovery and settlement discussions. A status conference was held on March 13, 2024.[36]

- **AWC**. PAWC and opposing parties have submitted direct testimony.[37]

There is no reason to treat an acquisition any differently than any other plant that the utility places in service during the FPFTY.[38] In fact, in April 2020, PAWC filed a rate case that included the not-yet-completed acquisitions of systems owned by the Borough of Kane Authority,[39] the Winola Water Company[40] and the Delaware Sewer Company.[41] The PUC allowed all of these acquisitions to be included in PAWC's rates.[42] Similarly, in April 2022, PAWC filed a rate case that included the pending acquisitions of systems owned by the York

[34] PAWC St. 6-R, pp. 2-3.
[35] *Id.*, p. 4.
[36] *Id.*
[37] *Id.*, pp. 4-5.
[38] *See* 66 Pa.C.S. § 315(e); *Use of Fully Projected Future Test Year, 52 Pa. Code Chapter 53.51-53.56a*, Docket No. L-2012-2317273 (Notice of Proposed Rulemaking Order entered June 17, 2021), p. 8 (citations omitted) (the PUC may allow inclusion in a public utility's rate base claim new plant projected to be placed in service during the 12-month period beginning with the first month the new rates will be in effect).
[39] *Application of Pa.-American Water Co., Pursuant to the Pennsylvania Public Utility Code, 66 Pa. C.S. § 1102(a) and 1329, for Approval of the Transfer, by Sale, of the Wastewater Collection and Treatment System of the Borough of Kane Auth.*, Docket No. A-2019-3014248 (Order entered June 18, 2020).
[40] *Pennsylvania Public Utility Commission Bureau of Investigation and Enforcement v. Winola Water Company*, Docket Nos. P-2018-3006216 et al. (Order entered Aug. 6, 2020) (a Section 529 acquisition).
[41] *Investigation Instituted per Section 529 Into Whether the Commission Shall Order a Capable Public Utility to Acquire Delaware Sewer Company*, Docket No. I-2016-2526085 (Opinion and Order entered Mar. 26, 2020).
[42] Tr. 1971.

City Sewer Authority,[43] Upper Pottsgrove Township,[44] Foster Township[45] and the Creekside Homeowners Association.[46] The Commission again allowed all of the acquisitions to be included in PAWC's rates.[47] There is no reason why the Commission should treat the acquisitions in this base rate case any differently than it treated the acquisitions in PAWC's 2020 and 2022 base rate cases.

When the Commission enters its order in this proceeding, the Commission should take official notice of the status of the BASA, Sadsbury, Farmington, and AWC acquisition proceedings at that time. If the Commission or a court of competent jurisdiction has entered a final, unappealable order approving any of these acquisitions, the Commission should allow that acquisition to be placed into rates, even if closing has not yet occurred. If a final, unappealable order has been entered by that time, the Commission can be reasonably certain that the transaction will close by the end of the FPFTY. No party to this proceeding could identify a single recent transaction in which closing did not occur after the Commission or a court of competent jurisdiction entered a final, unappealable order approving the acquisition. Moreover, Mr. Abruzzo estimated that each of the acquisitions discussed above could be closed within a few weeks following approval.[48] Consequently, the Commission could be reasonably certain that the transactions would close by the end of the FPFTY.

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[43] *Application of Pa.-American Water Co. to Acquire the Wastewater Collection and Treatment System Owned by the York City Sewer Auth.*, Docket No. A-2021-3024681 (Order entered Apr. 14, 2022) (a Section 1329 transaction).

[44] *Application of Pa.-American Water Co. under Sections 1102 and 1329 of the Pa. Pub. Util. Code, to Acquire the Wastewater Collection and Conveyance System of Upper Pottsgrove Twp.*, Docket No. A-2020-3021460 (Order entered Sept. 15, 2021).

[45] *Application of Pa.-American Water Co. to Acquire Certain Wastewater Assets from Foster Township*, Docket Number A-2021-3028676 (Order entered July 14, 2022) (a Section 1102 acquisition).

[46] *Application of Pa.-American Water Co. to Acquire Certain Water System Assets from Creekside Homeowners Ass'n*, Docket No. A-2022-3031020 (Order entered May 18, 2023) (a Section 1102 acquisition).

[47] Tr. 1971.

[48] PAWC St. 6-R, pp. 3-5.

To date, the Commission has not held that an acquisition must close before the Commission enters its order in a base rate case, and there is no need for the Commission to do so now. Such a holding would be bad public policy because it would create a lag in recovery on and of legitimate investment by utilities, which in turn creates a disincentive for public utilities to acquire systems (especially small or troubled systems like AWC).[49] It could also lead to more frequent rate cases for utilities to reduce this lag in recovery. Excluding these systems in this case would be one factor that PAWC considers in determining when it will file another rate case.[50]

I&E witness Okum contends that the BASA acquisition should not be included in PAWC's rates because Section 1329(c)(1) states: "The ratemaking rate base of the selling utility shall be incorporated into the rate base of (i) the acquiring public utility during the acquiring public utility's next base rate case."[51] Ms. Okum contends that the "next" base rate case is the base rate proceeding immediately following closing on the acquisition. Ms. Okum, however, does not acknowledge that the Commission has previously allowed PAWC to include Section 1329 acquisitions in rate filings before closing on the transaction.

Since the term "next" is not a technical term and is not defined in the statute, it should be construed using its common and approved usage, 1 Pa. C.S. § 1903, which is "in the time, place or order nearest or immediately succeeding."[52] The BASA acquisition was approved by the Commission at its public meeting held on November 9, 2023, and the Commission's Opinion and Order was entered on November 16, 2023. PAWC's 2022 rate case concluded on December

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[49] Tr. 1993.
[50] PAWC St. 6-R, p. 13.
[51] I&E St. 1, p. 6.
[52] Webster's New Collegiate Dictionary 774 (1977).

8, 2022. Consequently, the instant base rate case is the "next" base rate case to be decided following the Commission's approval of the acquisition.

I&E witness Cline contends that PAWC should not be allowed to include a system in rates until after the acquisition closes because:

> It is possible that through the acquisition proceeding and investigation, 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 concludes 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 deemed inaccurate until the next base rate case and its rates effective date, which is not in the public interest.[53]

This testimony is based on pure speculation that the Farmington Township and/or AWC proceedings will identify an error of some sort in this proceeding.

Mr. Higgins recommends, without support, that the Commission deny the Company recovery of all amortization expense and rate base related to the AWC acquisition in excess of the net book value of AWC's assets, solely based on the difference between the net book value of AWC's assets versus the proposed acquisition price.[54] Mr. Higgins can cite to no statutory basis or precedent that support his recommendation.[55] Mr. Higgins' only basis for his recommendation is that the acquisition is still before the Commission for review. However, PAWC and AWC (a small, non-viable public utility) are unaffiliated entities that negotiated at arms-length to reach an agreement, at a reasonable price, that will confer numerous benefits to the public.[56] PAWC demonstrated it satisfies all of the statutory criteria for a Section 1327

[53] I&E St. 4, pp. 7-8.
[54] OSBA St. 1, p. 29.
[55] *Id.*; *see also*, OSBA St. 1-SR, p. 15.
[56] PAWC St. 4-R, pp. 5-6.

acquisition premium for the AWC system and, therefore, the Commission should deny Mr. Higgins' adjustment.

Mr. Higgins also recommends a rate mitigation adjustment for BASA if the acquisition closes, despite acknowledging that the PUC previously rejected a similar request.[57] The Commission should reject Mr. Higgins' proposal, consistent with its decision in the Company's 2020 rate case denying an OCA recommendation to require PAWC's shareholders (rather than PAWC's water customers) to pay approximately $16.7 million in revenue requirement relating to four wastewater systems that PAWC acquired pursuant to Section 1329.[58] The PUC found the OCA's proposal would violate PAWC's rights under the Pennsylvania and Federal Constitutions against taking private property without compensation, because it would force shareholders to commit investment capital to furnish safe and reliable service to the customers of the acquired wastewater systems while denying shareholders any compensation for the use of their funds.[59] Mr. Higgins has not justified any reason for the PUC to reach a different conclusion in this case.

B. Depreciation Reserve

PAWC's claim for accrued depreciation related to its utility plant-in-service was developed and presented by PAWC witness John J. Spanos, President of Gannett Fleming Valuation and Rate Consultants, LLC ("Gannett Fleming"). The details underlying the methodology employed by Mr. Spanos, together with all supporting calculations and documentation, are set forth in Exhibit Nos. 11-A though 11-M. Mr. Spanos completed depreciation studies to estimate the annual depreciation accruals related to water and wastewater plant-in-service for ratemaking purposes and, using PUC-approved procedures, to estimate the

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[57] OSBA St. 1, pp. 22-23; OSBA St. 1-SR, pp. 12-14.
[58] *Pa. P.U.C. v. Pa.-American Water Co.*, Docket Nos. R-2020-3019369 and R-2020-3019371 (Opinion and Order entered Feb. 25, 2021) ("*PAWC 2020*"), pp. 80-83.
[59] *Id*., p. 82.

Company's book reserve as of June 30, 2023, June 30, 2024 and June 30, 2025.[60] PAWC's annual depreciation accrual applicable to plant-in-service at June 30, 2025 is $265,476,224.[61]

Service life studies were the basis for the service lives and survivor curves Mr. Spanos used to calculate annual accruals. PAWC's most recent service life studies were performed in 2022 for the Company's water assets (based on plant data through 2021) and in 2020 for its wastewater assets (based on plant data through 2019).[62] OCA witness Smith objects to PAWC's use of service life/survivor curve information (1) from the most recent water asset service life study (the "2021 Water Service Life Study") for three water accounts and (2) for the BASA wastewater facilities that differed from information presented in the Section 1329 acquisition proceeding.[63] Based on these objections, he proposed downward adjustments to depreciation expense (a reduction of $15.479 million for water and $877,000 for BASA).[64]

Mr. Smith's objections have no reasonable basis and should be rejected by the Commission. First, regarding water accounts 304.15 (Other Water Source Structures), 331.00 (Mains and Accessories), and 335.00 (Fire Hydrants), Mr. Smith argues that information from the 2021 Water Service Life Study should not be used solely because the life parameters were "drastically shortened" as compared to the service life information presented in PAWC's 2022 rate case proceeding (Docket No. R-2022-3031673) that was taken from an earlier service life study (the "2016 Water Service Life Study"). For these three water accounts only, he recommends use of the outdated service life information from the 2016 Water Service Life

[60] *See generally* PAWC St. 11.
[61] In rebuttal, Mr. Spanos explained the change in depreciation expense that resulted from the reclassification of an $11,163,718 project. PAWC St. 11-R, pp. 11-12; PAWC Ex. JJS-1R. This amount reflects the sum of Water, Wastewater SSS General, Wastewater CSS, and BASA Operations.
[62] PAWC St. 11, p. 7.
[63] OCA St. 2, pp. 64-66 (water asset accounts), 38-42 (BASA).
[64] *Id.*, p. 66 (water asset accounts), pp. 41-42 (BASA).

Study.[65] In his rebuttal testimony, Mr. Spanos provides detailed survivor curve information for the three water accounts at issue and shows that, for each account, the updated information from the 2021 Water Service Life Study was a better statistical fit with the most current historical data than the 2016 Water Service Life Study.[66]

Second, regarding the BASA wastewater assets, Mr. Smith argues that the service life/survivor curve information presented by the Company in this case was improper because it was "dramatically inconsistent" with service life/survivor curve information presented in the related Section 1329 acquisition proceedings for these systems.[67] The life estimates utilized in the Company's Section 1329 were based on different concepts that were not intended for determining depreciation recovery patterns for existing and future assets. In this proceeding, the Company properly developed life estimates and depreciation expense for BASA using standard practices and, unlike the Section 1329 proceedings, the life analysis included information about how PAWC plans to operate all of the existing and future wastewater systems.[68]

C. Cash Working Capital

Cash working capital represents the funds needed to pay O&M expenses and taxes that, on average, are incurred in advance of the utility's receipt of revenues. PAWC calculated its cash working capital requirement using the accepted, PUC-approved lead-lag method.[69] No party disputed the methodology the Company employed or challenged its proposed revenue lag, expense lag or net lag (revenue lag minus expense lag). However, O&M expenses are an input to the calculation of cash working capital. Therefore, I&E witness Okum and OCA witness

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[65] OCA St. 2, pp. 64-66. Mr. Smith did not explain why he did not object to the use of the 2021 Water Service Life Study for all other water accounts.
[66] PAWC St. 11-R, pp. 5-10.
[67] OCA St. 2, pp. 38-42.
[68] PAWC St. 11-R, pp. 10-11.
[69] PAWC St. 4, pp. 13-15.

Smith propose adjustments to the Company's requested cash working capital that are concomitant to their proposed adjustments to O&M expenses. I&E's and the OCA's proposed expenses adjustments are addressed in Section VI below. If any changes are made to the Company's proposed O&M expenses, its cash working capital would need to be recalculated.

D. Conclusion

The Company's revenue requirement, including its rate base claims, properly reflects the AWC, BASA, Farmington and Sadsbury systems that PAWC reasonably anticipates will close before the end of the FPFTY. The OSBA's proposed "mitigation" adjustments to PAWC's AWC and BASA-related rate base claims should also be rejected.

V. REVENUES

As shown in Appendix A, PAWC's pro forma revenues, at present rate levels, equal $1,213,394,607[70] for the FPFTY. The Company developed this claim using the level of water and wastewater sales revenue generated during the historic test year ("HTY") ended June 30, 2023, and, in accordance with well-established PUC practice, making appropriate adjustments to eliminate non-recurring items and to annualize the effect of known or anticipated changes. These include adjustments to eliminate unbilled revenue; to annualize revenues associated with acquired systems; to reflect changes affecting the consumption of specific large customers; and to reflect changes in the number of customers during the HTY and as projected for the future test year ("FTY") ending June 30, 2024, and the FPFTY. Additionally, for residential, commercial, and municipal customers, PAWC is proposing adjustments to the actual FTY billing determinants related to trends in declining use, weather normalization and the impact of the COVID-19 pandemic on water consumption. All the adjustments made in developing the

[70] Sum of Water, Wastewater SSS General, Wastewater CSS, and BASA Operations.

Company's pro forma revenue claims are described in the direct and rebuttal testimony of Mr. Rea (PAWC Statements 10 and 10-R) and further detailed in PAWC Exhibit No. 3-A Revised.[71]

VI. EXPENSES

In developing its FTY, and FPFTY claims, PAWC adjusted HTY expenses recorded on its books of account to reflect known and measurable changes during the HTY and to reflect the effect of changes in operating conditions that were reasonably anticipated to occur thereafter.[72] As shown in Appendix A, the Company's pro forma O&M expenses, at present rate levels, equal $312,622,031[73] for the FPFTY. The reasonableness of all expense claims has been demonstrated through extensive documentation provided in PAWC's supporting data and through detailed explanations of all adjustments by Ms. Everette, Company witness Lori O'Malley, and Mr. Swiz (PAWC Statements 1, 1-R, 5, 5-R, 8, and 8-R). The discussion below addresses only those expense claims that parties have contested through testimony or exhibits.

A. Payroll Costs – Vacancy Rate

The Company's payroll allowance for the FPFTY[74] was developed based on PAWC's authorized complement of 1,294 equivalent employees.[75] OCA witness Smith proposes an adjustment to reflect on a 1.76% vacancy rate.[76] In rebuttal testimony, PAWC accepted Mr. Smith's vacancy rate adjustment and updated payroll expense to reflect a merit increase that became effective January 8, 2024, for non-collective bargaining unit hourly employees and

[71] As Mr. Rea explains, if the Commission excludes revenues from acquired systems, it will impact proposed water service rates because the total allocation of wastewater revenue requirement to water service would change. PAWC St. 10, p. 49.
[72] *See* PAWC St. 1, pp. 17-19; PAWC St. 5, pp. 2-4.
[73] Sum of Water, Wastewater SSS, Wastewater CSS, and BASA WW Operations.
[74] The Company's payroll expense claim reflects: (1) salaries and wages (including performance compensation); (2) group insurance; (3) other benefits (401k, Defined Contribution Plan and Employee Stock Purchase Plan); and (4) payroll taxes. PAWC St. 5, p. 5.
[75] *Id.*, pp. 4-7; *see also* PAWC St. 2, p. 39.
[76] OCA St. 2, p. 59.

exempt employes (the "2024 Merit Increase").[77] With the accepted adjustment and 2024 Merit Increase, PAWC's final payroll expense claim is $78,161,527.[78]

B. Annualized Performance Pay (PAWC)

As explained by Mr. Runzer, PAWC uses a mix of fixed and variable (i.e., performance-based) compensation to attract and retain customer-committed, dedicated and highly qualified employees.[79] The OSBA and PAWLUG propose downward adjustments to the Company's performance pay claim.[80] OSBA witness Higgins would disallow (1) 50% of the compensation earned by PAWC employees under the American Water Annual Performance Plan ("APP"); and (2) 100% of the compensation earned by PAWC employees under the American Water Long-Term Performance Plan ("LTPP").[81] Mr. Higgins claims that the proposed disallowances that would reduce PAWC's overall O&M expense claims by $10.4 million reflect the portion of employee performance-based compensation that allegedly benefits shareholders.[82] PAWLUG witness Billie S. LaConte also proposes adjustments to disallow performance compensation she believes is tied to meeting financial targets (approximately $2 million).[83]

The performance compensation challenged by Ms. LaConte and Mr. Higgins is an integral part of the total market-based compensation package that is necessary to compete for and retain qualified employees so that customers continue to receive safe and reliable service.[84] As the Commission has found on numerous occasions in the past, the focus for ratemaking purposes is the reasonableness of overall compensation awards, and not the size or nature of individual

[77] PAWC St. 5-R, pp. 2-3; PAWC Exhibit 3-A Revised.
[78] Sum of Water, Wastewater SSS, Wastewater CSS, and BASA WW Operations.
[79] PAWC St. 2, pp. 39-40.
[80] In her surrebuttal testimony, I&E witness Okum withdrew her recommendation to apply a three-year historical average payout factor to FPFTY base payroll to determine performance pay. I&E St. 1-SR, pp. 15-16.
[81] OSBA St. 1, pp. 10-13; Schs. KCH-2 and KCH-3.
[82] *Id.*
[83] PAWLUG St. 1, pp. 7-9.
[84] PAWC Sts. 2, pp. 39-42 & 2-R, pp. 4-10.

pieces of the compensation package.[85] No party contests that the Company's total market-based employee compensation is reasonable and PAWC provided evidence concerning how performance pay benefits customers by encouraging, among other things, operational efficiency.[86] Notably, PAWC's performance-based compensation expense, including APP and LTPP, was recently reviewed and approved by the Commission in PAWC's 2020 base rate proceeding. In that proceeding, the Commission found, among other things, that:

> The performance compensation program establishes that the employees' eligibility to receive the benefit is based on performance duties and metrics directly related to the provision of service; the fact that the program includes a financial metric does not disqualify it from allowance as an expense for inclusion in the rate base. Accordingly, we find that recovery of PAWC's APP and LTPP expense is consistent with our prior decisions approving similar performance compensation programs that are focused on improving operational effectiveness.[87]

Contrary to the assumptions underlying the objections in Ms. LaConte's and Mr. Higgin's testimony, satisfying key financial objectives provides significant benefits to customers, not just shareholders of American Water. Achieving established financial goals will enable PAWC to continue to access capital at reasonable rates.[88] In sum, there is no valid justification for the PUC to depart from its precedent rejecting arguments against performance compensation tied to financial metrics.

C. Group Insurance Expense

The OCA's proposed adjustments to group insurance expense are concomitant to Mr. Smith's recommended vacancy rate addressed in Section VI.A. above.

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[85] *See, e.g.*, *PAWC 2020*, pp. 50-53; *Aqua 2022*, pp. 100-101; *UGI 2018*, pp. 73-74; *Pa. P.U.C. v. PPL Elec. Utils. Corp.*, Docket No. R-2012-2290597 (Opinion and Order entered Dec. 28, 2012) ("*PPL 2012*"), p. 26; *Pa. P.U.C. v. Aqua Pa., Inc.*, Docket No. R00072711, pp. 20-21 (Order entered July 31, 2008); *Pa. PUC v. PPL Gas Utils. Corp.*, Docket No. R-00061398 (Order entered Feb. 8, 2007), p. 40.
[86] PAWC St. 2-R, pp. 4-10.
[87] *PAWC 2020*, p. 53.
[88] PAWC St. 2-R, pp. 6-8.

D. 401K, Defined Contribution Plan and Employee Stock Purchase Plan[89]

OSBA witness Higgins proposes an expense adjustment to disallow all ESPP costs (approximately $450,000), contending that the ESPP's stock purchase discount increases payroll costs and provides "no tangible benefit for customers."[90] As Ms. O'Malley explains, the ESPP is available to all active, full- or part-time employees of American Water. PAWC employees who become American Water shareholders have additional incentive to establish efficiencies that benefit customers.[91]

E. Stock-Based Compensation Expense – American Water Executives

Mr. Smith recommends adjustments to disallow (1) stock-based compensation (approximately $1.7 million) and (2) dividend equivalents (approximately $31,000) paid to American Water's top executives.[92] Mr. Smith contends that such stock-based compensation and executive perquisites align the interests of those top executives with shareholder interests and do not promote reliable and effective public utility service.[93]

As explained by Mr. Runzer, the expenses Mr. Smith opposes are part of the compensation provided to top executives to ensure that total compensation is reasonable and market based. No party presents evidence that top executives could be attracted or retained with a total compensation level that is substantially below PAWC's claim. Like all other employees, top executives are necessary to enable PAWC to manage the provision of safe and reliable water and wastewater service. Both customers and utility investors benefit from awarding a portion of total compensation as stock-based compensation because: (1) it incentivizes utility employees to

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[89] The OCA's proposed adjustments to 401K, DCP and ESPP concomitant to Mr. Smith's recommended vacancy rate are addressed in Section VI.A. above.
[90] OSBA St. 1, p. 14.
[91] PAWC St. 5-R, p. 5; *see also* PAWC St. 2-R, p. 6 (discussing the customer benefits of EPS targets for performance pay and of incentivizing employees to control and reduce operating costs).
[92] OCA St. 2, pp. 66-72.
[93] *Id.*, pp. 67-68, 71.

promote the Company's efficiency and financial health; and (2) it promotes a stable leadership team and mitigates employee turnover costs by vesting over a prospective three-year period.[94] Finally, as discussed in Section VI.A. above, the PUC recently reviewed and approved PAWC's total compensation package. It is appropriate to do so again in this case.

F. Executive Perquisites (AWW Executives Dividend Equivalents)

OCA witness Smith's proposed adjustments to PAWC's claimed O&M expenses to remove certain executive perquisites are addressed in Section VI.E. above.

G. Payroll Taxes

OCA witness Smith's proposed adjustments to PAWC's payroll taxes are addressed in Section VI.A. above. Mr. Higgins also recommended adjustments to payroll taxes.[95] This adjustment, however, is concomitant to his proposed adjustments to performance pay and the ESPP and, therefore, should be rejected for the reasons previously discussed.

H. Insurance Other Than Group

Mr. Smith proposes using a single data point – the HTY to FTY increase – in lieu of the five-year average PAWC employed to derive its FPFTY insurance other than group expense claim.[96] However, in its last base rate case, PAWC used a five-year average to smooth year-to-year variations, and that approach was not opposed by the OCA.[97] Using a five-year average continues to be the appropriate approach to smooth year-over-year variations. Therefore, the Commission should reject the OCA's adjustment.

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[94] PAWC St. 2-R, pp. 8-10; *see also id.*, pp. 3-8 (responding to arguments to reduce or eliminate elements of the Company's performance pay).
[95] OSBA St. 1, pp. 11-13.
[96] OCA St. 2, pp. 63-64.
[97] PAWC St. 5-R, p. 8.

I. Uncollectible Expense (Rate of Net Write-Offs)

Outstanding arrearages for PAWC's customers have stabilized from the significant increases during the peak of the COVID-19 pandemic, and the Company's net write-offs have been trending back toward pre-pandemic levels since mid-2021.[98] As a result, PAWC calculated its claim for bad debt (uncollectible) expense using a two-year historic average (July 1, 2021 to June 30, 2023) ratio of net write-offs as a percentage of sales revenues (1.176%) to normalize the rate of uncollectible accounts to pre-pandemic levels and account for the application of Low-Income Household Water Assistance Program ("LIHWAP") funds to reduce unpaid balances.[99]

OCA witness Smith recommends that PAWC use a three-year historic average ratio of net write-offs, based on the 12-months ended June 30, 2020, 2022 and 2023 (excluding the 12-months ended June 30, 2021), to determine the going level of uncollectible expense in this proceeding. The proposed adjustment would reduce PAWC's O&M expense claim by $122,851.[100] While Mr. Smith's adjustment would have a minimal impact on revenue requirement, PAWC's approach of using a two-year percentage of net write offs, ended June 30, 2023, eliminates all impacts of the COVID-19 pandemic on customer collections activities and PAWC revenues, which occurred beginning with the moratorium on disconnects starting in March 2020 and continued through March 2021. If the PUC wishes to maintain historical practice and utilize a three-year average rate to determine the level of uncollectible expense reflected in new base rates, the 12-months ended June 30, 2020, should be replaced with June 30, 2019, which excludes all periods impacted by the COVID-19 pandemic and produces an uncollectible rate (1.196%) that is 0.02% higher than PAWC's proposal.[101]

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98 PAWC St. 8, pp. 3-6.
99 *Id.*, pp. 3-5.
100 OCA St. 2, p. 54; OCA Ex. LA-2, Sch. C-9.
101 PAWC St. 8-R, pp. 3-4.

J. Arrearage Management Plan ("AMP") Credits – Uncollectible Expense

PAWC's Miscellaneous Expense Adjustment included costs related to the AMP that was pending before the Commission at the time of the initial base rate filing and later approved on December 7, 2023, at Docket No. P-2021-3028195. The total cost of arrearage forgiveness is based on the average number of BDP customers in the HTY with arrears multiplied by the annual AMP credits, assuming a 100% participation rate.[102]

Mr. Colton recommends a reduction in AMP credit cost recovery from PAWC's proposed $2,377,200 to $214,728, arguing that the Company's projected AMP participation level should reflect how many BDP customers make payments in a "full and timely" fashion.[103] Mr. Colton incorrectly assumes, however, that timely payments are required for a customer to be eligible for credits under the AMP. As Ms. Everette explained, the requirement for arrearage forgiveness is that the customer make an in-full payment of current charges plus a $5 copay.[104] Therefore, Mr. Colton's concern regarding timely payment behavior is without basis. Importantly, as explained by Ms. O'Malley, if AMP expense is lower than the Company has projected in this case, the difference will be recorded to a regulatory liability and returned to customers in a future base rate case.[105]

K. Acquisition-Related Expenses

I&E and the OCA's adjustments related to the BASA, AWC, Farmington, and Sadsbury acquisitions should be rejected for the reasons discussed in Section IV.A. above.

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[102] PAWC Sts. 5, p. 26 (inclusion in Miscellaneous Expense Adjustment) & 5-R, p. 8 (identifying PUC approval order).
[103] OCA Sts. 5, pp. 124-26 & 5-SR, pp. 25-27.
[104] Tr. 1977. She further explained that PAWC removed the timeliness requirement for payments in response to concerns expressed by OCA and CAUSE-PA in the AMP proceeding. *Id.*
[105] PAWC St. 5-R, pp. 8-9.

L. Interest Synchronization

PAWC's claim for income tax expense is set forth in PAWC Exhibit 3A-Revised and is based, in part, on an interest expense deduction calculated using the Company's proposed rate base and weighted cost of debt.[106] Mr. Smith proposes an interest expense adjustment concomitant to the OCA's proposed adjustments to rate base and the weighted average cost of debt,[107] which should be rejected for the reasons set forth in Sections IV and VIII of this Brief.

M. Amortization Expense

For the reasons set forth in Section IV.A. above, I&E and the OCA's proposed adjustments to PAWC's amortization expense related to the AWC, BASA, Farmington and Sadsbury acquisitions should be rejected.

N. Call Center Expense

The OCA proposes an adjustment to eliminate $3.1 million from PAWC's O&M expense claim related to third-party call handling agencies.[108] As Ms. Alexander acknowledges, call handling operations are necessary to provide service to PAWC's customers.[109] If PAWC did not utilize third-party call handling agencies, the Company would incur additional expense for staffing increases to handle the call volumes previously answered by third-party contractors.[110] Therefore, the OCA's recommendation that an expense PAWC necessarily incurs to serve customers should be excluded for ratemaking purposes is inappropriate.

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[106] *See* PAWC Ex. 3-A Revised, pp. 72R-75R.
[107] OCA Sts. 2, pp. 61-62 & 2-SR, pp. 34-36.
[108] OCA St. 2, p. 73; OCA Ex. LA-2, Sch. C-21.
[109] OCA St. 6, p. 19.
[110] PAWC St. 1-R, p. 22.

O. Depreciation Expense

OCA witness Smith's proposed adjustments to depreciation expense concomitant to his objections to service life/survivor curves employed in the depreciation studies prepared by Mr. Spanos are addressed in Section IV.B. above.

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

Projections of PAWC's pension and OPEB costs are calculated by WTW (formerly known as Willis Towers Watson), a national actuarial firm. PAWC's original claims consisted of pension expense of $22,214 and OPEB income of $5,817,327.[111] Based on the actuarial report furnished by WTW for 2024 after the initial filing, PAWC revised its pension claim to an expense of $971,071 and its OPEB claim to income of $6,496,737.[112] Thus, on a net total basis, PAWC's updated claims produce income of $5,525,666 to offset its overall revenue requirement.

Although WTW uses sound, well-established actuarial methods, the pension and OPEB costs that it calculates are subject to material change based on a variety of economic and demographic variables described by Mr. Swiz that are outside the Company's control.[113] Actuaries, including WTW, must make reasonable assumptions to supply the values for those variables, including interest rates, salary increases, inflation, and the performance of the investment markets.[114] In addition, demographic assumptions related to the composition of the

[111] Most Pennsylvania utilities base their claims for pension and OPEB costs on cash contributions to their pension and OPEB plans, which can never be less than zero. However, in the PUC's final order in PAWC's 2017 base rate case, it approved the Company's request to cease using cash contributions as the ratemaking measure of pension and OPEB costs and, instead, follow GAAP accounting under Financial Accounting Standards Board Accounting Standard Codification Topic 715 ("ASC 715") (formerly Financial Accounting Standard 87). Under ASC 715, net changes in the actuarial determination of pension and OPEB obligations and associated plan funding levels directly impact the bottom line on a company's income statement for the applicable accounting period. Based on the direction and magnitude of the factors that drive the annual performance of a company's pension and OPEB plans, the amount reflected on the income statement in any given year can be either expense or income.
[112] PAWC St. 5-R, p. 5; Ex. 3-A Revised, pp. 51R-52R.
[113] PAWC St. 8, pp. 10-14.
[114] *Id.*, pp. 13-14.

population that will receive retirement benefits, the behavior of members of that population (e.g., decisions about when to retire) and the life expectancy of the recipients of retirement benefits all impact the assumptions and variables of the calculation.[115] As a consequence, from year-to-year, actual expenses can be lower or higher than the amounts embedded in the Company's base rates. Therefore, PAWC is asking for Commission permission to defer and record any amounts above or below the projected level of pension and OPEB expenses into regulatory asset or liability accounts until its next base rate proceeding.[116]

I&E witness Okum and OSBA witness Higgins generally oppose utilizing a deferral mechanism for pension and OPEB expenses because, in their view, those expenses are normal, expected, and recurring costs.[117] However, the Commission regularly authorizes utilities to defer costs for accounting purposes arising from events that are unanticipated and outside the utility's control to provide the utility an opportunity to claim those costs for recovery in a future rate proceeding.[118] As previously explained, the pension and OPEB costs calculated by PAWC's

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[115] *Id.*
[116] *Id.*, pp. 10-11, 15.
[117] *See* I&E Sts. 1, pp. 20-21, 32-33 & 1-SR, pp. 19-22, 25-26; OSBA St. 1, pp. 47-48.
[118] *See, e.g., Petition of Pa.-American Water Co. for Auth. to Defer and Record as Regulatory Assets for Future Recovery: (1) Incremental Expenses Incurred Because of the Effects of the COVID-19 Emergency; (2) Revenue Reductions Attributable to the Effects of the COVID-19 Emergency; and (3) Carrying Charges on the Amounts Deferred*, Docket No. P-2020-3022426 (Opinion and Order entered Sept. 15, 2021), pp. 12-13, 30-32, 42, 49-50 (approving deferral of COVID-19–related financial impacts); *Petition of Pa.-American Water Co. for Auth. to Defer Expenses Incurred to Pay New Regulatory Fees Imposed by the Pa. Dep't of Envtl. Prot.*, Docket No. P-2019-3008253 (Opinion and Order entered May 9, 2019), pp. 3-4 (approving deferral of $840,000 of expenses incurred for new annual fees imposed by the PaDEP); *Petition of Pa.-American Water Co. for Auth. to Defer for Accounting and Financial Reporting Purposes Expenses Relating to a Water Customer Class Demand Study*, Docket No. P-2012-2308982 (Opinion and Order entered Aug. 20, 2012) (approving deferral of $463,000 in expenses related to a demand study agreed to in settlement of PAWC's 2011 rate case); *Petition of Columbia Gas of Pa., Inc. for Auth. to Defer, for Accounting Purposes, Certain Costs Associated With A Regulatory Asset Related to Other Post-Retirement Benefits Provided by NiSource Corporate Serv. Co.*, Docket No. P-2011-2275383 (Opinion and Order entered May 24, 2012) (approving deferral of $903,000 expenses related to an accounting change for certain retirement-related management fees paid to an affiliate); *Petition of the Newtown Artesian Water Co. for Permission to Defer and Record Unrecovered Purchased Water Costs*, Docket No. P-2010-221420 (Order entered June 1, 2011) (approving deferral of unrecovered purchased water costs totaling $351,929 related to rate increases implemented by the Bucks County Water and Sewer Authority in between rate cases); *Petition of Citizens Utils. Water Co. of Pa.*, Docket No. P-00930746 (Order entered Feb. 25, 1994) (approving deferral of SFAS 106 costs); *Pa. P.U.C. v. Consumers Pa. Water Co. – Roaring Creek Div.*, Docket No. R-932655 (Order entered Feb. 3, 1994) (same).

actuary are subject to material change based on economic and demographic factors that are outside of the Company's control and thus are within the scope of the PUC's exception to the prohibition against retroactive ratemaking. Notably, as shown by Mr. Swiz's comparative analysis of PAWC's authorized and actual levels of pension and OPEB expenses, from 2012 through 2022 customers would have realized a net *benefit* of approximately $58 million for a pension deferral and $46 million for an OPEB deferral.[119] In short, deferred accounting authorization is a fair way to ensure customers and PAWC only bear *actual* costs incurred for pension and OPEB expenses.[120]

In addition, PAWC's proposed deferral mechanism will not remove incentives for PAWC to control pension and OPEB costs or "guarantee" recovery of those expense items, as witnesses for OCA and PAWLUG suggest.[121] All deferred amounts will be subject to review in the Company's next rate case, and all parties will have an opportunity to review the pension and OPEB expense incurred by PAWC to ensure that those costs have been prudently incurred.[122]

I&E witness Okum recommends using a three-year historic average of actual pension and OPEB costs to establish the allowance for ratemaking purposes, asserting that such approach will account for normal fluctuations in those costs between rate cases.[123] As Mr. Swiz explained, however, the use of historic information does not inform how future pension and OPEB costs will be recorded, because economic and demographic variables change each year, which makes each annual actuary report unique and independent of prior year projections. In fact, a rate allowance calculated using a three-year historic average, as Ms. Okum proposes, rather than

[119] PAWC Sts. 8, pp. 15-17 & 8-R, pp. 4-5; PAWC Ex. JCS-1R; Tr. 2004-06.
[120] PAWC Sts. 8, pp. 11-12 & 8-R, pp. 4-5.
[121] OCA Sts. 2, pp. 75-79 & 2-SR, p. 51; PAWLUG Sts. 1, pp. 17-20 & 1S, p. 13.
[122] PAWC St. 8-R, p. 5.
[123] I&E St. 1, p. 23 & 1-SR, pp. 20-24.

actuarial forecasts would result in *larger* variances between the annual amount of pension and OPEB expenses reflected in base rates and the actual level of expenses PAWC incurs.[124]

Finally, Mr. Smith contends that the PUC should not allow PAWC to defer pension and OPEB costs because such deferral is not "bounded" by an "earnings test."[125] The Commission has not imposed an "earnings test" for any form of deferral in the past, although it had the opportunity to do so. Moreover, when expenses are deferred, they are removed from the income statement and, as a result, net income is higher than it would be if the expenses were actually flowed through to the income statement. A deferral would not, therefore, conceal earnings above the authorized rate of return while PAWC is deferring pension and OPEB expenses as Mr. Smith contends.[126] For all these reasons, the PUC should afford deferred accounting treatment to PAWC for pension and OPEB expenses.

Q. Production Expense (and Request for Deferred Regulatory Accounting Treatment)

No party disagrees with PAWC's claimed annual level of production expense under proposed rates ($59,989,147), including purchased water and wastewater treatment, chemicals, fuel and power, and waste disposal.[127] I&E, the OCA, the OSBA and PAWLUG take issue with the Company's proposed deferral mechanism for production expenses for the same reasons as the PAWC's request for deferred accounting treatment for pension and OPEB costs discussed in the prior section of this Brief.

The Company's production expenses can materially increase or decrease based on volatility in the prices charged by suppliers due to market conditions that are outside the control

[124] PAWC St. 8-R, pp. 6-8; Tr. 2004-06.
[125] OCA St. 2-SR, p. 52.
[126] Tr. 2002-04.
[127] PAWC St. 5, pp. 19-22; PAWC Ex. 3-A, pp. 54-57, 118-120, 238-240; PAWC Ex. 3-B, pp. 165-260.

of PAWC and its suppliers.[128] For example, the chemical market was extremely volatile in 2022 and 2023 compared to historical levels, driven by many factors such as impacts from the COVID-19 pandemic, the conflict in Ukraine, and inflationary growth in commodity prices.[129] Likewise, energy market prices are higher than they have been in many years, and as a result, PAWC's electric generation suppliers have increased contract rates for power supply and are less willing to lock in prices for 12-month terms.[130] PAWC's proposed accounting deferral for production expenses would protect both the Company and customers against this volatility.

Moreover, as Mr. Swiz pointed out, energy utilities in Pennsylvania (and numerous other states) are afforded the opportunity to adjust rates for variations in gas commodity or electric fuel and transmission costs between rate cases.[131] Such automatic adjustment clauses are explicitly authorized in Pennsylvania by Section 1307 of the Code. Although no specific statute applies to PAWC's production cost recovery, the same ratemaking principles that justify those Section 1307 mechanisms apply to PAWC's recovery of production costs. For all these reasons, the PUC should afford deferred accounting treatment to PAWC for production expenses.

VII. TAXES[132]

PAWC's claims for Federal and State income taxes are described by Company witness Melissa Ciullo in PAWC St. 7. No party disputes the manner in which PAWC calculated its federal and state income taxes.

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[128] PAWC St. 8, pp. 17-21.
[129] *Id.*, pp. 18-19.
[130] *Id.*
[131] PAWC Sts. 8, pp. 18-19 & 8-R, pp. 5-6.
[132] The only contested issue raised relating to taxes other than income taxes pertains to payroll taxes, which is addressed in Section VI.G. above.

VIII. RATE OF RETURN

A. Summary

As a public utility whose facilities and assets have been dedicated to public service, PAWC is entitled to an opportunity to earn a reasonable rate of return on its investment. The legal standards used by the Commission in determining what return rate is reasonable are well-established, having been set forth by the United States Supreme Court more than 100 years ago:

> Rates which are not sufficient to yield a reasonable return on the value of the property used at the time it is being used to render the service are unjust, unreasonable and confiscatory, and their enforcement deprives the public utility of its property in violation of the Fourteenth Amendment.[133]

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.[134] These principles are applied by the PUC[135] and have been adopted by Pennsylvania appellate courts in numerous cases.[136]

The return allowed to investors must also be commensurate with the risk assumed, as the Supreme Court has stated in three landmark opinions. *Bluefield, supra*, requires that the rate of return reflect:

> . . . a return on the value of the [utility's] property which it employs for the convenience of the public equal to that generally being made at the same time on investments in other business undertakings which are attended by corresponding risks and uncertainties. . . .[137]

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[133] *Bluefield Waterworks and Imp. Co. v. P.S.C. of West Virginia*, 262 U.S. 679, 690 (1923) ("*Bluefield*").
[134] *Id.*, p. 693.
[135] *See, e.g., Aqua 2022*, p. 6.
[136] *See, e.g., Lower Paxton Twp. v. Pa. P.U.C.*, 317 A.2d 917 (Pa. Commw. Ct. 1974).
[137] *Bluefield* at 692.

Twenty-one years later, the Supreme Court reiterated that standard in *Federal Power Commission v. Hope Natural Gas Co.*, as follows:

> From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on 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.[138]

Later, in reaffirming *Hope*, the Supreme Court, in *Duquesne Light Co. v. Barasch*, 488 U.S. 299, 313-14 (1989) observed that "[o]ne of the elements always relevant to setting the rate under *Hope* is the return investors expect given the risk of the enterprise."

Determining a reasonable rate of return requires reviewing many factors, including: (1) the earnings necessary to assure confidence in the financial integrity of the company and maintain its credit standing; (2) the need to pay dividends and interest; and (3) the amount of the investment, the size and nature of the utility, its business and financial risks, and the circumstances attending its origin, development and operation.[139]

In support of its proposed increase, the Company presented the expert testimony of Ms. Bulkley, a Principal in The Brattle Group. She has previously appeared before the PUC on behalf of the Company and testified on ROE issues before more than thirty public utility commissions across the United States.[140] In her testimony, Ms. Bulkley analyzed current and prospective capital market conditions, including the very high recent levels of inflation and

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[138] *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) ("*Hope*").
[139] *Pa. P.U.C. v. Pennsylvania Gas and Water Co. - Water Div.*, 341 A.2d 239 (Pa. Commw. Ct. 1975); *Lower Paxton Twp., supra*.
[140] *See* PAWC St. 13, App. A.

interest rates that are expected to remain relatively high.[141] Such conditions increase the cost of the returns required by investors, and thus the cost of capital to PAWC and other utilities.[142] After noting that the Commission has recently used both the DCF and CAPM models because the DCF can understate the cost of equity in times of high inflation and interest rates,[143] Ms. Bulkley applied the ROE models accepted by the Commission using a proxy group of comparable utilities. Based on the results of those models, and after accounting for current capital market conditions and the Company's business, regulatory and financial risk as well as PAWC's superior management performance, Ms. Bulkley recommends an ROE of 10.95%.[144]

Ms. Bulkley also analyzed the alternative ROE proposals of other parties in these proceedings and explained the flaws and unreasonableness of each of those proposals.

- **I&E witness Patel** proposes an ROE of 8.45%, below any return authorized for a water utility in the United States since at least 2010 as well as the Commission's decision in *Aqua 2022* (10% ROE) and in *Columbia Water 2024* (9.75% ROE) just three months ago. In reaching this unreasonable result, Mr. Patel relies exclusively on his DCF analysis because he "respectfully disagree[d]" with the Commission's recent consideration of the CAPM model and also utilized a proxy group of only five water utilities – one of which being American Water, PAWC's parent, which inevitably results in a circular analysis since PAWC contributes nearly a quarter of American Water's revenue. Even retaining his small water utility proxy group, conservatively weighing his DCF with reasonable adjustments and his CAPM analysis 50/50 results in an ROE of 10.02%, or 10.53% with a proper proxy group.

- **OCA witness David Garrett** proposes an ROE of 9.1% (assuming his recommended hypothetical capital structure) or 8.7% (assuming the Company's proposed capital structure), well below the Commission's recent authorized ROEs for other water utilities. Recalculating Mr. Garrett's CAPM result with just one change – using I&E witness Patel's market risk premium instead of Mr. Garrett's calculation – and then averaging that CAPM result (10.60%) with Mr. Garrett's uncorrected DCF result (9.4%) in the same manner as Mr. Garrett averaged his results – leads to an ROE calculation of 10.00%.

[141] PAWC St. 13, pp. 13-23.
[142] *Id.*, p. 15.
[143] *Id.*, pp. 36-37.
[144] *Id.*, pp. 5-8.

- In calculating a proposed revenue requirement, **OSBA witness Higgins** uses a "proxy" ROE of 9.65%, equal to Commission's most recently approved ROE for the DSIC for water companies but acknowledges that his proposal was not intended to supplant the Commission's consideration of traditional cost of equity analyses. As Ms. Bulkley noted, the Commission has already made clear that the ROE for DSIC purposes is not equivalent to an ROE in a base rate proceeding.

- **PAWLUG witness LaConte** suggests that the Commission should approve an ROE at the "lower end of the Commission's deemed range of reasonableness," referencing the Commission's recent decisions in *Aqua 2022* and *Columbia Water 2024* and the latest DSIC ROE determination as well as the Company's proposed alternative ratemaking and deferral mechanisms. However, Ms. LaConte did not undertake any actual cost of equity analysis to support her recommendation.

Notably, unlike the other witnesses, Ms. Bulkley updated her analysis during the rebuttal stage of this proceeding with market data through January 31, 2024, and further testified at hearings regarding the March 5, 2024 statements of Federal Reserve Chairman Powell, who told Congress that progress towards the Federal Reserve's inflation goals was not assured and that interest rates would not be cut until the Federal Reserve was "confident."[145] The economy continues to demonstrate unexpected strength, with inflation expected to be above the Federal Reserve's 2% goal until 2026, well after rates are set in this proceeding.[146]

In the remainder of this section, the Company reviews the flaws in the parties' alternative ROE recommendations, including their proposed proxy groups and capital structures. Because those alternative recommendations are plainly unreasonable and inconsistent with PUC precedent, the Commission should adopt the ROE supported by Ms. Bulkley.

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[145] PAWC St. 13-RJ, p. 1.
[146] PAWC St. 13-R, p. 13.

B. Proxy Group

As the Commission has explained, "a proxy group is a group of companies that act as a benchmark for determining a utility's cost of equity."[147] Rate of return analyses incorporate a proxy group because:

> A proxy group is generally preferred over the use of data from any one company because it has the effect of smoothing out potential anomalies associated with a similar company and, therefore, is a more reliable measure. A proxy group also satisfies the long-established principle of utility regulation that seeks to provide the utility with the opportunity to earn a return equal to that of enterprises of similar risk.[148]

In selecting her proxy group, Ms. Bulkley applied specific criteria to a group of U.S. utilities to identify utilities that have similar risk.[149] Due to on-going consolidation in the water utility industry, the Value Line research service commonly relied upon by investors identifies only seven companies in the United States as water utilities, and Ms. Bulkley's screening criteria (such as requiring that a utility not be involved in any merger proceedings) further reduced that group of water utilities to only four.[150] Because a small proxy group can lead to one company having an outsized effect on any proxy group calculation, Ms. Bulkley included several electric and gas utilities with water operations in her proxy group, as shown below:

Company	Ticker
American States Water Company	AWR
Atmos Energy Corporation	ATO
California Water Service Group	CWT
Essential Utilities, Inc.	WTRG
Eversource Energy	ES
Middlesex Water Company	MSEX
NiSource Inc.	NI
Northwest Natural Gas Company	NWN
ONE Gas, Inc.	OGS

[147] *Columbia Water 2024*, p. 69.
[148] *Id.*
[149] PAWC St. 13, p. 25.
[150] *Id.*, p. 27.

SJW Group	SJW
Spire, Inc.	SR

Other states (including Florida, Illinois, and Massachusetts) include electric and gas utilities in proxy groups in water utility rate proceedings due to the small number of suitable water utilities.[151] The similar nature of electric and natural gas utilities is well understood by other public utility commissions as well as industry leaders,[152] and Ms. Bulkley applied screening criteria to select electric and gas utilities with comparable risks to PAWC.[153]

OCA witness Garrett used the same water utilities selected by Ms. Bulkley.[154] While he did not believe it was necessary to include non-water utilities in his proxy group, he concluded that the results of his analyses were not materially different with the inclusion of electric and gas utilities.[155] In contrast, I&E witness Patel relied upon a proxy group that included the Company's parent company, American Water, and excluded Essential Utilities, which both Ms. Bulkley and Mr. Garrett included in their proxy groups.[156]

Mr. Patel's decision to include American Water and exclude Essential Utilities compounds the flaws of his already-diminished proxy group. PAWC is responsible for approximately 23.4% of American Water's revenue, so Mr. Patel is effectively using American Water to determine its own ROE. Notably, despite Ms. Bulkley highlighting the risk of such circularity in her rebuttal testimony,[157] Mr. Patel remained entirely unaware of PAWC's publicly

[151] PAWC St. 13-R, p. 23 (citing Massachusetts Department of Public Utilities, Docket No. 17-90, *Petition of Aquarion Water Company of Massachusetts, Inc., pursuant to G.L. c. 164, § 94, and G.L. c. 165, § 2, for Approval of a General Rate Increase as set forth in M.D.P.U. No. 3.*, Oct. 31, 2018, pp. 286-87; Docket No. 20180006-WS, *In re. Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*, Order No. PSC-2018-0327-PAA-WS, at 7. Illinois Commerce Commission, *Illinois-Am. Water Co. Proposed Rate Increases for Water and Sewer Service,* Docket No. 22-0210, Order, Dec. 15, 2022, at 102).
[152] PAWC St. 13-R, pp. 23-24.
[153] PAWC St. 13, pp. 15-16.
[154] OCA St. 3, p. 10.
[155] *Id.*, p. 19. The flaws in Mr. Garrett's cost of equity analyses are addressed in Section VIII.E.
[156] I&E St. 2, p. 10.
[157] PAWC St. 13-R, pp. 19-20.

known contribution to American Water's revenue.[158] And Mr. Patel's justification for reducing his proxy group still further by excluding Essential Utilities – namely, his reliance on the fact Essential Utilities' revenue from water operations in 2022 was only 47.33% and not 50% – ignored the fact that 2022 was an anomalous year due to high gas prices, and Essential Utilities' operating revenue from water operations has historically been above 50%.[159] Inclusion of Essential Utilities in a proxy group for evaluation of PAWC is thus entirely proper.

Mr. Patel's objection to the inclusion of electric and natural gas utilities was similarly misplaced. While Mr. Patel asserts that water companies have materially different operating characteristics, he acknowledged that water utilities have many of the same characteristics as other utilities.[160] He further conceded that electric and natural gas utilities did not have greater or lesser risks than water utilities, but only different risks.[161]

As discussed below in Section VIII.D., Mr. Patel's small proxy group led directly to his flawed DCF result because of the inclusion of the low results of just one company. In light of both the size and the flawed composition of Mr. Patel's proxy group, the Commission should rely upon the proxy group determined by Ms. Bulkley.

C. Capital Structure

In determining the overall rate of return, the Commission considers the percentages of long-term debt, preferred stock and common equity in the Company's capital structure and the capital cost rate of each component. In developing her recommended reasonable rate of return, Ms. Bulkley employed the Company's anticipated year-end capital structure ratios for the

[158] Tr. 2129.
[159] PAWC St. 13-R, pp. 20-22.
[160] Tr. 2131-33 (acknowledging that water utilities are franchised distribution utilities, with rates set by public utility commission based upon cost of service, with risks varying between states).
[161] Tr. 2142.

FPFTY, as these ratios are indicative of those PAWC will maintain to finance its claimed rate base during the period it proposed that its new rates would be in effect.[162]

PAWC witness Bulkley calculated the capital structure of PAWC and both its water and wastewater services. She calculated the total-Company capital structure first, using all debt issuances and all sources of capital. Because certain debt issues were specifically attributable to wastewater, she calculated the capital structure for water service by removing the wastewater specific debt and recalculating the ratios of the remaining capital stock. The wastewater specific capital structure was then calculated by applying the total company debt ratio to the wastewater rate base, excluding the wastewater-specific debt issuances.[163] The resulting capital structures are shown in the following table:[164]

Total Company	
Common Equity	55.30%
Preferred Stock	0.00%
Long-Term Debt	44.70%
Water Services	
Common Equity	55.99%
Preferred Stock	0.00%
Long-Term Debt	44.01%
Wastewater Services	
Common Equity	52.87%
Preferred Stock	0.00%
Long-Term Debt	42.73%
WW Specific Debt	4.40%

I&E witness Patel recommends using PAWC's capital structure presented by Ms. Bulkley. OCA witness Garrett, however, contends that PAWC's capital structure has a debt ratio that is "too low" in comparison to non-water utilities (e.g., telecommunications companies), PAWC's parent American Water, and Mr. Garrett's proxy group of water utilities.[165]

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[162] PAWC St. 13, p. 60.
[163] *Id.*, pp. 59-61.
[164] *Id.*, p. 61.
[165] OCA St. 3, p. 57.

The Commission has made clear that a utility's actual capital structure is to be used in rate of return analysis unless that capital structure is atypical, and has rejected the use of a "hypothetical" capital structure.[166] PAWC's proposed capital structure recognizes the composition of the financing that PAWC is currently using to fund its investments and obligations, and Ms. Bulkley's testimony established that this capital structure was well within the range of equity ratios of her proxy group of utilities.[167]

Ms. Bulkley also explained that Mr. Garrett's approach was flawed in multiple ways. In particular, he relied upon the common equity ratio at the holding company level of the companies he considered, which includes corporate-level debt that is not part of the capital structure of the holding company's utility operating subsidiaries. As Ms. Bulkley testified, "[s]imply because the parent companies in the proxy group are used to estimate the Company's cost of equity does not mean that the *holding company* capital structures are the relevant comparators for establishing the Company's authorized capital structure"; it is the utility operating subsidiaries that are more comparable to PAWC in terms of risk.[168]

Moreover, Mr. Garrett is using the market value of equity for calculating the cost of equity while using the book value of debt and equity to assess the Company's proposed equity ratio, leading to the incorrect conclusion that the market value of equity reflects investors' return requirements associated with a capital structure based on the book value of debt and equity.[169] And his reliance on the Hamada model to attempt to justify a reduction to the Company's cost of equity is similarly flawed: the Hamada formula requires use of the market value of debt and

[166] *Columbia Water 2024*, p. 84; *PPL 2012*, p. 62.
[167] PAWC St. 13-R, pp. 72-73; *see also* PAWC St. 13, pp. 61-62.
[168] PAWC St. 13-R, p. 73 (emphasis in original). As Ms. Bulkley further explained, the financial information used to calculate the cost of equity is only available at the holding company level, as the utility operating subsidiaries do not have individual stock prices and other reported financial data needed for the various cost of equity models. PAWC St. 13-RJ, p. 10.
[169] PAWC St. 13-RJ, pp. 11-12.

equity, not book value.[170] The Commission should therefore reject Mr. Garrett's hypothetical capital structure and accept the Company's proposed capital structure.

D. Cost of Long-Term Debt

The Company's long-term debt was calculated by Ms. Bulkley, using specific debt identified for wastewater services and calculating the water services capital structure and associated water services long-term debt by removing the wastewater services debt.[171] As discussed in Section VIII.C above, the Company's cost of long-term debt presented by Ms. Bulkley was accepted by I&E witness Patel and should have been accepted by OCA witness Garrett in his consideration of the Company's proposed capital structure.

E. Return on Equity

Given PAWC's capital needs, a ROE that is adequate to attract capital at reasonable terms is essential for PAWC to continue to provide safe, reliable water and wastewater service.[172] Because the cost of common equity does not lend itself to precise mathematical computation, public utility commissions rely on multiple models to calculate the proper cost of equity for the period a utility's new rates will be in effect.[173] The Commission has recognized the need for multiple models, and specifically the need to use the DCF and CAPM in times of inflation and high interest rates.[174]

1. PAWC's Cost of Equity

Consistent with recent Commission decisions, Ms. Bulkley considered the results of both the DCF and the CAPM. The DCF approach is based on the theory that a stock's current price

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[170] PAWC St. 13-R, p. 74.
[171] PAWC St. 13, pp. 59-60.
[172] *Id.*, p. 11.
[173] *Id.*, pp. 31-32; *see also* PAWC Cross Exhibit No. 2 (David C. Parcell, THE COST OF CAPITAL – A PRACTIONER'S GUIDE, p. 89) ("PARCEL") (noting that most commissions use multiple methods).
[174] *Columbia Water 2024*, p. 107 (noting that "the CAPM is more responsive to interest rates" and I&E failure to make a CAPM-based adjustment to its final ROE recommendation).

represents the present value of all expected future cash flows.[175] Because "dollars received in the future are worth less than the dollars received today, the cash flow must be 'discounted' back to the present value at the investor's rate of return."[176] The DCF model used by Ms. Bulkley and other witnesses is known as the Constant Growth DCF model, and relies on various assumptions, including a growth rate for earnings and dividends.[177]

Ms. Bulkley calculated average dividend yields for the proxy group for the 30-, 90-, and 180-day trading days as of October 31, 2023.[178] Since utility dividends generally increase from year to year and are paid quarterly, not continuously, she adjusted her findings to capture one-half of the anticipated dividend growth.[179] Once the dividend yield is calculated, the proper growth rate must be developed. To that end, Ms. Bulkley considered a variety of published long-term growth rates and calculated results using minimum, average, and high growth rates from these sources, leading to a DCF range of 8.69% to 10.96%.[180]

The CAPM is a forward-looking risk premium approach that estimates the cost of equity for a given security as a function of a risk-free return plus a risk premium to compensate investors for the non-diversifiable or "systematic" risk of that security. Systematic risk is the risk inherent in the entire market or market segment—which cannot be diversified away using a portfolio of assets.[181] According to the theory underlying the CAPM, because unsystematic risk can be diversified away, investors should only be concerned with systematic or non-diversifiable

[175] PAWC St. 13, p. 32.
[176] *Columbia Water 2024*, p. 88; PAWC St. 13, pp. 32-33.
[177] PAWC St. 13, p. 33.
[178] *Id.*, p. 33.
[179] *Id.*, p. 34.
[180] *Id.*, p. 36.
[181] *Id.*, p. 39.

risk, which is measured by beta (which reflects a measure of the uncertainty of the general market and the variance between a specific security and the general market).[182]

To estimate the risk-free rate or return, Ms. Bulkley used the current 30-day yield on 30-year Treasury bonds and projected 30-year Treasury bond yields for the fourth quarter of 2023 through the fourth quarter of 2024 and for the period 2025 through 2029.[183] Ms. Bulkley used Beta coefficients for the proxy group companies as reported by Bloomberg and Value Line, which are based on ten years of weekly returns relative to the S&P 500 index (Bloomberg) and five years of weekly returns relative to the New York Stock Exchange Composite Index (Value Line).[184] She estimated the market risk premium based on the expected return on the S&P 500 Index as of October 31, 2023, which she calculated as 12.49% -- a value she concluded was reasonable in light of the fact that the realized equity return in 50 of the past 97 years was at least 12.49% or greater. In addition, Ms. Bulkley considered the results of another form of CAPM (the "Empirical CAPM"). This methodology addresses the tendency of the "traditional" CAPM to underestimate the cost of equity for companies with low Beta coefficients, such as regulated utilities.[185] Ms. Bulkley's analysis indicated a traditional CAPM range of returns from 10.15% to 11.17%, with Empirical CAPM ROEs of 10.73% to 11.50%.[186]

In light of the results of both the DCF and CAPM models, and after considering the business, financial and regulatory risks faced by PAWC and the Company's superior management performance as discussed in Section VIII.F. below, Ms. Bulkley recommends an ROE of 10.95%.[187]

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182 *Id.*, p. 40.
183 *Id.*
184 PAWC St. 13, p. 41.
185 *Id.*, pp. 58-59.
186 *Id.*, 59-60. Ms. Bulkley updated her traditional CAPM and Empirical CAPM analyses in PAWC St. 13-R, p. 19.
187 PAWC St. 13, p. 59.

2. I&E's Position

Relying upon the flawed proxy group discussed in Section VIII.B above, I&E witness Patel recommends an ROE of 8.45% based solely on his DCF calculations, which is below any return authorized for a water utility in the United States since 2010 and well below the returns recently authorized by the Commission for other Pennsylvania water utilities.[188] Although he undertook a CAPM analysis that resulted in an ROE of 10.44%, Mr. Patel discarded his CAPM result, in part because he "respectfully disagree[d]" with the Commission's consideration of inflation and interest rates in the *Columbia Water 2024*. He also concluded that PAWC did not face any specific risks different than his proxy group companies and was not entitled to any increase for management performance.[189]

As a threshold matter, I&E witness Patel appears to have assumed that the Federal Reserve would definitely cut interest rates in 2024 despite the Federal Reserve Chairman Power's continuing emphasis that the Federal Reserve will not cut interest rates until it is "confident" that its 2% inflation objective is assured.[190] While Mr. Patel concedes that "current market conditions are still characterized by high interest rates and capital costs," he contends that it is nevertheless "speculative that current high inflation and interest rate scenarios will continue in the longer term"[191] even with the Federal Reserve's continuing cautionary approach and clear statement that inflation will remain well above its target level until 2026, after rates in this proceeding are in effect.[192]

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[188] I&E St. 2, pp. 31, 35; PAWC St. 13-R, p. 6.
[189] I&E St. 2, pp. 54-69, 71.
[190] I&E St. 2, p. 40; PAWC St. 13-RJ, p. 1.
[191] I&E St. 2-SR, p. 8.
[192] PAWC St. 13-R, p. 13.

In light of the statements of Chairman Powell, any "speculation" is in concluding that the Federal Reserve will make interest rate cuts in the near future, and not the likelihood of continuing high inflation that has driven interest rates to high levels with which the Federal Reserve continues to remain concerned. Further, Ms. Bulkley's analysis takes into consideration projected interest rates, relying on both a near term estimate through the first quarter of 2025 and a long-term estimate for the period from 2025 through 2029.[193] In both cases, the Blue Chip Financial Forecast suggests that the yield on the 30-year Treasury bond will remain similar to the 30-day average yield as of January 31, 2024 that Ms. Bulkley relied upon in her updated CAPM analysis.[194] In short, it is reasonable to expect that if government bond yields remain elevated, the cost of equity will be increasing above the levels experienced in the 2020 and 2021 lower interest rate environment.[195]

In addition, Mr. Patel's analysis relies upon an incorrect reading of the Commission decisions in both *Aqua 2022* and *Columbia Water 2024*. In Mr. Patel's view, the PUC used both DCF and CAPM models because of "various other factors" that the Commission considered in its final determination of an ROE.[196] However, the PUC's decision to rely on both models due to economic conditions is distinct from its discussion of the utility-specific factors used to calculate the ROE of both Aqua and Columbia Water. As the PUC explained in *Aqua 2022*:

> We are persuaded by the arguments of Aqua that the ALJ erred by concluding I&E used its DCF and CAPM results to determine Aqua's ROE. In this regard, we note that although I&E did use its CAPM as a comparison to its DCF result, it made no CAPM based adjustment to its final ROE recommendation. I&E M.B. at 47. As Aqua points out, *infra*, the U.S. economy is currently in a period of high inflation. To help control rising inflation, the Federal Open Market Committee has signaled that it is ending its policies designed to maintain low interest rates. Aqua Exc. at 9. Because the DCF model does not

193 PAWC St. 13, p. 40.
194 PAWC Ex. 13-R, Sch. 3.
195 PAWC St. 13, p. 21.
196 I&E St. 2-SR, pp. 7-8.

> directly account for interest rates, consequently, it is slow to respond to interest rate changes.[197]

And in *Columbia Water 2024*, the Commission also explicitly stated its approach based on market conditions: "Based on the record, we agree with the ALJs that is appropriate to consider the CAPM results to account for economic changes such as those occurring currently, in addition to the DCF results, to determine Columbia's ROE."[198] In this proceeding, Mr. Patel has again repeated I&E's prior error of disregarding CAPM results and appropriately adjusting I&E's ROE recommendation.[199]

With respect to his DCF calculations, Mr. Patel chose to use a spot stock price instead of a 30-day average, which both Ms. Bulkley and OCA witness Garrett used. The small size of his proxy group (discussed in Section VIII.B. above) also resulted in undue weight to a single company, Middlesex Water, which had an unreasonable DCF result of only 5.77%. Simply using a 30-day average, excluding Middlesex Water's results, and incorporating Essential Utilities in Mr. Patel's proxy group yields a revised DCF mean result of 9.21%; using PAWC's more reasonable proxy group results in a DCF of 9.82%.[200]

Mr. Patel's CAPM calculation is similarly flawed. Although the Commission has previously approved the use of a 10-year Treasury rate for calculation of the CAPM, Ms. Bulkley explains that a more appropriate period of time for consideration of long-term utility investments is the life of PAWC's utility plant assets, which average 34.7 years – consistent with her use of a 30-year Treasury rate. Mr. Patel also calculated a market return based on a *Value*

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197 *Aqua 2022*, p. 89.
198 *Columbia Water 2024*, p. 107 (citing *Aqua 2022*).
199 Mr. Patel also appears to believe that his CAPM result should be disregarded because it is 199 basis points above his DCF result. But simply because the CAPM result is above the DCF result provides no additional basis to reject it. Indeed, as Mr. Patel acknowledges (I&E St. 3-SR, pp. 19-20), the difference between the I&E DCF and CAPM results in *Columbia Water 2024* was greater than here (325 basis points compared to 199 basis points), and the Commission relied on the CAPM in determining the ROE for *Columbia Water 2024*.
200 PAWC St. 13-R, p. 30-31.

Line report for a single week, which was indisputably well below the historical average.[201] But even granting Mr. Patel the use of the 10-year Treasury bond, simply including Essential Utilities in his proxy group for reasons discussed previously increases his CAPM result to 10.71%.

In sum, conservatively weighing Mr. Patel's DCF and his CAPM analysis 50/50 after reasonable adjustments – which is less weight on the CAPM analysis than the Commission placed in both *Aqua 2022* and *Columbia Water 2024* – results in an ROE of 10.02%, or 10.53% with a proper proxy group, before the addition of any enhancement for superior management performance.[202]

3. OCA's Position

Unlike Mr. Patel, OCA witness Garrett does rely on both the DCF and CAPM models in estimating a cost of equity for PAWC. As with Mr. Patel, however, Mr. Garrett's calculations and criticisms of Ms. Bulkley's results are misplaced.[203]

In his DCF calculation, Mr. Garrett used the same Constant Growth DCF model as Ms. Bulkley, with both a sustainable growth rate and growth rates from various analysts. He calculated his DCF results based on analysts' growth rates using both his proxy group and Ms. Bulkley's proxy group, which were 9.4% and 9.3%, respectively.[204] While he properly emphasized that it was important to consider CAPM results and not simply rely upon the DCF results, he nevertheless criticized Ms. Bulkley's DCF results because he believed they were calculated with short-term analyst growth rates that were too high.[205] As Ms. Bulkley explained,

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[201] *Id.*, p. 47.
[202] *Id.*, p. 50.
[203] Mr. Garrett uses a small water utility-only proxy group but also uses the same proxy group as Ms. Bulkley and concludes that the differences are not significant. For reasons already discussed in Section VIII.2, a small proxy group gives improper weight to individual companies, and the larger proxy group – with electric and natural gas utilities with similar characteristics as PAWC – is more appropriate. PAWC St. 13-R, p. 53-54.
[204] OCA St. 3, p. 28.
[205] *Id.*, pp. 29-30.

however, Mr. Garrett used growth rates that were *higher* than Ms. Bulkley's growth rate.[206] Mr. Garrett's response was only to acknowledge that the lower end of Ms. Bulkley's DCF range was acceptable but other results were too high – despite his use of the exact same methodology.[207]

In light of his DCF results, Mr. Garrett focused on his CAPM model, and calculated a ROE of 8.8% – well below Ms. Bulkley's range of 10.15% to 11.17%, as well as I&E witness Patel's calculation of 10.44%.[208] The primary issue between Ms. Bulkley's model results and Mr. Garrett's calculations involved the market risk premium. As Ms. Bulkley explained, Mr. Garrett's market risk premium of 5.30% was understated in light of a well-established inverse relationship between interest rates and the market risk premium, and he improperly relied on a business school survey.[209] Mr. Garrett contends that Ms. Bulkley's market risk premium range of 8.03% to 8.12% was inconsistent with not only the business school survey but also other sources.[210] However, Ms. Bulkley's testimony at hearings established that her market return was consistent with the range of annual equity returns that have been observed from 1926 to 2022. She also described the review of 29 different market risk premium methodologies by the Federal Reserve Bank of New York which underscored that the market risk premium tends to peak during periods of high inflation and demonstrated that her estimates were reasonable and in line with independent sources.[211] As noted above, if Mr. Garrett's CAPM analysis were performed with I&E witness Patel's market risk premium and that CAPM result (10.60%) was averaged with Mr. Garrett's uncorrected DCF result (9.4%) in the same manner as Mr. Garrett did himself, his ROE calculation in this proceeding would be 10.00%.[212]

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[206] PAWC St. 13-R, pp. 57-58.
[207] OCA St. 3-R, pp. 2-3; PAWC Sts. 13-R, pp. 54-55 & 3-RJ, pp. 7-8.
[208] OCA St. 3, p. 43; PAWC St. 13, pp. 59-60; I&E St. 2, p. 34.
[209] PAWC St. 13-R, pp. 56-57.
[210] OCA St. 3-R, p. 4-6.
[211] PAWC St. 13-RJ, pp. 10-11.
[212] PAWC St. 13-R, pp. 60-61.

4. OSBA's Position

OSBA witness Mr. Higgins utilizes a "proxy" ROE of the Commission's most recently approved DSIC ROE of 9.65% for water and wastewater utilities. Mr. Higgins explicitly states that his use of the DSIC is not based on any cost of equity analysis he performed and is not intended to supplant the Commission's consideration of the traditional cost of equity analyses; instead, it is "useful as it provides context for the OSBA's overall revenue requirement recommendation in this case."[213]

The Commission has already made clear that the DSIC ROE is no substitute for a proper cost of equity analysis.[214] As Mr. Higgins himself states that his "proxy" ROE is not intended to be relied upon by the PUC, the Commission should disregard Mr. Higgins' 9.65% proxy in its consideration of the proper ROE for the Company.

5. PAWLUG's Position

PAWLUG witness LaConte also does not provide any cost of equity analysis upon which the Commission can rely. Instead, she simply contends that Ms. Bulkley's recommended 10.95% is "overstated" because it exceeds the DSIC ROE, the national average ROE for water utilities of 9.45%, and the ROE of 10% approved by the Commission in *Aqua 2022*, and purportedly does not recognize any possible reduced financial risk associated with the Company's and alternative ratemaking and cost deferral proposals in this proceeding.

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[213] OSBA St. 1, pp. 17-18.

[214] "[W]e note the DSIC ROE is unlike a ROE set in a base rate proceeding. The DSIC ROE is determined by the Commission on a quarterly basis and is set per industry. As such, it is not company specific." *Aqua 2022*, p. 177.

F. Business Risks and Management Performance

As described above, the determination of an appropriate ROE requires consideration of many factors. In this proceeding, Ms. Bulkley highlighted several crucial factors for consideration by the Commission:

- **Risk Associated with Capital Expenditure Program**. PAWC's projected $1 billion in capital investments through June 30, 2025, puts additional pressure on cash flows, and therefore credit ratings. Moreover, in light of the Company's plan to invest $3.28 billion in infrastructure improvements over the next few years, the Company will necessarily need to seek financing beyond any internally generated cash flow.[215]

- **Risks Associated with Environmental and Water Quality Regulations**. PAWC faces extensive environmental and regulatory risks as a water and wastewater utility that include expanded regulatory scrutiny and changes in a wide variety of federal and state regulations. These factors, plus the continuing need to rehabilitate, replace, and enhance aging infrastructure, add to risk factors PAWC faces to meet its statutory obligation to furnish safe, adequate, and reliable water service.[216]

- **Flotation Costs**. Flotation costs are associated with the sale of new issues of common stock. To the extent that a utility is denied the opportunity to recover prudently incurred flotation costs, actual returns will fall short of expected (or required) returns, thereby diluting equity share value. Flotation costs are not current expenses but are part of the invested costs of the utility and are not otherwise recovered.[217]

As Ms. Bulkley explained, these risks should be viewed in comparison to the proxy group companies, and the Company's alternative ratemaking proposals – the RDM and the ECIC – will not reduce PAWC's risk in comparison to those companies.[218]

PAWC also presented substantial evidence demonstrating that, in the face of the many risks and challenges, it exhibited excellent management performance in a variety of areas critically important to providing safe and reliable service, including the Company's (1) industry-leading programs to assist low-income and payment-troubled customers; (2) environmental

[215] PAWC St. 13, pp. 49-52.
[216] *Id.*, pp. 53-56.
[217] *Id.*, pp. 46-48.
[218] PAWC St. 13-R, pp. 77-82; PAWC St. 13-RJ, pp. 13-15.

record and commitment to water quality; (3) strong safety performance; (4) commitment to operational and water efficiency for the benefit of customers; (5) significant infrastructure investment; (6) community engagement and consumer education initiatives; (7) efforts to support the PUC's and PADEP's long-standing policy to eliminate the problems of small, troubled and nonviable water and wastewater systems by acquiring those systems and making the improvements needed to achieve and continue to provide safe and reliable service; and (8) efforts to extend service to meet the needs of customers without access to safe and reliable water service.[219] Ms. Bulkley determined that PAWC's superior management performance should be appropriately recognized by the Commission pursuant to Section 523 of the Code by granting an ROE at the upper end of the range of 10.00% to 11.25% she recommended.[220] If the Commission were to authorize an ROE less than 10.95%, Ms. Bulkley recommends that it add a management performance adjustment of no less than the 25-basis points proposed by Ms. Everette.[221]

In contrast to Ms. Bulkley's consideration of PAWC's operational risks and management performance, several witnesses either contend that the Company should not receive any management performance recognition for providing utility service in accordance with the Code or allege that PAWC's performance was inadequate and therefore not deserving of any recognition. The Company's witnesses refuted these claims, including PAWC's President, who detailed the many ways in which PAWC had provided superior service.[222] The Commission should therefore include an enhancement for superior management performance in its determination of the ROE for the Company.

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[219] PAWC St. 1, pp. 31-46.
[220] PAWC St. 13, p. 75.
[221] PAWC St. 1, p. 33.
[222] PAWC St. 16; *see also* PAWC St. 1-R, pp. 6-20.

IX. RATE STRUCTURE AND RATE DESIGN

Every rate proceeding consists of two parts. First, the overall revenues to which a utility is entitled must be determined. The second part of the process must determine how much of the total revenue requirement each rate class should bear. The allocation of revenue responsibility can be one of the more contentious parts of a rate proceeding because it is a "zero sum" exercise among the non-utility parties – any revenue responsibility not borne by a particular rate class must be borne by one or more other rate classes. While cost of service studies are the touchstone for reasonable allocations of revenue responsibility among rate classes,[223] the Commission has often stated that cost of service and revenue allocation analyses must reflect the exercise of judgment and are as much a matter of art as of science.[224] For that reason, Pennsylvania appellate courts have repeatedly held that the Commission, in crafting a reasonable rate structure, is "invested with a flexible limit of judgment" and may establish just, reasonable and non-discriminatory rates within a "range of reasonableness."[225]

A. Cost of Service Studies

PAWC submitted five separate cost-of-service studies ("COSSs"), one for its water operations and four for its wastewater operations.[226] Schedule A of PAWC Exhibits 12-A Revised to 12-E Revised summarizes the results of the applicable COSS.[227]

1. Water Operations

Ms. Heppenstall of Gannett Fleming prepared PAWC's COSS for PAWC's water operations ("Water COSS") using the base-extra capacity method for allocating costs to

[223] *See Lloyd v. Pa. P.U.C.*, 904 A.2d 1010 (Pa. Commw. Ct. 2006).
[224] *See Pa. P.U.C. v. Philadelphia Suburban Water Co.*, 75 Pa. P.U.C. 391, 440 (1991).
[225] *U.S. Steel Corp. v. Pa. P.U.C.*, 390 A.2d 865, 872 (Pa. Commw. Ct. 1978).
[226] PAWC St. 12, pp. 3-5.
[227] While PAWC submitted a COSS for the Brentwood wastewater system in its initial filing and rebuttal case, as previously explained, PAWC agreed to remove the Brentwood acquisition from this case at the hearing.

customer classifications.[228] This method is described in the American Water Works Association's Water Rates Manual ("AWWA Manual") and has been accepted by the PUC as the appropriate methodology for determining class costs of service.[229]

OCA witness Jerome D. Mierzwa and OSBA witness Higgins agree with PAWC's use of the base-extra capacity method for allocating costs to customer classifications. However, they contend that the system-wide demand factors used in the Water COSS to functionalize costs between facilities used to meet average day demand and, respectively, maximum day and maximum hour demand are not appropriate, purportedly because they are out of date.[230] Based on that criticism, Mr. Mierzwa developed a revised COSS employing different extra capacity factors.[231] The effect of using those revised extra capacity factors is to shift costs from the class with higher maximum day and maximum hour demand (the residential class) to other classes with lower demand ratios, principally the industrial class.[232]

PAWC's proposed system-wide maximum day demand factor (1.4) reflects the maximum daily send-out of the Company since its formation in 1987. As Ms. Heppenstall testified, the Company's actual maximum day send out was 1.4 times average day send out in each of the years 1988, 1995, 1996, 1999 and 2003 and PAWC experienced system-wide maximum day factors close to that value in other years since 1987.[233] Additionally, the water usage on the maximum day of 2021 in several areas within PAWC's overall water operations was more than 1.4 times the average usage for that year.[234] Mr. Mierzwa and Mr. Higgins reject the use of these

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[228] *Id.*, pp. 6-16; PAWC Ex. 12-A Revised (Water Operations).
[229] PAWC St. 12, pp. 6-7. The base-extra capacity method is described on pages 3-4 of PAWC Exhibit 12-A Revised.
[230] OCA Sts. 4, pp. 15-19, & 4-SR, pp. 2-7. In rebuttal testimony, Mr. Higgins supported Mr. Mierzwa's maximum day factor. OSBA St. 1-R, pp. 8-13.
[231] OCA Ex. JDM-2.
[232] *See* OCA St. 4, p. 18.
[233] PAWC St. 12-R, p. 5; *see also* PAWC Ex. 12-A Revised, Sch. E, p. 5.
[234] PAWC Exs. CEH-2R & CEH-1SR.

experienced system-wide maximum day factors and, instead, recommend truncating the data set to include data for only the last 12 years. On that basis, they propose using a maximum day factor of 1.2, which was experienced in 2012 and is the highest maximum day factor within that limited 12-year window.[235]

Mr. Mierzwa's and Mr. Higgins's alternative system-wide maximum day factor is flawed and should not be considered. They ignore the fact that PAWC must be prepared to meet customers' peak demands whenever they occur because the system cannot be expanded (or contracted) to meet only those demands that appear within a limited historical study period, such as the 12-year look-back that Mr. Mierzwa and Mr. Higgins have arbitrarily selected.[236] As Ms. Heppenstall further explained, if the system-wide maximum day demand factor of 1.2 proposed by Mr. Mierzwa and Mr. Higgins were used to calculate the diversity factor for PAWC, it would yield a diversity factor well outside the range of reasonableness identified by the AWWA Manual.[237] In contrast, the 1.4 system-wide maximum day demand factor PAWC employed in the Water COSS produces a diversity factor that is reasonable based on the range recommended in the AWWA Manual.[238]

The PUC should also reject the OCA's and the OSBA's proposal to use a maximum hour demand factor of 1.5 and 1.8, respectively in lieu of the 2.1 factor Ms. Heppenstall employed in the Water COSS based on a detailed analysis of PAWC's actual maximum hour send out. Mr. Mierzwa and Mr. Higgins reject the results of the PAWC-specific analysis that has been accepted in many prior cases, simply because, in their estimation, the analysis was conducted too

[235] OCA St. 4, pp. 15-16; OSBA St. 1-R, pp. 10-11.
[236] PAWC Sts. 12-R, pp. 5-6 & 12-SR, pp. 2-3.
[237] PAWC St. 12-R, pp. 6-8.
[238] *Id.*

long ago.[239] However, they did not conduct their own analysis of maximum hour send out. Instead, Mr. Mierzwa proposes a maximum hour ratio derived from demand data for The York Water Company and Mr. Higgins proposes a maximum hour factor derived from his recommended adjustment to the maximum day factor.[240]

The OCA's proposal for a large, multi-year study of PAWC's system-wide maximum hour demands prior to its next rate case is unwarranted. Mr. Mierzwa has not even alleged, let alone provided any basis to contend, that the results of the Company's 1988 study of actual maximum hour send-outs from water storage tanks are inaccurate. Moreover, in performing such an analysis, the Company faces challenges in accurately measuring maximum hour demand in districts with multiple groundwater sources due to a number of factors, such as missing SCADA connections, tank filling, and metering issues.[241]

OCA witness Mierzwa also contends that interruptible industrial usage should be included in the extra capacity allocations because those customers have not been regularly interrupted during periods of peak demand.[242] As Ms. Heppenstall testified, however, these customers need to be prepared for a curtailment in water service even if their usage is not curtailed historically.[243] Moreover, PAWC's water COSSs have excluded industrial curtailment usage since at least the Company's 2007 rate case at Docket No. R-00072229, which has long been accepted by the Commission and other parties.[244]

PAWLUG witness LaConte expresses concern that the demand study statistics used in the Water COSS, which include the maximum day and maximum hour demand factors for each

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[239] OCA Sts. 4, p. 16-17 & 4-SR, pp. 7-8.
[240] PAWC Sts. 12-R, p. 8 & 12-SR, p. 3.
[241] PAWC St. 12-R, p. 10.
[242] OCA Sts. 4, p. 14 & 4-SR, pp. 9-10.
[243] PAWC St. 12-R, p. 10.
[244] *Id.*

customer class, are outdated and do not account for changes in consumption patterns.[245] Ms. LaConte fails to recognize that if the residential class is using a greater share of the overall sale of water, this will be reflected in the COSS since usage factors are based on annual pro forma billed usage.[246] She also recommends that the Company use the actual maximum hour demand ratio from the results of PAWC's demand study that was conducted over the period 2013 to 2015 (the "Demand Study").[247] Ms. LaConte's alternative COSS using the revised ratio increases the costs of service allocated to the residential class by $7.6 million and decreases the increase to other classes by between 0.7% and 6%.[248]

Ms. LaConte points to the fact that the Company used a maximum hour demand ratio of 5.0 when the Demand Study shows a ratio of 6.0. As Ms. Heppenstall explained, the 6.0 demand ratio occurred in 2015 when the hourly data for North Strabane, a larger monitoring area, was not available, and the peak usage for Shire Oaks was on February 22, 2015, rather than a summer day.[249] As a result, PAWC appropriately chose to use a max hour demand ratio of 5.0.

2. Wastewater Operations

For PAWC's SSS operations, Ms. Heppenstall's COSSs were prepared using the functional cost allocation methodology described in "Financing and Charges for Wastewater Systems," Manual of Practice No. 27, published by the Water Environment Federation.[250] That allocation methodology was modified to determine the incremental cost related to handling

[245] PAWLUG St. 1, p. 21.
[246] PAWC St. 12-R, p. 9.
[247] PAWLUG St. 1, p. 22.
[248] PAWLUG Ex. BSL-3; PAWC St. 12-R, p. 4.
[249] *See* PAWC St. 12-R, pp. 8-9; PAWC Ex. CEH-3R.
[250] PAWC St. 12, pp. 16-24; PAWC Exs. 12-B Revised (Wastewater SSS General Operations) & 12-C Revised (BASA).

stormwater for PAWC's CSS operations.[251] No parties raised any objections to the allocation methodology employed in PAWC's wastewater COSSs.

3. Cost of Service Studies for Future General Rate Increases

a. Section 1329 Acquisitions

The OCA suggests that PAWC should prepare a separate cost of service study in its next base rate filing for systems acquired pursuant to Section 1329.[252] The PUC should reject this recommendation and continue its approach of moving toward single tariff pricing for all of PAWC systems, including those acquired under Section 1329, and evaluate the necessity of separate COSSs as part of future acquisition proceedings.[253] In PAWC's two most recent base rate cases, the Commission approved rates for Section 1329 acquisitions that made significant progress toward single tariff pricing, and approved a settlement provision that allowed the Company to provide only one separate revenue requirement for CSSs.[254]

b. Rider Demand Industrial Sales ("DIS") and Rider Demand Resale Sales ("DRS")

The Commission should not require PAWC to include Rider DIS and DRS customers as separate customer classes in the Water COSS presented in its next rate case as the OCA proposes.[255] Riders DIS and DRS authorize PAWC to negotiate contracts at rates, with specified minimum and maximum levels, designed to retain or attract industrial and resale load for which the customer or applicant for service has a viable competitive alternative that the customer intends to select to the detriment of the Company and its other customers.[256] In approving Riders

[251] PAWC St. 12, pp. 25-31; PAWC Ex. 12-E Revised (Wastewater CSS Operations).
[252] OCA St. 4, p. 21. I&E also recommends that PAWC prepare separate COSSs in future rate cases for BASA and Brentwood if those systems are acquired by the Company under Section 1329. I&E St. 4, pp. 72-75.
[253] PAWC St. 1-R, pp. 29-31.
[254] *Id.*, p. 31
[255] *See* OCA Sts. 4, pp. 18-19 & 4-SR, pp. 10-11.
[256] PAWC St. 12-R, p. 11.

DIS and DRS, the Commission found that those riders create benefits for all PAWC water customers by preserving or attracting incremental sales that, because of competitive forces, could not otherwise be made.[257] Accordingly, the revenues derived from Rider DIS and DRS customers are appropriately reflected as a deduction to all classes' cost of service.

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

OSBA witness Higgins proposes to directly assign AMP-related bad debt and administrative expenses for PAWC's H2O Help to Others customer assistance programs ("H2O Programs"), totaling $2.8 million to the residential class.[258] The Company accepted this recommendation in its revised COSSs presented in rebuttal testimony, because PAWC's AMP credits are incremental to other uncollectible expense and PAWC's customer assistance programs are designed to benefit residential customers.[259]

B. Revenue Allocation and Act 11

The Company's proposed revenue allocation to customer class presented by Mr. Rea and set forth in PAWC Exhibits 10-A Revised, 10-B, 10-C, 10-D and 10-E Revised is generally based on the COSSs presented by Ms. Heppenstall. Several parties took issue with PAWC's proposal to use Section 1311(c) to mitigate the impact of rate increases on wastewater customers by recovering a portion of the Company's wastewater revenue requirement from its total water and wastewater customer base. [260] Allocating $69.5 million of the wastewater revenue requirement (excluding Brentwood),[261] as proposed by PAWC, is in the public interest.[262] While

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[257] *Id.*
[258] OSBA Sts. 1, pp. 30-32, & 1S, pp. 16-18.
[259] PAWC St. 12-R, pp. 10-11; *see also* PAWC St. 5, p. 26.
[260] *See* I&E St. 3, p. 12; OCA St. 4, pp. 22-28; OSBA St. 1, pp. 33-34; CCS St. 1, pp. 7-8; PAWLUG St. 1, pp. 23-27.
[261] *See* PAWC St. 1, pp. 19-20.
[262] *See PAWC 2020*, p. 82.

the Section 1311(c) allocation plays an important role in mitigating the increases to PAWC's 76,000 wastewater customers, it has a modest effect on water customers' bills – representing an increase of approximately $6 per month to an average residential customer.[263]

In addition, PAWC's proposed rates would make reasonable movement toward the system average rate of return by the various customer classes as measured by the COSSs.[264] The Company's proposal will ensure approximate parity to residential bills for water service and wastewater service at average usage levels and promote affordability of wastewater.[265]

Finally, while several parties point out that water customers may already take wastewater service from another provider as a reason to reject PAWC's proposed Section 1311(c) reallocation, Act 11 already contemplates that possibility.[266] Furthermore, PAWC cannot consider the fees paid to other providers in its affordability analyses because the Company does not know the rates its customers may be paying to other wastewater service providers – it is simply not possible to do an affordability study like the one Mr. Kubas suggests.[267]

C. Tariff Structure

PAWC's proposed rate design for water and wastewater services are set forth in Exhibits CBR-3 and CBR-4.[268]

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[263] PAWC St. 1, pp. 20-21; PAWC St. 10; pp. 51-52.
[264] PAWC St. 1, pp. 19-20.
[265] PAWC St. 10, pp. 47-50; PAWC St. 10-R, p. 3; *see also* OCA St. 4, p. 22 (noting that absent any Act 11 allocation, PAWC's wastewater rates would need to increase, on average, by 40.4%).
[266] PAWC St. 10-R, pp. 35-36.
[267] Tr. 2011-12.
[268] *See* PAWC St. 10, pp. 28-30. The foundation of PAWC's rate design is cost causation. PAWC developed revenue targets for customer classes, to be recovered through rate design, based on the results of PAWC's cost of service analysis, which allocates revenue requirements to customer class based on cost-causation principles, also taking into account gradualism, revenue stability, avoidance of discrimination, affordability, efficiency of use, avoidance of discrimination, and simplicity and feasibility in arriving at a rate design that is fair to all customer groups and that is just and reasonable.

1. Residential Customer Charge

OCA witness Mierzwa recommends keeping existing customer charges at the current rate level for residential water customers, based on his analysis of direct customer costs.[269] As Ms. Heppenstall explained, the OCA's direct cost analysis improperly omits office building and furniture expenses that are directly related to billing and collections functions. [270] CEO witness Jennifer Warabak also opposes any increase in PAWC's fixed monthly customer charge for residential water customers but did not offer a cost-of-service basis for her recommendation.[271] PAWC's proposed residential customer charges supported by Ms. Heppenstall's direct cost analysis should be accepted.

2. Water Rate Design

a. Class Revenue Allocations

OSBA witness Higgins and CCS witness Baudino offered alternative water class revenue allocations. Mr. Higgins initially recommended a $5.3 million reduction to the Commercial class offset by a $5.3 million increase to the Municipal class.[272] Mr. Higgins subsequently updated his proposed revenue allocation based on the results of his rebuttal cost of service study.[273] Mr. Baudino recommends an alternative revenue allocation that results in a higher increase for the Municipal class and a lower increase for the Residential, Commercial, Industrial, and Private Fire classes.[274] The OSBA and CCS both propose a higher increase to the Municipal class than proposed by the Company, with corresponding lower increases to other customer classes to compensate. While the Company believes that its proposed water revenue allocation is

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[269] OCA St. 4, pp. 35-36
[270] PAWC St. 12-R, pp. 9-10.
[271] CEO St. 1, pp. 5-6.
[272] OSBA St. 1, p. 35.
[273] OSBA St. 1-SR, p. 19.
[274] CCS St. 1, p. 12

reasonable for the reasons explained by Mr. Rea, it does not oppose the higher increases for the Municipal class proposed by Mr. Higgins and Mr. Baudino with offsetting decreases to other customer classes.[275] OCA witness Mierzwa also presents an alternative revenue allocation for water service based on his alternative cost of service study, adjusted to provide for gradualism.[276] Mr. Mierzwa's proposal should be rejected since it is based on a deficient COSS as discussed above in Section IX.A.

b. Meter Charges

PAWC's proposed meter charges are reasonable and the Commission should reject the alternative proposals from OCA, CEO, CCS, PAWLUG, and I&E.[277] OCA and CEO are discussed above in the customer charge section. Ms. LaConte's and Mr. Baudino's proposals would result in increased meter charges with no cost-basis. Mr. Cline's recommendation to adopt a Rate Zone 1 residential customer charge of $19.50 should also be rejected, as it is based on Mr. Cline's "extreme" decision to calculate the customer charge based solely on a cost allocation study restricted to direct customer-related costs only.[278]

c. Volumetric Rates

The alternative volumetric rates proposed by I&E, the OCA, PAWLUG, and CCS should be rejected.[279] Mr. Cline and Mr. Mierzwa have not shown that the Company's proposed Rate Zone 2 and Rate Zone 4 rates are unreasonable, and adoption of their recommendations would impede the full integration of those rate zones into Rate Zone 1.[280] Further, Ms. LaConte's and

[275] PAWC St. 10-R, p. 43.
[276] OCA St. 4, pp. 33-34.
[277] *See* OCA St. 4, pp. 35-36; CCS St. 1, pp. 13-14; PAWLUG St. 1, pp. 28-29; I&E St. 4, pp. 30-35.
[278] PAWC St. 10-R, p. 44.
[279] *See* I&E St. 4, pp. 36-41; OCA St. 4, pp. 36-37; PAWLUG St. 1, pp. 28-29; CCS St. 1, pp. 13-14.
[280] PAWC St. 10-R, p. 47.

Mr. Baudino's recommendations conflict with the intent to design industrial rates to collect total revenue allocated to that class less revenues from current industrial meter charges.[281]

3. Wastewater Rate Design

a. General SSS Operations

Overall Recommendations. I&E and the OCA proposed various increases to SSS rates.[282] Mr. Kubas's and Mr. Mierzwa's recommendations take into account their COSS recommendations and modifications to the Company's Act 11 allocation, which should be rejected for the reasons set forth above in Sections IX.A.-B. In addition, Mr. Kubas's recommendations do not properly take into account affordability for SSS customers. The Commission should also reject Mr. Kubas's and Mr. Mierzwa's proposed reduction to the residential service charge to be consistent with charges to other residential customers, as well as Mr. Kubas's recommended charges for unmetered service, and rates for special flat rate customers, in order to be consistent with the overall increase for the SSS group.[283]

York Bulk Customers. PAWC's proposed rate increase for seven bulk wastewater customers that are served by the York system (the "York Bulk Customers") are reasonable.[284] Consistent with the contracts that PAWC negotiated with these customers when PAWC acquired the York system, PAWC proposed a 9.9% increase in rates over two years, resulting in an annual increase of approximately 4.45%. These modest increases are justified because the York Bulk Customers have viable competitive alternatives to receiving service from PAWC.[285] The proposed rate increases, while modest will nevertheless cover the variable costs of bulk treatment

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[281] *Id.*
[282] *See* I&E St. 3, Sch. 3; OCA St. 4, pp. 39, 46-48.
[283] OCA St. 10-R, pp. 58-59.
[284] The Bulk Customers consist of The York Water Company, which is the owner of the former West York Borough Collection System; Springettsbury Township; North York Borough; York Township; Manchester Township; West Manchester Township; and Spring Garden Township.
[285] PAWC St. 3 at 66-69; PAWC St. 6-R at 18.

service and provide a meaningful contribution to the total fixed costs incurred to furnish wastewater service to retail customers in the Company's WW SSS General Operations.[286]

I&E witness Kubas disputes PAWC's claim that the York Bulk Customers have competitive alternatives and recommends a 50% increase to their contract rates.[287] Contrary to Mr. Kubas's claim, PAWC presented extensive evidence about the competitive alternatives available to the York Bulk Customers, including affidavits demonstrating that they had competitive alternatives at the time of the acquisition of the York system and continue to have alternatives to bulk wastewater service from PAWC.[288] For the reasons explained below, the PUC should deny Mr. Kubas's unsupported rate increase for the York Bulk Customers.

At the hearing, Mr. Kubas admitted that the York Bulk Customers have competitive alternatives.[289] He nevertheless claims that PAWC's evidence is inadequate because it does not include any cost data for competitive alternatives.[290] Mr. Kubas cites no authority for his argument that "[t]he valid comparison would be to compare the customer's cost of utilizing a viable alternative to the competitive rate so that the customer makes the maximum contribution to fixed costs."[291] In PAWC's 2022 rate case, when I&E took a similar position, PAWC's witness testified:

> I am advised by counsel that the Commission has long allowed discounts in other regulated industries where there is competition, a need for load retention, or a need for economic development. Specifically, the Commission has permitted discounting by natural gas distribution companies and steam distribution companies, if the standards identified by Mr. Kalcic have been satisfied. So long as the variable costs of providing service to the customer are covered and the customer makes a contribution to shared fixed costs, rate

[286] PAWC St. 12, p. 9.
[287] I&E St. 3, pp. 48-50.
[288] PAWC St. 6-R, pp. 19-22; PAWC Ex. ECA-1R (CONFIDENTIAL); PAWC Ex. ECA-2R.
[289] Tr. 2155-56.
[290] *Id.* 2156; *see also* I&E St. 3-SR, pp. 32-34.
[291] I&E St. 3-SR, p. 31.

> discounting is permitted in order to attract or maintain the customer. The theory is that it is better, and to the benefit of other customers, to have the customer making some contribution toward fixed costs than not to have the customer at all.
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> PAWC's witness further testified:
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> I have learned that "maximizing the revenue that could be received from each customer" is not always realistic or desirable. That was particularly true here, where the municipalities insisted on negotiating a standardized agreement that treated each of them the same. They acted as a block and were represented by the same counsel in negotiations. PAWC simply could not maximize the revenue from every individual customer when negotiating one form of contract and a standardized rate that applied to several bulk customers.[292]

PAWC continues to submit that the approach used in the natural gas industry should be adopted for the water/wastewater industry. The evidence shows that PAWC has complied with that approach with respect to the York Bulk Customers.

Mr. Kubas also claims that the Company "failed to provide an example where maximizing revenue from a customer with a competitive alternative is neither feasible nor desirable." To the contrary, PAWC gave a very specific example of such a situation: the York Bulk Customers. The York Bulk Customers negotiated as a block, giving them greater bargaining power. If PAWC had refused to enter into a uniform contract with all of the York Bulk Customers, it would not have lost one bulk customer – it would have lost all of the bulk customers. Under these circumstances, it is particularly inappropriate to consider whether the rate charged to any one given bulk customer maximizes the amount of revenue that PAWC conceivably could have received from that particular customer.

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[292] PAWC St. 6-R, p. 22 (quoting the testimony of Bernard Grundusky, Jr. from PAWC's 2022 rate proceeding); s*ee also* Tr. 1999.

Finally, the Commission should reject I&E's proposal to avoid the unnecessary risk that a 50% increase in rates will cause the York Bulk Customers to actually select a competitive alternative and leave PAWC's York system. Mr. Kubas apparently proposes this substantial rate increase because he believes the remaining customers of the York system would benefit if the York Bulk Customers left the system.[293] Mr. Kubas is wrong. The York Bulk Customers contribute approximately 54% of the treatment flows to the system. As a result, the loss of these customers would necessitate a substantial rate increase for the remaining customers to cover the lost revenue. In addition, losing 54% of the effluent flow in the system would have an adverse impact on the operation of the wastewater treatment plant.[294] Finally, causing the York Bulk Customers to leave the York system is contrary to the PUC's stated policy of promoting regionalization and consolidation.[295]

b. BASA Operations

The Commission should accept PAWC's proposed rate design for BASA. Mr. Kubas and Mr. Mierzwa do not address rate design for BASA, as their rate design recommendations assume BASA has been removed from the Company's claim.[296]

c. CSS Operations

Mr. Kubas' and Mr. Mierzwa's recommendations[297] take into account their cost of service recommendations and modifications to the Company's Act 11 allocation, which should be rejected for the reasons set forth above in Sections IX.A.-B.[298] In addition, the Commission

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[293] I&E St. 3, p. 52.
[294] PAWC St. 6-R at 19-20; Tr. 1999-2000.
[295] Tr. 2000.
[296] PAWC St. 10-R, p. 62.
[297] *See* I&E St. 3, Sch. 17; OCA St. 4, pp. 39; 46-48.
[298] Mr. Kubas's recommendations also include higher rates for Scranton than proposed by the Company. As noted by Ms. Gress, the Company proposed Scranton CSS rates consistent with the purchase agreement for that system. Any increase in rates for Scranton customers directed by the Commission should be just and reasonable and consistent with the concept of gradualism to avoid rate shock. PAWC St. 4-R, pp. 12-13.

should reject Mr. Mierzwa's proposal with respect to the residential service charge for the same reasons described above relative to the SSS customer charge.[299]

4. Winter Averaging Wastewater Proposal

The Company proposed to utilize winter averaging to more closely align wastewater bills with cost-causation.[300] The Company disagrees with Mr. Kubas' recommendation to only approve winter averaging as a temporary program.[301] Doing so would require the Company to implement "shadow billing," which would be unnecessary and impractical for the reasons described by Mr. Rea.[302] The Commission should also find that the OCA's and CAUSE-PA's opposition is unwarranted.[303] Mr. Mierzwa contends that seasonal usage can be explained by "a few extra showers and clothes washing loads," ignoring PAWC's modeling that there are statistically significant changes in water consumption tied to changes in weather during the summer period.[304] PAWC disagrees with the views of OCA witness Colton and CAUSE-PA witness Geller that winter averaging will penalize low-income customers.[305] Winter averaging will benefit all customers and is reflective of cost-causation.[306]

D. Scale Back of Rates

If the Commission approves a revenue requirement that is less than that proposed by the Company, PAWC proposes to proportionally reduce the water and wastewater revenue requirements and the proposed amount of reallocation from wastewater to water under Act 11.[307]

[299] PAWC St. 10-R, p. 51.
[300] PAWC St. 10, pp. 44-45.
[301] *See* I&E St. 3, p. 55.
[302] *See* PAWC St. 10-R, p. 54; Tr. 2010-11.
[303] *See* OCA St. 4, p. 43; OCA St. 5, pp. 97-109; CAUSE-PA St. 1, pp. 13-14.
[304] PAWC St. 10-R, p. 54.
[305] OCA St. 5, pp. 97-109; CAUSE-PA St. 1, pp. 13-14.
[306] PAWC St. 10-R, p. 55.
[307] PAWC St. 10, pp. 16-17; PAWC St. 10-R, p. 37.

I&E, OCA, OSBA, and PAWLUG submitted alternative scale back proposals.[308] The Company opposes the parties' recommendation that any reductions in revenue requirements for wastewater service be applied first to the amount being allocated to water customers pursuant to Act 11. This would effectively result in a revenue requirement reduction to water service.[309]

X. ALTERNATIVE RATEMAKING REQUESTS

Under Section 1330 of the Code, a public utility may propose alternative rates and rate mechanisms in a base rate proceeding. Under the policy declaration incorporated in Section 1330, such alternative rates and rate mechanisms "should encourage and sustain investment through appropriate cost-recovery mechanisms to enhance the safety, security, reliability or availability of utility infrastructure and be consistent with the efficient consumption of utility service."[310] Consistent with these policy goals, the Company is proposing two alternative rate mechanisms: the RDM and the ECIC.

A. Revenue Decoupling Mechanism

Decoupling mechanisms such as the RDM are explicitly authorized by Section 1330(b)(2).[311] Recovery of fixed costs is a concern for PAWC as approximately 81% of PAWC's water and wastewater revenues are collected under volumetric rates while over 95% of its costs are fixed.[312] PAWC's ability to recover Commission-approved costs, therefore, will be diminished if water sales are less than anticipated.[313]

[308] *See* I&E St. 4, pp. 41-44; OCA St. 4, p. 30; OSBA St. 1, pp. 36-37; PAWLUG St. 1, pp. 29-30.
[309] PAWC St. 10-R, pp. 40-41.
[310] 66 Pa. C.S § 1330(a)(2).
[311] 66 Pa. C.S. § 1330(b).
[312] PAWC St. 10, p. 86.
[313] The two primary factors likely to result in reduced sales are declining use among certain customers and seasonal weather conditions, and other unexpected external events, such as the COVID-19 pandemic. PAWC St. 10, pp. 87-88.

PAWC's continued focused investment on non-revenue producing investments for the benefit of customers, coupled with variability in usage, means that revenues remain largely outside of PAWC's control.[314] The RDM will compare revenues collected under Commission-approved rates with revenues that would have been collected through Straight Fixed Variable ("SFV") Pricing.[315] If actual revenues are higher than would have been collected under the RDM formula, the difference is credited to customers in the following year.[316] If actual revenues are lower than would have been collected under the RDM formula, the difference will be collected from customers in the following year. Mr. Rea explains in detail how the RDM will be implemented.[317]

Parties oppose the RDM for varying reasons.[318] OSBA witness Higgins, OCA witness Mierzwa, and PAWLUG witness LaConte all contend that the RDM improperly shifts risk to customers.[319] CEO witness Warabak also states that the RDM would effectively guarantee recovery of PAWC's authorized return.[320] However, as Mr. Rea explained, the RDM does not shift risk either to or away from customers; both PAWC and customers continue to *share* revenue risk, as the RDM can result in either a credit or surcharge to customers depending on PAWC's actual results compared to the SFV price components.[321] Further, the RDM does not guarantee recovery of PAWC's authorized return. PAWC also disagrees with the proposal by

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314 PAWC St. 1, p. 25.
315 As Mr. Rea explained in response to Mr. Cline (*see* I&E St. 4, p. 4), the Company is not proposing to implement SFV pricing in its rates. The Company is attempting to strike a balance between a limited fixed charge and volumetric charges. SFV will be used only to reconcile actual revenues collected with revenues authorized in this proceeding, which will allow for greater revenue stability while preserving the ability of customers to benefit from conservation efforts. PAWC St. 10-R, pp. 71-72.
316 OSBA witness Higgins claimed that the RDM calculation will result in the inverse result. OSBA St. 1-SR, pp. 21-22. The Company does not believe there is an error. However, if the RDM is approved, the Company would support a modification to its proposed calculation to reflect the appropriate treatment. PAWC St. 10-R, p. 71; Tr. 2008-10.
317 PAWC St. 10, pp. 86-97; PAWC St. 10-R, pp. 64-65.
318 *See* OCA St. 1, pp. 44-48; OCA St. 4, pp. 50-61; OCA St. 5, p. 90; I&E St. 4, pp. 10-24; OSBA St. 1, pp. 38-45; CCS St. 1, p. 16; CAUSE-PA St. 1, pp. 15-17; CEO St. 1, p. 5.
319 OSBA St. 1, p. 38; OCA St. 1, p. 47; OCA St. 4, p. 58, PAWLUG St. 1, pp. 13-14.
320 CEO St. 1, p. 5.
321 PAWC St. 10-R, pp. 73-74.

Ms. LaConte that the RDM should be subject to an earnings test and cap in order to minimize shifting risk to customers.[322] Such a cap would decrease the utility of the RDM and undermine the revenue requirement authorized by the Commission in this proceeding, as the express purpose of the RDM is to collect the revenues authorized in this proceeding reflective of PAWC's cost of service.[323]

Several parties also state that PAWC did not establish a need for the RDM due to other available rate recommendations such as a declining use adjustment, the use of the FPFTY and the DSIC.[324] As Mr. Rea explains, while these mechanisms are available to PAWC, none address the specific issue that the RDM is intended to solve – revenue volatility resulting from declining consumption and other events that impact forecasted usage.[325]

Parties also assert that the RDM will discourage conservation and compromise affordability.[326] Any credits or surcharges generated as a result of application of the RDM are not expected to affect affordability, and any credits or surcharges will also be subject to PAWC's BDP, which will minimize any effects on low-income customers.[327] In addition, as Mr. Rea notes, there is no evidence to suggest that declines in usage are more concentrated in higher-income households than lower-income households. While changes in revenue arising from weather can be more attributable to higher income customers, general declines in consumption are attributable to all residential customers.[328] The RDM will also not discourage conservation as customers that undertake conservation efforts will still be rewarded with a lower bill

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[322] *See* PAWLUG St. 1, p. 14.
[323] PAWC St. 10-R, p. 77.
[324] *See* I&E St. 4, p. 15; OCA St. 1, pp. 46-47; CCS St. 1, p. 15.
[325] PAWC St. 10-R, pp. 75-76.
[326] *See* CEO St. 1, p. 6; CAUSE-PA St. 1, p. 16; I&E St. 4, pp. 15, 18.
[327] PAWC St. 10-R, p. 74.
[328] *Id.*, pp. 74-75.

regardless of the actual rates in effect.[329] In other words, the bill savings from conservation will outweigh the estimated surcharge resulting from implementation of the RDM. Moreover, application of the RDM removes the "throughput incentive" associated with the volumetric components of PAWC's rate structure, which removes any financial disincentive to promote end-use efficiency.[330]

PAWC disagrees with parties that the RDM should be limited to residential customers, or that it should exclude the Industrial class.[331] The purpose of the RDM is to address revenue volatility. Revenue volatility is not constrained to the residential class. All non-residential customers are susceptible to revenue volatility including industrial and municipal customers.[332] PAWC also does not expect the RDM to negatively impact cross-subsidization of costs between customer classes, as claimed by Mr. Baudino,[333] since any RDM credit or surcharge will be minor compared to the overall level of volumetric rates approved in the proceeding.[334]

PAWC also disagrees with parties that criticized the RDM due to alleged complexity or that it would lead to rate instability and rate confusion. The primary purpose of the RDM is to *reduce* instability. Application of the RDM will reduce volatility in rates resulting from unexpected usage, and will "smooth out" revenues over the longer term for the benefit of customers and PAWC.[335] In addition, no party has shown that the RDM will be more confusing to customers than any of the other riders or credits that are regularly approved by the Commission.[336] Furthermore, PAWC disagrees with contentions that the RDM does not satisfy

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[329] *Id.*, p. 72.
[330] PAWC St. 1, p. 25. This is also consistent with the stated objective set forth in Section 1330(a)(2) of ratemaking being "consistent with the efficiency consumption of utility service." 66 Pa. C.S. § 1330(a).
[331] *See* OSBA St. 1, p. 39; CCS St. 1, p. 15-16.
[332] PAWC Sts. 10-R, p. 70 & 10-SR, p. 2.; Tr. 2008-09.
[333] PAWLUG St. 1, pp. 17-18.
[334] PAWC St. 10-R, pp. 76-77.
[335] *Id.*, p. 73.
[336] *Id.*

the fourteen factors of the Commission's alternative ratemaking policy statement.[337] PAWC provided a detailed response as to how the RDM addresses each of those factors that the Commission may consider, and when taken together, support the approval of the RDM.[338]

B. Environmental Compliance Investment Charge

One of the alternative rate mechanisms specifically authorized by Section 1330(b)(2) is an automatic adjustment clause like the ECIC. PAWC's environmental compliance requirements are continuously evolving and increase the costs of water and wastewater service driving the need for rate relief.[339] The need for and timing of measures to comply with new or changed government mandates under applicable environmental laws are outside PAWC's control.[340] The proposed ECIC will provide a reasonable mechanism for adjusting PAWC's rates between base rate cases to support full and timely rate recognition of costs to comply with new and updated environmental regulatory mandates in a prudent and efficient manner as they emerge.[341] The ECIC will also mitigate customer exposure to less frequent but more significant rate increases in a general base rate case by producing much smaller, gradual increases to customer bills.[342] Costs that are recoverable through the ECIC must be consistent with the set of projects and activities set forth in an annual environmental compliance plan ("ECP") that will be subject to PUC review and approval.[343]

While recognizing that compliance with environmental mandates addressing public health concerns regarding drinking water is important, witnesses on behalf of several parties in

[337] 52 Pa. Code § 69.3302.
[338] PAWC St. 10, p. 101; PAWC St. 10-R, pp. 70-71; PAWC Exhibit CBR-10.
[339] I&E St. 3-SR at 35.
[339] PAWC Sts. 3, pp. 5-8, & 8, pp. 22-23; PAWC Ex. JCS-1.
[340] PAWC St. 3, p. 5.
[341] PAWC St. 8, pp. 21-22.
[342] *Id.*
[343] *Id.*, pp. 25-26.

this case – I&E, OCA, OSBA, CAUSE-PA, and PAWLUG – recommend denial of the proposed ECIC.[344] Environmental compliance is part of PAWC's "normal" responsibilities in providing service to its customers. Nonetheless, emerging regulations or re-interpretations of existing regulations often result in new governmental mandates that disrupt PAWC's proactive five-year plan of construction work and require the Company to undertake additional projects on an expedited basis to comply with those changes that increase the cost of water and wastewater service.[345]

Just one example of such a rapidly changing set of regulatory mandates involves the combination of federal and state regulations concerning per- and polyfluoroalkyl substances ("PFAS"). As Mr. Aiton explained, on March 14, 2023, the United States Environmental Protection Agency ("EPA"), issued proposed drinking water regulations for six PFAS that will establish maximum contaminant levels ("MCLs"), Maximum Contaminant Level Goals ("MCLGs"), and monitoring, public notice and treatment requirements.[346] The EPA is expected to finalize those PFAS standards before the end of 2024 at which point public water systems will be required to modify their facilities to comply within three years.[347] In addition, PADEP has promulgated state drinking water standards establishing strict MCLs and MCLGs for two PFAS with compliance monitoring mandates effective January 1, 2024. For PAWC, these impending federal and state regulations will require investments in the range of $200 million before the end of 2027, based on preliminary estimates.[348]

The ECIC will not lessen scrutiny of PAWC's environmental compliance costs as I&E

[344] *See* CAUSE-PA St. 1, pp. 19-22; I&E St. 1, pp. 34-3; I&E St. 3, pp. 26-28; OCA St. 1, pp. 48-51; OCA St. 4, pp. 66-74; OCA St. 5, pp. 90, 96; OSBA St. 1, p. 46; PAWLUG St. 1, pp. 15-17.
[345] PAWC St. 3, pp. 3-5.
[346] *Id.*, pp. 5-9.
[347] *Id.*, pp. 6-7.
[348] *Id.*

and the OCA argue. If the ECIC is approved, the PUC and all parties will have the opportunity to proactively evaluate PAWC's proposed investments and measures to comply with new environmental mandates *before any costs are incurred*.[349] Whether or not a party is inclined to review the Company's ECP and focus attention on the associated capital costs and expenses is at the discretion of each party, but PAWC's proposal allows for full and fair ratemaking review of ECIC-eligible costs.[350]

Several parties contend that PAWC's proposed ECIC is premature.[351] However, the Code requires utilities to propose alternative rate mechanisms as part of a base rate case, so it is timely for the Company to propose the ECIC in this case in advance of the need to file its first ECP.[352] PAWC analyzed how the fourteen factors in the PUC's alternative ratemaking policy statement support apply to the ECIC in PAWC Exhibit JCS-1, which means the Commission has all of the information necessary to evaluate it as part of this proceeding.[353]

OCA witness Mierzwa raises concerns about interclass cost shifting because the ECIC will be assessed as a flat percentage increase across PAWC's customer base.[354] Mr. Mierzwa cites no evidence supporting his assertions that the ECIC will necessarily result in subsidization among customers classes. The ECIC is modeled upon the DSIC, with a similar formula and customer safeguards.[355] The PUC-approved DSICs of PAWC and other utilities do not draw a distinction between customer classes in calculating their percentage of billed revenues charged to customers.[356] All customers are charged the same percentage on the theory that the revenue

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[349] PAWC St. 8-R, p. 11.
[350] *Id.*
[351] *See* I&E St. 3, p. 26; PAWLUG St. 1, pp. 15-17.
[352] 66 Pa.C.S. § 1330(b)(1).
[353] *See* 52 Pa. Code § 69.3302.
[354] OCA Sts. 4, pp. 66-68 & 4-SR, pp. 30-31.
[355] PAWC St. 8-R, pp. 12-13.
[356] *Id.*

requirement was fairly allocated between customers classes in setting rates in the prior base rate.[357] The ECIC should not be treated differently.

Finally, contrary to the assertions of OCA witness Colton,[358] BDP participants will receive a discount on ECP costs. As Mr. Swiz explained, the discount would reduce the total bill *before* the proposed ECIC (and current DSIC) is applied.[359] For all these reasons, the PUC should grant PAWC's request to implement the ECIC.

XI. LOW-INCOME CUSTOMER ASSISTANCE

A. Summary

Historically, PAWC has been an industry leader in initiating, developing, and implementing innovative programs to assist low-income customers. In recent years, PAWC has enhanced its H2O Programs through increased shareholder funding, expanded offerings, and concerted outreach to increase participation of eligible customers. In this case, PAWC continued this trend by proposing an expansion of its BDP income eligibility threshold and designing discount levels that incorporate the findings of its robust affordability analysis.

B. Affordability Analysis

PAWC conducted a detailed analysis of the affordability of its water and wastewater services.[360] PAWC witness Rea prepared (for both water and wastewater services), an Enterprise-Level analysis of affordability, which considered the affordability of service at a high-level over a multi-year period, and a Community-Level analysis, which presents a focused analysis of affordability of service at the individual customer level under current and proposed rates and current economic conditions.[361] Mr. Rea concludes that:

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[357] *Id.*
[358] OCA Sts. 5, pp. 90-97 & 5-SR, pp. 18-19.
[359] PAWC St. 8-R, pp. 13-15.
[360] *See* Exhibit CBR-1 and CBR-2.
[361] PAWC St. 10, p. 5; PAWC St. 10-R, pp. 3-4.

- The affordability of the Company's water and wastewater service from 2012 through the forecast test period indicates that the way the Company has invested in and managed its water and wastewater systems has indeed been for the long-term benefit of our customers.

- PAWC's water and wastewater service has been, is, and is expected to continue to be affordable for the majority of its residential customers, including under proposed rates.

- There are, however, groups of customers for whom affordability of water and wastewater service may be challenging.[362]

He also notes that PAWC's proposed rates are affordable, not only because the bill-to-income ("BTI") ratio at median household income ("MHI") falls below the 2% level, but because the Company's proposed rate design (including the BDP) gives almost every residential customer the opportunity to obtain "Basic Water Service" and wastewater service at affordable levels (e.g., less than 2% of household income for one form of service and 4% of household income for both).[363]

OCA witness Colton and CAUSE-PA Geller criticize Mr. Rea's affordability analysis and offers alternative affordability analyses.[364] Their comments focused on the structure of Mr. Rea's Enterprise-Level and Community-Level Analyses and how he measured affordability.

Enterprise-Level Analysis

Mr. Geller and Mr. Colton both argue that Mr. Rea's use of MHI in his Enterprise-Level Analysis was inappropriate.[365] Mr. Colton also asserts that Mr. Rea should not have relied upon MHI data from homeowners ("MHI-HO") since home ownership is increasingly limited to

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[362] PAWC St. 10, p. 22. *See also* PAWC St. 10, pp. 7 (results of Water Enterprise-Level Analysis), 8-9 (results of Wastewater Enterprise-Level Analysis), 15-17 (results of Water and Wastewater Community-Level Analyses).
[363] PAWC St. 10-R, p. 9.
[364] *See* OCA St. 5, pp. 20-23, 36-39; CAUSE-PA St. 1, Exhibit 1. OCA witness Hoover also presented 2021 economic data from United for ALICE (Asset Limited, Income Constrained, Employed). *See* OCA St. 1, pp. 14- 18. This data is not utilized in the OCA's affordability analysis, does not reflect current income levels, and is used to make unsupported conclusory statements regarding financial constraints PAWC customers *may* be experiencing.
[365] *See* OCA St. 5, p. 9, 12-14; CAUSE-PA St. 1, p. 37.

households with higher incomes that do not represent PAWC customers as a whole.[366] According to Mr. Colton, MHI-HO data is misleading since as housing becomes less affordable, water service will *appear* more affordable. He also states that Mr. Rea's exclusion of certain renters and multi-family housing artificially inflated the MHI.[367] Finally, Mr. Colton claims that Mr. Rea's analysis contained technical mistakes in its calculations.[368] Mr. Geller too claims that the use of MHI obfuscates true affordability and that the PAWC affordability analysis conceals the "true depth and breadth of need amongst PAWC's low income customers."[369]

Mr. Rea provided ample support for use of the MHI and the Company's use of the 2% benchmark for assessing affordability.[370] MHI is widely recognized, well-understood, and a readily available measure of household income, and easily compatible with the Enterprise-Level Analysis, and the use of MHI-HO is appropriate since most PAWC customers are homeowners and MHI-HO is reflective of the Company's residential population.[371] Furthermore, Mr. Rea acknowledges that 2% is not a "perfect" benchmark, but it is a commonly referenced standard for affordability of water and wastewater service.[372]

The multi-year focus of Mr. Rea's Enterprise Level Analysis is appropriate to focus on customer bills over time, not just rates. Bills are the proper focus because they account for *rates and usage*. There has, undeniably, been a decline in customer consumption over time, which contributes to higher rates to achieve the same revenue requirement. Thus, an appropriate analysis will examine customer bills, that take into account rates and usage, rather than rates

[366] OCA St. 5, pp. 10-11.
[367] OCA St. 5, pp. 12-13.
[368] *Id.*, p. 17.
[369] CAUSE-PA St. 1, p. 37.
[370] PAWC St. 10-R, pp. 7-8.
[371] *Id.*, pp. 10-12.
[372] PAWC St. 10, p. 18, PAWC St. 10-R, p. 8.

alone.[373] Mr. Colton's "improved" Enterprise-Level Analysis that assumes constant usage is flawed for this very reason. Mr. Rea explains that "this is precisely *the wrong way* to do a multiyear evaluation of affordability because rates and usage levels are connected."[374] Mr. Rea also explains that Mr. Colton's allegations of technical errors are unfounded.[375]

Mr. Rea also responds to Mr. Geller's claim that PAWC's Affordability Index[376] "does not assess both the depth and breadth of unaffordability." The Affordability Index on its own is not intended to fulfil the role Mr. Geller has assigned to it; rather, it is meant to provide a simple and easy to understand metric that shows the percentage of customers for whom Basic Water Service is less than 2% of household income. However, Exhibit CBR-1 and CBR-2 provide "enormous levels of detail on the affordability of water and wastewater service across all income groups and also provide data on BTI ratio for customers at different levels of household income by increments of [the federal poverty level]," which contains exactly the depth and breadth of information that Mr. Geller claims is absent from PAWC's analysis.[377]

Community-Level Analysis

Mr. Colton makes a similar criticism of PAWC's Community-Level Analysis – that it considers the breadth of affordability, but it does not identify the depth of unaffordability (i.e., how much water and wastewater bills exceed 2% of household income at each level of the federal poverty level.[378] As noted above, however, all of this information is set forth in Exhibits CBR-1 and CBR-2.[379] Mr. Colton also alleges that PAWC's Community-Level Analysis really

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[373] PAWC St. 10-R, pp. 13-14.
[374] *Id.*, pp. 15-16 (emphasis added).
[375] *Id.*, p. 14.
[376] "Affordability Index" measures the percentage of customers for whom Basic Water Service is expected to be less than a percentage of household income. While there is no standard for affordability as a percentage of MHI, the Company utilizes 2% as a benchmark. PAWC St. 10, pp. 10, 17.
[377] *Id.*, p. 23.
[378] OCA St. 5, pp. 35-36.
[379] PAWC St. 10-R, p. 21.

does not look at each individual customer to determine whether service is affordable for that particular customer. Mr. Rea explained that this is a criticism of semantics and not substance – the analysis looks at data at the customer level (rather than high-level system data, which is used in the Enterprise-Level Analysis), but the Company cannot assess the affordability of each individual customer.[380]

Mr. Colton's and Mr. Gellers' criticism of the Company's use of "Basic Water Service" should be rejected for similar reasons.[381] The Company's estimate of 40 gallons of water per household member is representative of PAWC customer actual water usage.[382] It would be impractical, if not impossible, to address every permutation in a customer household that Mr. Colton implies should be considered. For example, Mr. Colton criticizes the use of Basic Water Service of 3,600 gallons per month for a family of three. Mr. Colton asserted Mr. Rea should have instead examined at least six different combinations of households consisting of variations of children of different ages and one or two adults.[383]

The inconvenient truth that Mr. Colton and Mr. Geller seem to criticize PAWC for, which is unavoidable, is that there will always be some customers for whom affordability of water and wastewater service may be challenging, but for the large majority of residential customers, water and wastewater service is affordable and will continue to be affordable under the Company's proposed rates.[384] To address affordability for lower income customers, the Company has addressed the issue in a reasonable manner by proposing rates and changes to the BDP and continuing the same level of shareholder funding for grants that ensure that PAWC's

[380] *Id.*, pp. 18-19.
[381] *See* OCA St. 5, pp. 27-29, 30, 32; CAUSE-PA St. 1, p. 39.
[382] PAWC St. 10-R, pp. 19-20; 24.
[383] OCA St. 5, pp. 27-30.
[384] *See* PAWC St. 10, pp. 4-22.

water and wastewater services remain affordable for the vast majority of its customers.[385] The PUC should find, for the foregoing reasons, that PAWC's affordability analysis is reasonable.

C. H2O Bill Discount Program Design

PAWC's existing BDP provides substantial bill discounts to customers whose annual household incomes fall between 0% and 150% of FPL. As shown below, there are three tiers of discounts within the program and customers with the lowest incomes receive the highest percentage discounts:[386]

BDP Discount Levels	**Water Service Charge Discount**	**Water Service Volumetric Discount**	**Wastewater Total Bill Discount**
0% - 50% FPL	80%	80%	80%
51% - 100% FPL	65%	50%	55%
101% - 150% FPL	40%	25%	30%

PAWC is proposing to keep the existing three tiers without any changes and add a fourth tier of eligibility to expand the program offerings to customers whose household incomes are between 151% and 200% of FPL. For water customers in this fourth tier of eligibility, PAWC proposes to offer discounts of 30% on the 5/8" meter charge and 15% on the volumetric rate for water service. For wastewater customers in this fourth tier of eligibility, the PAWC proposes to offer a discount of 20% on the total wastewater bill. The expansion is intended to address affordability issues for the significant number of customers in the 151% and 200% of FPL range (estimated to be over 50,000 residential water customers and over 10,000 residential wastewater customers). The Company's affordability analysis demonstrated that a majority of customers in

[385] *See* PAWC St. 10-R, p. 9.
[386] PAWC Sts. 10, p. 23 &10-R, p. 28

that income range would have bills for water and/or wastewater service at greater than 2% of household income.[387]

OCA witness Colton supports expansion of the BDP to include a fourth tier, but recommends a higher discount percentage for that fourth tier and increases to certain discounts for the existing tiers.[388] CAUSE-PA witness Geller was initially supportive of the proposed expansion and recommended increasing the discount percentages in the existing tiers first.[389] In surrebuttal, however, Mr. Geller recommended that PAWC be ordered to file a petition within six months of the final order in this case seeking approval of a percentage of income payment ("PIP") structure for the BDP.[390]

The Company opposes Mr. Geller's recommendation to modify the BDP from a tiered to a PIP structure. As explained by Ms. Dean, a PIP structure is not feasible because: (1) the Company's billing system is not configured to accommodate a PIP structure; and (2) the Company does not currently have verified income data for most BDP participants. Further, the Company believes that a PIP structure is not necessary because the existing tiered discount structure is reasonable and sufficiently tailored to a customer's income level.[391]

PAWC continues to support its BDP expansion proposal but does not oppose the specific tier-level discount changes recommended by Mr. Colton or Mr. Geller. Such changes would provide greater levels of affordability for customers at the lowest end of the income scale. The Company defers to the Commission as to the level of discounts it deems appropriate in this proceeding.[392]

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[387] PAWC Sts. 10, pp. 23-26 &10-R, pp. 28-29.
[388] OCA St. 5, pp. 45, 49-50.
[389] CAUSE-PA St. 1, pp. 44-54.
[390] CAUSE-PA St. 1-SR, p. 8. CAUSE-PA inappropriately raised this proposal for the first time in surrebuttal testimony, and it should be denied on this basis alone.
[391] Tr. 2019-20; PAWC St. 14-R, pp. 5-6.
[392] PAWC St. 10-R, p. 31.

D. Hardship Fund

The H2O Program provides Hardship Grants for qualifying customers with annual household incomes at or below 200% of FPL and that have made a payment of at least $50 over the last 90 days. A customer may receive a Hardship Grant equal to the customer's total account balance at the time of grant issuance, up to the maximum annual grant amount of $500 for water service and $500 for wastewater service. H2O Hardship Grants are funded through an annual shareholder donation (currently $625,000 for water and $125,000 for wastewater) as well as customer and employee donations.[393] Upon closing the PUC-approved BASA acquisition, PAWC will expand eligibility to customers with household income at or below 250% of FPL and contribute $3.5 million to the Hardship Fund ($700,000 annually for five years) in addition to PAWC's annual $750,000 contribution.[394]

Several parties made recommendations regarding Hardship Fund operation and funding levels. On the operational side: (1) CEO witness Warabak recommends distributing Hardship Funds based on the percentage of low-income customers in each service area or county;[395] (2) OCA witness Colton recommends raising the income threshold for the Hardship from 200% of FPL to 250% of FPL;[396] and (3) CAUSE-PA witness Geller recommends (i) elimination of the good-faith payment requirement, (ii) permitting customers to apply for more than one grant per program year, up to applicable maximum annual grant amounts, and (iii) increasing the annual grant amount to $600 for water and wastewater, respectively.[397] Regarding overall funding:

[393] PAWC St. 9, pp. 13-14; PAWC 14-R, pp. 15-16 (minimum payment requirement).
[394] PAWC St. 9, pp. 17-18.
[395] CEO St. 1, pp. 6-7.
[396] OCA St. 5, pp. 64-66.
[397] CAUSE-PA St. 1, pp. 51-53.

(1) Mr. Geller recommends increasing annual funding by $1 million; and (2) Ms. Warabak recommends increasing the annual shareholder contribution by $330,000.[398]

Apart from the recommendation concerning multiple customer grants per year, which PAWC is already working to implement,[399] the proposed operational changes should be rejected. First, regarding the distribution of Hardship Funds, the Company's existing statewide funds for water and wastewater are appropriately designed to ensure that the Hardship Fund dollars reach as many low-income customers across PAWC's service territory as possible. Previously, PAWC maintained regional caps for the water Hardship Fund and found that the regional design could prevent income-eligible customers in a region from accessing the Hardship Fund once the cap was hit. CEO's recommendation could result in similar negative impacts to income-eligible customers. Second, the Company continues to believe a good-faith payment requirement is appropriate because it ensures that customers eligible for the Hardship Fund are making a sincere effort to pay their utility bills. Third, in light of the Company's AMP implementation and proposed expansion of the BDP, PAWC believes it is premature to increase the annual Hardship Funds grant amount to $600 for water and wastewater. Finally, although the Company does not support expanding the Hardship Fund to customers above 200% of FPL in this case, when the BASA acquisition closes, PAWC has already agreed as part of the global BASA proceeding settlement to increase raise the Hardship Fund eligibility threshold to 250% of FPL.[400]

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[398] *Id.*; *see also* CEO St. 1, pp. 6-7.
[399] The Hardship Fund administrator, DEF, is developing a software enhancement that is expected to deploy at the start of the 2024-2025 program year. Once the enhancement is effective, customers will be able to apply for multiple Hardship Grants during a program year. *See* PAWC St. 14-R, p. 16.
[400] PAWC St. 14-R, pp. 15-16; *see also* Tr. 2024 (confirming that PAWC's increase in Hardship Fund eligibility to 250% of FPL is contingent on the closing of the BASA acquisition and that the Hardship Fund commitments in the acquisition case were driven by the approximately 14,000 additional residential customers that PAWC would serve after the acquisition).

Regarding overall funding, PAWC notes that utility payments to the Hardship Fund are voluntary shareholder contributions, and the Commission cannot order a utility to increase its contributions to the fund.[401] While the Company has not proposed to increase shareholder funding levels in this proceeding, PAWC has committed to maintain current funding levels and has made a substantial proposal to expand the BDP to customers with incomes up to 200% of the FPL in this proceeding which will open up additional bill assistance to a large, new segment of customers (151%-200% of FPL).[402] Finally, as noted earlier, PAWC committed to significantly increase funding for the Hardship Fund when the BASA acquisition closes.

E. Conservation Assistance

CAUSE-PA witness Geller recommends that PAWC develop and implement a comprehensive conservation and line repair/replacement program for all customers below 200% of FPL. He further recommends the targeting of high-usage customers, annual reporting and coordination with other utility programs.[403]

Mr. Geller is attempting to impose a low-income usage reduction program ("LIURP") construct on PAWC that was established for electric distribution companies ("EDCs") and natural gas distribution companies ("NGDCs"). There are detailed LIURP regulations addressing many of the items recommended by Mr. Geller, including prioritizing high users, reporting, and utility coordination.[404] As explained by Ms. Dean, LIURPs are required under Pennsylvania law for EDCs and NGDCs only and are part of their broad universal service

[401] *See, e.g.*, *Columbia Gas of Pa. Inc. Universal Serv. & Energy Conservation Plan for 2015-2018 Submitted in Compliance with 52 Pa. Code § 62.4*, Docket No. M-2014-2424462, 2015 WL 4309172, at *23 (Final Order entered July 8, 2015); *Nat'l Fuel Gas Distribution Corps. Universal Serv. & Energy Conservation Plan for 2014-2016 Submitted in Compliance with 52 Pa. Code § 62.4*, Docket No. M-2013-2366232, 2014 WL 2426998, at *4 (Final Order entered May 22, 2014).
[402] PAWC St. 14-R, p. 4.
[403] CAUSE-PA St. 1, pp. 63-64.
[404] 52 Pa. Code §§ 58.1, et seq.

plans.[405] To implement a LIURP-type program, PAWC would have to hire additional staff and manage costs associated with repairing and replacing the leaking lines and infrastructure of low-income customers. The PUC should not mandate the implementation of such a substantial new program in the absence of a change in law addressing low-income conservation obligations for water and wastewater utilities and providing for appropriate cost recovery.[406]

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

PAWC employs a robust, multi-prong approach to inform customers about the benefits provided by the H2O Program, including: direct customer communication (e.g., bill inserts, social media, websites), participation in PUC consumer education events and local community events (e.g., customer assistance program fairs and senior fairs), and Dollar Energy Fund ("DEF") outreach (e.g., public service announcements and community speaking).[407] To target particular communities in need, such as areas with a high percentage of customers at or below 50% of FPL, PAWC has successfully deployed an internal analytic process.[408] In addition, if customers access the "myWater" customer portal, they will see information about bill assistance self-service options, as well as a link to information on PAWC's H2O Programs and instructions for how to apply.[409] PAWC efforts have supported a significant increase in BDP enrollment. Notably, between December 2020 and November 2023, PAWC has increased participation in its BDP by over 30%.[410]

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[405] PAWC St. 14-R, p. 13.
[406] *Id.*, pp. 13-14.
[407] PAWC St. 9, pp. 14-16; PAWC St. 14-R, p. 7.
[408] PAWC St. 14-R, pp. 8-9.
[409] PAWC St. 9-R, p. 11.
[410] PAWC St. 14-R, p. 8.

Mr. Colton and Mr. Geller both recommend new processes and requirements related to outreach.[411] First, Mr. Colton would require PAWC to make personal contact with any confirmed low-income customer facing imminent disconnection of service for nonpayment, inform them of their right to enroll in the BDP, enroll them in the Company's AMP as an alternative to disconnection, and only offer a payment arrangement if a customer is informed of the BDP and AMP and rejects enrollment.[412] As part of that proposal, Mr. Colton recommends that "[d]isconnections to these customers should be paused until PAWC has received a response to the offer of BDP/AMP participation."[413] Second, Mr. Geller recommends changes to PAWC's call handling procedures so that eligible payment-troubled customers are enrolled in the Company's H2O Programs before they are put on a payment arrangement.[414] He also argues that PAWC customers should be screened at the time of move-in and during non-emergency calls for their income eligibility for the H2O Program.[415]

PAWC agrees that low-income customers should be enrolled in PAWC's H2O Programs as early as possible, which is why when a customer calls in seeking payment assistance, customer care agents ("CCAs") are trained to direct customers to call DEF to enroll.[416] The Company already adheres to the extensive Chapter 14 and Chapter 56 requirements regarding payment arrangements and service terminations and additionally places a 30-day collections and termination lock on the account of any customer who mentions they are working with an

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[411] In addition to the recommendations described in this section, Mr. Geller and Mr. Colton both recommend submission of a universal service plan, of which customer outreach would be a part. CAUSE-PA St. 1, pp. 56-57; OCA St. 5, p. 67. The universal service plan recommendations are addressed in Section XI.H. of this Brief.
[412] OCA St. 5, pp. 59, 61.
[413] *Id.* Mr. Colton further recommended that PAWC submit a universal service plan, including customer outreach proposals, for PUC approval. OCA St. 5, p. 67. The universal service plan recommendation is addressed in Section XI.H. of this Brief.
[414] CAUSE-PA Sts. 1, pp. 57-59 & 1-SR, pp. 10-12.
[415] CAUSE-PA St. 1, pp. 56-58.
[416] PAWC St. 9-R, p. 11.

agency/partner for payment assistance.[417] However, PAWC should not decide on behalf of the customer whether to apply for the H2O Programs or enter into a separate PAWC payment arrangement, as Mr. Geller and Mr. Colton propose. Further, customers should not be offered an indefinite stay on termination of service while they respond to an offer of BDP/AMP enrollment, as Mr. Colton proposes, as it would conflict with PAWC's statutory obligation to reasonably manage customer arrears.[418] Finally, CCAs should not solicit income information from customers that they may consider private and/or confidential when contacting PAWC about issues unrelated to billing, such as move-ins and non-emergency service issues.[419]

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

Mr. Geller recommends that PAWC be required to establish quantitative outreach goals, update its low-income customer count annually, and set BDP enrollment benchmarks at 20% per year of estimated low-income customer counts until 75% enrollment is achieved. He further suggests that PAWC track and report relevant data concerning the Company's "progress" to its Customer Assistance Advisory Group ("CAAG") to help refine outreach efforts.[420]

The Commission should reject Mr. Geller's data collection and reporting recommendations for several reasons. First, the Company is making significant strides in reaching out to customers without formalizing outreach/enrollment benchmarks or quantitative goals. As noted earlier, PAWC's robust outreach strategy facilitated a 30% increase in BDP participation between December 2020 and November 2023. Second, the Company's H2O Programs are entering a period of transition. Currently, verbal income information is sufficient to enroll in the BDP, and the vast majority of BDP participants have not provided income

[417] PAWC St. 14-R, p. 11.
[418] *Id.*; *see also* PAWC St. 9-R, p. 11.
[419] PAWC St. 9-R, pp. 11-12.
[420] CAUSE-PA St. 1, pp. 47-48.

documentation to the Company. In the near future, however, PAWC will be requiring customers to verify their income eligibility by submitting income documentation as part of the AMP and the BDP. The income verification requirement may result in some customers leaving the BDP while other customers may newly enroll as a result of new benefits under the AMP. It would not be reasonable to establish benchmarks when the enrollment levels are expected to fluctuate over the next few years.[421] Finally, PAWC already has processes in place to regularly share relevant data with the CAAG. The Company holds quarterly meetings with the CAAG in an effort to enhance its low-income assistance programs and related outreach. Relevant to Mr. Geller's concerns, as part of the settlement of the AMP proceeding, PAWC committed to develop and share a draft communication and outreach plan for the AMP with the CAAG to obtain members' feedback.[422] For all these reasons, it is unnecessary to impose additional benchmarks or reporting requirements to motivate PAWC to continue to advance its H2O Programs.

H. Comprehensive Written Universal Service Plan

OCA witness Colton recommends that PAWC develop a written universal service plan and file that plan with the Commission's Bureau of Consumer Services ("BCS").[423] Mr. Geller also recommends requiring PAWC to file a universal service plan ("USP") and accompanying petition within one year of the final order in this case, and every five years thereafter.[424]

Similar to Mr. Geller's low-income conservation proposal addressed in Section XI.E. above, these USP recommendations are attempting to impose elements of the broad universal service framework on PAWC in the absence of any actual universal service requirements or mechanism for cost recovery applicable to water or wastewater utilities. Pennsylvania law

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[421] PAWC St. 14-R, pp. 9-10.
[422] *Id.*, p. 9.
[423] OCA St. 5, pp. 67-68.
[424] CAUSE-PA St. 1, p. 56.

requires EDCs and NGDCs to have USPs and also provides for the full recovery of their USP costs.[425] As explained by Ms. Dean, the time, resources, and cost of maintaining and revising a USP are significant, often requiring the establishment of new departments at utilities that are entirely focused on the implementation of these plans. At this time, PAWC assistance programs are administered by DEF and supported by 1.5 full-time employees. Establishment of a full-scale USP would require a dramatic increase in resources devoted by PAWC commensurate with those of EDCs and NGDCs. The PUC should not mandate the development and implementation of a universal service plan in the absence of any universal service requirement (and corresponding full and timely cost recovery) for water and wastewater utilities under Pennsylvania law.[426]

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

Mr. Geller argues that PAWC does not exercise appropriate levels of oversight over the Company's low-income program administrator, DEF. He further recommends that PAWC be required to establish clear metrics for auditing DEF-handled accounts, including monthly review of metric data and auditing reports, and also conduct and submit periodic third-party evaluations on its low-income assistance program in-line with the six-year evaluation conducted for EDC and NGDC universal service programs.[427]

Mr. Geller's recommendations are unnecessary in light of existing PAWC processes and would result in significant new administrative costs. As explained by Ms. Dean, PAWC regularly meets with DEF regarding program administration and addresses any issues as they

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[425] *See, e.g.*, 52 Pa. Code § 54.74; 52 Pa. Code § 62.41; 66 Pa.C.S. § 2804(8) ("The commission shall establish for each electric utility an appropriate cost-recovery mechanism which is designed to fully recover the electric utility's universal service and energy conservation costs over the life of these programs.").
[426] PAWC 14-R, pp. 12-13.
[427] CAUSE-PA St. 1, pp. 64-67.

arise. PAWC has full access to information regarding DEF fund balances, application processing, application status and standard reports through DEF's Grant Management System. DEF provides PAWC with standard periodic reports on application and grant activities, and the Company can ask DEF for additional reports as needed. New auditing metrics and costly third-party audits are simply not necessary in order for PAWC to have appropriate oversight over DEF's activities.[428] It is also important to note that the third-party auditing Mr. Geller recommends is required for EDCs and NGDCs – not water and wastewater utilities – as part of their broad universal service obligations under Pennsylvania law.[429] For all these reasons, the PUC should reject Mr. Geller's proposals concerning metrics and auditing of DEF activities.

XII. SERVICE QUALITY AND CUSTOMER SERVICE ISSUES

A. Summary

OCA witness Alexander proposes that the PUC impose several customer service performance standards on PAWC as a condition of any rate increase.[430] As a threshold matter, the Commission does not have the authority to imposed performance-based rates on the Company in this proceeding. Under Act 58 of 2018 ("Act 58"), the General Assembly made clear that the Commission has authority to approve alternative rate mechanisms following the application by a utility to establish such mechanisms.[431] While PAWC proposed an RDM and ECIC in this proceeding, those alternative rate mechanisms are not performance-based rates. Nothing in Section 1330(b) provides that a utility's application for approval of one form of alternative rate mechanism identified in Act 58 permits the Commission to impose any or all other forms of alternative rate mechanisms. To the extent the Commission has imposed customer

[428] PAWC St. 14-R, p. 14.
[429] 52 Pa. Code §§ 54.76 and 62.6.
[430] OCA Sts. 6, pp. 5-6, 17-19, 35-36, 43-44 & 6-SR, pp. 3-6.
[431] 66 Pa.C.S. § 1330(b).

service standards in the past, those have been approved in the context of merger and acquisition proceedings – not base rate proceedings.[432] Moreover, as explained below, the OCA's mischaracterizes PAWC's customer service performance.

B. Customer Service Performance

The Customer Service Organization ("CSO") supports the customer service needs of PAWC and the other American Water utility subsidiaries, including customer call handling and billing.[433] The CSO is focused on providing customers with convenient access to information and responsive, personal service to drive high satisfaction ratings.[434] PAWC and the CSO leverage multiple sources of customer feedback to monitor customer satisfaction, including targeted surveys taken immediately after phone, field and customer portal interactions and a customer satisfaction survey of all PAWC customers conducted quarterly.[435] This approach allows PAWC and the CSO to stay abreast of changing customer expectations and align performance goals to meet those customer needs.[436]

The CSO consistently seeks ways to improve the customer experience and maintain high levels of customer satisfaction.[437] As Ms. Degillio testified, the CSO's hiring and recruitment efforts over the past several years have reduced wait times and the call abandonment rate for customers that do not utilize the courtesy call back ("CCB") feature.[438] In addition, the CSO continually refines the myWater portal to help PAWC customers efficiently manage their

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[432] PAWC St. 1-R, p. 33.
[433] PAWC St. 9, pp. 2-5. The CSO is operated by employees of American Water Works Service Company, Inc. (the "Service Company"), which provides support for several functions of PAWC and other American Water utility subsidiaries.
[434] *Id.*, pp. 7-8.
[435] *Id.*
[436] *Id.* Contrary to OCA witness Colton's assertions (OCA St. 5, pp. 123-24). PAWC and the CSO identify trends from customer feedback provided via transaction surveys, including from customers seeking bill assistance, requesting payment arrangements, raising inability-to-pay issues, or responding to disconnection notices. PAWC St. 9-R, p. 10.
[437] PAWC St. 9, pp. 9-13.
[438] PAWC Sts. 9, pp. 9-13 & 9-R, pp. 3-4.

account online and endeavors to expand adoption of paperless billing to increase customer engagement and, ultimately satisfaction.[439]

1. Call Handling

While acknowledging improvement in 2023 compared to 2022, Ms. Alexander contends that CSO performance has been poor since 2019.[440] Based on her observations regarding CSO performance, Ms. Alexander recommends specific standards – 80% of customer calls answered within 30 seconds and a 4% call abandonment rate – that she believes the PUC should impose to improve PAWC's call center performance.[441] In Ms. Alexander's view, PAWC must also (1) audit its CSO and third-party contractor performance, training, and complaint handling, and (2) change its existing PUC-approved Service Company Agreement to allow the Service Company to withhold payments to third party contractors who fail to meet CSO performance metrics.[442]

Ms. Alexander narrowly and erroneously focuses her evaluation of CSO performance on wait times and call abandonment rather than the overall customer experience. In fact, as Ms. Degillio explained, the highest driver of customer service that impacts overall satisfaction is first contact resolution.[443] Other important customer satisfaction indicators that are not related to call handling performance that Ms. Alexander fails to consider include quality and value of service, proactive communications, ease of paying bills, and conservation.[444] In short, Ms. Alexander's opinion that overall customer service is poor based exclusively on call answering metrics is flawed.

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[439] PAWC St. 9, pp. 10-11.
[440] OCA St. 6, pp. 19-25; OCA Ex. BA-3.
[441] OCA Sts. 6 pp. 25-26 & 6-SR, pp. 8-9.
[442] *See* OCA Sts. 6, pp. 9-11, 25.
[443] PAWC Sts. 9, pp. 7-8.
[444] *Id.*

In addition, Ms. Alexander compares the CSO's performance with data reported to BCS by electric and gas utilities who use different definitions and metrics for call center performance than PAWC. For example, the "service level" presented in the BCS Customer Service Performance Reports that Ms. Alexander relies on for her proposed performance standards is the "percentage of calls answered within 30 seconds by an [interactive voice response ("IVR") system] or a [customer service representative] ready to render assistance."[445] This is significantly different than the calculation of CSO service levels which includes only calls by an agent who is ready to render assistance.[446] Calls answered by the IVR and customers who elected a CCB were excluded from the call center performance data presented in PAWC's prior base rate cases and the Company's most recent management audit.[447] If calls answered by the IVR and/or customers using the CCB feature were reflected in the CSO's performance data, service levels would move toward the metrics recommended by Ms. Alexander.

Ms. Alexander's recommendations for additional management oversight of CSO call handling are without merit. The performance levels of the CSO and third-party call handling agencies are already monitored on a *daily* basis.[448] PAWC leadership routinely reviews CSO performance trends with CSO leadership to develop strategies for improvement.[449] The Service Company determines staffing levels of third-party call handling agencies based on the performance of individual agents against known performance indicators set forth in the service agreements with those contractors.[450]

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[445] *Aqua Pa, Inc, Peoples Natural Gas Co. LLC, and Peoples Gas Co. LLC Management and Operations Audit*, Docket Nos. D-2020-3018771, D-2020-3018773, and D-2020-3018774 (Apr. 2021), p. 130.
[446] PAWC St. 9-R, pp. 4-5.
[447] *Id.*
[448] *Id.*, pp. 6-8.
[449] *Id.*
[450] *Id.*

Finally, Ms. Alexander's concerns about CSO compliance with Pennsylvania consumer protection requirements[451] are unfounded. The CSO conducts extensive training of its agents in Pennsylvania rules and regulations before they are permitted to handle calls from PAWC customers.[452] This training includes an 80-page training module and a knowledge test, and the CSO has a robust quality assurance process focused on CCA adherence to Chapter 14 of the Code and Chapter 56 of the PUC's regulations.[453] Ms. Alexander has not provided any evidence that CCAs who completed the training she believes is deficient are not following Pennsylvania regulations when handling PAWC calls.

2. Responses to Customer Complaints

PAWC received formal complaints in this proceeding addressing, among other things, water quality and field service–related issues. Mr. Runzer described the typical causes of, and PAWC responses to, water quality complaints (e.g., hard water, colored water, odor, taste) and also explained how field-service concerns are handled.[454] OCA witness Terry L. Fought highlighted individual customer public input hearing testimony about water quality and service issues and recommended that PAWC respond to the issues raised.[455] Mr. Runzer described the individual Company outreach to the customers identified in Mr. Fought's supplemental direct testimony,[456] and Mr. Fought had "no issue about PAWC's response" and appreciated the Company's follow up with those customers.[457]

[451] OCA St. 6, pp. 23-24.
[452] PAWC Sts. 9, pp. 6-7 & 9-R, pp. 8-9.
[453] PAWC St. 9-R, pp. 8-9.
[454] PAWC St. 2-R, pp. 13-16.
[455] OCA St. 7 Supp., pp. 2-7.
[456] PAWC St. 2-R, pp. 18-53.
[457] OCA St. 7-SR, p. 7.

Finally, OCA witness Alexander recommends requiring a professionally conducted root-cause analysis of complaint trends and a report on findings including identification of trends, evaluation, steps to reform or avoid repeated trends, and internal steps to take to enforce action where needed within three months and quarterly updates to shareholders.[458] Ms. Dean explained that Ms. Alexander's concerns were unfounded in light of the Company's robust complaint analysis process. In addition to providing examples of detailed complaint record keeping and analysis (e.g., PAWC Exhibit TD-1R_CONFIDENTIAL), Ms. Dean confirmed that PAWC: (1) analyzes every customer complaint it receives (other than informal mediation complaints that do not involve any allegation of wrongdoing by the Company), to determine the contributing factor, if any; (2) makes a root-cause determination for every such customer complaint; (3) logs a root cause for each such complaint, where a contributing factor is identified; (4) generates reports reflecting customer complaint root causes; (5) analyzes root- cause trends; and (6) regularly discusses root-cause trends with the CSO and the other appropriate business units.[459]

3. Billing

A few PAWC customers expressed concern at the public input hearings over either not receiving paper bills for the month of December 2023 or receiving mailed bills late.[460] PAWC confirmed with the CSO's print vendor that all 2023 bills were timely printed and mailed to customers that have not enrolled in paperless billing.[461] As a result of its investigation, the Company concluded that this issue was caused by postal service delays.[462] Notably, PAWC agreed to, as a courtesy, automatically credit a late fee charge assessed in January to any

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[458] OCA St. 5, pp. 11-18, 44.
[459] PAWC St. 14-R, pp. 21-24.
[460] *See* C.O.S. St. 1, p. 6; State Rep. Kyle T. Donahue St. 1, p. 6.
[461] PAWC St. 9-R, p. 18.
[462] *Id.*

Scranton area customer who did not have any late fees in the last quarter of 2023.[463] Any Scranton area customers who do not meet these requirements for an automatic credit, and who may have been assessed a late fee in January due to postal service delays, may still call and request that the late fee be credited.[464]

OCA witness Alexander recommends that PAWC document the frequency of inconsistent billing periods, and what steps can be taken to avoid them, as well as how customers can avoid payment and budgeting difficulties with inconsistent billing periods.[465] As Ms. Dean explained, PAWC complies with Commission's regulations regarding billing frequency (52 Pa. Code § 56.11) and PAWC's billing periods are between 26 and 35 days, consistent with the regulation at 52 Pa. Code § 56.2. PAWC also offers budget billing as a tool for customers to manage their monthly bill amount.[466] There is no basis for the Commission to require additional reporting and documentation when PAWC's billing periods are consistent with PUC regulations.

C. Tenant Issues and Protections

CAUSE-PA witness Geller contends that PAWC should be required to track and report on granular metrics to ensure compliance with the Discontinuance of Services to Leased Premises Act ("DSLPA"), including: (1) what notices are provided to each tenant occupied account before termination for nonpayment by landlord/owner, (2) when and how notices are provided, (3) whether and how many tenants asserted their rights to continued service, (4) the number of accounts improperly coded as non-tenant accounts, (5) notices of termination/disconnection sent to accounts improperly coded as non-tenant and if the account was terminated/disconnected for non-payment while coded as a non-tenant account, and

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[463] Tr. 1976.
[464] *Id.* 1976-77
[465] OCA St. 6 Supp, p. 2; OCA St. 6-SR, p. 26.
[466] PAWC St. 14-R, pp. 24-25.

(6) partial payments made by tenants seeking to continue their service (including partial payments, amounts paid, and whether payments were sufficient to continue service).[467]

As explained by Ms. Dean, PAWC already fully complies with the DSLPA and the Company's processes are not inconsistent with the Utility Services Tenants Rights Act ("USTRA"), which, as Mr. Geller notes,[468] applies to municipal corporations and municipal authorities rather than regulated utilities.[469] Importantly, the DSLPA places the obligation on the landlord ratepayer to notify the utility whether the premises being served are for rental purposes. It does not place the obligation on the utility to investigate each property in its service territory to determine if a landlord ratepayer property is occupied by a tenant.[470]

Nonetheless, PAWC does take steps to determine whether service addresses should be coded as landlord-ratepayer/tenant occupied. PAWC relies on information from landlords, tenants and field service representatives to determine if a property is reasonably likely to be tenant occupied and coded as such. Through this process, PAWC currently has over 20,000 residential accounts coded as tenant occupied. If delinquent, these accounts go through the 37-day notice process prior to any service termination as required by the DSLPA and USTRA. PAWC utilizes the same processes prior to terminating water services to landlord ratepayer properties at the request of municipal sewer providers as PAWC utilizes for terminations of service that are initiated by PAWC. The notices that the affected tenants receive provide directions on how to contact PAWC in order to continue water service, and tenants do not need

[467] CAUSE-PA St. 1, pp. 72-73.
[468] *Id.*, p. 75.
[469] PAWC St. 14-R, p. 18.
[470] 66 Pa.C.S. § 1529.1(a); *see also* PAWC St. 14-R, p. 18.

to rely on the municipal authority to contact PAWC to assert their rights.[471] For all these reasons, Mr. Gellers's granular metrics are unnecessary and should be rejected.

D. Water Services Act and Section 12.1(H) of Water Tariff

Both CAUSE-PA witness Geller and OCA witness Alexander recommend changes to PAWC's policies and procedures regarding termination at the request of a non-Company wastewater provider to better ensure compliance with the Water Services Act ("WSA"). Mr. Geller, for example, contends that PAWC's processes improperly rely upon sewer utilities to monitor their own WSA compliance and recommends that PAWC require actual proof of mailing and proof-of-notice posting.[472] Ms. Alexander recommends additional processes to: (a) confirm that no customer dispute has been filed with the non-Company sewer service provider; (b) confirm the customer did not produce a medical certification to the sewer provider; and (c) post notice at a customer's premises at time of shut-off.[473] She further reviewed PAWC's proposed Tariff Section 12.8[474] addressing termination at the request of a non-Company wastewater provider (*see* PAWC Ex. SDG-4R), and proposes narrowing the types of wastewater providers referenced in the rule and adding requirements for certain termination notices.[475]

PAWC's current procedures for implementing the WSA's requirements comply with the law and address several of the concerns identified by Mr. Geller and Ms. Alexander. Prior to terminating service under the WSA, a 10-day termination notice must be mailed or posted at the property. If during that 10-day period, the person liable for the unpaid charges delivers a written statement under oath to the municipal wastewater provider averring a just defense to all or part of

[471] PAWC St. 14-R, pp. 18-19.
[472] CAUSE-PA St. 1, pp. 74-76.
[473] OCA St. 6, pp. 26-30.
[474] PAWC proposed Water Tariff Section 12.1(H) in its original filling to address termination at the request of a non-Company wastewater provider. PAWC St. 4, p. 34. In rebuttal, the Company replaced proposed Section 12.1(H) with a proposed new Section 12.8. PAWC St. 4-R, pp. 10-11.
[475] OCA St. 6-SR, pp. 17-19.

the claim, the water service is not to be shut off until the claim has been judicially investigated. As explained by Ms. Dean, PAWC's PUC-approved contracts with sewer providers require the sewer provider to issue the appropriate termination notice to customers. PAWC has a process in place to verify that the municipal sewer provider has complied with all of its obligations under the WSA, which includes requiring a responsible municipal official to certify both that the notice was provided and the lack of any just defense filing.[476] In addition, while not a requirement of the WSA, PAWC recently modified the template that municipal entities submit in order to request water service shut-offs to include a confirmation that the municipality has not received a medical certification for the relevant premise.[477] Other process-related recommendations are either inconsistent with the WSA (Ms. Alexander's recommendation the PAWC post its own notice) or unnecessary in light of PAWC's verification process (Mr. Geller's recommendation that PAWC require actual proof of mailing and posting of the termination notice).[478]

PAWC also disagrees with Ms. Alexander that two additional changes are required to the Company's proposed Tariff Section 12.8. As Ms. Alexander acknowledged, the Company has already largely accepted her recommended changes to PAWC's original tariff proposal because they reflected actual Company practices that are already in place.[479] First, without citing to any supporting statute or regulation, Ms. Alexander seeks to include language which would require a Commission-approved agreement with non-Company wastewater providers in all circumstances.[480] This revision is unreasonably restrictive and does not reflect the scope of

[476] PAWC St. 14-R, p. 19.
[477] *Id.*, p. 20.
[478] *Id.*, pp. 19-20.
[479] PAWC St. 4-R, pp. 10-12; OCA St. 6-SR, p. 17 ("[t]he Company has agreed to revise its proposed Tariff language to reflect my recommendations with one exception")
[480] OCA St. 6-SR, pp. 17-19.

wastewater providers with whom the Company has shut-off agreements.[481] Second, Ms. Alexander proposed to include several content requirements for the termination notice that is provided at the time of termination.[482] The Commission should require the Company to adopt these requirements where: (1) the termination notices provided at the time of shut-off are not required by statute or regulation and are provided on a voluntary basis; and (2) PAWC has not had the opportunity to evaluate the feasibility of implementing these changes nor discuss them with the over 120 non-Company wastewater providers with whom PAWC has shut off agreements.[483]

E. American Water Resources

1. Overview of PAWC's Long-Standing Relationship with AWR

For over two decades, American Water Resources ("AWR") has offered optional products and services, such as water line and sewer line protection plans, to PAWC customers. After enrolling with AWR, customers are charged a monthly fee so that if their water or sewer line breaks, AWR will deploy a contractor to fix the water or sewer line under the warranty program at minimal up-front cost to the customer.[484] PAWC customers can choose the convenience of including these charges on their PAWC bill or be billed directly by AWR.[485] AWR's warranty plans are viewed favorably by customers who want the convenience and certainty of minimizing the up-front cost expenditures associated with a future water or sewer line repair.[486]

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[481] Tr. 2021-22. Ms. Dean further explained that PAWC has a relevant Joint Services Agreement with Aqua where the Commission did not approve or reject the agreement but rather directed the parties to seek Commission approval of tariff changes related to provisions affecting customers. Tr. 2020-21.
[482] OCA St. 6-SR, pp. 17-19.
[483] Tr. 2022-23.
[484] PAWC St. 9-R, p. 12.
[485] *Id.*, p. 13.
[486] *Id.*, p. 12.

It is standard industry practice for utilities both within and outside of the Commonwealth to partner with providers of these types of warranty services.[487] By way of example, AWR offers similar services to residential water and sewer utility customers in 42 other states and the District of Columbia.[488] The Commission's regulations recognize utilities long-standing practice to bill "charges for other than basic service," which include, among other things, "line repair programs and appliance warranty programs."[489] Consistent with the Commission's regulations, PAWC includes charges for these services as a separate line item on customers' monthly bills.[490] In addition, these services are entirely optional to customers, i.e., customer payments are applied to PAWC's charges first and a customer's choice not to pay for AWR's services does not result in any service termination efforts by PAWC.[491]

Although American Water sold its interest in AWR in December 2021, which ended the affiliate relationship between AWR and PAWC, the day-to-day relationship between PAWC and AWR remains the essentially the same by virtue of a Utility Agreement executed by PAWC and AWR at the time of the sale.[492] PAWC continues to adhere to all Commission regulations related to the billing of AWR charges. **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL] PAWC's relationship with AWR as a partner who provides optional warranty products and services to its customers has remained unchanged over the last two decades.

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[487] *Id.*, p. 16.
[488] *Id.*
[489] 52 Pa. Code § 56.13.
[490] *Id.*
[491] 52 Pa. Code §§ 56.23, 56.83(3).
[492] *See* CONFIDENTIAL OCA Exhibit BA-8.
[493] PAWC St. 9-R, pp. 12-14.

2. The OCA's Opposition to PAWC's Relationship with AWR

Despite no meaningful change in the day-to-day operations between PAWC and AWR, OCA witness Alexander raises several concerns related to PAWC's relationship with AWR, apparently as a result of American Water's sale of its ownership interest in AWR: (1) PAWC's exclusive on-bill relationship with AWR is unreasonably discriminatory; (2) PAWC does not ensure that AWR charges PAWC customers the same prices advertised; (3) AWR's use of PAWC's name and logo for marketing purposes creates a false impression that customers are purchasing warranty plans from a "trusted brand"; and (4) PAWC performs "compliance monitoring" of AWR on behalf of American Water.[494] Based on her concerns, Ms. Alexander recommends that the Commission investigate PAWC's relationship with AWR and require PAWC to suspend billing for AWR's products and services until the investigation concludes.[495] As further explained below, none of Ms. Alexander's concerns are valid, and no Commission investigation of PAWC's long-standing relationship with AWR is warranted.

a. PAWC's Billing Arrangement with AWR is Not Discriminatory

As a threshold matter, AWR's warranty products and services are not utility services subject to PUC jurisdiction.[496] The Commission only has the authority to evaluate whether a utility's jurisdictional services, such as a utility's billing of warranty products and services, are consistent with the Code.[497] As already discussed, PAWC's billing of AWR products and services is entirely consistent with the Commission's regulations for non-basic services.

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[494] OCA Sts. 6, pp. 39-41 & 6-SR, pp. 20-24.
[495] OCA St. 6, p. 42.
[496] *See PPL Elec. Utils. Corp. v. Pa. Pub. Util. Comm'n*, 912 A.2d 386, 408 (Pa. Commw. Ct. 2006) (holding that an unregulated energy consulting service offered by an unregulated affiliate of PPL is not a regulated public utility service and that competition among unregulated services is not an objective of the regulatory scheme of the Public Utility Code).
[497] *Pa. Pub. Util. Comm'n v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2018-2647577, 2018 WL 6590854, at *28-33 (Pa. P.U.C. Dec. 6, 2018) ("Columbia Gas Order").

Nevertheless, Ms. Alexander alleges that PAWC including charges for AWR's warranty services on its bills discriminates against other providers of these products and services. After the restructuring of the electric and gas markets, certain electric and gas utilities prohibited competitive suppliers from including charges for their non-basic products and services on the utility's bills, while permitting a different party to include its products and services on the utility's bills.[498] In this line of cases, the PUC considered whether this utility practice was unreasonably discriminatory in violation of Section 1502 of the Code.[499] Section 1502 states:

> No public utility shall, as to service, make or grant any unreasonable preference or advantage to any person, corporation, or municipal corporation, or subject any person, corporation, or municipal corporation to any unreasonable prejudice or disadvantage. No public utility shall establish or maintain any unreasonable difference as to service, either as between localities or as between classes of service, but this section does not prohibit the establishment of reasonable classifications of service.

Of course, these decisions are inapplicable to PAWC and its relationship with AWR because, as Ms. Degillio testified, no other person or corporation has sought to include its non-basic products and services on PAWC's bills. The Utility Agreement states that PAWC is not precluded from offering similar on-bill services to another entity.[500] PAWC's billing relationship with AWR is not discriminatory because no other entity is seeking access to PAWC's bills; therefore, PAWC is not providing any preference or advantage to AWR. PAWC has maintained the same billing relationship with AWR for over twenty years; the OCA's concerns about discrimination at this point are entirely without merit.

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[498] *See* Columbia Gas Order, 2018 WL 6590854, at *22-23; *Interstate Gas Supply, Inc. et al. v. Metro. Edison Co., Pennsylvania Elec. Co., Pennsylvania Power Co., and West Penn Power Co.*, Docket Nos. C-2019-3013805 et al., 2021 WL 3840884, at *1-2 (Aug. 26, 2021) ("FE PA Order"), *aff'd, Interstate Gas Supply, Inc. et al. v. Pa. P.U.C.*, 298 A.3d 1181 (Pa. Commw. Ct. 2023) ("*IGS*").
[499] Columbia Gas Order, 2018 WL 6590854, at *28-32; FE PA Order, 2021 WL 3840884, at *13-16; *IGS*, 298 A.3d at 1187-89.
[500] CONFIDENTIAL OCA Exhibit BA-8, p. 2.

b. AWR's Pricing is Beyond the Scope of PUC Jurisdiction

Ms. Alexander's claims that PAWC should have some monitoring responsibility over AWR's charges should be rejected. As already discussed, the prices of non-basic products and services are beyond the scope of the Code and not subject to Commission jurisdiction. PAWC and the PUC have no authority to influence AWR's prices or other terms under its contracts with customers. As part of PAWC's decades-long relationship with AWR, PAWC has no authority to audit or monitor AWR pricing. PAWC passes through AWR's contract pricing on its customer bills as a separate line item and no customers' service is terminated for non-payment of such charges.[501] As Ms. Degillio explained, if a customer no longer wants to pay for AWR's products and services, the customer can stop paying for them with no negative repercussions on their water or wastewater service.[502] Therefore, it is entirely reasonable that PAWC does not monitor or audit AWR's charges to customers.

c. AWR's Use of PAWC's Name and Logo is Outside the Scope of this Proceeding

With respect to AWR's use of PAWC's name and logo, OCA once again is raising an issue as if it is new when in reality it has been an ongoing practice for over twenty years. AWR has historically used PAWC's trademark and logo for marketing purposes, which is standard industry practice when a utility partners with another entity to offer warranty products and services. Similar arrangements exist between other major Pennsylvania utilities and a competitor of AWR, HomeServe, which also uses the utility name and logo to market warranty services and products to residential utility customers in the Commonwealth.[503] Notably, the Commission recently rejected the OCA's request to prohibit FirstEnergy Pennsylvania Electric Company's

[501] PAWC St. 9-R, p. 15; *see also* OCA Ex. BA-6.
[502] PAWC St. 9-R, p. 15.
[503] *Id.*, p. 14.

on-bill arrangement with HomeServe for non-basic products and services where Ms. Alexander raised the exact same claims – that the use of the utility name and logo for marketing purposes is misleading.[504] Disclosures are included on all marketing materials explaining that AWR is not affiliated with PAWC, its products and services are optional, and AWR's prices are not determined by PAWC.[505] Accordingly, AWR's long-standing use of the Company's name and logo for marketing purposes does not provide a basis to investigate, prohibit or otherwise prescribe PAWC's arrangement with AWR under the Utility Agreement.

d. PAWC's Compliance Monitoring of AWR is Reasonable

Finally, Ms. Alexander contends that **[BEGIN CONFIDENTIAL]**

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[504] FE-PA Order, 2021 WL 3840884, at *10, *12, *19.
[505] PAWC St. 9-R, p. 15.
[506] OCA St. 6, pp. 33-35, 38, 41.
[507] *See* PAWC St. 9-R, pp. 16-17; CONFIDENTIAL OCA Ex. BA-8, §§ 1.1(d)(i), (v).
[508] *See* PAWC St. 9-R, p. 17; Agreement dated Jan. 1, 1989 between PAWC and Service Company; Docket No. G-880131.

e. The OCA's Proposal to "Impute" AWR Revenues Should Be Rejected

PAWC included $659,624 of miscellaneous revenue from AWR for the on-bill billing arrangement in the revenue requirement for the FPFTY in this case.[509] Even though Ms. Alexander recommends that PAWC suspend services under the Utility Agreement, the OCA did not remove the revenues associated with these services.[510] The suggestion that PAWC not be permitted to provide a service, but the Commission should act as if PAWC will still receive revenues for that service, is unreasonable and inconsistent with proper ratemaking.[511]

F. Main Extensions

OCA witness Fought recommends that PAWC consider a main extension project that would extend an existing water line along Bethel Ridge Road to the West Virginia state border with spurs to serve Shades of Death Road, Locust and Carter Lanes and Penobscot Road in Jefferson Township.[512] PAWC estimates that the main extension proposed by Mr. Fought and the Jefferson Township Municipal Authority ("JTMA") would require the Company to invest $5.2 million to install mains at 39 locations along the route presented in OCA Exhibit TLF-4.[513] PAWC is continuing to evaluate whether the proposed main extension is eligible under Rule 27.1(F) of its tariff, which authorizes main extensions within its existing service territory to be installed without customer contributions subject to Commission approval in order to address health and safety concerns. As Mr. Aiton explained, PAWC has been in continued discussions with the JTMA but has not yet determined whether Rule 27.1(F) is an appropriate mechanism to fund this extension or whether alternate grant funding should be pursued instead.[514]

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[509] PAWC St. 1-R, p. 20.
[510] OCA Sts. 2, pp. 79-80 & 6, p. 41.
[511] PAWC St. 1-R, p. 21.
[512] *See* OCA Sts. 7 Supp., pp. 8-10 & 7-SR, pp. 7-9; OCA Ex. TLF-4.
[513] PAWC St. 3-R, pp. 3-4.
[514] *Id.*, p. 5.

G. Pressure Surveys and Pressure Reducing Valves

Rule 4.7 of the Company's Water Tariff outlines the requirement for customers to install and maintain a pressure reducing valve ("PRV") if the pressure at their service location exceeds 100 pounds per square inch ("psi"). As explained by Mr. Runzer, this tariff requirement impacts a small percentage of customers and PAWC has a process in place whereby field service representatives educate customers in the field regarding PRV requirements.[515]

OCA witness Alexander made recommendations concerning general PRV education and Mr. Fought made recommendations concerning households with higher operating pressure and PAWC's response to pressure inquiries and complaints. Regarding PRV education, Ms. Alexander recommends a broad outreach and education program, to include website content and potentially bill inserts, covering the need for, operation and life cycle of a PRV.[516] Mr. Fought further recommends that: (1) PAWC identify households where it provides normal operating pressures up until the curb that exceed 100 psi and inform those customers about PRVs (including replacement and end of life) and the PRV tariff rule; and (2) where there is a pressure-related customer inquiry, PAWC provide the pressure available at its water main to customers to allow them to make sure that their plumber is providing an acceptable PRV or expansion tank and, if there is a pressure complaint, record the pressure information in the Complaint Log.[517]

Apart from the general education campaign, PAWC largely agrees with the recommendations. First, PAWC already records pressure information and reports it to the Commission for pressure complaints. In addition, when the Company takes a pressure reading, it

[515] PAWC St. 2-R, p. 11.
[516] OCA St. 6, p. 43.
[517] OCA St. 7, pp. 8-10; OCA St. 7-SR, pp. 3-5 (among other things, providing some clarification regarding the initial recommendations made in Mr. Fought's direct testimony)

will provide the pressure information to the customer upon request.[518] Second, the Company has agreed to establish a notification process for customers where PAWC's system pressure regularly exceeds 100 psi. In this notification, the Company will educate the customer that they are responsible for installing a PRV at their service location under PAWC's tariff and encourage them to contact a licensed plumber for guidance, installation, and maintenance of PRVs. The Company will utilize its GIS system to identify customers in higher pressure areas to receive this notification.[519] In light of the small number of customers impacted by the PRV tariff requirement, the Company's existing education efforts by field service representatives, and the Company's agreement to deploy a new, targeted notification process, the Commission should reject the broad outreach and education program recommended by Ms. Alexander.

XIII. MISCELLANEOUS ISSUES

A. Customer Notices Related to Rate Changes

In accordance with 52 Pa. Code § 53.45, PAWC provided notice of its proposed rates to all of its customers that reflected the Company's proposed Act 11 wastewater-to-water revenue requirement allocation.[520] The OCA expressed "concerns" that the notice should have shown rates without the allocation, as well as multiple usage levels, and proposed that PAWC should be required to mail customers a new notice of approved rates before rates go into effect.[521]

The PUC should reject the OCA's proposal for several reasons. First, PAWC provided the notice that is required by the PUC's regulations; any new notice requirements should be adopted by the PUC and applied to all water and wastewater utilities and not solely to PAWC. Second, PAWC's notice was consistent with each of the notices in its rate cases since the

[518] PAWC St. 2-R pp. 12-13.
[519] Tr. 1983-84; *see also* Tr. 2054-55 (explaining that the operational team is still considering the way that customers will be notified).
[520] PAWC St. 1-R, p. 25.
[521] *Id.*, pp. 25-26.

enactment of Act 11. Finally, PAWC already provides detailed notice of its rate changes once they are approved by PUC through a bill insert. An additional mailing is not feasible given the short time period between when rates are approved and when those rates become effective and the process of sending a customized direct mail notice to its nearly 800,000 customers (similar to what is done at the time of filing) takes several weeks and considerable expense.[522]

B. Tariff Changes

The only contested tariff change is addressed in Section XII.D. above.

XIV. CONCLUSION

For the foregoing reasons, the Commission's investigation at Docket Nos. R-2024-3043189 and R-2024-3043190 should be terminated, the various Complaints consolidated therewith dismissed, and the proposed rates, terms and conditions be permitted to become effective without modification.

Respectfully submitted,

Elizabeth Rose Triscari (PA No. 306921)
Teresa K. Harrold (PA No. 311082)
Erin K. Fure (PA No. 312245)
Pennsylvania-American Water Company
852 Wesley Drive
Mechanicsburg, PA 17055
717.550.1570 (bus)
elizabeth.triscari@amwater.com
teresa.harrold@amwater.com
erin.fure@amwater.com

Kenneth M. Kulak (PA No. 75509)
Mark A. Lazaroff (PA No. 315407)
Catherine G. Vasudevan (PA No. 210254)
Brooke E. McGlinn (PA No. 204918)
Morgan, Lewis & Bockius LLP
2222 Market Street
Philadelphia, PA 19103-3007
215.963.5384 (bus)
ken.kulak@morganlewis.com
mark.lazaroff@morganlewis.com
catherine.vasudevan@morganlewis.com
brooke.mcglinn@morganlewis.com

Counsel for Pennsylvania-American Water Company

Dated: March 26, 2024

[522] PAWC St. 1-R, pp. 25-29.

Appendix A

TABLES CALCULATING ALLOWED REVENUE INCREASE

Table Name	**Description**
Table Act 11 - Step 1	Act 11 Water and Wastewater Revenue Requirement Summary
Table I Water Operations- Step 1	Income Summary
Table IA Water Operations - Step 1	Rate of Return
Table IB Water Operations - Step 1	Revenue Factor
Table II Water Operations - Step 1	Summary of Adjustments
Table III Water Operations - Step 1	Interest Synchronization
Table IV Water Operations - Step 1	Cash Working Capital: Interest and Dividends
Table V Water Operations - Step 1	Cash Working Capital: Taxes
Table VI Water Operations - Step 1	Cash Working Capital: O&M Expenses
Table I Wastewater SSS Operations - Step 1	Income Summary
Table IA Wastewater SSS Operations - Step 1	Rate of Return
Table IB Wastewater SSS Operations - Step 1	Revenue Factor
Table II Wastewater SSS Operations - Step 1	Summary of Adjustments
Table III Wastewater SSS Operations - Step 1	Interest Synchronization
Table IV Wastewater SSS Operations - Step 1	Cash Working Capital: Interest and Dividends
Table V Wastewater SSS Operations - Step 1	Cash Working Capital: Taxes
Table VI Wastewater SSS Operations - Step 1	Cash Working Capital: O&M Expenses
Table I Wastewater CSS Operations - Step 1	Income Summary
Table IA Wastewater CSS Operations - Step 1	Rate of Return
Table IB Wastewater CSS Operations - Step 1	Revenue Factor
Table II Wastewater CSS Operations - Step 1	Summary of Adjustments
Table III Wastewater CSS Operations - Step 1	Interest Synchronization
Table IV Wastewater CSS Operations - Step 1	Cash Working Capital: Interest and Dividends
Table V Wastewater CSS Operations - Step 1	Cash Working Capital: Taxes
Table VI Wastewater CSS Operations - Step 1	Cash Working Capital: O&M Expenses

TABLES CALCULATING ALLOWED REVENUE INCREASE

Table Name	Description
Table Act 11 - Step 2	Act 11 Water and Wastewater Revenue Requirement Summary
Table I Water Operations- Step 2	Income Summary
Table IA Water Operations - Step 2	Rate of Return
Table IB Water Operations - Step 2	Revenue Factor
Table II Water Operations - Step 2	Summary of Adjustments
Table III Water Operations - Step 2	Interest Synchronization
Table IV Water Operations - Step 2	Cash Working Capital: Interest and Dividends
Table V Water Operations - Step 2	Cash Working Capital: Taxes
Table VI Water Operations - Step 2	Cash Working Capital: O&M Expenses
Table I Wastewater SSS Operations - Step 2	Income Summary
Table IA Wastewater SSS Operations - Step 2	Rate of Return
Table IB Wastewater SSS Operations - Step 2	Revenue Factor
Table II Wastewater SSS Operations - Step 2	Summary of Adjustments
Table III Wastewater SSS Operations - Step 2	Interest Synchronization
Table IV Wastewater SSS Operations - Step 2	Cash Working Capital: Interest and Dividends
Table V Wastewater SSS Operations - Step 2	Cash Working Capital: Taxes
Table VI Wastewater SSS Operations - Step 2	Cash Working Capital: O&M Expenses
Table I Wastewater CSS Operations - Step 2	Income Summary
Table IA Wastewater CSS Operations - Step 2	Rate of Return
Table IB Wastewater CSS Operations - Step 2	Revenue Factor
Table II Wastewater CSS Operations - Step 2	Summary of Adjustments
Table III Wastewater CSS Operations - Step 2	Interest Synchronization
Table IV Wastewater CSS Operations - Step 2	Cash Working Capital: Interest and Dividends
Table V Wastewater CSS Operations - Step 2	Cash Working Capital: Taxes
Table VI Wastewater CSS Operations - Step 2	Cash Working Capital: O&M Expenses
Table I BASA Wastewater Operations- Step 2	Income Summary
Table IA BASA Wastewater Operations- Step 2	Rate of Return
Table IB BASA Wastewater Operations- Step 2	Revenue Factor
Table II BASA Wastewater Operations- Step 2	Summary of Adjustments
Table III BASA Wastewater Operations- Step 2	Interest Synchronization
Table IV BASA Wastewater Operations- Step 2	Cash Working Capital: Interest and Dividends
Table V BASA Wastewater Operations- Step 2	Cash Working Capital: Taxes
Table VI BASA Wastewater Operations- Step 2	Cash Working Capital: O&M Expenses

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

PENNSYLVANIA-AMERICAN WATER COMPANY

TABLE ACT 11 - WATER AND WASTEWATER REVENUE REQUIREMENT SUMMARY - STEP 1 [1]

	Total Company	Water Operations	Wastewater SSS General Operations	CSS Wastewater Operations
Present Rate Revenue	$998,224,269	$824,117,186	$95,470,867	$78,636,216
Additional Revenue Requirement	$177,033,198	$129,343,180	$31,855,090	$15,834,928
Act 11 - Wastewater Allocation	$0	47,969,463	(31,962,411)	(16,007,052)
Proposed Revenues	$1,175,257,467	$1,001,429,829	$95,363,546	$78,464,092
Rate Increase/(Decrease) $	$177,033,198	$177,312,643	($107,321)	($172,124)
Rate Increase/(Decrease) %	17.7%	21.5%	-0.1%	-0.2%

[1] The Step 1 revenue requirement does not include any revenue requirement associated with the BASA acquisition.
The Step 1 revenue requirement excludes all impacts of the Brentwood acquisition.

Water Operations - Step 1

TABLE I
Pennsylvania-American Water Company - Water Operations
INCOME SUMMARY
R-2023-3043189, R-2023-3043190

		Pro Forma Present Rates (1) $ (1)	Company Adjustments (1) $ (2)	Pro Forma Present Rates (1) $ (3) = (1) + (2)	ALJ Adjustments $ (4)	ALJ Pro Forma Present Rates $ (5) = (3) + (4)	ALJ Revenue Increase $ (6)	Total Allowable Revenues $ (7) = (5) + (6)
1.	Operating Revenue	824,117,186	129,343,180	953,460,366	0	953,460,366	0	953,460,366
2.	Expenses:							
3.	O & M Expense	256,103,636	1,521,076	257,624,712	0	257,624,712	0	257,624,712
4.	Depreciation	212,360,703	0	212,360,703	0	212,360,703	0	212,360,703
5.	Taxes, Other	14,335,910	817,525	15,153,435	0	15,153,435	0	15,153,435
6.	Income Taxes:							
7.	State	13,414,819	10,148,387	23,563,206	0	23,563,206	0	23,563,206
8.	Federal	33,799,313	24,541,698	58,341,011	0	58,341,011	0	58,341,011
9.	Total Expenses	530,014,381	37,028,686	567,043,067	0	567,043,067	0	567,043,067
10.	Return	294,102,805	92,314,494	386,417,299	0	386,417,299	0	386,417,299
11.	Rate Base	4,701,372,635	(432,256)	4,700,940,379	0	4,700,940,379		4,700,940,379
12.	Rate of Return	6.26%		8.22%				8.22000000%

(1) Exhibit 3-A Revised

Water Operations - Step 1

TABLE I(A)
Pennsylvania-American Water Company - Water Operations
RATE OF RETURN
R-2023-3043189, R-2023-3043190

		Structure	Cost	After-Tax Weighted Cost		Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
		(1)	(2)	[(3) = (1) x (2)]		(4)	[(5) = (3) x (4)]
1.	Total Cost of Debt			2.09000000%			
2.	Long-term Debt	44.01%	4.76%	2.09000000%			2.09%
3.	Short-term Debt	0.00%	0.00%	0.00000000%			
4.	Preferred Stock	0.00%	0.00%	0.00000000%		0.726879	0.00%
5.	Common Equity	55.99%	10.95%	6.13000000%		0.726879	8.43%
6.		100.00%		8.22000000%	(1) & (2)		10.52%
7.	Pre-Tax Interest Coverage	5.03					
8.	After-Tax Interest Coverage	3.93					

(1) Exhibit 3-A Revised
(2) The Company rounded the Total After-Tax Weighted Cost to 4 decimals places. The formula in the original presentation did not round the Total After-Tax Weighted Cost.

Water Operations - Step 1

TABLE I(B)
Pennsylvania-American Water Company - Water Operations
REVENUE FACTOR
R-2023-3043189, R-2023-3043190

1.	100%	1.00000000
	Less:	
2.	Uncollectible Accounts Factor (*)	0.01176000
3.	PUC, OCA, OSBA Assessment Factors (*)	0.00637145
4.	Gross Receipts Tax	0.00000000
5.	Other Tax Factors	0.00000000
6.		0.98186855
7.	State Income Tax Rate (*)	0.07990000
8.	Effective State Income Tax Rate	0.07845130
9.	Factor After Local and State Taxes	0.90341725
10.	Federal Income Tax Rate (*)	0.21000000
11.	Effective Federal Income Tax Rate	0.18971762
12.	Revenue Factor (100% - Effective Tax Rates)	0.71369963

(*) Exhibit 3-A Revised

Water Operations - Step 1

TABLE III
Pennsylvania-American Water Company - Water Operations
INTEREST SYNCHRONIZATION
R-2023-3043189, R-2023-3043190

	(1)	Amount $ (2)
1.	Company Rate Base Claim	4,700,940,379
2.	ALJ Rate Base Adjustments (Table II)	0
3.	ALJ Rate Base (Line 1 - Line 2)	4,700,940,379
4.	Weighted Cost of Debt (Table IA)	2.09000000%
5.	ALJ Interest Expense (Line 3 x Line 4)	98,249,654
6.	Company Claim [(1)]	98,249,654
7.	Total ALJ Adjustment (Line 6 - Line 5)	0
8.	Company Adjustment [(1)]	0
9.	Net ALJ Interest Adjustment (Line 7 - Line 8)	0
10.	State Income Tax Rate (Table IB)	7.99%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	0
12.	Net ALJ Interest Adjustment (Line 9)	0
13.	State Income Tax Adjustment (Line 11)	0
14.	Net ALJ Adjustment for F.I.T. (Line 12 - Line 13)	0
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 14 x Line 15)	0

[(1)] Exhibit 3-A Revised

Water Operations - Step 1

TABLE II
Pennsylvania-American Water Company - Water Operations
SUMMARY OF ADJUSTMENTS
R-2023-3043189, R-2023-3043190

	Adjustments (1)	Rate Base (2) $	Revenues (3) $	Expenses (4) $	Depreciation (5) $	Taxes-Other (6) $	State Income Tax (7) $	Federal Income Tax (8) $
1.	RATE BASE:							
	CWC:							
2.	Int. & Div. (Table IV)	(IV!B38)						
3.	Taxes (Table V)	(V!P34)						
4.	O & M (Table VI)	(VI!B42)						
5.								
6.								
7.								
8.	REVENUES:							
			0				0	0
9.								
10.	EXPENSES:							
11.				0			0	0
12.				0			0	0
13.				0			0	0
14.				0			0	0
15.				0			0	0
16.				0			0	0
17.				0			0	0
18.				0			0	0
19.				0			0	0
20.				0			0	0
21.				0			0	0
				0			0	0
22.	TAXES:							
23.	Interest Synchronization (Table III)						0	0
24.	TOTALS	0	0	0	0	0	0	0

Water Operations - Step 1

TABLE IV
Pennsylvania-American Water Company - Water Operations
CASH WORKING CAPITAL - Interest and Dividends
R-2023-3043189, R-2023-3043190

	Accrued Interest			Preferred Stock Dividends	
		Long-Term Debt	Short-Term Debt		
	(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$4,700,940,379	$4,700,940,379	Company Rate Base Claim	$4,700,940,379
2.	ALJ Rate Base Adjustments	$0	$0	ALJ Rate Base Adjustments	$0
3.	ALJ Rate Base	$4,700,940,379	$4,700,940,379	ALJ Rate Base	$4,700,940,379
4.	Weighted Cost of Debt	2.09000000%	0.00%	Weighted Cost Pref. Stock	0.00000000%
5.	ALJ Annual Interest Exp.	$98,249,654	$0	ALJ Preferred Dividends	$0
6.	Average Revenue Lag Days	50.6	50.6	Average Revenue Lag Days	50.6
7.	Average Expense Lag Days	81.6	15.0	Average Expense Lag Days	46.4
8.	Net Lag Days	-31.0	35.6	Net Lag Days	4.2
9.	Working Capital Adjustment				
10.	ALJ Daily Interest Exp.	$269,177	$0	ALJ Daily Dividends	$0
11.	Net Lag Days	-31.0	35.6	Net Lag Days	4.2
12.	ALJ Working Capital	($8,347,179)	$0		$0
13.	Company Claim (1)	($8,347,179)	$0	Company Claim (1)	$0
14.	ALJ Adjustment	$0	$0		$0
15.	Total Interest & Dividend Adj.	$0			

(1) Exhibit 3-A Revised

Water Operations - Step 1

TABLE V
Pennsylvania-American Water Company - Water Operations
CASH WORKING CAPITAL -TAXES
R-2023-3043189, R-2023-3043190

	Description	Company Proforma Tax Expense Present Rates	ALJ Adjustments	ALJ Pro forma Tax Expense Present Rates	ALJ Allowance	ALJ Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	PUC Assessment	$5,981,662	$0	$5,981,662	$0	$5,981,662	$16,388.12	190.20	$3,117,020
2.	Public Utility Realty	$2,126,732	$0	$2,126,732		$2,126,732	$5,826.66	47.35	$275,892
3.	Local Property Tax	$2,073,365	$0	$2,073,365		$2,073,365	$5,680.45	64.56	$366,756
4.		$0	$0	$0		$0	$0.00	0.00	$0
5.		$0	$0	$0		$0	$0.00	0.00	$0
6.		$0	$0	$0		$0	$0.00	0.00	$0
7.		$0	$0	$0		$0	$0.00	0.00	$0
8.		$0	$0	$0		$0	$0.00	0.00	$0
9.		$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
10.	State Income Tax	$23,563,206	$0	$23,563,206	$0	$23,563,206	$64,556.73	13.60	$877,972
11.	Federal Income Tax	$58,574,603	$0	$58,574,603	$0	$58,574,603	$160,478.36	-18.40	($2,952,802)
12.		$92,319,568	$0	$92,319,568	$0	$92,319,568			
13.							ALJ Allowance		1,684,838
14.							Company Claim (1)		1,684,837
15.							ALJ Adjustment		1

(1) Company Main Brief

Water Operations - Step 1

TABLE VI
Pennsylvania-American Water Company - Water Operations
CASH WORKING CAPITAL -- O & M EXPENSE
R-2023-3043189, R-2023-3043190

	Description	Company Pro forma F.T.Y. Expense	ALJ	ALJ Pro forma Expenses	Lag Days	Lag Dollars
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Service Company	$60,897,948	$0	$60,897,948	12.05	$734,076,045
2.	Chemicals	$23,528,121	$0	$23,528,121	47.20	$1,110,566,252
3.	Group Insurance	$11,220,476	$0	$11,220,476	11.00	$123,425,236
4.	Insurance, Other	$14,893,805	$0	$14,893,805	-69.48	($1,034,753,614)
5.	Labor	$68,588,923	$0	$68,588,923	12.05	$826,784,596
6.	Leased Equip./Rent	$105,375	$0	$105,375	-13.36	($1,407,511)
7.	Leased Vehicles	$5,043,012	$0	$5,043,012	54.08	$272,747,715
8.	Miscellaneous	$39,139,084	$0	$39,139,084	30.46	$1,192,190,223
9.	Natural Gas	$1,232,626	$0	$1,232,626	33.33	$41,087,081
10	Power	$15,812,740	$0	$15,812,740	31.00	$490,260,992
11.	Purchased Water	$3,099,741	$0	$3,099,741	35.22	$109,173,435
12.	Telephone	$4,996,974	$0	$4,996,974	3.88	$19,398,219
13.	Waste Disposal	$3,337,122	$0	$3,337,122	41.96	$140,026,999
14.	Post Retirement Benefits	($6,496,737)	$0	($6,496,737)	0.00	$0
15.	Pensions	$971,072	$0	$971,072	-6.41	($6,229,399)
16.		$246,370,282	$0	$246,370,282	16.30	$4,017,346,269

17.	ALJ Average Revenue Lag	50.6	
18.	Less: ALJ Avg. Expense Lag	16.3	
19.	Net Difference	34.3	Days
20.	ALJ Pro forma		
21.	O & M Expense per Day	$674,987	
22.	ALJ CWC for O & M	$23,152,054	
23.	Less: Company Claim (1)	$23,152,054	
24.	ALJ Adjustment	$0	

(1) Exhibit 3-A Revised

Wastewater SSS Operations - Step 1

TABLE I
Pennsylvania-American Water Company - Wastewater SSS Operations
INCOME SUMMARY
R-2023-3043189, R-2023-3043190

		Pro Forma Present Rates (1) $ (1)	Company Adjustments (1) $ (2)	Pro Forma Present Rates (1) $ (3) = (1) + (2)	ALJ Adjustments $ (4)	ALJ Pro Forma Present Rates $ (5) = (3) + (4)	ALJ Revenue Increase $ (6)	Total Allowable Revenues $ (7) = (5) + (6)
1.	Operating Revenue	95,470,867	31,855,090	127,325,957	0	127,325,957	(0)	127,325,957
2.	Expenses:							
3.	O & M Expense	26,066,392	374,616	26,441,008	0	26,441,008	0	26,441,008
4.	Depreciation	27,406,489	0	27,406,489	0	27,406,489	0	27,406,489
5.	Taxes, Other	3,221,051	201,947	3,422,998	0	3,422,998	0	3,422,998
6.	Income Taxes:							
7.	State	2,901,678	2,499,336	5,401,014	0	5,401,014	0	5,401,014
8.	Federal	7,053,052	6,044,109	13,097,161	0	13,097,161	0	13,097,161
9.	Total Expenses	66,648,662	9,120,008	75,768,670	0	75,768,670	0	75,768,670
10.	Return	28,822,205	22,735,082	51,557,287	0	51,557,287	(0)	51,557,287
11.	Rate Base	649,442,249	(106,144)	649,336,105	0	649,336,105		649,336,105
12.	Rate of Return	4.44%		7.94%				7.94000000%

(1) Exhibit 3-A Revised

Wastewater SSS Operations - Step 1

TABLE I(A)
Pennsylvania-American Water Company - Wastewater SSS Operations
RATE OF RETURN
R-2023-3043189, R-2023-3043190

		Structure (1)	Cost (2)	After-Tax Weighted Cost [(3) = (1) x (2)]	Effective Tax Rate Complement (4)	Pre-Tax Weighted Cost Rate [(5) = (3) x (4)]
1.	Total Cost of Debt			2.15000000%		
2.	Long-term Debt	42.73%	4.76%	2.03000000%		2.03%
3.	Wastewater Specific Long Term Debt	4.40% (3)	2.67%	0.12000000%		0.12%
4.	Preferred Stock	0.00%	0.00%	0.00000000%	0.726879	0.00%
5.	Common Equity	52.87%	10.95%	5.79000000%	0.726879	7.97%
6.		100.00%		7.94000000% (1) & (2)		10.12%
7.	Pre-Tax Interest Coverage	4.99				
8.	After-Tax Interest Coverage	3.91				

(1) Exhibit 3-A Revised
(2) The Company rounded the Total After-Tax Weighted Cost to 4 decimals places. The formula in the original presentation did not round the Total After-Tax Weighted Cost.
(3) The Company included Wastewater Specific Long Term Debt in the Capital Structure. Short-Term Debt was originally included in this presentation.

Wastewater SSS Operations - Step 1

TABLE I(B)
Pennsylvania-American Water Company - Wastewater SSS Operations
REVENUE FACTOR
R-2023-3043189, R-2023-3043190

1.	100%	1.00000000
	Less:	
2.	Uncollectible Accounts Factor (*)	0.01176000
3.	PUC, OCA, OSBA Assessment Factors (*)	0.00637145
4.	Gross Receipts Tax	0.00000000
5.	Other Tax Factors	0.00000000
6.		0.98186855
7.	State Income Tax Rate (*)	0.07990000
8.	Effective State Income Tax Rate	0.07845130
9.	Factor After Local and State Taxes	0.90341725
10.	Federal Income Tax Rate (*)	0.21000000
11.	Effective Federal Income Tax Rate	0.18971762
12.	Revenue Factor (100% - Effective Tax Rates)	0.71369963

(*) Exhibit 3-A Revised

Wastewater SSS Operations - Step 1

TABLE II
Pennsylvania-American Water Company - Wastewater SSS Operations
SUMMARY OF ADJUSTMENTS
R-2023-3043189, R-2023-3043190

	Adjustments (1)	Rate Base (2) $	Revenues (3) $	Expenses (4) $	Depreciation (5) $	Taxes-Other (6) $	State Income Tax (7) $	Federal Income Tax (8) $
1.	RATE BASE:							
	CWC:							
2.	Int. & Div. (Table IV)	(IV!B38)						
3.	Taxes (Table V)	(V!P34)						
4.	O & M (Table VI)	(VI!B42)						
5.								
6.								
7.								
8.	REVENUES:							
			0				0	0
9.								
10.	EXPENSES:							
11.				0			0	0
12.				0			0	0
13.				0			0	0
14.				0			0	0
15.				0			0	0
16.				0			0	0
17.				0			0	0
18.				0			0	0
19.				0			0	0
20.				0			0	0
21.				0			0	0
				0			0	0
22.	TAXES:							
23.	Interest Synchronization (Table III)						0	0
24.	TOTALS	0	0	0	0	0	0	0

Wastewater SSS Operations - Step 1

TABLE III
Pennsylvania-American Water Company - Wastewater SSS Operations
INTEREST SYNCHRONIZATION
R-2023-3043189, R-2023-3043190

		Amount $
	(1)	(2)
1.	Company Rate Base Claim	649,336,105
2.	ALJ Rate Base Adjustments (Table II)	0
3.	ALJ Rate Base (Line 1 - Line 2)	649,336,105
4.	Weighted Cost of Debt (Table IA)	2.15000000%
5.	ALJ Interest Expense (Line 3 x Line 4)	13,960,726
6.	Company Claim **(1)**	13,960,726
7.	Total ALJ Adjustment (Line 6 - Line 5)	(0)
8.	Company Adjustment **(1)**	0
9.	Net ALJ Interest Adjustment (Line 7 - Line 8)	(0)
10.	State Income Tax Rate (Table IB)	7.99%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	0
12.	Net ALJ Interest Adjustment (Line 9)	(0)
13.	State Income Tax Adjustment (Line 11)	0
14.	Net ALJ Adjustment for F.I.T. (Line 12 - Line 13)	(0)
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 14 x Line 15)	0

(1) Exhibit 3-A Revised

Wastewater SSS Operations - Step 1

TABLE IV
Pennsylvania-American Water Company - Wastewater SSS Operations
CASH WORKING CAPITAL - Interest and Dividends
R-2023-3043189, R-2023-3043190

	Accrued Interest			Preferred Stock Dividends	
		Long-Term Debt	Wastewater Specific Long Term Debt		
	(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$649,336,105	$649,336,105	Company Rate Base Claim	$649,336,105
2.	ALJ Rate Base Adjustments	$0	$0	ALJ Rate Base Adjustments	$0
3.	ALJ Rate Base	$649,336,105	$649,336,105	ALJ Rate Base	$649,336,105
4.	Weighted Cost of Debt	2.03000000%	0.12000000%	Weighted Cost Pref. Stock	0.00000000%
5.	ALJ Annual Interest Exp.	$13,181,523	$779,203	ALJ Preferred Dividends	$0
6.	Average Revenue Lag Days	50.6	50.6	Average Revenue Lag Days	50.6
7.	Average Expense Lag Days	81.6	81.6	Average Expense Lag Days	46.4
8.	Net Lag Days	-31.0	-31.0	Net Lag Days	4.2
9.	Working Capital Adjustment				
10.	ALJ Daily Interest Exp.	$36,114	$2,135	ALJ Daily Dividends	$0
11.	Net Lag Days	-31.0	-31.0	Net Lag Days	4.2
12.	ALJ Working Capital	($1,119,895)	($66,206)		$0
13.	Company Claim (1)	($1,119,895)	($66,206)	Company Claim (1)	$0
14.	ALJ Adjustment	$0	$0		$0
15.	Total Interest & Dividend Adj.	$0			

(1) Exhibit 3-A Revised

Wastewater SSS Operations - Step 1

TABLE V
Pennsylvania-American Water Company - Wastewater SSS Operations
CASH WORKING CAPITAL -TAXES
R-2023-3043189, R-2023-3043190

	Description	Company Proforma Tax Expense Present Rates	ALJ Adjustments	ALJ Pro forma Tax Expense Present Rates	ALJ Allowance	ALJ Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	PUC Assessment	$800,646	$0	$800,646	$0	$800,646	$2,193.55	190.20	$417,213
2.	Public Utility Realty	$0	$0	$0		$0	$0.00	47.35	$0
3.	Local Property Tax	$2,227,703	$0	$2,227,703		$2,227,703	$6,103.30	64.56	$394,057
4.		$0	$0	$0		$0	$0.00	0.00	$0
5.		$0	$0	$0		$0	$0.00	0.00	$0
6.		$0	$0	$0		$0	$0.00	0.00	$0
7.		$0	$0	$0		$0	$0.00	0.00	$0
8.		$0	$0	$0		$0	$0.00	0.00	$0
9.		$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
10.	State Income Tax	$5,401,014	$0	$5,401,014	$0	$5,401,014	$14,797.30	13.60	$201,243
11.	Federal Income Tax	$13,097,161	$0	$13,097,161	$0	$13,097,161	$35,882.63	-18.40	($660,240)
12.		$21,526,524	$0	$21,526,524	$0	$21,526,524			
13.							ALJ Allowance		352,273
14.							Company Claim (1)		352,273
15.							ALJ Adjustment		0

(1) Company Main Brief

Wastewater SSS Operations - Step 1

TABLE VI
Pennsylvania-American Water Company - Wastewater SSS Operations
CASH WORKING CAPITAL -- O & M EXPENSE
R-2023-3043189, R-2023-3043190

	Description	Company Pro forma F.T.Y. Expense	ALJ	ALJ Pro forma Expenses	Lag Days	Lag Dollars
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Service Company	$1,903,699	$0	$1,903,699	12.05	$22,947,568
2.	Chemicals	$1,827,234	$0	$1,827,234	47.20	$86,248,469
3.	Group Insurance	$1,070,958	$0	$1,070,958	11.00	$11,780,538
4.	Insurance, Other	$2,098,237	$0	$2,098,237	-69.48	($145,775,933)
5.	Labor	$5,286,389	$0	$5,286,389	12.05	$63,723,190
6.	Leased Equip./Rent	$50,345	$0	$50,345	-13.36	($672,466)
7.	Leased Vehicles	$176,055	$0	$176,055	54.08	$9,521,809
8.	Miscellaneous	$5,595,997	$0	$5,595,997	30.46	$170,456,031
9.	Natural Gas	$431,432	$0	$431,432	33.33	$14,380,908
10	Power	$3,372,968	$0	$3,372,968	31.00	$104,576,097
11.	Purchased Water	$0	$0	$0	35.22	$0
12.	Telephone	$211,445	$0	$211,445	3.88	$820,828
13.	Waste Disposal	$3,087,197	$0	$3,087,197	41.96	$129,540,044
14.	Post Retirement Benefits	$9,810	$0	$9,810	0.00	$0
15.	Pensions	$216,538	$0	$216,538	-6.41	($1,389,085)
16.		$25,338,304	$0	$25,338,304	18.40	$466,157,998

17.	ALJ Average Revenue Lag	50.6	
18.	Less: ALJ Avg. Expense Lag	18.4	
19.	Net Difference	32.2	Days
20.	ALJ Pro forma		
21.	O & M Expense per Day	$69,420	
22.	ALJ CWC for O & M	$2,235,324	
23.	Less: Company Claim (1)	$2,235,324	
24.	ALJ Adjustment	$0	

(1) Exhibit 3-A Revised

Wastewater CSS Operations - Step 1

TABLE I
Pennsylvania-American Water Company - Wastewater CSS Operations
INCOME SUMMARY
R-2023-3043189, R-2023-3043190

		Pro Forma Present Rates (1)	Company Adjustments (1)	Pro Forma Present Rates (1)	ALJ Adjustments	ALJ Pro Forma Present Rates	ALJ Revenue Increase	Total Allowable Revenues
		$	$	$	$	$	$	$
		(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) + (4)	(6)	(7) = (5) + (6)
1.	Operating Revenue	78,636,216	15,834,928	94,471,144	0	94,471,144	(0)	94,471,144
2.	Expenses:							
3.	O & M Expense	21,459,340	186,219	21,645,559	0	21,645,559	0	21,645,559
4.	Depreciation	20,497,016	0	20,497,016	0	20,497,016	0	20,497,016
5.	Taxes, Other	2,232,035	100,387	2,332,422	0	2,332,422	0	2,332,422
6.	Income Taxes:							
7.	State	1,981,769	1,242,401	3,224,170	0	3,224,170	0	3,224,170
8.	Federal	4,901,064	3,004,481	7,905,545	0	7,905,545	0	7,905,545
9.	Total Expenses	51,071,224	4,533,488	55,604,712	0	55,604,712	0	55,604,712
10.	Return	27,564,992	11,301,440	38,866,432	0	38,866,432	(0)	38,866,432
11.	Rate Base	489,554,424	(52,763)	489,501,661	0	489,501,661		489,501,661
12.	Rate of Return	5.63%		7.94%				7.94000000%

(1) Exhibit 3-A Revised

Wastewater CSS Operations - Step 1

TABLE I(A)
Pennsylvania-American Water Company - Wastewater CSS Operations
RATE OF RETURN
R-2023-3043189, R-2023-3043190

		Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
		(1)	(2)	[(3) = (1) x (2)]	(4)	[(5) = (3) x (4)]
1.	Total Cost of Debt			2.15000000%		
2.	Long-term Debt	42.73%	4.76%	2.03000000%		2.03%
3.	Wastewater Specific Long Term Debt	4.40% (3)	2.67%	0.12000000%		0.12%
4.	Preferred Stock	0.00%	0.00%	0.00000000%	0.726879	0.00%
5.	Common Equity	52.87%	10.95%	5.79000000%	0.726879	7.97%
6.		100.00%		7.94000000% (1) & (2)		10.12%
7.	Pre-Tax Interest Coverage	4.99				
8.	After-Tax Interest Coverage	3.91				

(1) Exhibit 3-A Revised

(2) The Company rounded the Total After-Tax Weighted Cost to 4 decimals places. The formula in the original presentation did not round the Total After-Tax Weighted Cost.

(3) The Company included Wastewater Specific Long Term Debt in the Capital Structure. Short-Term Debt was originally included in this presentation.

Wastewater CSS Operations - Step 1

TABLE I(B)
Pennsylvania-American Water Company - Wastewater CSS Operations
REVENUE FACTOR
R-2023-3043189, R-2023-3043190

1.	100%	1.00000000
	Less:	
2.	Uncollectible Accounts Factor (*)	0.01176000
3.	PUC, OCA, OSBA Assessment Factors (*)	0.00637145
4.	Gross Receipts Tax	0.00000000
5.	Other Tax Factors	0.00000000
6.		0.98186855
7.	State Income Tax Rate (*)	0.07990000
8.	Effective State Income Tax Rate	0.07845130
9.	Factor After Local and State Taxes	0.90341725
10.	Federal Income Tax Rate (*)	0.21000000
11.	Effective Federal Income Tax Rate	0.18971762
12.	Revenue Factor (100% - Effective Tax Rates)	0.71369963

(*) Exhibit 3-A Revised

Wastewater CSS Operations - Step 1

TABLE II
Pennsylvania-American Water Company - Wastewater CSS Operations
SUMMARY OF ADJUSTMENTS
R-2023-3043189, R-2023-3043190

	Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		$	$	$	$	$	$	$
1.	RATE BASE:							
	CWC:							
2.	Int. & Div. (Table IV)	(IV!B38)						
3.	Taxes (Table V)	(V!P34)						
4.	O & M (Table VI)	(VI!B42)						
5.								
6.								
7.								
8.	REVENUES:							
			0				0	0
9.								
10.	EXPENSES:							
11.				0			0	0
12.				0			0	0
13.				0			0	0
14.				0			0	0
15.				0			0	0
16.				0			0	0
17.				0			0	0
18.				0			0	0
19.				0			0	0
20.				0			0	0
21.				0			0	0
				0			0	0
22.	TAXES:							
23.	Interest Synchronization (Table III)						0	0
24.	TOTALS	0	0	0	0	0	0	0

Wastewater CSS Operations - Step 1

TABLE III
Pennsylvania-American Water Company - Wastewater CSS Operation
INTEREST SYNCHRONIZATION
R-2023-3043189, R-2023-3043190

	(1)	Amount $ (2)
1.	Company Rate Base Claim	489,501,661
2.	ALJ Rate Base Adjustments (Table II)	0
3.	ALJ Rate Base (Line 1 - Line 2)	489,501,661
4.	Weighted Cost of Debt (Table IA)	2.15000000%
5.	ALJ Interest Expense (Line 3 x Line 4)	10,524,286
6.	Company Claim (1)	10,524,286
7.	Total ALJ Adjustment (Line 6 - Line 5)	0
8.	Company Adjustment (1)	0
9.	Net ALJ Interest Adjustment (Line 7 - Line 8)	0
10.	State Income Tax Rate (Table IB)	7.99%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	0
12.	Net ALJ Interest Adjustment (Line 9)	0
13.	State Income Tax Adjustment (Line 11)	0
14.	Net ALJ Adjustment for F.I.T. (Line 12 - Line 13)	0
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 14 x Line 15)	0

(1) Exhibit 3-A Revised

Wastewater CSS Operations - Step 1

TABLE IV
Pennsylvania-American Water Company - Wastewater CSS Operations
CASH WORKING CAPITAL - Interest and Dividends
R-2023-3043189, R-2023-3043190

	Accrued Interest			Preferred Stock Dividends	
		Long-Term Debt	Wastewater Specific Long Term Debt		
	(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$489,501,661	$489,501,661	Company Rate Base Claim	$489,501,661
2.	ALJ Rate Base Adjustments	$0	$0	ALJ Rate Base Adjustments	$0
3.	ALJ Rate Base	$489,501,661	$489,501,661	ALJ Rate Base	$489,501,661
4.	Weighted Cost of Debt	2.03000000%	0.12000000%	Weighted Cost Pref. Stock	0.00000000%
5.	ALJ Annual Interest Exp.	$9,936,884	$587,402	ALJ Preferred Dividends	$0
6.	Average Revenue Lag Days	50.6	50.6	Average Revenue Lag Days	50.6
7.	Average Expense Lag Days	81.6	81.6	Average Expense Lag Days	46.4
8.	Net Lag Days	-31.0	-31.0	Net Lag Days	4.2
9.	Working Capital Adjustment				
10.	ALJ Daily Interest Exp.	$27,224	$1,609	ALJ Daily Dividends	$0
11.	Net Lag Days	-31.0	-31.0	Net Lag Days	4.2
12.	ALJ Working Capital	($844,216)	($49,895)		$0
13.	Company Claim [1]	($844,216)	($49,895)	Company Claim [1]	$0
14.	ALJ Adjustment	$0	$0		$0
15.	Total Interest & Dividend Adj.	$0			

[1] Exhibit 3-A Revised

Wastewater CSS Operations - Step 1

TABLE V
Pennsylvania-American Water Company - Wastewater CSS Operations
CASH WORKING CAPITAL -TAXES
R-2023-3043189, R-2023-3043190

	Description (1)	Company Proforma Tax Expense Present Rates (2)	ALJ Adjustments (3)	ALJ Pro forma Tax Expense Present Rates (4)	ALJ Allowance (5)	ALJ Adjusted Taxes at Present Rates (6)	Daily Expense (7)	Net Lead/ Lag Days (8)	Accrued Tax Adjustment (9)
1.	PUC Assessment	$598,332	$0	$598,332	$0	$598,332	$1,639.27	190.20	$311,788
2.	Public Utility Realty	$0	$0	$0		$0	$0.00	47.35	$0
3.	Local Property Tax	$1,198,060	$0	$1,198,060		$1,198,060	$3,282.36	64.56	$211,924
4.		$0	$0	$0		$0	$0.00	0.00	$0
5.		$0	$0	$0		$0	$0.00	0.00	$0
6.		$0	$0	$0		$0	$0.00	0.00	$0
7.		$0	$0	$0		$0	$0.00	0.00	$0
8.		$0	$0	$0		$0	$0.00	0.00	$0
9.		$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
10.	State Income Tax	$3,224,170	$0	$3,224,170	$0	$3,224,170	$8,833.34	13.60	$120,133
11.	Federal Income Tax	$7,905,545	$0	$7,905,545	$0	$7,905,545	$21,659.03	-18.40	($398,526)
12.		$12,926,107	$0	$12,926,107	$0	$12,926,107			
13.							ALJ Allowance		245,319
14.							Company Claim [1]		245,319
15.							ALJ Adjustment		0

[1] Company Main Brief

Wastewater CSS Operations - Step 1

TABLE VI
Pennsylvania-American Water Company - Wastewater CSS Operations
CASH WORKING CAPITAL -- O & M EXPENSE
R-2023-3043189, R-2023-3043190

	Description	Company Pro forma F.T.Y. Expense	ALJ	ALJ Pro forma Expenses	Lag Days	Lag Dollars
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Service Company	$1,038,033	$0	$1,038,033	12.05	$12,512,657
2.	Chemicals	$2,129,667	$0	$2,129,667	47.20	$100,523,807
3.	Group Insurance	$1,327,139	$0	$1,327,139	11.00	$14,598,529
4.	Insurance, Other	$1,434,260	$0	$1,434,260	-69.48	($99,645,841)
5.	Labor	$7,280,640	$0	$7,280,640	12.05	$87,762,291
6.	Leased Equip./Rent	$16,425	$0	$16,425	-13.36	($219,391)
7.	Leased Vehicles	$690,475	$0	$690,475	54.08	$37,343,849
8.	Miscellaneous	$3,209,124	$0	$3,209,124	30.46	$97,751,042
9.	Natural Gas	$150,057	$0	$150,057	33.33	$5,001,845
10	Power	$1,691,208	$0	$1,691,208	31.00	$52,434,512
11.	Purchased Water	$0	$0	$0	35.22	$0
12.	Telephone	$120,976	$0	$120,976	3.88	$469,628
13.	Waste Disposal	$1,704,931	$0	$1,704,931	41.96	$71,539,599
14.	Post Retirement Benefits	$32,234	$0	$32,234	0.00	$0
15.	Pensions	$245,439	$0	$245,439	-6.41	($1,574,484)
16.		$21,070,608	$0	$21,070,608	18.00	$378,498,043

17.	ALJ Average Revenue Lag	50.6	
18.	Less: ALJ Avg. Expense Lag	18.0	
19.	Net Difference	32.6	Days
20.	ALJ Pro forma		
21.	O & M Expense per Day	$57,728	
22.	ALJ CWC for O & M	$1,881,933	
23.	Less: Company Claim (1)	$1,881,933	
24.	ALJ Adjustment	$0	

(1) Exhibit 3-A Revised

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

PENNSYLVANIA-AMERICAN WATER COMPANY

TABLE ACT 11 - WATER AND WASTEWATER REVENUE REQUIREMENT SUMMARY - STEP 2 [1]

	Total Company	Water Operations	Wastewater SSS General Operations	BASA Wastewater Operations	CSS Wastewater Operations
Present Rate Revenue	$1,011,038,462	$824,117,186	$95,470,867	$12,814,193	$78,636,216
Additional Revenue Requirement	$202,356,145	$129,343,180	$31,855,090	$25,322,947	$15,834,928
Act 11 - Wastewater Allocation	$0	69,522,162	(31,962,411)	(21,552,699)	(16,007,052)
Proposed Revenues	$1,213,394,607	$1,022,982,528	$95,363,546	$16,584,441	$78,464,092
Rate Increase/(Decrease) $	$202,356,145	$198,865,342	($107,321)	$3,770,248	($172,124)
Rate Increase/(Decrease) %	20.0%	24.1%	-0.1%	29.4%	-0.2%

[1] The Step 2 revenue requirement includes the revenue requirement proposed in Step 1, plus the addition of the revenue requirement associated with BASA acquisition.
The Company proposes rates produced by the Step 2 revenue requirement be effective on one day's notice, upon closing of the BASA acquisition.
The Step 2 revenue requirement excludes all impacts of the Brentwood acquisition.

Water Operations - Step 2

TABLE I
Pennsylvania-American Water Company - Water Operations
INCOME SUMMARY
R-2023-3043189, R-2023-3043190

		Pro Forma Present Rates (1) $ (1)	Company Adjustments (1) $ (2)	Pro Forma Present Rates (1) $ (3) = (1) + (2)	ALJ Adjustments $ (4)	ALJ Pro Forma Present Rates $ (5) = (3) + (4)	ALJ Revenue Increase $ (6)	Total Allowable Revenues $ (7) = (5) + (6)
1.	Operating Revenue	824,117,186	129,343,180	953,460,366	0	953,460,366	0	953,460,366
2.	Expenses:							
3.	O & M Expense	256,103,636	1,521,076	257,624,712	0	257,624,712	0	257,624,712
4.	Depreciation	212,360,703	0	212,360,703	0	212,360,703	0	212,360,703
5.	Taxes, Other	14,335,910	817,525	15,153,435	0	15,153,435	0	15,153,435
6.	Income Taxes:							
7.	State	13,414,819	10,148,387	23,563,206	0	23,563,206	0	23,563,206
8.	Federal	33,799,313	24,541,698	58,341,011	0	58,341,011	0	58,341,011
9.	Total Expenses	530,014,381	37,028,686	567,043,067	0	567,043,067	0	567,043,067
10.	Return	294,102,805	92,314,494	386,417,299	0	386,417,299	0	386,417,299
11.	Rate Base	4,701,372,635	(432,256)	4,700,940,379	0	4,700,940,379		4,700,940,379
12.	Rate of Return	6.26%		8.22%				8.22000000%

(1) Exhibit 3-A Revised

Water Operations - Step 2

TABLE I(A)
Pennsylvania-American Water Company - Water Operations
RATE OF RETURN
R-2023-3043189, R-2023-3043190

		Structure	Cost	After-Tax Weighted Cost		Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
		(1)	(2)	[(3) = (1) x (2)]		(4)	[(5) = (3) x (4)]
1.	Total Cost of Debt			2.09000000%			
2.	Long-term Debt	44.01%	4.76%	2.09000000%			2.09%
3.	Short-term Debt	0.00%	0.00%	0.00000000%			
4.	Preferred Stock	0.00%	0.00%	0.00000000%		0.726879	0.00%
5.	Common Equity	55.99%	10.95%	6.13000000%		0.726879	8.43%
6.		100.00%		8.22000000%	(1) & (2)		10.52%
7.	Pre-Tax Interest Coverage	5.03					
8.	After-Tax Interest Coverage	3.93					

(1) Exhibit 3-A Revised
(2) The Company rounded the Total After-Tax Weighted Cost to 4 decimals places. The formula in the original presentation did not round the Total After-Tax Weighted Cost.

Water Operations - Step 2

TABLE I(B)
Pennsylvania-American Water Company - Water Operations
REVENUE FACTOR
R-2023-3043189, R-2023-3043190

1.	100%	1.00000000
	Less:	
2.	Uncollectible Accounts Factor (*)	0.01176000
3.	PUC, OCA, OSBA Assessment Factors (*)	0.00637145
4.	Gross Receipts Tax	0.00000000
5.	Other Tax Factors	0.00000000
6.		0.98186855
7.	State Income Tax Rate (*)	0.07990000
8.	Effective State Income Tax Rate	0.07845130
9.	Factor After Local and State Taxes	0.90341725
10.	Federal Income Tax Rate (*)	0.21000000
11.	Effective Federal Income Tax Rate	0.18971762
12.	Revenue Factor (100% - Effective Tax Rates)	0.71369963

(*) Exhibit 3-A Revised

Water Operations - Step 2

TABLE II
Pennsylvania-American Water Company - Water Operations
SUMMARY OF ADJUSTMENTS
R-2023-3043189, R-2023-3043190

	Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		$	$	$	$	$	$	$
1.	RATE BASE:							
	CWC:							
2.	Int. & Div. (Table IV)	(IV!B38)						
3.	Taxes (Table V)	(V!P34)						
4.	O & M (Table VI)	(VI!B42)						
5.								
6.								
7.								
8.	REVENUES:							
			0				0	0
9.								
10.	EXPENSES:							
11.				0			0	0
12.				0			0	0
13.				0			0	0
14.				0			0	0
15.				0			0	0
16.				0			0	0
17.				0			0	0
18.				0			0	0
19.				0			0	0
20.				0			0	0
21.				0			0	0
				0			0	0
22.	TAXES:							
23.	Interest Synchronization (Table III)						0	0
24.	TOTALS	0	0	0	0	0	0	0

Water Operations - Step 2

TABLE III
Pennsylvania-American Water Company - Water Operations
INTEREST SYNCHRONIZATION
R-2023-3043189, R-2023-3043190

	(1)	Amount $ (2)
1.	Company Rate Base Claim	4,700,940,379
2.	ALJ Rate Base Adjustments (Table II)	0
3.	ALJ Rate Base (Line 1 - Line 2)	4,700,940,379
4.	Weighted Cost of Debt (Table IA)	2.09000000%
5.	ALJ Interest Expense (Line 3 x Line 4)	98,249,654
6.	Company Claim [(1)]	98,249,654
7.	Total ALJ Adjustment (Line 6 - Line 5)	0
8.	Company Adjustment [(1)]	0
9.	Net ALJ Interest Adjustment (Line 7 - Line 8)	0
10.	State Income Tax Rate (Table IB)	7.99%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	0
12.	Net ALJ Interest Adjustment (Line 9)	0
13.	State Income Tax Adjustment (Line 11)	0
14.	Net ALJ Adjustment for F.I.T. (Line 12 - Line 13)	0
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 14 x Line 15)	0

[(1)] Exhibit 3-A Revised

Water Operations - Step 2

TABLE IV
Pennsylvania-American Water Company - Water Operations
CASH WORKING CAPITAL - Interest and Dividends
R-2023-3043189, R-2023-3043190

	Accrued Interest			Preferred Stock Dividends	
		Long-Term Debt	Short-Term Debt		
	(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$4,700,940,379	$4,700,940,379	Company Rate Base Claim	$4,700,940,379
2.	ALJ Rate Base Adjustments	$0	$0	ALJ Rate Base Adjustments	$0
3.	ALJ Rate Base	$4,700,940,379	$4,700,940,379	ALJ Rate Base	$4,700,940,379
4.	Weighted Cost of Debt	2.09000000%	0.00%	Weighted Cost Pref. Stock	0.00000000%
5.	ALJ Annual Interest Exp.	$98,249,654	$0	ALJ Preferred Dividends	$0
6.	Average Revenue Lag Days	50.6	50.6	Average Revenue Lag Days	50.6
7.	Average Expense Lag Days	81.6	15.0	Average Expense Lag Days	46.4
8.	Net Lag Days	-31.0	35.6	Net Lag Days	4.2
9.	Working Capital Adjustment				
10.	ALJ Daily Interest Exp.	$269,177	$0	ALJ Daily Dividends	$0
11.	Net Lag Days	-31.0	35.6	Net Lag Days	4.2
12.	ALJ Working Capital	($8,347,179)	$0		$0
13.	Company Claim (1)	($8,347,179)	$0	Company Claim (1)	$0
14.	ALJ Adjustment	$0	$0		$0
15.	Total Interest & Dividend Adj.	$0			

(1) Exhibit 3-A Revised

Water Operations - Step 2

TABLE V
Pennsylvania-American Water Company - Water Operations
CASH WORKING CAPITAL -TAXES
R-2023-3043189, R-2023-3043190

	Description	Company Proforma Tax Expense Present Rates	ALJ Adjustments	ALJ Pro forma Tax Expense Present Rates	ALJ Allowance	ALJ Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	PUC Assessment	$5,981,662	$0	$5,981,662	$0	$5,981,662	$16,388.12	190.20	$3,117,020
2.	Public Utility Realty	$2,126,732	$0	$2,126,732		$2,126,732	$5,826.66	47.35	$275,892
3.	Local Property Tax	$2,073,365	$0	$2,073,365		$2,073,365	$5,680.45	64.56	$366,756
4.		$0	$0	$0		$0	$0.00	0.00	$0
5.		$0	$0	$0		$0	$0.00	0.00	$0
6.		$0	$0	$0		$0	$0.00	0.00	$0
7.		$0	$0	$0		$0	$0.00	0.00	$0
8.		$0	$0	$0		$0	$0.00	0.00	$0
9.		$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
10.	State Income Tax	$23,563,206	$0	$23,563,206	$0	$23,563,206	$64,556.73	13.60	$877,972
11.	Federal Income Tax	$58,574,603	$0	$58,574,603	$0	$58,574,603	$160,478.36	-18.40	($2,952,802)
12.		$92,319,568	$0	$92,319,568	$0	$92,319,568			
13.							ALJ Allowance		1,684,838
14.							Company Claim (1)		1,684,837
15.							ALJ Adjustment		1

(1) Company Main Brief

Water Operations - Step 2

TABLE VI
Pennsylvania-American Water Company - Water Operations
CASH WORKING CAPITAL -- O & M EXPENSE
R-2023-3043189, R-2023-3043190

	Description (1)	Company Pro forma F.T.Y. Expense (2)	ALJ (3)	ALJ Pro forma Expenses (4)	Lag Days (5)	Lag Dollars (6)
1.	Service Company	$60,897,948	$0	$60,897,948	12.05	$734,076,045
2.	Chemicals	$23,528,121	$0	$23,528,121	47.20	$1,110,566,252
3.	Group Insurance	$11,220,476	$0	$11,220,476	11.00	$123,425,236
4.	Insurance, Other	$14,893,805	$0	$14,893,805	-69.48	($1,034,753,614)
5.	Labor	$68,588,923	$0	$68,588,923	12.05	$826,784,596
6.	Leased Equip./Rent	$105,375	$0	$105,375	-13.36	($1,407,511)
7.	Leased Vehicles	$5,043,012	$0	$5,043,012	54.08	$272,747,715
8.	Miscellaneous	$39,139,084	$0	$39,139,084	30.46	$1,192,190,223
9.	Natural Gas	$1,232,626	$0	$1,232,626	33.33	$41,087,081
10	Power	$15,812,740	$0	$15,812,740	31.00	$490,260,992
11.	Purchased Water	$3,099,741	$0	$3,099,741	35.22	$109,173,435
12.	Telephone	$4,996,974	$0	$4,996,974	3.88	$19,398,219
13.	Waste Disposal	$3,337,122	$0	$3,337,122	41.96	$140,026,999
14.	Post Retirement Benefits	($6,496,737)	$0	($6,496,737)	0.00	$0
15.	Pensions	$971,072	$0	$971,072	-6.41	($6,229,399)
16.		$246,370,282	$0	$246,370,282	16.30	$4,017,346,269

17.	ALJ Average Revenue Lag	50.6	
18.	Less: ALJ Avg. Expense Lag	16.3	
19.	Net Difference	34.3	Days
20.	ALJ Pro forma		
21.	O & M Expense per Day	$674,987	
22.	ALJ CWC for O & M	$23,152,054	
23.	Less: Company Claim (1)	$23,152,054	
24.	ALJ Adjustment	$0	

(1) Exhibit 3-A Revised

Wastewater SSS Operations - Step 2

TABLE I
Pennsylvania-American Water Company - Wastewater SSS Operations
INCOME SUMMARY
R-2023-3043189, R-2023-3043190

		Pro Forma Present Rates (1) $ (1)	Company Adjustments (1) $ (2)	Pro Forma Present Rates (1) $ (3) = (1) + (2)	ALJ Adjustments $ (4)	ALJ Pro Forma Present Rates $ (5) = (3) + (4)	ALJ Revenue Increase $ (6)	Total Allowable Revenues $ (7) = (5) + (6)
1.	Operating Revenue	95,470,867	31,855,090	127,325,957	0	127,325,957	(0)	127,325,957
2.	Expenses:							
3.	O & M Expense	26,066,392	374,616	26,441,008	0	26,441,008	0	26,441,008
4.	Depreciation	27,406,489	0	27,406,489	0	27,406,489	0	27,406,489
5.	Taxes, Other	3,221,051	201,947	3,422,998	0	3,422,998	0	3,422,998
6.	Income Taxes:							
7.	State	2,901,678	2,499,336	5,401,014	0	5,401,014	0	5,401,014
8.	Federal	7,053,052	6,044,109	13,097,161	0	13,097,161	0	13,097,161
9.	Total Expenses	66,648,662	9,120,008	75,768,670	0	75,768,670	0	75,768,670
10.	Return	28,822,205	22,735,082	51,557,287	0	51,557,287	(0)	51,557,287
11.	Rate Base	649,442,249	(106,144)	649,336,105	0	649,336,105		649,336,105
12.	Rate of Return	4.44%		7.94%				7.94000000%

(1) Exhibit 3-A Revised

Wastewater SSS Operations - Step 2

TABLE I(A)
Pennsylvania-American Water Company - Wastewater SSS Operations
RATE OF RETURN
R-2023-3043189, R-2023-3043190

		Structure		Cost	After-Tax Weighted Cost		Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
		(1)		(2)	[(3) = (1) x (2)]		(4)	[(5) = (3) x (4)]
1.	Total Cost of Debt				2.15000000%			
2.	Long-term Debt	42.73%		4.76%	2.03000000%			2.03%
3.	Wastewater Specific Long Term Debt	4.40%	(3)	2.67%	0.12000000%			0.12%
4.	Preferred Stock	0.00%		0.00%	0.00000000%		0.726879	0.00%
5.	Common Equity	52.87%		10.95%	5.79000000%		0.726879	7.97%
6.		100.00%			7.94000000%	(1) & (2)		10.12%
7.	Pre-Tax Interest Coverage	4.99						
8.	After-Tax Interest Coverage	3.91						

(1) Exhibit 3-A Revised
(2) The Company rounded the Total After-Tax Weighted Cost to 4 decimals places. The formula in the original presentation did not round the Total After-Tax Weighted Cost.
(3) The Company included Wastewater Specific Long Term Debt in the Capital Structure. Short-Term Debt was originally included in this presentation.

Wastewater SSS Operations - Step 2

TABLE I(B)
Pennsylvania-American Water Company - Wastewater SSS Operations
REVENUE FACTOR
R-2023-3043189, R-2023-3043190

1.	100%	1.00000000
	Less:	
2.	Uncollectible Accounts Factor (*)	0.01176000
3.	PUC, OCA, OSBA Assessment Factors (*)	0.00637145
4.	Gross Receipts Tax	0.00000000
5.	Other Tax Factors	0.00000000
6.		0.98186855
7.	State Income Tax Rate (*)	0.07990000
8.	Effective State Income Tax Rate	0.07845130
9.	Factor After Local and State Taxes	0.90341725
10.	Federal Income Tax Rate (*)	0.21000000
11.	Effective Federal Income Tax Rate	0.18971762
12.	Revenue Factor (100% - Effective Tax Rates)	0.71369963

(*) Exhibit 3-A Revised

Wastewater SSS Operations - Step 2

TABLE II
Pennsylvania-American Water Company - Wastewater SSS Operations
SUMMARY OF ADJUSTMENTS
R-2023-3043189, R-2023-3043190

	Adjustments (1)	Rate Base (2) $	Revenues (3) $	Expenses (4) $	Depreciation (5) $	Taxes-Other (6) $	State Income Tax (7) $	Federal Income Tax (8) $
1.	RATE BASE:							
	CWC:							
2.	Int. & Div. (Table IV)	(IV!B38)						
3.	Taxes (Table V)	(V!P34)						
4.	O & M (Table VI)	(VI!B42)						
5.								
6.								
7.								
8.	REVENUES:							
			0				0	0
9.								
10.	EXPENSES:							
11.				0			0	0
12.				0			0	0
13.				0			0	0
14.				0			0	0
15.				0			0	0
16.				0			0	0
17.				0			0	0
18.				0			0	0
19.				0			0	0
20.				0			0	0
21.				0			0	0
				0			0	0
22.	TAXES:							
23.	Interest Synchronization (Table III)						0	0
24.	TOTALS	0	0	0	0	0	0	0

Wastewater SSS Operations - Step 2

TABLE III
Pennsylvania-American Water Company - Wastewater SSS Operation
INTEREST SYNCHRONIZATION
R-2023-3043189, R-2023-3043190

	(1)	Amount $ (2)
1.	Company Rate Base Claim	649,336,105
2.	ALJ Rate Base Adjustments (Table II)	0
3.	ALJ Rate Base (Line 1 - Line 2)	649,336,105
4.	Weighted Cost of Debt (Table IA)	2.15000000%
5.	ALJ Interest Expense (Line 3 x Line 4)	13,960,726
6.	Company Claim (1)	13,960,726
7.	Total ALJ Adjustment (Line 6 - Line 5)	(0)
8.	Company Adjustment (1)	0
9.	Net ALJ Interest Adjustment (Line 7 - Line 8)	(0)
10.	State Income Tax Rate (Table IB)	7.99%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	0
12.	Net ALJ Interest Adjustment (Line 9)	(0)
13.	State Income Tax Adjustment (Line 11)	0
14.	Net ALJ Adjustment for F.I.T. (Line 12 - Line 13)	(0)
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 14 x Line 15)	0

(1) Exhibit 3-A Revised

Wastewater SSS Operations - Step 2

TABLE IV
Pennsylvania-American Water Company - Wastewater SSS Operations
CASH WORKING CAPITAL - Interest and Dividends
R-2023-3043189, R-2023-3043190

	Accrued Interest			Preferred Stock Dividends	
		Long-Term Debt	Wastewater Specific Long Term Debt		
	(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$649,336,105	$649,336,105	Company Rate Base Claim	$649,336,105
2.	ALJ Rate Base Adjustments	$0	$0	ALJ Rate Base Adjustments	$0
3.	ALJ Rate Base	$649,336,105	$649,336,105	ALJ Rate Base	$649,336,105
4.	Weighted Cost of Debt	2.03000000%	0.12000000%	Weighted Cost Pref. Stock	0.00000000%
5.	ALJ Annual Interest Exp.	$13,181,523	$779,203	ALJ Preferred Dividends	$0
6.	Average Revenue Lag Days	50.6	50.6	Average Revenue Lag Days	50.6
7.	Average Expense Lag Days	81.6	81.6	Average Expense Lag Days	46.4
8.	Net Lag Days	-31.0	-31.0	Net Lag Days	4.2
9.	Working Capital Adjustment				
10.	ALJ Daily Interest Exp.	$36,114	$2,135	ALJ Daily Dividends	$0
11.	Net Lag Days	-31.0	-31.0	Net Lag Days	4.2
12.	ALJ Working Capital	($1,119,895)	($66,206)		$0
13.	Company Claim (1)	($1,119,895)	($66,206)	Company Claim (1)	$0
14.	ALJ Adjustment	$0	$0		$0
15.	Total Interest & Dividend Adj.	$0			

(1) Exhibit 3-A Revised

Wastewater SSS Operations - Step 2

TABLE V
Pennsylvania-American Water Company - Wastewater SSS Operations
CASH WORKING CAPITAL -TAXES
R-2023-3043189, R-2023-3043190

	Description	Company Proforma Tax Expense Present Rates	ALJ Adjustments	ALJ Pro forma Tax Expense Present Rates	ALJ Allowance	ALJ Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	PUC Assessment	$800,646	$0	$800,646	$0	$800,646	$2,193.55	190.20	$417,213
2.	Public Utility Realty	$0	$0	$0		$0	$0.00	47.35	$0
3.	Local Property Tax	$2,227,703	$0	$2,227,703		$2,227,703	$6,103.30	64.56	$394,057
4.		$0	$0	$0		$0	$0.00	0.00	$0
5.		$0	$0	$0		$0	$0.00	0.00	$0
6.		$0	$0	$0		$0	$0.00	0.00	$0
7.		$0	$0	$0		$0	$0.00	0.00	$0
8.		$0	$0	$0		$0	$0.00	0.00	$0
9.		$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
10.	State Income Tax	$5,401,014	$0	$5,401,014	$0	$5,401,014	$14,797.30	13.60	$201,243
11.	Federal Income Tax	$13,097,161	$0	$13,097,161	$0	$13,097,161	$35,882.63	-18.40	($660,240)
12.		$21,526,524	$0	$21,526,524	$0	$21,526,524			
13.							ALJ Allowance		352,273
14.							Company Claim (1)		352,273
15.							ALJ Adjustment		0

(1) Company Main Brief

Wastewater SSS Operations - Step 2

TABLE VI
Pennsylvania-American Water Company - Wastewater SSS Operations
CASH WORKING CAPITAL -- O & M EXPENSE
R-2023-3043189, R-2023-3043190

	Description (1)	Company Pro forma F.T.Y. Expense (2)	ALJ (3)	ALJ Pro forma Expenses (4)	Lag Days (5)	Lag Dollars (6)
1.	Service Company	$1,903,699	$0	$1,903,699	12.05	$22,947,568
2.	Chemicals	$1,827,234	$0	$1,827,234	47.20	$86,248,469
3.	Group Insurance	$1,070,958	$0	$1,070,958	11.00	$11,780,538
4.	Insurance, Other	$2,098,237	$0	$2,098,237	-69.48	($145,775,933)
5.	Labor	$5,286,389	$0	$5,286,389	12.05	$63,723,190
6.	Leased Equip./Rent	$50,345	$0	$50,345	-13.36	($672,466)
7.	Leased Vehicles	$176,055	$0	$176,055	54.08	$9,521,809
8.	Miscellaneous	$5,595,997	$0	$5,595,997	30.46	$170,456,031
9.	Natural Gas	$431,432	$0	$431,432	33.33	$14,380,908
10	Power	$3,372,968	$0	$3,372,968	31.00	$104,576,097
11.	Purchased Water	$0	$0	$0	35.22	$0
12.	Telephone	$211,445	$0	$211,445	3.88	$820,828
13.	Waste Disposal	$3,087,197	$0	$3,087,197	41.96	$129,540,044
14.	Post Retirement Benefits	$9,810	$0	$9,810	0.00	$0
15.	Pensions	$216,538	$0	$216,538	-6.41	($1,389,085)
16.		$25,338,304	$0	$25,338,304	18.40	$466,157,998

17.	ALJ Average Revenue Lag	50.6	
18.	Less: ALJ Avg. Expense Lag	18.4	
19.	Net Difference	32.2	Days
20.	ALJ Pro forma		
21.	O & M Expense per Day	$69,420	
22.	ALJ CWC for O & M	$2,235,324	
23.	Less: Company Claim (1)	$2,235,324	
24.	ALJ Adjustment	$0	

(1) Exhibit 3-A Revised

Wastewater CSS Operations - Step 2

TABLE I
Pennsylvania-American Water Company - Wastewater CSS Operations
INCOME SUMMARY
R-2023-3043189, R-2023-3043190

		Pro Forma Present Rates [1]	Company Adjustments [1]	Pro Forma Present Rates [1]	ALJ Adjustments	ALJ Pro Forma Present Rates	ALJ Revenue Increase	Total Allowable Revenues
		$	$	$	$	$	$	$
		(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) + (4)	(6)	(7) = (5) + (6)
1.	Operating Revenue	78,636,216	15,834,928	94,471,144	0	94,471,144	(0)	94,471,144
2.	Expenses:							
3.	O & M Expense	21,459,340	186,219	21,645,559	0	21,645,559	0	21,645,559
4.	Depreciation	20,497,016	0	20,497,016	0	20,497,016	0	20,497,016
5.	Taxes, Other	2,232,035	100,387	2,332,422	0	2,332,422	0	2,332,422
6.	Income Taxes:							
7.	State	1,981,769	1,242,401	3,224,170	0	3,224,170	0	3,224,170
8.	Federal	4,901,064	3,004,481	7,905,545	0	7,905,545	0	7,905,545
9.	Total Expenses	51,071,224	4,533,488	55,604,712	0	55,604,712	0	55,604,712
10.	Return	27,564,992	11,301,440	38,866,432	0	38,866,432	(0)	38,866,432
11.	Rate Base	489,554,424	(52,763)	489,501,661	0	489,501,661		489,501,661
12.	Rate of Return	5.63%		7.94%				7.94000000%

[1] Exhibit 3-A Revised

Wastewater CSS Operations - Step 2

TABLE I(A)
Pennsylvania-American Water Company - Wastewater CSS Operations
RATE OF RETURN
R-2023-3043189, R-2023-3043190

		Structure (1)		Cost (2)	After-Tax Weighted Cost [(3) = (1) x (2)]		Effective Tax Rate Complement (4)	Pre-Tax Weighted Cost Rate [(5) = (3) x (4)]
1.	Total Cost of Debt				2.15000000%			
2.	Long-term Debt	42.73%		4.76%	2.03000000%			2.03%
3.	Wastewater Specific Long Term Debt	4.40%	(3)	2.67%	0.12000000%			0.12%
4.	Preferred Stock	0.00%		0.00%	0.00000000%		0.726879	0.00%
5.	Common Equity	52.87%		10.95%	5.79000000%		0.726879	7.97%
6.		100.00%			7.94000000%	(1) & (2)		10.12%
7.	Pre-Tax Interest Coverage	4.99						
8.	After-Tax Interest Coverage	3.91						

(1) Exhibit 3-A Revised

(2) The Company rounded the Total After-Tax Weighted Cost to 4 decimals places. The formula in the original presentation did not round the Total After-Tax Weighted Cost.

(3) The Company included Wastewater Specific Long Term Debt in the Capital Structure. Short-Term Debt was originally included in this presentation.

Wastewater CSS Operations - Step 2

TABLE I(B)
Pennsylvania-American Water Company - Wastewater CSS Operations
REVENUE FACTOR
R-2023-3043189, R-2023-3043190

1.	100%	1.00000000
	Less:	
2.	Uncollectible Accounts Factor (*)	0.01176000
3.	PUC, OCA, OSBA Assessment Factors (*)	0.00637145
4.	Gross Receipts Tax	0.00000000
5.	Other Tax Factors	0.00000000
6.		0.98186855
7.	State Income Tax Rate (*)	0.07990000
8.	Effective State Income Tax Rate	0.07845130
9.	Factor After Local and State Taxes	0.90341725
10.	Federal Income Tax Rate (*)	0.21000000
11.	Effective Federal Income Tax Rate	0.18971762
12.	Revenue Factor (100% - Effective Tax Rates)	0.71369963

(*) Exhibit 3-A Revised

Wastewater CSS Operations - Step 2

TABLE II
Pennsylvania-American Water Company - Wastewater CSS Operations
SUMMARY OF ADJUSTMENTS
R-2023-3043189, R-2023-3043190

	Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		$	$	$	$	$	$	$
1.	RATE BASE:							
	CWC:							
2.	Int. & Div. (Table IV)	(IV!B38)						
3.	Taxes (Table V)	(V!P34)						
4.	O & M (Table VI)	(VI!B42)						
5.								
6.								
7.								
8.	REVENUES:							
			0				0	0
9.								
10.	EXPENSES:							
11.				0			0	0
12.				0			0	0
13.				0			0	0
14.				0			0	0
15.				0			0	0
16.				0			0	0
17.				0			0	0
18.				0			0	0
19.				0			0	0
20.				0			0	0
21.				0			0	0
				0			0	0
22.	TAXES:							
23.	Interest Synchronization (Table III)						0	0
24.	TOTALS	0	0	0	0	0	0	0

Wastewater CSS Operations - Step 2

TABLE III
Pennsylvania-American Water Company - Wastewater CSS Operation
INTEREST SYNCHRONIZATION
R-2023-3043189, R-2023-3043190

	(1)	Amount $ (2)
1.	Company Rate Base Claim	489,501,661
2.	ALJ Rate Base Adjustments (Table II)	0
3.	ALJ Rate Base (Line 1 - Line 2)	489,501,661
4.	Weighted Cost of Debt (Table IA)	2.15000000%
5.	ALJ Interest Expense (Line 3 x Line 4)	10,524,286
6.	Company Claim (1)	10,524,286
7.	Total ALJ Adjustment (Line 6 - Line 5)	0
8.	Company Adjustment (1)	0
9.	Net ALJ Interest Adjustment (Line 7 - Line 8)	0
10.	State Income Tax Rate (Table IB)	7.99%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	0
12.	Net ALJ Interest Adjustment (Line 9)	0
13.	State Income Tax Adjustment (Line 11)	0
14.	Net ALJ Adjustment for F.I.T. (Line 12 - Line 13)	0
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 14 x Line 15)	0

(1) Exhibit 3-A Revised

Wastewater CSS Operations - Step 2

TABLE IV
Pennsylvania-American Water Company - Wastewater CSS Operations
CASH WORKING CAPITAL - Interest and Dividends
R-2023-3043189, R-2023-3043190

	Accrued Interest			Preferred Stock Dividends	
		Long-Term Debt	Wastewater Specific Long Term Debt		
	(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$489,501,661	$489,501,661	Company Rate Base Claim	$489,501,661
2.	ALJ Rate Base Adjustments	$0	$0	ALJ Rate Base Adjustments	$0
3.	ALJ Rate Base	$489,501,661	$489,501,661	ALJ Rate Base	$489,501,661
4.	Weighted Cost of Debt	2.03000000%	0.12000000%	Weighted Cost Pref. Stock	0.00000000%
5.	ALJ Annual Interest Exp.	$9,936,884	$587,402	ALJ Preferred Dividends	$0
6.	Average Revenue Lag Days	50.6	50.6	Average Revenue Lag Days	50.6
7.	Average Expense Lag Days	81.6	81.6	Average Expense Lag Days	46.4
8.	Net Lag Days	-31.0	-31.0	Net Lag Days	4.2
9.	Working Capital Adjustment				
10.	ALJ Daily Interest Exp.	$27,224	$1,609	ALJ Daily Dividends	$0
11.	Net Lag Days	-31.0	-31.0	Net Lag Days	4.2
12.	ALJ Working Capital	($844,216)	($49,895)		$0
13.	Company Claim [1]	($844,216)	($49,895)	Company Claim [1]	$0
14.	ALJ Adjustment	$0	$0		$0
15.	Total Interest & Dividend Adj.	$0			

[1] Exhibit 3-A Revised

Wastewater CSS Operations - Step 2

TABLE V
Pennsylvania-American Water Company - Wastewater CSS Operations
CASH WORKING CAPITAL -TAXES
R-2023-3043189, R-2023-3043190

	Description	Company Proforma Tax Expense Present Rates	ALJ Adjustments	ALJ Pro forma Tax Expense Present Rates	ALJ Allowance	ALJ Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	PUC Assessment	$598,332	$0	$598,332	$0	$598,332	$1,639.27	190.20	$311,788
2.	Public Utility Realty	$0	$0	$0		$0	$0.00	47.35	$0
3.	Local Property Tax	$1,198,060	$0	$1,198,060		$1,198,060	$3,282.36	64.56	$211,924
4.		$0	$0	$0		$0	$0.00	0.00	$0
5.		$0	$0	$0		$0	$0.00	0.00	$0
6.		$0	$0	$0		$0	$0.00	0.00	$0
7.		$0	$0	$0		$0	$0.00	0.00	$0
8.		$0	$0	$0		$0	$0.00	0.00	$0
9.		$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
10.	State Income Tax	$3,224,170	$0	$3,224,170	$0	$3,224,170	$8,833.34	13.60	$120,133
11.	Federal Income Tax	$7,905,545	$0	$7,905,545	$0	$7,905,545	$21,659.03	-18.40	($398,526)
12.		$12,926,107	$0	$12,926,107	$0	$12,926,107			
13.							ALJ Allowance		245,319
14.							Company Claim [1]		245,319
15.							ALJ Adjustment		0

[1] Company Main Brief

Wastewater CSS Operations - Step 2

TABLE VI
Pennsylvania-American Water Company - Wastewater CSS Operations
CASH WORKING CAPITAL -- O & M EXPENSE
R-2023-3043189, R-2023-3043190

	Description	Company Pro forma F.T.Y. Expense	ALJ	ALJ Pro forma Expenses	Lag Days	Lag Dollars
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Service Company	$1,038,033	$0	$1,038,033	12.05	$12,512,657
2.	Chemicals	$2,129,667	$0	$2,129,667	47.20	$100,523,807
3.	Group Insurance	$1,327,139	$0	$1,327,139	11.00	$14,598,529
4.	Insurance, Other	$1,434,260	$0	$1,434,260	-69.48	($99,645,841)
5.	Labor	$7,280,640	$0	$7,280,640	12.05	$87,762,291
6.	Leased Equip./Rent	$16,425	$0	$16,425	-13.36	($219,391)
7.	Leased Vehicles	$690,475	$0	$690,475	54.08	$37,343,849
8.	Miscellaneous	$3,209,124	$0	$3,209,124	30.46	$97,751,042
9.	Natural Gas	$150,057	$0	$150,057	33.33	$5,001,845
10	Power	$1,691,208	$0	$1,691,208	31.00	$52,434,512
11.	Purchased Water	$0	$0	$0	35.22	$0
12.	Telephone	$120,976	$0	$120,976	3.88	$469,628
13.	Waste Disposal	$1,704,931	$0	$1,704,931	41.96	$71,539,599
14.	Post Retirement Benefits	$32,234	$0	$32,234	0.00	$0
15.	Pensions	$245,439	$0	$245,439	-6.41	($1,574,484)
16.		$21,070,608	$0	$21,070,608	18.00	$378,498,043

17.	ALJ Average Revenue Lag	50.6	
18.	Less: ALJ Avg. Expense Lag	18.0	
19.	Net Difference	32.6	Days
20.	ALJ Pro forma		
21.	O & M Expense per Day	$57,728	
22.	ALJ CWC for O & M	$1,881,933	
23.	Less: Company Claim [1]	$1,881,933	
24.	ALJ Adjustment	$0	

[1] Exhibit 3-A Revised

BASA Wastewater Operations - Step 2

TABLE I
Pennsylvania-American Water Company - BASA Wastewater Operations
INCOME SUMMARY
R-2023-3043189, R-2023-3043190

		Pro Forma Present Rates (1) $ (1)	Company Adjustments (1) $ (2)	Pro Forma Present Rates (1) $ (3) = (1) + (2)	ALJ Adjustments $ (4)	ALJ Pro Forma Present Rates $ (5) = (3) + (4)	ALJ Revenue Increase $ (6)	Total Allowable Revenues $ (7) = (5) + (6)
1.	Operating Revenue	12,814,193	25,322,947	38,137,140	0	38,137,140	0	38,137,140
2.	Expenses:							
3.	O & M Expense	6,612,954	297,798	6,910,752	0	6,910,752	0	6,910,752
4.	Depreciation	5,212,016	0	5,212,016	0	5,212,016	0	5,212,016
5.	Taxes, Other	861,694	160,536	1,022,230	0	1,022,230	0	1,022,230
6.	Income Taxes:							
7.	State	(68,124)	1,986,828	1,918,704	0	1,918,704	0	1,918,704
8.	Federal	(115,316)	4,804,716	4,689,400	0	4,689,400	0	4,689,400
9.	Total Expenses	12,503,224	7,249,878	19,753,102	0	19,753,102	0	19,753,102
10.	Return	310,969	18,073,069	18,384,038	0	18,384,038	0	18,384,038
11.	Rate Base	231,621,374	(84,371)	231,537,003	0	231,537,003		231,537,003
12.	Rate of Return	0.13%		7.94%				7.94000000%

(1) Exhibit 3-A Revised

BASA Wastewater Operations - Step 2

TABLE I(A)
Pennsylvania-American Water Company - BASA Wastewater Operations
RATE OF RETURN
R-2023-3043189, R-2023-3043190

		Structure		Cost	After-Tax Weighted Cost		Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
		(1)		(2)	[(3) = (1) x (2)]		(4)	[(5) = (3) x (4)]
1.	Total Cost of Debt				2.15000000%			
2.	Long-term Debt	42.73%		4.76%	2.03000000%			2.03%
3.	Wastewater Specific Long Term Debt	4.40%	(3)	2.67%	0.12000000%			0.12%
4.	Preferred Stock	0.00%		0.00%	0.00000000%		0.726879	0.00%
5.	Common Equity	52.87%		10.95%	5.79000000%		0.726879	7.97%
6.		100.00%			7.94000000%	(1) & (2)		10.12%
7.	Pre-Tax Interest Coverage	4.99						
8.	After-Tax Interest Coverage	3.91						

(1) Exhibit 3-A Revised
(2) The Company rounded the Total After-Tax Weighted Cost to 4 decimals places. The formula in the original presentation did not round the Total After-Tax Weighted Cost.
(3) The Company included Wastewater Specific Long Term Debt in the Capital Structure. Short-Term Debt was originally included in this presentation.

BASA Wastewater Operations - Step 2

TABLE I(B)
Pennsylvania-American Water Company - BASA Wastewater Operations
REVENUE FACTOR
R-2023-3043189, R-2023-3043190

1.	100%	1.00000000
	Less:	
2.	Uncollectible Accounts Factor (*)	0.01176000
3.	PUC, OCA, OSBA Assessment Factors (*)	0.00637145
4.	Gross Receipts Tax	0.00000000
5.	Other Tax Factors	0.00000000
6.		0.98186855
7.	State Income Tax Rate (*)	0.07990000
8.	Effective State Income Tax Rate	0.07845130
9.	Factor After Local and State Taxes	0.90341725
10.	Federal Income Tax Rate (*)	0.21000000
11.	Effective Federal Income Tax Rate	0.18971762
12.	Revenue Factor (100% - Effective Tax Rates)	0.71369963

(*) Exhibit 3-A Revised

BASA Wastewater Operations - Step 2

TABLE II
Pennsylvania-American Water Company - BASA Wastewater Operations
SUMMARY OF ADJUSTMENTS
R-2023-3043189, R-2023-3043190

	Adjustments (1)	Rate Base (2) $	Revenues (3) $	Expenses (4) $	Depreciation (5) $	Taxes-Other (6) $	State Income Tax (7) $	Federal Income Tax (8) $
1.	RATE BASE:							
	CWC:							
2.	Int. & Div. (Table IV)	(IV!B38)						
3.	Taxes (Table V)	(V!P34)						
4.	O & M (Table VI)	(VI!B42)						
5.								
6.								
7.								
8.	REVENUES:							
			0				0	0
9.								
10.	EXPENSES:							
11.				0			0	0
12.				0			0	0
13.				0			0	0
14.				0			0	0
15.				0			0	0
16.				0			0	0
17.				0			0	0
18.				0			0	0
19.				0			0	0
20.				0			0	0
21.				0			0	0
				0			0	0
22.	TAXES:							
23.	Interest Synchronization (Table III)						0	0
24.	TOTALS	0	0	0	0	0	0	0

BASA Wastewater Operations - Step 2

TABLE III
Pennsylvania-American Water Company - BASA Wastewater Operatior
INTEREST SYNCHRONIZATION
R-2023-3043189, R-2023-3043190

	(1)	Amount $ (2)
1.	Company Rate Base Claim	231,537,003
2.	ALJ Rate Base Adjustments (Table II)	0
3.	ALJ Rate Base (Line 1 - Line 2)	231,537,003
4.	Weighted Cost of Debt (Table IA)	2.15000000%
5.	ALJ Interest Expense (Line 3 x Line 4)	4,978,046
6.	Company Claim (1)	4,978,045
7.	Total ALJ Adjustment (Line 6 - Line 5)	(1)
8.	Company Adjustment (1)	0
9.	Net ALJ Interest Adjustment (Line 7 - Line 8)	(1)
10.	State Income Tax Rate (Table IB)	7.99%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	0
12.	Net ALJ Interest Adjustment (Line 9)	(1)
13.	State Income Tax Adjustment (Line 11)	0
14.	Net ALJ Adjustment for F.I.T. (Line 12 - Line 13)	(1)
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 14 x Line 15)	0

(1) Exhibit 3-A Revised

BASA Wastewater Operations - Step 2

TABLE IV
Pennsylvania-American Water Company - BASA Wastewater Operations
CASH WORKING CAPITAL - Interest and Dividends
R-2023-3043189, R-2023-3043190

	Accrued Interest			Preferred Stock Dividends	
		Long-Term Debt	Wastewater Specific Long Term Debt		
	(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$231,537,003	$231,537,003	Company Rate Base Claim	$231,537,003
2.	ALJ Rate Base Adjustments	$0	$0	ALJ Rate Base Adjustments	$0
3.	ALJ Rate Base	$231,537,003	$231,537,003	ALJ Rate Base	$231,537,003
4.	Weighted Cost of Debt	2.03000000%	0.12000000%	Weighted Cost Pref. Stock	0.00000000%
5.	ALJ Annual Interest Exp.	$4,700,201	$277,844	ALJ Preferred Dividends	$0
6.	Average Revenue Lag Days	50.6	50.6	Average Revenue Lag Days	50.6
7.	Average Expense Lag Days	81.6	81.6	Average Expense Lag Days	46.4
8.	Net Lag Days	-31.0	-31.0	Net Lag Days	4.2
9.	Working Capital Adjustment				
10.	ALJ Daily Interest Exp.	$12,877	$761	ALJ Daily Dividends	$0
11.	Net Lag Days	-31.0	-31.0	Net Lag Days	4.2
12.	ALJ Working Capital	($399,316)	($23,599)		$0
13.	Company Claim (1)	($399,316)	($23,599)	Company Claim (1)	$0
14.	ALJ Adjustment	$0	$0		$0
15.	Total Interest & Dividend Adj.	$0			

(1) Exhibit 3-A Revised

BASA Wastewater Operations - Step 2

TABLE V
Pennsylvania-American Water Company - BASA Wastewater Operations
CASH WORKING CAPITAL -TAXES
R-2023-3043189, R-2023-3043190

	Description	Company Proforma Tax Expense Present Rates	ALJ Adjustments	ALJ Pro forma Tax Expense Present Rates	ALJ Allowance	ALJ Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	PUC Assessment	$241,773	$0	$241,773	$0	$241,773	$662.39	190.20	$125,987
2.	Public Utility Realty	$0	$0	$0		$0	$0.00	47.35	$0
3.	Local Property Tax	$589,414	$0	$589,414		$589,414	$1,614.83	64.56	$104,261
4.		$0	$0	$0		$0	$0.00	0.00	$0
5.		$0	$0	$0		$0	$0.00	0.00	$0
6.		$0	$0	$0		$0	$0.00	0.00	$0
7.		$0	$0	$0		$0	$0.00	0.00	$0
8.		$0	$0	$0		$0	$0.00	0.00	$0
9.		$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
10.	State Income Tax	$1,918,704	$0	$1,918,704	$0	$1,918,704	$5,256.72	13.60	$71,491
11.	Federal Income Tax	$4,689,400	$0	$4,689,400	$0	$4,689,400	$12,847.67	-18.40	($236,397)
12.		$7,439,291	$0	$7,439,291	$0	$7,439,291			
13.							ALJ Allowance		65,342
14.							Company Claim (1)		65,342
15.							ALJ Adjustment		0

(1) Company Main Brief

BASA Wastewater Operations - Step 2

TABLE VI
Pennsylvania-American Water Company - BASA Wastewater Operations
CASH WORKING CAPITAL -- O & M EXPENSE
R-2023-3043189, R-2023-3043190

	Description	Company Pro forma F.T.Y. Expense	ALJ	ALJ Pro forma Expenses	Lag Days	Lag Dollars
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Service Company	$0	$0	$0	12.05	$0
2.	Chemicals	$0	$0	$0	47.20	$0
3.	Group Insurance	$0	$0	$0	11.00	$0
4.	Insurance, Other	$0	$0	$0	-69.48	$0
5.	Labor	$191,043	$0	$191,043	12.05	$2,302,871
6.	Leased Equip./Rent	$0	$0	$0	-13.36	$0
7.	Leased Vehicles	$58,011	$0	$58,011	54.08	$3,137,484
8.	Miscellaneous	$6,404,248	$0	$6,404,248	30.46	$195,075,640
9.	Natural Gas	$0	$0	$0	33.33	$0
10	Power	$0	$0	$0	31.00	$0
11.	Purchased Water	$0	$0	$0	35.22	$0
12.	Telephone	$0	$0	$0	3.88	$0
13.	Waste Disposal	$0	$0	$0	41.96	$0
14.	Post Retirement Benefits	$0	$0	$0	0.00	$0
15.	Pensions	$0	$0	$0	-6.41	$0
16.		$6,653,302	$0	$6,653,302	30.10	$200,515,995

17.	ALJ Average Revenue Lag	50.6	
18.	Less: ALJ Avg. Expense Lag	30.1	
19.	Net Difference	20.5	Days
20.	ALJ Pro forma		
21.	O & M Expense per Day	$18,228	
22.	ALJ CWC for O & M	$373,674	
23.	Less: Company Claim (1)	$373,674	
24.	ALJ Adjustment	$0	

(1) Exhibit 3-A Revised

Appendix B

FINDINGS AND CONCLUSIONS

I. INTRODUCTION AND OVERVIEW

1. Pennsylvania-American Water Company ("PAWC" or the "Company") is a Pennsylvania public utility that furnishes water and wastewater services to approximately 780,000 customers in a service territory covering portions of 36 counties across the Commonwealth. *See* PAWC St. 2, pp. 2-3.

2. On November 8, 2023, the Company initiated this rate case pursuant to 66 Pa.C.S. § 1308(d)[1] by filing Supplement No. 45 to Tariff Water – Pa. P.U.C. No. 5 and Supplement No. 47 to Tariff Wastewater – Pa. P.U.C. No. 16 requesting a $203.9 million increase in its total annual operating revenues to become effective January 7, 2024. PAWC St. 1, p. 7.

3. In its initial filing, the Company sought approval to implement alternative ratemaking mechanisms consisting of its proposed (1) revenue decoupling mechanism ("RDM") and (2) Environmental Compliance Investment Charge ("ECIC"). *See* PAWC St. 1, pp. 23-26; PAWC St. 8, pp. 21-30; PAWC St. 10, pp. 86-106.

4. The Pennsylvania Public Utility Commission ("Commission" or "PUC") initiated an investigation of the Company's existing and proposed rates by Order entered December 21, 2023.

5. Pursuant to Section 1308(d), the Company's rate request was suspended by operation of law to August 7, 2024.

6. In addition to the Commission's Bureau of Investigation and Enforcement ("I&E"), several parties participated actively in this proceeding: the Office of Consumer

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[1] Hereafter all references to a "Section" are to the Pennsylvania Public Utility Code ("Code"), 66 Pa.C.S. §§ 101 *et seq.*, unless indicated otherwise.

Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), the Borough of St. Lawrence, the City of Scranton, Cleveland-Cliffs Steel ("CCS"), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA"), the Commission on Economic Opportunity ("CEO"), Exeter Township, the Pennsylvania-American Large Users Group ("PAWLUG"), State Representative Kyle Donahue, Robert Ralls, and Victory Brewing Company ("Victory").

7. A total of twelve public input hearings and two days of evidentiary hearings were held, generating 2,231 pages of transcript. The Company provided responses to 966 interrogatories and data requests with 1,795 subparts.

II. OVERALL POSITION ON RATE INCREASE

8. Public utilities are generally obligated through law and regulation to reliably meet the needs of all customers within their service territory. The utilities in turn are allowed to collect the costs of serving customers through commission-approved cost of service rates, including operating expenses and a return of and on prudently-incurred capital investment. Rates are set in order to allow the utility an opportunity to earn a reasonable return on the value of the property which it employs for the convenience of the public, with the rate of return designed to approximate the return being earned at the same time in businesses that face similar risks and uncertainties. This level of return on investment is designed to assure confidence in the financial soundness of the utility and to be sufficient to enable the utility to maintain credit and attract the capital needed to reliably meet customer needs over time. PAWC St. 16-R, p. 9; PAWC St. 13, pp. 9-13.

9. PAWC last increased its base rates effective January 28, 2023. Since that time, and through the FPFTY, the Company has or will spend over $1 billion in capital investment to continue to provide safe and reliable service to customers, while facing inflationary pressures

driving increases in the costs to provide high quality water and wastewater services. Absent rate relief, PAWC's water and wastewater operations are projected to produce an overall return on invested capital of 5.78% for the FPFTY. The indicated return on common equity under present rates is anticipated to be only 6.63% as of June 30, 2025, which is far less than required to provide the Company with a reasonable opportunity to attract capital. PAWC St. 1, pp. 7-9; PAWC St. 13, pp. 11-12.

10. Despite the $1 billion that PAWC plans to invest in its systems, the average residential water customer will only pay approximately 2 cents per gallon under PAWC's proposed rates, or about $2.90 per day for all of their water needs for drinking, cooking, cleaning and sanitation. PAWC St. 15-R, p. 4.

11. The phrase "regulatory compact" has been used in various ways by utility industry participants and practitioners to characterize the nature of public utility regulation and the relationship between a state and its jurisdictional utilities. While there is no explicit compact, contract or agreement between the state and its jurisdictional utilities, it is a shorthand simplification often used to try to illustrate certain elements of the framework for utility regulation, a simplification that in practice is described in different ways by different industry stakeholders and practitioners. There is no explicit or indicative utility-consumer balance implied by the metaphor of a "regulatory compact" that would enable the Commission to disregard reasonable and prudent costs incurred by a utility in favor of protecting customers. PAWC St. 16-R, p. 12.

12. With respect to acquisitions, PAWC has a long history of acquiring troubled water and wastewater systems and then addressing the infrastructure challenges of those systems. PAWC St. 1, pp. 42-45; PAWC St. 3-R, pp. 5-13; PAWC St. 15-R, pp. 11-12.

13. In light of the concerns parties have raised in this proceeding with the Company's acquisitions that have not yet closed, PAWC revised its request for rate relief to remove the Brentwood acquisition and to incorporate Step 2 Rates for the wastewater system to be acquired from the Butler Area Sewer Authority ("BASA") to ensure that customers do not pay higher rates reflecting the PUC-approved BASA ratemaking rate base until that acquisition closes. Tr. 1970; *see also* PAWC St. 1-R, pp. 5-6.

III. RATE BASE

14. PAWC's final claimed rate base of $6,071,315,148 (Appendix A) consists of the depreciated original cost of its utility plant in service at June 30, 2025, together with rate base additions and deductions made in accordance with accepted ratemaking procedures. *See* PAWC St. 4, pp. 9-20; PAWC Ex. 3-A Revised, pp. 25R, 96R, 145R, 217R.

A. Utility Plant in Service

15. As documented in the American Society of Civil Engineers most recent Report Card for Pennsylvania's Infrastructure, aging water and wastewater systems across the Commonwealth are in dire need of upgrades. The increase in PAWC's utility plant-in-service since its last base rate case is the single largest factor driving the Company's need for an increase in revenues. Since the end of the fully projected future test year ("FPFTY") in its last case (December 31, 2023), through the end of the FPFTY in this case (June 30, 2025), PAWC will have invested over $1 billion in new or replacement plant, and the overwhelming portion of this investment is in source of supply, treatment, distribution and collection assets. PAWC St. 1, pp. 8-9; PAWC St. 3, pp. 10-11.

16. PAWC's investment is also needed to improve service to small and troubled water and wastewater systems that PAWC has acquired in furtherance of the Commission's policy that larger, viable water and wastewater companies acquire small, troubled systems and make the

necessary improvement to provide safe and reliable service. To address these diverse capital needs, PAWC must raise substantial amounts of debt and equity and, in the process, demonstrate its ability to provide a reasonable return in order to convince investors to commit their funds to the Company. PAWC St. 1, pp. 8-9.

17. None of the parties opposing the rate increase disagree with PAWC's plan to invest more than $1 billion in its infrastructure before the end of the FPFTY. They have also not challenged the prudence or reasonableness of PAWC's ongoing replacement of its mains, meters, and lines, or any of the other investments that PAWC makes every day to meet or exceed environmental and public health standards, address infrastructure concerns, and enhance the reliability and resiliency of its systems. PAWC St. 15-R, pp. 3-4.

18. PAWC's requested revenue requirement properly includes the Audubon Water Company ("AWC"), BASA, Farmington Township ("Farmington"), and Sadsbury Township Municipal Authority ("Sadsbury") acquisitions that Company witness Abruzzo testified are expected to close before the end of the FPFTY. PAWC St. 6-R, pp. 2-5.

19. After non-Company direct testimony was submitted in this case, PAWC agreed to remove the to-be-acquired Borough of Brentwood ("Brentwood") wastewater system from revenue requirement and to implement proposed rates including the BASA wastewater system ("Step 2 Rates") only upon closing of the acquisition. Tr. 1970; *see also* PAWC St. 1-R, pp. 5-6.

20. As of the date of the hearing, PAWC's acquisition of BASA had been approved by the Commission and was pending on appeal before the Commonwealth Court of Pennsylvania. The Commonwealth Court has granted expedited consideration of the matter. Tr. 1988.

21. On February 21, 2024, a unanimous settlement was submitted to the Administrative Law Judge for PAWC's acquisition of the Sadsbury Township Municipal Authority wastewater system. PAWC St. 6-R, p. 4. A Commission order is expected in that proceeding this summer. Tr. 1990.

22. As of the date of the hearing, PAWC's acquisitions of the Farmington Township water and wastewater systems, and its acquisition of the Audubon Water Company, were pending before ALJs. Tr. 1990.

23. Mr. Higgins recommends that the Commission deny the Company recovery of all amortization expense and rate base related to the AWC acquisition in excess of the net book value of AWC's assets simply because the proposed acquisitions is pending Commission review. OSBA St. 1, p. 29; OSBA St. 1-SR, p. 15.

24. PAWC and AWC are unaffiliated entities that negotiated at arms-length to reach an agreement, at a reasonable price, that will confer numerous benefits to the public. PAWC demonstrated it satisfies all of the statutory criteria for a Section 1327 acquisition premium for the AWC system and, therefore, the Commission should deny Mr. Higgins' adjustment. PAWC St. 4-R, pp. 5-6.

25. Mr. Higgins recommends a rate mitigation adjustment for BASA if the acquisition closes, despite acknowledging that the Commission rejected a similar request in the Company's 2020 base rate case. OSBA St. 1, pp. 22-23; OSBA St. 1-SR, pp. 12-14.

26. The Commission should reject Mr. Higgins' proposal, consistent with its decision in the Company's 2020 rate case in which the Commission denied an OCA recommendation to require PAWC's shareholders (rather than PAWC's water customers) to pay approximately $16.7 million in revenue requirement relating to four wastewater systems that PAWC acquired

pursuant to Section 1329. PAWC St. 4-R, pp. 4-5; *see also Pa. P.U.C. v. Pa.-American Water Co.*, Docket Nos. R-2020-3019369 and R-2020-3019371 (Opinion and Order entered Feb. 25, 2021) ("PAWC 2020 Order"), pp. 80-83 (finding that the OCA's proposal would violate PAWC's rights under the Pennsylvania and Federal Constitutions against taking private property without compensation, because it would force shareholders to commit investment capital to furnish safe and reliable service to the customers of the acquired wastewater systems while denying shareholders any compensation for the use of their funds).

B. Depreciation Reserve

27. PAWC witness Spanos completed depreciation studies to estimate the annual depreciation accruals related to water and wastewater plant in service for ratemaking purposes and, using PUC-approved procedures, to estimate the Company's book reserve as of June 30, 2023, June 30, 2024 and June 30, 2025. *See generally* PAWC St. 11; Exhibit Nos. 11-A though 11-M; *see also* Exhibit JJS-1R. PAWC's annual depreciation accrual applicable to plant-in-service at June 30, 2025 is $265,476,224.

28. Service life studies were the basis for the service lives and survivor curves Mr. Spanos used to calculate annual accruals. PAWC's most recent service life studies were performed in 2022 for the Company's water assets (based on plant data through 2021) and in 2020 for its wastewater assets (based on plant data through 2019). PAWC St. 11, p. 7.

29. OCA witness Smith objects to PAWC's use of service life/survivor curve information (1) from the most recent water asset service life study (the "2021 Water Service Life Study") for three water accounts and (2) for the BASA wastewater facilities that differed from information presented in the Section 1329 acquisition proceeding. OCA St. 2, pp. 64-66 (water asset accounts); pp. 38-42 (BASA). Based on these objections, he proposed downward

adjustments to depreciation expense (a reduction of $15.479 million for water and $877,000 for BASA). OCA St. 2, p. 66 (water asset accounts); pp. 41-42 (BASA).

30. The sole basis for Mr. Smith's objections regarding water accounts 304.15 (Other Water Source Structures), 331.00 (Mains and Accessories), and 335.00 (Fire Hydrants), was that the 2021 Water Service Life Study had "drastically shortened" life parameters as compared to the service life information presented in PAWC's 2022 rate case proceeding (Docket No. R-2022-3031673) that was taken from an earlier service life study (the "2016 Water Service Life Study"). For these three water accounts only, he recommends use of the outdated service life information from the 2016 Water Service Life Study. OCA St. 2, pp. 64-66.

31. Mr. Spanos provided detailed survivor curve information for the three water accounts at issue and showed that, for each account, the updated information from the 2021 Water Service Life Study was a better statistical fit with the most current historical data than the 2016 Water Service Life Study. PAWC St. 11-R, pp. 5-10.

32. Regarding the BASA wastewater assets, Mr. Smith argued that the service life/survivor curve information presented by the Company in this case was improper because it was "dramatically inconsistent" with service life/survivor curve information presented in the related Section 1329 acquisition proceedings for these systems. OCA St. 2, pp. 38-42.

33. Mr. Spanos explained that the life estimates utilized in the Company's Section 1329 proceeding were based on different concepts that were not intended for determining depreciation recovery patterns for existing and future assets. In this proceeding, the Company properly developed life estimates and depreciation expense for BASA using standard practices and, unlike the Section 1329 proceedings, the life analysis included information about how the

Company plans to operate all of the existing and future wastewater systems. PAWC St. 11-R, pp. 10-11.

C. Cash Working Capital

34. Cash working capital represents the funds needed to pay O&M expenses and taxes that, on average, are incurred in advance of the utility's receipt of revenues. PAWC calculated its cash working capital requirement using the accepted, PUC-approved lead-lag method. PAWC St. 4, pp. 13-15.

35. No party disputed the methodology the Company employed or challenged its proposed revenue lag, expense lag or net lag (revenue lag minus expense lag).

36. I&E witness Okum and OCA witness Smith propose adjustments to the Company's requested cash working capital that are concomitant to their proposed adjustments to O&M expenses. For the reasons set forth in Section VI of PAWC's Main Brief, none of Ms. Okum's or Mr. Smith's adjustments should be adopted.

IV. REVENUES

37. The Company's pro forma revenues under present rates the FPFTY are $1,213,394,607. Appendix A.

38. The Company developed this claim using the level of water and wastewater sales revenue generated during the historic test year ("HTY") ended June 30, 2023, and, in accordance with well-established PUC practice, making appropriate adjustments to eliminate non-recurring items and to annualize the effect of known or anticipated changes.

39. All adjustments made in developing the Company's pro forma revenue claims are described in the direct and rebuttal testimony of Mr. Rea (PAWC Statements 10, pp. 72-76 and 10-R, pp. 62-64) and further detailed in PAWC Exhibit No. 3-A Revised.

V. EXPENSES

40. The Company's pro forma O&M expenses, at present rate levels, equal $312,622,031 for the FPFTY.

41. Adjustments to PAWC's O&M expense claims were proposed by I&E, the OCA, the OSBA, and PAWLUG, which are addressed individually below.

A. Payroll Costs

42. The Company's payroll expense claim reflects: (1) salaries and wages (including performance compensation); (2) group insurance; (3) other benefits (401k, Defined Contribution Plan and Employee Stock Purchase Plan); and (4) payroll taxes. PAWC St. 5, p. 5.

43. The Company's payroll allowance for the FPFTY was developed based on PAWC's authorized complement of 1,294 equivalent employees. PAWC St. 5, pp. 4-7; *see also* PAWC St. 2, p. 39.

44. OCA witness Smith proposes an adjustment to reflect on a 1.76% vacancy rate. OCA St. 2, p. 59. He also proposes concomitant adjustments to group insurance expense, payroll taxes, and 401K, Defined Contribution Plan and Employee Stock Purchase Plan costs. *Id*., pp. 59-61.

45. In rebuttal testimony, PAWC accepted Mr. Smith's vacancy rate adjustment and updated payroll expense to reflect a merit increase that became effective January 8, 2024, for non-collective bargaining unit hourly employees and exempt employes (the "2024 Merit Increase"). PAWC St. 5-R, pp. 2-3; PAWC Exhibit 3-A Revised. With the accepted adjustment and 2024 Merit Increase, PAWC's final payroll expense claim is $78,161,527. *Id.*

B. Annualized Performance Pay (PAWC)

46. PAWC uses a mix of fixed and variable (i.e., performance-based) compensation to attract and retain customer-committed, dedicated and highly qualified employees. PAWC St. 2, pp. 39-40.

47. In her surrebuttal testimony, I&E witness Okum withdrew her recommendation to apply a three-year historical average payout factor to FPFTY base payroll to determine performance pay. I&E St. 1-SR, pp. 15-16.

48. OSBA witness Higgins proposes to disallow (1) 50% of the compensation earned by PAWC employees under the Annual Performance Plan ("APP"); and (2) 100% of the compensation earned by PAWC employees under the Long-Term Performance Plan ("LTPP"). Mr. Higgins claims that the proposed disallowances that would reduce PAWC's overall O&M expense claims by $10.4 million reflect the portion of employee performance-based compensation that allegedly benefits shareholders. OSBA St. 1, pp. 10-13; Schs. KCH-2 and KCH-3.

49. PAWLUG witness LaConte also proposes adjustments to disallow performance compensation she believes is tied to meeting financial targets (approximately $2 million). PAWLUG St. 1, pp. 7-9.

50. The performance compensation challenged by Ms. LaConte and Mr. Higgins is an integral part of the total market based compensation package that is necessary to compete for and retain qualified employees so that customers continue to receive safe and reliable service. PAWC Statements 2, pp. 39-42 & 2-R, pp. 4-10.

51. No party contests that the Company's total market based employee compensation is reasonable and PAWC provided evidence concerning how performance pay benefits customers by encouraging, among other things, operational efficiency. PAWC St. 2-R, pp. 4-10.

52. PAWC's performance-based compensation expense, including APP and LTPP, was recently reviewed and approved by the Commission in PAWC's 2020 base rate proceeding. PAWC 2020 Order, p. 53.

53. Satisfying key financial objectives provides significant benefits to customers, not just shareholders of American Water. Achieving established financial goals will enable PAWC to continue to access capital at reasonable rates. PAWC St. 2-R, pp. 6-8.

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

54. OSBA witness Higgins proposes an expense adjustment to disallow all ESPP costs (approximately $450,000), contending that the ESPP's stock purchase discount increases payroll costs and provides "no tangible benefit for customers.". He made a concomitant adjustment to payroll taxes. OSBA St. 1, p. 11-14

55. PAWC witness O'Malley explained that the ESPP is available to all active, full- or part-time employees of American Water. PAWC employees who become American Water shareholders have additional incentive to establish efficiencies that benefit customers. PAWC St. 5-R, p. 5; *see also* PAWC St. 2-R, p. 6.

D. Stock-Based Compensation Expense – AWW Executives; Executive Perquisites (AWW Executives Dividend Equivalents)

56. OCA witness Smith recommends adjustments to disallow (1) stock-based compensation (approximately $1.7 million) and (2) dividend equivalents (approximately $31,000) paid to American Water's top executives. Mr. Smith contends that such stock-based compensation and executive perquisites align the interests of those top executives with shareholder interests and do not promote reliable and effective public utility service. OCA St. 2, pp. 66-72.

57. The expenses opposed by Mr. Smith are part of the compensation provided to top executives to ensure that total compensation is reasonable and market based. Like all other employees, top executives are necessary to enable PAWC to manage the provision of safe and reliable water and wastewater services. PAWC St. 2-R, p. 9.

58. No party presented evidence that top executives could be attracted or retained with a total compensation level that is substantially below the Company's claim. *Id.*

59. Both customers and utility investors benefit from awarding a portion of total compensation as stock-based compensation because: (1) it incentivizes utility employees to promote the Company's efficiency and financial health; and (2) it promotes a stable leadership team and mitigates employee turnover costs by vesting over a prospective three-year period. PAWC St. 2-R, pp. 9-10; *see also id.*, pp. 3-8.

E. Insurance Other Than Group

60. Mr. Smith proposes using a single data point – the HTY to FTY increase – in lieu of the five-year average PAWC employed to derive its FPFTY insurance other than group expense claim. OCA St. 2, pp. 63-64.

61. In its last base rate case, PAWC used a five-year average to smooth year-to-year variations, and that approach was not opposed by the OCA. The Company's approach continues to be appropriate to smooth out year-over-year variations. PAWC St. 5-R, p. 8.

F. Uncollectible Expense

62. Outstanding arrearages for PAWC's customers have stabilized from the significant increases during the peak of the COVID-19 pandemic, and the Company's net write-offs have been trending back toward pre-pandemic levels since mid-2021. As a result, PAWC calculated its claim for bad debt (uncollectible) expense using a two-year historic average (July 1, 2021 to June 30, 2023) ratio of net write-offs as a percentage of sales revenues (1.176%) to

normalize the rate of uncollectible accounts to pre-pandemic levels and account for the application of Low-Income Household Water Assistance Program ("LIHWAP") funds to reduce unpaid balances. PAWC St. 8, pp. 3-6.

63. PAWC's Miscellaneous Expense Adjustment included costs related to the Arrearage Management Plan ("AMP") that was pending before the Commission at the time of the initial base rate filing and later approved on December 7, 2023, at Docket No. P-2021-3028195. The total cost of arrearage forgiveness is based on the average number of Bill Discount Program ("BDP") customers in the HTY with arrears multiplied by the annual AMP credits, assuming a 100% participation rate. PAWC Statements 5, p. 26 (inclusion in Miscellaneous Expense Adjustment) & 5-R, p. 8 (identifying PUC approval order).

64. Mr. Colton recommends a reduction in AMP credit cost recovery from PAWC's proposed $2,377,200 to $214,728, arguing that the Company's projected AMP participation level should reflect how many BDP customers make payments in a "full and timely" fashion. OCA Statements 5, pp. 124-126 & 5-SR, pp. 25-27.

65. Mr. Colton incorrectly assumes, however, that timely payments are required for a customer to be eligible for credits under the AMP. As Ms. Everette explained, the requirement for arrearage forgiveness is that the customer make an in-full payment of current charges plus a $5 copay. Tr. 1977.

66. If AMP expense is lower than the Company has projected in this case, the difference will be recorded to a regulatory liability and returned to customers in a future base rate case. PAWC St. 5-R, pp. 8-9.

G. Acquisition-Related Expenses

67. I&E and the OCA's adjustments related to the BASA, AWC, Farmington, and Sadsbury acquisitions should be rejected for the reasons discussed in Findings of Fact Nos. 16-25.

H. Interest Synchronization

68. PAWC's claim for income tax expense is set forth in PAWC Exhibit 3A-Revised and is based, in part, on an interest expense deduction calculated using the Company's proposed rate base and weighted cost of debt. PAWC Ex. 3-A Revised, pp. 72R-75R.

69. The OCA proposes an interest expense adjustment concomitant to the OCA's proposed adjustments to rate base and the weighted average cost of debt (*see* OCA St. 2, pp. 61-62; OCA St. 2-SR, pp. 34-36), which should be rejected for the reasons set forth in Sections IV and VIII of PAWC's Main Brief.

I. Amortization Expense

70. I&E and the OCA propose adjustments to PAWC's amortization expense related to PAWC's acquisitions of the AWC, BASA, Farmington and Sadsbury systems (*see* I&E St. 3, pp. 81-83; OCA St. 2, pp. 49-52), which should be rejected for the reasons set forth in the reasons discussed in Findings of Fact Nos. 16-25.

J. Call Center Expense

71. The OCA acknowledges call handling operations are necessary to provide service to PAWC's customers but proposes an adjustment to eliminate $3.1 million from PAWC's O&M expense claim related to third-party call handling agencies. OCA St. 2, p. 73; OCA Ex. LA-2, Sch. C-21; OCA St. 6, pp. 19, 25-26.

72. If PAWC did not utilize third-party call handling agencies, the Company would incur additional expense for staffing increases to handle the call volumes previously answered by third-party contractors. PAWC St. 1-R, p. 22.

K. Pension and Other Post Employment Benefits ("OPEB") Expense

73. In the Commission's final order in PAWC's 2017 base rate case, it approved the Company's request to cease using cash contributions as the ratemaking measure of pension and OPEB costs and, instead, follow GAAP accounting under Financial Accounting Standards Board Accounting Standard Codification Topic 715 ("ASC 715") (formerly Financial Accounting Standard 87). Under ASC 715, net changes in the actuarial determination of pension and OPEB obligations and associated plan funding levels directly impact the bottom line on a company's income statement for the applicable accounting period. Based on the direction and magnitude of the factors that drive the annual performance of a company's pension and OPEB plans, the amount reflected on the income statement in any given year can be either expense or income. *See* PAWC St. 8, p. 13.

74. PAWC's original claims consisted of pension expense of $22,214 and OPEB income of $5,817,327. Based on the actuarial report furnished by WTW for 2024 after the initial filing, PAWC revised its pension claim to an expense of $971,071 and its OPEB claim to income of $6,496,737. PAWC St. 5-R, p. 5; Ex. 3-A Revised, pp. 51R-52R.

75. The Company also requested Commission approval to defer and record any amounts above or below the projected level of pension and OPEB expenses into regulatory asset or liability accounts until its next base rate proceeding. PAWC. St. 8, pp. 10-11, 15.

76. Projections of PAWC's pension and OPEB costs are calculated by WTW (formerly known as Willis Towers Watson), a national actuarial firm. Although WTW uses sound, well-established actuarial methods, the pension and OPEB costs that it calculates are

subject to material change based on a variety of economic and demographic variables that are outside the Company's control. PAWC St. 8, pp. 10-14.

77. Deferred accounting authorization would assure that PAWC recovers only in actual expenses, no more or less. PAWC Statements 8, pp. 11-12 & 8-R, pp. 4-5.

78. From 2012 through 2022, customers would have realized net benefits (actual costs lower than the amount embedded in rates) of approximately $58 million for a pension deferral and $46 million for an OPEB deferral. PAWC Statements 8, pp. 15-17 & 8-R, pp. 4-5; PAWC Ex. JCS-1R; Tr. 2004-06.

79. PAWC's proposed deferral mechanism will not remove incentives for PAWC to control pension and OPEB costs or guarantee recovery of those expense items. All deferred amounts will be subject to review in the Company's next rate case, and all parties will have an opportunity to review the pension and OPEB expenses incurred by PAWC to ensure that those costs have been prudently incurred. PAWC St. 8-R, p. 5.

80. The Commission has not imposed an "earnings test" for any form of deferral in the past, although it had the opportunity to do so. Moreover, when expenses are deferred, they are removed from the income statement and, as a result, net income is higher than it would be if the expenses were actually flowed through to the income statement. Tr. 2002-04.

L. Production Expenses

81. No party disagrees with PAWC's claimed annual level of production expense under proposed rates ($59,989,147), including purchased water and wastewater treatment, chemicals, fuel and power, and waste disposal. PAWC St. 5, pp. 19-22; PAWC Ex. 3-A, pp. 54-57, 118-120, 238-240; PAWC Ex. 3-B, pp. 165-260.

82. The Company also requested Commission approval to defer and record any amounts above or below the projected level of production expenses into regulatory asset or liability accounts until its next base rate proceeding. PAWC. St. 8, pp. 10-11, 19-20.

83. The Company's production expenses can materially increase or decrease based on volatility in the prices charged by suppliers due to market conditions that are outside the control of PAWC and its suppliers. For example, the chemical market was extremely volatile in 2022 and 2023 compared to historical levels, driven by many factors such as impacts from the COVID-19 pandemic, the conflict in Ukraine, and inflationary growth in commodity prices. Likewise, energy market prices are higher than they have been in many years, and as a result, PAWC's electric generation suppliers have increased contract rates for power supply and are less willing to lock in prices for 12-month terms. PAWC St. 8, pp. 17-21.

84. PAWC's proposed deferral mechanism will not remove incentives for PAWC to control production costs or guarantee recovery of those expense items. All deferred amounts will be subject to review in the Company's next rate case, and all parties will have an opportunity to review the production expenses incurred by PAWC to ensure that those costs have been prudently incurred. PAWC St. 8-R, p. 5.

85. The Commission has not imposed an "earnings test" for any form of deferral in the past, although it had the opportunity to do so. Moreover, when expenses are deferred, they are removed from the income statement and, as a result, net income is higher than it would be if the expenses were actually flowed through to the income statement. Tr. 2002-04.

VI. TAXES

86. PAWC's claims for Federal and State income taxes are set forth in described by Company witness Melissa Ciullo in PAWC Statement No. 7 and set forth in PAWC Exhibit 3-A

Revised. No party disputes the manner in which the Company calculated its Federal and State income taxes.

VII. RATE OF RETURN

A. Capital Market Conditions

87. Inflation has increased significantly in recent years and has reached some of the highest levels seen in approximately 40 years. While inflation has declined from some recent peaks, it is expected to persist over the near-term and be above the Federal Reserve 2% inflation target until 2026. PAWC St. 13, pp. 15-19; PAWC St. 13-R, pp. 12-15; PAWC St. 13-RJ, pp. 1.

88. Statements of Federal Reserve Chairman Powell on March 5, 2024 confirm that the Federal Reserve is not “confident” that continued progress towards its 2% inflation target is assured and the Federal Reserve will not cut interest rates until it is “confident.” PAWC St. 13-RJ, p.1.

89. Long-term interest rates have increased since the Company’s last base rate case. PAWC St. 13, pp. 19-23.

90. Equity analysts have noted the increased risk for the utility sector as a result of rising interest rates and expect the sector to underperform over the near-term. Since utility dividend yields are now less attractive than the risk-free rates of government bonds, and interest rates are expected to remain elevated, it is likely that utility share prices will decline. PAWC St. 13, pp. 7 & 20-23; PAWC St. 13-R, p. 16.

91. Rating agencies have cited increased risk in the utility sector due to increased interest rates, inflation and elevated capital expenditures. PAWC St. 13, pp. 61-63.

B. Proxy Group

92. Ms. Bulkley applied a set of appropriate screening criteria to determine a group of companies that is comparable to PAWC. PAWC St. 13, pp. 25-26.

93. Due to a recent trend towards consolidation in the utility industry, Value Line currently classifies only seven companies as water utilities, and this list of water utilities was reduced to four after applying Ms. Bulkley's screening criteria. Ms. Bulkley considered electric and natural gas utilities that met her screening criteria for the proxy group, consistent with the decisions of other public utility commissions in ratemaking proceedings for water utilities. Her screening criteria included a requirement that each utility derive more than 70% of its revenue from regulated operations, and electric utilities must also have water operations. The result was a proxy group of comparable companies. PAWC St. 13, p. 27; PAWC St. 13-R, pp. 22-23.

94. I&E witness Patel used a proxy group of only water companies, which included PAWC's parent, American Water. Because PAWC contributes nearly a quarter of American Water's revenue, Mr. Patel's proxy group was circular and cannot be used to determine the ROE of the Company. PAWC St. 13-R, pp. 19-20; PAWC St. 13-RJ, p. 2.

95. Mr. Patel improperly excluded Essential Utilities from his proxy group. Even under his criteria of revenue from water operations, Essential Utilities water revenues have historically been in excess of 50% aside from one year (2022) due to high natural gas prices. PAWC St. No. 13-R, pp. 20-22; PAWC St. 13-RJ, p. 3.

96. Mr. Patel conceded that water, electric and natural gas utilities have different risks, but the risks of electric and natural gas utilities are not greater or lesser than water utilities. PAWC St. No. 13-RJ, p. 4; Tr. 2142.

97. OCA witness Garrett used the same water utilities as Ms. Bulkley, including Essential Utilities, but did not include any electric or natural gas utilities, which resulted in an improperly small proxy group. PAWC St. 13-R, p. 52.

C. Capital Structure

98. In developing her recommended reasonable rate of return, PAWC witness Bulkley employed the Company's anticipated year-end capital structure ratios for the FPFTY, as these ratios are indicative of those PAWC will maintain to finance its claimed rate base during the period it proposed that its new rates would be in effect. PAWC St. 13, pp. 58-60.

99. PAWC witness Bulkley calculated the capital structure of PAWC and both its water and wastewater services. She calculated the total-Company capital structure first, using all debt issuances and all sources of capital. Because certain debt issues were specifically attributable to wastewater, she calculated the capital structure for water service by removing the wastewater specific debt and recalculating the ratios of the remaining capital stock. The wastewater specific capital structure was then calculated by applying the total company debt ratio to the wastewater rate base, excluding the wastewater-specific debt issuances. PAWC St. 13, pp. 58-59.

100. PAWC proposed the following capital structure:

Total Company[2]	
Common Equity	55.30%
Preferred Stock	0.00%
Long-Term Debt	44.70%
Water Services[3]	
Common Equity	55.99%
Preferred Stock	0.00%
Long-Term Debt	44.01%
Wastewater Services[4]	
Common Equity	52.87%
Preferred Stock	0.00%
Long-Term Debt	42.73%
WW Specific Debt	4.40%

PAWC St. 13, p. 60.

101. Ms. Bulkley's testimony established that this capital structure was well within the range of equity ratios of her proxy group of utilities and appropriate in light of the challenges PAWC and other utilities face. PAWC St. 13, pp. 60-64.

102. I&E witness Patel recommends using PAWC's capital structure presented by Ms. Bulkley. I&E St. 2, p. 16.

103. OCA witness Garrett erred in concluding that PAWC's debt ratio was too low because he relied upon the common equity ratio at the holding company level of the companies to which he compared PAWC, thereby including corporate-level debt that is not part of the capital structure of the holding company's utility operating subsidiaries that are more comparable to PAWC. PAWC St. 13-R, pp. 71-74.

104. In calculating a hypothetical capital structure for PAWC, Mr. Garrett used the market value of equity for calculating the cost of equity while using the book value of debt and

[2] *See* Exhibit 13-A, Schedule 11.

[3] *Ibid.*, at Schedule 12.

[4] *Ibid.*, at Schedule 13.

equity to assess the Company's proposed equity ratio, leading to the incorrect conclusion that the market value of equity reflects investors' return requirements associated with a capital structure based on the book value of debt and equity. His reliance on the Hamada Model was also flawed, as the Hamada formula requires the use of the market value of debt and equity, not book value. PAWC St. 13-R, pp. 75-76.

D. Cost of Long-Term Debt

105. The Company's long-term debt was calculated by Ms. Bulkley using specific debt identified for wastewater services and calculating the water services capital structure and associated water services long-term debt by removing the wastewater services debt. She properly calculated water services long-term debt of 44.01% and the wastewater services long-term debt of 42.73%, with a total company long-term debt of 44.70%. PAWC St. 13, pp. 58-59.

E. Return on Equity

1. PAWC's Cost of Equity

106. Current market conditions of high inflation and high interest rates necessitate the use of multiple models for calculating the cost of equity. PAWC St. 13, pp. 29-32.

107. The Commission has concluded that in periods of increased inflation and interest rates, the Discount Cash Flow ("DCF") model may understate the cost of equity and placed weight on the Capital Asset Pricing Model ("CAPM"). PAWC St. 13, pp. 7, 23, 30, & 37-39; PAWC St. 13-R, pp. 11-12, 17 & 37-39.

108. The DCF approach is based on the theory that a stock's current price represents the present value of all expected future cash flows. The DCF model used by Ms. Bulkley and other witnesses is known as the Constant Growth DCF model and relies on various assumptions, including a growth rate for earnings and dividends. PAWC St. 13, pp. 32-33.

109. Ms. Bulkley calculated average dividend yields for the proxy group for the 30-, 90-, and 180-day trading days as of October 31, 2023. Since utility dividends generally increase from year to year and are paid quarterly, not continuously, she adjusted her findings to capture one-half of the anticipated dividend growth. PAWC St. 13, pp. 33-34.

110. Once the dividend yield is calculated, the proper growth rate must be developed. Ms. Bulkley considered a variety of published long-term growth rates and calculated results using minimum, average, and high growth rates from these sources, leading to a DCF range of 8.69% to 10.96%. PAWC St. 13, p. 36.

111. The CAPM is a forward-looking risk premium approach that estimates the cost of equity for a given security as a function of a risk-free return plus a risk premium to compensate investors for the non-diversifiable or "systematic" risk of that security. Systematic risk is the risk inherent in the entire market or market segment – which cannot be diversified away using a portfolio of assets. PAWC St. 13, pp. 39-40.

112. To estimate the risk-free rate or return, Ms. Bulkley used the current 30-day yield on 30-year Treasury bonds and projected 30-year Treasury bond yields for the fourth quarter of 2023 through the fourth quarter of 2024 and for the period 2025 through 2029. PAWC St. 13, pp. 39-40.

113. Ms. Bulkley used Beta coefficients for the proxy group companies as reported by Bloomberg and Value Line, which are based on ten years of weekly returns relative to the S&P 500 index (Bloomberg) and five years of weekly returns relative to the New York Stock Exchange Composite Index (Value Line). PAWC St. 13, pp. 40-41.

114. She estimated the market risk premium based on the expected return on the S&P 500 Index as of October 31, 2023, which she calculated as 12.49% – a value she concluded was

reasonable in light of the fact that the realized equity return in 50 of the past 97 years was at least 12.49% or greater. PAWC St. 13, p. 42.

115. Ms. Bulkley's market return was consistent with the range of annual equity returns that have been observed from 1926 to 2022. She also described the review of 29 different market risk premium methodologies by the Federal Reserve Bank of New York which underscored that the market risk premium tends to peak during periods of high inflation and demonstrated that her estimates were reasonable and in line with independent sources. PAWC St. 13-RJ, pp. 10-11.

116. In addition, Ms. Bulkley considered the results of another form of CAPM (the "Empirical CAPM"). This methodology addresses the tendency of the "traditional" CAPM to underestimate the cost of equity for companies with low Beta coefficients, such as regulated utilities, and has been accepted by other state commissions. PAWC St. 13, pp. 58-59 & 13-R, pp. 69.

117. Ms. Bulkley's analysis indicated a traditional CAPM range of returns from 10.15% to 11.17%, with Empirical CAPM ROEs of 10.73% to 11.50%. PAWC St. 13, pp. 44-45 & 13-R, p. 19.

118. In light of the results of both the DCF and CAPM models, and after considering the business, financial and regulatory risks faced by PAWC and the Company's superior management performance as discussed in Section VIII.F. below, Ms. Bulkley recommends an ROE of 10.95%. PAWC St. 13, p. 59.

2. I&E's Position

119. I&E witness Patel recommends an ROE of 8.45%, which is below any return authorized for a water utility in the United States since 2010 and well below the returns recently

authorized by the Commission for other Pennsylvania water utilities (10% for Aqua America; 9.75% for Columbia Water). I&E St. 2, pp. 31, 35; PAWC St. 13-R, p. 6.

120. Mr. Patel undertook a CAPM analysis that resulted in an ROE of 10.44%, but he did not adjust his ROE based on that result. I&E St. 2, pp. 54-69.

121. Mr. Patel concedes that "current market conditions are still characterized by high interest rates and capital costs."

122. With respect to his DCF calculations, Mr. Patel chose to use a spot stock price, which can be volatile and unduly influence the result from the DCF model, instead of a 30-day average, which both Ms. Bulkley and OCA witness Garrett used. PAWC St. 130R, pp. 30-31.

123. The small size of his proxy group (discussed in Section VIII.B. above) also resulted in undue weight to a single company, Middlesex Water, which had an unreasonable DCF result of only 5.77%. PAWC St. 13-R, p. 29.

124. Simply using a 30-day average, excluding Middlesex Water's results, which should reasonably be excluded because it does not provide a meaningful equity premium over the yield on utility bonds, and incorporating Essential Utilities in Mr. Patel's proxy group, to be consistent with the water companies relied upon by Ms. Bulkley and Mr. Garrett, yields a revised DCF mean result of 9.21%; using Ms. Bulkley's more reasonable proxy group results in a DCF of 9.82%. PAWC St. 13-R, pp 30-31.

125. In his CAPM calculation, Mr. Patel used a 10-year Treasury rate and calculated a market return based on a Value Line report for a single week, which was well below the historical average. PAWC St. 13-R, pp. 42-47.

126. Use of a 30-year Treasury rate instead of a 10-year Treasury rate is more appropriate in light of the long duration of utility investments. PAWC St. 13-R, p. 43.

127. Granting Mr. Patel the use of the 10-year Treasury bond, including Essential Utilities in his proxy group consistent with the proxy groups of Ms. Bulkley and Mr. Garrett increases his CAPM result to 10.71%. PAWC St. 13-RJ, p. 6.

128. Weighing Mr. Patel's DCF and his CAPM analysis 50/50 after reasonable adjustments – which is less weight on the CAPM analysis than the Commission placed in both *Aqua*[5] and *Columbia Water*[6] – results in an ROE of 10.02%, or 10.53% with a proper proxy group, before the addition of any enhancement for superior management performance. PAWC St. 13-R, p. 50.

3. OCA's Position

129. In his DCF calculation, Mr. Garrett used the same Constant Growth DCF model as Ms. Bulkley, with both a sustainable growth rate and growth rates from various analysts. He calculated his DCF results based on analysts' growth rates using both his proxy group and Ms. Bulkley's proxy group, which were 9.4% and 9.3%, respectively. OCA St. 3, p. 28.

130. Although he criticized Ms. Bulkley's DCF calculations, Mr. Garrett used growth rates that were *higher* than Ms. Bulkley's growth rate. PAWC St. 13-R, pp. 57-58.

131. In light of his DCF results, Mr. Garrett focused on his CAPM model, and calculated a ROE of 8.8% – well below Ms. Bulkley's range of 10.15% to 11.17%, as well as I&E witness Patel's calculation of 10.44%. OCA St. 3, p. 43; PAWC St. 13, pp. 59-60; I&E St. 2., p. 34.

132. The primary issue between Ms. Bulkley's model results and Mr. Garrett's calculations involved the market risk premium. Mr. Garrett's market risk premium of 5.30% was understated in light of a well-established inverse relationship between interest rates and the

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[5] *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, R-2021-3027385 (Order entered May 16, 2022).
[6] *Pa. P.U.C. v. Columbia Water Co.*, Docket No. R-2023-3040258 (Order entered January 18, 2024).

market risk premium, and he improperly relied on a business school survey. PAWC St. 13-R, pp. 56-57.

133. If Mr. Garrett's CAPM analysis were performed with I&E witness Patel's market risk premium and that CAPM result (10.60%) was averaged with Mr. Garrett's uncorrected DCF result (9.4%) in the same manner as Mr. Garrett did himself, his ROE calculation in this proceeding would be 10.00%. PAWC St. 13-R, pp. 60-61.

4. OSBA's Position

134. OSBA witness Mr. Higgins utilized a "proxy" ROE of the Commission's most recently approved DSIC ROE of 9.65% for water and wastewater utilities. Mr. Higgins explicitly states that his use of the DSIC is not based on any cost of equity analysis he performed and is not intended to supplant the Commission's consideration of the traditional cost of equity analyses. OSBA St. 1, pp. 17-18.[7]

5. PAWLUG's Position

135. PAWLUG witness LaConte did not provide any cost of equity analysis upon which the Commission can rely.

F. Business Risks and Management Performance

136. PAWC is projected to make $1 billion in capital investments through June 30, 2025, and plans to invest over $3 billion in infrastructure over the next few years. FR VII.26. PAWC will need to seek financing beyond internally generated cash flows. PAWC St. 13, pp. 49-52.

[7] OSBA St. 1, pp. 17-18.

137. PAWC faces extensive environmental and regulatory risks associated with its operations and must continually update its systems to meet its statutory obligation to furnish safe, adequate, and reliable water service. *Id.* pp. 53-56.

138. To the extent PAWC is denied the opportunity to recover prudently incurred flotation costs, actual returns will fall short of expected or required returns, thereby diluting equity share value. Flotation costs are not current expenses but are part of the invested costs of the utility and are not otherwise recovered. PAWC St. 13, pp. 46-48.

139. PAWC's proposed alternative ratemaking proposals – the RDM and the ECIC – will not reduce PAWC's risk in comparison to the proxy group companies. PAWC St. 13, pp. 53-57; PAWC St. 13-R, pp. 77-82; PAWC St. 13-RJ, pp. 13-15.

140. To the extent that the authorized returns in a jurisdiction are lower than returns that have been authorized more broadly, credit rating agencies will consider this in the overall risk assessment of the regulatory jurisdiction in which a utility operates. PAWC St. 13, p. 12.

141. PAWC demonstrated excellent management performance supporting its proposed return on equity. PAWC St. 1, pp. 31-46; PAWC St. 1-R, pp. 6-20; PAWC St. 15-R, pp. 6-15; PAWC St. 13; p. 75. The Company has: implemented industry-leading programs to assist low-income and payment-troubled customers, including through its H2O program, bill discount program, arrearage management plan, and other efforts to lower the cost of water and wastewater services for low-income customers; demonstrated an exemplary environmental record and commitment to water quality by performing above and beyond required regulatory standards and continually improving water quality and the provision of wastewater services; provided evidence of its excellent safety record; shown that it has several operational and water efficiency programs in place to mitigate capital and operating costs and provide service benefits to customers;

invested more than $5 billion in its infrastructure over the past 17 years resulted in a reliable and resilient system, and continually identifies critical areas for investment; conferred considerable benefits to the communities in which it operates through charitable activities and community engagement and education; acquired troubled and non-viable water and wastewater systems in support of PUC and Pennsylvania Department of Environmental Protection ("PADEP") policy and for the benefit of the Commonwealth; and extended service to meet the needs of customers without access to safe and reliable water service. PAWC St. 1, pp. 31-46; PAWC St. 1-R, pp. 6-20; PAWC St. 15-R, pp. 6-15; PAWC St. 13.

142. A considerable number of the Company's customers and members of the communities in which the Company provides services provided testimony demonstrating that the level of service PAWC provides to its customers exceeds the statutory minimum level of service. *See* PAWC St. 1-R, pp. 9-12; PAWC St. 15-R, pp. 13-15.

VIII. RATE STRUCTURE AND RATE DESIGN

A. Cost-of-Service Studies

143. PAWC submitted five separate cost-of-service studies ("COSSs"), one for its water operations and four for its wastewater operations. PAWC St. 12, pp. 3-5; PAWC Exs. 12-A Revised to 12-E Revised.

144. Constance E. Heppenstall, Senior Project Manager of Gannett Fleming, prepared PAWC's COSS for PAWC's water operations ("Water COSS") using the base-extra capacity method for allocating costs to customer classifications. This method has been accepted by the PUC as the appropriate methodology for determining class costs of service. PAWC St. 12, pp. 6-16; PAWC Ex. 12-A Revised (Water Operations).

145. OCA witness Mierzwa, OSBA witness Higgins, and PAWLUG witness LaConte disagree with the system-wide demand factors used in the Company's Water COSS. *See* OCA

Statements 4, pp. 15-19, & 4-SR, pp. 2-7; OCA Ex. JDM-2; OSBA St. 1-R, pp. 8-13; PAWLUG St. 1, pp. 21-22; PAWLUG Ex. BSL-3.

146. PAWC's proposed system-wide maximum day demand factor (1.4) reflects the maximum daily send-out of the Company since its formation in 1987. PAWC must be prepared to meet customers' peak demands whenever they occur because the system cannot be expanded (or contracted) to meet only those demands that appear within a limited historical study period, such as the 12-year look-back that Mr. Mierzwa and Mr. Higgins have arbitrarily selected. Additionally, the water usage on the maximum day of 2021 in several areas within the Company's overall water operations was more than 1.4 times the average usage for that year. PAWC St. 12-R, p. 5; PAWC Exs. CEH-2R & CEH-1SR.

147. The 2.1 maximum hour factor Ms. Heppenstall employed in the Water COSS is based on a detailed analysis of PAWC's actual maximum hour send out in 1988. The Company faces challenges in accurately measuring maximum hour demand in districts with multiple groundwater sources due to a number of factors, such as missing SCADA connections, tank filling, and metering issues. PAWC Statements 12, p. 10 & 12-R, pp. 10, 12.

148. Mr. Mierzwa and Mr. Higgins reject the results of the PAWC-specific analysis that has been accepted in many prior cases, simply because, in their estimation, the analysis was conducted too long ago. OCA Statements 4, p. 16-17 & 4-SR, pp. 7-8; OSBA St. 1-R, pp. 10-11.

149. Mr. Mierzwa and Mr. Higgins have not alleged, let alone provided any basis to contend, that the results of the Company's 1988 study of actual maximum hour send-outs from water storage tanks are inaccurate. Instead, Mr. Mierzwa proposes a maximum hour ratio (1.5) derived from demand data for The York Water Company and Mr. Higgins proposes a maximum

hour factor (1.8) derived from his recommended adjustment to the maximum day factor. PAWC Statements 12-R, p. 8 & 12-SR, p. 3.

150. OCA witness Mierzwa has not provided a valid basis to include interruptible industrial usage in the Water COSS extra capacity allocations. These customers need to be prepared for a curtailment in water service even if their usage is not curtailed historically. Moreover, PAWC's water COSSs have excluded industrial curtailment usage since at least the Company's 2007 rate case at Docket No. R00072229 and have long been accepted by the Commission and other parties. PAWC St. 12-R, p. 10.

151. The demand study statistics used in the Water COSS which include the maximum day and maximum hour demand factors for each customer class account for changes in consumption patterns. PAWC St. 12-R, p. 9.

152. PAWLUG witness LaConte recommends that the Company use the actual maximum hour demand ratio of 6.0 from the results of PAWC's demand study that was conducted over the period 2013 to 2015 (the "Demand Study"). PAWLUG St. 1, p. 22.

153. The 6.0 demand ratio occurred in 2015 when the hourly data for North Strabane, a larger monitoring area, was not available, and the peak usage for Shire Oaks was on February 22, 2015, rather than a summer day. As a result, PAWC appropriately chose to use a max hour demand ratio of 5.0. *See* PAWC St. 12-R, pp. 8-9; PAWC Ex. CEH-3R.

154. For sanitary sewer system ("SSS") operations, Ms. Heppenstall's COSSs were prepared using the functional cost allocation methodology described in "Financing and Charges for Wastewater Systems," Manual of Practice No. 27, published by the Water Environment Federation. That allocation methodology was modified to determine the incremental cost related to handling stormwater for PAWC's combined sewer system ("CSS") operations. PAWC St. 12,

pp. 16-31; PAWC Exs. 12-B Revised (Wastewater SSS General Operations), 12-C Revised (BASA) & 12-E Revised (Wastewater CSS Operations). No parties raised any objections to the allocation methodology employed in PAWC's wastewater COSSs.

155. The PUC should reject the OCA's and I&E's recommendation that PAWC should prepare a separate COSS in its next base rate filing for systems acquired pursuant to Section 1329 and continue the Commission's approach of moving toward single tariff pricing for all of PAWC systems and evaluate the necessity of separate COSSs as part of future acquisition proceedings. In the Company's two most recent base rate cases, the Commission approved rates for Section 1329 acquisitions that made significant progress toward single tariff pricing, and approved a settlement provision that allowed the Company to provide only one separate revenue requirement for CSSs. PAWC St. 1-R, pp. 29-31.

156. The Commission should not require PAWC to include Rider Demand Industrial Sales ("DIS") and Rider Demand Resales ("DRS") customers as separate customer classes in the Water COSS presented in its next rate case as the OCA proposes. In approving Riders DIS and DRS, the Commission found that those riders create benefits for all of the Company's water customers by preserving or attracting incremental sales that, because of competitive forces, could not otherwise be made. PAWC St. 12-R, p. 11.

B. Revenue Allocation and Act 11

157. The Company's proposed revenue allocation to customer class was presented by Mr. Rea and is set forth in PAWC Exhibits 10-A Revised, 10-B, 10-C, 10-D and 10-E Revised and is generally based on the COSSs presented by Ms. Heppenstall. *See* PAWC St. 10, pp. 46-52; PAWC St. 10-R, pp. 31-36.

158. I&E, OCA, OSBA, CCS, and PAWLUG took issue with PAWC's proposal to use Section 1311(c) to mitigate the impact of revenue increases on wastewater customers by

recovering a portion of the Company's wastewater revenue requirement from its total water and wastewater customer base. *See* I&E St. 3, p. 12; OCA St. 4, pp. 22-28; OSBA St. 1, pp. 33-34; CCS St. 1, pp. 7-8; and PAWLUG St. 1, pp. 23-27.

159. Allocating $69.5 million of the wastewater revenue requirement (excluding Brentwood), as proposed by the Company, is in the public interest. PAWC St. 1, pp. 19-20. *See* PAWC 2020 Order, p. 82 (finding that applying Section 1311(c) in conjunction with Section 1329 is in the public interest).

160. While the Section 1311(c) allocation plays an important role in mitigating the increases to the Company's 76,000 wastewater customers, it has a modest effect on water customers' bills – representing an increase of approximately $6 per month to an average residential customer, while decreasing the monthly wastewater bill of a residential wastewater customer by approximately $10 to $90 per month at proposed rates, depending on the rate and location of the customer. PAWC St. 1, pp. 20-21; PAWC St. 10; pp. 51-52.

161. The Company's proposed rates would make reasonable movement toward the system average rate of return by the various customer classes as measured by PAWC's COSSs. PAWC St. 1, pp. 19-20.

162. The Company's proposal will maximize the number of customers for whom services will fall below the desired 2% bill-to-income ("BTI") ratio. PAWC St. 10, p. 50.

163. The Company's proposal will ensure approximate parity to residential bills for water service and wastewater service at average usage levels and promote affordability of wastewater. PAWC St. 10, pp. 47-50; PAWC St. 10-R, p. 3. Absent approval of the Company's proposed increase, there could be significant rate increases in several wastewater zones, eroding

wastewater affordability, and with the potential for rate shock to the Company's wastewater customers. PAWC St. 1, pp. 48-50.

164. The Company cannot consider the fees paid to other providers in its affordability analyses because the Company does not know the rates that PAWC customers may be paying to other wastewater service providers. Tr. 2011-12.

165. Proposals to alter the Company's proposed allocation to water customers should be rejected. The wastewater revenue requirement cannot be directly allocated to water customers since, as Mr. Rea notes, "the customer classes around which wastewater rates are developed are not the same as the customer classes used to develop water rates, so there will never be a one to one match where you can cleanly identify Act 11 wastewater amounts by customer class and assign them to the same classes for water service. It is appropriate to match a class for class reallocation as much as possible but there will always be an element of an allocation to water service customers based on cost of service," and that is what the Company has done. PAWC St. 10-R, p. 34. The OSBA supported the Company's approach. *See* OSBA St. 1, p. 34.

C. Tariff Structure

166. PAWC's proposed rate design for water and wastewater services are set forth in Exhibits CBR-3 and CBR-4, which are based on PAWC's current rate design as modified by the changes described by Mr. Rea. PAWC St. 10, p. 28.

1. Residential Customer Charges

167. The Company proposed 5/8-inch residential water customer charge of $20.00 per month is supported by Ms. Heppenstall's direct cost analysis in PAWC Exhibit 12-A. PAWC St. 12-R, pp. 13-14.

168. OCA witness Mierzwa's recommendation to keep existing customer charges at the current rate level for residential water customers is based on his analysis that improperly

omits office building and furniture expenses that are directly related to billing and collections functions. CEO witness Warabak did not offer a cost-of-service basis for her recommendation that the Commission deny any increase current residential water customer charges. PAWC St. 12-R, pp. 9-10.

2. Water Rate Design

169. PAWC offers water service in five rate zones. The five rate zones are: Rate Zone 1 – General Statewide Rate, Rate Zone 2 – Valley, Rate Zone 3 – SLIBCO, Rate Zone 4, Turbotville, and Rate Zone 5 – Steelton. PAWC St. 10, p. 31. Mr. Rea described the current rate structures for each of the five rate zones in detail. PAWC St. 10, pp. 31-35.

170. Consistent with the Commission's preference for single tariff pricing, PAWC proposes to consolidate Rate Zones 2-5 to Rate Zone 1 rates. The Company's proposed changes to its rate design are set forth in Exhibit CBR-3.

a. Class Revenue Allocations

171. Mr. Higgins initially recommended a $5.3 million reduction to the Commercial class offset by a $5.3 million increase to the Municipal class. OSBA St. 1, p. 35. Mr. Higgins subsequently updated his proposed revenue allocation based on the results of his rebuttal COSS. OSBA St. 1-SR, p. 19.

172. Mr. Baudino recommends an alternative revenue allocation that results in a higher increase for the Municipal class and a lower increase for the Residential, Commercial, Industrial, and Private Fire classes. CCS St. 1, p. 12.

173. The OSBA and CCS both propose a higher increase to the Municipal class than proposed by the Company, with corresponding lower increases to other customer classes to compensate. While the Company believes that its proposed water revenue allocation is reasonable for the reasons explained by Mr. Rea, it does not oppose the higher increases for the

Municipal class proposed by Mr. Higgins and Mr. Baudino with offsetting decreases to other customer classes. PAWC St. 10-R, p. 43.

174. The OCA presents an alternative revenue allocation for water service based on its alternative COSS, adjusted to provide for gradualism, (*see* OCA St. 4, pp. 33-34), which should be rejected for the reasons set forth in Section IX.A. of PAWC's Main Brief.

b. Meter Charges

175. PAWC's proposed meter charges are reasonable and the Commission should reject the alternative proposals from OCA, CEO, CCS, PAWLUG, and I&E. *See* OCA St. 4, pp. 35-36; CCS St. 1, pp. 13-14; PAWLUG St. 1, pp. 28-29; I&E St. 4, pp. 30-35.

176. The OCA and CEO recommendations should be rejected for the reasons set forth in Section IX.C.1. of PAWC's Main Brief.

177. The CCS and PAWLUG proposals would result in increased meter charges with no cost-basis. PAWC St. 10-R, p. 45.

178. Mr. Cline's recommendation to adopt a Rate Zone 1 residential customer charge of $19.50 should also be rejected, as it is based on Mr. Cline's "extreme" decision to calculate the customer charge based solely on a cost allocation study restricted to direct customer-related costs only. PAWC St. 10-R, p. 44.

c. Volumetric Rates

179. The alternative volumetric rates proposed by I&E, the OCA, PAWLUG, and CCS (*see* I&E St. 4, pp. 36-41; OCA St. 4, pp. 36-37; PAWLUG St. 1, pp. 28-29; CCS St. 1, pp. 13-14) should be rejected.

180. I&E and the OCA did not show that the Company's proposed Rate Zone 2 and Rate Zone 4 rates are unreasonable, and adoption of their recommendations would impede the full integration of those rate zones into Rate Zone 1. PAWC St. 10-R, p. 47.

181. CCS's and PAWLUG's recommendations conflict with the intent to design industrial rates to collect total revenue allocated to that class less revenues from current industrial meter charges. PAWC St. 10-R, p. 47.

3. Wastewater Rate Design

182. PAWC provides wastewater service to the following Sanitary Sewer Systems ("SSS"): Rate Zone 1 – PAWC Statewide, Rate Zone 2 – New Cumberland, Rate Zone 5 – Valley, Rate Zone 7 – York, Rate Zone 8 – Foster Township, Rate Zone 9 – Royersford. PAWC St. 10, pp. 37-40. PAWC provides wastewater service to the following Combined Sewer Systems ("CSS"): Rate Zone 3 – Scranton, Rate Zone 4 – Kane, Rate Zone 6 – McKeesport. PAWC St. 10, pp. 37-40. Mr. Rea described the current rate structures for each of the current SSS and CSS rate zones in detail. PAWC St. 10, pp. 37-40.

183. The Company's proposed changes to its wastewater rate design are set forth in Exhibit CBR-4.

a. General SSS Operations

184. I&E and the OCA proposed various increases to SSS rates. I&E St. 3, Sch. 3; OCA St. 4, pp. 39, 46-48.

185. The recommendations of I&E and the OCA take into account their cost of service recommendations and modifications to the Company's allocation of wastewater revenue requirement to water customers pursuant to Section 1311(c), which should be rejected for the reasons set forth in Sections IX.A.-B of PAWC's Main Brief.

186. Mr. Kubas's recommendations do not properly take into account affordability for SSS customers.

187. The Commission should also reject Mr. Kubas's and Mr. Mierzwa's proposed reduction to the residential service charge to be consistent with charges to other residential

customers, as well as Mr. Kubas's recommended charges for unmetered service, and rates for special flat rate customers, in order to be consistent with the overall increase for the SSS group. OCA St. 10-R, pp. 58-59.

188. PAWC's York wastewater system serves seven bulk customers: The York Water Company, which is the owner of the former West York Borough Collection System; Springettsbury Township; North York Borough; York Township; Manchester Township; West Manchester Township; and Spring Garden Township (the "York Bulk Customers"). PAWC Exhibit ECA-1R (CONFIDENTIAL) at 1 n.1.

189. Each of the York Bulk Customers have competitive alternatives to wastewater service from PAWC. This is demonstrated, in part, by affidavits from each of the York Bulk Customers describing their available competitive alternatives in detail. PAWC St. 6-R pp. 19-22; PAWC Exhibit ECA-1R (CONFIDENTIAL) and PAWC Exhibit ECA-2R.

190. When PAWC acquired the York wastewater system, the York Bulk Customers joined together to form a block to purchase the system or, in the alternative, negotiate a uniform contract with PAWC. PAWC St. 6-R at 22. If PAWC had been unable to reach an agreement with any of the York Bulk Customers, it probably would have lost all of the York Bulk Customers. PAWC St. 6-R at 21. Together, the York Bulk Customers contribute approximately 54% of the allocated treatment flows of the System. *Id.*

191. PAWC's contracts with the York Bulk Customers provide for a CPI escalator and a change in law rate increase provision that ensures reasonable increases over time. PAWC St. 6-R p. 22 n.4.

192. PAWC has proposed a rate increase for the York Bulk Customers that is sufficient to cover the variable costs of bulk treatment service and provide a meaningful contribution to the

total fixed costs incurred to furnish wastewater service to retail customers in the Company's WW SSS General Operations. PAWC St. 12, p. 19.

193. In PAWC's 2022 rate case, Docket Nos. R-2022-3031672 et al., the OSBA and I&E proposed significant increases in the rates for York Bulk Customers. Both parties withdrew their opposition after PAWC introduced extensive evidence demonstrating that the York Bulk Customers have competitive alternatives to wastewater service from PAWC. PAWC St. 6-R, p. 19.

194. If the York Bulk Customers would leave the York system in response to a 50% increase in rates, the result would be the de-consolidation and de-regionalization of wastewater service in the York area. Costs for remaining customers would increase significantly, and the wastewater treatment plant would have operational issues due to the loss of over half of the effluent flowing into the system. PAWC St. 6-R, p. 20, Tr. 1999-2000.

b. BASA Operations

195. The Commission should accept the Company's proposed rate design for BASA. Mr. Kubas and Mr. Mierzwa do not address rate design for BASA, as their rate design recommendations assume BASA has been removed from the Company's Claim. PAWC St. 10-R, p. 62.

c. CSS Operations

196. I&E's and the OCA's recommendations (*see* I&E St. 3, Sch. 17; OCA St. 4, pp. 39; 46-48) take into account their cost of service recommendations and modifications to the Company's Act 11 allocation, which should be rejected for the reasons set forth in Sections IX.A.-B. of PAWC's Main Brief.

197. The Commission should reject the OCA's proposal with respect to the residential service charge for the same reasons described above relative to the SSS customer charge in Section IX.C.3.a. of PAWC's Main Brief. *See also* PAWC St. 10-R, p. 51.

198. I&E's recommendation included higher rates for Scranton than proposed by the Company. The Company proposed Scranton CSS rates consistent with the purchase agreement for that system. Any increase in rates for Scranton customers directed by the Commission should be just and reasonable and consistent with the concept of gradualism to avoid rate shock. PAWC St. 4-R, pp. 12-13.

4. Winter Averaging Wastewater Proposal

199. The Company proposes to utilize winter averaging to more closely align wastewater bills with cost-causation. PAWC St. 10, pp. 44-45.

200. The Company disagrees with I&E's recommendation to only approve winter averaging as a temporary program. *See* I&E St. 3, p. 55. Doing so would require the Company to implement "shadow billing," which would be unnecessary and impractical. *See* PAWC St. 10-R, p. 54; Tr. 2010-11.

201. Mr. Mierzwa contends that seasonal usage can be explained by "a few extra showers and clothes washing loads," ignoring PAWC's modeling that there are statistically significant changes in water consumption tied to changes in weather during the summer period. PAWC St. 10-R, p. 54. Mr. Colton opposes the Company's proposal for winter averaging, but states that should the winter averaging proposal be adopted, it should be made subject to low-income discounts. OCA St. 5, pp. 97-109. Mr. Geller opposes the Company's proposal, asserting it will harm low-income customers. CAUSE-PA St. 1, pp. 13-14. The Company disagrees that winter averaging will penalize low-income customers. Winter averaging will benefit all customers and is reflective of cost-causation. PAWC St. 10-R, p. 55.

202. The Commission should also find that the OCA's and CAUSE-PA's opposition (*see* OCA St. 4, p. 43; OCA St. 5, pp. 97-109; CAUSE-PA St. 1, pp. 13-14) is unwarranted.

D. Scale Back of Rates

203. If the Commission approves a revenue requirement that is less than that proposed by the Company, the Company proposes to proportionally reduce the water and wastewater revenue requirements, and the proposed amount of reallocation from wastewater to water under Act 11. PAWC St. 10, pp. 16-17; PAWC St. 10-R, p. 37.

204. I&E, OCA, OSBA, and PAWLUG submitted alternative scale back proposals. *See* I&E St. 4, pp. 41-44; OCA St. 4, p. 30; OSBA St. 1, pp. 36-37; PAWLUG St. 1, pp. 29-30.

205. The Company opposes the parties' recommendation that any reductions in revenue requirements for wastewater service be applied first to the amount being allocated to water customers pursuant to Act 11. This would effectively result in a revenue requirement reduction to water service. PAWC St. 10-R, pp. 40-41.

IX. ALTERNATIVE RATEMAKING REQUESTS

A. Revenue Decoupling Mechanism

206. Decoupling mechanisms such as the RDM are explicitly authorized by Section 1330(b)(2). 66 Pa. C.S. § 1330(b).

207. Recovery of fixed costs is a concern for PAWC as approximately 81% of PAWC's water and wastewater revenues are collected under volumetric rates while over 95% of its costs are fixed. PAWC St. 10, p. 86.

208. PAWC's ability to recover Commission-approved costs, therefore, will be diminished if water sales are less than anticipated. The two primary factors likely to result in reduced sales are declining use among certain customers and seasonal weather conditions, and other unexpected external events, such as the COVID-19 pandemic. PAWC St. 10, pp. 87-88.

209. PAWC's continued focused investment on non-revenue producing investments for the benefit of customers, coupled with variability in usage, means that revenues remain largely outside of PAWC's control. PAWC St. 1, p. 25.

210. The RDM will compare revenues collected under Commission-approved rates with revenues that would have been collected through Straight Fixed Variable ("SFV") Pricing. If actual revenues are higher than would have been collected under the RDM formula, the difference is credited to customers in the following year. If actual revenues are lower than would have been collected under the RDM formula, the difference will be collected from customers in the following year. Mr. Rea explains in detail how the RDM will be implemented. PAWC St. 10, pp. 86-97; PAWC St. 10-R, pp. 64-65.

211. OSBA witness Higgins, OCA witness Mierzwa, and PAWLUG witness LaConte all contend that the RDM improperly shifts risk to customers. *See* OSBA St. 1, p. 38; OCA St. 1, p. 47; OCA St. 4, p. 58, PAWLUG St. 1, pp. 13-14. CEO witness Warabak also states that the RDM would effectively guarantee recovery of PAWC's authorized return. CEO St. 1, p. 5.

212. As Mr. Rea explained, the RDM does not shift risk either to or away from customers; both PAWC and customers continue to *share* revenue risk, as the RDM can result in either a credit or surcharge to customers depending on PAWC's actual results compared to the SFV price components. PAWC St. 10-R, pp. 73-74.

213. The RDM should not be subject to an earnings test and cap as recommended by Ms. LaConte. *See* PAWLUG St. 1, p. 14. Such a cap would decrease the utility of the RDM and undermine the revenue requirement authorized by the Commission in this proceeding, as the express purpose of the RDM is to collect the revenues authorized in this proceeding reflective of PAWC's cost of service. PAWC St. 10-R, p. 77.

214. Several parties state that PAWC did not establish a need for the RDM due to other available rate recommendations such as a declining use adjustment, the use of the FPFTY and the DSIC. PAWC St. 10-R, p. 77.

215. As Mr. Rea explains, while these mechanisms are available to PAWC, none address the specific issue that the RDM is intended to solve – revenue volatility resulting from declining consumption and other events that impact forecasted usage. PAWC St. 10-R, pp. 75-76.

216. Parties assert that the RDM will discourage conservation and compromise affordability. *See* CEO St. 1, p. 6; CAUSE-PA St. 1, p. 16; I&E St. 4, pp. 15, 18. Any credits or surcharges generated as a result of application of the RDM are not expected to affect affordability, and any credits or surcharges will also be subject to PAWC's BDP, which will minimize any effects on low-income customers. In addition, there is no evidence to suggest that declines in usage are more concentrated in higher-income households than lower-income households. While changes in revenue arising from weather can be more attributable to higher income customers, general declines in consumption are attributable to all residential customers. PAWC St. 10-R, pp. 74-75.

217. The RDM will not discourage conservation as customers that undertake conservation efforts will still be rewarded with a lower bill. In other words, the bill savings from conservation will outweigh the estimated surcharge resulting from implementation of the RDM. *Id.*, p. 72.

218. Application of the RDM removes the "throughput incentive" associated with the volumetric components of PAWC's rate structure, which removes any financial disincentive to promote end-use efficiency. PAWC St. 1, p. 25. This is also consistent with the stated objective

set forth in Section 1330(a)(2) of ratemaking being "consistent with the efficiency consumption of utility service." 66 Pa. C.S. § 1330(a).

219. The RDM should not be limited to residential customers. *See* OSBA St. 1, p. 39; CCS St. 1, p. 15-16. The purpose of the RDM is to address revenue volatility. Revenue volatility is not constrained to the residential class. All non-residential customers are susceptible to revenue volatility including industrial and municipal customers. PAWC Statements 10-R, p. 70 & 10-SR, p. 2; Hearing Tr. 2008-09.

220. PAWC does not expect the RDM to negatively impact cross-subsidization of costs between customer classes, as claimed by Mr. Baudino (*see* PAWLUG St. 1, pp. 17-18) since any RDM credit or surcharge will be minor compared to the overall level of volumetric rates approved in the proceeding. PAWC St. 10-R, pp. 76-77.

221. The RDM is not overly complex and it will not lead to rate instability and rate confusion. The primary purpose of the RDM is to *reduce* instability. Application of the RDM will reduce volatility in rates resulting from unexpected usage and will "smooth out" revenues over the longer term for the benefit of customers and PAWC. PAWC St. 10-R, p. 73.

222. No party has shown that the RDM will be more confusing to customers than any of the other riders or credits that are regularly approved by the Commission. PAWC St. 10-R, p. 73.

223. The RDM satisfies the fourteen factors of the Commission's alternative ratemaking policy statement. *See* 52 Pa. Code § 69.3302. PAWC provided a detailed response as to how the RDM addresses each of those factors that the Commission may consider, and when taken together, support the approval of the RDM. *See* PAWC St. 10, p. 101; PAWC St. 10-R, pp. 70-71; PAWC Exhibit CBR-10.

B. Environmental Compliance Investment Charge

224. PAWC's environmental compliance requirements are continuously evolving and increase the costs of water and wastewater services driving the need for rate relief. Environmental compliance is part of PAWC's "normal" responsibilities in providing service to its customers. Nonetheless, emerging regulations or re-interpretations of existing regulations often result in new governmental mandates that disrupt PAWC's proactive five-year plan of construction work and require the Company to undertake additional projects on an expedited basis to comply with those changes that increase the cost of water and wastewater services. PAWC St. 3, pp. 3-5.

225. Just one example of such a rapidly changing set of regulatory mandates involves the combination of federal and state regulations concerning per- and polyfluoroalkyl substances ("PFAS"). As Mr. Aiton explained, on March 14, 2023, the United States Environmental Protection Agency ("EPA"), issued proposed drinking water regulations for six PFAS that will establish maximum contaminant levels ("MCLs"), Maximum Contaminant Level Goals ("MCLGs"), and monitoring, public notice and treatment requirements. The EPA is expected to finalize those PFAS standards before the end of 2024 at which point public water systems will be required to modify their facilities to comply within three years. In addition, PADEP has promulgated state drinking water standards establishing strict MCLs and MCLGs for two PFAS with compliance monitoring mandates effective January 1, 2024. For PAWC, these impending federal and state regulations will require investments in the range of $200 million before the end of 2027, based on preliminary estimates. PAWC St. 3, pp. 5-9.

226. The proposed ECIC will provide a reasonable mechanism for adjusting PAWC's rates between base rate cases to support full and timely rate recognition of costs to comply with new and updated environmental regulatory mandates in a prudent and efficient manner as they

emerge. The ECIC will also mitigate customer exposure to less frequent but more significant rate increases in a general base rate case by producing much smaller, gradual increases to customer bills. PAWC St. 1, pp. 26-27; PAWC St. 3, pp. 5-7, PAWC St. 8, pp. 21-24.

227. Costs that are recoverable through the ECIC must be consistent with the set of projects and activities set forth in an annual environmental compliance plan ("ECP") that will be subject to PUC review and approval. PAWC St. 8, pp. 21-22, 25-26.

228. The ECIC will not lessen scrutiny of PAWC's environmental compliance costs as I&E and the OCA argue. If the ECIC is approved, the PUC and all parties will have the opportunity to proactively evaluate PAWC's proposed investments and measures to comply with new environmental mandates *before any costs are incurred*. PAWC St. 8-R, p. 11.

229. The ECIC is modeled upon the DSIC, with a similar formula and customer safeguards. The PUC-approved DSICs of PAWC and other utilities do not draw a distinction between customer classes in calculating their percentage of billed revenues charged to customers. All customers are charged the same percentage on the theory that the revenue requirement was fairly allocated between customers classes in setting rates in the prior base rate. The ECIC should not be treated differently. PAWC Statements 8, pp. 27-30 & 8-R, pp. 12-13.

230. BDP participants will receive a discount on ECP costs. As Mr. Swiz explained, the discount would reduce the total bill *before* the proposed ECIC (and current DSIC) is applied, thereby reducing the amount of the ECIC applied. PAWC St. 8-R, pp. 13-15.

231. PAWC analyzed how the fourteen factors in the PUC's alternative ratemaking policy statement support apply to the ECIC, which means the Commission has all of the information necessary to evaluate it as part of this proceeding. PAWC Ex. JCS-1.

X. LOW-INCOME CUSTOMER ASSISTANCE

A. Affordability Analysis

232. PAWC conducted a detailed analysis of the affordability of its water and wastewater services. *See* Exhibit CBR-1 and CBR-2. PAWC witness Rea prepared (for both water and wastewater services), an Enterprise-Level analysis of affordability, which considered the affordability of service at a high-level over a multi-year period, and a Community-Level analysis, which presents a focused analysis of affordability of service at the individual customer level under current and proposed rates and current economic conditions. PAWC St. 10, p. 5; PAWC St. 10-R, pp. 3-4. Mr. Rea describes the Enterprise-Level and Community-Level analyses and results in detail. *See* PAWC St. 10, pp. 6-10; 11-22.

233. The affordability of the Company's water and wastewater services from 2012 through the forecast test period indicates that the way the Company has invested in and managed its water and wastewater systems has indeed been for the long-term benefit of our customers.

234. The Company's affordability analysis concludes that the Company's water and wastewater services have been, are, and are expected to continue to be affordable for the majority of its residential customers, including under the rates proposed in this case. There are, however, groups of customers for whom affordability of water and wastewater services may be challenging. PAWC St. 10, p. 22. *See also* PAWC St. 10, p. 7 (results of Water Enterprise-Level Analysis); pp. 8-9 (results of Wastewater Enterprise-Level Analysis); pp. 15-17 (results of Water and Wastewater Community-Level Analyses).

235. The Company's proposed rates are affordable, not only because the BTI ratio at Medium Household Income ("MHI") falls below the 2% level, but because the Company's proposed rate design (including the BDP) gives almost every residential customer the opportunity to obtain "Basic Water Service" and wastewater service at affordable levels (e.g.,

less than 2% of household income for one form of service and 4% of household income for both). PAWC St. 10-R, p. 9.

236. Mr. Geller and Mr. Colton both advance arguments that Mr. Rea's use of MHI in his Enterprise-Level Analysis was inappropriate. *See* OCA St. 5, p. 9; 12-14; CAUSE-PA St. 1, p. 37.

237. Mr. Rea provided ample support for use of the MHI and the Company's use of the 2% benchmark for assessing affordability. PAWC St. 10-R, pp. 7-8. MHI is widely recognized, well-understood, and a readily available measure of household income, and easily compatible with the Enterprise-Level Analysis, and the use of MHI-HO is appropriate since most PAWC customers are homeowners and MHI-HO is reflective of the Company's residential population. *Id.*, pp. 10-12. While 2% is not a "perfect" benchmark, it is a commonly referenced standard for affordability of water and wastewater services. PAWC St. 10, p. 18, PAWC St. 10-R, p. 8.

238. The multi-year focus of PAWC's Enterprise Level Analysis was appropriate since an appropriate analysis must focus on customer bills over time, not just rates. Bills are the appropriate focus because they take into accounts *rates and usage*. There has, undeniably, been a decline in customer consumption over time, which contributes to higher rates to achieve the same revenue requirement. Thus, an appropriate analysis will examine customer bills, that take into account rates and usage, rather than rates alone. PAWC St. 10-R, pp. 13-14.

239. Mr. Colton's "improved" Enterprise-Level Analysis that assumes constant usage is flawed because it does not take into account rates and usage. *Id.*, pp. 15-16.

240. Mr. Colton's allegations of technical errors in PAWC's affordability analysis are unfounded. *Id.*, p. 14.

241. The Affordability Index on its own is not intended to fulfil the role Mr. Geller has assigned to it; rather, it is meant to provide a simple and easy to understand metric that shows the percentage of customers for whom Basic Water Service is less than 2% of household income. Exhibit CBR-1 and CBR-2 provide "enormous levels of detail on the affordability of water and wastewater services across all income groups and also provide data on BTI ratio for customers at different levels of household income by increments of [the federal poverty level]," which contains exactly the depth and breadth of information that Mr. Geller claims is absent from PAWC's analysis. *Id*, p. 23.

242. Mr. Colton asserts PAWC's Community-Level Analysis considers the breadth of affordability, but does not identify the depth of unaffordability (i.e., how much water and wastewater bills exceed 2% of household income at each level of the federal poverty level). OCA St. 5, pp. 35-36. The "depth" information Mr. Colton claims is absent is set forth in Exhibits CBR-1 and CBR-2. PAWC St. 10-R, p. 21.

243. Mr. Colton alleges that PAWC's Community-Level Analysis does not look at each individual customer to determine whether service is affordable for that particular customer. However, PAWC's analysis looks at data at the customer level (rather than high-level system data, which is used in the Enterprise-Level Analysis). It would be impossible to assess the affordability of each individual customer. *Id.*, pp. 18-19.

244. Mr. Colton's and Mr. Gellers' criticism of the Company's use of "Basic Water Service" should be rejected. The Company's estimate of 40 gallons of water per household member is representative of PAWC customer actual water usage. PAWC St. 10-R, pp. 19-20; 24. It would be impractical, if not impossible, to address every permutation in a customer household that Mr. Colton implies should be considered. *See, e.g.*, OCA St. 5, pp. 27-30.

245. There will always be some customers for whom affordability of water and wastewater services may be challenging. The Company has addressed that issue in a reasonable manner by proposing rates and changes to the BDP and continuing the same level of shareholder funding for grants that ensure that PAWC's water and wastewater services remain affordable for the vast majority of its customers. PAWC St. 10-R, p. 9.

B. H2O Bill Discount Program Design

246. PAWC's existing BDP provides substantial bill discounts to customers whose annual household incomes fall between 0% and 150% of FPL. There are three tiers of discounts within the program and customers with the lowest incomes receive the highest percentage discounts. PAWC St. 10, p. 23; PAWC St. 10-R, p. 28.

247. The Company is proposing to keep the existing three tiers without any changes and add a fourth tier of eligibility to expand the program offerings to customers whose household incomes are between 151% and 200% of FPL. For water customers in this fourth tier of eligibility, the Company is proposing to offer discounts of 30% on the 5/8" meter charge and 15% on the volumetric rate for water service and for wastewater customers in this fourth tier of eligibility, the Company is proposing to offer a discount of 20% on the total wastewater bill. The expansion is intended to address affordability issues for the significant number of customers in the 151% and 200% of FPL range (estimated to be over 50,000 residential water customers and over 10,000 residential wastewater customers). The Company's affordability analysis demonstrated that a majority of customers in that income range would have bills for water and/or wastewater service at greater than 2% of household income. PAWC St. 10, pp. 23-26; PAWC St. 10-R, pp. 28-29.

248. OCA witness Colton supported the proposed expansion of the BDP to include a fourth tier, but recommends a higher discount percentage for that fourth tier and increases to

certain discounts for the existing tiers. OCA St. 5, pp. 45, 49-50. CAUSE-PA witness Geller was initially supportive of the proposed expansion and recommended increasing the discount percentages in the existing tiers first. CAUSE-PA St. 1, pp. 44-54. In surrebuttal, however, Mr. Geller recommends that PAWC be ordered to file a petition within six months of the final order in this case seeking approval of a percentage of income payment ("PIP") structure for the BDP. CAUSE-PA St. 1-SR, p. 8.

249. The Company opposes Mr. Geller's recommendation to modify the BDP from a tiered to a PIP structure. A PIP structure is not feasible because: (1) the Company's billing system is not configured to accommodate a PIP structure; and (2) the Company does not currently have verified income data for most BDP participants. Further, a PIP structure is not necessary because the existing tiered discount structure is reasonable and sufficiently tailored to a customer's income level. Tr. 2019-20; PAWC St. 14-R, pp. 5-6.

250. PAWC continues to support its BDP expansion proposal but does not oppose the specific tier-level discount changes recommended by Mr. Colton or Mr. Geller. Such changes would provide greater levels of affordability for customers at the lowest end of the income scale. The Company defers to the Commission as to the level of discounts it deems appropriate in this proceeding. PAWC St. 10-R, p. 31.

C. Hardship Fund

251. The H2O Program provides Hardship Grants for qualifying customers with annual household incomes at or below 200% of FPL and that have made a payment of at least $50 over the last 90 days. A customer may receive a Hardship Grant equal to the customer's total account balance at the time of grant issuance, up to the maximum annual grant amount of $500 for water service and $500 for wastewater service. H2O Hardship Grants are funded through an annual

shareholder donation (currently $625,000 for water and $125,000 for wastewater) as well as customer and employee donations. PAWC St. 9, pp. 13-14; PAWC 14-R, pp. 15-16.

252. Upon closing the PUC-approved BASA acquisition, PAWC will expand eligibility to customers with household income at or below 250% of FPL and contribute $3.5 million to the Hardship Fund ($700,000 annually for five years) in addition to PAWC's annual $750,000 contribution. PAWC St. 9, pp. 17-18.

253. Several parties made recommendations regarding Hardship Fund operation and funding levels. On the operational side: (1) CEO witness Warabak recommends distributing Hardship Funds based on the percentage of low-income customers in each service territory or county; (2) OCA witness Colton recommends that the income threshold for the Hardship Grant be raised from 200% of FPL to 250% of FPL; and (3) CAUSE-PA witness Geller recommends (i) elimination of the good-faith payment requirement, (ii) permitting customers to apply for more than one grant per program year, up to applicable maximum annual grant amounts, and (iii) increasing the annual grant amount to $600 for water and wastewater, respectively. CEO St. 1, pp. 6-7; OCA St. 5, pp. 64-66; CAUSE-PA St. 1, pp. 51-53.

254. Regarding overall funding: (1) Mr. Geller recommends increasing annual funding by $1 million; and (2) Mr. Warabak recommends increasing the annual shareholder contribution by $330,000. CAUSE-PA St. 1, pp. 51-53; CEO St. 1, pp. 6-7.

255. PAWC is already working with its Hardship Fund administrator to enable customers to apply for multiple Hardship Grants during a program year. *See* PAWC St. 14-R, p. 16.

256. PAWC's existing, statewide funds for water and wastewater are appropriately designed to ensure that the Hardship Fund dollars reach as many low-income customers across

PAWC's service territory as possible. Previously, PAWC maintained regional caps for the water Hardship Fund and found that the regional design could prevent income-eligible customers in a region from accessing the Hardship Fund once the cap was hit. *Id.*, p. 15.

257. The existing good-faith payment requirement is appropriate because it ensures that customers eligible for the Hardship Fund are making a sincere effort to pay their utility bills. *Id.*, pp. 15-16.

258. In light of the Company's AMP implementation and proposed expansion of the BDP, it is premature to increase the annual Hardship Funds grant amount to $600 for water and wastewater. *Id.*, p. 16.

259. The Company does not support expanding the Hardship Fund to customers above 200% of FPL in this case. In light of all the other customer assistance program changes that are occurring in 2024, and the Company's proposal to expand access to its BDP, additional large-scale changes to any of the Company's assistance programs are unwarranted. Tr. 2024.

260. While the Company has not proposed to increase shareholder funding levels in this proceeding, PAWC has committed to maintain current funding levels and has made a substantial proposal to expand the BDP to customers with incomes up to 200% of the FPL which will open up additional bill assistance to a large, new segment of customers (151%-200% of FPL). PAWC St. 14-R, p. 4.

D. Conservation Assistance

261. CAUSE-PA witness Geller recommends that PAWC develop and implement a comprehensive conservation and line repair/replacement program for all customers below 200% of FPL. He further recommends the targeting of high-usage customers, annual reporting and coordination with other utility programs. CAUSE-PA St. 1, pp. 63-64.

262. Low-income usage reduction programs ("LIURPs") are required under Pennsylvania law for electric distribution companies ("EDCs") and natural gas distribution companies ("NGDCs") only and are part of their broad universal service plans. PAWC St. 14-R, p. 13. There are detailed LIURP regulations addressing many of the items recommended by Mr. Geller, including prioritizing high users, reporting, and utility coordination. *See* 52 Pa. Code §§ 58.1, *et seq*.

263. To implement a LIURP-type program, PAWC would have to hire additional staff and manage costs associated with repairing and replacing the leaking lines and infrastructure of low-income customers. PAWC St. 14-R, p. 13.

E. Low-Income Customer Outreach, Screening and Intake

264. PAWC employs a robust, multi-prong approach to inform customers about the benefits provided by the H2O Program, including direct customer communication (e.g., bill inserts, social media, websites), participation in PUC consumer education events and local community events (e.g., customer assistance program fairs and senior fairs), and Dollar Energy Fund outreach (e.g., public service announcements and community speaking). PAWC St. 9, pp. 14-16; PAWC St. 14-R, p. 7.

265. In order to target particular communities in need, such as areas with a high percentage of customers at or below 50% of FPL, the Company has successfully deployed an internal analytic process. PAWC St. 14-R, pp. 8-9.

266. If customers access the "myWater" customer portal, they will see information about bill assistance self-service options, as well as a link to information on PAWC's H2O Programs and instructions for how to apply. PAWC St. 9-R, p. 11.

267. The Company's outreach efforts have supported a significant increase in BDP enrollment. Notably, between December 2020 and November 2023, PAWC has increased participation in its BDP by over 30%. PAWC St. 14-R, p. 8.

268. Mr. Colton proposes that PAWC be required to make personal contact with any confirmed low-income customer facing imminent disconnection of service for nonpayment, inform them of their right to enroll in the BDP, enroll them in the Company's AMP as an alternative to disconnection, and only offer a payment arrangement if a customer is informed of the BDP and AMP and rejects enrollment. As part of that proposal, Mr. Colton recommends that "[d]isconnections to these customers should be paused until PAWC has received a response to the offer of BDP/AMP participation." OCA St. 5, pp. 59, 61.

269. Mr. Geller recommends changes to PAWC's call handling procedures so that eligible payment-troubled customers are enrolled in the Company's H2O Programs before they are put on a payment arrangement. He also argues that PAWC customers should be screened at the time of move-in and during non-emergency calls for their income eligibility for the H2O Program. CAUSE-PA Statements 1, pp. 57-59 & 1-SR, pp. 10-12.

270. When a customer calls in seeking payment assistance, customer care agents ("CCAs") are already trained to direct customers to call DEF to enroll. PAWC St. 9-R, p. 11.

271. The Company already adheres to the extensive Chapter 14 and Chapter 56 requirements regarding payment arrangements and service terminations and additionally places a 30-day collections and termination lock on the account of any customer who mentions they are working with an agency/partner for payment assistance. PAWC St. 14-R, p. 11.

272. PAWC should not decide on behalf of the customer whether to apply for the H2O Programs or enter into a separate PAWC payment arrangement. Further, customers should not be

offered an indefinite stay on termination of service while they respond to an offer of BDP/AMP enrollment as it would conflict with PAWC's statutory obligation to reasonably manage customer arrears. *Id.*; PAWC St. 9-R, p. 11.

273. CCAs should not solicit income information from customers that they may consider private and/or confidential when contacting PAWC about issues unrelated to billing, such as move-ins and non-emergency service issues. PAWC St. 9-R, pp. 11-12.

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

274. Mr. Geller recommends that PAWC be required to establish quantitative outreach goals, update its low-income customer count annually, and set BDP enrollment benchmarks at 20% per year of estimated low-income customer counts until 75% enrollment is achieved. He further suggests that PAWC be required to track and report relevant data concerning the Company's "progress" to its Customer Assistance Advisory Group ("CAAG") to help refine outreach efforts. CAUSE-PA St. 1, pp. 47-48.

275. PAWC is making significant strides in reaching out to customers without formalizing outreach/enrollment benchmarks or quantitative goals. PAWC St. 14-R, p. 9.

276. The Company's H2O Programs are entering a period of transition. Currently, verbal income information is sufficient to enroll in the BDP, and the vast majority of BDP participants have not provided income documentation to the Company. In the near future, however, the Company will be requiring customers to verify their income eligibility by submitting income documentation as part of the AMP and the BDP. The income verification requirement may result in some customers leaving the BDP while other customers may newly enroll as a result of new benefits under the AMP. It would not be reasonable to establish benchmarks when the enrollment levels are expected to fluctuate over the next few years. *Id.* at pp. 9-10.

277. PAWC already has processes in place to regularly share relevant data with the CAAG. The Company holds quarterly meetings with the CAAG in an effort to enhance its low-income assistance programs and related outreach. As part of the settlement of the AMP proceeding, PAWC committed to develop and share a draft communication and outreach plan for the AMP with the CAAG to obtain members' feedback. *Id.*, p. 9.

G. Comprehensive Universal Service Plan

278. OCA witness Colton recommends that PAWC develop a written universal service plan ("USP") and file that plan with the Commission's Bureau of Consumer Services ("BCS"). OCA St. 5, pp. 67-68. Mr. Geller also recommends requiring PAWC to file a USP and accompanying petition within one year of the final order in this case, and every five years thereafter. CAUSE-PA St. 1, p. 56.

279. The time, resources, and cost of maintaining and revising a USP is significant, often requiring the establishment of new departments at utilities that are entirely focused on the implementation of these plans. Based on a review of other EDC and NGDC USPs, most EDCs and NGDCs have a staff of 10 or more full time employees to support the comprehensive universal service programs required by Pennsylvania law for EDCs and NGDCs. At this time, PAWC assistance programs are administered by DEF and supported by 1.5 full-time employees. Establishment of a full-scale USP would require a dramatic increase in resources devoted by the Company commensurate with those of EDCs and NGDCs and would require access to the same full and timely cost recovery mechanism provided to EDCs and NGDCs. PAWC 14-R, pp. 12-13.

280. The PUC should not mandate the development and implementation of a USP in the absence of any universal service requirement (and corresponding full and timely cost recovery) for water and wastewater utilities under Pennsylvania law. *Id.*

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

281. Mr. Geller argues that PAWC does not exercise appropriate levels of oversight over the Company's low-income program administrator, DEF. He further recommends that PAWC be required to establish clear metrics for auditing DEF-handled accounts, including monthly review of metric data and auditing reports, and also conduct and submit periodic third-party evaluations on its low-income assistance program in-line with the six-year evaluation conducted for EDC and NGDC universal service programs. CAUSE-PA St. 1, pp. 64-67.

282. PAWC regularly meets with DEF regarding program administration and addresses any issues as they arise. PAWC has full access to information regarding DEF fund balances, application processing, application status and standard reports through DEF's Grant Management System. DEF provides the Company with standard periodic reports on application and grant activities, and the Company can ask DEF for additional reports as needed. New auditing metrics and costly third-party audits are not necessary in order for PAWC to have appropriate oversight over DEF's activities. PAWC St. 14-R, p. 14.

283. The third-party auditing Mr. Geller recommends is required for EDCs and NGDCs – not water and wastewater utilities – as part of their broad universal service obligations under Pennsylvania law. 52 Pa. Code § 54.76; *Id.* § 62.6.

XI. SERVICE QUALITY AND CUSTOMER SERVICE ISSUES

A. Customer Service Performance

284. The Customer Service Organization ("CSO") operated by American Water Works Service Company, Inc. ("Service Company") supports the customer service needs of PAWC and the other American Water utility subsidiaries, including customer call handling and billing. PAWC St. 9, pp. 2-5.

285. PAWC and the CSO leverage multiple sources of customer feedback to monitor customer satisfaction, including targeted surveys taken immediately after phone, field and customer portal interactions and a customer satisfaction survey of all PAWC customers conducted quarterly. This approach allows PAWC and the CSO to stay abreast of changing customer expectations and align performance goals to meet those customer needs. PAWC St. 9, pp. 7-8.

286. Contrary to OCA witness Colton's assertions (OCA St. 5, pp. 123-24), PAWC and the CSO identify trends from customer feedback provided via transaction surveys, including from customers seeking bill assistance, requesting payment arrangements, raising inability-to-pay issues, or responding to disconnection notices. PAWC St. 9-R, p. 10.

287. The CSO consistently seeks ways to improve the customer experience and maintain high levels of customer satisfaction. The CSO's hiring and recruitment efforts over the past several years have reduced wait times and the call abandonment rate for customers that do not utilize the courtesy call back ("CCB") feature. In addition, the CSO continually refines the myWater portal to help PAWC customers efficiently manage their account online and efforts to expand adoption of paperless billing to increase customer engagement and, ultimately satisfaction. PAWC Statements 9, pp. 9-13 & 9-R, pp. 3-4.

288. Ms. Alexander narrowly and erroneously focuses her evaluation of CSO performance on wait times and call abandonment rather than the overall customer experience. In fact, the highest driver of customer service that impacts overall satisfaction is first contact resolution. Other important customer satisfaction indicators that are not related to call handling performance that Ms. Alexander fails to consider include quality and value of service, proactive communications, ease of paying bills, and conservation. PAWC St. 9, pp. 7-8.

289. Ms. Alexander compares the CSO's performance with data reported to the BCS by electric and gas utilities who use different definitions and metrics for call center performance than PAWC. For example, the "service level" presented in the BCS Customer Service Performance Reports that Ms. Alexander relies on for her proposed performance standards is the "percentage of calls answered within 30 seconds by an [interactive voice response ("IVR") system or a [customer service representative] ready to render assistance." *Aqua Pa, Inc., Peoples Natural Gas Co. LLC, and Peoples Gas Co. LLC Management and Operations Audit*, Docket Nos. D-2020-3018771, D-2020-3018773, and D-2020-3018774 (Apr. 2021), p. 130.

290. In contrast, the calculation of CSO service levels excludes calls answered by the IVR and customers who elected a CCB. PAWC St. 9-R, pp. 4-5.

291. Ms. Alexander's recommendations for additional management oversight of CSO call handling are without merit. The performance levels of the CSO and third-party call handling agencies are already monitored on a *daily* basis. PAWC St. 9-R, pp. 6-8.

292. The CSO conducts extensive training of its agents in Pennsylvania rules and regulations before they are permitted to handle calls from PAWC customers. This training includes an 80-page training module and a knowledge test, and the CSO has a robust quality assurance process focused on CCA adherence to Chapter 14 of the Code and Chapter 56 of the PUC's regulations. Ms. Alexander has not provided any evidence that CCAs who completed the training she believes is deficient are not following Pennsylvania regulations when handling PAWC calls. PAWC Statements 9, pp. 6-7 & 9-R, pp. 8-9.

293. PAWC received formal complaints in this proceeding addressing, among other things, water quality and field service–related issues. Mr. Runzer described the typical causes of,

and Company responses to, water quality complaints (e.g., hard water, colored water, odor, taste) and also explained how field-service concerns are handled. PAWC St. 2-R, pp. 13-16.

294. OCA witness Fought highlighted individual customer public input hearing testimony about water quality and service issues and recommends that PAWC respond to the issues raised. OCA St. 7 Supp., pp. 2-7.

295. Mr. Runzer described the individual Company outreach to the customers identified in Mr. Fought's testimony, and Mr. Fought had "no issue about PAWC's response" and appreciated the Company's follow up with those customers. PAWC St. 2-R, pp. 18-53; OCA St. 7-SR, p. 7.

296. OCA witness Alexander recommends requiring a professionally conducted root-cause analysis of complaint trends and a report on findings including identification of trends, evaluation, steps to reform or avoid repeated trends, and internal steps to take to enforce action where needed within three months and quarterly updates to shareholders. OCA St. 5, pp. 11-18, 44.

297. Ms. Dean explained the Company's robust complaint analysis process. In addition to providing examples of detailed complaint record keeping and analysis (e.g., PAWC Exhibit TD-1R_CONFIDENTIAL), Ms. Dean confirmed that PAWC: (1) analyzes every customer complaint it receives (other than informal mediation complaints that do not involve any allegation of wrongdoing by the Company), to determine the contributing factor, if any; (2) makes a root-cause determination for every such customer complaint; (3) logs a root cause for each such complaint, where a contributing factor is identified; (4) generates reports reflecting customer complaint root causes; (5) analyzes root- cause trends; and (6) regularly discusses root-cause trends with the CSO and the other appropriate business units. PAWC St. 14-R, pp. 21-24.

298. A few PAWC customers expressed concern at the public input hearings over either not receiving paper bills for the month of December 2023 or receiving mailed bills late. *See* C.O.S. St. 1, p. 6; State Rep. Kyle T. Donahue St. 1, p. 6.

299. The Company confirmed with the CSO's print vendor that all 2023 bills were timely printed and mailed to customers that have not enrolled in paperless billing. As a result of its investigation, the Company concluded that this issue was caused by postal service delays. PAWC has agreed to, as a courtesy, automatically credit a late fee charge assessed in January to any Scranton area customer who did not have any late fees in the last quarter of 2023. Any Scranton area customers who do not meet these requirements for an automatic credit, and who may have been assessed a late fee in January due to postal service delays, may still call and request that the late fee be credited. PAWC St. 9-R, p. 18; Tr. 1976-77.

300. OCA witness Alexander recommends that PAWC document the frequency of inconsistent billing periods, and what steps can be taken to avoid them, as well as how customers can avoid payment and budgeting difficulties with inconsistent billing periods. OCA St. 6 Supp, p. 2; OCA St. 6-SR, p. 26.

301. PAWC complies with Commission's regulations regarding billing frequency (52 Pa. Code § 56.11) and PAWC's billing periods are between 26 and 35 days, consistent with the regulation at 52 Pa. Code § 56.2.

302. The Company also offers budget billing as a tool for customers to manage their monthly bill amount. PAWC St. 14-R, pp. 24-25.

B. Tenant Issues and Protections

303. CAUSE-PA witness Geller contends that PAWC should be required to track and report on granular metrics to ensure compliance with the Discontinuance of Services to Leased Premises Act ("DSLPA"), including: (1) what notices are provided to each tenant occupied

account before termination for nonpayment by landlord/owner, (2) when and how notices are provided, (3) whether and how many tenants asserted their rights to continued service, (4) the number of accounts improperly coded as non-tenant accounts, (5) notices of termination/disconnection sent to accounts improperly coded as non-tenant and if the account was terminated/disconnected for non-payment while coded as a non-tenant account, and (6) partial payments made by tenants seeking to continue their service (including partial payments, amounts paid, and whether payments were sufficient to continue service). CAUSE-PA St. 1, pp. 72-73.

304. PAWC already fully complies with the DSLPA and the Company's processes are consistent with the Utility Services Tenants Rights Act ("USTRA"), which, as Mr. Geller notes, applies to municipal corporations and municipal authorities rather than regulated utilities. PAWC St. 14-R, p. 18; CAUSE-PA St. 1, pp. 75.

305. PAWC does take steps to determine whether service addresses should be coded as landlord-ratepayer/tenant occupied. PAWC relies on information from landlords, tenants and field service representatives to determine if a property is reasonably likely to be tenant occupied and coded as such. Through this process, PAWC currently has over 20,000 residential accounts coded as tenant occupied. If delinquent, these accounts go through the 37-day notice process prior to any service termination as required by the DSLPA and USTRA. PAWC utilizes the same processes prior to terminating water services to landlord ratepayer properties at the request of municipal sewer providers as PAWC utilizes for terminations of service that are initiated by PAWC. The notices that the affected tenants receive provide directions on how to contact PAWC in order to continue water service, and tenants do not need to rely on the municipal authority to contact PAWC to assert their rights. PAWC St. 14-R, pp. 18-19.

C. Water Services Act and Section 12.1(H) of Water Tariff

306. PAWC proposed Water Tariff Rule 12.1(H) in its original filing to address termination at the request of a non-Company wastewater provider. PAWC St. 4, p. 34. In rebuttal, the Company replaced proposed Rule 12.1(H) with a proposed new Section 12.8. PAWC St. 4-R, pp. 10-11.

307. Both CAUSE-PA witness Geller and OCA witness Alexander recommend changes to the Company's policies and procedures regarding termination at the request of a non-Company wastewater provider to better ensure compliance with the Water Services Act ("WSA"). Mr. Geller, for example, contends that PAWC's processes improperly rely upon sewer utilities to monitor their own WSA compliance and recommends that PAWC require actual proof of mailing and proof-of-notice posting. CAUSE-PA St. 1, pp. 74-76. Ms. Alexander recommends additional processes to: (a) confirm that no customer dispute has been filed with the non-Company sewer service provider; (b) confirm the customer did not produce a medical certification to the sewer provider; and (c) post notice at a customer's premises at time of shut-off. OCA St. 6, pp. 26-30. She further reviewed PAWC's proposed Tariff Section 12.8 addressing termination at the request of a non-Company wastewater provider (*see* PAWC Ex. SDG-4R), and proposed narrowing the types of wastewater providers referenced in the rule and adding requirements for certain termination notices. OCA St. 6-SR, pp. 17-19.

308. PAWC's current procedures for implementing the WSA's requirements comply with the law and address several of the concerns identified by Mr. Geller and Ms. Alexander. Prior to terminating service under the WSA, a 10-day termination notice must be mailed or posted at the property. If during that 10-day period, the person liable for the unpaid charges delivers a written statement under oath to the municipal wastewater provider averring a just defense to all or part of the claim, the water service is not to be shut off until the claim has been

judicially investigated. PAWC's Commission-approved contracts with sewer providers require the sewer provider to issue the appropriate termination notice to customers. PAWC has a process in place to verify that the municipal sewer provider has complied with all of its obligations under the WSA, which includes requiring a responsible municipal official to certify both that the notice was provided and the lack of any just defense filing. PAWC St. 14-R, p. 19. In addition, while not a requirement of the WSA, PAWC recently modified the template that municipal entities submit in order to request water service shut-offs to include a confirmation that the municipality has not received a medical certification for the relevant premise. *Id.*, p. 20. Other process-related recommendations are either inconsistent with the WSA (Ms. Alexander's recommendation the PAWC post its own notice) or unnecessary in light of PAWC's verification process (Mr. Geller's recommendation that PAWC require actual proof of mailing and posting of the termination notice). *Id.*, pp. 19-20.

309. As explained by Ms. Gress and acknowledged by Ms. Alexander, the Company has already largely accepted Ms. Alexander's recommended changes to PAWC's original tariff proposal because they reflected actual Company practices that are already in place. PAWC St. 4-R, pp. 10-12; OCA St. 6-SR, p. 17.

310. First, without citing to any supporting statute or regulation, Ms. Alexander seeks to include language which would require a Commission-approved agreement with non-Company wastewater providers in all circumstances. OCA St. 6-SR, pp. 17-19. This revision is unreasonably restrictive and does not reflect the scope of wastewater providers with whom the Company has shut-off agreements. Tr. 2021-22.

311. Ms. Alexander proposes to include several content requirements for the termination notice that is provided at the time of termination. OCA St. 6-SR, pp. 17-19. The

Company does not believe the Commission should require the Company to adopt these requirements where: (1) the termination notices provided at the time of shut-off are not required by statute or regulation and are provided on a voluntary basis; and (2) PAWC has not had the opportunity to evaluate the feasibility of implementing these changes nor discuss them with the over 120 non-Company wastewater providers with whom PAWC has shut off agreements. Tr. 2022-23.

D. American Water Resources

312. For over two decades, American Water Resources ("AWR") has offered optional products and services, such as water line and sewer line protection plans, to PAWC customers. After enrolling with AWR, customers are charged a monthly fee on their PAWC bills so that if their water or sewer line breaks, AWR will deploy a contractor to fix the water or sewer line under the warranty program at minimal up-front cost to the customer. PAWC customers can choose the convenience of including these charges on their PAWC bill or be billed directly by AWR. AWR's warranty plans are viewed favorably by customers who want the convenience and certainty of minimizing the up-front cost expenditures associated with a future water or sewer line repair. PAWC St. 9-R, pp. 12-13.

313. It is standard industry practice for utilities both within and outside of the Commonwealth to partner with providers of these types of warranty services. PAWC St. 9-R, pp. 12, 16.

314. Although American Water sold its interest in AWR in December 2021, which ended the affiliate relationship between AWR and PAWC, the day-to-day relationship between PAWC and AWR remains the essentially the same by virtue of a Utility Agreement executed by PAWC and AWR at the time of the sale. PAWC's relationship with AWR as a partner who

provides optional warranty products and services to its customers has remained unchanged over the last two decades. PAWC St. 9-R, pp. 12-15; *see also* CONFIDENTIAL OCA Exhibit BA-8.

315. No other provider of non-utility services and products is seeking access to PAWC's bills. PAWC St. 9-R, p. 16.

316. The Utility Agreement states that PAWC is not precluded from offering similar on-bill services to another entity. CONFIDENTIAL OCA Ex. BA-8, p. 2.

317. PAWC has no authority to influence AWR's prices or other terms under its contracts with customers. As part of PAWC's decades-long relationship with AWR, PAWC has no authority to audit or monitor AWR pricing. PAWC simply passes through AWR's charges on its bills as a separate line item and no customers' service is terminated for non-payment of such charges. If a customer no longer wants to pay for AWR's products and services, the customer can stop paying for them with no negative repercussions on their water or wastewater service. PAWC St. 9-R, pp. 15-16.

318. AWR has historically used PAWC's trademark and logo for marketing purposes, which is standard industry practice when a utility partners with another entity to offer warranty products and services. Similar arrangements exist between other major Pennsylvania utilities and a competitor of AWR, HomeServe, which also uses the utility name and logo to market warranty services and products to residential utility customers in the Commonwealth. Disclosures are included on all marketing materials explaining that AWR is not affiliated with PAWC, its products and services are optional, and AWR's prices are not determined by PAWC. PAWC St. 9-R, pp. 12-14.

319. **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL]

320. In sum, none of the concerns about the Company's relationship with AWR raised by OCA witness Alexander provide a basis to investigate, prohibit or otherwise prescribe PAWC's arrangement with AWR under the Utility Agreement.

E. Main Extensions

321. OCA witness Fought recommends that PAWC consider a main extension project that would extend an existing water line along Bethel Ridge Road to the West Virginia state border with spurs to serve Shades of Death Road, Locust and Carter Lanes and Penobscot Road in Jefferson Township. *See* OCA Statements 7 Supp., pp. 8-10 & 7-SR, pp. 7-9; OCA Ex. TLF-4.

322. PAWC estimates that the main extension proposed by Mr. Fought and the Jefferson Township Municipal Authority would require the Company to invest $5.2 million to install mains at 39 locations along the route presented in OCA Exhibit TLF-4. The Company is continuing to evaluate whether the proposed main extension is eligible under Rule 27.1(F) of its tariff, which authorizes main extensions within the Company's existing service territory to be installed without customer contributions subject to Commission approval in order to address health and safety concerns. PAWC St. 3-R, pp. 3-5.

F. Pressure Surveys and Pressure Reducing Valves

323. Rule 4.7 of the Company's Water Tariff outlines the requirement for customers to install and maintain a pressure reducing valve ("PRV") if the pressure at their service location exceeds 100 pounds per square inch ("psi"). This tariff requirement impacts a small percentage of customers and PAWC has a process in place whereby field service representatives educate customers in the field regarding PRV requirements. PAWC St. 2-R, p. 11.

324. OCA witness Alexander made recommendations concerning general PRV education and Mr. Fought made recommendations concerning households with higher operating pressure and the Company's response to pressure inquiries and complaints. Regarding PRV education, Ms. Alexander recommends a broad outreach and education program, to include website content and potentially bill inserts, covering the need for, operation and life cycle of a PRV. OCA St. 6, p. 43. Mr. Fought further recommends that: (1) PAWC identify households where it provides normal operating pressures up until the curb that exceed 100 psi and inform those customers about PRVs (including replacement and end of life) and PAWC's PRV tariff rule; and (2) where there is a pressure-related customer inquiry, PAWC provide the pressure available at its water main to customers to allow them to make sure that their plumber is providing an acceptable PRV or expansion tank and also, if there is a pressure complaint, record the pressure information in the Complaint Log. OCA St. 7, pp. 8-10; OCA St. 7-SR, pp. 3-5

325. There is no need to develop a comprehensive customer outreach and education plan for an issue that only impacts a limited number of customers. PAWC St. 2-R, p. 11.

326. The Company already records pressure information and reports it to the Commission for pressure complaints. In addition, when the Company takes a pressure reading, it will provide the pressure information to the customer upon request. PAWC St. 2-R pp. 12-13.

327. The Company has also agreed to establish a notification process for customers where PAWC's system pressure regularly exceeds 100 psi. In this notification, the Company will educate the customer that they are responsible for installing a PRV at their service location under PAWC's tariff and encourage them to contact a licensed plumber for guidance, installation, and maintenance of PRVs. The Company will utilize its GIS system to identify customers in higher pressure areas to receive this notification. Tr. 1983-84; *see also* Tr. 2054-55.

XII. MISCELLANEOUS ISSUES

A. Customer Notice

328. In accordance with 52 Pa. Code § 53.45, PAWC provided notice of its proposed rates to all of its customers that reflected the Company's proposed tariffed rates and Act 11 wastewater-to-water revenue requirement allocation. PAWC St. 1-R, p. 25.

329. The Company's notice was consistent with each of the notices in its rate cases since the enactment of Act 11, including the Company's proposed wastewater-to-water revenue requirement allocation in each case. *Id.*, p. 26.

330. Customers are able to contact PAWC to determine how proposed rates changes would impact their bills or visit the Company's website to review the Company's proposed rates. *Id.*, p. 27.

331. The Company provides detailed notice of its rate changes to customers once they are approved by the Commission through a bill insert. *Id.*

332. An additional mailing between Commission approval of the Company's new rates and a customer's first bill under those new rates is not feasible given the short time period between when rates are approved and when those rates become effective, which is typically on one day's notice. *Id.*, p. 28.

333. Sending an additional customized direct mail notice to the Company's nearly 800,000 customers (similar to what is done at the time the Company filed for new rates) takes several weeks and costs over $300,000, which is not included in the Company's revenue requirement. *Id.*, pp. 28-29.

PROPOSED CONCLUSIONS OF LAW

1. Based on the record evidence, PAWC has satisfied the burden of proof imposed by Section 315(a) of the Public Utility Code to establish by a preponderance of substantial evidence that it is entitled to implement rates designed to produce additional annual operating revenues of $202,356,145.

2. Although the ultimate burden of proof does not shift from the utility seeking a rate increase, a party proposing an adjustment to a ratemaking claim of a utility bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment. *See, e.g., NRG Energy, Inc. v. Pa. P.U.C.*, 233 A.2d 936, 950 (Pa. Commw. 2020).

3. As a public utility whose facilities and assets have been dedicated to public service, PAWC is entitled to an opportunity to earn a reasonable rate of return on its investment. "Rates which are not sufficient to yield a reasonable return on the value of the property at the time it is being used to render service are unjust, unreasonable and confiscatory, and their enforcement deprives the public utility of its property in violation of the Fourteenth Amendment." *Bluefield Waterworks and Imp. Co. v. P.S.C. of West Virginia*, 262 U.S. 679, 690 (1923)

4. The return allowed to investors must also be commensurate with the risk assumed. *Bluefield* requires that the rate of return reflect ". . . a return on the value of the [utility's] property which it employs for the convenience of the public equal to that generally

being made at the same time on investments in other business undertakings which are attended by corresponding risks and uncertainties. . . ." *Bluefield*, at 692.

5. In *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944), the United States Supreme Court reiterated that "[f]rom the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on 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."

6. 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. *Id.*, p. 693. These principles are applied by the PUC and have been adopted by Pennsylvania appellate courts in numerous cases. *See, e.g., Pa. P.U.C. v. Pennsylvania Gas and Water Co. - Water Div.*, 341 A.2d 239 (Pa. Commw. Ct. 1975); *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, R-2021-3027385 (Order entered May 16, 2022), pp. 8-9.

7. Determining a reasonable rate of return requires reviewing many factors, including: (1) the earnings necessary to assure confidence in the financial integrity of the company and maintain its credit standing; (2) the need to pay dividends and interest; and (3) the amount of the investment, the size and nature of the utility, its business and financial risks, and the circumstances attending its origin, development and operation. *Pa. P.U.C. v. Pennsylvania Gas and Water Co. - Water Div.*, 341 A.2d 239 (Pa. Commw. Ct. 1975).

8. Rates established by the Commission, or any other utility regulatory authority, are not "just and reasonable" unless they are within the zone of reasonableness determined by reference to the costs a utility incurs to furnish public utility service and a return that satisfies applicable legal and Constitutional standards. *Permian Basin Area Rate Cases*, 390 U.S. 747, 770 (1968) ("any rate selected . . . *from* the broad zone of reasonableness . . . cannot be attacked as confiscatory.") (emphasis added).

9. The Commission has determined that a utility's actual capital structure is to be used, absent circumstances where the actual capital structure is atypical; "an actual capital structure represents the Company's decision, in which it has full discretion, on how to capitalize its rate base." *Pa. P.U.C. v. Columbia Water Co.*, R-2023-3040258 (Order entered January 18, 2024), pp. 83-84.

10. The ROE used in distribution system improvement charges is unlike an ROE in a base rate proceeding. *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, R-2021-3027385 (Order entered May 16, 2022), p. 103.

11. The Commission may allow the inclusion in a public utility's rate base claim new plant projected to be placed in service during the FPFTY. *McCloskey v. Pub. Util. Comm'n*, 225 A.3d 192, 207 (Pa. Commw. 2020).

12. The Commission previously allowed PAWC to include acquisitions in rates although they did not close prior to the date the rate case was filed. *Pa. Pub. Util. Comm'n v. PAWC*, Docket Nos. R-2022-3031672 et al. (Order entered Dec. 8, 2022); PAWC 2020 Order.

13. In a Section 1329 acquisition, the ratemaking rate base of the selling utility shall be incorporated into the rate base of the acquiring public utility during the acquiring public utility's next base rate case. 66 Pa. C.S. § 1329(c)(1).

14. 66 Pa. C.S. § 1329(c)(1) should be read *in pari materia* with 66 Pa. C.S. § 315(e) because they both concern when a utility can place plant into rate base. 1 Pa. C.S. § 1932.

15. In the natural gas industry, the Commission permits a regulated utility to discount rates to customers with viable competitive alternatives, based on an affidavit proving the presence of a competitive alternative to service from the company. *See, e.g., Joint Petition for Generic Investigation or Rulemaking Regarding "Gas-On-Gas" Competition Between Jurisdictional Natural Gas Distribution Companies,* Docket Nos. P-2011-2277868 and I-2012-2320323 (Opinion and Order entered June 13, 2019) at 24.

16. Commission policy promotes the regionalization and consolidation of water and wastewater services. 52 Pa. C.S. § 69.721.

17. PAWC's Wastewater Tariff, Supplement No. 43 to Tariff Wastewater PA P.U.C. No. 16, Third Revised Pages 12-13, allows negotiated service agreements.

18. When PAWC acquired the York wastewater system from the York City Sewer Authority, the Commission issued Certificates of Filing or approvals for the *pro forma* Wastewater Treatment and Conveyance Agreements between PAWC and the York Bulk Customers, which were subsequently filed with the Commission. *In re Application of Pennsylvania-American Water Company to Acquire the Wastewater Collection and Treatment System Owned by the York City Sewer Authority*, Docket No. A-2021-3024681 (Order entered April 14, 2022), pp. 4-5.

19. PAWC demonstrated it satisfies all of the statutory criteria for a Section 1327 acquisition premium for the AWC system and, therefore, the Commission should deny Mr. Higgins' proposed adjustment, denying the Company recovery of all amortization expense and rate base related to the AWC acquisition in excess of the net book value of AWC's assets.

20. Mr. Higgins proposed rate mitigation adjustment for BASA is inconsistent with the Commission's decision in the PAWC 2020 Order and should therefore be denied.

21. Section 1311(c) provides that "[t]he commission, when setting base rates, after notice and an opportunity to be heard, may allocate a portion of the wastewater revenue requirement to the combined water and wastewater customer base if in the public interest." 66 Pa.C.S. § 1311(c). The Company's proposed allocation of a portion of its wastewater revenue requirement to water customers is in the public interest. *See* PAWC 2020 Order, p. 82.

22. PAWC's proposed Section 12.8 of the Water Tariff is reasonable and should be approved.

23. The other changes in rules set forth in the Company's proposed Water Tariff and Wastewater Tariff, not having been contested by any party, should be approved.

24. The Commission has found on numerous occasions that the appropriate focus for ratemaking purposes is the reasonableness of overall compensation awards, and not the size or nature of individual pieces of the compensation package. *See, e.g.*, PAWC 2020 Order, pp. 50-53; *Pa. P.U.C. v. Aqua-Pa., Inc.*, Docket Nos. R-2021-3027385 and R-2021-3027386 (Opinion and Order entered May 16, 2022*)*, pp. 100-101; *Pa. P.U.C. v. UGI Utils., Inc. – Elec. Div.*, R-2017-2640058 (Opinion and Order entered Oct. 4, 2018), pp. 73-74; *Pa. P.U.C. v. PPL Elec. Utils. Corp.*, Docket No. R-2012-2290597 (Opinion and Order entered Dec. 28, 2012), p. 26; *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, Docket No. R00072711, pp. 20-21 (Order entered July 31, 2008); *Pa. PUC v. PPL Gas Utils. Corp.*, Docket No. R-00061398, p. 40 (Order entered Feb. 8, 2007).

25. A public utility may propose alternative rates and rate mechanisms in a base rate proceeding pursuant to 66 Pa. C.S. § 1330. Such alternative rates and rate mechanisms "should

encourage and sustain investment through appropriate cost-recovery mechanisms to enhance the safety, security, reliability or availability of utility infrastructure and be consistent with the efficient consumption of utility service." 66 Pa. C.S § 1330(a)(2). The record evidence supports approval of the Company's proposed Revenue Decoupling Mechanism and Environmental Compliance Investment Charge.

26. When seeking Commission authorization for deferral accounting, a utility must establish a *prima facie* case that the expense item appears to be within the scope of the type of items that the Commission has allowed as an exception to the general rule against retroactive recovery of past expenses. *See, e.g., Petition of Pa.-American Water Co. for Auth. to Defer and Record as Regulatory Assets for Future Recovery: (1) Incremental Expenses Incurred Because of the Effects of the COVID-19 Emergency; (2) Revenue Reductions Attributable to the Effects of the COVID-19 Emergency; and (3) Carrying Charges on the Amounts Deferred*, Docket No. P-2020-3022426 (Opinion and Order entered Sept. 15, 2021) ("2021 PAWC Deferral Order"), p. 5.

27. The Commission regularly authorizes utilities to defer costs for accounting purposes arising from events that are unanticipated and outside the utility's control to provide the utility an opportunity to claim those costs for recovery in a future rate proceeding. *See, e.g.*, PAWC 2021 Deferral Order, pp. 12-13, 30-32, 42, 49-50 (approving deferral of COVID-19–related financial impacts); *Petition of Pa.-American Water Co. for Auth. to Defer Expenses Incurred to Pay New Regulatory Fees Imposed by the Pa. Dep't of Envtl. Prot.*, Docket No. P-2019-3008253 (Opinion and Order entered May 9, 2019), pp. 3-4 (approving deferral of $840,000 of expenses incurred for new annual fees imposed by the PaDEP); *Petition of Pa.-American Water Co. for Auth. to Defer for Accounting and Financial Reporting Purposes Expenses Relating to a Water Customer Class Demand Study,* Docket No. P-2012-2308982

(Opinion and Order entered Aug. 20, 2012) (approving deferral of $463,000 in expenses related to a demand study agreed to in settlement of PAWC's 2011 rate case); *Petition of Columbia Gas of Pa., Inc. for Auth. to Defer, for Accounting Purposes, Certain Costs Associated With A Regulatory Asset Related to Other Post-Retirement Benefits Provided by NiSource Corporate Serv. Co.*, Docket No. P-2011-2275383 (Opinion and Order entered May 24, 2012) (approving deferral of $903,000 expenses related to an accounting change for certain retirement-related management fees paid to an affiliate); *Petition of the Newtown Artesian Water Co. for Permission to Defer and Record Unrecovered Purchased Water Costs,* Docket No. P-2010-221420 (Order entered June 1, 2011) (approving deferral of unrecovered purchased water costs totaling $351,929 related to rate increases implemented by the Bucks County Water and Sewer Authority in between rate cases); *Petition of Citizens Utils. Water Co. of Pa*., Docket No. P-00930746 (Order entered Feb. 25, 1994) (approving deferral of SFAS 106 costs); *Pa. P.U.C. v. Consumers Pa. Water Co. – Roaring Creek Div.*, Docket No. R-932655 (Order entered Feb. 3, 1994) (same).

28. The record evidence supports a finding that PAWC has established a *prima facie* case that the pension, OPEB, and production expenses the Company seeks to defer are appropriate to record as a regulatory asset or liability.

29. The Commission's regulations recognize utilities long-standing practice to bill "charges for other than basic service," which include, among other things, "line repair programs and appliance warranty programs." Consistent with the Commission's regulations, PAWC includes charges for these services as a separate line item on customers' monthly bills. In addition, these services are entirely optional to customers, i.e., customer payments are applied to

PAWC's charges first and a customer's choice not to pay for AWR's services does not result in any service termination efforts by PAWC. 52 Pa. Code §§ 56.13, 56.23, 56.83(3).

30. AWR's warranty products and services are not utility services subject to PUC jurisdiction. *See PPL Elec. Utils. Corp. v. Pa. Pub. Util. Comm'n*, 912 A.2d 386, 408 (Pa. Commw. Ct. 2006) (holding that an unregulated energy consulting service offered by an unregulated affiliate of PPL is not a regulated public utility service and that competition among unregulated services is not an objective of the regulatory scheme of the Public Utility Code).

31. The Commission only has the authority to evaluate whether a utility's jurisdictional services, such as a utility's billing of warranty products and services, are consistent with the Public Utility Code. *Pa. Pub. Util. Comm'n v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2018-2647577, 2018 WL 6590854, at *28-33 (Pa. P.U.C. Dec. 6, 2018) ("Columbia Gas Order").

32. PAWC's billing relationship is not unreasonably discriminatory. 66 Pa.C.S. § 1502; *see also* Columbia Gas Order, 2018 WL 6590854, at *22-23; *Interstate Gas Supply, Inc. et al. v. Metro. Edison Co., Pennsylvania Elec. Co., Pennsylvania Power Co., and West Penn Power Co.*, Docket Nos. C-2019-3013805 et al., 2021 WL 3840884, at *1-2 (Aug. 26, 2021) ("FE PA Order"), *aff'd*, *Interstate Gas Supply, Inc. et al. v. Pa. P.U.C.*, 298 A.3d 1181 (Pa. Commw. Ct. 2023).

33. The Commission recently rejected the OCA's request to prohibit FirstEnergy Pennsylvania Electric Company's on-bill arrangement with HomeServe for non-commodity products and services where Ms. Alexander raised the exact same claims – that the use of the utility name and logo for marketing purposes is misleading. FE-PA Order, 2021 WL 3840884, at *10, *12, *19.

34. Utility payments to the Hardship Fund are voluntary shareholder contributions, and the Commission cannot order a utility to increase its contributions to the fund. *See, e.g.*, *Columbia Gas of Pa. Inc. Universal Serv. & Energy Conservation Plan for 2015-2018 Submitted in Compliance with 52 Pa. Code § 62.4*, Docket No. M-2014-2424462, 2015 WL 4309172, at *23 (Final Order entered July 8, 2015); *Nat'l Fuel Gas Distribution Corps. Universal Serv. & Energy Conservation Plan for 2014-2016 Submitted in Compliance with 52 Pa. Code § 62.4*, Docket No. M-2013-2366232, 2014 WL 2426998, at *4 (Final Order entered May 22, 2014).

35. Pennsylvania law requires EDCs and NGDCs -- not water or wastewater utilities -- to have universal service plans and also provides for the full and timely recovery of their universal service plan costs. 52 Pa. Code § 54.74; 52 Pa. Code § 62.4l; *see, e.g.*, 66 Pa.C.S. § 2804(8).

36. The DSLPA places the obligation on the landlord ratepayer to notify the utility whether the premises being served are for rental purposes. It does not place the obligation on the utility to investigate each property in its service territory to determine if a landlord ratepayer property is occupied by a tenant. 66 Pa.C.S. § 1529.1(a).

PROPOSED ORDERING PARAGRAPHS

IT IS ORDERED:

1. That PAWC is authorized to file a tariffs or tariff supplements containing rates, provisions, rules, and regulations, consistent with the findings herein, to produce revenues not in excess of $1,213,394,607.

2. That tariffs or tariff supplements may be filed on less than statutory notice and, pursuant to the provisions of 52 Pa. Code §§ 53.31 and 53.101, may be filed to be effective for service rendered on and after the date of entry of the Commission's Opinion and Order.

3. That PAWC shall file detailed calculations with its tariff filing, which shall demonstrate that the filed rates comply with the proof of revenue, in the form and manner customarily filed in support of compliance tariffs.

4. That PAWC shall allocate the authorized increase in operating revenues to each customer class and rate schedule within each customer class in the manner prescribed in the Commission's Opinion and Order.

5. That PAWC is authorized to implement its proposed alternative ratemaking mechanisms, the Revenue Decoupling Mechanism and Environmental Compliance Investment Charge.

6. That PAWC is authorized to defer and record in a regulatory asset or liability any differences between the claimed amount of pension, OPEB and production expenses for the FPFTY and actual expenses incurred by the Company.

7. That any deferred amounts of pension, OPEB and production expense should be subject to further detailed review and investigation in a general base rate proceeding, prior to being charged in any manner to PAWC customers.

8. That no Commission investigation of PAWC's long-standing relationship with AWR is warranted.

9. That the Complaints filed by the various parties to this proceeding are granted, denied or deemed satisfied, consistent with the Commission's Opinion and Order in this case.