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March 26, 2024

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 (Water)
R-2023-3043190 (Wastewater)

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Main Brief in the above-referenced proceeding. Please note that the **CONFIDENTIAL** version of OCA's Main Brief will only be sent to the parties that have executed the non-disclosure agreement as indicated on the Certificate of Service. The **CONFIDENTIAL** version of the OCA's Main Brief will be efiled using the Public Utility Commission's Share Point file process.

Copies have been served on the parties as indicated on the enclosed Certificate of Service.

Respectfully submitted,

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CERTIFICATE OF SERVICE

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

I hereby certify that I have this day served a true copy of the following document, the Office of Consumer Advocate's Main Brief, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below. This document was filed electronically on the Commission's electronic filing system.

Dated this 26th day of March 2024.

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

MAIN BRIEF
OF THE
OFFICE OF CONSUMER ADVOCATE

PUBLIC VERSION

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Dated: March 26, 2024

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I. INTRODUCTION AND OVERVIEW

A. Description of the Office of Consumer Advocate

The Office of Consumer Advocate (OCA) is a statutory advocate with authority and duty to represent the interest of consumers as a party before the Pennsylvania Public Utility Commission (Commission) in public utility rate requests. 71 P.S. § 309-4. The OCA's interest in this case is to ensure that the public – who ultimately pays the revenue requirement to the utility – is paying enough, but no more than is necessary, to ensure that service remains adequate, reliable, and safe while allowing the utility to have the opportunity to recover its costs and earn a fair rate of return on its investments. The OCA's Tables[1] are attached as Appendix A for the following: PAWC Overall Revenue Requirement (Summary Table), PAWC's Water Operations (Water), Wastewater SSS Operations (Wastewater SSS), CSS Wastewater Operations (CSS Wastewater) (together, Wastewater SSS and CSS Wastewater are referred to as Wastewater) (collectively, the Operations), and the Brentwood and BASA wastewater acquisitions.

B. Procedural History

On November 8, 2023, Pennsylvania-American Water Company (PAWC or Company) filed its direct case in this proceeding. On November 17, 2023, the OCA filed a Formal Complaint and Public Statement challenging the lawfulness of the proposed rate increase. Current and prospective customers filed approximately 500 formal complaints and 614 informal complaints. There were 12 Public Input Hearings at which 220 individuals testified under oath, an

[1] The OCA's recommended revenue requirements (before and after Act 11 shift) are presented in OCA witness Ralph Smith's Direct Testimony. OCA St. 2, Exh. LA-1, Sch. A. The OCA did not change its recommendations. However, the OCA's Tables attached to the brief update the OCA's revenue requirements consistent with a correction that PAWC made in its rebuttal to remove American Water Works Service Company-related Supplemental Executive Retirement Plan expenses, which impacted Water and Wastewater, and PAWC's update to the reclassification of Lead Service Line Inventory, which impacted Water only. OCA witness Smith accepted PAWC's corrections and reclassification in his surrebuttal. OCA St. 2SR at 2, n. 3, 44-45.

overwhelming majority of them in opposition to PAWC's rate relief request. *See* Appendix B for summary of consumer testimony at the Public Input Hearings. There were three discovery disputes between PAWC and the OCA relating to agreements with PAWC's ex-affiliate, American Water Resources (AWR), and PAWC's acquisition strategies, and such disputes were largely resolved in the OCA's favor. *See* Prehearing Order #3 at 3-8. On March 7-8, 2024, the Administrative Law Judges (ALJs) presided over the evidentiary hearings and, *inter alia*, admitted into the record the OCA's experts' 21 pre-served and verified written direct, supplemental direct, rebuttal, and surrebuttal testimonies, and accompanying exhibits. The list of OCA-sponsored testimony and exhibits admitted into the evidentiary record is attached in Appendix C.

C. Overview of PAWC's Filing

In the interest of brevity and recognizing the page limit, *see* Section III.

D. Legal Standards (Burden of Proof)

1. Utility Monopoly Regulation

Utility regulation stems from the state's police power to protect the health, safety, morals, and general welfare of their citizens. States have the power to regulate the use of private property and the rates charged by certain private companies in industries "clothed with a public interest." *Munn v. Ill.*, 94 U.S. 113, 126 (1877) (*Munn*). "[T]he regulation of utilities is one of the most important of the functions traditionally associated with the police power of the States." *Ark. Elec. Coop. Corp. v. Ark. Pub. Serv. Comm'n*, 461 U.S. 375, 377 (1983) (*Ark. Elec.*). The Public Utility Code (Code) governing sales that are only rationally dealt in by a monopoly is a proper exercise of the state police power to regulate the health, safety, morals, and general welfare of citizens. *Relief Elec. Light, Heat & Power Co's. Petition*, 1916 Pa. Super. LEXIS 89, **6-15 (*Relief Elec.*). The Commission's comprehensive authority under the Code to oversee and regulate jurisdictional public utilities is a constitutional exercise of traditional state police powers as a reasonable exercise of police power by appropriate means for a legitimate end. *Jenkins Twp. v. Pub. Serv. Comm'n*, 1916 Pa. Super. LEXIS 30, **15-16 (Oct. 30, 1916) (*Jenkins Twp.*) ("The authority which the commission seeks to exercise in this case is clearly the exercise of the police power inherent in our State as delegated to the commission by the provisions of the Public Service Company Law" (which the Public Utility Law of 1937 replaced) (which the Code (of 1978) replaced)).[2]

2. Burden of Proof

PAWC bears the burden of proof to establish the justness and reasonableness of every element of its requested rate increase:

> Reasonableness of rates – In any proceeding upon the motion of the Commission, involving any proposed or existing rate of any public utility, or in any proceedings upon the complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility.

66 Pa. C.S. § 315(a). The evidence necessary to meet that burden must be substantial, legally credible, and cannot be mere "suspicion" or "scintilla" of evidence. *Lower Frederick Twp. Water Co. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980); *Lansberry v. Pa. PUC*, 578 A.2d 600, 602 (Pa. Cmwlth. 1990) (*Lansberry*).

The party with the burden of proof has a formidable task to show that the Commission may lawfully adopt its position. *Burleson v. Pa. PUC*, 461 A.2d 1234, 1236 (Pa. 1983) (*Burleson*). Even where a party has established a *prima facie* case, the party with the burden must establish that "the elements of that cause of action are proven with substantial evidence which enables the party asserting the cause of action to prevail, precluding all reasonable inferences to the contrary." *Id.*

[2] *See also* Charles F. Phillips, Jr., *The Regulation of Public Utilities: Theory and Practice*, 87 (Pub. Utils. Reports, Inc., 3rd ed. 1993); James H. Booser, *The Constitutional Limitations on Public Utility Regulation*, 67 Dick. L. Rev. 363, 364 (1963), *available at*: https://ideas.dickinsonlaw.psu.edu/dlra/vol67/iss4/3 (last visited Mar. 21, 2024).

Furthermore, it is well-established that the "degree of proof before administrative tribunals…is satisfied by establishing a preponderance of the evidence." *Lansberry* at 602.

The utility's burden of proof does not shift to parties challenging the rate increase:

> It is well-established that in general rate increase proceedings, the burden of proof does not shift to parties challenging a requested rate increase. Rather, the utility's burden of establishing the justness and reasonableness of every component of its rate request is an affirmative one and that burden remains with the public utility throughout the course of the rate proceeding. It has been held that there is no similar burden placed on other parties to justify a proposed adjustment to the utility's filing.

Pa. PUC v. Pa. American Water Co., 2004 Pa. PUC LEXIS 29 at *16-18 (Order Jan. 29, 2004) (*PAWC 2004*) (citing *Berner v. Pa. PUC*, 116 A.2d 738 (Pa. 1955) (*Berner*)). In *Berner*, the Pennsylvania Supreme Court stated:

> [T]he appellants did not have the burden of proving that the plant additions were improper, unnecessary or too costly; on the contrary, that burden is, by statute, on the utility to demonstrate the reasonable necessity and cost of the installations and that is the burden which the utility patently failed to carry.

Id. at 744. The Commission recognizes in its rate determinations that the burden of proof will not shift to a complainant or intervener that is challenging the requested rate increase. *See e.g*., *Pa. PUC v. Equitable Gas Co*., 57 Pa. PUC 423, 471 (1983); *Univ. of Pa. v. Pa. PUC*, 485 A.2d 1217 (Pa. Cmwlth. 1984); *Pa. PUC v. PPL Elec. Util. Corp*., 237 PUR4th 419, 426 (2004) (*PPL 2004*).

A public utility may elect to use a future test year (FTY) or a fully projected future test year (FPFTY) "in discharging its burden of proof." 66 Pa. C.S. § 315(e).

3. Just and Reasonable and Not Unduly Discriminatory Rates

As a matter of law, a public utility's rates must be just and reasonable and in conformity with regulations or orders of the Commission. 66 Pa. C.S. § 1301(a). A public utility may obtain "a rate that allows it to recover those expenses that are reasonably necessary to provide service to its customers[,] as well as a reasonable rate of return on its investment." *City of Lancaster Sewer Fund v. Pa. PUC*, 793 A.2d 978, 982 (Pa. Cmwlth. 2002) (*Lancaster 2002*).

The Commission "has broad discretion in determining whether rates are reasonable" and "is vested with discretion to decide what factors it will consider in setting or evaluating a utility's rates." *Popowsky v. Pa. PUC*, 683 A.2d 958, 961 (Pa. Cmwlth. 1996) (*Popowsky 1996*) (emphasis added). The Commission's discretion to determine if a requested rate is just and reasonable includes the "power to make and apply policy" concerning the appropriate balance between rates charged to consumers and returns allowed to utility investors. *Popowsky v. Pa. PUC*, 665 A.2d 808, 812 (Pa. 1995).

> There is ample authority for the proposition that the power to fix "just and reasonable" rates imports a flexibility in the exercise of a complicated regulatory function by a specialized decision-making body and that the term "just and reasonable" *was not intended to confine the ambit of regulatory discretion to an absolute or mathematical formulation but rather to confer upon the regulatory body the power to make and apply policy* concerning the appropriate balance between prices charged to utility customers and returns on capital to utility investors consonant with constitutional protections applicable to both.

Id. (citations omitted) (emphasis added).

The Commission must determine whether projected expenses "are reasonably necessary to provide service…" during the prospective period in which its rates will be in effect. *Lancaster 2002* at 982. Only prudently incurred expenses are includable in expense claims; it is the burden of the public utility to prove that the expenses incurred are just and reasonable; and it is within the discretion of the Commission to exclude expenses as unreasonable. *Popowsky v. Pa. PUC*, 674 A.2d 1149, 1154 (Pa. Cmwlth. 1996) (*LP Water*) (internal citations omitted).

Additionally, rates must not be unduly discriminatory among customer groups. 66 Pa. C.S. § 1304. The Commission has discretion to determine reasonable classification of service of rates as may be justified "by a variety of considerations including the quantity of service used, the nature of the use, the time of the use, the pattern of the use, differences of conditions of service or cost of service." *Zucker v. Pa. PUC*, 402 A.2d 1377, 1382 (Pa. Cmwlth. 1979) (*Zucker*).

A utility's cost of providing service guides the ratemaking process. *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1019-21 (Pa. Cmwlth. 2006) (*Lloyd*). Additional important ratemaking concerns include quality of service, rate gradualism, and rate affordability. *Pa. PUC v. Columbia Gas of Pa, Inc*., R-2020-3018835 (Order Feb. 19, 2021) (*Columbia 2021*), at 46-47 (citing 66 Pa. C.S. §§ 523, 526(a)) (citing also *Lloyd* at 1020 and *Pa. PUC v. Twin Lakes Util., Inc*., 2020 Pa. PUC LEXIS 340, *46-54 (Order Mar. 26, 2020)).[3]

4. Service Quality

Service must be adequate, efficient, safe, and reasonable. 66 Pa. C.S. § 1501. In setting just and reasonable rates, the Commission "shall consider…the efficiency, effectiveness and adequacy of service of each utility." 66 Pa. C.S. § 523. The Commission can order improvements to service as a condition of any rate increase. *Pa. PUC v. Pa. Gas & Water Co.*, 74 PUR4th 238, 244-45 (Pa. PUC 1986) (*PG&W 1986*); *Pa. PUC v. Philadelphia Gas Works,* 2000 Pa. PUC LEXIS 876, *41-44 (Order Nov. 22, 2000) (*PGW 2000*). The Commission can direct the adequate, reasonable, safe, sufficient service to be observed and furnished by the utility. 66 Pa. C.S. §§ 1504, 1505.

5. Reasonable Opportunity to Earn a Fair Rate of Return

A public utility is entitled to no more than a reasonable opportunity to earn a fair rate of return on its investments dedicated to public service. *Pennsylvania Gas & Water Co. v. Pa. PUC*, 341 A.2d 239, 251 (Pa. Cmwlth. 1975) (citations omitted). The United States Supreme Court held:

> 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 raise the money necessary for the proper discharge of public duties.

[3] Available at https://www.puc.pa.gov/pcdocs/1693880.docx.

Bluefield Water Works and Improvement Co. v. Public Serv. Comm'n of W.Va., 262 U.S. 679, 692-93 (1923) (*Bluefield*). The allowed rate of return should reflect:

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

Bluefield at 692. However, a fair return for public utility service is not equivalent to "profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." *Id*. At 692-693. A fair rate of return "should be commensurate with returns on investments in other enterprises having corresponding risks" while being sufficient "to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital." *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) (*Hope*). The Supreme Court noted, however, that:

> The rate-making process under the Act, i.e., the fixing of 'just and reasonable' rates, involves a balancing of the investor and consumer interests. Thus we stated…that *regulation does not insure that the business shall produce <u>net</u> revenues*."

Id. (emphasis added) (internal quotations omitted); *see also Pa. PUC v. Philadelphia Suburban Water Co.*, 71 Pa. PUC 593, 623 (1989) (*PSW 1989*) (citing *Pittsburgh v. Pa. PUC*, 69 A.2d 844 (Pa. Super Ct. 1949)); *see also Duquesne Light Co. v. Barasch,* 488 U.S. 299, 310, 312 (1989) (*Duquesne Light*), *aff'g Barasch v. Pa. PUC*, 532 A.2d 325 (Pa. 1987).

Consumers must "rely upon" the Commission to provide "a complete, permanent, and effective bond of protection from excessive rates and charges" of the public utility. *Permian Basin Area Rate Cases*, 390 U.S. 747, 794-95 (1968) (*Permian Basin*) (citing *Atlantic Ref. Co. v. Pub. Serv. Comm'n*, 360 U.S. 378, 388 (1981)). The Commission's "responsibilities include the protection of future, as well as present, consumer interests." *Permian Basin* at 797. Rates adopted by the Commission that are within a "zone of reasonableness" can withstand constitutional scrutiny. *Id*. at 797. The "just and reasonable" standard of the Code coincides with applicable constitutional standards, and any rate selected by the Commission from the "broad zone of reasonableness" permitted by the Code cannot properly be attacked on constitutional grounds as confiscatory. *Permian Basin* at 769-70. Rates that are determined by the Commission to be in conformity with the Code and intended to "balance the investor and the consumer interests" are constitutionally permissible. *Id*. at 770.

Cost of capital analyses are generally accepted by the Commission as a basis for determining a fair rate of return under the "just and reasonable" standard of the Code. In *PSW 1989*, the Commission defined an appropriate rate of return as:

> [T]he amount of money a utility earns, over and above operating expenses, depreciation expense, and taxes, expressed as a percentage of the legally established net valuation of utility property, the rate base. Included in the "return" are interest on long-term debt, dividends on preferred stock, and earnings on common equity. In other words, the return is the money earned from operations which is available for distribution among the various classes of contributors of money capital.

PSW 1989 at 622-23 (quoting Paul J. Garfield & Wallace F. Lovejoy, *Public Utility Economics*, 116 (1964)). Additionally, the Commission stated:

> A fair rate of return for a public utility, however, is not a matter which is to be determined by the application of a mathematical formula. It requires the exercise of informed judgment based upon an evaluation of the particular facts presented in each proceeding. There is no one precise answer to the question as to what constitutes the proper rate of return. The interests of the Company and its investors are to be considered along with those of the customers, *all to the end of assuring adequate service to the public <u>at the least cost</u>*, while at the same time maintaining the financial integrity of the utility.

Pa. PUC v. Pa. Power Co., 55 Pa. PUC 552, 579 (1982) (*Pa. Power*) (emphasis added); *see also Pa. PUC v. Nat'l Fuel Gas Dist. Corp*., 73 Pa. PUC 552, 603-05 (1990) (*NFGD 1990*).

6. <u>Act 11/Section 1311(c) Shift</u>

The Commission may allocate wastewater revenue requirement to be recovered from water customers where it is in the public interest. Such allocation is discretionary, not mandatory:

> The commission, when setting base rates, after notice and an opportunity to be heard, *may* allocate a portion of the wastewater revenue requirement to the combined water and wastewater customer base *if in the public interest*.

66 Pa. C.S. § 1311(c) (emphasis added). In finding whether a proposed shift is in the public interest, the Commission will examine if the shift is equitable to water customers and just and reasonable. *Pa. PUC v. Aqua Pa., Inc.*, 2022 Pa. PUC LEXIS 161, *112 (Order May 16, 2022) (*Aqua 2022*) (concluding that the utility's proposed shift of 30% of wastewater revenue requirement to water customers is not equitable and will not result in just and reasonable rates). Indeed, the Commission stated: "It is *not reasonable or in the public interest* for those water customers who do not receive a benefit from wastewater operations or Section 1329 acquisitions to support a disproportionate share of the revenue requirement driven by such acquisitions." *Id*. (emphasis added).

7. **Due Consideration to the Interest of Consumers**

As a matter of law, an increase in base rates involves a substantial property right, entitling ratepayers to notice and procedural due process. *McCloskey v. Pa. PUC*, 195 A.3d 1055, 1068 (Pa. Cmwlth. 2018) (*McCloskey* 2018) (citing *Barasch v. Pa. PUC*, 546 A.2d 1296, 1305-06 (Pa. Cmwlth. 1988 (*Barasch 1988*); citing also U.S. Const. amend. XIV, § 1).

Given that a utility's general rate increase request will substantially affect the interests of consumers, the Commission must "consistent with its other statutory responsibilities, take such action with due consideration to the interests of consumers." 71 P.S. § 309-5.

II. SUMMARY OF ARGUMENT

Overall: PAWC's $203.9 million rate relief request ($128.1 million for Water and $75.8 million for Wastewater) *is excessive and unnecessary* based on *three major drivers*: (1) PAWC's unreasonable rate of return claim, consisting of an unreasonably high return on equity (ROE) and an unreasonable, equity-rich capital structure; (2) PAWC's sizeable ratemaking rate base claims related to aspirational and speculative utility plant in service claims in the FPFTY; and (3) additional requests for accounting and ratemaking mechanisms that are inconsistent with the Code, case law, and sound ratemaking principles, and that would further increase consumers' rates in unknown quantities beyond PAWC's claimed revenue requirement in this case. PAWC's need for rate relief could be met with an annual increase of no more than $45.4 million ($17.8 million for Water and $27.6 million for Wastewater (pre-Act 11 shift)), which would allow PAWC to recover its reasonable costs and provide it the opportunity to earn a fair rate of return on investment. PAWC has not met its burden of proof and the OCA's adjustments produce rates that are just and reasonable, equitable and in the public interest. These issues are addressed in Sections III, VI.P-Q. and X.

Rate Base: As to utility plant in service, PAWC's rate base claims related to the six aspirational acquisitions should be excluded from the FPFTY because *there is no reasonable certainty based on the evidence in this record* that the systems that PAWC aspires to own will be acquired and used and useful by the end of the FPFTY. The OCA does not challenge the remaining $1.267 billion of planned capital improvements that PAWC has claimed as necessary to provide safe, adequate, and reliable service to consumers. These issues are addressed in Section IV.

Expenses: In addition to excluding PAWC's not yet acquired, aspirational acquisitions from rate base, the Commission must exclude all projected expenses related to this property as these expenses *are merely hypothetical* as there is no reasonable certainty the aspirational property will be owned and used and useful in the FPFTY. These issues are addressed in Section VI.

Rate of Return: Consumers cannot choose their water/wastewater provider and, thus, have no other option but to rely upon the Commission to provide protection from excessive rates. Rates that are determined by the Commission to be in conformity with the Code and intended to balance the investor and the consumer interests are constitutionally permissible. If the Commission grants PAWC's rate of return requests in this case, it will cost consumers significant money and *deprive consumers the protection from excessive rates that only the Commission can provide*. The OCA recommends a market-based ROE of 9.10% and a reasonable ratemaking capital structure of 51% equity and 49% debt based on the OCA's fully substantiated cost of capital analyses. These issues are addressed in Section VIII.

Rate Structure and Rate Design: The record supports changes to PAWC's Water class cost of service study to reflect cost-causation and produce just and reasonable rates. Regarding Act 11, there are two issues: (1) whether any allocation is in the public interest and, if so, how much; and (2) how to assign Wastewater revenue requirement to the Water customer base. PAWC and OSBA propose two extremes – shifting nearly all or none of the wastewater revenue deficiency. The record supports the OCA's more measured use of Act 11 to provide some relief to the Wastewater SSS and CSS Wastewater customers, while moving them toward cost of service and also not overburdening Water customers. The revenue assigned to Water operations effectively becomes Water revenue requirement and is properly allocated based on the Water CCOS study adopted by the Commission. Regarding rate design, fixed charges for Residential customers are properly maintained at current levels to recover PAWC's costs that do not vary directly with the addition or subtraction of a customer. PAWC's "winter averaging" proposal for calculating bills for Residential Wastewater customers would disproportionately harm low-income customers, and should be rejected. These issues are addressed in Sections III and IX.

Low-Income Customer Assistance: PAWC has not met its burden of proof in demonstrating that its affordability analysis is just and reasonable and will lead to affordable rates for low-income customers. The OCA's adjustments to PAWC's affordability analysis are just and reasonable and supported by the record and show the need for two changes to PAWC's existing bill discount program to generate reasonably affordable bills for PAWC's low-income customers: (1) addition of a fourth tier of eligibility for customers whose household incomes are between 151% and 200% of Federal Poverty Level; and (2) increased percentage discounts for each tier. PAWC supports/does not oppose these changes. These and the OCA's additional recommendations for making service more affordable, adequate, and reasonable are addressed in Section XI.

Customer Service and Quality of Service: PAWC's call center performance is inadequate and as a result the Commission should disallow certain call center expenses, reject the Company's managerial performance adder, and require PAWC to adopt the OCA's recommendations to improve service and its affiliated interest agreement with its Service Company. Additionally, PAWC is engaging in deceptive and discriminatory billing and marketing practices for non-utility services provided by PAWC's ex-affiliate, AWR, and the OCA recommends that the Commission initiate an investigation and direct PAWC to suspend new customer enrollments until the Commission concludes its investigation. These issues are addressed in Section XII.

III. OVERALL POSITION ON RATE CASE

A. PAWC Has Not Met Its Burden of Proof; Therefore, Its Excessive Overall Revenue Requirement (Revenue requirement) Increase of $203.9 Million and Proposed Act 11 Revenue Allocation Produce Rates that are Unjust and Unreasonable, Unduly Discriminatory Among Customer Groups, and Not in the Public Interest.

The Commission should not grant PAWC's general rate increase request because PAWC has not met its burden of proof in demonstrating that its requested overall revenue increase of $203.9 million will produce rates that are just and reasonable, equitable among customer groups, or in the public interest. 66 Pa. C.S. § 315(e); *PAWC 2004* at *16-18; *Burleson* at 1236; *Lansberry* at 602. The OCA has reviewed and not challenged PAWC's claimed capital spend of $1.267

billion[4] for its Water and Wastewater utility plant through the end of the FPFTY as these infrastructure projects seek to ensure the provision of safe, adequate, and reliable service and facilities, in the interest of consumers. OCA St. 2SR at 21-27. Apart from the $1.267 billion for infrastructure improvement projects, PAWC's $203.9 million rate relief request ($128.1 million for Water and $75.8 million for Wastewater) *is excessive and unnecessary* based on *three major drivers*, and PAWC's need for rate relief could be met with an annual increase of no more than $45.4 million ($17.8 million for Water and $27.6 million for Wastewater (pre-Act 11 shift)), as put forth in the OCA's case. App. A, OCA Tables; OCA Sts. 2 at 10, Exh. LA-1, St. 3 at 3-4, 20-61.

The *first major driver* is PAWC's unreasonable rate of return claim, consisting of (1) an unreasonably high ROE of 10.95%, inclusive of an arbitrary, unsupported, and unreasonable "management performance" adder of up to 25 basis points, and (2) an unreasonable, equity-rich capital on a total company basis: 55.3% equity and 44.7% debt. *See* OCA St. 3 at 3-4, 50-61; OCA St. 3SR at 2-11. As discussed further below in Section VIII, PAWC has not affirmatively demonstrated with substantial evidence the reasonableness of its claims for its ROE or capital structure. 66 Pa. C.S. § 1301; *Bluefield*; *Hope*; *Permian Basin*.

The *second major driver* of PAWC's excessive revenue increase request is PAWC's sizeable rate base claims inclusive of merely *potential* acquisitions of water and wastewater systems that PAWC hopes to get Commission approval to buy, but for which, as of the close of the record, are objectively uncertain. The six aspirational acquisitions at issue are: (1) Audubon water, (2) Farmington water, (3) Farmington wastewater, (4) Sadsbury wastewater, (5) BASA

[4] The $1.267 billion of investment is for new or replacement utility plant and equipment during the future test year (FTY) ending June 30, 2024, and its FPFTY ending June 30, 2025, the majority of which is and will be in source of supply, treatment, distribution, and collection assets. PAWC St. of Reasons, p. 1; PAWC St. 1 at 8; PAWC St. 3 at 9-11; PAWC St. 15R at 3. The Company's President refers to this investment as the "most significant driver for the Company seeking additional rate relief at this time…" PAWC St. 15R at 3.

wastewater, and (6) Brentwood wastewater. OCA St. 2 at 18. Based only on its apparent ability to predict the future, PAWC has included this aspirational rate base in the FPFTY. *Id*. at 18-46. However, as discussed further below in Section IV.A., the Company has not demonstrated by a preponderance of evidence that the property that it aspires to own will be acquired and used and useful by the end of the FPFTY. Therefore, consistent with a prior Commission determination, the property must be excluded from PAWC's rate base in the FPFTY. 66 Pa. C.S. §§ 1301, 315(e); *Pa. PUC v. UGI Utils., Inc. - Elec. Div.*, R-2017-2640058 (Order Oct. 25, 2018), at 27-31 (*UGI 2018*),[5] *aff'd by McCloskey v. Pa. PUC*, 225 A.3d 192 (Pa. Cmwlth. 2020) (*McCloskey 2020*).

PAWC has proposed an Act 11 shift of the *entire* burden of recovering its requested increase in Wastewater SSS and CSS revenues requirement onto Water customers, while *decreasing* rates for SSS and CSS customers, which means *none* of its existing Wastewater customers would bear in the recovery of the Wastewater revenue increase. OCA Sts. 1 at 34-40, 4 at 22-28, 4R at 7. Post-shift, PAWC seeks to increase rates by 24.2% for its Water customers while decreasing rates by -0.2% and -0.3% for its Wastewater SSS and CSS Wastewater customers, respectively. OCA St. 4 at 27, Sch. JDM-3. PAWC's proposal to assign *no* revenue increase to existing Wastewater customers is unreasonable and unduly discriminatory to Water customers and, thus, not in the public interest. OCA Sts. 4 at 26-27, 4R at 7; 66 Pa. C.S. §§ 1304, 1311(c). As discussed in Section IX, PAWC has not demonstrated by a preponderance of evidence that its proposed shift of its Wastewater revenue requirement increase to Water customers is not arbitrary; it certainly is neither reasonable nor in the public interest. 66 Pa. C.S. §§ 1311(c), 1301, 1304; *Aqua 2022* at *112.

Finally, the *third major driver* is PAWC's request for approval of various mechanisms that will (1) unreasonably transfer risk from PAWC to consumers, and (2) further increase consumers'

[5] Available at https://www.puc.pa.gov/pcdocs/1591254.docx.

rates in unknown quantities beyond PAWC's claimed revenue requirement in this case following the effective date of base rates approved in this case and in future rate cases. In particular, PAWC seeks deferred accounting treatment for (1) pension and other post-employment benefit (OPEB) expenses, and (2) production expenses, for tracking and recovery in future rate cases; however, both proposals are unnecessary, unlawful single issue ratemaking requests. OCA Sts. 2 at 75-79, 2SR at 50-51. Additionally, PAWC seeks approval of two alternative ratemaking mechanisms – the Revenue Decoupling Mechanism (RDM) and Environmental Compliance Investment Charge (ECIC) – but both proposals fail to meet the requirements under Section 1330 of the Code, fail to satisfy the 14 factors in the Commission's Policy Statement at 52 Pa. Code § 69.3302(a), violate sound ratemaking principles, and pose a risk to the consumers of unknown rate increases outside of the rate case process. OCA Sts. 1 at 4, 26, 40-51, 1SR at 9-13, 25-27, 4 at 50-74, 4SR at 21-34. These issues are addressed in Sections VI.P-Q. and X.

B. The OCA's Recommended Lower Overall Revenue Requirement Increase of $45.4 Million and Proposed Act 11 Revenue Allocation Produce Rates that Are Just and Reasonable, Equitable Among Customer Groups, and in the Public Interest.

PAWC has not met the burden of demonstrating it is entitled to the ratemaking claims challenged by the OCA. Recognizing that the OCA does not bear the burden of proof in this proceeding, the OCA's lower overall recommended revenue requirement increase of $45.4 million ($17.8 million for Water and $27.6 million for Wastewater (pre-Act 11 shift)), is fully substantiated and will produce rates that are just and reasonable, equitable among customer groups, and in the public interest. The OCA's recommended revenue requirement represents an overall 4.49% increase on a total Water and Wastewater basis. App. A, OCA Tables; OCA St. 2 at 10; OCA St. 2, Exh. LA-1; OCA St. 3 at 3-4, 20-61.

PAWC carelessly argues that if the Commission accepts the OCA's recommendations its financial stability will be threatened, and it will not be able to recover the costs necessary to make its planned infrastructure improvement projects though the end of the FFPTY to provide safe and adequate service to its customers. PAWC St. 15R at 17; OCA St. 16R at 15-16. PAWC's argument is without merit. As noted above, the OCA has not proposed to exclude any of PAWC's $1.267 billion of capital improvements that PAWC has claimed for its existing systems through the end of the FPFTY. OCA St. 2 at 18-46; OCA St. 2, Exhs. LA-1, LA-2; OCA St. 2SR at 21-27. Moreover, the OCA recommends a market-based ROE of 9.10% and a reasonable ratemaking capital structure of 51% equity and 49% debt based on a fully substantiated cost of capital analysis. OCA St. 3 at 58, 61, Exh. DJG-13, 20-61; OCA St. 3SR at 2-11; OCA St. 2, Exh. LA-1, Sch. D, Exh. LA-6. Thus, adoption of the OCA's recommendations will allow PAWC to recover its reasonable costs, have an opportunity to earn a fair rate of return, and maintain its financial stability to provide safe and adequate water and wastewater service to consumers.

In recommending the lower overall increase in revenue requirement of $45.4 million, the OCA removed entirely PAWC's ratemaking (rate base, revenues, and expenses) claims associated with the six aspirational acquisitions based on the record that there is no reasonable certainty the property that PAWC aspires to own will be acquired and used and useful by the end of the FPFTY. OCA St. 2 at 18-46; OCA St. 2SR at 4-21. Additionally, the OCA has recommended adjustments to PAWC's claims for cash working capital (rate base) and certain operations & maintenance (O&M) expenses in the FPFTY. In making these recommendations, and as discussed in more detail below, the OCA has shown that PAWC has not met its affirmative burden of proof on these elements of its revenue requirement.

Based on the OCA's significantly less overall revenue requirement increase for both Water and Wastewater customers, the OCA proposes to shift less of the Wastewater revenue requirement to Water customers. 66 Pa. C.S. § 1311(c). At the OCA's recommended lower revenue requirement increase, the OCA proposes a shift of 75% of the Wastewater SSS and 50% of the CSS Wastewater revenue requirement increase to Water customers. OCA St. 4 at 28. Post-shift, the OCA's recommended revenue requirement increases would be $36.7 million or 4.5% for Water, 5.1 million or 5.3% for Wastewater SSS, and 3.7 million or 4.7% for CSS Wastewater. App. A, OCA Table Summary; OCA St. 2, Exh. LA-1, Sch. A; OCA St. 4 at 9, 28; OCA St. 4R at 7. This result is just and reasonable, reasonably equitable among Water and Wastewater customers, and in the public interest. OCA St. 4 at 28; 66 Pa. C.S. §§ 1304, 1311(c).

C. PAWC's Captive Consumers Must Rely Upon the Commission to Protect Them from Natural Monopoly Power and Excess and PAWC's Choices in this Case Mandate that the Commission Fulfill Its Duty to Protect Consumer Interests and Exercise Its Broad Rate Setting Discretion Evenhandedly and with Restraint.

The Commission's responsibilities include the protection of future, as well as present, consumer interests, and PAWC's captive consumers have no other option but to rely upon the Commission to protect them from natural monopoly power and excess. *Permian Basin* at 794-95, 797. PAWC's choices in this case require the Commission to fulfill its duty to protect future and present consumer interests and exercise its broad rate setting discretion evenhandedly and with restraint. Indeed, where a rate request will substantially affect the interests of consumers, the Commission must give due consideration to the interests of consumers. 71 P.S. § 309-5.

OCA witness Ms. Hoover testified that the regulatory compact in Pennsylvania is a public policy paradigm, where the Commission, in setting rates and overseeing service, must protect consumers and the public from the harmful effects of natural monopoly power. *See e.g., supra, Munn* at 126, *Ark. Elec*. at 377; *Relief Elec*. at **6-15; *Jenkins Twp.* at **15-16. At the same time, the Commission must not infringe upon the public utility's constitutional due process right to a reasonable opportunity (but not guarantee) to earn a fair return on investment. OCA St. 1 at 19-53; OCA St. 1SR at 5-13; *Bluefield* at 692-693; *Hope* at 603. The combination of PAWC's audacious equity and capital structure requests, its request for speculative and aspirational rate base, and its request for deferred accounting treatment and alternative ratemaking are all the very sort of monopoly power requiring regulatory oversight and constraint. Simply, PAWC seeks to unlawfully shift risk of under-recovery from where it belongs – on the utility – to where it does not – on consumers. Indeed, PAWC seeks use of multiple incentives that simultaneously compound consumer harm and confound oversight. OCA St. 1 at 26, 29, 30, 40-41; OCA St. 1SR at 5-13.

As Ms. Hoover testified, given the regulatory compact, the Commission should not view incentive regulation as merely whether the Commission has the authority to grant such, nor view that authority as a presumption of justness and reasonableness regardless of the request. OCA St. 1 at 40-41; OCA St. 1SR at 9-10. Rather, it is a judgement call that requires the Commission to view the incentive regulation in totality instead of in permanent isolation because the cumulative effect on customer bills mirrors the negative effects of monopoly power and pricing on captive customers. OCA St. 1 at 40-41; OCA St. 1SR at 9-10.

For example, PAWC seeks to apply an excessive ROE of 10.95%, inclusive of a reward for alleged superior management performance, on a rate base that is valued at multiples higher than depreciated original cost[6] under Section 1329. However, the high valuation of this rate base is in and of itself an incentive regulation. To apply an excessive return to the overvalued rate base value is excess upon excess. OCA St. 1 at 32-35, CMH-5; OCA St. 1 at 33, n.16, 17. PAWC implicitly

[6] For the ten acquisitions PAWC has already acquired under Section 1329 and included in its rate base, PAWC was permitted to add the "fair market valuation" for the utility plant in service of $575,885,000, which is almost double the depreciated original cost of these assets ($279,334,005). OCA St. 1 at 32-35, CMH-5; OCA St. 1 at 33, n.16, 17.

recognizes this excess as it seeks to shift almost all of the Wastewater revenue requirement increase from its non-cost-causer Water customers while none of the existing Wastewater SSS or CSS Wastewater customers would pay one cent toward the Wastewater revenue requirement increase. OCA St. 1 at 34-35. The interplay of Section 1329 fair market valuation and Section 1311(c) is a good example (OCA St. at 34-35) of why the Commission needs to view incentive regulation in totality, not piecemeal, based on the facts of each record. This especially relates to PAWC's request for an excessive ROE that supposedly rewards a utility for superior managerial performance when the market itself would not reward managerial performance. OCA St. 3 at 48-49; OCA St. 3R at 8.

PAWC's rebuttal witness Mr. Hibbard testified that the regulatory compact is nothing more than a mere "metaphor" used to try to illustrate the framework of utility regulation; that Ms. Hoover's description of the regulatory compact is one-sided in favor of consumers; that if the Commission has the authority to grant incentive regulation, it should grant it; and, asserts that the OCA's recommendations threaten PAWC's financial viability. PAWC St. 16R at 12-20, 25-26.

Simply put, Mr. Hibbard is wrong on all accounts and the Commission should give more weight to Ms. Hoover's testimony than Mr. Hibbard's. Ms. Hoover credibly demonstrates that the regulatory compact is more than a metaphor. OCA St. 1 at 20, 26-27. It is a public policy choice that acknowledges the reality of: (1) the societal benefit of having a single provider of capital-intensive utility services, and (2) the potential harm to consumers and the public caused by natural monopoly power. OCA St. 1 at 20, 26-27; s*ee supra, Munn* at 126, *Ark. Elec*. at 377; *Relief Elec*. at **6-15; *Jenkins Twp.* at **15-16. That public policy choice underlies the enactment of the Code, which grants public utilities <u>*the privilege to serve guaranteed customer base in service territories without rival*</u> while simultaneously vesting in the Commission the duty of protecting consumer interests as to utility service and rates. OCA St. 1 at 19-53; OCA St. 1SR at 5-13. The Commission made this very observation in a prior rate determination:

> Inherent in the "cost of providing service" principle of ratemaking is the recognition that public utilities are natural monopolies and that the Commission's oversight through cost-of-service ratemaking regulation serves as a proxy for a competitive market in appropriately restraining, or exerting downward pressure on, the profit-maximizing prices a monopoly could otherwise charge in the absence of price regulation.

Columbia 2021 at 46, n.17. Ms. Hoover also explained that in setting just and reasonable rates, regulators, parties, and the courts refer to a zone of reasonableness within which the interests of consumers and investors should overlap. OCA St. 1 at 28 (citing *Permian Basin* at 797). Ms. Hoover explained that there may be circumstances where the rates are outside of a normal range of reasonableness, but the regulators must still fairly balance the interests of all parties. OCA St. 1 at 28 (citing *Market St. Ry. Co. v. Railroad Comm'n*, 324 U.S. 548, 566 (1945) (affirming a rate reduction for a failing utility given that *Hope* recognized that regulation does not assure the regulated business makes a profit)).

Since PAWC bears the burden of demonstrating that the entirety of its case is just and reasonable but has not done so based on the full examination of the evidence, the Commission should deny PAWC's requested revenue requirement claims, its other ancillary ratemaking requests, including the requests for deferred regulatory accounting treatment and alternative ratemaking requests.

D. The Commission Should Consider the Overwhelming Consumer Opposition to PAWC's Requests and the Harmful Impact of PAWC's Excessive and Unnecessary Rate Increase and Ancillary Rate Requests on PAWC's Consumers.

This is PAWC's third case in four years. PAWC has been granted rate increases in February 2021, February 2022, and January 2023, and with this rate increase, rates will increase again in August 2024. In the five rate cases prior to 2021, PAWC increased rates in November 2007, November 2009, November 2011, December 2013, and December 2017. Over the period of 2007-2023, the revenue requirement increases were substantial. Importantly, the impact on customers' bills often is well more than the percentage increase in revenues. OCA St. 1 at 18.

In this case, there is overwhelming backlash from PAWC's growing and skeptical consumer base. Current and prospective PAWC customers filed approximately 500 formal complaints and 614 informal complaints. 219 PAWC consumers testified under oath, an overwhelming majority of them in opposition to the Company's rate relief request. *See* App. B; OCA St. 6-Supp. The Commission should consider the overwhelming consumer opposition and the impact of PAWC's excessive and unnecessary rate increase and ancillary incentive ratemaking requests on consumers.

PAWC has Water customers who are struggling to pay utility bills because of the burden of their total utility bills yet they do not qualify for PAWC's H2O bill discount program (BDP). OCA St. 1 at 5, 12-20, CMH-1, CMH-2. In PAWC's Water service territory, in 18 of the 36 counties, the median household income is between the federal poverty income guidelines but below the ALICE (Asset Limited, Income Constrained, Employed) household survival budget for a family of four. Similarly, in 6 of the 18 counties in PAWC's Wastewater service area, the median household income is below the ALICE household survival budget.[7] OCA St. 1 at 5, 12-20, CMH-1, CMH-2. On a statewide level, ALICE assumes a family of four will spend $292 per month on utilities. OCA St. 1 at 16. However, whether an ALICE household or not, the current utility bills at a "typical" level[8] far exceed the amount estimated by ALICE for the cost of utilities for a household of four in Pennsylvania ($292 per month) and is even higher using the proposed Water and Wastewater bills. OCA St. 1 at 17-18.

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[7] https://www.unitedforalice.org/county-reports/pennsylvania; an overview of United for ALICE is available at https://www.unitedforalice.org/overview.

[8] The "typical" usage used in the current PAWC rate case notices would likely understate the bills for a 4-person household. OCA St. 1 at 16.

IV. REVENUE REQUIREMENT – RATE BASE

A. Utility Plant In Service

1. Plant To Be Acquired Should Be Excluded Because There is No Reasonable Certainty Based on this Record that the Property that PAWC Aspires to Own Will Actually Be Acquired and Used and Useful by the End of the FPFTY.

PAWC's revenue requirement as presented in PAWC's Exhibit 3-A reflects in "utility plant in service" in the FPFTY a ratemaking rate base claim for each of the six not yet completed acquisitions. OCA St. 2SR at 24. The Commission should deny PAWC's "utility plant in service" claims for property PAWC aspires to own but does not yet own because PAWC has failed to demonstrate by a preponderance of evidence that there is reasonable certainty that the property will be acquired and used and useful by PAWC by the end of the FPFTY. The six aspirational acquisitions include: (1) Audubon water, (2) Farmington water, (3) Farmington wastewater, (4) Sadsbury wastewater, (5) BASA wastewater (Section 1329), and (6) Brentwood wastewater (Section 1329). OCA St. 2 at 18.

What constitutes "used and useful property" is committed to the wide discretion of the Commission, and if the Commission reasonably finds that the property will not be used and useful in serving the public, it may make adjustments to exclude the value of the property from rate base and disallow the utility's return on that property. *Pa. Power & Light Co. v. Pa. PUC*, 516 A.2d 426, 430 (Pa. Cmwlth. 1985) (citations omitted); *see also UGI Corp. v. Pa. PUC*, 410 A.2d 923, 929 (Pa. Cmwlth. 1980) (*UGI 1980*). The adjustments must be supported with a reasonable degree of specificity in findings and reasoning. *Phila. Suburban Water Co. v. Pa. PUC*, 394 A.2d 1063, 1066-67 (Pa. Cmwlth. 1978).

To determine whether property will be "used and useful" in the FPFTY, a utility must sufficiently demonstrate by the close of the record that the utility property is reasonably certain to be used and useful in the FPFTY. *UGI 2018* at 27-31. In *UGI 2018*, the Commission agreed with the ALJ's recommendation to reject the utility's $17.3 million utility plant in service claim and related expenses associated with the planned construction of a new operations center by the end of the FPFTY because: (1) the utility did not demonstrate that its planned operations center would be in operation by the end of the FPFTY; and (2) there was no "reasonable certainty that it [would] be in operation in the FPFTY." *UGI 2018* at 27-31 (citing R.D. at 22-24), 79. In affirming the Commission's decision in *UGI 2018*, the Commonwealth Court in *McCloskey 2020* observed that the Commission properly excluded the proposed operations center and reduced the utility's rate base by over $17.3 million "on the basis that there was insufficient evidence to support that it would be in service during the FPFTY." *McCloskey 2020* at 207, n.9.

Here, like the property excluded in *UGI 2018*, the Commission should exclude PAWC's utility plant in service claims related to the six proposed acquisitions because it has not affirmatively demonstrated by a preponderance of evidence that (1) the claimed plant will be acquired and used and useful by the end of the FPFTY but rather PAWC has merely demonstrated that the acquisitions are in preliminary planning and litigation stages; and (2) there is reasonable certainty that the property that PAWC aspires to own will actually be acquired and used and useful by the end of the FPFTY. *UGI 2018* at 27-31; 66 Pa. C.S. §§ 315(a), (e); *PAWC 2004* at *16-18; *Burleson* at 1236; *Lansberry* at 602; PAWC St. 6 at 3-22; PAWC St. 6R at 2-18; OCA St. 2 at 18-46; OCA St. 2SR at 4-21.

OCA witness Ralph Smith offered two objective and bright line criteria to determine the certainty of potential acquisitions in the FPFTY: that,

> [B]y the close of the record in this base rate proceeding, (1) the Commission has issued a final, unappealable order approving the transaction, and (2) there is no uncertainty as to whether the closing will occur. OCA St. 2 at 19; OCA St. 2SR at 5-6.

PAWC witness Christopher Abruzzo disagreed, stating:

> The relevant cut-off date should not be when the record closes. After the record closes, any party can petition to reopen the record to introduce additional evidence. 52 Pa. Code § 5.571(a). Instead, the test should be whether the acquisition is likely to close within the FPFTY. PAWC St. 6R at 11-12.

PAWC's test is flawed. Including the aspirational acquisitions in the FPFTY for purposes of establishing a revenue requirement is fundamentally different from including capital expenditures for systems that are already owned by a utility. This is the case because (1) the assets proposed to be acquired are not owned by PAWC, and (2) the Commission has not yet ruled on whether PAWC can own them by granting Certificate of Public Convenience (CPC) in accordance with Sections 1102-1103 of the Code. OCA St. 1SR at 6; 66 Pa. C.S. § 1102-1103.

To include the aspirational acquisitions in rate base, the Commission would have to assume that (1) the acquisitions will at some point inevitably be determined by the Commission to meet the requirements of Code Sections 1102-1103, and Section 1329 (for applicable acquisitions), based on the applications as filed, regardless of the positions of parties in the separate application dockets, and (2) none of the things that could prevent the acquisitions from closing by the end of the FPFTY will occur. OCA St. 1SR at 7. While PAWC may hope this to be the reality, PAWC has not demonstrated this in the record, and it is not entitled to the presumption, that its desire to acquire a system will mean that the acquisition will satisfy the legal requirements of the Code and all impediments to closing will be resolved. Moreover, reliance on such assumptions is inappropriate and would improperly signal to the general public, to the system seller, and to the management and shareholders of public utility companies that the Commission is expected in the future to adjudicate the utility acquisition in favor of the utility (*i.e.*, effectively "pre-judging" the outcome of the acquisition application in a base rate proceeding). OCA St. 2 at 21.

History teaches that it is speculative to predict whether the terms of the transaction will be approved by the Commission or modified on appeal, which can affect the ratemaking and tariff assumptions in the FPFTY. OCA St. 2SR at 8-9. Mr. Smith gave the real examples of Delaware County Regional Water Quality Control Authority (DELCORA) (A-2019-3015173), City of Beaver Falls (A-2024-3033138), and Willistown Township (A-2021-3027268), as real examples of transactions that encountered pitfalls, delays, or termination. OCA St. 2SR at 11-13.

Mr. Smith testified that each transaction failed to meet the criteria as follows:

- *Audubon water* should not be included in the FPFTY because by the close of the record there is no final, unappealable Commission order granting CPC authority to PAWC to acquire the system assets nor has the transaction closed.[9] OCA St. 2 at 24.

- *Farmington water and wastewater* should not be included in the FPFTY because by the close of the record there is no final, unappealable Commission order granting CPC authority to PAWC to acquire the systems' assets nor have the transactions closed.[10,11] OCA St. 2 at 27-28.

- *Sadsbury wastewater* should not be included in the FPFTY because by the close of the record there is no final, unappealable Commission order granting CPC authority to PAWC to acquire the system assets nor has the transaction closed.[12] OCA St. 2 at 30.

- *BASA wastewater* should not be included in the FPFTY because by the close of the record while there is a Commission order granting CPC authority to PAWC to acquire the system assets, that order has been appealed to the Commonwealth Court, and those appeals are pending. Additionally, the transaction has not closed.[13] OCA St. 2 at 31-32.

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[9] The costs associated with the Audubon water acquisition from the FPFTY, including the amounts included in rate base (OCA St. 2, Sch. B-1), operating expense (OCA St. 2, Sch. C-1), and depreciation expense (OCA St. 2, Sch. C-5) should be removed from the FPFTY. OCA St. 2 at 26, 44, 49-50, 52.

[10] The costs associated with the Farmington water acquisition should be removed from the FPFTY for Water, including the amounts included in rate base (OCA St. 2, Sch. B-2), operating expense (OCA St. 2, Sch. C-2), and depreciation expense (OCA St. 2, Sch. C-6). OCA St. 2 at 29, 44-45, 50, 52-53.

[11] The costs associated with the Farmington wastewater acquisition should be removed from the FPFTY for Wastewater SSS, including the amounts included in rate base (OCA St. 2, Sch. B-3), operating expense (OCA St. 2, Sch. C-3), and depreciation expense (OCA St. 2, Sch. C-7). OCA St. 2 at 29, 45, 51, 53

[12] The costs have removed the costs associated with the Sadsbury wastewater acquisition should be removed from the FPFTY for Wastewater SSS, including the amounts included in rate base (OCA St. 2, Sch. B-4), operating expense (OCA St. 2, Sch. C-4), and depreciation expense (OCA St. 2, Sch. C-8). OCA St. 2 at 30-31, 45-46, 51-52, 53-54.

[13] The costs associated with the proposed BASA wastewater acquisition should be removed from the FPFTY. OCA St. 2 at 33. PAWC presented a separate revenue requirement for the BASA and the OCA's recommended adjustment is shown on OCA Statement 2, Exh. LA-1, Sch. A, page 2, reflecting the removal of the entire BASA revenue requirement from the Company's overall filing in Exh.LA-1, Sch. A, page 1. OCA St. 2 at 33.

- *Brentwood wastewater* should not be included in the FPFTY because before the close of the record in this proceeding the Commission entered an order denying CPC authority to PAWC to acquire the system assets. OCA St. 2 at 35-37; OCA St. 2SR at 8, 18-20.[14]

One need only look at the proposed Brentwood acquisition to see the unreasonableness of the Company's position to include utility plant in service in the FPFTY based on uncertain acquisitions. In rebuttal, submitted one day before the February 22, 2024 Public Meeting, Mr. Abruzzo painted a picture of a straight path to final approval of the Brentwood acquisition and the Company's closing of the transaction by the close of the FPFTY. PAWC St. 6R at 2-11. PAWC witness Everette similarly testified that the BASA and Brentwood acquisitions are likely to close prior to the end of the FPFTY. PAWC St. 1R at 4. These predictions were upended when the Commission affirmed the R.D. and denied the acquisition by notational vote on February 22, 2024. OCA St. 2SR at 8, 18-20. This outcome demonstrates that *what PAWC hopes or says will happen in the future, does not make it so*.

On cross examination, PAWC witness Abruzzo – the witness responsible for providing predictions of the likelihood of the property being acquired and used and useful in the FPFTY – admitted that *the outcome that PAWC did not wish to happen* in the Brentwood application,[15] *he failed to predict*:

> Q. Is it correct that you did not provide [in] your rebuttal, a prediction that the Commission would deny the Brentwood application?
>
> A. *That's correct.*

[14] The costs associated with the proposed Brentwood wastewater acquisition should be removed from the FPFTY. OCA St. 2 at 37. Since PAWC presented a separate revenue requirement for Brentwood, the OCA's recommended adjustment is shown on OCA St. 2, Exh. LA-1, Sch. A, page 2, reflecting the removal of the entire Brentwood revenue requirement from the Company's overall filing in Exh. LA-1, Sch. A, page 1. OCA St. 2 at 37.

[15] In a public meeting held on February 22, 2024, the Commission considered Exceptions that were filed both by PAWC and by the Borough of Brentwood and ultimately voted 5-0 to reject the Company's application for the Brentwood acquisition. The Commission's order was entered on March 4, 2024, in Docket No. A-2021-3024058.

> Q. And is it correct that you did not provide in your rebuttal testimony a prediction of what PA-American would do next as a result of the PUC denial of the [Brentwood] application.
>
> A. *<u>That's correct.</u>*

Tr. 2087 (emphasis added). In fact, *<u>the only thing that Mr. Abruzzo did predict was the outcome that PAWC desired</u>*: that is, he predicted that the Commission would approve the Brentwood transaction, and if the Commission's decision were to be appealed, he predicted that the Commonwealth Court would approve the Brentwood transaction. PAWC St. 6R at 3. The Brentwood example is the "poster child" for demonstrating that PAWC's aspirational wishes should not and cannot be relied upon as sufficient evidence to overcome the uncertainty related to the transactions. The myriad of uncertainties is spelled out in OCA witness Smith's testimony and explained below. OCA St. 2 at 18-46; OCA St. 2SR at 4-21.

Furthermore, Mr. Abruzzo testified that the close of the record in this proceeding should not be the cut-off point because PAWC can petition to reopen the record in the rate case after the Commission issues an order in the application docket. However, petitioning to reopen a record should not be presumed that it will produce PAWC's desired outcome. Other parties to a base rate case have due process rights, and the outcome may not be the clear path Mr. Abruzzo assumes. Indeed, in petitioning to reopen the record, PAWC would have to (1) prevail in its petition to reopen the record, and (2) prevail in making its case to the Commission on the merits that the acquisitions should be included in the FPFTY for ratemaking purposes. OCA St. 1SR at 7.

On this point, OCA witness Smith explained that it is speculation to predict *whether or by when* a transaction will close, even if there is a final order approving the transaction. Mr. Smith reviewed the publicly available APAs submitted by PAWC in the relevant acquisition proceedings for the acquisitions that PAWC proposes to include in the FPFTY in this base rate proceeding. Mr.

Smith explained that PAWC and the sellers have contractual rights that permit them to terminate the APAs for various reasons prior to the closing. Such termination rights give discretion to PAWC, as buyer, and to the seller as to whether to exercise these rights prior to closing, notwithstanding the existence of a final, unappealable Commission or Court Order.[16] OCA St. 2SR at 8-11. Moreover, a Commission final order granting CPC authority to PAWC to acquire a system *does not mean* that PAWC and the buyer *must* close the acquisition. Rather, the order granting CPC authority *functions as permission* for the utility to proceed with closing the transaction. This reality is recognized by function of Commission orders which typically require first the utility to notify the Commission when the closing takes place and second the Secretary to then issue the CPC evidencing the utility's authority to acquire the assets and serve the customers of the acquired system. 66 Pa. C.S. §§ 1102, 1103.[17] Hence, the existence of a final, unappealable Commission Order is not sufficient alone to determine the likelihood of utility plant being acquired and used and useful in the FPFTY, as the parties still could exercise their rights under the APAs to terminate the transactions. And hence, the purpose of Mr. Smith's second criterion: that there be no uncertainty as to whether the closing will occur. OCA St. 2SR at 12.

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[16] Mr. Smith explained there are many reasons that an attempted acquisition can fail prior to closing that do not relate to the existence of a final, unappealable Commission or Court Order: (1) unrealistic expectations by either party as to the value, benefits, or challenges of the potential acquisition; (2) financial concerns of either party as to valuation and financing related to the acquisition; (3) changes in leadership at PAWC or changes in political leadership as to the seller; (4) insufficient or inadequate due diligence that led to the signing of the APA, where further due diligence may reveal additional issues and/or create a desire on either party not to proceed to closing; (5) external economic downturns that may impact the viability of the deal due to unaffordability of service post-acquisition; (6) lack of stakeholder buy-in – opposition by key stakeholders (community, consumers, employees) can create resistance and hinder the ability of an acquisition to take place; and/or (7) failure of PAWC or seller to obtain other necessary governmental approvals by government authorities other than the Commission. OCA St. 2SR at 13-14. All one has to do to understand the level of uncertainty with regard to these transactions is to logically combine any of the noted factors with the seller's or buyer's contractual rights that allow a party to terminate the APA by mutual agreement with the other party, based on timing, or due to the material breach of the other party, and it becomes clear that there is no reasonable certainty that the transactions at issue in this case will close, despite PAWC's strong desire for a predictable straight path to acquisition closing. OCA St. 2SR at 14.

[17] *See* OCA St. 2SR at 11; *Application of Aqua Pa. Wastewater, Inc.,* A-2021-3027268 (Letter re: Termination of APA May 12, 2023) ("Based on this correspondence terminating the APA, the Transaction will note be proceeding to closing and Aqua will not be providing the Commission notice that the Transaction has closed"), available at https://www.puc.pa.gov/pcdocs/1785100.pdf.

Mr. Smith gave the example of Aqua Pennsylvania, Inc.'s (Aqua PA's) attempted acquisition of the Willistown Township wastewater system (A-2021-3027268). Aqua PA had a Commission order approving its acquisition of the Township's wastewater system assets. While the order was on appeal, Aqua PA filed a letter notifying the Commission that the Township had exercised the seller's rights under the APA to terminate the transaction and that the transaction would not close as a result.[18] This example illustrates that a transaction can fail to close even if the transaction had been approved by the Commission. OCA St. 2SR at 11-12.

Even where the parties do not exercise termination rights, *there is uncertainty whether a transaction will close by the end of the FPFTY*. This point is illustrated by Aqua PA's attempted acquisition of the DELCORA system (A-2019-3015173). DELCORA, the seller, signed an APA with Aqua PA on September 17, 2019, and Aqua filed an application with the Commission on March 3, 2020 for approval of the acquisition, which was promptly "accepted" by the Commission on July 27, 2020. As of the date of this Main Brief, however, there is no Commission order approving the transaction. That proceeding has been stayed multiple times due in part to civil litigation brought by Delaware County, DELCORA, and Aqua PA, and due in part to an order of the Bankruptcy Court for the Eastern District of Pennsylvania.[19]

In PAWC rebuttal, Ms. Everette testified that PAWC maintains that the BASA and Brentwood acquisitions are likely to close prior to the end of the FPFTY and therefore should be reflected in this rate case on the effective date of the new rates. PAWC St. 1R at 4. Ms. Everette then proposed in her rebuttal that the Commission approve revenue requirement in multiple steps as following: Step 1: a revenue requirement that excludes the BASA and Brentwood acquisitions;

[18] https://www.puc.pa.gov/pcdocs/1785100.pdf (last visited on May 12, 2024).
[19] The status of civil and bankruptcy litigation is addressed in the status reports filed with the Commission in A-2019-3015173, most recently on February 5, 2024. https://www.puc.pa.gov/pcdocs/1815422.pdf and https://www.puc.pa.gov/pcdocs/1815375.pdf and https://www.puc.pa.gov/pcdocs/1815374.pdf.

Step 2: a revenue requirement that excludes the Brentwood acquisition but includes the BASA acquisition; and Step 3: a revenue requirement that includes the Brentwood and BASA. PAWC St. 1R at 4-6. In rejoinder, Ms. Everette admitted that the Brentwood acquisition had been denied by the Commission and therefore she revised her rebuttal position to remove Step 3 and to remove the Brentwood revenue requirement entirely from the Company's claims in this case. Tr. 1969-70.

In OCA surrebuttal, Mr. Smith rejected Ms. Everette's multi-step revenue requirement for two main reasons. First, Step 1 of the proposal allows the proposed acquisitions for Audubon water, Farmington water and wastewater, or Sadsbury wastewater to be included for ratemaking purposes. However, the Commission has not ruled on the merits of these proceedings and PAWC attempts to usurp the Commission's authority by including them in FPFTY rate base and expenses as if it already had the Commission's approval. Second, it is not known under what terms or conditions any of these acquisitions would close, or if they will close. This applies to all the pending acquisitions, including BASA, because none of them have a final, unappealable order. For example, BASA could be remanded by an appellate court and conditions or renegotiations could impact ratemaking rate base or result in other costs (transaction and closing costs, for example). But under PAWC's multi-step proposal, rates would increase in Step 2 as claimed in PAWC's filing, with no recognition of those changes. OCA St. 2SR at 16-17. This presents due process concerns because parties present evidence in response to the Company's proposal regarding utility property in an acquisition proceeding only to have to respond to the Company's different proposal about the same utility property in the parallel rate proceeding. It also has the effect of usurping the Commission's authority to make decisions on legal issues as the Company presents its position in one proceeding (e.g. an acquisition proceeding) only to pull the rug out from under that position in a parallel proceeding (e.g. the base rate case). Additionally, the Company's rebuttal proposal, as modified in rejoinder, would circumvent the procedural due process afforded to parties by PAWC needing to petition to reopen the record. OCA St. 2SR at 18.

There are virtually no bounds if PAWC prevails with its arguments. By PAWC's standards, PAWC would be able to include utility plant in service claims as soon as PAWC signs an APA with a seller. OCA St. 2SR at 21. PAWC's approach *abuses the FPFTY as a ratemaking concept* and raises serious legal concerns, including potentially usurping the Commission's statutory authority to render decisions in parallel proceedings regarding the same utility property and potentially violating due process rights of the parties in the parallel acquisition and rate proceedings where PAWC may make different ratemaking claims and tariff requests regarding the pending acquisitions in the separate proceedings.

In conclusion, like the property excluded in *UGI 2018*, the Commission should exclude PAWC's utility plant in service claims related to the six proposed acquisitions because PAWC has not demonstrated by a preponderance of evidence that (1) the claimed plant will be acquired and used and useful by the end of the FPFTY but rather PAWC has merely demonstrated that the acquisitions are in preliminary planning and litigation stages; and (2) there is reasonable certainty that the property that PAWC aspires to own will actually be acquired and used and useful by the end of the FPFTY.[20] *UGI 2018* at 27-31; 66 Pa. C.S. §§ 315(a), (e); *PAWC 2004* at *16-18; *Burleson* at 1236; *Lansberry* at 602; PAWC St. 6 at 3-22; PAWC St. 6R at 2-18; OCA St. 2 at 20-22; OCA St. 2SR at 4-2.

[20] With the record of this proceeding closed, should any information change about these acquisitions that would provide reasonable certainty that the property PAWC aspires to own will be acquired and used and useful in the FPFTY, the Commission should require PAWC to file petition to re-open the record in accordance with 52 Pa. Code § 5.571(a), to ensure due process for all involved parties. Moreover, while it was premature for PAWC to claim the utility plant related to these acquisitions in its rate base for the FPFTY. Excluding this plant in this proceeding does not negate PAWC's right to make a claim for the same plant in a future rate filing when that plant is, or is reasonably certain to be, owned and used and useful by PAWC in a test year. OCA St. 2 at 20.

2. Additions to Rate Base: PAWC's Claims for $18.89 Million Related to Post-Acquisition Improvements to the BASA and Brentwood Systems Should Be Excluded; the OCA Does Not Challenge the Remaining $1.267 Billion of Improvements to PAWC's Water and Wastewater Operations.

Given that there is no reasonable certainty that the BASA and Brentwood systems will be acquired and used and useful by the end of the FPFTY, the Commission should exclude PAWC's claim for $18.89 million[21] in rate base additions for improvements to those systems. The reason is simple: a utility cannot add plant to a system it does not own and there is no reasonable certainty that the BASA and Brentwood systems will be acquired and used and useful by the end of the FPFTY. *UGI 2018* at 27-31; 66 Pa. C.S. §§ 315(a), (e); *PAWC 2004* at *16-18*; Burleson* at 1236; *Lansberry* at 602. Excluding the $18.89 million in rate base additions reduces PAWC's proposed $1.286 billion amount of plant additions net of retirements through June 30, 2025, to $1.267 billion, an amount that represents planned improvements to PAWC's Water, Wastewater SSS, and CSS Wastewater Operations. OCA St. 2SR at 25-27.

The OCA has reviewed and has not challenged the Company's claimed capital spend of $1.267 billion for its Water and Wastewater utility plant and equipment through the end of the FPFTY. OCA St. 2SR at 21-27.

B. Depreciation Reserve

The OCA is not briefing this issue and reserves the right to respond in its Reply Brief.

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[21] Per PAWC witness Bruce Aiton, for the FTY ending June 30, 2024, and the FPFTY ending June 30, 2025, the Company included gross utility plant additions totaling $742,020,740 and $797,874,110, respectively, for an overall gross utility plant additions totaling $1.540 billion through the end of the FPFTY. PAWC St. 3 at 9; OCA St. 2SR at 22-23. The gross plant additions totaling $1.540 billion are offset by projected retirements in the FTY and the FPFTY totaling $253,536,706, for a total of $1.286 billion in net additions to rate base through the end of the FPFTY. PAWC St. 3 at 9; OCA St. 2SR at 23-24. The $1.286 billion amount of proposed utility plant additions that Mr. Aiton references in his direct testimony does *not* include the purchase prices for utility plant associated with the six proposed acquisitions but *does* include *post-acquisition* plant additions for the BASA and Brentwood systems in a total amount of $18.89 million. OCA St. 2SR at 25-27.

C. Cash Working Capital

"Cash working capital [CWC] ordinarily is the amount of cash required to operate a utility during the interim between the rendition of service and the receipt of payment therefor." *UGI 1980* at 929 (citation omitted). "In the area of adjustments to rate base, the Commission has wide discretion." *Id*. (citation omitted). Thus, adjustments to CWC are committed to the wide discretion of the Commission where supported in the Commission's findings and reasoning.

Given that the Commission should remove the BASA and Brentwood revenue requirements in their entirety for the reasons above, the Commission should exclude PAWC's CWC claims for the BASA and Brentwood systems. OCA St. 2 at 47, n.8. As it relates to Water and Wastewater, OCA witness Smith made resulting adjustments to PAWC's CWC claim (PAWC Exh.3-A; OCA St. 2 at 46-47) based on his adjustments to PAWC's O&M expenses and interest and dividend expenses, and the capital structure recommended by OCA Witness Garrett. Specifically, Mr. Smith recommended: (1) negative adjustment to CWC for Water by $1.761 million; (2) negative adjustment to CWC for Wastewater SSS by $150,794; and (3) negative adjustment to CWC for CSS Wastewater by $98,811. OCA St. 2 at 47-48, Exh. LA-2, Schs. B-5.B, B-5.C, B-5.D. Should the Commission adopt the OCA's recommended adjustments to expenses, the Commission should adopt the OCA's resulting adjustments to CWC for PAWC's existing systems. OCA St. SR at 29-30.

D. Conclusion

In conclusion, PAWC has not met its burden of proof on every rate base claim, and the OCA's adjustments to the rate base claims would produce rates that are just and reasonable. The rate base claims for the acquisitions should be removed in entirety per the OCA's adjustments shown in Appendix G.

V. REVENUE REQUIREMENT – REVENUES

A. Revenues Related to the Six Proposed Acquisitions

Consistent with its recommendation to remove the utility plant in service related to the not-yet-acquired property associated with the six proposed acquisitions, the Commission should: (1) exclude from Water the $2.965 million and $266,371 in operating revenues related to Audubon water and Farmington water, respectively; (2) exclude from Wastewater SSS the $322,926 and $471,228 in operating revenues related to Farmington wastewater and Sadsbury wastewater, respectively; and (3) remove BASA and Brentwood entirely including the revenues. OCA St. 2 at 33-37, 49-50, 51-52; OCA St. 2SR at 30-31.

B. Miscellaneous Revenues (AWR)

The OCA has not challenged PAWC's miscellaneous revenue claims. In rebuttal, Ms. Everette states that PAWC's $659,624 miscellaneous revenue claim related to AWR for billing and marketing services that PAWC provides to this entity should be removed from PAWC's revenue requirement in the FPFTY if the Commission determines that PAWC cannot continue to bill for AWR going forward. PAWC St. 1SR at 21; OCA St. 2SR at 49. The OCA's concerns about AWR are discussed in Section XII.E. The OCA disagrees with PAWC's position because (1) the $659,624 revenue that PAWC receives from AWR and is fully substantiated by PAWC for the FPFTY, and (2) reflecting this miscellaneous revenue benefits consumers by offsetting the Company's proposed revenue requirement OCA St. 2SR at 49-50. No PAWC witness testified that PAWC should stop the billing and marketing arrangement with AWR based on the concerns stated in Ms. Alexander's direct testimony. OCA St. 2SR at 50. Furthermore, Ms. Alexander has only recommended an investigation and the pause on any new enrollments. OCA St. 6 at 41; OCA St. 6SR at 23-24. Thus, if the Commission adopts Ms. Alexander's recommendation to open an investigation, it would be speculative to say what the outcome of that Commission investigation would be, how it would impact rates, or when the outcome will occur. Given this uncertainty and given that the amount of miscellaneous revenue that PAWC has been collecting from AWR is fully substantiated and benefits consumers, the $659,624 revenue should remain included in the revenue requirement for the FPFTY. OCA St. 2SR at 50.

VI. REVENUE REQUIREMENT – EXPENSES

The Company has not affirmatively demonstrated by a preponderance of evidence that the expenses the OCA challenges for PAWC's Water and Wastewater are reasonably necessary to provide services, or prudently incurred. *Lancaster 2002* at 982; *LP Water* at 1154. For the expenses challenged by the OCA, the Commission should exclude the Company's claimed expenses as unreasonable and adopt the OCA's adjustments to the expenses. In summary, the OCA's recommended adjustments to claimed expenses are shown in Appendix H.

A. Payroll Costs – Vacancy Rate

The OCA recommends an adjustment to salaries, wages and related benefits for Water based on a 1.76% vacancy rate. PAWC accepted the adjustments based on the OCA's recommended vacancy rate. The adjustments reduce the salaries and wages by $1,045,353 and related payroll taxes by $79,970, and annual performance pay by $85,523 and related payroll tax by $6,543. The OCA recommends accompanying adjustments based on the vacancy rate for group insurance by $200,623 and 401K, DCP and ESPP by $72,817, resulting in a total proposed reduction to the Company's claim for salaries, wages, payroll taxes and related benefits by $1,490,829. PAWC St. 5R at 2-3; OCA St. 2 at 56-59; OCA St. 2SR at 2, n.1, n.2. See summary table # 2 in Appendix H.

Additionally, the OCA recommends removing PAWC's expense claim in the amount of $123,250 from PAWC's Water related to its external Board given that PAWC eliminated its external

Board as of December 31, 2023. PAWC agreed to remove this amount during its rebuttal phase of the proceeding. OCA St. 2 at 62; OCA St. 2SR at 2.

B. Annualized Performance Pay (PAWC)

The Company's acceptance of the OCA's recommended vacancy rate of 1.76% supports the OCA's adjustments to Annualized Performance Plan Expense. OCA St. 2SR at 2, n.1. The OCA's adjustment reduces annualized performance plan expense by $85,523 and related payroll tax expense by $6,543 for Water. OCA St. 2 at 59, 60.

C. Group Insurance Expense

The Company's acceptance of the OCA's vacancy rate supports the OCA's adjustments to Group Insurance Expense. OCA St. 2SR at 2, n.1. The OCA's adjustment reduces projected 2025 group insurance expense by $200,623 for Water. OCA St. 2 at 60; OCA St. 2SR at 2.

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

PAWC's acceptance of the OCA's vacancy rate supports the OCA's adjustments to 401K, Defined Contribution Plan and Employee Stock Purchase Plan Expense. OCA St. 2SR at 2, n.1. The OCA's adjustment reduces projected 2025 expense by $72,817 for Water. *Id*. at 61; OCA St. 2SR at 2.

E. Stock-Based Compensation Expense – AWK Executives

The OCA recommends an adjustment to remove expenses related to the stock-based compensation associated with a Long-Term Performance Plan (LTPP) for American Water Works. Inc. (AWK) top executive officers. The OCA recommends adjusting PAWC's claim for stock-based compensation by removing the portion projected to be paid to the top executives of AWK and charged to PAWC for the FPFTY linked to shareholder interests, not consumer interests. The stock-based compensation for those executives includes (1) performance stock units (PSU), and

(2) restricted stock units (RSU). This adjustment reduces PAWC's operating expenses by $1.722 million to remove the stock-based compensation expense paid to AWK's top executives and charged from AWK to PAWC. OCA St. 2 at 66-67.

This adjustment is necessary because ratepayers should not be required to pay for a portion of the expense for stock-based compensation paid to AWK's top executives, where such compensation is linked to the performance of AWK's stock price and has the primary purpose of benefitting AWK's stockholders and aligning the interests of participants with those of such stockholders. This recommendation is distinguished from the allowed expense in *Aqua 2022*, where the Commission found that stock-based compensation benefits ratepayers where the compensation is linked to performance objectives that benefit consumers, including controlling costs and compliance initiatives. *Aqua 2022* at *60-61. Here, PAWC witness Runzer conceded that the stock-based compensation expense consists of RSUs and PSU and the compensation under the LTPP is linked to stock performance.[22] PAWC St. 2R at 9; OCA St. 2SR at 45-46. Recovering that portion of stock-based compensation expense that is linked to shareholder interests from PAWC's customers is not reasonable nor does it promote reasonable, adequate, or efficient public utility service. OCA St. 2 at 67; OCA St. 2SR at 67. The OCA recommends allocating the adjustments to PAWC's Water and Wastewater by using the allocation factors reflected on Exhibit 3-B, page 301 from the Company's filing, which reduces pre-tax operating expenses by (1) $1.643 million for Water, (2) $51,658 for Wastewater SSS, and (3) $27,551 for CSS Wastewater. OCA St. 2 at 69.

[22] Additionally, the PSUs are comprised of two components – Total Shareholder Return and adjusted compounded earnings per share – both of which relate to AWK shareholder returns and earnings for AWK's common shareholders. OCA St. 2SR at 46. As such, the stock-based compensation in the form of PSUs should be paid for by the shareholders who benefit from the return and earnings per share on AWK's common stock. OCA St. 2SR at 46-47.

F. Executive Perquisites (AWK Executives Dividend Equivalents)

The OCA recommends an adjustment to remove expenses related to the executive perquisites associated with Dividend Equivalents for top AWK executives. This adjustment reduces PAWC's FPFTY operating expenses by $31,371 for AWK's top executives Other Compensation expense for Dividend Equivalents. OCA St. 2 at 70. On page 53 of AWK's 2023 Proxy Statement under the section titled "Executive Compensation", it states the following with regard to Dividend Equivalents:

> Dividend equivalents are paid in cash with respect to PSUs and RSUs at such time, if ever, as the PSUs or RSUs are converted to common stock. Amounts in this column reflect PSU and RSU dividend equivalents that were paid out in 2022.

OCA St. 2 at 70. This is another form of compensation to AWK executives linked to shareholder interests, not consumer interests. Charging the Dividend Equivalents portion of all Other Compensation received by AWK's top executives to PAWC's ratepayers is not reasonable, nor does it promote reasonable, adequate, or efficient public utility service. OCA St. 2SR at 47-48. The OCA's adjustment reduces pre-tax operating expenses by (1) $29,928 for Water, (2) $941 for Wastewater SSS, and (3) $502 for CSS Wastewater.

G. Payroll Taxes

The OCA's adjustments to payroll have related payroll tax adjustments. *See supra* VI.A.

H. Insurance Other Than Group

OCA witness Smith recommends an adjustment to Insurance Other Than Group expense using the actual percentage change from the test year ended June 30, 2023, rather than the Company proposed five-year average percentage change, which was calculated based on the 12-month periods from June 30, 2019, through June 30, 2023. While Mr. Smith generally agrees that averages can be used to normalize costs, consideration should also be given to trends and to current information. The annual percentage change for the 12-month ending periods of June 30, 2019, June 30, 2021, and June 30, 2022, were abnormally high or low as compared to the 12-month ending periods June 30, 2020, and the HTY ended June 30, 2023. Thus, to ensure the reasonableness of this expense, the OCA recommends that the HTY percentage change of 4.53% be used to calculate Insurance Other Than Group for the FPFTY. The OCA's adjustment reduces pre-tax operating income by $247,905 for Water, $34,694 for Wastewater SSS and $23,713 for CSS Wastewater. OCA St. 2 at 63-64; OCA St. 2SR at 36-37.

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

OCA witness Smith recommends using a three-year historic average ratio of net write-offs based on the 12 months ended June 30, 2020, 2022, and 2023, to calculate the going level uncollectibles expense. This produces an uncollectibles write-off percentage of 1.164%. OCA St. 2 at 54-56; OCA St. 2SR at 32-34. PAWC witness Swiz maintains a two-year percentage of net write-offs ending June 30, 2023, which calculates an uncollectibles write-off percentage of 1.176%, which Mr. Swiz states eliminates the impacts of the Covid-19 pandemic from July 1, 2020, through June 30, 2021. PAWC St. 8R at 2-3. However, as Mr. Smith testified, it is reasonable and prudent to eliminate the impacts of the Covid-19 pandemic on customer collections; accordingly, the period July 1, 2020, through June 30, 2021, should not be used in the calculation of going level Uncollectibles Expense. OCA St. 2 at 55; OCA St. 2SR at 33. For the 12-months ended June 30, 2021, the uncollectibles annual write-off percentage calculates to 0.548% whereas for the 12-month period ended June 30, 2020, the annual write-off percentage of 1.135% is consistent with the write-off percentages shown for the 12-months ended June 30, 2022, and June 30, 2023. Consequently, averaging the annual write-off information using the 12 months ended June 30, 2020, 2022, and 2023, appears to be reasonable in the context of the current PAWC rate case. OCA St. 2 at 55-56; OCA St. 2SR at 33-34. The OCA's adjustment reduces claimed Uncollectibles Expense by $100,054 for Water and by $11,591 for Wastewater SSS, $9,547 for CSS Wastewater (and by $1,438 for BASA wastewater). OCA St. 2 at 54-55.

J. Arrearage Management Plan (AMP) Credits – Uncollectibles Expense

PAWC's addition of dollars to uncollectibles to reflect AMP credits should be reduced by the percentage of BDP dollars already historically included in uncollectibles. OCA St. 2SR at 48. This adjustment reduces overall FPFTY uncollectibles expense by $2.162 million in account 670.7 related to the Company's proposed AMP. With this adjustment, account 670.7 should reflect the amount of $214,728 for the AMP-related uncollectibles expense, rather than $2,377,200 as proposed by PAWC. OCA St. 2 at 73-74. This adjustment reduces pre-tax operating expenses by $1.848 million for Water, $150,724 for Wastewater SSS, and $113,746 for CSS Wastewater (and $39,573 for BASA wastewater). This adjustment is necessary to eliminate PAWC's double-recovery of dollars added to uncollectibles to reflect AMP credits where those dollars are already historically included in uncollectibles for the BDP. OCA St. 5 at 7, 127; OCA St. 5SR at 27.

The OCA's position is consistent with the Further Amended Joint Petition for Full Settlement of the Arrearage Management Plan, *see Petition of Pennsylvania American Water Co. for Approval of an Arrearage Management Plan* (On Remand), Docket No. P-2021-3028195 (Order Dec. 7, 2023), that provided that the cost recovery issues were to be "addressed in a future rate case." The Settlement thus provided that PAWC could "propose a dollar amount" which could be disputed by OCA and which, accordingly, would be "subject to review and approval by the Commission." OCA St. 5SR at 26-27.

K. <u>Expenses Related to the Six Proposed Acquisitions (O&M, Amortization, and Depreciation)</u>

Given that the Commission should exclude the rate base claims associated with the not-yet-acquired property for the reasons outlined more fully above, the Commission should, by extension, exclude all projected expenses related to the not-yet-acquired property, including acquisition expense, O&M expenses, and depreciation expense. *UGI 2018* at 27-31, 79. Projected expenses related to operating and maintaining property not yet owned by the Company are hypothetical where there is no reasonable certainty that the property will be owned and used and useful in the FPFTY. The Commission "has no authority to permit, in the rate-making process, the inclusion of hypothetical expenses not actually incurred" or not reasonably certain to be incurred, and the Commission must consider "evidence of actual expenses, properly adjusted when the evidence warrants." *Lancaster 2002* at 982-83 (citing *Barasch v. Pa. PUC*, 493 A.2d 653, 656 (Pa. 1985)). In *UGI 2018*, because the Commission removed the utility's $17.3 million plant in service claims after finding that there was no reasonable certainty the operations center would be in operation in the FPFTY, the Commission similarly rejected the utility's related expense claims: $13k relocation expense claim and $225k depreciation expense claim. *UGI 2018* at 27-31, 79. Here, as in *UGI 2018*, the Commission should exclude from revenue requirement all expenses related to the six aspirational acquisitions. In summary:

1. *<u>Audubon water</u>*: $1.586 million of O&M expense and taxes other than income expense, $763,977 amortization expense, and $269,599 depreciation expense should be removed from Water in the FPFTY. OCA St. 2 at 26, 44, 49-50, 52.

2. *<u>Farmington water</u>*: $152,385 of O&M expense and taxes other than income expense, $21,549 amortization expense, and $101,751 of depreciation expense should be removed from Water in the FPFTY. OCA St. 2 at 29, 44-45, 50, 52-53.

3. *<u>Farmington wastewater</u>*: $264,176 of O&M expense and taxes other than income expense, $5,699 amortization expense, and $137,987 depreciation expense should be removed from Wastewater SSS in the FPFTY. OCA St. 2 at 29, 45, 51, 53.

4. *Sadsbury wastewater*: $249,288 of O&M expense and taxes other than income expense, $85,414 amortization expense, and $51,847 depreciation expense should be removed from Wastewater SSS in the FPFTY. OCA St. 2 at 30-31, 45-46, 51-52, 53-54.

5. *BASA wastewater*: revenue requirement should be removed entirely. OCA St. 2 at 33; Exh. LA-1, Sch. A at 1.

6. *Brentwood wastewater*: revenue requirement should be removed entirely. OCA St. 2 at 37; Exh. LA-1, Sch. A at 1. OCA St. 2SR at 28-29, 30-32.

Additionally, OCA witness Mr. Smith recommends removing the payroll expense for 43 additional positions that PAWC is proposing to add related to these acquisitions for a total reduction to payroll expense of $2.984 million. OCA St. 2 at 56-57, Exh. LA-1, Schs. A, C-1, C-2, C-3.

L. Interest Synchronization

Interest synchronization is used in ratemaking to determine the amount of interest expense to be used in the calculation of income tax. The adjustment ensures the tax-deductible interest expense for ratemaking is properly matched with the rate base and weighted cost of debt. OCA St. 2SR at 35. OCA witness Smith multiplied the OCA's adjusted rate base by the weighted cost of debt included in the OCA recommended capital structure. OCA St. 2 at 61; OCA St. 2SR at 34-36. The use of a different rate base or weighted cost of debt impacts the interest synchronization; the resulting amount of interest is reflected for ratemaking purposes as the "synchronized" interest deduction used to compute income tax expense. OCA St. 2SR at 35. The interest synchronization adjustment is necessary to ensure that the amount of income taxes claimed by the Company is properly matched to its rate base and weighted cost of debt. Further, the interest synchronization method is a standard ratemaking approach that has been well-established as appropriate and fair to all parties. OCA St. 2 at 61, Exh. LA-2, C-14; OCA St. 2SR at 34-36. OCA witness Smith recommends an adjustment in the amount of $2,999,784.

M. Amortization Expense

In the interest of brevity, please refer to Section VI.K above for the OCA's adjustments.

N. Call Center Expense

The OCA recommends that the Commission disallow the FPFTY expense proposed by PAWC for account 634.8 of $2,475,869 for Transworld and $606,386 for InterLogix to eliminate expenses for the third-party call centers that have routinely failed to meet reasonable call performance standards. OCA St. 2 at 73; OCA St. 2SR at 48. The Commission should consider the evidence of PAWC's failure to ensure adequate performance by third-party call centers that have routinely failed to meet reasonable call performance standards for PAWC's customers. The actual performance of the third-party call centers in answering calls is below the performance of the corporate call centers operated by Service Company employees. OCA St. 6SR at 9. PAWC has ignored the evidence of the actual poor performance of its third-party call centers compared to Service Company call operations and refuses in this proceeding to make any changes in its current call center contracts. OCA St. 6 at 20; OCA St. 6SR at 9-10; PAWC St. 9R at 15-16. Expenses for the use of the contractors who are allowed to perform at less than reasonable levels below PAWC's in-house call centers is imprudent and unreasonable and should be disallowed. OCA St. 6SR at 10; *LP Water* at 1154; 66 Pa. C.S. § 523.

O. Depreciation Expense – Water Operations

As a general matter, the shorter the useful life, the higher the depreciation expense, and hence the higher the revenue requirement OCA St. 2SR at 43. In its initial filing, PAWC proposed drastically shortened useful lives for certain water plant, which was a major change from PAWC's last rate case at Docket No. R-2022-3031673; PAWC did not justify the shortening in its initial filing. OCA St. 2 at 64-66, Exh. LA-2, Sch. C-17.

Account (Water)	Prior Approved Useful Life R-2022-3031673	PAWC's Proposed Useful Life	Years shortened by PAWC	OCA's Recommended Useful Life
Acct 304.15, Other Water Source Structures	60	50	10	60
Acct. 331.00, Mains and Accessories	110	90	20	110
Acct 335.00, Fire Hydrants	75	60	15	75

In rebuttal, PAWC witness Spanos explained that the shorter useful lives are supported by PAWC's 2021 Service Life Study rather and the prior approved useful lives were supported by the 2016 Service Life Study. OCA St. 2SR at 37; PAWC St. 11R at 1-2. Mr. Spanos asserted that PAWC has made substantial changes to its plant investment since the 2016 Study because PAWC had made significant acquisitions and considerable amounts of capital improvements to all of its asset classes over the last five to six years. OCA St. 2SR at 37; PAWC St. 11R at 5.

However, PAWC has not affirmatively demonstrated the need or reasonableness to use shorter useful lives that increase PAWC's depreciation expense. The water utility acquisitions that occurred since the 2016 study included two Section 1329 acquisitions, Steelton Borough Authority and Valley Township Water. Notably PAWC's appraiser in the Valley Township Section 1329 case, at Docket No. A-2020-3019859, used the useful lives that are recommended by the OCA in this case. OCA St. 2SR at 38-39; OCA St. 2SR at 39-43.

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

In the interest of brevity, see the section immediately below.

Q. <u>Production Expense (Request for Deferred Regulatory Accounting Treatment)</u>

The OCA opposes PAWC ancillary requests for Commission approval of deferred regulatory accounting treatment for (1) pension and OPEB expenses, and (2) production expenses, for recovery in a future rate case. PAWC has not met its burden to demonstrate that these accounting mechanisms are necessary or just and reasonable. Moreover, the requested treatments of isolated expenses for deferred recovery in future base rate cases are squarely impermissible single-issue ratemaking. *See Nat'l Fuel Gas Dist. Corp. v. Pa. PUC*, 464 A.2d 546, 567 (Pa. Cmwlth. 1983) (in the context of tariff supplements, the consideration of expense and revenue items in isolation could result in confiscatory rates); *see also Phila. Elec. Co. v. Pa. PUC*, 502 A.2d 722, 727-28 (Pa. Cmwlth. 1985) (holding that there should be no line-by-line examination of items in a rate case and an isolated item of revenue or expense may not be, without more, the subject of a refund or recovery). Single-issue ratemaking is similar to retroactive ratemaking and, in general, is prohibited if it impacts on a matter that is normally considered in a base rate case. *Pa. Indus. Energy Coalition v. Pa. PUC*, 653 A.2d 1336, 1350 (Pa. Cmwlth. 1995), *aff'd*, 543 Pa. 307, 670 A.2d 1152 (1996) (*PIEC*). Here, PAWC's requests are distinguishable from that approved in *PIEC* which affirmed the Commission's authority to allow a Section 1307 surcharge, because this is a base rate case and PAWC is asking for specific deferred accounting treatment and future recovery of line-item expenses that get addressed in base rate cases. *Id*.

Although a utility's "cost of service" is made up of dozens of individual cost components, which can and will vary from expected values, single-issue ratemaking ignores the fact that as a single cost component changes in one direction, other components may change in the opposite direction. Single-issue ratemaking denies customers the benefit of these offsetting cost reductions. It shifts the risk of fluctuations in two specific expense items away from investors where the risk is currently borne and puts that risk squarely onto customers. OCA St. 2 at 75-79; OCA St. 2SR at 50-51. Additionally, isolating and tracking the Pension and OPEB expenses as well as Production costs for eventual recovery, runs counter to a fundamental principle of ratemaking that a utility should be afforded the ***opportunity*** to recover its costs of providing service but not guaranteed such recovery. Additionally, PAWC in this case is utilizing a FPFTY that anticipates the Company's *fully projected future* costs of providing service, and future, projected costs include Pension and OPEB expenses as well as Production expenses. Finally, if the Commission were to allow this, PAWC will lose the incentive to manage or reduce these expenses where it is certain PAWC will recover the expenses without any review of prudency or reasonable of these expenses within the base rate case. OCA St. 2 at 75-79; OCA St. 2SR at 50-51.

This same issue arose recently with PAWC's West Virginia affiliate. In its Decision dated February 23, 2024, the West Virginia Public Service Commission (PSC) rejected similar requests for production and pension/OPEB trackers that were made by PAWC's affiliate. At page 36 of that Decision, the West Virginia PSC stated as follows:

> Staff asserted that this proposed tracker does not encourage the Company "to reign in cost and to efficiently seek to keep the cost of certain items in check."… Moreover, CAD stated that "[t]hese trackers are part of a slew of mechanisms the Company has proposed in this case that are designed to benefit stockholders with little to no benefit to ratepayers."… The Commission has reviewed the positions of the parties, and agrees with Staff and CAD. The Commission will deny the Company's request to include the production cost tracker and pension and OPEB expense tracker.

OCA St. 2SR at 53. Like the West Virginia Commission, the Commission should disallow PAWC's ancillary requests for Commission approval of deferred regulatory accounting treatment for (1) pension and OPEB expenses, and (2) production expenses, for recovery in a future rate case.

VII. REVENUE REQUIREMENT – TAXES

The OCA is not briefing this issue, but it reserves the right to respond in its Reply Brief.

VIII. REVENUE REQUIREMENT – RATE OF RETURN

A. Summary

The OCA has recommended a *market-based* ROE of 9.10% and a *reasonable* capital structure of 51% equity and 49% debt based on OCA witness Garrett's fully substantiated cost of capital analyses using PAWC's proxy group. OCA St. 3 at 58, 61, Exh. DJG-13, 20-61; OCA St. 3SR at 2-11; OCA St. 2, Exh. LA-1, Sch. D, Exh. LA-6; *PSW 1989* at 622-23. This would produce an overall weighted average rate of return of 6.97% for Water and 6.79% for Wastewater (in contrast with PAWC's requests of 8.22% for Water and 7.94% for Wastewater). OCA St. 3 at 4; OCA St. 2, Exh. LA-6 at 7-8; PAWC Exh. 13-A, Schs. 12, 13.

If the Commission grants PAWC's rate of return requests in this case, it will cost consumers significant money and deprive consumers the protection from excessive rates that only the Commission can provide. A major driver of PAWC's $203.9 million rate relief request is PAWC's unreasonable rate of return request, consisting of (1) an unreasonably high ROE of 10.95%, inclusive of an arbitrary, unsupported, and unreasonable "management performance" adder of up to 25 basis points, and (2) an unreasonable and equity-rich capital structure on a total company basis: 55.3% equity and 44.7% debt. OCA St. 3 at 3-4, 50-61; OCA St. 3SR at 2-11.

The difference between the OCA's position and PAWC's is significant:[23]

- If the Commission adopts the Company's proposed 10.95% ROE over the OCA's recommended market-based 9.1% ROE, at PAWC's claimed rate base, it will cost consumers an *additional $87 million per year in rates*. OCA St. 3 at 3; OCA St. 2, Exh. LA-6 at 5-6.
- If the Commission adopts the Company's request for an arbitrary and unreasonable adder of up to 25 basis points to ROE as an award for managerial performance, at the Company's as filed request, it will impose up to *$11.8 million of additional costs on ratepayers per year*. OCA St. 3 at 3; OCA Exh. LA-6 at 2.
- If the Commission adopts PAWC's proposed capital structure, it will *increase the revenue requirement by $30.7 million per year*, at PAWC's claimed rate base and ROE, for Water and Wastewater combined. OCA St. 3 at 4, 57; OCA St. 2, Exh. LA-6 at 3-4.

[23] For illustration purposes, the OCA ran the numbers utilizing PAWC's claimed rate base; however, as indicated above, the OCA challenges the Company's claimed rate base. By holding the rate base constant at PAWC's claimed amounts, it illustrates the significance of PAWC's rate of return claims in dollar amounts.

The OCA's recommendations, on the other hand, will allow PAWC to have an opportunity to earn a fair rate of return within the zone of reasonableness and maintain its financial integrity and stability to provide safe and adequate water and wastewater service to consumers. *Bluefield* at 692-93; *Hope* at 603; *Duquesne Light* at 310, 312; *Permian Basin* at 797. At the same time, the OCA's recommendations enable the Commission to exercise its discretion in a manner that protects consumer interests from paying excessive rates. *Permian Basin* at 770, 797. The OCA's recommendations are based on fully substantiated cost of capital analyses. *Pa. Power* at 579; *NFGD 1990* at 603-05; *PSW 1989* at 622-23. Accordingly, the OCA' recommendation falls within the zone of reasonableness that will produce just and reasonable rates. *Permian Basin* at 770, 797.

B. <u>Proxy Group</u>

OCA witness David Garrett and PAWC witness Ms. Bulkley disagreed about whether it was reasonable to include six additional electric and natural gas utilities in the proxy group. Ms. Bulkley thought that it was due to the relatively small number of water utilities available for analysis. Mr. Garrett disagreed. However, in his discounted cash flows model (DCF Model) analysis and capital asset pricing model (CAPM) analysis results, Mr. Garrett presented three different calculations: (1) the water group; (2) the non-water group; and (3) the entire group combined. While Mr. Garrett believes it is reasonable for the Commission to focus on the results of the water utility group only, as a practical matter, in this particular case, the results of his DCF Model and CAPM analyses were not materially different when applied to the water-only proxy group and total proxy group. OCA St. 3 at 10-11, Exh. DJG-12.

C. <u>Capital Structure</u>

The Commission should reject the Company's proposed capital structure consisting of 44.7% debt and 55.3% equity (total company) because PAWC has not met its burden of justifying its claim. PAWC's proposed capital structure deviates from the average debt ratio of its own proxy group (49%), and it substantially deviates from the debt ratio of AWK, its parent company (55%). OCA St. 3 at 4, 55. Mr. Garrett recommends imputing a capital structure for PAWC equal to PAWC's proxy group average (inclusive of the six non-water utilities), which consists of 51% equity and 49% debt. OCA St. 3 at 58, 61, Exh. DJG-13.

PAWC witness Bulkley disagrees with Mr. Garrett's recommendation to impute a capital structure equal to the proxy group average because she believes capital structure comparisons should be made to the operating subsidiaries of the proxy group rather than the proxy companies themselves (*i.e.*, the holding companies). OCA St. 3SR at 6. The Commission should reject Ms. Bulkley's recommendation. All the other inputs to the financial models employed in this case (*i.e.*, the CAPM and DCF Model) are derived directly from the proxy holding companies. OCA St. 3SR at 7. That is, after all, the point of a proxy group. Since PAWC and the OCA obtain all the other metrics used to estimate PAWC's cost of equity from the proxy group, it would be unreasonable to reject the capital structure of that same proxy group as part of the analyses. *Id*. Additionally, PAWC's proposed debt ratio is clearly too low as compared to the proxy group (49%), AWK (parent company) (55%), and comparable industries (60% - 68%). OCA St. 3 at 57.[24] This results in excessively high capital costs and utility rates. OCA St. 3 at 57. Specifically, PAWC's excessive equity ratio alone would impose $30.7 million per year of additional expense to ratepayers, at PAWC's claimed rate base and ROE. OCA St. 2, Exh. LA-6 at 3-4. Customers do not receive an additional benefit from the utility's excessively high capital costs; rather, it exclusively benefits PAWC's shareholders. OCA St. 3 at 57-58. Thus, there is no fair or reasonable basis in the record on which to authorize PAWC's proposed capital structure. OCA St. 3 at 58. Based on Mr. Garrett's

[24] The results of Mr. Garrett's analyses are summarized in the table shown on OCA St. 3 at 57.

analysis, the OCA recommends the Commission adopt a capital structure for PAWC consisting of 49% debt. OCA St. 3 at 58.

Moreover, in order for the results of the CAPM to be accurate, any discrepancy between the utility's capital structure and the proxy group's capital structure must be reconciled either through a capital structure adjustment for ratemaking purposes or a lower authorized ROE as estimated through the Hamada model. OCA St. 3 at 4, 58-60. In this case, the OCA is proposing a ROE that exceeds the results of the CAPM; thus, it is even more imperative that the Commission adjust the Company's proposed ratemaking capital structure so that the overall rate of return is not unfairly high. OCA St. 3 at 4.

The use of the hypothetical capital structure is appropriate in cases like this one to reduce costs to ratepayers, as opposed to increasing costs, where the utility's management proposes an actual capital structure that imposes an unfair cost burden on ratepayers. *See e.g. T.W. Phillips Gas and Oil Co. v. Pa. PUC*, 474 A.2d 355, 362 (Pa. Cmwlth. 1984); *Carnegie Natural Gas Co. v. Pa. PUC*, 433 A.2d 938 (Pa. Cmwlth. 1981) (*Carnegie*) (100% equity actual capital structure). The Commission has explained its rationale:

> [T]he Commission has the duty to regulate utilities in a manner which provides customers with reliable service at reasonable cost. This is not to say that we may mandate to regulated utilities the proportions of debt and equity contained in their capital structures. Rather, the actual capital structure is a matter within the discretion of corporate management; *however, this does not preclude the commission from determining that a particular utility's capital structure is unreasonable or uneconomical when balancing the goals of safety, prudent management, and economy and utilize a hypothetical capital structure for rate-making purposes.*

Pa. PUC v. Carnegie Natural Gas Co., 54 Pa. PUC 381, 393 (1980), *aff'd by Carnegie*. The underlying theme is an equitable one, in which the Commission and Pennsylvania courts do not allow the utility's financial interests to outweigh the public interest. *Pa. PUC v. Pa. Gas and Water*, 424 A.2d 1213, 1217 (Pa. 1980) (stating that such property must be regulated in the interest of the public no less than in the interest of the utility); *see also Arrowhead Pub. Serv. Corp. v. Pa. PUC*, 600 A.2d 251, 257 (Pa. Cmwlth. 1991) (supporting the Commission's use of the utility's actual cost of debt where the cost is clearly identifiable); *Big Run Tel. Co. v. Pa. PUC*, 449 A.2d 86, 89 (Pa. Cmwlth. 1982) (a hypothetical capital structure is justified in the event actual capital structure is disproportionate, meaning, the actual capital structure "imposes an unfair tax burden on ratepayers").

D. Cost of Long-Term Debt

The OCA is not briefing this issue, but it reserves the right to respond in its Reply Brief.

E. Return on Equity

The Commission should reject the Company's proposed ROE of 10.95% as excessive and unsupported. OCA St. 3 at 29-33, 44-47, 48-50; OCA St. 3SR at 8-11; Tr. 2113, lines 13-19. An objective cost of equity analysis shows that the Company's market-determined cost of equity is notably lower than proposed by PAWC. OCA St. 3 at 3, 28, 42-43; OCA St. 3SR at 2-3, 3-6. The OCA recommends that the Commission set the Company's market-determined cost of equity at 9.1%, which is the average of OCA witness Garrett's CAPM result (8.7%) and DCF Model result (9.4%). OCA St. 3 at 3, 61; OCA St. 3SR at 7. However, if the Commission accepts the Company's proposed capital structure and/or adopts either of the Company's proposed alternative ratemaking proposals, then the OCA recommends the Commission grant only the 8.7% ROE supported by Mr. Garrett's models.

1. DCF Model

PAWC witness Bulkley's DCF Model analyses, as updated in her rebuttal, yielded a cost of equity range of 8.65% to 11.34%. PAWC St. 13R at 10; OCA St. 3SR at 2. In contrast, Mr.

Garrett's DCF Model analysis produced a cost of equity result of 9.4%, OCA St. 3 at 20-28, using the following the three primary inputs:

- Stock price – Mr. Garrett used 30-day averages of adjusted closing stock prices for each company in the proxy group; OCA St. 3 at 20-22, Exh. DJG-3;
- Dividend – Mr. Garrett used forward-looking annualized dividends published by Yahoo! Finance; OCA St. 3 at 22, Exh. DJG-3; and
- Long-term growth rate – Mr. Garrett gave more weight to the results on the analyst growth variation because of the unique growth opportunities for water utilities; average long-term growth rate of 6.9% for the water proxy group; OCA St. 3 at 27-28; OCA St. 3SR at 3.

Applying the analyst growth variation of the DCF Model to the water group indicates a cost of equity of 9.4%. However, this does not mean that PAWC's cost of equity is as high as 9.4%. In order to get an accurate assessment of the cost of equity, a model that measures market risk and its impact on individual companies must be used. This is exactly what the CAPM does. As discussed below, the results of Mr. Garrett's CAPM indicate a lower cost of equity for PAWC, and these results must be considered in the overall analyses. OCA St. 3 at 28.

Ms. Bulkley's DCF Model analysis results are overstated primarily because she relies on non-sustainable growth rate assumptions that are unreasonably high and because she considered flotation costs in making her final ROE recommendation. OCA St. 3 at 29-31; OCA St. 3SR at 2-3. Ms. Bulkley's use of long-term growth projection in earnings or dividends that exceed long-term growth projections of the aggregate economy's growth rate (measured in U.S. GDP) and inclusion of flotation costs should be viewed with caution if not rejected outright. OCA St. 3 at 30-33; OCA St. 3SR at 2-3.

Notably, the OCA's proposed ROE for PAWC of 9.1% falls within Ms. Bulkley's overall DCF Model range. OCA St. 3 at 29. Given this, the OCA's recommended 9.1% ROE aligns with investors' interests while protecting consumers from paying more than is required. The

Commission would be well within its discretion to adopt the 9.1% as it balances the interests of investors and consumers and falls within the zone of reasonableness. *Permian Basin* at 770, 797.

2. <u>CAPM</u>

PAWC witness Bulkley presented several variations of the CAPM, with results as high as 11.5%. OCA St. 3 at 44; PAWC St. 13 at 45, Fig. 8. In contrast, Mr. Garrett's CAPM analysis, OCA St. 3 at 33-43, produced a cost of equity result of 8.7% using the following three inputs:

- Risk-free rate – Mr. Garrett used 4.42% based on the 30-day average of daily Treasury yield curve rates on 30-year Treasury Bonds, OCA St. 3 at 34-35, Exh. DJG-7;
- Beta coefficient – Mr. Garrett used betas published by Value Line, OCA St. 35-36, Exh. DJG-8;
- Equity risk premium (ERP) – Mr. Garrett started by using an implied ERP of 5.0%, using the implied ERP approach, pursuant to which he collected data for the index value, operating earnings, dividends, and buybacks for the S&P 500 over the past six years; he calculated the dividend yield, buyback yield, and gross cash yield for each year, and the component annual growth rate from operating earnings. OCA St. 41, Exh. DJG-9. He used a final ERP estimate of 5.3% after considering the results of ERP surveys along with the implied ERP calculations and the ERP reported by Kroll (Duff & Phelps). OCA St. 3 at 41-46.

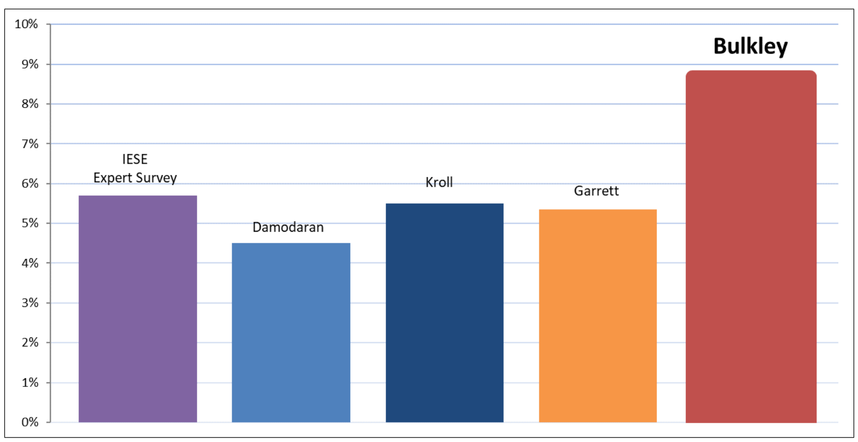
The primary area of disagreement between the two is the ERP.[25] Mr. Garrett rejects Ms. Bulkley's alternative CAPM analysis, called ECAPM analysis, as unreasonable. OCA St. 3 at 46-47. Ms. Bulkley disagrees with Mr. Garrett's use of 5.3% for the ERP in his CAPM analysis. Mr. Garrett's testimony is more credible than Ms. Bulkley's for at least two reasons.

First, the ERP is an important figure for financial and market analysts in all industries, not just utility regulation. OCA St. 3SR at 3-4. Thus, many analysts, managers, investors, and academics are studying and are concerned with obtaining a reliable and accurate estimate of this important number, which can be used in a variety of financial analyses, including the CAPM. OCA St. 3SR at 3-4. All else held constant, a higher ERP will result in a higher indicated higher cost of

[25] Ms. Bulkley refers to the ERP as the "market risk premium" in her testimony.

equity and apply upward pressure on the authorized ROE. OCA St. 3SR at 4. Mr. Garrett considered three reliable and objective sources to include in his overall ERP estimate, including the result of the IESE Business School survey of experts, the estimate published by Kroll (formerly Duff & Phelps), and the estimate published by one of the world's leading experts on the issue, Dr. Aswath Damodaran. OCA St. 3SR at 4. Mr. Garrett also conducted and presented his own ERP estimate, the result of which is similar to those from the other sources. The figure below contrasts the ERP estimates from these sources with the ERP estimated by Ms. Bulkley. OCA St. 44-46; OCA St. 3SR at 4, Exh. DJG-10.

Equity Risk Premium Comparison



When compared with other independent sources for the ERP (as well as Mr. Garrett's estimate), which do not have a wide variance, Ms. Bulkley' ERP estimate is clearly not within the range of reasonableness.[26] OCA St. 3 at 46; OCA St. 3SR at 5.

Second, in her rebuttal testimony, Ms. Bulkley offers various criticisms of the ERP estimate from these other sources. Ultimately, however, Ms. Bulkley is suggesting to the Commission that

[26] Ms. Bulkley's ERP estimate in her initial cost of equity estimate filed in her direct testimony was as high as 8.69%. In her updated cost of equity analysis, her ERP results range is as high as 8.12%. *See* PAWC Exh. 13R, Sch. 3. The graph in Figure 1 is from Mr. Garrett's direct testimony, which represents an ERP estimate of 8.69% from Ms. Bulkley's direct testimony.

her ERP estimate is more accurate than the aggregate opinions of more than 1,300 expert survey respondents, a leading global provider of risk management and valuation, and one of the world's leading academics on the ERP. OCA St. 3SR at 5. Ms. Bulkley is asking the Commission to accept her ERP estimate over the estimates published by these other independent sources. This is not reasonable. The ERP estimates provided by the survey of experts, Kroll, and Dr. Damodaran, as relied upon by Mr. Garrett, are more objective, reasonable, and unbiased than Ms. Bulkley' ERP estimate. OCA St. 3SR at 6. Moreover, the ERP results from these sources do not have a wide variance, which provides further indication of a tight, reasonable range for the ERP, from which Ms. Bulkley's ERP estimate clearly and significantly diverges. OCA St. 3SR at 6.

F. Business Risks and Management Performance Adder

PAWC is requesting a ROE of 10.95%, inclusive of a performance-based adder of up to 25 basis points.[27] Thus, the issue before the Commission is whether the authorized ROE should include a performance-based adder. The OCA's position is no.

PAWC has not demonstrated by a preponderance of evidence that its request for a management performance adder of up to 25 basis points is either necessary or just and reasonable. The requested increment of 25 basis points in ROE is unsupported and excessive, OCA St. 3 at 48-50; OCA St. 3SR at 8-11; Tr. 2113, lns. 13-19, and at PAWC's as filed request it would impose up to $11.8 million of additional costs on ratepayers per year. OCA St. 2, Exh. LA-6 at 2.

To be clear, under no circumstances is the Commission obliged to grant a management performance in determining the authorized ROE under the constitutional limits because a reward

[27] PAWC makes this request even if the Commission grants something less than 10.95%, with 10.95% being the highest ROE sought. PAWC witness Everette stated: "[I]f the Commission were to approve a rate of ROE that is lower than the upper end of Ms. Bulkley's recommended range, it should add no less than 25 basis points to its market-determined rate of return." [n.11]: Of course, if the Commission's market-determined rate of ROE is greater than 10.70%, then the performance-based increment could be less than 25 basis points to achieve a final equity return rate of 10.95%." PAWC St. 1 at 33, n.11.

for management performance is not commensurate with returns on investments in other enterprises having corresponding risks. Under the constitutional standards, the return need only be "equal to that being made at the same time on investments in other business undertakings which are attended by corresponding risks and uncertainties" (*Bluefield* at 692), and "commensurate with returns on investments in other enterprises having corresponding risks" while being sufficient "to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital." *Hope* at 603. As OCA witness Garrett testified, investors cannot expect an additional ROE simply due to prudent managerial performance when they invest in competitive firms in the marketplace. OCA St. 3 at 49.

The primary driver of the cost of equity and required rate of return is how market risk impacts individual firms, managerial performance does and should not have an increasing effect on a utility's authorized ROE. OCA St. 3 at 48; OCA St. 3SR at 8. Specifically, managerial performance and the risk of imprudent management is related to firm-specific risks, <u>*which are not rewarded by the market*</u> because investors can eliminate such risk through diversification of portfolio, and do not have a material effect on the cost of equity. OCA St. 3 at 48; OCA St. 3SR at 8. As investors in competitive firms in the marketplace cannot expect an additional ROE simply due to a firm's prudent managerial performance, shareholders of a regulated utility should not receive any premium in addition to an authorized market-based ROE due to the utility's prudent managerial performance. OCA St. 3 at 48; OCA St. 3SR at 8.

The Company's adder request thus becomes a question of whether it is an appropriate exercise of Commission discretion to grant the adder. The record does not support this conclusion and the OCA submits that the Commission would be acting <u>*outside the zone of reasonableness*</u> to grant PAWC's request for the adder <u>*as the adder is nothing more than an unsubstantiated excessive*</u>

rate, and it is the Commission's responsibility to protect future and present consumers from excessive rates. *See Permian Basin* at 794-95, 797. Rates that are determined by the Commission to be in conformity with the just and reasonable standard and intended to "balance the investor and the consumer interests" are constitutionally permissible. *Id*. at 770.

Ms. Everette opined that Section 523 of the Code would serve "no point" and be contrary to legislative intent if it were neither proper nor appropriate to reward a utility with a ROE bump for superior performance. PAWC St. 1R at 9. The Company's reliance on Section 523 of the Code as a basis for granting the adder should be rejected. While Section 523 authorizes the Commission to consider the efficiency, effectiveness and adequacy of service when determining just and reasonable rates, it requires the Commission to "give effect to this section by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate." 66 Pa. C.S. § 523 (emphasis added). It would be *neither proper nor appropriate* for the Commission to award shareholder interests on the basis of prudent managerial performance when shareholders themselves cannot expect an additional ROE simply due to prudent managerial performance when they invest in competitive firms in the marketplace. OCA St. 3 at 48-49; OCA St. 3SR at 8. Given that the adder is nothing more than *an excessive rate that is outside the zone of reasonableness*, it would be neither proper nor appropriate for the Commission to grant the adder as the adder *does nothing to incentivize or ensure PAWC's managerial performance going forward to meet its public service requirements mandated by law*.

Furthermore, PAWC has not substantiated its request. Cost of capital analyses are generally accepted by the Commission as a basis for determining a fair rate of return under the just and reasonable standard of the Code. *PSW 1989* at 623. PAWC witness Ms. Bulkley testified that she took into consideration "superior management performance" in proposing her recommended

10.95% ROE for the Company. PAWC St. 13 at 8. However, Ms. Bulkley cannot demonstrate how she took this into consideration other than through her subjective decision to do so, as Ms. Bulkley admitted on cross-examination that neither the DCF Model nor CAPM analyses account for managerial performance:

> Q. Throughout your rebuttal, you refer to your DCF and CAPM models. Do you agree with the statement that neither the CAPM nor the DCF model have an input for managerial performance?
>
> A. Yes. There's no specific assumption in either of those models for managing[28] performance. _It is unaccounted for in those models_.

Tr. 2113 (emphasis added).

Moreover, PAWC has not substantiated the specific amount of 25 basis points other than to say that adopting it would place the Company's ROE within Ms. Bulkley's range, but this does not explain the specific request for 25 basis points. OCA St. 3SR at 10-11. The adder is, thus, completely arbitrary and not market based. Given that the Company's requested amount of the adder is arbitrary and unsupported, it would likewise be arbitrary for the Commission to award the requested up to 25 basis points amount.

PAWC witness Justin Ladner testified that the Company has focused its attention on many areas where superior performance has not necessarily yielded a direct economic benefit to shareholders, but where superior performance will deliver direct benefits to customers, such as the Company addressing water quality and environmental issues, its streamlining field operations and reducing response times, and the Company's commitment to employee safety and employee training and development. PAWC St. 15R *passim*. Ms. Everette likewise testified of the behaviors of PAWC's management that she believes merit a reward to shareholder interests. PAWC St. 1 at 33-46. While Mr. Ladner's and Ms. Everette's testimony explain how PAWC is behaving to

[28] OCA submitted a transcript correct to correct "managing" to "managerial."

comply with its public service obligations under the law, it does not demonstrate why it would be appropriate or proper for the Commission to add an arbitrary adder to the ROE as a reward to the Company. Importantly, the legal standards of *Bluefield* and *Hope* _*do not establish the fair rate of return as a "quid-pro-quo" concept*_ where arbitrary increments to cost of equity are awarded to a utility's shareholders in return for a utility's management operating the public utility company in a prudent manner as required by law. OCA St. 3 at 49; OCA St. 3SR at 11.

Hence, the Commission should find that it is outside the zone of reasonableness to award shareholders with a bump to the ROE on the basis of a utility's past and/or current managerial performance. Nevertheless, if the Commission disagrees, the Commission should not grant the requested adder in this case because the Company has not demonstrated that its managerial performance is exemplary in all areas of service to its customers, as based on the well-documented reasons set forth in testimony of OCA witnesses Roger Colton and Barbara Alexander. OCA St. 5 at 110-124; OCA St. 6 at 7-24. The Commission should take into consideration the full range of customer experiences and interactions with PAWC in considering this request as documented with evidence of OCA witnesses Colton's and Alexander's testimony as well as the unprecedented volume of customer opposition to this rate increase. OCA St. 6SR at 4-5.

Moreover, PAWC has been inconsistent with its own hand-selected criteria for measuring whether PAWC deserves the requested adder. PAWC witness Ms. Everette's direct testimony stated that PAWC's shareholders contribute more money to the H2O hardship grant program than any other water utility and _*that such commitment will increase by $700,000 in late 2023*_, based on PAWC's commitments in the BASA Settlement. PAWC St. 1 at 34. However, in oral rejoinder, PAWC witness Dean testified:

> [T]he Company does not support an expansion of hardship fund eligibility that is independent of the BASA Settlement…If the BASA acquisition does not close for

some reason, neither the increased hardship fund contribution amount or income eligibility threshold is reasonable.

Tr. 2023-24.[29] For all the foregoing reasons, the Commission should deny PAWC's request for a management performance adder.

IX. RATE STRUCTURE AND RATE DESIGN

A. Cost of Service Studies

1. Water Operations

The OCA has demonstrated the need for four changes to the revised water class cost of service (CCOS) study that PAWC presented with its rebuttal testimony:

1. lower system-wide maximum day demand factor consistent with PAWC's recent demand data and claims regarding declining usage,
2. lower system-wide maximum hour demand factor based on the ratio of the ratio of the maximum hour factor to the maximum day factor from a study conducted by a large Pennsylvania water utility, as no recent data is available for PAWC,
3. inclusion of interruptible Industrial customer usage, and
4. allocation of arrearage management program (AMP) costs and customer assistance-related administrative costs consistent with the recommendation of OCA witness Colton.

OCA St. 4SR at 11. OCA Schedule JDM-2SR attached to OCA Statement 4SR presents a summary of PAWC's rebuttal CCOS study with these four modifications. A comparison of the results of the Company's CCOS study and the OCA's study is provided in Table 1SR in Appendix I to this Brief.

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[29] Ms. Dean further explained in her oral rejoinder that the Company's decision to increase the contribution by $700,000 was driven by the additional 14,000 acquired customers of the BASA system. The BASA Settlement itself does not state that, and the OCA notes that such increased contribution would have benefited all customers, not just the acquired customers. *Application of Pennsylvania-American Water Co.*, A-2022-3037047 (Settlement Aug. 14, 2023), at 13. Available at: https://www.puc.pa.gov/pcdocs/1795956.pdf

a. <u>PAWC's Maximum Day Demand Factor Is Outdated and Not Representative of PAWC's Actual System-Wide Experience.</u>

It is the OCA's position that the water CCOS study initially filed by PAWC in this proceeding is generally reasonable,[30] except for its use of system-wide maximum day and hour extra capacity demand factors that are outdated. OCA St. 4 at 16. The maximum *day* demand factor of 1.4 that PAWC used was last experienced in 2003, over twenty years ago. Since 2003, water demand on the PAWC system has changed due to aggressive water conservation, legislation, development, and changing land uses. *Id*. at 15-16. Review of PAWC's data shows that the actual annual maximum day extra capacity demand factor has been approximately 1.2 for the last 12 years.[31] PAWC Exh. 12-A, Sch. G; OCA St. 4 at 16; OCA St. 4SR at 3. The American Water Works Association Manual, M1, Principles of Water Rates, Fees, and Charges (M1 Manual) states that "demand data over a representative number of recent years" should be utilized. OCA St. 4SR at 3, *citing* M1 Manual at 373. As testified by OCA witness Mierzwa, 12 years meets the standard identified in the M1 Manual, and the 20 years relied upon by PAWC does not. Demands experienced 20 years ago are not "recent" or representative of current demands. *Id*. at 3-4.

PAWC witness Heppenstall argues, instead, that a factor representative of the highest peak demand that potentially could be experienced should be used. PAWC St. 12R at 5-6. This is countered by the analysis put forth by PAWC witness Rea, which indicates there has been a pervasive decline in customer usage over the last 10 years, and Mr. Rea's opinion that this trend will continue. PAWC St. 10 at 72. Given the declines in customer usage estimated by Mr. Rea, it

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[30] The OCA agrees with PAWC's use of the base-extra capacity method to functionalize and allocate costs. OCA St. 4 at 15; *see* PAWC St. 12 at 6. PAWC revised its water CCOS study in rebuttal. PAWC St. 12R at 2. The changes do not relate to the maximum day and hour demand factors themselves, i.e. PAWC uses the same demand factors in its initial and revised CCOS study. (One of the changes relates to the *allocations* of the demand factors to interruptible customer usage, as discussed below.)

[31] OSBA witness Higgins also recommends a 1.2 maximum day demand factor because in the "most recent ten-year period available, 2013-2022, the highest annual ratio is 1.16. Based on this data, a maximum day ratio of 1.2 is more representative of PAWC's system." OSBA St. 1R at 10.

is unreasonable to assume there is potential for extra capacity demand factors and usage to return to historic levels experienced 20 years ago. OCA St. 4SR at 3-4.

Ms. Heppenstall's two other arguments are likewise unfounded. She contends, first, that water usage on a maximum day in *areas* of PAWC's system have been more than 1.4 times the average usage for the year. PAWC St. 12R at 6. However, maximum day usage in individual areas is not relevant under the base extra capacity method set forth in the M1 Manual.[32] The relevant consideration is *system-wide* maximum day usage. OCA St. 4SR at 4. Moreover, all 38 areas of PAWC's system do not peak on the same day or even in the same month, as Ms. Heppenstall conceded during cross-examination. Tr. 2093; PAWC Exhs. CEH-1SR, CEH-2R.

Ms. Heppenstall's second argument about diversity ratios does not establish that a 1.2 maximum day demand factor is unreasonable. She contends that the diversity ratio associated with a 1.2 demand factor is 1.64, which is outside the 1.1 to 1.4 range suggested by the M1 Manual. PAWC St. 12R at 6-8. However, the diversity ratio is calculated using projected non-coincident peak demands of each customer class. The non-coincident peak demands of each customer class used in PAWC's CCOS study are based on a demand analysis prepared by the Company for the years 2013-2015 and, therefore, do not reflect the declines in customer usage estimated by Mr. Rea's analysis previously discussed. As Mr. Mierzwa explained, adjusting the non-coincident maximum day peak demands of each customer class "would certainly reduce the diversity ratio of 1.64 associated with [the 1.2] maximum day demand factor recommendation." OCA St. 4SR at 6.

Further, as OSBA witness Higgins explained, the 1.63 diversity ratio, if not explained by atypical class usage patterns[33] "suggests that the class peaking factors from PAWC's 2013-2015 Customer Class Demand Study may not be an accurate representation of class noncoincident

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[32] As noted below, Ms. Heppenstall also relies on the AWWA M1 Manual. PAWC St. 12R at 8; PAWC St. 12 at 6.
[33] M1 Manual at 377; OCA St. 4SR at 6; OSBA St. 4R at 11-12.

demand." OSBA St. 1R at 11-12. If so, that is additional reason not to inflate the maximum day extra capacity component in the CCOS study by using PAWC's proposed 1.4 factor. *Id*.; OCA St. 4SR at 6. For these reasons and discussed in OCA witness Mierzwa's and OSBA witness Higgins' testimony, a 1.2 factor should be used in the water CCOS study. *See* OCA St. 4SR, Sch. JDM-2SR.

b. <u>PAWC's Maximum Hour Demand Factor Is So Outdated It Cannot Reasonably Be Claimed to Represent PAWC's Actual Recent Demand.</u>

PAWC's most recent peak hour demand data for its water system is from an analysis conducted in 1988. PAWC used this 35-year-old data to determine a maximum hour demand factor for its CCOS study. PAWC Exh.12-A, App. A, RS1c at A-4; OCA St. 4 at 15-16. In contrast, OCA witness Mierzwa looked at the most recent demand factor data available from a large water utility (York Water, R-2022-3031340) and calculated that utility's maximum hour and day factors and their ratio. OCA St. 4 at 16-17. Applying that 125% ratio to the OCA's 1.2 maximum day extra capacity demand factor for PAWC results in a maximum *hour* demand factor of 1.50, which Mr. Mierzwa recommends using for PAWC's CCOS study. This compares to the 2.1 capacity demand factor used by PAWC. *Id*. at 15, 17.

PAWC witness Heppenstall argued that, even though the demand factor data is more than 35 years old, no one has identified any errors in the 1988 analysis and its results have been accepted in prior PAWC cases, so it should continue to be used because it is the only PAWC-specific demand data available. She ignores that PAWC's data and analysis get less reliable with each rate case. In the current case, two parties (OCA and OSBA) have objected to continued use of data that cannot reasonably be considered "representative" of PAWC's actual, recent customer demands. Using recent data from a different water utility serves two purposes. First, it provides a check on the reasonableness of PAWC's proposed maximum hour demand factor of 2.1. York Water's maximum hour demand factor is dramatically lower (1.65). OCA St. 4 at 16-17. Second, it enables calculation of a maximum hour demand factor that combines the recent York Water demand data with the only recent PAWC-specific demand data that is available.[34]

This provides a far more reasonable maximum hour demand factor than what the Company calculated using only outdated PAWC-specific data that cannot reasonably or reliably be considered representative of the Company's actual, recent demand – particularly where PAWC's own witness makes an adjustment to the Company's revenues for the future test years to reflect what he claims has been a "significant and pervasive decline in usage for [residential, commercial and municipal] classes over the past ten years." PAWC St. 10 at 67-72, 78-79. This a continuation of the declining consumption trend Mr. Rea identifies from reports analyzing water usage since 1992 and the impact of energy efficiency legislation in 1992 and 2007 – all of which occurred *after* the 1988 demand analysis relied on by PAWC. *Id*. at 67-70.

OSBA witness Higgins agrees that the 2.1 maximum hour factor used by PAWC is outdated and should not be used. OSBA St. 1R at 13. He recommends a factor of 1.8, however, which scales back the maximum hour factor in proportion to his adjustments to the maximum day factor. This should be rejected because there is no demonstration that maximum day and maximum hour factors are proportionately related. OCA St. 4SR at 42. Further, Mr. Higgin's scale back proposal uses PAWC's maximum day and hour factors as the starting point. The OCA has shown that both of PAWC's maximum demand factors are overstated, significantly so for maximum hour, and thus should not be inputs for calculating the maximum hour demand factor.

For the foregoing reasons, PAWC's maximum hour demand factor should not be accepted and OCA's demand factor should be used for allocating costs in the current case. OCA Schedule JDM-2SR presents a summary of the Company's rebuttal CCOS study with the OCA's maximum

[34] As discussed above, OCA witness Mierzwa applied the 125% York Water ratio to the maximum day demand factor of 1.2 derived from PAWC's actual maximum day demand data for the last 12 years. OCA St. 4SR at 3.

hour (and day) extra capacity demand factors, as well as the additional changes discussed below. *See* App. I. Prior to its next rate filing, PAWC should be required to update its analysis of system wide maximum hour extra capacity demands and then include the results of its updated analysis in its water CCOS study for that case. OCA St. 4 at 18; *see also* OSBA St. 1R at 13. The Company says this is a large undertaking, with challenges. PAWC St. 12R at 11. However, PAWC has not updated its analysis for 35 years and cannot reasonably put it off longer.

c. **<u>Interruptible Usage Should Be Included in the Extra Capacity Factor Allocations Because Interruptible Industrial Customers Are Regularly Served During Periods of Peak Demand.</u>**

In rebuttal, PAWC witness Heppenstall revised her initial water CCOS study to exclude usage of certain Industrial customers that are subject to curtailment from the extra capacity factor allocations since these customers can be interrupted during periods of peak demand and thus, she contends, do not impose extra-capacity demand costs. PAWC St. 12 at 14; PAWC St. 12R at 2; *see also* OSBA St. 1R at 7-8; Cleveland Cliffs St. 1R at 4-6; PAWLUG St. 1R at 5-6. This factual premise is false. The evidence shows these interruptible Industrial customers have not been interrupted in the last 20 years. OCA St. 4SR at 9 (citing PAWC response to OCA-35-9). Therefore, since these interruptible Industrial customers are regularly served during periods of peak demand, there is no reasonable basis to exclude them from the extra capacity factor allocations. *Id*. at 9.

The OCA's position is consistent with the Commission's recent determination in a gas utility base rate case addressing cost allocation for Industrial customers. *Pa. PUC v. Philadelphia Gas Works*, 2023 Pa. PUC LEXIS 298, *68 (Order Nov. 9, 2023) (*PGW 2023*).[35] Ms. Heppenstall was also a utility witness in that proceeding. As described by the Commission, she opined that

[35] The Philadelphia Industrial and Commercial Gas Users Group has a pending appeal. PAWLUG St. 1R at 7, n.9.

interruptible customers that had not been interrupted in nearly 20 years should be treated the same as firm customers in the cost of service study:

> Ms. Heppenstall continued, "[e]ven though PGW does not include interruptible load in calculating its peak design day demand, PGW does provide gas during the period of Interruptible classes' peak day demand. Therefore, the cost allocation should reflect that service." *PGW 2023* at *75 (citations omitted).

The Commission agreed with Ms. Heppenstall and also with the OCA and the ALJs, concluding that "for cost allocation purposes, [those] interruptible customers are not truly interruptible." *Id*. Further, the Commission was persuaded by the testimony of the OCA's witness that, as there has been no interruption, the interruptible class of customers is using the utility's distribution system during peak periods and treating those customers as receiving firm service more closely aligns with cost causation. *Id*. This is the same reasoning advanced by OCA witness Mierzwa in the current proceeding. OCA St. 4 at 14; OCA St. 4SR at 9.

OSBA, Cleveland Cliffs and PAWLUG also argue that, whether or not they are regularly or ever curtailed, these customers incur costs to adhere to the terms and conditions to be eligible for interruptible service rates and the compliance costs should be reflected by excluding Interruptible usage from the extra capacity allocators. OSBA St. 1R at 7-8; Cleveland Cliffs St. 1R at 4-6; PAWLUG St. 1R at 5-6. Those arguments were also made by parties representing industrial and commercial customers in the *PGW 2023* case and were not accepted. *PGW 2023* at *70-71, 75. It remains that even if interruptible usage is included in the extra capacity factor allocations, those customers will continue to receive the benefit of discounted rates compared to firm service. This is demonstrated by PAWC's filed-for rates for Average Day Demand (not implicated by the OCA recommended extra capacity factor allocations), shown on page 20 of Tariff Supplement 45:

	Firm Standby Service	Interruptible Standby Service
Average Day Demand	$27.7782	$5.1640

2. **Wastewater Operations**

The OCA recommends no direct adjustments to the Company's Wastewater CCOS studies. OCA St. 4 at 20-21. The OCA's positions on excluding the pending wastewater acquisitions and the Act 11 shift are reflected in OCA witness Mierzwa's Wastewater revenue allocation and rate design (discussed in Sections IX.B.1.b and 2, below). OCA St. 4 at 38-39.

3. **Cost of Service Studies for Future General Rate Increases**

The OCA recommends that PAWC provide additional cost of service information in its future base rate filings.[36] First, PAWC should include Rider Demand Industrial Sales (DIS) and Rider Demand Resale Sales (DRS) customers as separate customer classes. In the current proceeding, PAWC did not separately determine the costs associated with serving Rider DIS and DRS customers in its water COSS study; the revenues from Rider DIS and DRS customers were simply reflected as a credit to the overall cost of service. OCA St. 4 at 19. Having separate cost of service information in the next rate case will assist in ensuring that the rates charged to Rider DIS and DRS customers are reasonable.

Second, if the Commission rejects the inclusion of BASA and Brentwood in the current rate case, and PAWC claims them in a future rate case, the Company should be required to provide a separate CCOS study for each. OCA St. 4 at 21-22; *see also* I&E St. 3 at 73-75.

Third, for future Section 1329 acquisitions, PAWC should prepare separate COSS studies in the first base rate case that includes those systems, unless the utility shows in the underlying Section 1329 proceeding that a separate CCOS study should not be required. OCA St. 4 at 21; OCA St. 4SR at 35-36, 37. Responsive to the concern raised by Ms. Everette (PAWC St. 1R at 29-30), this would maintain flexibility for the Commission while also reducing litigation about the

[36] Also, per I&E's recommendation, PAWC has agreed to continue providing separate CCOS studies for Water, Wastewater SSS, and CSS Wastewater. I&E St. 3 at 72-73; PAWC St. 1R at 31.

issue in Section 1329 and base rate proceedings and providing some certainty for all parties. As shown in the current rate case, having the revenue requirement associated with those acquisitions separately calculated: (1) provides information to establish rates that reflect the costs for the system, (2) shows the magnitude of the subsidy proposed for those systems (*see* Table 5 from PAWC St. 10 at 47), and (3) facilitates the review and recommended removal of those systems from revenue requirement by parties challenging their inclusion in the FPFTY. OCA St. 4SR at 36.

Going forward, after the initial base rate case in which a Section 1329 system is properly included, PAWC should continue to provide separate CCOS studies for the Section 1329 systems either individually or (for non-CSS Wastewater only) as a group.[37] Where Section 1311(c) is used to require water customers to subsidize revenue shortfall for systems acquired under Section 1329, the amount of that subsidy should be known and transparent, so a determination can be made whether the proposed Act 11 reallocation is in the "public interest". 66 Pa. C.S. § 1311(c).

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

In rebuttal, PAWC revised its Wastewater CCOS study to directly allocate its AMP costs, both credits and administrative costs, and its H2O Grant and Discount administrative costs to residential customers only. PAWC St. 12R at 10-11; OSBA St. 1SR at 15-16. PAWC should allocate these costs consistent with the allocation of uncollectible cost generally, as PAWC did in its direct filing. OCA St. 5R at 1-6. As OCA witness Colton aptly explained:

> (1) They do not represent ***new*** costs. "Arrears that will be written off as 'bad debt' through the AMP are caused by the pre-program nonpayment of bills. That nonpayment of bills by low-income customers is not caused by the existence of the

[37] Specifically, the non-CSS Wastewater Section 1329 systems could be grouped into one separate CCOS study rather than individual CCOS studies. OCA St. 4 at 21; OCA St. 4SR at 37. The CSS Wastewater Section 1329 systems should not be grouped with non-CSS Wastewater systems, to maintain the cost of service divide between sanitary-only systems and combined systems.

Company's program. They are part of the uncollectible costs historically incurred by the residential class as a whole."[38]

(2) The AMP credits are projections, not known. "By isolating these credits for different treatment than the rest of PAWC's uncollectible expense, [the Company] is treating these amounts as if they were known rather than projections."

(3) Finally, if anything, PAWC's program will *reduce* overall residential uncollectibles after it is in place. The program certainly does not *cause* new uncollectibles that would not have existed in the absence of the program. What it does is to trade-off a more immediate write-off of *pre-program* arrears in exchange for future in-full BDP payments." OCA St. 5R at 1-2.

Mr. Colton provided data showing that the arrears that would be made subject to arrearage forgiveness are substantial and sufficiently high that PAWC will have already contributed to its reserve for write-offs *before* these low-income customers enter the arrearage forgiveness program. *Id*. at 3-4. To the extent that the program succeeds in prompting future in-full payments toward current bills (plus a copayment toward arrears), PAWC will *reduce* the dollars that will ultimately be found to be uncollectible. In other words, there would be no new, and no incremental, arrearage forgiveness program costs to be directly assigned to the Residential class. OCA St. 5R at 4. OSBA witness Higgins agrees, to the extent that:

> [I]f the AMP expense is not truly incremental to the general uncollectible expense, then it should be removed from the revenue requirement rather than directly assigned to the residential class. PAWC should not be permitted to recover the same uncollectible "dollar" twice: once through uncollectible expense and again through AMP expense. OSBA St. 1SR at 17.

Whatever determination is made regarding recovery of AMP costs going forward, the amortization of the regulatory liability for AMP costs anticipated in the last rate case, but never incurred, should be directly credited to the Residential class. OCA St. 5R at 5. While the AMP costs anticipated in the last PAWC base rate case were not directly assigned to the Residential

[38] Thus, PAWLUG witness Conte's contention that the Residential class "causes" PAWC to incur the AMP expense is not correct (PAWLUG St. 1SR at 15) – the AMP does not "cause" new uncollectibles.

class, in the settlement of PAWC's last base rate proceeding those costs were collected from residential customers. Having been collected from residential customers, these costs – which were included in rates but never incurred – should be refunded to residential customers. *Id*.

The OCA also opposes PAWC's proposal to directly allocate its customer assistance program administrative costs to residential customers (only). PAWC St. 12R at 10-11. The administration of the H2O Grant and Discount programs is expected to result in a corresponding decrease in PAWC's administrative costs associated in addressing the nonpayment of bills. OCA St. 5R at 5-6. PAWC directly assigns the administrative expenses associated with these programs, without also identifying and directly assigning the administrative savings, i.e. impose the costs without also crediting the benefits. The fact that there are both costs and cost reductions associated with these programs demonstrates how inextricably interrelated the programs are with other aspects of PAWC operations. *Id*. at 6. The only way to appropriately capture, and to allocate, both the costs and the cost reductions, is to allocate the costs as PAWC initially proposed to do – based on an O&M composite factor.

The OCA's adjustment to provide for the allocation of costs for AMP and customer assistance program administrative expenses consistent with PAWC's *initial* filing and Mr. Colton's recommendations is reflected in its CCOS study (updated in surrebuttal, OCA Sch. JDM-2SR). OCA's adjustment to PAWC's claim for the amount of FPFTY uncollectibles expense related to AMP credits is shown in Appendix A to this Brief, OCA Table II, ln. 42 (Water); Table II, ln. 17 (SSS); Table II, ln. 9 (CSS); OCA St. 2 at 73-74; OCA St. 2SR at 48.

B. Revenue Allocation and Act 11

1. Water Revenue Requirement

a. Allocation of Direct Water Cost of Service

The results of the OCA's CCOS study, at present and proposed rate revenues based on PAWC's claimed cost of service, adjusted to reflect the OCA's recommended Act 11 shift are shown in OCA Table 4-SR. OCA St. 4SR at 15-16; OCA St. 4 at 32. OCA witness Mierzwa explained that "While there is no hard and fast rule with respect to applying the concept of gradualism, typically an increase of 1.5 to 2.0 times the system average increase is consistent with the concept of gradualism." OCA St. 4 at 33. The OCA's recommended revenue distribution for water service is based on Mr. Mierzwa's CCOS study, adjusted to provide for gradualism. To begin, OCA witness Mierzwa set the proposed revenues – inclusive of Act 11 shift – for each class equal to the cost of service indicated by his water CCOS study. Next, the OCA recommends:

- Limiting the increase to the Industrial, Public (Municipal), Other Water Utilities Group B, and Public Fire Protection classes to 34.7% which is the increase indicated as appropriate for the Industrial class by the OCA's CCOS study. An increase of 34.7% results in an increase of 1.9 times the system average increase of 17.8% for each of these classes which is consistent with the concept of gradualism.
- Maintaining the increase proposed by PAWC for the Other Water Utilities – Group A class, as a significant decrease was indicated by both PAWC's revised and OCA's CCOS study.
- Assigning the revenue deficiency (resulting from limiting the increase to 34.7%) to the Residential and Commercial customer classes based on the indicated cost of service for each class. OCA St. 4 at 33-34; OCA St. 4SR at 15-16.

The results, shown at PAWC's claimed cost of service for consistency of presentation, are provided in OCA Table 4-SR, which is reproduced in Appendix I. *See also* OCA St. 4SR at 16.

b. Act 11 Reallocation – Amount and Assignment to Water Classes

Section 1311(c) allows, but does not require, the Commission to allocate a portion of the Wastewater revenue requirement to a combined Water and Wastewater customer base if it is in the public interest. 66 Pa. C.S. § 1311(c). The determination of what is in the public interest in Section

1311(c) is within the Commission's discretion.[39] The Commission has a range of options. The question is whether the options are consistent with established regulatory principles, including fairness in the apportionment of the total cost of service among all customer classes[40] and consideration of policies that encourage cost-effective provision and consumption of water as well as questions about rate shock and affordability. OCA St. 5 at 25, 29; OCA St. 1 at 37-38; *Bonbright* at 292. At one extreme, the Commission could allocate almost the entire Wastewater revenue requirement to Water customers as PAWC has proposed here. This subsidy would benefit Wastewater SSS and CSS Wastewater customers, but it would come at the expense of PAWC's Water customers.

> This is significant when most of PAWC's water customers do not receive wastewater service from PAWC. PAWC has more than nine times as many water customers as wastewater customers. Those water customers are paying their own wastewater bills to other entities, or they have on-lot septic systems that they must install and cover maintenance costs. They also have been paying a portion of the wastewater deficiency for PAWC's wastewater customers since 2013.

OCA St. 1 at 38 (citations omitted); *see also* OCA St. 4 at 26-27.

The Company's proposal to shift $71 million of Wastewater revenue requirement to its water customers fails to meet the fundamental principles of fairness and efficiency in setting rates for Water and Wastewater customers. OCA St. 1 at 39; 66 Pa.C.S. §§ 1301, 1304. Shifting 94% of the claimed Wastewater revenue deficiency is in no way reasonable. This would recover 27% of the ***total*** *Wastewater* revenue requirement through the rates for *Water* service. Allocating such a significant percentage of the total Wastewater revenue requirement to Water moves all customers further from paying rates that reflect their indicated cost of service and would result in Wastewater

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[39] The statutory language does not contain any guidelines, nor has the Commission promulgated regulations. In its Implementation Order, the Commission clarifies two points regarding notice and the definition contained in 1311(e). *Implementation of Act 11 of 2012,* M-2012-2293611, Order (Aug. 2, 2012).

[40] The "fairness" of a utility rate generally means that the rate bears a reasonable relationship to the utility's cost of serving the customer without exceeding the value of service to the customer. *See, e.g.*, James C. Bonbright et al., *Principles of Public Utility Rates*, at 82-92 (1st ed. 1988) (*Bonbright*).

rates that have no reasonable relationship to the cost of serving those customers.[41] OCA St. 4 at 24, 26-27.

At its proposed rates, inclusive of its Act 11 shift, PAWC is proposing to increase water revenues by 24.3% while *decreasing* revenues for Wastewater SSS and CSS Wastewater customers by 0.1% and 0.2%, respectively. PAWC Exh. 3-A Revised. Without the $71 million assignment of the Wastewater revenue requirement, the revenue increase for Water customers would be 15.5%. OCA St. 4 at 27. It is not reasonable to increase the revenue assigned to Water customers *by over 50%* by assigning Wastewater revenue requirement to Water customers, and to then essentially assign no revenue increase to the Wastewater customers. *See* PAWC St. 1R, Exh. 3-A Revised.

At the other extreme, the Commission could choose to not approve any shift, as I&E proposes.[42] *See* I&E Exh. 3, Sch. 1. I&E witness Kubas's recommendations for Wastewater rate design and elimination of any Act 11 assignment result in an approximate increase in revenue requirement of 33% for Wastewater SSS and 22% for CSS Wastewater, at the Company's proposed revenue requirement. OCA St. 4 at 7. While those percentage increases will be smaller at the Wastewater revenue requirement increase that I&E or the OCA recommend,[43] the OCA disagrees that essentially zero relief should be provided to Wastewater customers through an Act 11 assignment. Given the recent rate increases that PAWC has proposed and been granted, given the relatively small Wastewater SSS and CSS Wastewater populations over which to spread an

[41] In a recent Aqua PA base rate case, the Commission rejected the utility's proposal to assign 30% of its wastewater revenue requirement to water customers because the utility did not demonstrate that 30% allocation was reasonable or in the public interest. *Aqua 2022* at *112. There, the Commission adopted a proposal by I&E that assigned approximately 20% of the proposed wastewater revenue requirement to water customers. *Id*.

[42] I&E proposed to essentially eliminate the Act 11 assignment of Wastewater revenue requirement, reducing it to $357,517 at PAWC's revenue requirement increase for Wastewater SSS and CSS Wastewater. OCA St. 4R at 5.

[43] I&E recommends a total increase of $26.7 million for Wastewater operations ($19,925,077 for SSS Wastewater + $6,782,024 for CSS Wastewater = $26,707,101) compared to the OCA's $27.7 million recommendation. I&E St. 1SR at 12-13.

increase, the OCA submits it is reasonable to provide some Act 11 relief to those customers from rate increases while not overburdening Water customers. OCA St. 4 at 28; OCA St. 4R at 7.

Thus, at the OCA's recommended revenue requirement, the OCA submits that it would be reasonable to shift up to 75% of the Wastewater SSS revenue requirement increase and up to 50% of the CSS Wastewater revenue requirement increase to Water customers. OCA St. 4 at 28. This results in an approximate increase in revenue requirement of 5.3% ($5,078,655) for Wastewater SSS and 4.7% ($3,667,604) for CSS Wastewater. This is comparable to a post-assignment increase of approximately 4.5% ($36,690,821) for Water customers.[44] *See* App. A, Summary Table; OCA St. 2, Exh. LA-1, Sch. A; OCA St. 4 at 9, 28; OCA St. 4R at 7. This is a reasonable position, which by allocating a portion of the Wastewater revenue requirement to Water customers, moves the Wastewater SSS and CSS rates closer to their indicated cost of service while not disproportionately increasing rates for Water customers. *Aqua 2022* at *112; 66 Pa. C.S §§ 1301, 1304.

The OCA's position is that BASA should be excluded from the FPFTY revenue requirement in this proceeding. *See*, *e.g.*, OCA St. 2 at 32-33; OCA St. 2SR at 17. As such, the OCA excludes any BASA revenue requirement from its proposed Act 11 shift.[45] App. A, Summary Table. If PAWC is permitted to include BASA in revenue requirement, the OCA maintains that an Act 11 shift that keeps comparable percentage increases for Water, Wastewater SSS and CSS Wastewater customers would be in the public interest. OCA St. 4SR at 35.

Regarding <u>*how*</u> the Act 11 allocation is assigned to water classes, the OCA recommends using the cost of service indicated by the OCA's water CCOS study. *See* OCA Table 4SR (attached

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[44] The numbers in the OCA's Main Brief Summary Table attached to this Brief reflect the OCA's revenue requirements consistent with the OCA's adjustments as of surrebuttal. *See* OCA St. 2SR.

[45] The PUC has stated that "it is not reasonable or in the public interest for those water customers who do not receive a benefit from wastewater operations or Section 1329 acquisitions to support a disproportionate share of the revenue requirement driven by such acquisitions." *Aqua 2022* at *112. In the current case, PAWC has proposed to shift 85% of its BASA revenue requirement increase to water customers, which is disproportionate on its face.

in Appendix I); OCA St. 4SR at 14-16. PAWC and OSBA propose instead that cost responsibility to water customers should correspond to the wastewater classes that create the revenue shortfall. PAWC St. 10R at 34; OSBA St. 10-11. This should be rejected. No reasonable argument can be made there is a cost causation basis to support class-for-class reallocation of the Act 11 shift:

- Most of PAWC's water customers do not obtain wastewater service from PAWC. The Company currently has *seven times* as many water customers as wastewater customers.
- Further, there are several PAWC wastewater systems whose customers do not purchase water service from PAWC. OCA St. 4R at 10.

Residential water customers who do not receive wastewater service from PAWC have no more or less inherent responsibility for wastewater costs than non-Residential water customers who similarly do not receive wastewater service from PAWC. The General Assembly made a policy determination that those costs would be paid by *all* water customers of the same utility. 66 Pa. C.S. § 1311(c) (the water "customer base"). Thus, the dollars shifted effectively become a cost of water operations and are properly allocated according to water class cost of service.[46]

Using *wastewater* class cost of service, as PAWC and OSBA propose, is inconsistent with the plain language of Section 1311(c) and improperly treats the costs as if they were stand-alone, separate rates charged to water customers. Moreover, using wastewater class cost of service to allocate the dollars shifted under Act 11 could move the water classes *away from* their indicated cost of service. For both reasons, the Commission recently rejected this recommendation when OSBA made it in Aqua PA's recent base rate case.[47] *Aqua PA* at *114-15. There, the Commission agreed with the ALJ and the OCA that the revenue shifted under Act 11 should be allocated to water customers based on the results of the adopted *water* class cost allocation study.

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[46] In PAWC's most recent base rate proceeding, PAWC witness Rea supported using water class cost of service for the Company's Act 11 reallocation to water customer classes. OCA St. 4SR at 15 (citing *Pa. PUC v. Pennsylvania-American Water Co.*, R-2022-3031672, PAWC St. 10R at 27).

[47] The OSBA filed an appeal of the Order that is pending. OCA St. 4R at 11.

2. Wastewater Revenue Requirement

The OCA recommends a Wastewater SSS revenue requirement increase of $20.3 million, and a CSS Wastewater revenue requirement increase of $7.3 million for a combined total increase of $27.6 million at PAWC's claimed revenue requirement. OCA St. 4 at 37-38. The OCA is also recommending that 75% of the Wastewater SSS revenue requirement increase and 50% of the CSS Wastewater revenue requirement increase be assigned to Water customers. *Id.*; OCA St. 4R at 7. Both recommendations are presented in Table 5 on page 39 of OCA Statement 4, based on PAWC's revenues at proposed rates. (For convenience, OCA Table 5 is attached to this Brief in Appendix I). As shown there, the OCA recommends an increase of 4.7% for Scranton, which is consistent with the OCA's recommended increase for all CSS Wastewater and less than the OCA's recommended increase for Wastewater SSS. OCA St. 4 at 38-39. This is more reasonable than the Company's proposed zero increase for the Scranton system,[48] given that PAWC is claiming that the CSS Wastewater – of which Scranton is the largest service area – has an annual revenue deficiency of $15.8 million. PAWC Exh. 3-A Revised Summary.

C. Tariff Structure

1. Residential Customer Charge

a. Water

The current customer charge for Residential customers in Rate Zones 1 through 5 with 5/8-inch, 3/4-inch, 1-inch, and 1½-inch meters is $17.50 per month.[49, 50] PAWC Exh. CBR-3. PAWC's proposal to increase the Residential customer charge from $17.50 to $20.00 (14.3%) for these

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[48] PAWC There is no restriction on the Commission's authority to approve rates that differ in this base rate case from those are negotiated between the buyer and seller as a term of acquisition. OCA St. 4 at 39; 66 Pa. C.S. § 1301.

[49] Most Residential water customers in PAWC's service territory are served by a 5/8-inch meter. OCA St. 4 at 34; OCA .

[50] As discussed in Section IV.A.1 above, the revenue requirement and rates for Audubon and Farmington Water should be excluded from consideration in this proceeding. Therefore, OCA witness Mierzwa did not specifically address the rate design for these two pending acquisitions. OCA St. 4 at 35.

customers is not reasonable. Only those costs that vary directly with the addition or subtraction of a customer should be included in the calculation of a customer charge. OCA St. 4 at 35. PAWC's analysis for customer charges, which it claims only reflects direct costs, indicates a cost-based charge of $19.31, which is less than its proposed charge of $20. PAWC Exh. 12-A, Att. RS1j, 2-3.

Moreover, PAWC's analysis includes costs that are not direct customer costs and do not change with the addition or subtraction of a customer, including office building and furniture expenses.[51] OCA St. 4 at 35-36. These costs relate to PAWC's general operation as a utility. Not all of a utility's fixed expenses for operation are properly included in a customer cost analysis and the Commission has generally permitted only expenses directly related to meter reading, customer service, accounting and customer records and collections. *See, e.g., Pa. PUC v. Metropolitan Edison Co.*, 60 Pa. PUC 349 (1985); *Pa. PUC v. Nat'l Fuel Gas Dist. Corp.*, 83 Pa. PUC 262, 371 (1994); *PPL 2004* at 461. Where the Commission has permitted allocated portions of indirect costs, on a case-by-case basis, it has allowed costs associated with direct labor costs, including employee benefits, workers compensation insurance and payroll taxes. *Pa. PUC v. Aqua Pa., Inc.*, 236 PUR4th 218 at 251 (Pa. PUC 2004) (*PSW 2004*). Significantly, the Commission stated: "We caution that these are costs which may be considered for inclusion in the customer charge, but such claims are subject to scrutiny on a case-by-case basis." *Id.* Furthermore, since *PSW 2004,* the Commission has rejected a utility's proposed customer charge increase based on a cost analysis that included indirect costs. *Pa. PUC v. PPL Gas Util. Corp.*, 2007 Pa. PUC LEXIS 2, *210 (Order Feb. 8, 2007). OCA Schedule JDM-4SR provides a calculation adjusting the Company's calculated direct customer charge (at PAWC's filed-for revenue requirement increase) to remove the improperly included office building and furniture costs and to reflect the OCA's recommended rate

[51] I&E witness Cline recommends a customer charge of $19.50 based on his adoption of PAWC's cost analysis rounded to the nearest half dollar (I&E St. 4 at 33); this charge should not be adopted for the same reasons.

of return. As shown in Schedule JDM-4SR, these adjustments reduce the calculated charge to $18.73. Other Commission-approved adjustments to PAWC's revenue requirement claim are likely to further reduce the calculated direct customer charge. OCA St. 4 at 36. Based on the OCA's overall position on revenue requirement,[52] the OCA recommends the existing $17.50 monthly charge for Residential customers should be maintained. Any additional revenue to be recovered from Residential customers should be recovered through increases in volumetric usage charges. *Id*. at 35.

b. <u>Wastewater</u>

For Wastewater, the current residential monthly customer charge for most Rate Zones is $14.30 per month. OCA St. 4 at 46. PAWC is proposing to increase that charge to $20 per month (39.9%), with the exception of Scranton Rate Zone 3 where it proposes to set the Residential customer charge at $19.72 per month.[53] PAWC St. 10 at 41-42. The Company presents a customer cost analysis which it claims only reflects direct costs, which indicates that a cost-based monthly customer charge for a 5/8-inch meter would be $43.50. PAWC Exh. 12-B, Attachment RS1j, page 2. However, PAWC's direct customer charge calculation improperly includes the costs associated with collecting and treating Infiltration and Inflow (I/I). I/I cannot reasonably be considered a direct cost because it is largely a function of precipitation and, therefore, does not vary directly with the addition or subtraction of a customer. OCA St. 4 at 46.

Exclusive of I/I costs, the Company's calculation of customer costs would indicate a direct cost of $13.87 at PAWC's proposed revenue requirement, which is less than current Wastewater

[52] Ultimately, however, the Residential customer charge should be based on the calculation presented in Schedule JDM-4SR, adjusted to reflect the actual pre-tax return approved in this proceeding, in addition to all other adjustments to PAWC's revenue requirement claim determined to be appropriate by the Commission. OCA St. 4SR at 14. In no circumstances should the approved fixed monthly charge be higher than $19.31. OCA St. 4 at 36.

[53] Again, because they are not properly included in the FPFTY revenue requirement, OCA witness Mierzwa did not address the rate design for the BASA and Brentwood pending acquisitions. OCA St. 4 at 47.

customer charges. *Id*. at 47. As such, the current customer charges in Rate Zones 1, 2, 5, and 6 should be maintained, the current Residential customer service charges in Rate Zones 3, 4, 7, and 9 should be reduced to $14.30, and any additional revenue to be recovered from Residential customers should be recovered through increases in volumetric usage charges.[54] *Id*. These recommendations are supported by the testimony of OCA witness Colton with regard to the impact of higher fixed charges on customers' ability to control their bills.

Given these cost-based and bill affordability reasons, the argument of PAWC witness Rea that the customer charges should be increased to match the $20 proposed for water customers should be rejected. PAWC St. 10R at 61. I&E witness Kubas's objections should also be dismissed. Mr. Kubas's primary concern is with the customer charges for CSS Wastewater Rate Zones 3, 4, and 6. His support for a $20 charge is not cost-based, whereas maintaining the $14.30 charge would set the charge at a level that was comparable to a cost-based rate. OCA St. 4SR at 40. Further, for each of the CSS Wastewater rate zones, the decrease in revenues from reducing the customer charge would only require an increase of 7 to 10% in volumetric usage charges. *Id*.

2. <u>Water Rate Design</u>

In addition to its recommendations regarding the residential customer charges discussed above, the OCA also objected to the residential Water usage charge proposed by PAWC for Valley customers currently in Rate Zone 2. OCA St. 4 at 36-37. PAWC proposes to apply the consolidated Rate Zone 1 usage charge, which would cause a 63% rate increase for a residential customer using 3,201 gallons per month at PAWC's Water revenue requirement claim. *Id*.; PAWC Exh. 10-A at 77. PAWC's proposal is more than 2x the system average increase and is not reasonable. To provide

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[54] I&E witness Kubas recommends a similar monthly customer charge of $15.00 for Wastewater SSS customers based on his agreement that I/I costs are not direct costs that should be recovered in fixed charges. I&E St. 3 at 19.

for gradualism and to reduce rate shock, the OCA recommends the usage charge for Valley customers currently served under Rate Zone 2 to be set at 70% of the Rate Zone 1 usage charge established in this proceeding. This reduction in the usage charge would limit the increase for a Valley residential customer currently in Rate Zone 2 using 3,201 gallons per month to about 1.7x the OCA's proposed system average increase, which is consistent with the concept of gradualism. I&E agrees that PAWC's proposed increase for Valley customers is unnecessarily large and recommends a more moderate increase. I&E St. 4 at 37-38; I&E St. 4SR at 28.

3. Wastewater Rate Design

PAWC's volumetric rate proposals should be proportionately adjusted to recover the cost of service approved by the Commission for each current Wastewater SSS and CSS Wastewater customer class, and for Wastewater SSS and CSS Wastewater residential customers, any revenue deficiency resulting from the adoption of the OCA's monthly residential customer charge recommendations. OCA St. 4 at 47.

PAWC and the OCA agree: if the Commission approves PAWC's proposal to delay the effective date for new rates for certain Wastewater rate zones, it should also adopt PAWC's proposal to impute revenues, by calculating the proof of revenues as if the customers were paying the new rates without any delay. PAWC St. 4R at 12; OCA St. 4 at 48-49. This is necessary to prevent other ratepayers from paying the cost of rate commitments that PAWC chose to make in its agreements to purchase those systems.

4. Winter Averaging Wastewater Proposal

PAWC's proposal to change the way it determines the volumetric component of bills for Residential Wastewater customers should be rejected for the reasons set forth in the testimony of OCA witnesses Mierzwa and Colton, CAUSE-PA witness Geller, and I&E witness Kubas. OCA

St. 4 at 40-44; OCA St. 4SR at 19-20; OCA St. 5 at 97-109; OCA St. 5SR at 9-11; CAUSE-PA St. 1 at 13-14; I&E St. 3SR at 38-39. Their collective testimony demonstrates that the proposal put forth by PAWC would disproportionately harm low-income customers.

PAWC witness Rea concedes that the beneficiaries of the Company's winter averaging proposal are likely to be higher income customers because it is these customers that are more likely to be (1) absent from their homes during the winter, (2) residents of single family homes with substantial outdoor water consumption, both factors making them more likely to have seasonal water usage in the summertime that would no longer be billed for Wastewater service. PAWC St. 10R at 55; OCA St. 5SR at 9-10; OCA St. 5 at 105-06; CAUSE-PA St. 1 at 13-14. Conversely, the record shows that customers who will pay the increase in charges are disproportionately likely to be low income. OCA St. 5 at 101-09; OCA St. 5SR at 9-11; I&E St. 3 at 38-39.

While unquestionably disadvantaging low-income customers, PAWC has failed to demonstrate that its proposed methodology for recognizing outdoor usage would reasonably achieve its stated purpose. PAWC's data shows there is not a substantial variability in residential water bills (and thus in residential consumption) between the three "winter months" (as defined by PAWC) and the remaining nine "non-winter" months. OCA St. 5 at 97. The three-month average median bill ($62.06) did not substantially differ from the average of the median bills for the remaining nine months ($63.49). In fact, the January 2023 median residential bill ($67.43) was identical to the median residential bills in both June 2023 and July 2022 and ***higher*** than the median residential bills in each of the other seven non-winter months. *Id*. at 98-99.

Likewise, OCA witness Mierzwa's analysis of PAWC's data for average monthly water usage showed that for Residential customers the difference between the winter average period usage and usage during the remaining months is de minimis, and for the last two years ranged from

100 to 173 gallons per month. In other words, a difference that could be made up by a few extra showers and loads of laundry and not necessarily by outdoor water usage. *See* OCA St. 4 at 43-44 (Table 6). Another discrepancy is that some Residential customers have higher usage in the summer months not due to outdoor usage but because they are absent from their homes in the winter. OCA St. 4 at 43-44; OCA St. 5 at 99-101. In this scenario, PAWC's winter averaging proposal would understate summer months usage that flows through the sewer system. PAWC witness Rea does not dispute this effect. PAWC St. 10R at 55.

Under the methodology proposed by PAWC, any benefits are outweighed by the disproportionate harm to low-income customers and the proposal should be rejected. If adopted, despite the reasoned objections by the OCA, CAUSE-PA and I&E witnesses, the volumetric charges should be made subject to the same low-income discounts to which other PAWC volumetric charges are subject. OCA St. 5 at 109.

D. Scale Back of Rates

For water service, the OCA recommends the revenue increases the OCA proposed for each class at PAWC's claimed revenue requirement based on the OCA's CCOS study, i.e. what is shown in OCA Table 4-SR, should be scaled back proportionately to reflect the actual water revenue increase (including revenues reallocated to water service under Act 11) authorized by the Commission in this proceeding. OCA St. 4SR at 16-17 and Table 4-SR. For the direct cost of Wastewater service, the OCA accepted PAWC's proposed CCOS study and recommends that any scale back to the revenue increases for each class should be made consistent with PAWC's allocation proposal. *Id.* at 17.

As discussed in Section IX.B. above, the amount reallocated under Act 11 should be substantially reduced from what PAWC proposed. *See also* OCA St. 4SR at 17-18; OCA St. 4 at

25-27. The OCA does not recommend that *any* reduction in the Wastewater requirement should be applied first to the Act 11 reallocation, however, as that may not provide an adequate level of relief to Wastewater customers. OCA St. 4SR at 17-18, 35. While the specific amount of revenues shifted under Act 11 should be determined by the Commission based on the authorized Wastewater revenue requirement, the OCA recommends that an Act 11 reallocation that results in comparable percentage increases for Water and Wastewater customers would be in the public interest. *Id*.

X. ALTERNATIVE RATEMAKING REQUESTS

PAWC has not demonstrated a need for its requested alternative ratemaking mechanisms, or that the proposals are just and reasonable, as discussed more fully below. Simply, PAWC seeks to shift risk of under-recovery from where it belongs – on the utility – to where it does not – on consumers. OCA St. 1 at 26, 40-41. Given the regulatory compact, the Commission should not view PAWC's requests for this incentive regulation as merely whether the Commission has the authority to grant such, nor view that authority as a presumption of justness and reasonableness regardless of the request. OCA St. 1 at 40-41; OCA St. 1SR at 9-10. Rather, it is a judgement call that requires the Commission to view the incentive regulation in totality instead of in permanent isolation because the cumulative effect on customer bills mirrors the negative effects of monopoly power and pricing on captive customers. OCA St. 1 at 40-41; OCA St. 1SR at 9-10. PAWC's alternative ratemaking proposals on top of its use of the FPFTY, DSIC, Section 1329 rate base valuations, and Section 1311(c) shift, are demonstrable of the very sort of monopoly power requiring regulatory oversight and constraint. *See e.g., supra, Munn* at 126, *Ark. Elec*. at 377; *Relief Elec*. at **6-15; *Jenkins Twp.* at **15-16. As explained below, the proposals fail to meet the requirements under Section 1330 of the Code, fails to satisfy the fourteen factors in the Commission's Policy Statement at 52 Pa. Code § 69.3302(a); violates sound ratemaking principles, and poses a risk to the consumers of unknown rate increases outside of the rate case process. OCA Sts. 1 at 4, 26, 40-51, 1SR at 9-13, 25-27, 4 at 50-74, 4SR at 21-34; 66 Pa. C.S. §§ 1301, 1330; 52 Pa. Code § 69.3302(a).

A. Revenue Decoupling Mechanism (RDM)

1. The RDM will not "*enhance* the safety, security, reliability or availability of utility infrastructure."

PAWC has failed to demonstrate that the RDM will "enhance the safety, security, reliability or availability of utility infrastructure." 66 Pa. C.S. § 1330(a)(2). PAWC has credibly shown in its initial filing that it is already satisfying the requirements of Section 1501 of the Code with regard to service and facilities. OCA St. 1 at 46. Where a public utility is already meeting its Section 1501 responsibilities under a traditional cost-of-service ratemaking, along with use of the FPFTY authorized by Code Section 315(e), it is unclear how adding guaranteed rate recovery through the RDM will have the effect of *enhancing* the safety, security, reliability and availability of utility infrastructure. OCA St. 1 at 46. That is, PAWC does not need the RDM, and it should not be given to PAWC simply because it asked for it.

2. The RDM is inconsistent with "*efficient consumption* of utility service."

PAWC has failed to demonstrate by a preponderance of evidence that the RDM is "consistent with *efficient consumption* of utility service." 66 Pa. C.S. § 1330(a)(2). The RDM uses rate true-ups resulting from over- or under-recovery of revenues, and such true-ups produce after-the-fact surcharges or credits that misalign consumption decisions with actual utility costs. If sales decrease, the RDM formula will adjust rates to charge customers to make-up for the reduced recovery due to decreased sales. OCA St. 1 at 47. A customer would have to reduce their consumption by more than the reduction in usage by all other customers in order to reap the full benefit of their reduction. If an individual customer's reduction turns out to be less than the reduction in usage by all other customers, RDM will take those savings away from the customer and, in fact, the customer's bill will be higher. OCA St. 4 at 58. This is because the RDM charges all customers for usage reductions based on the aggregate reduction in usage by all customers. In order for an individual customer to continually experience bill savings through their consumption reduction, they would have to continuously reduce their consumption by a greater amount than the average customer. OCA St. 4 at 58.

Customers at the Public Input Hearings expressed overwhelming opposition to the RDM. *See* App. B. For example, one consumer who testified at the Public Input Hearings engaged in common sense reasoning and concluded that the RDM would serve as a disincentive to conserve water if they cannot keep their entire bill savings achieved through usage reductions:

> Q. Are you aware that the Company is proposing a new rate mechanism in this case? It's called the revenue decoupling mechanism, that would force you to share back or return some or all of those bill savings that you achieve by reducing your water usage.
>
> …as I described it, what are your thoughts about that?
>
> A. By not being able to reduce our costs, by lowering our water usage. I mean, that seems counter productive…[I]f the incentive is to save water, and the benefit of saving water is by saving money, it seems to go hand in hand. Quite frankly, [if] I'm not going to save anything [on my bill] by reducing our water usage, I suppose…it would be a real disincentive… Tr. 1592-93.

Moreover, the RDM does not provide rate stability to customer bills because the design of the RDM uses adjustments to customers' bills to maintain revenue levels. OCA St. 1SR at 26; OCA St. 4 at 59. The RDM will not be understandable to customers, especially when combined with the quarterly rate changes that occur under PAWC's DSIC, as the RDM would add another surcharge to customers' bills which would change on a monthly basis and would be unlikely to reduce the frequency of base rate or DSIC rate filings. OCA St. 4 at 59; OCA St. 4SR at 22.

3. **<u>The RDM is monopolistic excess that will harm customers unless the Company's ROE is adjusted downward to reflect the shifting of risk from the Company to consumers.</u>**

One of the most beneficial aspects of traditional cost-of-service ratemaking is that the public utility bears the risk of recovery of its costs in the face of all normal business risk that exists between rate cases. OCA St. 1 at 47. The RDM proposal would produce guaranteed revenue recovery for the utility where no guarantee has existed in the past. That guarantee wholly shifts the risk onto consumers without their gaining any obvious benefit of enhancement to safety, security, reliability, or availability of utility infrastructure. OCA St. 1 at 47. OCA witness Hoover took issue with Mr. Rea's position that the RDM allows for a sharing of revenue risk between the Company and its customers because the RDM would guarantee that PAWC recovers the exact revenue requirement that is set in the rate case while its customers' bills will vary to ensure that recovery; accordingly, PAWC has not shown what risk its investors would continue to bear if the RDM is approved. OCA St. 1SR at 26; *see also* OCA St. 4 at 58-60. The only "sharing" that would occur is of consumers' hard-earned bill savings, effectively as a penalty for conserving water usage.

Under the RDM, the risk of recovery of PAWC's revenue requirement due to declining consumption is shifted wholly to customers; however, PAWC has not proposed to reduce its equity return to reflect the reduction in risk associated with implementation of the RDM. OCA St. 4 at 60. However, PAWC's FPFTY consumption projections in this proceeding already reflect declining per-customer water usage and investors benefit from the reduction in regulatory lag associated with use of the FPFTY. OCA St. 4 at 60; OCA St. 4SR at 23. The RDM shifts risk from the Company, which is compensated for that risk, to customers who would be forced to bear that risk for no compensation. OCA St. 3 at 19; OCA St. 4 at 60; OCA St. 4SR at 23-24. The RDM would lower PAWC's risk profile, and this lower risk would then need to be reflected in the approved ROE. OCA St. 3 at 19. Specifically, should the Commission decide to adopt the RDM, the OCA recommends the Commission adopt a ROE at the lower end of the OCA's modeling range at 8.7% to reflect the commensurate decrease in risk that PAWC will experience. OCA St. 3 at 19.

4. **The RDM will harm low-income customers by transferring costs from higher-income customers to lower-income customers.**

The RDM would result in a transfer of costs from higher-income customers to lower-income customers because actions taken by customers to reduce water consumption are disproportionately taken by higher income households. OCA St. 5 at 79-80. The RDM takes revenue that has historically been billed to all customers and, as more customers take steps to reduce their consumption, it reallocates those dollars to the customers (and their consumption) that remain. The customers left behind by this reallocation are disproportionately low-income customers. Thus, PAWC proposes to take those revenues that had been billed to higher income households and reallocate them to low-income households who do not have the financial capacity to make investments in water conservation measures. OCA St. 5 at 81.

Furthermore, the RDM proposal does not make provision for customer arrearages in its calculation of actual revenues recovered. PAWC would be "recovering not merely revenues that have been reduced due to weather or conservation investments, but [also revenues] the payment of which have merely been delayed or postponed." OCA St. 5 at 84-85.[55] Regarding AMP, as participants enter the program their arrearages will be frozen, and with successful participation, ultimately forgiven. Once a participant's arrearages are frozen or forgiven, there will be a reduction in the actual revenues recovered element of the RDM. New BDP participants (who are expected

[55] Mr. Colton further observes that arrearages are consistently higher (by nearly two times) for confirmed low-income customers than from residential customers as a whole. As a result, PAWC will be transferring proportionately more low-income arrearages into it RDM recovery amount than residential arrears overall. By transferring the unpaid arrears into RDM, low-income customers will not only remain responsible for paying their arrears, but as the customers "left behind," and disproportionately bearing the costs of the RDM, they will be asked to pay a disproportionate burden of paying the RDM. This is effectively a double hit. OCA St. 5 at 85-86.

to comprise the bulk of AMP participants) will bring substantial pre-program arrearages into the AMP. But under the RDM, those unrecovered pre-program arrearages will be recovered as lost revenues since they would be a component of any reduction in actual revenues recovered. It would be inappropriate to recover these reductions through the RDM and then also recover them through a specific AMP adjustment to the revenue requirement. OCA St. 5 at 87-88.

As for the BDP, as participation in the program increases (as proposed by the Company), PAWC will provide increasingly higher levels of bill credits and this in turn will increase the reduction in actual revenues recovered. Unless these additional credits are excluded from the calculation of the RDM, there effectively would be a double collection of the BDP discount credits, once through the RDM and also through a specific recovery of BDP credits elsewhere in rates. OCA St. 5 at 88-89.

5. The RDM does not meet the Commission's Policy Statement's 14 Factors.

PAWC has failed to demonstrate that its proposal meets the fourteen factors set forth in the Commission State of Policy to be considered when proposing an alternative ratemaking mechanism. 52 Pa. Code § 69.3302(a)(1)-(14). OCA witness Mierzwa specifically addresses the 14 factors in his testimony and related schedule. Given that most of these factors have been discussed extensively above, in the interest of brevity, the OCA directs the ALJs' and Commission's attention to OCA St. 4 at 54-57, Schedule JDM-6, and Appendix J to this brief.

B. Environmental Compliance Investment Charge (ECIC)

1. The ECIC will not "*enhance* the safety, security, reliability or availability of utility infrastructure."

PAWC has failed to demonstrate by a preponderance of evidence that the ECIC will "enhance the safety, security, reliability or availability of utility infrastructure." 66 Pa. C.S. § 1330(a)(2). Although PAWC has sought to model the ECIC on the DSIC/Long Term Infrastructure

Investment Plan (LTIIP) model with a plan/surcharge, the similarities are *superficial*. Unlike DSIC/LTIIP, which is aimed at *accelerating* the replacement of aging underground infrastructure *above and beyond what is required under the law*, the ECIC is aimed at shifting the risk of recovery of sizable and wide-ranging environmental capital investments from the Company to its customers based on what has traditionally been part of the Company's normal business risk of complying with environmental laws. OCA St. 1 at 49-50. The Company's compliance with environmental laws *is part and parcel* of PAWC's duty to meet the requirements of Section 1501 of the Code to maintain adequate, safe and reasonable service and facilities. *PAWC has already shown that it can do this without any additional incentive or inducement*. Thus, PAWC has not shown how the ECIC will *enhance* the safety, security, or availability of utility infrastructure. OCA St. 1 at 49-50.

Under the ECIC, PAWC would recover costs associated with major capital investments in water production, treatment, and storage infrastructure and wastewater treatment infrastructure. This would include new dams, dam rehabilitations and new treatment plants. Recovering these types of capital costs through the ECIC would significantly reduce the transparency of the ratemaking process for these costs. While the PAWC seeks to address this problem by proposing that the Company file an Environmental Plan that is approved by the Commission, the Commission does not have the expertise to determine *in advance*, whether the investments are necessary to comply with environmental laws. The Company has this expertise and has the responsibility for this type of decision-making. It is unlikely that the Commission has the authority to micro-manage a utility in this way. The Pennsylvania appellate courts have repeatedly ruled that the Commission is not a super board of directors to manage such business decisions of utilities. *Northern Pa. Power Co. v. Pa. PUC*, 5 A.2d 133, 134-135 (Pa. 1939) ("The [Commission] is not a super board of directors for the public utility companies of the State and it has no right of management over them.

. . . The company manages its own affairs to the fullest extent consistent with the protection of the public's interest, and only as to such matters is the [C]ommission authorized to intervene, and then only for the special purposes mentioned in the act"); *see also Metropolitan Edison Co. v. Pa. PUC*, 437 A.2d 76, 80 (Pa. Cmwlth. 1981); *NAACP v. Pa. PUC*, 290 A.2d 704, 708 (Pa. Cmwlth. 1972).

However, the Company's decision-making should be subject to the Commission's full investigation and review for prudency in ratemaking and in terms of safe and adequate service, having the benefit of the evidence that is developed in a base rate case. OCA St. 1 at 50-51.

Company witness Swiz agreed that compliance with environmental regulations is part of PAWC's responsibility to provide safe, clean drinking water to its customers. He noted, however, that new regulations or re-interpretations of existing regulations often result in new environmental compliance obligations for the Company. These, he said, disrupt PAWCs five-year construction plan and require initiating new projects on an expedited basis. Mr. Swiz cited as an example the drinking water standards and compliance mandates related to per- and polyfluoroalkyl substances (PFAS) which he says will require a variety of actions by the Company in a very short time frame. Mr. Swiz noted that PAWC estimates the expenditures necessary to meet these requirements will be in the range of $200 million by the end of 2027. He said that the ECIC will provide the Company an opportunity to recover the capital costs and expenses incurred after June 30, 2025. PAWC St. 8R at 10. However, regarding whether new environmental requirements can arise and need to be addressed on an expedited basis, <u>*the pace of new or changing regulations is not as quick as Mr. Swiz alludes*</u>. OCA St. 1 SR at 26. <u>*On cross examination, Mr. Swiz admitted that he is not a PFAS expert and cannot "speak to the specifics and timelines associated with that" (Tr. 2066), despite his testimony stating that rapidly changing standards and compliance monitoring mandates for PFAS will require PAWC to act on a very short time frame*</u>. Tr. 2063.

In addition, traditionally the utility invests in capital projects, and if found to be just and reasonable, used and useful, and prudently incurred then the utility recovers those capital expenditures in rates. Contrary to Mr. Swiz's contention that the Environmental Plan review process will afford parties a full and fair opportunity to assess whether proposed projects are prudent and reasonable, a full and fair review can occur only as part of a base rate case. OCA St. 1 SR at 26. Similarly, in response to Mr. Swiz's statement that the ECIC helps ensure that PAWC receives adequate revenue to maintain safe, reliable and compliant Water and Wastewater service, this is the process that occurs in rate cases where all components of the cost of service are reviewed. OCA St. 1 SR at 26-27. As for Mr. Swiz's position that the ECIC will promote transparency of the ratemaking process as to environmental costs because a process will be put in place to review the Company's Environmental Plan, consumers and statutory advocates have limited resources and cannot realistically expect to review recurring ECIC plans filings with the same degree of scrutiny given to base rate cases. OCA St. 4SR at 28. Nor does PAWC's proposal give parties time to do so; under PAWC's proposed review process, quarterly updates would take effect on only 10 days' notice. OCA St. 4SR at 28. Parties would be required to conduct review and discovery in an expedited time frame during which parties would also be required to respond to two different sets of revisions that the Company would have the option of filing within the same period. OCA St. 4 at 69-70; OCA St. 4SR at 28.

2. The ECIC is inconsistent with "*efficient consumption* of utility service."

PAWC has failed to demonstrate by a preponderance of evidence that the ECIC is "consistent with *efficient consumption* of utility service." 66 Pa. C.S. § 1330(a)(2). The ECIC does not align revenues with cost causation as to both fixed and variable costs. OCA St. 4 at 70. The ECIC will be assessed as a percentage applied to each customer's total bill. Over 80% of the

Company's Water and Wastewater revenues will be collected under volumetric rates under the Company's proposed rate structure in this case. However, 95% of the costs associated with providing Water and Wastewater service are fixed. OCA St. 4 at 67. The ECIC is likely to result in interclass and intraclass cost shifting because it will be assessed as a percentage increase to the total amount billed and will not be assigned based on cost causation principles. OCA St. 4 at 70.

The ECIC will not promote rate stability through gradual changes to customers' rates and bills. Guaranteed gradual rate increases do *not* result in rate stability for customers, but it will promote revenue stability for PAWC. There is, in fact, no upper limit on the amount that can be charged through the ECIC and that having the ECIC in place would mean that rates would be guaranteed to increase as a result of base rate filings and then every quarter between rate filings. OCA St. 1SR at 27. The ECIC would significantly increase the number of rate increases experienced by customers. PAWC has not provided any evidence that the proposed ECIC will be understandable to customers. When combined with the rate changes that occur under PAWC's DSIC and potentially the proposed RDM, significant customer confusion is likely. OCA St. 4 at 70; OCA St. 4SR at 31-32.

As to whether the ECIC will result in interclass cost shifting, Mr. Mierzwa explained that:

> [C]ross-subsidization occurs when the rates of a particular customer class do not recover the cost of serving that class. He notes that under the ECIC, revenues will be assessed as a percentage increase to each customer's non-ECIC billed charges and says it is unlikely that customer class cost responsibility will match current class revenue responsibility. With respect to DSICs which are billed similarly to the proposed ECIC, Mr. Mierzwa points out that rate caps are in place to minimize any potential cross-subsidization among customer classes.

OCA St. 4SR at 30-31.

3. <u>The ECIC is monopolistic excess that will harm customers unless the Company's ROE is adjusted downward to reflect the shifting of risk from the Company to consumers.</u>

The ECIC is a broad, unrestricted surcharge to recover capital and operating expenses between rate cases that could prove to be a large component of a customer's bill for usage, and even if limits were imposed on the surcharge, it is unnecessary and unreasonable. Expenditures of the magnitude proposed for the ECIC should be reviewed as part of a base rate case when they are reasonably certain to become used and useful. OCA St. 1 at 51. The ECIC unreasonably shifts the risk of recovery of environmental investments from the Company to consumers. The challenges PAWC faces in complying with new and emerging environmental regulations or regulatory policy objectives are typical of the challenges faced by any utility management. The ECIC unreasonably places greater risk on consumers for the benefit of company shareholders because through the ECIC, PAWC would be able to immediately recover costs, including a return to investors. This risk is currently and can in the future be appropriately addressed through traditional ratemaking. OCA St. 4 at 68-69.

The ECIC proposal is unreasonably broad and uncertain in scope of the costs that would be eligible for recovery through the ECIC; the investments under the ECIC would represent a significant portion of the Company's annual capital budget. OCA St. 4 at 69-70. Meanwhile, the ECIC will provide for the recovery of certain environmental compliance investments made by the Company without consideration of any potential cost of service reductions that PAWC may experience. The proposed ECIC does not permit parties to investigate cost reductions that may have been experienced. OCA St. 4 at 70. In a base rate case, all revenues, expenses, and capital costs are reviewed simultaneously so that increases in one category are offset by decreases in another. With the ECIC, a single expense item is isolated for cost recovery purposes while other components of base rates (including decreases) are ignored. OCA St. 4 at 74.

The ECIC shifts risk from the Company, which is compensated for that risk, to customers who would be forced to bear that risk for no compensation. OCA St. 3 at 19. If the Commission were to adopt the ECIC, PAWC's risk profile would be lowered, and this lower risk would then need to be reflected in the approved cost of equity for the Company. OCA St. 3 at 19. Specifically, should the Commission decide to adopt the ECIC, the OCA recommends the Commission adopt a ROE at the lower end of the OCA's modeling range at 8.7% to reflect the commensurate decrease in risk that PAWC will experience. OCA St. 3 at 19.

4. The ECIC will harm low-income customers.

The ECIC would harm low-income customers because it is an additional charge to be paid and the ECIC would remove environmental compliance costs from the set of charges that would otherwise be subject to reduction under the Company's BDP. PAWC proposes to maintain the low-income bill discounts at their historic levels despite the fact that the Company is proposing to substantially increase its fixed and volumetric charges. Imposing a non-discounted ECIC would simply increase low-income bills. The unaffordable Bill to Income (BTI) Ratios identified in OCA witness Colton's testimony would be driven even higher, because the BTIs he cited do not include the environmental costs proposed to be collected through the ECIC. OCA St. 5 at 90-91. Additionally, low-income customers would pay a greater proportion of the ECIC charges than residential customers generally because low-income customers have monthly consumption greater than residential customers overall, according to PAWC's own data. OCA St. 5 at 91-92.

5. The ECIC does not meet the Commission's Policy Statement's 14 Factors.

PAWC has failed to demonstrate that its proposal meets the fourteen factors set forth in the Commission State of Policy to be considered when proposing an alternative ratemaking mechanism. 52 Pa. Code § 69.3302(a)(1)-(14). OCA witness Mierzwa specifically addresses the

14 factors in his testimony and related schedule. Given that most of these factors have been discussed extensively above, in the interest of brevity, the OCA directs the ALJs' and Commission's attention to OCA St. 4 at 67-68, Schedule JDM-7, and Appendix K to this brief.

XI. LOW-INCOME CUSTOMER ASSISTANCE

A. Summary

In the interest of brevity, see, *supra*, Section II Summary of Argument.

B. Affordability Analysis

To be just and reasonable, rates must be within a zone of reasonableness where consumer and shareholder interests overlap. 66 Pa. C.S. § 1301; *Permian Basin*, 390 U.S. at 770. While shareholders have an interest in earning a fair return on investment that maintains the financial integrity of the utility, consumers have an interest in paying affordable bills for safe, adequate, and reasonable utility service. Thus, it stands to reason that *just and reasonable rates are affordable rates*. The Commission has broad discretion when determining whether a rate is just and reasonable and is vested with the discretion to decide what factors it will consider when setting rates. *Popowsky 1996* at 961. The Commission has previously acknowledged that it can consider rate affordability when setting rates. *Columbia 2021* at 48.

To determine if rates are affordable for PAWC's customers, PAWC and the OCA generally agree that a consumer's water/wastewater burden, or the proportion of income dedicated to paying the consumer's bill for water and wastewater service, or the bills-to-income (BTI) ratio (BTI Ratio), should not exceed 2%. PAWC St. 10 at 4-23; OCA St. 5 at 7-39. Where PAWC and the OCA disagree, however, is on the affordability analysis that is used to determine those customers who have a water burden exceeding the affordable 2% BTI Ratio. This disagreement is significant because the affordability analysis that is used to determine how many and which customers have water burdens that exceed the 2% BTI Ratio ultimately supports the development and design of low-income customer assistance programs, including, but not limited to, the Company's H2O BDP. PAWC has not met its burden of proof in demonstrating with substantial evidence that its affordability analysis will lead to affordable and just and reasonable rates. The OCA has presented fully substantiated adjustments to PAWC's affordability analysis that would lead to affordable and just and reasonable rates for low-income customers. OCA St. 5 at 7-39.

As identified in Mr. Colton's testimony, the affordability analysis presented by PAWC witness Rea at the enterprise level and community level is inadequate and unreasonable and, therefore, Mr. Rea's conclusion that PAWC bills are generally affordable when viewed from both the community level and the household level is unreasonable and unsupported. OCA witness Colton corrects the flaws in the Company's analyses and presents a fully substantiated and accurate analysis that should be adopted by the Commission. OCA St. 5 at 7-39. Mr. Colton's recommended affordability analysis, at a high level, is as follows:

- *Enterprise level*: First, reject Mr. Rea's recommendations to measure affordability using Median Household Income (MHI) and the Median Household Income of Homeowners (MHI-HO). Second, examine BTI Ratios at the average income in the First Quintile and Second Quintile given a constant usage over the years. Third, determine what income would be needed in order to achieve a BTI Ratio of 2.0% each year and examine the number of zip codes within the PAWC service territory that have those incomes at the average Q1 and average Q2 income levels. OCA St. 5 at 7-22.

- *Community level*: First, reject the limitation of any "affordability analysis" to use of a minimal "Basic Water Service." Second, do not examine affordability only for the PAWC population as whole. Third, measure affordability at different income levels. Finally, do not consider only the *breadth* of affordability (*i.e.*, the number of customers with BTI Ratios exceeding 2% of income), but also consider the *depth* of affordability (*i.e.*, recognizing that a substantial number of the customers with unaffordable bills, do not merely have a BTI Ratio "over 2%," but have a BTI Ratio of over 20%). OCA St. 22-39

OCA St. 5SR at 8-9. Mr. Rea in his rebuttal did not credibly respond to the affordability analysis that Mr. Colton recommended be adopted.

C. <u>H2O Bill Discount Program Design</u>

The purpose of a well-designed bill discount program or BDP is to turn unaffordable bills into affordable bills for those low-income customers whose BTI Ratio exceeds the 2% burden level by bringing a low-income customer's water burden closer to or below the 2% affordability level. The Commission has broad discretion to authorize and modify BDPs in setting just and reasonable rates. 66 Pa. C.S. § 1301; *Popowsky 1996* at 961. The Commission has discretion to determine reasonable classification of service of rates as may be justified by a variety of considerations. *Zucker* at 1382. Additionally, the Commission has authority and discretion to approve "other ratemaking mechanisms" that enhance *the availability* of utility infrastructure and consistent with the *efficient consumption* of utility service. 66 Pa. C.S. § 1330(a)(2); 1330(b)(1)(iv).

The OCA supports PAWC's proposal to add a fourth tier of eligibility for customers whose household incomes are between 151% and 200% of Federal Poverty Level (FPL). PAWC St. 10 at 24, 27-28; OCA St. 5 at 49-50. The evidence also shows the need for increased percentage discounts for each tier, as proposed by the OCA and CAUSE-PA witness Geller:

	Water Service Charge Discount	**Water Service Volumetric Discount**	**Wastewater Total Bill Discount**
Tier 1 (0-50% FPL)	90%	80%	85%
Tier 2 (51-100% FPL)	75%	65%	73%
Tier 3 (101-150% FPL)	60%	40%	55%
Tier 4 (151-200% FPL)	30%	20%	37%

PAWC St. 10R at 29; OCA St. 5 at 45; CAUSE-PA St. 1 at 45. Notwithstanding disagreements over the affordability analysis, PAWC "does not oppose the modifications recommended by Mr. Colton or Mr. Geller. The proposed discounts to the BDP offered by Mr. Colton and Mr. Geller <u>*would provide greater levels of affordability for customers at the lowest end of the income scale*</u>." PAWC St. 10R at 31 (emphasis added). These modified discounts will generate reasonably affordable BTI Ratios for all four FPL tiers and help to make rates more affordable than PAWC's existing discount levels. PAWC St. 10R at 29; OCA St. 5 at 46-48; CAUSE-PA St. 1 at 45-46.

D. Hardship Fund

The purpose of a well-designed hardship fund program is to turn unaffordable bills into affordable bills for low-income customers. The Commission has broad discretion to authorize and modify hardship fund programs in setting just and reasonable rates. 66 Pa. C.S. § 1301; *Popowsky 1996* at 961. The OCA recommends two adjustments to the Hardship Grant program to improve affordability of rates. First, the maximum income eligibility for PAWC's hardship grants should be increased to 250% of the FPL. OCA St. 5 at 64-66. Second, amend the rules of the program to allow for multiple distributions (rather than a single distribution) to a customer in a year up to the existing maximum of $500 per year. OCA St. 5 at 64-66. While consumers with income between 200% and 250% of the FPL may not need a bill discount, these consumers are still likely to have a fragile income.[56] OCA St. 5 at 65. Consumers between 200% and 250% of the FPL generally fall below the Self-Sufficiency Standard. OCA St. 5 at 65. The Self-Sufficiency Standard varies by county, household size, and household composition but for Pennsylvania it varies from 200% to 300% of the FPL. OCA St. 5 at 65. Mr. Colton examined 27 different scenarios of various counties and household compositions and determined that 18 of the 27 scenarios had Self-Sufficiency Standard incomes between 200% and 250% of the FPL. OCA St. 5 at 66.

As a part of the rate case settlement at R-2022-3031672 & R-2022-03031673, PAWC agreed to "work with its CAAG members to develop a solution to allow an eligible customer to

[56] A fragile income is an income in which the consumer is generally able to pay utility bills without interruption, but due to an unexpected circumstance may be unable to afford a utility bill. Those known as the "working poor" often fall into this category, where an illness that requires time off or a sick child requiring time off often represents a permanent loss of income. Those that fall into this category generally do not have paid sick leave, and unexpected time off work presents a serious risk. OCA St. 5 at 50.

receive multiple Hardship Fund grant awards each year, up to the maximum grant amount of $500 for water and $500 for wastewater." OCA St. 5 at 64. Despite this condition to the settlement, a solution has not been achieved. Allowing multiple Hardship Grants to a single customer (up to the $500 maximum) would greatly assist consumers with fragile income that may be subject to numerous financial constraints throughout the year. Therefore, to assist these consumers, and to be consistent with the 2022 settlement, PAWC should be required to develop a method for allowing multiple Hardship Grants up to the maximum allowed amount. OCA St. 5 at 64.

E. Conservation Assistance

PAWC's failure to adequately address the water conservation needs of its low-income customers forces its low-income consumers to either go deeper in arrears or front the expenses of water conservation investments themselves, even though these customers are facing water bill burdens or BTI Ratios of 6% to nearly 80% and are unlikely to be able to afford these measures. OCA St. 5 at 71-76. In order to make rates more affordable, and therefore just and reasonable, the OCA recommends the adoption of OCA witness Mierzwa's customer charge recommendations (OCA St. 5 at 78) and OCA witness Colton's recommendation that PAWC develop a plan to utilize U.S. Department of Energy's Weatherization Assistance Program and the natural gas and/or electric Low-Income Usage Reduction Program agencies as partners to develop and deliver water conservation investments to low-income customers. OCA St. 5 at 73-75, 78.

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

PAWCs low-income customer outreach and intake for its BDP and AMP programs are currently inadequate. OCA St. 5 at 54-63. While the OCA recognizes that the AMP was just recently approved, and that it may be too early to assess the enrollment effectiveness of the enrollment in the AMP, the same cannot be said for the BDP. From November 2021 to October

2023, of the 60,660 confirmed low-income customers, PAWC has enrolled fewer than 13,700 or 17.7% of those customers into its BDP. OCA St. 5 at 57. This number is in stark contrast to PAWC's disconnection count of confirmed low-income customers from January 2021 to October 2023, which was 35,488, and the disconnection notice count of 412,518 sent to confirmed low-income customers. OCA St. 5 at 57. These confirmed low-income customers disconnections represent a total arrearage of $14,550,181 at the time of disconnection. OCA St. 5 at 57. In no month from January 2023-October 2023 did PAWC enroll more confirmed low-income customers than it disconnected. OCA St. 5 at 69.

OCA witness Colton provides the following recommendations for the Commission to require PAWC to adopt and undertake in order to provide adequate service:

> 1. The company should be required to make personal contact with any confirmed low-income customer facing termination of service for nonpayment and these customers should be informed of and given the right to enroll in the BDP and the AMP as an alternative to disconnection. Termination of these customers should be frozen until this contact takes place.
>
> 2. Moving forward, customers enrolled in the BDP should also be informed of the AMP and enrolled in it as well if they choose.
>
> 3. Customers should be informed of AMP and BDP and directed to enroll, where doing so would be more favorable to a customer and only offer a payment arrangement if the customer rejects the BDP and AMP after being informed of the programs' benefits.
>
> 4. The company should be required to make regular reports to Low Income Advocacy Groups (LIAG) regarding its steps towards utilizing speech patterns and linguistic analysis to review call center calls.

OCA St. 5 at 54-63. The Commission should require that these recommendations be implemented by PAWC as a part of any authorized rate increase to ensure that consumers are receiving adequate service. 66 Pa. C.S. §§ 523, 1501, 1505; *PG&W 1986* at 244-45 *PGW 2000* at *41-44.

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

In order to assist in the performance of its low-income customer assistance programs, PAWC should be required to introduce customer satisfaction surveys targeting (1) customers seeking to enroll in the BDP and/or AMP; (2) customers seeking to enroll in a deferred payment arrangement; (3) customers expressing a difficult paying, or an inability-to-pay their bills in a full and timely manner; and (4) customers responding to the pending (or already completed) disconnection of service for nonpayment. OCA St. 5 at 123.The results of these targeted surveys should be compiled, provided to the PAWC LIAG at each quarterly meeting, and subject to discussion at LIAG should a member of the group have questions or identify issues flowing from the targeted surveys. OCA St. 5 at 123. By compiling information that can be used to assess how PAWC might improve its customer satisfaction or improve its collections outcomes from customers, PAWC will improve its management control of costs and revenues, improve the stability of its earnings, and thus control the need for future rate relief. OCA St. 5 at 123-24.

H. Comprehensive Written Plan

PAWC should be required to develop a comprehensive written plan to be filed with the Commission's Bureau of Consumer Services as an element of fundamental prudent and adequate program planning and management of its low-income customer assistance programs. OCA St. 5 at 67-72; OCA St. 5SR at 30-31.

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

In interest of brevity, the OCA is generally supportive of the testimony filed by CAUSE-PA's Witness Harry S. Geller regarding his recommendations for the Administration of PAWC's Low-Income Assistance Programs.

XII. SERVICE QUALITY AND CUSTOMER SERVICE ISSUES

A. Summary

In the interest of brevity, see, *supra*, Section II Summary of Argument.

B. Customer Service Performance

PAWC's call center performance is inadequate and has been inadequate for some time based on: (1) high call-answer times (percentage of calls answered within 60 seconds and within 30 seconds are inadequate); (2) high call abandonment rate; and (3) high complaint rates. OCA St. 6 at 11-12, 19-24. PAWC's inadequate call center performance provides support for the OCA's recommendations to disallow certain call center expenses and reject the Company's managerial performance adder to the ROE (as discussed above). In addition, the Commission should require that the OCA's recommendations to improve call center and complaint handling performance be implemented by PAWC as a part of any authorized rate increase to ensure that consumers are receiving adequate service. 66 Pa. C.S. §§ 523, 1501, 1505; *PG&W 1986* at 244-45; *PGW 2000* at *41-44.

PAWC outsources its call center and customer service functions to its affiliate, the Service Company, and it does not provide appropriate managerial oversight thereof. OCA St. 6 at 7-10. PAWC has failed to conduct a proper root-cause analysis or any analysis to determine trends and failed to take corrective actions related to proven inadequate call center performance. OCA St. 6 at 13-17; OCA St. 6SR at 11-12. This failure in management leads to continued poor call center performance with no noticeable steps towards solving the problems. OCA St. 6 at 11-12, 19-24; OCA St. 6SR at 11-12.

PAWC's inadequate call center performance was a subject of the Commission's most 2023 Management Audit that documented poor call center performance for 2019-2022.[57] The Commission found that since 2019, PAWC experienced a sustained decline in call handling performance and recommended that the PAWC "initiate or devote additional efforts to improve the efficiency and/or effectiveness of its customer service function" and "improve customer service performance at minimum to pre-pandemic levels." The decline of call center was measured against the following metrics of: (1) percentage of calls answered within 30 seconds, and (2) call abandonment rate. According to the Report, the call center's performance when evaluated against both of these metrics declined significantly. OCA St. 6 at 21-23.

The Company's response to the Management Audit was lacking as it merely stated that it would "strive" to achieve a performance of answering 80% of the calls within 60 seconds by December 31, 2024, but without any mention of how to address the documented high abandonment call rate in the Management Audit.[58] Ms. Degillio's Direct testimony in support of this rate increase stated that the Company's internal standard was to answer 80% of the calls within 60 seconds and achieve an 8% or less abandonment rate. PAWC St. 9 at 9-10. While Ms. Degillio characterized this standard as an "industry standard," the Company is not able to defend this reference based on any "industry standard." OCA St. 6 at 23. All Pennsylvania electric and gas utilities are evaluated based on answering 80% of customer calls within 30 seconds as reflected in the annual BCS Reports and that standard has been routinely relied upon for PAWC's own presentation of call center results. OCA St. 6 at 23, Exh. BA-3.

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[57] *Pa. PUC, Pennsylvania American Water Co. Management and Operations Audit*, D-2022-3035217 (Issued Oct. 2023), Section XI, Customer Service. The report presented call center performance from 2019-2022.
[58] PAWC Implementation Plan, page 38, D-2022-3035217 (Oct. 2023).

OCA witness Alexander recommends the Commission require the following measures be adopted by PAWC to ensure adequate call center performance:

- PAWC be required to adopt specific performance standards requiring PAWC to comply with an annual average answering of 80% of PAWC calls within 30 seconds and a 4% call abandonment rate.

- PAWC be required to have a professionally conducted root cause analysis of all customer complaint data and track complaints and analysis for specific call centers, whether operated by the service company or a third-party contractor and report on findings, including identification of trends, evaluation, steps to reform or avoid repeated trends, and internal steps taken to take proper internal enforcement action where needed within 3 months and quarterly updates to stakeholders.

- PAWC should be required to provide managerial oversight to the Service Company's CSO's call center performance, including but not limited to conducting audits of the Service Company's CSO's performance based on defined metrics and conducting a proper root cause analysis of is internal disputes and BCS related findings and update its findings and conclusions on a quarterly basis.

- PAWC should be required to reform its Pennsylvania-specific "test" and training for customer representatives to address the full scope of Chapter 56 and Chapter 14 rights and remedies. PAWC should be required to routinely audit and evaluate the performance of third-party contractors to ensure that this training is being followed. OCA St. 6 at 18-19, 43-45.

Additionally, the Commission's 2023 Management Audit Report recommended that PAWC file a new or amended affiliated interest agreement (AIA) that accurately reflects the current company structure and intercompany transactions occurring between PAWC and the Service Company. PAWC has stated that it believes the AIA does not need to be updated. However, in its Opinion and Order releasing the 2023 Management Audit Report to the public, the Commission directed PAWC to file a new or amended AIA that accurately reflects the current company structure and the intercompany transactions occurring between PAWC and the Service Company. OCA St. 6 at 17. In connection therewith, Ms. Alexander recommends as follows:

- Any new or amended affiliate interest agreements should contain arms-length contractual provisions that grant PAWC contractual protection to perform audits of the Service Company's Customer Service Organization (CSO) performance based on defined metrics, and use specific center complaint data to determine, in part, penalties and payments under the contract.

- Any new or amended affiliate interest agreements should contain arms-length contractual provision that (1) requires the Service Company in its contracts with third-party contractors to reduce its fees owed to the third-party contractor so that the Service Company is not responsible for payment of fees related to services that fail to meet Metrics, and (2) the Service Company will not allocate costs to PAWC for services that fail to meet call center metrics. A plan to promptly achieve this objective should be required as a condition of any rate increase at no additional expense to PAWC customers due to the long-standing failure to reach reasonable performance requirements. OCA St. 6 at 18.

The Commission should require that these recommendations to PAWC's affiliated interest agreement with its Service Company be implemented by PAWC as a part of any authorized rate increase to ensure that consumers are receiving adequate service. 66 Pa. C.S. §§ 523, 1501, 1505; *PG&W 1986* at 244-45; *PGW 2000* at *41-44.

C. Tenant Issues and Protections

The OCA is not briefing this issue but reserves the right to respond in its Reply Brief.

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

The Commission should adopt the proposed tariff language put forth by OCA Witness Ms. Alexander in her surrebuttal testimony. OCA St. 6SR at 17-19. In the Company's direct, it requested to add a new tariff subsection dealing with termination of service to PAWC customers on behalf of "non-company" wastewater providers pursuant to the Water Services Act. As originally filed, the proposed tariff language posed the risk of harming consumers and creating additional confusion regarding the process based on the proposed language of the tariff and placement of the subsection within the tariff. OCA St. 6 at 26-31. In surrebuttal, Ms. Alexander put forth further revisions to the Company's proposed Section 12.8 that will protect consumers, while still allowing the Company to uphold its Joint Service Agreement with Aqua PA. OCA St. 6SR at 18-19. The Commission should require that these recommendations be implemented as a part of any authorized rate increase to ensure that consumers are receiving reasonable service. *See* 66 Pa. C.S. §§ 523, 1501, 1505; *PG&W 1986* at 244-45; *PGW 2000* at *41-44.

E. American Water Resources

PAWC is engaging in deceptive and discriminatory billing and marketing practices for non-utility "protection services" of customer-owned service lines and in-home plumbing provided by PAWC's ex-affiliate, AWR, to the detriment of consumer interests. This relationship is enabled by (1) a written billing and marketing agreement between PAWC and AWR; and (2) a licensing agreement between AWK and its ex-subsidiary, AWR, both of which were entered into at or around the time AWK sold off AWR on or around December 9, 2021. This is a serious customer protection issue, and the OCA alleges that it is inadequate and unreasonable utility service under Section 1501. Given that most of the key facts stem from documents marked confidential by PAWC, in the interest of brevity, the OCA urges the ALJs and Commission to review OCA witness Alexander's testimony and related exhibits on this issue. OCA St. 6 (Confidential) at 31-42, Exh. BA-6 through BA-9 (Confidential); OCA St. 6-Supp at 1-6; OCA St. 6SR (Confidential) at 19-24. The OCA recommends that the Commission promptly initiate an investigation of this program and direct PAWC to suspend/pause new customer enrollments until the Commission concludes its investigation. OCA St. 6 at 41; OCA St. 6SR at 23-24. The Commission should adopt these recommendations as a part of any authorized rate increase to ensure that consumers are receiving adequate and reasonable service. 66 Pa. C.S. §§ 523, 1501, 1505; *PG&W 1986* at 244-45; *PGW 2000* at *41-44.

F. Main Extensions

Mr. Choff is part of the Jefferson Township Municipal Authority (JTMA) formal complaint requesting an extension of water service within PAWC's existing service territory in Avella, Washington County, to at least 39 residents who struggle with quantity and quality of water. Tr. 1840-41; OCA St. 7-Supp. at 8-9, Exh. TLF-4. PAWC estimates the extension will require 29,500 feet of main and cost $5.2 million. Subject to further investigation, PAWC witness Aiton believes that based on the magnitude of water issues, the proposed project may meet the substantial public need requirements of Tariff Rule 27.1(F) such that no customer contribution will be required. PAWC St. at 3-4. The OCA recommends that, as part of the approval of any rate increase in this matter, that PAWC be directed to:

1. Seek grant funding, lower-cost funding, or contributions from other sources to help offset the costs of the project, whether or not the extension is funded under Rule 27.1(F).
2. Meet regularly with the OCA and other interested parties to provide updates on the JTMA project and allow the OCA to ask questions in real time.[59] OCA St. 7SR at 8-9.

G. Pressure Surveys and Pressure Reducing Valves

Based on the recommendations of OCA witness Fought (OCA St. 7 at 10; OCA St. 7SR at 2), and OCA witness Alexander (OCA St. 6 at 42-43; OCA St. 6SR at 24-25), PAWC witness Runzer stated the Company's agreement to establish a notification process for customers "where PAWC systems regularly exceed 100 pounds per square inch." Tr. 1983. PAWC will use its GIS system to identify these customers. Tr. 1983-84. Notices will inform customers they may need a pressure reducing valve and encourage them to contact a licensed plumber regarding installation, guidance, and maintenance. *Id*. The OCA supports the plan, including annual notice and also targeted notices for move-ins (Tr. 2055), but recommends that PAWC also provide notice if, for operational reasons, it increases regular operating pressures above 100 psi. OCA St. 7SR at 2. The Commission should direct the notification agreed to by PAWC – with the OCA's addition – as a

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[59] This process has been successfully used before. Following PAWC's 2013 base rate case (R-2013-2355276), PAWC met regularly with OCA to provide updates on the progress of extensions under Rule 27.1(F). OCA St. 7SR at 8-9.

part of any authorized rate increase to ensure that consumers are receiving reasonable service. 66 Pa.C.S. §§ 523, 1501, 1505; *PG&W 1986* at 244-45; *PGW 2000* at *41-44.

XIII. MISCELLANEOUS

A. <u>Customer Notices Related to Rate Changes</u>

As a matter of law, an increase in base rates involves a substantial property right, entitling ratepayers to notice and procedural due process. *McCloskey 2020* at 1068 (Pa. Cmwlth. 2018) (citing *Barasch 1988* at 1305-06; U.S. Const. amend. XIV, § 1). PAWC's notices to customers regarding the contents of its proposed rate changes are deficient and therefore constitute inadequate notice. OCA St. 1 at 55-62. Notice is deficient in terms of the accuracy of: (1) the bill impact of PAWC's proposed revenue shift under Section 1311(c); (2) the residential customer usage level; and (3) the Commission's final disposition of PAWC's proposed alternative ratemaking mechanisms under Section 1330. OCA St. 1 at 55-62; 66 Pa. C.S. § 1330. To remedy this deficiency, the OCA recommends that customer notices provide relevant information about the impact on their bill if PAWC's cost of service revenue deficiencies are used to set rates. The OCA recommends that a chart, using three usage levels, be included in the rate case notices for Water and Wastewater in PAWC's next base rate filing. OCA St. 1 at 60, 63.

Gallons per month	Current Bill (example)	Proposed Bill (example)
3,201	$70.65	$88.24
5,000	$100.29	$126.60
10,000	$182.69	$233.19

Finally, a notice should be sent at the end of the proceeding that shows customers what the final order's impact on their bills. This notice can include the two other recommendations as well as the information regarding any Section 1311(c) shift, and any other proposals that are adopted in the final order. OCA St. 1 at 63. The OCA recommends a direct mailing of the notice at the end of the case, just as PAWC used direct mailing for the notices at the time of its filing. The notice should include a link to the alternative ratemaking information posted on PAWC's website as required by regulation or Commission Order, and Section 1330(c)(1) and (2). Additionally, the website posting with the alternative ratemaking information could include information about the bill impact of the Commission's order at three usage levels. The OCA's main concern about the notice at the end of the case is that, currently, the information customers might see at the end of the case is limited to press releases or bill insert that use typical usage level and that information is not meaningful for most customers. Because of this, when customers receive the first bills containing the new rates, they have not received any meaningful information regarding the Commission's final order or about the bill impact of that order. OCA St. 1SR at 22-23.

PAWC currently benefits from the obscurity that is provided by merely showing what a typical customer's bill would be. PAWC could choose to show usage at multiple levels but has made the choice not to do so. There is no need to change the notice regulation to have the customer notice show multiple usage levels. OCA St. 1SR at 21. PAWC already made changes to the notice regarding small, explanatory charts, and it did not seek a change to the regulations to do so. OCA St. 1SR at 21; OCA St. 1 at 61-62.

B. <u>Tariff Changes (not addressed above)</u>

The OCA is not briefing any other tariff changes but reserves the right to respond in its Reply Brief.

XIV. CONCLUSION

In summary, PAWC has not affirmatively demonstrated the reasonableness of every element of its claims for rate base, revenues and expenses, rate of return, capital structure, Wastewater revenue allocation, cost of service allocation, rate design, deferred accounting treatment, and alternative ratemaking. Accordingly, it is well within the discretion of the ALJs and the Commission to deny, and the ALJs and the Commission should deny, PAWC's ratemaking claims and requests in this proceeding that are challenged by the OCA.

Respectfully submitted,

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Dated: March 26, 2024

SUMMARY TABLE
Pennsylvania American Water Company
R-2023-3043189 and R-2023-3043190

Line No.	Description	Reference	Total Company (A)	Water Operations (B)	Wastewater SSS General Operations (C)	BASA Wastewater Operations (D)	Brentwood Wastewater Operations (E)	CSS Wastewater Operations (F)
1	Adjusted rate base	B	$ 5,824,252,168	$ 4,690,883,439	$ 644,283,055	$ -	$ -	$ 489,085,674
2	Rate of return	D		6.97%	6.79%	6.79%	6.79%	6.79%
3	Net operating income required		$ 403,910,312	$ 326,954,576	$ 43,746,819	$ -	$ -	$ 33,208,917
4	Adjusted net operating income	C	$ 371,477,469	$ 314,257,932	$ 29,246,426	$ -	$ -	$ 27,973,112
5	Net operating income deficiency		$ 32,432,843	$ 12,696,644	$ 14,500,393	$ -	$ -	$ 5,235,805
6	Gross revenue conversion factor	A-1		1.400941	1.400970	1.400971	1.400970	1.400971
7	Revenue deficiency (Sufficiency)		$ 45,437,081	$ 17,787,250	$ 20,314,622	$ -	$ -	$ 7,335,209
8	Operating Revenue at Current Rates	C	$ 1,011,895,862	$ 824,117,186	$ 95,470,867	$ 11,847,402	$ 1,824,191	$ 78,636,216
9	Percentage Increase	L7 / L8	4.49%	2.16%	21.28%	0.00%	0.00%	9.33%

Notes and Source
See referenced schedules

Act 11: Per PAWC Exhibit 3-A, Act 11

Line No.	Description	Reference	Total Company (A)	Water Operations (B)	Wastewater SSS General Operations (C)	BASA Wastewater Operations (D)	Brentwood Wastewater Operations (E)	CSS Wastewater Operations (F)
10	Present Rate Revenue		$ 1,011,895,862	$ 824,117,186	$ 95,470,867	$ 11,847,402	$ 1,824,191	$ 78,636,216
11	Additional Revenue Requirement		$ 45,437,081	$ 17,787,250	$ 20,314,622	$ -	$ -	$ 7,335,209
12	Proposed Revenues before Act 11 Allocation		$ 1,057,332,943	$ 841,904,436	$ 115,785,489	$ 11,847,402	$ 1,824,191	$ 85,971,425
13	OCA Act 11 Allocation			$ 18,903,571	$ (15,235,966)	$ -	$ -	$ (3,667,604)
14	OCA Revenue Increase After Act 11 Allocation		$ 45,437,081	$ 36,690,821	$ 5,078,655	$ -	$ -	$ 3,667,604
15	OCA Proposed Revenues After Act 11 Allocation		$ 1,057,332,943	$ 860,808,007	$ 100,549,522	$ 11,847,402	$ 1,824,191	$ 82,303,820
16	Rate Increase/(Decrease) - %		4.49%	4.45%	5.32%	0.00%	0.00%	4.66%

Line No.	Description	Reference	Wastewater SSS General Operations	CSS Wastewater Operations
17	Wastewater Revenue Deficiencies	Line 7	$ 20,314,622	$ 7,335,209
18	Allocation Percentages Per OCA Witness Jerry Mierzwa		75%	50%
19	Act 11 - Wastewater Allocation	To Line 13	$ (15,235,966)	$ (3,667,604)

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

Water Operations

	Pro Forma Present Rates $ (1)	Company Adjustments $ (2)	Pro Forma Present Rates $ (3) = (1) + (2)	OCA Adjustments $ (4)	OCA Pro Forma Present Rates $ (5) = (3) + (4)	OCA Revenue Increase $ (6)	Total Allowable Revenues $ (7) = (5) + (6)
Operating Revenue	824,117,186		824,117,186	(3,231,395)	820,885,791	17,787,250	838,673,041
Expenses:							
O & M Expense	256,824,574		256,824,574	(10,183,881)	246,640,693	207,019	246,847,712
Depreciation	210,700,336		210,700,336	(14,975,208)	195,725,128	0	195,725,128
Taxes, Other	14,398,232		14,398,232	(148,761)	14,249,471	112,423	14,361,894
Income Taxes:							
State	13,347,020		13,347,020	886,465	14,233,485	1,395,777	15,629,262
Federal	33,868,950		33,868,950	2,143,724	36,012,674	3,375,387	39,388,061
Amortization Of ITC & Excess Deferred Taxes	(233,592)		(233,592)		(233,592)		
Total Expenses	528,905,520	0	528,905,520	(22,277,661)	506,627,859	5,090,606	511,952,057
Net Inc. Available for Return	295,211,666	0	295,211,666	19,046,266	314,257,932	12,696,644	326,954,576
Rate Base	4,704,067,656	0	4,704,067,656	(13,184,217)	4,690,883,439		4,690,883,439
Rate of Return	6.28%		6.28%		6.70%		6.97%

(1) As filed
(3) Company Main Brief

TABLE I(A)
Pennsylvania American Water Company
RATE OF RETURN
R-2023-3043189 and 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)]
Total Cost of Debt			2.33000000%		
Long-term Debt	49.00%	4.76%	2.33000000%		2.33%
Preferred Stock	0.00%	0.00%	0.00000000%	0.726860	0.00%
Common Equity	51.00%	9.10%	4.64000000%	0.726860	6.38%
	100.00%		6.97000000%		8.71%
Pre-Tax Interest Coverage	3.74				
After-Tax Interest Coverage	2.99				

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

100%	1.00000000
Less:	
Uncollectible Accounts Factor (*)	0.01163859
PUC, OCA, OSBA Assessment Factors (*)	0.00632041
Gross Receipts Tax	0.00000000
Other Tax Factors	0.00000000
	0.98204099
State Income Tax Rate (*)	0.07990569
Effective State Income Tax Rate	0.07847066
Factor After Local and State Taxes	0.90357033
Federal Income Tax Rate (*)	0.21001624
Effective Federal Income Tax Rate	18.976444%
Revenue Factor (100% - Effective Tax Rates)	0.71380589

(*) Company Main Brief

TABLE II
Pennsylvania American Water Company
SUMMARY OF ADJUSTMENTS
R-2023-3043189 and 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)
		$	$	$	$	$	$	$
	RATE BASE:							
	CWC:							
1	Int. & Div. (Table IV)	(933,000)						
2	Taxes (Table V)							
2	O & M (Table VI)	(812,369)						
3	Acquisition - Audubon Water	(7,406,830)						
4	Acquisition - Farmington Township Water	(2,773,125)						
5	Accumulated Depreciation - Reclassification of Lead Service Line Inventory	(1,258,893)						
	REVENUES:							
6	Acquisition Revenues and Expenses - Audubon Water Company		(2,965,024)				(236,922)	(572,901)
7	Acquisition O&M Expense - Farmington Township - Water		(266,371)				(21,285)	(51,468)
	EXPENSES:							
8	Acquisition Revenues and Expenses - Audubon Water Company			(1,527,135)	(763,977)	(58,437)	187,742	453,970
9	Acquisition O&M Expense - Farmington Township - Water			(148,575)	(21,549)	(3,810)	13,898	33,606
10	Depreciation Expense - Audubon Water				(269,599)		21,543	52,096
11	Depreciation Expense - Farmington Township Water				(101,751)		8,130	19,662
12	Uncollectibles Expense			(100,054)			7,995	19,334
13	Vacancies - Salary and Wages Expense			(1,045,353)		(79,970)	89,920	217,451
14	Annualized Performance Plan Expense			(85,523)		(6,543)	7,357	17,790
15	Group Insurance Expense			(200,623)			16,031	38,767
16	401K, Defined Contribution Plan and Employee Stock Purchase Plan			(72,817)			5,819	14,071
17	PAWC External Board Members Expense			(123,250)			9,848	23,816
18	Insurance Other Than Group			(247,905)			19,809	47,904
19	Depreciation Expense - Water Utility				(15,478,699)		1,236,836	2,991,022
20	Stock-Based Compensation Expense - AWW Executives			(1,642,726)			131,263	317,432
21	AWW Executives - Dividend Equivalents			(29,928)			2,391	5,783
22	American Water Works Service Company - Supplemental Executive Retirement Plan Expense			(29,906)			2,390	5,779
23	Call Center Expense			(3,082,255)			246,290	595,599
24	Arrearage Management Plan Credits - Uncollectibles Expense			(1,847,832)			147,652	357,065
25	Depreciation Expense - Reclassification of Lead Service Line Inventory				1,660,367		(132,673)	(320,841)
	TAXES:							
26	Interest Synchronization (Table III)						(877,570)	(2,122,214)
27	TOTALS	(13,184,217)	(3,231,395)	(10,183,881)	(14,975,208)	(148,761)	886,465	2,143,724

Notes:
Line 5: This increase to Accumulated Depreciation relates to the reclassification of Lead Service Line Inventory in rate base from Account No. 348 to Account No. 340.3
Line 22: This amount of AWWSC SERP expense reflects the portion of the corrected amount of $31,348 (per the response to OCA 35-008) that was allocated to Water Operations
Line 25: This increase to Depreciation Expense relates to the reclassification of Lead Service Line Inventory in rate base from Account No. 348 to Account No. 340.3

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

(1)	Amount $ (2)
Company Rate Base Claim	4,704,067,656
OCA Rate Base Adjustments (Table II)	(13,184,217)
OCA Rate Base (Line 1 - Line 2)	4,690,883,439
Weighted Cost of Debt (Table IA)	2.33000000%
OCA Interest Expense (Line 3 x Line 4)	109,297,584
Company Claim **(1)**	98,315,014
Total OCA Adjustment (Line 6 - Line 5)	(10,982,570)
Company Adjustment **(1)**	0
Net OCA Interest Adjustment (Line 7 - Line 8)	(10,982,570)
State Income Tax Rate (Table IB)	7.99%
State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	(877,570)
Net OCA Interest Adjustment (Line 9)	(10,982,570)
State Income Tax Adjustment (Line 11)	(877,570)
Net OCA Adjustment for F.I.T. (Line 12 - Line 13)	(10,105,000)
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment (Line 14 x Line 15)	(2,122,214)

(1) Company Main Brief

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

	Accrued Interest			Preferred Stock Dividends	
		Long-Term Debt	Short-Term Debt		
	(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$4,704,067,656	$4,704,067,656	Company Rate Base Claim	$4,704,067,656
2.	OCA Rate Base Adjustments	($13,184,217)	($13,184,217)	OCA Rate Base Adjustments	($13,184,217)
3.	OCA Rate Base	$4,690,883,439	$4,690,883,439	OCA Rate Base	$4,690,883,439
4.	Weighted Cost of Debt	2.33000000%		Weighted Cost Pref. Stock	0.00000000%
5.	OCA Annual Interest Exp.	$109,297,584	$0	OCA Preferred Dividends	$0
6.	Average Revenue Lag Days	-31.0	-31.0	Average Revenue Lag Days	-31.0
7.	Average Expense Lag Days	0.0	0.0	Average Expense Lag Days	0.0
8.	Net Lag Days	-31.0	-31.0	Net Lag Days	-31.0
9.	Working Capital Adjustment				
10.	OCA Daily Interest Exp.	$299,445	$0	OCA Daily Dividends	$0
11.	Net Lag Days	-31.0	-31.0	Net Lag Days	-31.0
12.	OCA Working Capital	($9,285,789)	$0		$0
13.	Company Claim (1)	($8,352,730)	$0	Company Claim (1)	$0
14.	OCA Adjustment	($933,059)	$0		$0
15.	Total Interest & Dividend Adj.	($933,059)			
	Rounded to $1,000	($933,000)			

(1) Company Main Brief.

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

Description (1)	Company Proforma Tax Expense Present Rates (2)	OCA Adjustments (3)	OCA Pro forma Tax Expense Present Rates (4)	OCA Allowance (5)	OCA Adjusted Taxes at Present Rates (6)	Daily Expense (7)	Net Lead/ Lag Days (8)	Accrued Tax Adjustment (9)
PUC Assessment	$0	$0	$0	$112,423	$112,423	$308.01	0.00	$0
Public Utility Realty	$0	$0	$0		$0	$0.00	0.00	$0
Capital Stock Tax	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
State Income Tax	$0	$886,465	$886,465	$1,395,777	$2,282,242	$6,253	0.00	$0
Federal Income Tax	$0	$2,143,724	$2,143,724	$3,375,387	$5,519,111	$15,121	0.00	$0
	$0	$3,030,189	$3,030,189	$4,883,587	$7,913,776			

ALJ Allowance	0
Company Claim (1)	0
ALJ Adjustment	0

(1) Company Main Brief

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

Description (1)	Company Pro forma F.T.Y. Expense (2)	OCA (3)	OCA Pro forma Expenses (4)	Operating Expenses Per Day	Lag Days (5)	Lag Dollars (6)
Service Company	$60,645,901	($1,702,560)	$58,943,341	$ 161,489	12.05	$1,946,616
Chemicals	$23,528,121	$0	$23,528,121	$ 64,461	47.20	$3,042,647
Group Insurance	$11,419,826	($200,623)	$11,219,203	$ 30,738	11.00	$338,113
Insurance, Other	$14,893,805	($247,905)	$14,645,900	$ 40,126	-69.48	($2,787,754)
Labor	$69,405,426	($1,290,206)	$68,115,220	$ 186,617	12.05	$2,249,519
Leased Equip./Rent	$105,375	$0	$105,375	$ 289	-13.36	($3,856)
Leased Vehicles	$5,043,012	$0	$5,043,012	$ 13,816	54.08	$747,254
Miscellaneous	$39,493,144	($7,676,874)	$31,816,270	$ 87,168	30.46	$2,655,164
Natural Gas	$1,232,626	$0	$1,232,626	$ 3,377	33.33	$112,567
Power	$15,812,740	$0	$15,812,740	$ 43,323	31.00	$1,343,181
Purchased Water	$3,099,741	$0	$3,099,741	$ 8,492	35.22	$299,105
Telephone	$4,996,974	$0	$4,996,974	$ 13,690	3.88	$53,146
Waste Disposal	$3,337,122	$0	$3,337,122	$ 9,143	41.96	$383,636
Post Retirement Benefits	($5,817,327)	$0	($5,817,327)	$ (15,938)	0.00	$0
Pensions	$22,219	$0	$22,219	$ 61	-6.41	($391)
	$247,218,705	($11,118,168)	$236,100,537	$646,851	16.00	$10,378,947

OCA Average Revenue Lag	50.6	
Less: OCA Avg. Expense Lag	16.0	
Net Difference	34.6	Days
OCA Pro forma O & M Expense per Day	$646,851	
OCA CWC for O & M	$22,351,701	
Less: Company Claim (1)	$23,164,070	
OCA Adjustment	($812,369)	

(1) Company Main Brief

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

SSS Wastewater General Operations

	Pro Forma Present Rates $ (1)	Company Adjustments $ (2)	Pro Forma Present Rates $ (3) = (1) + (2)	OCA Adjustments $ (4)	OCA Pro Forma Present Rates $ (5) = (3) + (4)	OCA Revenue Increase $ (6)	Total Allowable Revenues $ (7) = (5) + (6)
Operating Revenue	95,470,867		95,470,867	(794,154)	94,676,713	20,314,623	114,991,336
Expenses:							
O & M Expense	26,009,252		26,009,252	(755,258)	25,253,994	236,434	25,490,428
Depreciation	27,406,489		27,406,489	(110,119)	27,296,370	0	27,296,370
Taxes, Other	3,217,927		3,217,927	(8,754)	3,209,173	128,801	3,337,974
Income Taxes:							
State	2,906,503		2,906,503	(87,901)	2,818,602	1,594,072	4,412,674
Federal	7,064,720		7,064,720	(212,571)	6,852,149	3,854,922	10,707,071
Amortization Of ITC & Excess Deferred Taxes	0		0		0		
Total Expenses	66,604,891	0	66,604,891	(1,174,603)	65,430,288	5,814,229	71,244,517
Net Inc. Available for Return	28,865,976	0	28,865,976	380,450	29,246,426	14,500,394	43,746,819
Rate Base	649,330,622	0	649,330,622	(5,047,567)	644,283,055		644,283,055
Rate of Return	4.45%		4.45%		4.54%		6.79%

(1) As filed
(3) Company Main Brief

TABLE I(A)
Pennsylvania American Water Company
RATE OF RETURN
R-2023-3043189 and 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)]
Total Cost of Debt			2.35000000%		
Long-term Debt	46.84%	4.76%	2.23000000%		2.23%
WW Financing	4.40%	2.62%	0.12000000%		
Preferred Stock	0.00%	0.00%	0.00000000%	0.726859	0.00%
Common Equity	48.76%	9.10%	4.44000000%	0.726859	6.11%
	100.00%		6.79000000%		8.34%
Pre-Tax Interest Coverage	3.74				
After-Tax Interest Coverage	3.04				

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

100%	1.00000000
Less:	
Uncollectible Accounts Factor (*)	0.01163859
PUC, OCA, OSBA Assessment Factors (*)	0.00634032
Gross Receipts Tax	0.00000000
Other Tax Factors	0.00000000
	0.98202109
State Income Tax Rate (*)	0.07990580
Effective State Income Tax Rate	0.07846918
Factor After Local and State Taxes	0.90355190
Federal Income Tax Rate (*)	0.21001665
Effective Federal Income Tax Rate	18.976095%
Revenue Factor (100% - Effective Tax Rates)	0.71379096

(*) Company Main Brief

TABLE II
Pennsylvania American Water Company
SUMMARY OF ADJUSTMENTS
R-2023-3043189 and 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)
		$	$	$	$	$	$	$
	RATE BASE:							
	CWC:							
1	Int. & Div. (Table IV)	(100,000)						
2	Taxes (Table V)							
3	O & M (Table VI)	(50,409)						
4	Acquisition - Farmington Township Wastewater	(2,878,461)						
5	Acquisition - Sadsbury Township Municipal Authority Wastewater	(2,018,697)						
	REVENUES:							
6	Acquisition O&M Expense - Farmington Township Wastewater		(322,926)				(25,804)	(62,396)
7	Acquisition O&M Expense - Sadsbury Township Municipal Authority		(471,228)				(37,654)	(91,050)
	EXPENSES:							
8	Acquisition O&M Expense - Farmington Township Wastewater			(258,968)	(5,699)	(5,208)	21,565	52,145
9	Acquisition O&M Expense - Sadsbury Township Municipal Authority			(245,741)	85,414	(3,547)	13,094	31,658
10	Depreciation Expense - Farmington Township Wastewater				(137,987)		11,026	26,664
11	Depreciation Expense - Sadsbury Township Municipal Authority				(51,847)		4,143	10,019
12	Uncollectibles Expense			(11,591)			926	2,240
13	Insurance Other Than Group			(34,694)			2,772	6,704
14	Stock-Based Compensation Expense - AWW Executives			(51,658)			4,128	9,982
15	AWW Executives - Dividend Equivalents			(941)			75	182
16	American Water Works Service Company - Supplemental Executive Retirement Plan Expense			(940)			75	182
17	Arrearage Management Plan Credits - Uncollectibles Expense			(150,724)			12,044	29,125
	TAXES:							
18	Interest Synchronization (Table III)						(94,292)	(228,025)
19	TOTALS	(5,047,567)	(794,154)	(755,258)	(110,119)	(8,754)	(87,901)	(212,571)

Notes:
Line 16: This amount of AWWSC SERP expense reflects the portion of the corrected amount of $31,348 (per the response to OCA 35-008) that was allocated to SSS Wastewater General Operations

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

(1)	Amount $ (2)
Company Rate Base Claim	649,330,622
OCA Rate Base Adjustments (Table II)	(5,047,567)
OCA Rate Base (Line 1 - Line 2)	644,283,055
Weighted Cost of Debt (Table IA)	2.35000000%
OCA Interest Expense (Line 3 x Line 4)	15,140,652
Company Claim (1)	13,960,609
Total OCA Adjustment (Line 6 - Line 5)	(1,180,043)
Company Adjustment (1)	0
Net OCA Interest Adjustment (Line 7 - Line 8)	(1,180,043)
State Income Tax Rate (Table IB)	7.99%
State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	(94,292)
Net OCA Interest Adjustment (Line 9)	(1,180,043)
State Income Tax Adjustment (Line 11)	(94,292)
Net OCA Adjustment for F.I.T. (Line 12 - Line 13)	(1,085,751)
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment (Line 14 x Line 15)	(228,025)

(1) Company Main Brief

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

	Accrued Interest	Long-Term Debt	Short-Term Debt	Preferred Stock Dividends	
	(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$649,330,622	$649,330,622	Company Rate Base Claim	$649,330,622
2.	OCA Rate Base Adjustments	($5,047,567)	($5,047,567)	OCA Rate Base Adjustments	($5,047,567)
3.	OCA Rate Base	$644,283,055	$644,283,055	OCA Rate Base	$644,283,055
4.	Weighted Cost of Debt	2.35000000%		Weighted Cost Pref. Stock	0.00000000%
5.	OCA Annual Interest Exp.	$15,140,652	$0	OCA Preferred Dividends	$0
6.	Average Revenue Lag Days	-31.0	-31.0	Average Revenue Lag Days	-31.0
7.	Average Expense Lag Days	0.0	0.0	Average Expense Lag Days	0.0
8.	Net Lag Days	-31.0	-31.0	Net Lag Days	-31.0
9.	Working Capital Adjustment				
10.	OCA Daily Interest Exp.	$41,481	$0	OCA Daily Dividends	$0
11.	Net Lag Days	-31.0	-31.0	Net Lag Days	-31.0
12.	OCA Working Capital	($1,286,326)	$0		$0
13.	Company Claim (1)	($1,186,070)	$0	Company Claim (1)	$0
14.	OCA Adjustment	($100,256)	$0		$0
15.	Total Interest & Dividend Adj.	($100,256)			
	Rounded to $1,000	($100,000)			

(1) Company Main Brief.

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

Description	Company Proforma Tax Expense Present Rates	OCA Adjustments	OCA Pro forma Tax Expense Present Rates	OCA Allowance	OCA Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
PUC Assessment	$0	$0	$0	$128,801	$128,801	$352.88	0.00	$0
Public Utility Realty	$0	$0	$0		$0	$0.00	0.00	$0
Capital Stock Tax	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
State Income Tax	$0	($87,901)	($87,901)	$1,594,072	$1,506,171	$4,127	0.00	$0
Federal Income Tax	$0	($212,571)	($212,571)	$3,854,922	$3,642,351	$9,979	0.00	$0
	$0	($300,472)	($300,472)	$5,577,795	$5,277,323			

ALJ Allowance	0
Company Claim (1)	0
ALJ Adjustment	0

(1) Company Main Brief

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

Description (1)	Company Pro forma F.T.Y. Expense (2)	OCA (3)	OCA Pro forma Expenses (4)	Operating Expenses Per Day	Lag Days (5)	Lag Dollars (6)
Service Company	$1,895,820	($53,540)	$1,842,280	$ 5,047	12.05	$60,842
Chemicals	$1,827,234	$0	$1,827,234	$ 5,006	47.20	$236,297
Group Insurance	$1,070,797	$0	$1,070,797	$ 2,934	11.00	$32,271
Insurance, Other	$2,098,237	($34,694)	$2,063,543	$ 5,654	-69.48	($392,782)
Labor	$5,242,427	$0	$5,242,427	$ 14,363	12.05	$173,132
Leased Equip./Rent	$50,345	$0	$50,345	$ 138	-13.36	($1,842)
Leased Vehicles	$176,055	$0	$176,055	$ 482	54.08	$26,087
Miscellaneous	$5,587,735	($596,064)	$4,991,671	$ 13,676	30.46	$416,570
Natural Gas	$431,432	$0	$431,432	$ 1,182	33.33	$39,400
Power	$3,372,968	$0	$3,372,968	$ 9,241	31.00	$286,510
Purchased Water	$0	$0	$0	$ -	35.22	$0
Telephone	$211,445	$0	$211,445	$ 579	3.88	$2,249
Waste Disposal	$3,087,197	$0	$3,087,197	$ 8,458	41.96	$354,904
Post Retirement Benefits	$9,810	$0	$9,810	$ 27	0.00	$0
Pensions	$216,538	$0	$216,538	$ 593	-6.41	($3,806)
	$25,278,040	($684,298)	$24,593,742	$67,380	18.30	$1,229,832

OCA Average Revenue Lag	50.6	
Less: OCA Avg. Expense Lag	18.3	
Net Difference	32.3	Days
OCA Pro forma O & M Expense per Day	$67,380	
OCA CWC for O & M	$2,179,602	
Less: Company Claim (1)	$2,230,011	
OCA Adjustment	($50,409)	

(1) Company Main Brief

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

CSS Wastewater Operations

	Pro Forma Present Rates $ (1)	Company Adjustments $ (2)	Pro Forma Present Rates $ (3) = (1) + (2)	OCA Adjustments $ (4)	OCA Pro Forma Present Rates $ (5) = (3) + (4)	OCA Revenue Increase $ (6)	Total Allowable Revenues $ (7) = (5) + (6)
Operating Revenue	78,636,216		78,636,216	0	78,636,216	7,335,205	85,971,421
Expenses:							
O & M Expense	21,438,527		21,438,527	(175,560)	21,262,967	85,371	21,348,338
Depreciation	20,497,016		20,497,016	0	20,497,016	0	20,497,016
Taxes, Other	2,231,143		2,231,143	0	2,231,143	46,508	2,277,651
Income Taxes:							
State	1,984,048		1,984,048	(63,964)	1,920,084	575,588	2,495,672
Federal	4,906,577		4,906,577	(154,683)	4,751,894	1,391,936	6,143,830
Amortization Of ITC & Excess Deferred Taxes	0		0		0		
Total Expenses	51,057,311	0	51,057,311	(394,208)	50,663,103	2,099,403	52,762,506
Net Inc. Available for Return	27,578,905	0	27,578,905	394,208	27,973,113	5,235,805	33,208,917
Rate Base	489,184,280	0	489,184,280	(98,606)	489,085,674		489,085,674
Rate of Return	5.64%		5.64%		5.72%		6.79%

(1) As filed
(3) Company Main Brief

TABLE I(A)
Pennsylvania American Water Company
RATE OF RETURN
R-2023-3043189 and 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)]
Total Cost of Debt			2.35000000%		
Long-term Debt	46.84%	4.76%	2.23000000%		2.23%
WW Financing	4.40%	2.62%	0.12000000%		
Preferred Stock	0.00%	0.00%	0.00000000%	0.726859	0.00%
Common Equity	48.76%	9.10%	4.44000000%	0.726859	6.11%
	100.00%		6.79000000%		8.34%
Pre-Tax Interest Coverage	3.74				
After-Tax Interest Coverage	3.04				

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

100%	1.00000000
Less:	
Uncollectible Accounts Factor (*)	0.01163859
PUC, OCA, OSBA Assessment Factors (*)	0.00634040
Gross Receipts Tax	0.00000000
Other Tax Factors	0.00000000
	0.98202101
State Income Tax Rate (*)	0.07990580
Effective State Income Tax Rate	0.07846918
Factor After Local and State Taxes	0.90355183
Federal Income Tax Rate (*)	0.21001665
Effective Federal Income Tax Rate	18.976093%
Revenue Factor (100% - Effective Tax Rates)	0.71379090

(*) Company Main Brief

TABLE II
Pennsylvania American Water Company
SUMMARY OF ADJUSTMENTS
R-2023-3043189 and 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)
		$	$	$	$	$	$	$
	RATE BASE:							
	CWC:							
1	Int. & Div. (Table IV)	(83,000)						
2	Taxes (Table V)							
3	O & M (Table VI)	(15,606)						
	REVENUES:							
	EXPENSES:							
4	Uncollectibles Expense			(9,547)			763	1,845
5	Insurance Other Than Group			(23,713)			1,895	4,582
6	Stock-Based Compensation Expense - AWW Executives			(27,551)			2,201	5,324
7	AWW Executives - Dividend Equivalents			(502)			40	97
8	American Water Works Service Company - Supplemental Executive Retirement Plan Expense			(502)			40	97
9	Arrearage Management Plan Credits - Uncollectibles Expense			(113,746)			9,089	21,980
	TAXES:							
10	Interest Synchronization (Table III)						(77,992)	(188,607)
11	TOTALS	(98,606)	0	(175,560)	0	0	(63,964)	(154,683)

Notes:
Line 8: This amount of AWWSC SERP expense reflects the portion of the corrected amount of $31,348 (per the response to OCA 35-008) that was allocated to CSS Wastewater Operations

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

(1)	Amount $ (2)
Company Rate Base Claim	489,184,280
OCA Rate Base Adjustments (Table II)	(98,606)
OCA Rate Base (Line 1 - Line 2)	489,085,674
Weighted Cost of Debt (Table IA)	2.35000000%
OCA Interest Expense (Line 3 x Line 4)	11,493,513
Company Claim (1)	10,517,462
Total OCA Adjustment (Line 6 - Line 5)	(976,051)
Company Adjustment (1)	0
Net OCA Interest Adjustment (Line 7 - Line 8)	(976,051)
State Income Tax Rate (Table IB)	7.99%
State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	(77,992)
Net OCA Interest Adjustment (Line 9)	(976,051)
State Income Tax Adjustment (Line 11)	(77,992)
Net OCA Adjustment for F.I.T. (Line 12 - Line 13)	(898,059)
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment (Line 14 x Line 15)	(188,607)

(1) Company Main Brief

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

	Accrued Interest			Preferred Stock Dividends	
		Long-Term Debt	Short-Term Debt		
	(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$489,184,280	$489,184,280	Company Rate Base Claim	$489,184,280
2.	OCA Rate Base Adjustments	($98,606)	($98,606)	OCA Rate Base Adjustments	($98,606)
3.	OCA Rate Base	$489,085,674	$489,085,674	OCA Rate Base	$489,085,674
4.	Weighted Cost of Debt	2.35000000%		Weighted Cost Pref. Stock	0.00000000%
5.	OCA Annual Interest Exp.	$11,493,513	$0	OCA Preferred Dividends	$0
6.	Average Revenue Lag Days	-31.0	-31.0	Average Revenue Lag Days	-31.0
7.	Average Expense Lag Days	0.0	0.0	Average Expense Lag Days	0.0
8.	Net Lag Days	-31.0	-31.0	Net Lag Days	-31.0
9.	Working Capital Adjustment				
10.	OCA Daily Interest Exp.	$31,489	$0	OCA Daily Dividends	$0
11.	Net Lag Days	-31.0	-31.0	Net Lag Days	-31.0
12.	OCA Working Capital	($976,474)	$0		$0
13.	Company Claim (1)	($893,553)	$0	Company Claim (1)	$0
14.	OCA Adjustment	($82,921)	$0		$0
15.	Total Interest & Dividend Adj.	($82,921)			
	Rounded to $1,000	($83,000)			

(1) Company Main Brief.

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

Description	Company Proforma Tax Expense Present Rates	OCA Adjustments	OCA Pro forma Tax Expense Present Rates	OCA Allowance	OCA Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
PUC Assessment	$0	$0	$0	$46,508	$46,508	$127.42	0.00	$0
Public Utility Realty	$0	$0	$0		$0	$0.00	0.00	$0
Capital Stock Tax	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
State Income Tax	$0	($63,964)	($63,964)	$575,588	$511,624	$1,402	0.00	$0
Federal Income Tax	$0	($154,683)	($154,683)	$1,391,936	$1,237,253	$3,390	0.00	$0
	$0	($218,648)	($218,648)	$2,014,032	$1,795,384			

ALJ Allowance	0
Company Claim (1)	0
ALJ Adjustment	0

(1) Company Main Brief

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

Description	Company Pro forma F.T.Y. Expense	OCA	OCA Pro forma Expenses	Operating Expenses Per Day	Lag Days	Lag Dollars
(1)	(2)	(3)	(4)		(5)	(6)
Service Company	$1,033,737	($28,554)	$1,005,183	$ 2,754	12.05	$33,196
Chemicals	$2,129,667	$0	$2,129,667	$ 5,835	47.20	$275,408
Group Insurance	$1,327,092	$0	$1,327,092	$ 3,636	11.00	$39,995
Insurance, Other	$1,434,260	($23,713)	$1,410,547	$ 3,865	-69.48	($268,489)
Labor	$7,268,095	$0	$7,268,095	$ 19,913	12.05	$240,030
Leased Equip./Rent	$16,425	$0	$16,425	$ 45	-13.36	($601)
Leased Vehicles	$690,475	$0	$690,475	$ 1,892	54.08	$102,312
Miscellaneous	$3,204,307	($123,293)	$3,081,014	$ 8,441	30.46	$257,120
Natural Gas	$150,057	$0	$150,057	$ 411	33.33	$13,704
Power	$1,691,208	$0	$1,691,208	$ 4,633	31.00	$143,656
Purchased Water	$0	$0	$0	$ -	35.22	$0
Telephone	$120,976	$0	$120,976	$ 331	3.88	$1,287
Waste Disposal	$1,704,931	$0	$1,704,931	$ 4,671	41.96	$195,999
Post Retirement Benefits	$32,234	$0	$32,234	$ 88	0.00	$0
Pensions	$245,439	$0	$245,439	$ 672	-6.41	($4,314)
	$21,048,903	($175,560)	$20,873,343	$57,187	18.00	$1,029,303

OCA Average Revenue Lag	50.6	
Less: OCA Avg. Expense Lag	18.0	
Net Difference	32.6	Days
OCA Pro forma O & M Expense per Day	$57,187	
OCA CWC for O & M	$1,864,371	
Less: Company Claim (1)	$1,879,977	
OCA Adjustment	($15,606)	

(1) Company Main Brief

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

BASA Wastewater Operations

	Pro Forma Present Rates $ (1)	Company Adjustments $ (2)	Pro Forma Present Rates $ (3) = (1) + (2)	OCA Adjustments $ (4)	OCA Pro Forma Present Rates $ (5) = (3) + (4)	OCA Revenue Increase $ (6)	Total Allowable Revenues $ (7) = (5) + (6)
Operating Revenue	11,847,402		11,847,402	(11,847,402)	(0)	(0)	(0)
Expenses:							
O & M Expense	6,600,188		6,600,188	(6,600,188)	0	0	0
Depreciation	5,212,016		5,212,016	(5,212,016)	0	0	0
Taxes, Other	855,564		855,564	(855,564)	(0)	0	(0)
Income Taxes:							
State	(143,866)		(143,866)	143,866	(0)	0	(0)
Federal	(298,482)		(298,482)	298,482	(0)	0	(0)
Amortization Of ITC & Excess Deferred Taxes	0		0		0		
Total Expenses	12,225,420	0	12,225,420	(12,225,420)	(0)	0	(0)
Net Inc. Available for Return	(378,018)	0	(378,018)	378,018	0	(0)	0
Rate Base	231,536,917	0	231,536,917	(231,536,917)	0		0
Rate of Return	-0.16%		-0.16%		0.00%		0.00%

(1) As filed
(3) Company Main Brief

TABLE I(A)
Pennsylvania American Water Company
RATE OF RETURN
R-2023-3043189 and 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)]
Total Cost of Debt			2.35000000%		
Long-term Debt	46.84%	4.76%	2.23000000%		2.23%
WW Financing	4.40%	2.62%	0.12000000%		
Preferred Stock	0.00%	0.00%	0.00000000%	0.726859	0.00%
Common Equity	48.76%	9.10%	4.44000000%	0.726859	6.11%
	100.00%		6.79000000%		8.34%
Pre-Tax Interest Coverage	3.74				
After-Tax Interest Coverage	3.04				

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

100%	1.00000000
Less:	
Uncollectible Accounts Factor (*)	0.01163859
PUC, OCA, OSBA Assessment Factors (*)	0.00634040
Gross Receipts Tax	0.00000000
Other Tax Factors	0.00000000
	0.98202100
State Income Tax Rate (*)	0.07990582
Effective State Income Tax Rate	0.07846920
Factor After Local and State Taxes	0.90355181
Federal Income Tax Rate (*)	0.21001666
Effective Federal Income Tax Rate	18.97609%
Revenue Factor (100% - Effective Tax Rates)	0.71379087

(*) Company Main Brief

TABLE II
Pennsylvania American Water Company
SUMMARY OF ADJUSTMENTS
R-2023-3043189 and 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)
		$	$	$	$	$	$	$
	RATE BASE:							
	CWC:							
1	Int. & Div. (Table IV)							
2	Taxes (Table V)							
3	O & M (Table VI)							
	REVENUES:							
	EXPENSES:							
4	Uncollectibles Expense			(1,438)			115	278
5	Arrearage Management Plan Credits - Uncollectibles Expense			(39,573)			3,162	7,647
	TAXES:							
6	Interest Synchronization (Table III)						(37,002)	(89,482)
7	TOTALS	0	0	(41,012)	0	0	(33,725)	(81,557)

Notes:

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

(1)	Amount $ (2)
Company Rate Base Claim	231,536,917
OCA Rate Base Adjustments (Table II)	0
OCA Rate Base (Line 1 - Line 2)	231,536,917
Weighted Cost of Debt (Table IA)	2.35000000%
OCA Interest Expense (Line 3 x Line 4)	5,441,118
Company Claim (1)	4,978,043
Total OCA Adjustment (Line 6 - Line 5)	(463,075)
Company Adjustment (1)	0
Net OCA Interest Adjustment (Line 7 - Line 8)	(463,075)
State Income Tax Rate (Table IB)	7.99%
State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	(37,002)
Net OCA Interest Adjustment (Line 9)	(463,075)
State Income Tax Adjustment (Line 11)	(37,002)
Net OCA Adjustment for F.I.T. (Line 12 - Line 13)	(426,072)
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment (Line 14 x Line 15)	(89,482)

(1) Company Main Brief

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

	Accrued Interest	Long-Term Debt	Short-Term Debt	Preferred Stock Dividends	
	(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$0	$0	Company Rate Base Claim	$0
2.	OCA Rate Base Adjustments	$0	$0	OCA Rate Base Adjustments	$0
3.	OCA Rate Base	$0	$0	OCA Rate Base	$0
4.	Weighted Cost of Debt	2.35000000%		Weighted Cost Pref. Stock	0.00000000%
5.	OCA Annual Interest Exp.	$0	$0	OCA Preferred Dividends	$0
6.	Average Revenue Lag Days	-31.0	-31.0	Average Revenue Lag Days	-31.0
7.	Average Expense Lag Days	0.0	0.0	Average Expense Lag Days	0.0
8.	Net Lag Days	-31.0	-31.0	Net Lag Days	-31.0
9.	Working Capital Adjustment				
10.	OCA Daily Interest Exp.	$0	$0	OCA Daily Dividends	$0
11.	Net Lag Days	-31.0	-31.0	Net Lag Days	-31.0
12.	OCA Working Capital	$0	$0		$0
13.	Company Claim (1)	$0	$0	Company Claim (1)	$0
14.	OCA Adjustment	$0	$0		$0
15.	Total Interest & Dividend Adj.	$0			
	Rounded to $1,000	$0			

(1) Company Main Brief.

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

Description	Company Proforma Tax Expense Present Rates	OCA Adjustments	OCA Pro forma Tax Expense Present Rates	OCA Allowance	OCA Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
PUC Assessment	$0	$0	$0	$0	$0	$0.00	0.00	$0
Public Utility Realty	$0	$0	$0		$0	$0.00	0.00	$0
Capital Stock Tax	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
State Income Tax	$0	($33,725)	($33,725)	$0	($33,725)	($92)	0.00	$0
Federal Income Tax	$0	($81,557)	($81,557)	$0	($81,557)	($223)	0.00	$0
	$0	($115,283)	($115,283)	$0	($115,283)			

ALJ Allowance	0
Company Claim (1)	0
ALJ Adjustment	0

(1) Company Main Brief

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

Description	Company Pro forma F.T.Y. Expense	OCA	OCA Pro forma Expenses	Operating Expenses Per Day	Lag Days	Lag Dollars
(1)	(2)	(3)	(4)		(5)	(6)
Service Company	$0	$0	$0	$ -	0.00	$0
Chemicals	$0	$0	$0	$ -	0.00	$0
Group Insurance	$0	$0	$0	$ -	0.00	$0
Insurance, Other	$0	$0	$0	$ -	0.00	$0
Labor	$0	$0	$0	$ -	0.00	$0
Leased Equip./Rent	$0	$0	$0	$ -	0.00	$0
Leased Vehicles	$0	$0	$0	$ -	0.00	$0
Miscellaneous	$0	$0	$0	$ -	0.00	$0
Natural Gas	$0	$0	$0	$ -	0.00	$0
Power	$0	$0	$0	$ -	0.00	$0
Purchased Water	$0	$0	$0	$ -	0.00	$0
Telephone	$0	$0	$0	$ -	0.00	$0
Waste Disposal	$0	$0	$0	$ -	0.00	$0
Post Retirement Benefits	$0	$0	$0	$ -	0.00	$0
Pensions	$0	$0	$0	$ -	0.00	$0
	$0	$0	$0	$0	#DIV/0!	$0

OCA Average Revenue Lag	50.6	
Less: OCA Avg. Expense Lag	#DIV/0!	
Net Difference	#DIV/0!	Days
OCA Pro forma O & M Expense per Day	$0	
OCA CWC for O & M	#DIV/0!	
Less: Company Claim (1)	$0	
OCA Adjustment	#DIV/0!	

(1) Company Main Brief

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

Brentwood Wastewater Operations

	Pro Forma Present Rates $ (1)	Company Adjustments $ (2)	Pro Forma Present Rates $ (3) = (1) + (2)	OCA Adjustments $ (4)	OCA Pro Forma Present Rates $ (5) = (3) + (4)	OCA Revenue Increase $ (6)	Total Allowable Revenues $ (7) = (5) + (6)
Operating Revenue	1,824,191		1,824,191	(1,824,191)	0	(0)	(0)
Expenses:							
O & M Expense	801,885		801,885	(801,885)	0	0	0
Depreciation	525,583		525,583	(525,583)	0	0	0
Taxes, Other	52,917		52,917	(52,917)	0	0	0
Income Taxes:							
State	18,327		18,327	(18,327)	(0)	0	(0)
Federal	55,153		55,153	(55,153)	(0)	0	(0)
Amortization Of ITC & Excess Deferred Taxes	0		0		0		
Total Expenses	1,453,865	0	1,453,865	(1,453,865)	(0)	0	(0)
Net Inc. Available for Return	370,326	0	370,326	(370,326)	0	(0)	0
Rate Base	22,053,946	0	22,053,946	(22,053,946)	0		0
Rate of Return	1.68%		1.68%		0.00%		0.00%

(1) As filed
(3) Company Main Brief

TABLE I(A)
Pennsylvania American Water Company
RATE OF RETURN
R-2023-3043189 and 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)]
Total Cost of Debt			2.35000000%		
Long-term Debt	46.84%	4.76%	2.23000000%		2.23%
WW Financing	4.40%	2.62%	0.12000000%		
Preferred Stock	0.00%	0.00%	0.00000000%	0.726860	0.00%
Common Equity	48.76%	9.10%	4.44000000%	0.726860	6.11%
	100.00%		6.79000000%		8.34%
Pre-Tax Interest Coverage	3.74				
After-Tax Interest Coverage	3.04				

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

100%	1.00000000
Less:	
Uncollectible Accounts Factor (*)	0.01163859
PUC, OCA, OSBA Assessment Factors (*)	0.00634047
Gross Receipts Tax	0.00000000
Other Tax Factors	0.00000000
	0.98202094
State Income Tax Rate (*)	0.07990545
Effective State Income Tax Rate	0.07846883
Factor After Local and State Taxes	0.90355211
Federal Income Tax Rate (*)	0.21001642
Effective Federal Income Tax Rate	18.97608%
Revenue Factor (100% - Effective Tax Rates)	0.7137913

(*) Company Main Brief

TABLE II
Pennsylvania American Water Company
SUMMARY OF ADJUSTMENTS
R-2023-3043189 and 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)
		$	$	$	$	$	$	$
	RATE BASE:							
	CWC:							
1	Int. & Div. (Table IV)							
2	Taxes (Table V)							
3	O & M (Table VI)							
	REVENUES:							
	EXPENSES:							
4	Uncollectibles Expense			(221)			18	43
9	Arrearage Management Plan Credits - Uncollectibles Expense			(10,596)			847	2,047
	TAXES:							
10	Interest Synchronization (Table III)						(3,524)	(8,523)
11	TOTALS	0	0	(10,818)	0	0	(2,659)	(6,433)

Notes:

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

(1)	Amount $ (2)
Company Rate Base Claim	22,053,946
OCA Rate Base Adjustments (Table II)	0
OCA Rate Base (Line 1 - Line 2)	22,053,946
Weighted Cost of Debt (Table IA)	2.35000000%
OCA Interest Expense (Line 3 x Line 4)	518,268
Company Claim **(1)**	474,160
Total OCA Adjustment (Line 6 - Line 5)	(44,108)
Company Adjustment **(1)**	0
Net OCA Interest Adjustment (Line 7 - Line 8)	(44,108)
State Income Tax Rate (Table IB)	7.99%
State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	(3,524)
Net OCA Interest Adjustment (Line 9)	(44,108)
State Income Tax Adjustment (Line 11)	(3,524)
Net OCA Adjustment for F.I.T. (Line 12 - Line 13)	(40,583)
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment (Line 14 x Line 15)	(8,523)

(1) Company Main Brief

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

	Accrued Interest			Preferred Stock Dividends	
		Long-Term Debt	Short-Term Debt		
	(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$0	$0	Company Rate Base Claim	$0
2.	OCA Rate Base Adjustments	$0	$0	OCA Rate Base Adjustments	$0
3.	OCA Rate Base	$0	$0	OCA Rate Base	$0
4.	Weighted Cost of Debt	2.35000000%		Weighted Cost Pref. Stock	0.00000000%
5.	OCA Annual Interest Exp.	$0	$0	OCA Preferred Dividends	$0
6.	Average Revenue Lag Days	-31.0	-31.0	Average Revenue Lag Days	-31.0
7.	Average Expense Lag Days	0.0	0.0	Average Expense Lag Days	0.0
8.	Net Lag Days	-31.0	-31.0	Net Lag Days	-31.0
9.	Working Capital Adjustment				
10.	OCA Daily Interest Exp.	$0	$0	OCA Daily Dividends	$0
11.	Net Lag Days	-31.0	-31.0	Net Lag Days	-31.0
12.	OCA Working Capital	$0	$0		$0
13.	Company Claim (1)	$0	$0	Company Claim (1)	$0
14.	OCA Adjustment	$0	$0		$0
15.	Total Interest & Dividend Adj.	$0			
	Rounded to $1,000	$0			

(1) Company Main Brief.

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

Description	Company Proforma Tax Expense Present Rates	OCA Adjustments	OCA Pro forma Tax Expense Present Rates	OCA Allowance	OCA Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
PUC Assessment	$0	$0	$0	$0	$0	$0.00	0.00	$0
Public Utility Realty	$0	$0	$0		$0	$0.00	0.00	$0
Capital Stock Tax	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
State Income Tax	$0	($2,659)	($2,659)	$0	($2,659)	($7)	0.00	$0
Federal Income Tax	$0	($6,433)	($6,433)	$0	($6,433)	($18)	0.00	$0
	$0	($9,093)	($9,093)	$0	($9,093)			

ALJ Allowance	0
Company Claim (1)	0
ALJ Adjustment	0

(1) Company Main Brief

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

Description (1)	Company Pro forma F.T.Y. Expense (2)	OCA (3)	OCA Pro forma Expenses (4)	Operating Expenses Per Day	Lag Days (5)	Lag Dollars (6)
Service Company	$0	$0	$0	$ -	0.00	$0
Chemicals	$0	$0	$0	$ -	0.00	$0
Group Insurance	$0	$0	$0	$ -	0.00	$0
Insurance, Other	$0	$0	$0	$ -	0.00	$0
Labor	$0	$0	$0	$ -	0.00	$0
Leased Equip./Rent	$0	$0	$0	$ -	0.00	$0
Leased Vehicles	$0	$0	$0	$ -	0.00	$0
Miscellaneous	$0	$0	$0	$ -	0.00	$0
Natural Gas	$0	$0	$0	$ -	0.00	$0
Power	$0	$0	$0	$ -	0.00	$0
Purchased Water	$0	$0	$0	$ -	0.00	$0
Telephone	$0	$0	$0	$ -	0.00	$0
Waste Disposal	$0	$0	$0	$ -	0.00	$0
Post Retirement Benefits	$0	$0	$0	$ -	0.00	$0
Pensions	$0	$0	$0	$ -	0.00	$0
	$0	$0	$0	$0	#DIV/0!	$0

OCA Average Revenue Lag	50.6	
Less: OCA Avg. Expense Lag	#DIV/0!	
Net Difference	#DIV/0!	Days
OCA Pro forma O & M Expense per Day	$0	
OCA CWC for O & M	#DIV/0!	
Less: Company Claim (1)	$0	
OCA Adjustment	#DIV/0!	

(1) Company Main Brief

Public Input Hearings

Executive Summary

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Affordability/ Consumers' Conservation Efforts to Save Money on Bills / Reject Rate Increase

1. Mark Tortorice, President of the Port Vue Borough Council, testified regarding affordability and how he wasn't sure how families were expected to come up with another "$1,200, $1,500 bucks a year." Tr. at 142.
2. Debra McCarthy-Arnone, testified that members of AARP cannot afford PAWC's proposal. Tr. at 181.
3. Lissa Ludinich, a PAWC customer, testified regarding residents' inability to afford these rate increases. Tr. 242.
4. Michael Zrenchak testified on behalf of Liberty Borough concerning affordability and stated that at some point "it's not going to be affordable to anyone." Tr. at 258.
5. David Deliman, a PAWC customer appeared and testified expressing concern that he wouldn't be able to afford these rate increases. Tr. at 297.

6. Julian Thomas appeared and testified concerning the affordability of sewer bills for low-income families. Tr. at 300.
7. Patricia Humenik testified and described the rate increase as awful that as the sole provider for her family, she is scared to retire because she doesn't know how they will afford to live. Tr. at 310.
8. Representative Bridget Kosierowski testified that she was concerned about her constituent's ability to afford the rate increase. Tr. at 406-08.
9. John Borer testified that between water and his other bills, it is becoming unaffordable. Tr, at 538.
10. Lee Morgan appeared and testified that people cannot afford the water. Tr. at 557.
11. Janet Brier appeared and testified on behalf of Dunmore as well as herself. Ms. Brier testified that 19.8% of Dunmore's population is over 65 but cannot afford the cost of living today. Tr. at 613.
12. Paul Miller appeared and testified on behalf of himself that he is not sure how he will be able to afford this requested increase. Tr. at 653-54.
13. Senator Judy Schwanke appeared and testified on behalf of her constituents stating that she has concerns about affordability. Tr. at 790.
14. Amanda Johnsen testified regarding affordability. Tr. at 800.She also discussed how her family has cut back on water usage so that they can afford the bill by doing things such as being militant about shower and sink usage, not utilizing the kiddie pool, and not using the house to water plants. Tr. at 800-04.
15. Priscilla Gentry testified that both her and her husband are retired and that her water bill is now unaffordable. Tr. at 815. Ms. Gentry also discussed the extreme water conservation methods

she has been taking to attempt to lower her bill such as shutting off the water while in the shower, and only flushing toilets when necessary. Tr. at 817.

16. Keith Sauer testified that he disputes that the bills are affordable and stated that they may seem affordable but that is because customers are forced to prioritize PAWC bills over other expenses. Tr. at 823.
17. Judith Kraines testified that she was concerned people would not be able to afford this increase and the ripple effect that it would cause. Tr. at 845-47.
18. Karen Robert testified that she doesn't know how to make these rates more affordable and that the rate increase has her concerned. Tr. at 850-51.
19. Terence Reilly testified that the people of Exeter township can no longer afford their water. Tr. at 904.
20. Ruth Benderoth discussed how it was a challenge for her to make her bill every month and that the rates are unsustainable. Tr. at 921. Ms. Benderoth also testified that just because people can afford their bill does not mean that they are affordable. Tr. at 916. Furthermore, she discussed the water conservation measures her family undertakes. Tr. at 914-16.
21. David Shirey testified that he wasn't sure if he'd be able to afford the proposed increase. Tr. at 929.
22. Victor Rodriguez testified that the water and sewer bills are making it hard to provide affordable housing. Tr. at 1237.
23. Gary Iorfido appeared and testified on behalf of himself as well as AARP. Mr. Iorfido stated that members of AARP cannot afford the proposed increase and that older Americans are having to choose between groceries or affording water service. Tr. at 1586.

24. Carla Seidel testified that the bills are not sustainable and out of line with what households can afford. Tr. at 1874.
25. Malisa Migliori, testified that the costs of sewer are a big concern for the Borough of Port Vue. Tr. at 153.
26. Sheila Jones testified that the cost of water from PAWC has become exorbitant. Tr. at 869-70.
27. Mike Cortazzo testified opposing the rate increase, and voiced concerns over the cost of PAWC bills. Tr. at 908-12.
28. Jeronimo Hernandz testified regarding the high cost of his water and wastewater bill, and how he has to plan to leave the area due to high water bills. Tr. at 1372
29. Chrisopher Paone stated that the massive rate increases are burdensome to ratepayers. Tr. at 446.
30. David Phaneuf Sr. stated that the proposed increase was “burdensome and excessive”. Tr. at 503.
31. Bill Gaughan stated that the proposed rate hike threatens to place additional burdens on stretched incomes, and that it is outrageous to see a utility provider place a financial strain on families struggling to make ends meet. Tr. at 608-09.
32. Glenna Piho stated that the bill is a huge burden, and she is concerned for families on fixed incomes. Tr. at 895-96.
33. Andrew Kingsbury requested that the rate increase be rejected. Tr. at 1100.
34. Representative Bridget Kosierowski encouraged the Commission to Reject the rate hike. Tr. at 406-08.
35. Richard Brill, in his testimony, asked that the rate hike be rejected, and if possible, a rebate issued for last year’s increase. Tr. at 536.

36. George Bell III requested that the rate increase be rejected outright, or at least I be tempered. Tr. at 1013.
37. Gary Iorfido requested that the Commission reject the proposed increase. Tr at 1588.
38. Senator Katie Muth urged the Commission to reject the rate increase. Tr. at 1796.
39. Thomas Miller requested that the Commission wholly deny the rate increase and bring rates down to what other Pennsylvanians are paying. Tr. at 1823.
40. Eva Siarniak discussed how the last rate increase should be reversed. Tr. at 718.
41. Lee Spindler requested that the increase be denied, and a reduction given instead. Tr. at 640. He also discussed the water conservation efforts he has taken such as reduced flushing of his toilets. Tr. a 640.
42. Richard Knapick discussed how he has had to cut back on showers as well as showers at the local gym because he can’t afford a 4,000-gallon water bill, and that he can no longer afford to have a garden. Tr. at 194-95.
43. Kathleen Schwartz discussed how she has cut back on her usage by giving up things such as pressure washing her sidewalk and growing a garden. Tr. at 808.
44. Mary Tanealian discussed her drastic measures to reduce her water usage such as reduced bathing, flushing of toilets less often, and not filling up the baby pool. Tr. at 451-52.
45. Patricia Finley testified that she has worked hard to reduce her consumption as much as much as she can. Tr. at 1036-37.
46. Tacy Rutherford discussed how her family has attempted to reduce water usage to reduce her bill such as swapping out their new washing machine for a HE model. Tr. at 1705-07.

47. Shaun Keperling discussed the extreme conservation measures his family has taken such as not watering plants, showering at fitness centers, and modifying toilets to use less water per flush. Tr. at 1800-01.

48. Diane Michalowski discussed the efforts she has taken in an attempt to conserve water, such as reducing toilet flushing. Tr. at 812.

49. Alicia Shusset discussed her water conservation attempts such as using an electric tea kettle to heat water to avoid unnecessary running of water, limiting showers to five minutes, limiting toilet flushing, and water plants with the water from her cat's bowls. Tr. at 836-38.

50. Michael Knoll discussed his attempts to conserve water in order to bring the water bill down such as joining a fitness club to shower, reduced toilet flushing, and not washing his car. Tr. at 900.

51. Shawn Schower testified that his family has been conserving water, such as shutting off water as they wash hands, saying no to pool days, and not flushing the toilet three times, but that his bill was still $340. Tr. at 951-52.

52. Eva Ross discussed that despite her best conservation efforts, such as installing special shower valves, not running water while brushing teeth, and limiting showers to two minutes, her bill keeps increasing. Tr. at 1043.

53. Michelle white discussed the water conservation efforts her family has taken such as reducing toilet flushing, shorter showers, and less pool usage in an attempt to lower her bill. Tr. at 1090-91.

54. Kendra Robinson discussed the water conservation efforts she has had to take due to her high-water bills such as reduced shower time, no longer washing cars, and installing low flow faucets. Tr. at 1268-69.

55. Joli Harrington testified that she conserves water but is still concerned with the increasing rates. Tr. at 1356.
56. Jeronimo Herandez testified that he conserves water and is already down to half of what normal usage is and isn't sure how much lower he can go. Tr. at 1375-76.
57. Dominick York testified that he attempts to conserve water. Tr. at 1396.

<u>Revenue Decoupling Mechanism (RDM)</u>

1. Malisa Migliori, when asked about the RDM, asked how it works and that she does not think that it is fair or reasonable. Tr. at 164
2. Mary Tanealian, when asked about being forced to share back some of her bill savings due to the RDM stated "I would not be happy. They have enough." Tr. at 457-59.
3. David Bergerhoff in his testimony expressed confusion regarding the RDM. Tr. at 579-80.
4. Fay Franus in her testimony stated that she did not think the RDM was fair.
5. Senator Judy Schwank testified that she opposed the RDM and asked that it be explained better if possible. Tr. at 790-94
6. Amanda Johnsen in her testimony expressed that she opposed the RDM stating on cross examination that "I think it's horrible. We all are – we don't all live under rocks and we see what their executives and CEOs make on an annual basis in both salary, as well as bonuses, and that money is coming directly out of this community's pocket." Tr. at 804.
7. In her testimony, Priscilla Gentry expressed that she opposed the RDM. On cross examination Ms. Gentry stated, "I think it's disgusting" when asked her thoughts on the RDM. Tr. at 819.
8. Ron Foy, in his testimony stated that the RDM was "legalized price fixing. At the end of the day, it's you win/we lose, we lose/we lose." Tr. at 829.

9. Alicia Shussett testified that it was maddening that her efforts to conserve could backfire due to the proposed RDM. Tr. at 836-38.
10. Dorothy Pfeffer discussed in her testimony that she opposed the RDM stating that "And the winter rate is supposed to provide us a break, but then you've got that decoupling fee in there that means if you're cutting us a break here, you're going to catch us on the back end." Tr. at 855-56.
11. Michele Datko spoke against the proposed RDM in her testimony stating that "If we purchase new appliances and change our habits, we are in danger of contributing to the institution of the revenue decoupling charge. So there's no award for saving money. And that's just personally disheartening for my budget." Tr. at 882.
12. In her testimony, Ruth Benderoth discussed the water conservation methods her family takes and stated that the "request to uncouple sewage and water billing be denied." Tr. at 914-16.
13. Steve Rimby testified in opposition to the proposed RDM, when asked on cross examination stated "I think it sucks. . . . If I'm spending the time and money to go out and buy aerators or do this improvement or that improvement, and then they're going to punish me for it?" Tr. at 926-27.
14. David Shirey, stated his opposition to the RDM stating, "But I mean, I don't know what we can do, you know, with this decoupling." Tr. at 929.
15. Cindy Murphy testified in opposition to the RDM and discussed how the RDM leaves her no options to reduce the costs of her bill stating, "I have no options to reduce my cost because, one, even though I practice conservation regularly and always have, the planned revenue decoupling mechanism will just revert any of my savings back to PAW." Tr. at 1031.

16. Eva Ross stated that the RDM was alarming stating that "it penalizes customers for saving water through imposed surcharges." Tr. at 1045-46.
17. Michelle White testified on cross about the proposed RDM "It's horrible. And the kicker, its not even drinkable water." Tr. at 1094.
18. Matthew Heligen, when asked about the RDM on cross examination stated, "It's terrible." Tr. at 1106.
19. Daniel Skvarla stated that he was not aware of the RDM, but that he did not think it was reasonable. Tr. at 1154.
20. Kendra Robinson, in her testimony, characterized the proposed RDM as ludicrous. Tr. at 1275.
21. Kathleen Townsend, in her testimony, discussed how with the proposed RDM if you try to conserve it feels like you are getting punished. Tr. at 1286.
22. Jeronimo Hernandez stated that he was not aware of the RDM, but when explained, described it as "frankly ridiculous." Tr. at 1375-76.
23. Gary Iorfido, in his testimony, discussed how the RDM creates a disincentive to conserve water because not being able to reduce costs by lowering water usage seems "counter productive." Tr. at 1592.
24. Tacy Rutherford discussed how she was alarmed to learn of the RDM and that she may now have to pay a bill based on what the company determines it needs to meet financial goals rather than what was actually used. Tr. at 1708.
25. Michael Knoll discussed how the proposed RDM could counteract his attempts to bring his water bill down via conservation and stated "You feel so good that you figured out how to deal with these high water rates. And you're also more aware of this precious resource, only to find out that you're going to get kicked in the stomach again." Tr. at 900.

26. Shawn Schower voiced his opposition to the proposed RDM and stated “If we actually do conserve, we could actually pay more. And that’s sort of sickening.” Mr. Schower questioned how the RDM was “even legal.” Tr. at 953-55.

27. Patricia Finley stated in her testimony that “I’m concerned that we’ve done everything we can to reduce our consumption and now they’re talking about being able to add a surcharge because they think my household doesn’t use enough water. So how can I manage my finances.” TR. at 1036. She further said that the ECIC and RDM, that PAWC “will be able to charge for these additional fees without getting PUC approval and [we] will lose our ability to attempt to reduce our bills.” Tr. at 1037. When asked further about the RDM Ms. Finley stated I think it’s horrible . . . I’m doing everything I can to conserve water and they’re going to just sock it to me anyway.” Tr. at 1037.

<u>Environmental Compliance Investment Charge (ECIC)</u>

1. Mary Liebert stated that it is most definitely appropriate for PAWC’s costs to be subject to review and scrutiny by the Commission and the OCA before the costs are charged to consumers. Tr. at 232.

2. Julian Thomas stated in his testimony that he opposed the ECIC as it would harm the affordability of bills for low-income households and that he thinks it is appropriate and fair for the OCA and the PUC to first review and scrutinize costs before they go into rates. Tr. at 308-09.

3. Ruth Benderoth requested that the ECIC be denied. Tr. at 915-16.

4. Daniel Skvarla discussed how she was not aware of the ECIC but that it did not seem reasonable to her. Tr. at 1154.

5. Senator Katie Muth urged the PUC to reject the "uncapped set of fees and surcharges baked into this increased request." Tr. at 1796.
6. Emmanuel Paris agreed that it is appropriate for the PUC to review costs and rates before they go into rates. Tr. at 179.
7. Gary Sirois stated that he was aware that before a company can recover its costs it must file a rate request and be subject to scrutiny. TR. at 843. Mr. Sirois also agreed that this type of review and scrutiny is appropriate and should continue before the company can recover its costs. Tr. at 843.
8. Michael Langan, when asked if review of costs and the typical rate case process is important before a company can recover costs, said "absolutely." Tr. at 1544-45.
9. Patricia Finley said that the ECIC and RDM, that PAWC "will be able to charge for these additional fees without getting PUC approval and [we] will lose our ability to attempt to reduce our bills." Tr. at 1037.

<u>Act 11 Shift and Act 12 Acquisitions</u>

1. Debra McCarthy-Arnone testified that opposing the rate increase and specifically discussed the shifting of wastewater costs to water customers. Tr. at 183.
2. Larry Milliken testified opposing the shift from wastewater to water customers. Tr. at 472.
3. Gary Iorfido testified that it is unclear why water customers have to bear the burden of wastewater costs. Tr. at 1588-89.
4. Ron Foy discussed his opposition to Act 12 stating that "Whatever they invest there, we'll pay for. So the increased service or the upgrade to those services that we get no benefit out of . . . It isn't going to lower our bills in any way, but you want us to pay for it. That's the real criminal piece of that process." Tr. at 831-32.

5. Christopher Cappuccitti, in his testimony described Act 12 as “a horrific piece of legislation.” Tr. at 860.

6. Andrew Kingsbury, discussed on cross examination that when the company elects to utilize Act 12, he feels it is unconscionable. Tr. at 1101.

7. Jahan Tabatabaie, stated in his testimony that “every time American Water buys a water or sewer system, the company burdens its existing customers to pay for its current and future purchases. Tr. at 520.

8. Elaine Sporko, in her testimony, questioned “and they can’t even provide a basic service adequately. Why are they spending money increasing – the Company, the area that they- they have to maintain?” Tr. at 687. Ms. Sporko also stated that the company is not providing quality water right now, and she agreed that the company should slow down its growth by acquisitions and focus on providing quality water. Tr. at 689.

9. Sherri High, in her testimony, stated “I never thought that the PUC would go along with the multiple rate hikes the Pennsylvania American water asked for because they chose to overpay for acquisitions. How is that our fault to be passed on to us?” Tr. at 864.

American Water Resources

1. Jodi Asay testified that PAWC’s system is over-pressurized in her neighborhood resulting in multiple breakages of consumer-owned service line and that PAWC simultaneously sends direct marketing mailings to these consumers to purchase service line protection plans from American Water Resources. Tr. at 1473, 1513-1517. Ms. Asay testified that she received mailings as a PAWC customer from “American Water Service Line Protection.” She stated. “Everybody thinks that it's American Water Company, but then they found out that it was not American Water Company.” Tr. at 1517. She also described complaints associated with the

quality and timing of the work done under this program. Even more troubling, the attorney for PAWC attending this hearing directed Ms. Asay to discuss her concerns with a representative of American Water Resources in attendance at the hearing, stating, "*He may be able to clear up some of the concerns and confusion surrounding homeowner services and the protection they offer*". Tr. at 1522.

2. William Clark testified that the American Water Resources is a subsidiary, that its rates keep increasing, and it sounds like they are in the same group categories as PAWC. Tr. at 1072-1073.

3. Mr. Clark recognized that this service is billed by PAWC and that PAWC receives a benefit from billing for this service. Tr. at 1074.

4. Mary Tanealian testified that she assumed that American Water Resources was a subsidiary of American-Water (Tr. at 453, 454 ["*I was told it was."])* and noted that the charges had increased and that other customers based on her knowledge had stopped those payments due to the failure to repair their pipes. Ms. Tanealian confirmed that the charges on the bill were identified as "protection services" and not American Water Resources. Tr. at 454.

5. James McDermott testified that American Water Resources did not respond timely to his service call for work needed on his sewer line and he had to call a competitor of American Water Resources, which did timely respond and take care of his sewer line problem. He said that while he waited on the phone line with American Water Resources, representatives attempted to sell him additional interior sewer line protection services. Tr. at 529.

6. Pauline Bryner testified that the payment protection plan rates keep rising and that PAWC is allowing American Water Resources to use the American Water name, "but they're not affiliated." She said that the use of the name should make PAWC responsible for the

overbilling, making the argument that "[i]f they are allowing their name to be used in a service that is not really ethical, then they also have some form of liability." She asked for "some to look into that." During cross-examination conducted by the PAWC's attorney, the consumer asked the PAWC attorney if she could explain how Duquesne Light can offer a $4.99 plan for the same service, and American Water Resources is offering a $30.99 plan with an increase. The PAWC attorney said she could not explain it, and she further directed the consumer to "*folks at the back of the room*." Tr. at 316-325.

<u>Water Quality Concerns: (Taste, smell, chlorine, hard, quality)</u>

1. Teresa Fagerlin stated that she does not drink the water due to its smell and metallic taste. Tr. at 554-55.
2. Gerard Dombroski discussed that the water tastes terrible and he gets bottled water delivered as an alternative. Tr. at 667.
3. Michelle Kircher described the taste as moldy with a musty smell., and how she needs to use bottled water to drink. Tr. at 957.
4. Kendra Robinson stated that the water tastes bad and reeks of Chlorine. Tr. at 1269.
5. Nereida Colon-Gonzalex discussed how she does not drink the water due to its taste, and how the water is hard. Tr. at 1744.
6. Carla Moran discussed how she does not use the water for cooking as there is a lot of dirt in the water and that it smells like chlorine. Tr. at 1167,71.
7. Ron Foy discussed how he had to put a water system in because of how hard and unusable the water is. Tr. at 830.
8. Alicia Shussett testified that she purchased a water softener and a filtration system due to the hard water. Tr. at 836.

9. Patricia Finley testified that her water is very hard and that she had to get a water softener. Tr. at 1037-38.
10. Eva Ross testified that the water is hard and requires filters to be changed prematurely, that the water damages appliances and that she must buy bottled water for drinking. Tr. at 1044.
11. Nereida Colon-Gonzalez discussed how she does not drink the water due to its taste and that water is hard. Tr. at 1744.
12. Joanna Stuck discussed how she has been noticing hard water. Tr. at 1857-58.
13. Mary Tanealian testified and discussed the poor water quality and how it is so poor she must buy bottled water to drink. Tr. at 452-53.
14. Stephen Nelson discussed his low water quality. Tr. at 515.
15. Frank Serafini discussed how the low quality of water caused him to install filters. Tr. at 694-95.
16. Linda Bonczkiewicz discussed the quality of the water. Tr. at 702.
17. Kathleen Schwartz testified that she purchases water to drink as the quality of water she receives at her house is "garbage". Tr. at 808.
18. Priscilla Gentry discussed in her testimony that the quality of water she is receiving is not good, and that she has to buy bottled water to drink and demineralized water to clean baby bottles. Tr. at 815-16.
19. Sheila Jones discussed how she experiences periods of poor water quality forcing her to buy a filtration system. Tr. at 872.
20. Terence Reilly discussed the need to replace a dishwasher and two faucets due to poor water quality. Tr. at 903.

Pressure Issues

1. Kathleen Schwartz discussed the issues she has with the water pressure cutting out, and how the issue has been increasingly worse over the last four years and has been more constant in the last month. Tr. at 808-10.
2. Ron Foy discussed how his water pressure varies. Tr. at 830.
3. Eva Ross discussed the poor water pressure that she receives. Tr. at 1044.
4. Jodi Asay discussed the excessive pressure that she receives in her water. Tr. at 1484. Ms. Asay discussed in her testimony how she needs three pressure reducing valves to step down her pressure, but nothing is protecting her service line. Tr. at 1485-86. Ms. Asay also testified that she has experienced a broken service line, and that she knows of 17 different people who had broken service lines. Tr. at 1486.Furthermore, she discussed that she had been solicited for a protection plan through mailings she received from PAWC. Tr. at 1516.

Management Performance Adder

1. Malisa Miglori, when asked about the proposed additional revenue for alleged prudent management, stated "And how does that seem fair?" Tr. at 164. When asked if it was fair or reasonable she stated no. Tr. at 164.
2. Richard Knapick, when asked if the proposed management adder was fair or reasonable stated "Absolutely not." Tr. at 202.
3. Lissa Ludinich, when asked about the management adder and if it sounded fair and reasonable answered "No." and stated "We got to live with triple – triple the sewage bill versus what our water bill is. Reward for what?". Tr. at 242-433.

4. Pauline Bryner, when asked if she felt the reward that the Company was requesting for management behaving in a prudent manner was fair or reasonable, stated "It should be illegal." Tr. at 325-26.
5. Mary Tanealian, when asked her thoughts on the Company's request for extra profit for prudent management, stated "I think it's very unfair. . . . You know, we're being billed to death down here." Tr. at 459-60.
6. Amanda Johnsen, when asked about paying more in rates to reward the Company for doing its job in a prudent manner, stated "I think that's ridiculous." Tr. at 805
7. Sheila Jones, when asked about the Company's request for a reward of up to $11.8 million per year for running the company in a prudent manner, responded "I'm not really sure how anybody could correlate this with prudence." Tr. at 874.
8. Patricia Finley, when asked if she was aware of the Company requesting an additional reward for its prudent management, stated "I don't think they're managing very well, look at the cost of their rate increase." Tr. at 1040.

Summary of Public Input Hearing

Index

January 29, 2024 1:00 PM

1. Representative Matthew Gergley of the 35th District testified to address the pressing issue of extreme rate increases proposed by corporations that own the entities. And that these extreme rate hikes threaten essential access to clean water. Tr. at 136. Rep. Gergely spoke of the hardship faced by seniors due to these increases, and that the increases are "steep and unprecedented compared to the average increases we've seen in other regions." Tr. 136. Rep. Geregely proposed expanding assistance programs, and a tiered rate system.
2. Mark. Tortorice, President of the Port Vue Borough Council, testified on behalf of the Borough of Port Vue. He testified that about a year ago, sewage rates increased from one moth to the next approximately 120%. TR. at 142. He questioned how families were expected to come up with another "$1,200, 1,500

bucks a year." Tr. at 142. Mr. Tortorice was concerned that residents were facing a 2.5% increase while commercial, industrial, and municipal were getting a 30% decrease. Tr. 143. MR. Tortorice also questioned why sewer service was not metered and people were paying sewer bills for water not going into the system. Tr. 144. He also requested that they look into funding such as grants. Mr. Tortorice closed his testimony with stating that people can't afford the increases. Tr. 147. When prompted by company council regarding the low income programs, Mr. Tortorice expressed that most people cannot meet the requirements for the programs. Tr. 148.

3. Malisa Migliori, manager of the Borough of Port Vue, testified on behalf of the Borough. Ms. Migliori testified that the costs of Sewer are a big concern for the Borough. Tr 153. Ms. Miglori testified to concerns that young families in the Borough aren't making cuts. Tr. at 155. Ms. Miglori stated that in the 25 or 26 years of her municipal experience, she has never seen rate increase to this magnitude and it doesn't seem fair or reasonable for the rate increase to be filed nine months after the last increase. Tr. at 161. Furthermore, Ms. Miglori opposed the RDM and the management adder. Tr. at 164
4. Jamie Colecchi testified on behalf of himself. Mr. Colecchi testified in favor of the proposed rate increase due to the need for investment in the infrastructure. Tr. at 168-69.
5. Emmanuel Paris testified on behalf of the Board of Education for the Avella School District. Mr. Paris testified in favor of the proposed rate increase and PAWC

discussing its extension of water to the Avella School District, and the need for investment in the infrastructure. Tr. at 176-77.

6. Debra McCarthy-Arnone testified on behalf of AARP. Ms. McCarthy-Arnone testified that while they support safe drinkable and affordable water, members cannot afford PAWC's proposal and that no one should have to choose between buying groceries or heating their homes, but that is what older Pennsylvanians are faced with as water and wastewater bills skyrocket. Tr. at 181. Ms. McCarthy-Arnone testified opposing the rate increase in general, and specifically called out the fixed customer charge proposed increase along with the shifting of wastewater costs to water customers.

7. Jody Robertson appeared and testified on behalf of the Dollar Energy fund. Ms. Robertson testified regarding the Dollar Energy partnership with PAWC regarding the low-income programs. Tr. at 185-90.

8. Richard Knapick testified on behalf of himself. Mr. Knapick testified that he used to have a garden but can no longer because he can't afford it, and that he has cut back on showers because he can't afford 4,000 gallons of water and that the increases are obscene. Tr. at 194-95. Mr. Knapick also testified that the rate increase being filed nine months after the company received a rate increase was not fair. Tr. at 202-03.

9. Joseph Casilli, a PAWC customer, appeared and testified on behalf of himself and his experience as a utility contractor. Tr. at 204. Mr. Casilli testified in support of the rate increase. Tr. at 204. Mr. Casilli also testified that as a utility contractor he has done work for PAWC. Tr. at 207.

10. Jordan Grady, a PAWC customer and the president of the Butler County Chamber of Commerce, appeared and testified on behalf of himself. Mr. Brady testified that the company has been an outstanding partner. Tr. at 210. Mr. Grady testified that PAWC does pay dues to the chamber of commerce and that the Chamber would like to continue to receive those dues. Tr. at 212-13.
11. Chris Heck, a PAWC customer and the President of the Pittsburg Airport Area Chamber of Commerce, appeared and testified on his own behalf. Mr. Heck testified that the water quality he receives is better than what he had received in other parts of the country. Tr. at 214.
12. Will Thomeier, a PAWC customer and employee of the Washington County Chamber of Commerce, appeared and testified on his own behalf. Mr. Thomeier testified positively of his experience in working with the company as well as their wholistic approach to issues. Tr. at 221-222.
13. Robert Betters, a PAWC Wastewater customer, testified on behalf of himself. Mr. Betters testified regarding why PAWC was not using money from the federal government and was instead passing costs on to consumers. Tr. 226. Mr. Betters also voiced opposition to consumers receiving an increase while business got a discount. Tr. 226. Mr. Betters stated, regarding the rate increase, "And to – to have to go through this again – and then one more nine months later. Are – are – are you kidding?" Tr. 227.
14. Mary Liebert, a PAWC wastewater customer testified on behalf of herself. She testified that in the past two and a half years her wastewater rates have gone up three times. Tr. 229. She also testified that she is on social security and does not

qualify for the assistance programs, furthermore she testified that the $500 max per year would only cover one or two sewage bills at most and that the assistance wouldn't be necessary if the increases were reasonable. Tr. 230-31.

15. Lissa Ludinich, a PAWC wastewater customer, testified on behalf of herself. She testified that residents cannot afford these increases, and that many of them do not qualify for the assistance programs. Tr. at 237 Ms. Ludinich also stated that she did not believe the management adder was fair or reasonable. Tr. at 242
16. Victoria Curran, a PAWC wastewater customer, testified on behalf of herself and stated that she was not in favor of the rate increase. Tr. 248
17. Rosemary Sabol , a PAWC wastewater customer, testified on behalf of herself. She testified that she has seen what the sewage bills are, and they are ridiculous, and that she is not in favor of the rate increase. Tr. at 250-51.
18. Michael Zrenchak, testified on behalf of Liberty Borough. Mr. Zrenchak testified concerning the spreading of costs over the state and that the rates are continually increasing. Tr. at 258. He also testified that at some point "it's not going to be affordable to anyone." Tr. at 258. Mr. Zrenchak also opposed the rate increase coming so closely after the last. Tr. at 260.

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19. Representative Nick Pisciottano, testified in his role as an elected official. Rep. Pisciottano stated that he opposed the rate increase for three reasons. Tr. at 288. First, consumers have no choice in who provides their services, second the assets of PAWC have very long lives and the impact of replacing these assets should be spread out over a longer time, and finally he stated that he has gotten many

concerned calls from not only constituents, but also businesses regarding the proposed rate increase. Tr. at 289-90.

20. Dr. Cynthia Karaffa, a PAWC customer, appeared and testified on behalf of herself. Dr. Karaffa testified that she is currently working a full-time job and two part time jobs, she is not sure how people are expected to get the money to pay for this "very large rate increase." Tr. at 293-93
21. David Deliman, a PAWC customer, appeared and testified on behalf of himself. Mr. Deliman testified that he disapproved of the sale of the Port Vue system, and wonders whether affordability was considered in the review. Tr at 296. Mr. Deliman expressed concern that he couldn't afford these increases and that he will have to move out of the area. Tr at 297.
22. Julian Thomas, a PAWC customer, appeared and testified on behalf of himself as well as the group American-Water Concerned Citizens. Mr. Thomas testified regarding his concern that people don't even know they have a sewage bill until their water is shutoff due to a delinquent sewer bill. Tr. at 300. Mr. Thomas also testified concerning the affordability of the sewer bills for low income families, stating that he knows a family with four children who does not have water because it was shut off. Tr at 300. Mr. Thomas testified that he opposed the ECIC as it would harm the affordability of the bills for low income households. Tr. at 309
23. Patricia Humenik, a PAWC customer, appeared and testified on her own behalf. Ms. Humenik testified that she is turning 65 soon and the sole provider for her family, and as such is scared to retire because she does not know how she will afford to live. Tr. at 310. Ms. Humenik characterized this increase as awful. Tr. at 310.

24. Pauline Bryner, a PAWC customer, appeared and testified on behalf of herself. Ms. Bryner testified that this increase means the difference between food and medicine for seniors in Port Vue. Tr. at 312-13. The increase would force those, especially those on fixed incomes, to cut back and skimp on food or insulin in order to pay their bills. Tr. at 313. Ms. Bryner also testified opposing the 1000 gallon minimum that seniors are forced to pay. Tr at 314. Finally, Ms. Bryner voiced her concern regarding the payment protection plan price changes, as well as her opposition to the management adder. Tr. at 317-25.

25. Joseph Ingram, a PAWC customer, appeared and testified on behalf of himself. Mr. Ingram testified concerning the rate increase and wondered why, if the company is currently operating on a surplus, they are raising rates. Tr at 330-31. Mr. ingram also testified asking whether the company was getting any funding from the infrastructure bill. Tr. at 330.

26. Frank Cortazzo, a PAWC costumer, appeared and testified on his own behalf. Mr. Cortazzo testified primarily on the economic impact of the increase, and was concerned with the speed at which the company was attempting to recover its costs. Tr. at 332-34.

27. Jody Goughnour, a PAWC customer, appeared and testified on behalf of herself. She testified regarding her concerns with the price increase as well as her struggle with the low income assistance programs offered by PAWC because she was not the homeowner and the bill was not in her name. Tr. at 337. Ms. Goughnour testified that because the bill was in her landlords name, the company told her she did not qualify for assistance. Tr. at 338.

28. Diamond Vargo, a PAWC customer, testified on behalf of herself. Ms. Vargo testified that her usage unexpectedly increased and she did not know why. Tr. at 345.

29. Patrick Loera, a PAWC customer, appeared and testified on behalf of himself. Mr. Loera testified his opposition to the decision in the last rate case to increase the Port Vue rates at a rate higher than what was originally requested. Tr. at 349-51.

30. Donna Priselac, a PAWC customer, appeared and testified on behalf of herself. Ms. Priscelac testified that she questions the use of water to determine sewer usage. Tr. at 352.

31. Deborah Thomas, a PAWC customer, appeared and testified on behalf of herself. Ms. Thomas testified that her sewage rate has doubled , and that sewage should be metered. Tr. at 355-56.

32. Deaniel Negley, a PAWC customer, appeared and testified on his own behalf. Mr. Negley testified that he questions whether it was necessary to reline every sewer line in town. Tr. at 357. Mr. Negley said he would rather they had been replaced at an as needed basis, Tr. at 357.

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33. Senator Marty Flynn, appeared and testified in his capacity as a state senator and in his capacity as a customer. Senator Flynn testified that since the sale of the Scranton system to PAWC, the rates for wastewater have been raised over 252 percent since 2017. Tr. at 398. Senator Flynn also testified concerning billing issues where constituents did not receive a bill and then got a double bill with a late charge. Tr. at 400.

34. Representative Bridget Kosierowski appeared and testified on behalf of her experience as a customer as well as in her capacity as a representative. Rep. Kosierowski, testified her concern that constituents would not be able to afford the increase, and encouraged the commission to reject the rate hike. Tr. at 406-08.

35. Representative James Haddock appeared and testified in his capacity as a customer and as a representative. Rep. Haddock testified regarding the pancaking of rates, and how two rate increases in double digits in two years is "unconscionable." Tr. at 412.

36. Representative Kyle Mullins, appeared and testified in his capacity as a representative as well as a customer. Representative Mullins testified that this increase, is one step too far given that there was a significant increase in 2022. Tr. at 420.

37. Representative Maureen Madden, appeared and testified in her capacity as a representative as well as a customer. Representative Madden testified that the rate increase will have a terrible effect on her constituents, Tr. at 425.

38. Max Conway, the mayor of Dunmore, appeared and testified on behalf of himself as well as in his capacity as mayor. Mayor Conway testified that he opposes the proposed increase because it will create economic hardship for families that just saw a massive sewer bill increase from the last rate case, it will impact the small businesses of Dunmore, and that the increase is not transparent enough. Tr. at 432. Mayor Conway also testified about things he has heard from constituents, such as elderly people being pushed out of their home by the rising utility prices Tr. at 434.

39. Christopher Paone, appeared and testified in his capacity as both a borough manager and a customer. Mr. Paone testified that as borough manager, he has seen the water company tear up freshly paved roads to fix problems rather than act proactively. Tr. at 446. Furthermore, he stated that the massive increases are burdensome to ratepayers Tr. at 446.

40. Mary Tanealian, a PAWC customer, appeared and testified on her own behalf. Ms. Tanealian testified as to the unaffordability of the water such that it has forced her to take drastic measures of reduction like reduced bathing and flushing. Tr. at 452. Ms. Tanealian also testified to the poor quality of water, in fact so poor that she has to drink bottled water. Ms. Tanealian testified that she thought American Water Resources was a subsidiary of American water. Tr. at 453. Ms. Tanealian also testified that she disapproved of the RDM as well as the management adder. Tr. at 457-59.

41. Larry Milliken, a PAWC customer, appeared and testified on behalf of himself. Mr. Milliken testified that he opposed the increase for a variety of reasons and that it contained multiple “hidden fees”. Tr. at 467-69. Mr. Millikin also testified as to the profitability of American Water while PAWC rates keep going up. Tr. at 467. Mr. Milliken also testified opposing the shift of revenue from wastewater to water customers. Tr. at 472.

42. Thom Welby, a PAWC Customer, appeared and testified on behalf of himself. Mr. Welby voiced concern for the ability of people to pay the bills if the rate increase went through. Tr. 476. Mr. Welby also testified that he was being charged for sewage that was not going to the sewer system. Tr. at 477.

43. Marie Ratchford-Demkosky, a PAWC customer, appeared and testified on behalf of herself. Ms. Ratchford-Demkosky testified that she did not receive a bill and December, and that she felt there should be no increase until PAWC gets its accounting department in order. Tr. at 480-81.

44. John Augustine, a PAWC customer, appeared and testified on behalf of a group. The group that Mr. Augustine testified on behalf of receives dues from PAWC and would like them to continue paying dues. Tr. at 486. Mr. Augustine testified that PAWC invests in its services.

45. Ellen Ferretti, who is not a PAWC customer, appeared and testified on behalf of the North branch land Trust. North Branch Land Trust receives Donations from PAWC and would like to continue to do so. They testified positively about the relationship they have with PAWC. Tr. at 488-91.

46. Bruce Reddock, a PAWC customer, appeared and testified on behalf of the Scranton Lackawanna Industrial Building Company. SLIBCO is an affiliate of the Greater Scranton Chamber of Commerce, and spoke in favor of its relationship with PAWC. Tr. at 494-96.

47. Dabid Phaneuf Sr., a PAWC customer, appeared and testified on behalf of AARP. Mr. Phaneuf testified opposing the rate increase, stating that the proposed increase is “burdensome and excessive”. Tr at 503. Mr. Phaneuf also testified opposing the increase to the fixed charge as it makes it hard to control a water bill. Tr. at 504.

48. William Hotaling appeared and testified on behalf of Ixom Watercare, Mr. Hotaling testified that the company he represents has worked hard with PAWC to ensure that constituents have safe water. Tr. at 509.

49. Ollivia Jackson, a PAWC customer, appeared and testified on behalf of herself. Ms. Jackson testified that the proposed increase will have a significant impact on her daily life, with no signs of improvement to the infrastructure. Tr. at 510. Ms. Jackson mentioned that because of this increase she is unable to pay extra on her student loans. Tr. at 512.

50. Stephen Nelson, a PAWC customer, appeared and testified on behalf of his wife and himself. Mr. Nelson testified regarding his high bill and low water quality. Tr. at 515.

51. Jahan Tabatabaie, appeared and testified on behalf of his family and his clients. Mr. Tabatabaie testified in opposition to the rate increase and stated that every time PAWC buys a water or sewer system it burdens existing customers. Tr. at 520. Mr. Tabatabaie also requested that the PUC decrease current rates along with a denial of the increase. Tr. at 521.

52. Veronica Hannevig, appeared and testified regarding alternatives to a rate increase. Tr. at 522-25.

53. James McDermott, a PAWC customer, appeared and testified on behalf of himself. Mr. McDermott testified that his last sewer bill was $189 for 34 days, 7 of which he was not home for. Tr. at 528. Mr. McDermott also testified regarding a negative experience he had with American Water Resources. Tr. at 529. Finally, Mr. McDermott testified that he has to use bottled water to drink. Mr., McDermott opposed the rate increase. Tr. at 530.

54. John Maday, a PAWC customer, appeared and testified on behalf of the Riverfront Parks Committee. Mr. Maday testified that the organization partners with PAWC for a variety of events. Tr. 532-33.

55. Richard Brill, a PAWC customer, appeared and testified on behalf of himself and the aging population of Scranton. Mr. Brill testified regarding the large increase in the water and sewer bill, from $50 a month to $200. Tr. at 535. Mr. Brill also testified regarding the fluctuation in the length of his billing period. Tr. at 536. Mr. Brill asked that the rate hike be rejected, and if possible a rebate issued for last years increase. Tr. at 536.

56. John Borer, a PAWC customer, appeared and testified on behalf of himself. Mr. Borer testified that this increase was far too much money, and that between the water and other bills it is becoming unaffordable. Tr. at 538. Additionally, Mr. Borer testified that contaminated water ruined some clothes with rust and stains. Tr. at 539.

57. Orestes Masdeu, a PAWC customer, appeared and testified on behalf of himself. Mr. Masdeu testified opposing the rate increase and stated that one month the company forgot to send a bill and then requested a late fee. Tr. at 542.

58. Richard Jenkins, appeared and testified on behalf of Pioneer Construction, a utility contractor. Mr. Jenkins testified regarding the business's growth due to its projects with PAWC and testified that PAWC is committed to safe and reliable water services. Tr. at 545-46.

59. David Dobrzyn, a PAWC customer, appeared and testified on behalf of himself. Mr. Dobrzyn testified that he resents subsidizing other peoples sewer bills. Tr. at 548. Mr. Dobrzyn also spoke against the sale of the Scranton system. Tr. at 549.

60. Teresa Fagerlin, a PAWC customer, appeared and testified on behalf of herself. Ms. Fagerlin testified in opposition to the rate increase. Ms. Fagerlin testified regarding how the high water bills have lead to people stealing water. Tr. at 553-54. Ms. Fagerlin also testified that the water is cloudy and that the PH and Chlorine are off and that she does not drink the water due to it's smell and metallic taste. Tr. at 554-55.

61. Lee Morgan, a PAWC customer, appeared and testified on behalf of himself. Mr. Morgan testified that people cannot afford the water, and that the rate increases are wrong. Tr. at 557.

62. Yehudah Fink, a PAWC customer, appeared and testified on behalf of himself and his company as well as all who live locally. Mr. Fink testified concerning the multiple increases and that the rate for wastewater treatment has gone up 120% in two years. Tr. at 564-65. Mr. Fink testified that he does believe in raising prices to cover costs, but the increases now are for PAWC's 22% profit margin and that it is coming at the expense of his business. Tr. at 565-66.

63. Joseph Gilhooley, a PAWC customer, appeared and testified on behalf of himself and the group called Opposed PA Water Hike. Mr. Gilhooley stated that he met with PAWC representatives who blamed the increase on the OCA, and he wondered when PAWC would take responsibility "for this nonsense?" Tr. at 569. He also

testified that the requirement for a business to have an attorney to file a formal complaint made many businesses decide not to file a complaint. Tr. at 570.

64. David Bergerhoff, a PAWC customer, appeared and testified on his own behalf. Mr. Bergerhoff testified that the water is dirty, and that they have had to boil water multiple times. Tr. at 574-575. Mr. Bergerhoff testified that he has had to spend money to buy bottled water. Tr. at 575. Furthermore, he testified that rates are high and unlike the company, when prices increase, ratepayers can't just pass the expense on to others. Tr. at 578. Mr. Bergerhoff also testified regarding his confusion on the RDM. Tr. at 579-80.

65. Lisa Durkin appeared and testified on behalf of United Neighborhood centers. Ms. Durkin testified as to their concern regarding the rate increase. Tr. at 581. Ms. Durkin, testified that a water rate increase "would add yet another financial shock to low and moderate income families." Tr. at 582.

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66. Bill Gaughan, a PAWC customer, appeared and testified on behalf of himself as well as his constituents. Mr. Gaughan testified that the issue is not just about numbers, it is about livelihoods. Tr. at 608. Mr. Gaughin testified that the proposed hike threatens to place additional burdens on stretched incomes, and that it is outrageous to see a utility provider place a financial strain on families struggling to make ends meet. Tr. at 608-09.

67. Janet Brier, a PAWC customer, appeared and testified on behalf of Dunmore as well as herself. Ms. Brier testified that 19.8% of Dunmore's population was over 65, but cannot afford the cost of living today and that the poverty level in Dunmore was

9.2% Tr. at 613. She testified that despite PAWC's claims to superior service, when a water main broke in Dunmore it flooded houses and a family was displaced for two months. Tr at 614. She testified that it was not the first time the main had broken in that location. Tr. at 614. The family has still not been made whole and has not seen a representative of PAWC in over a month. Tr. at 614-15.

68. Jane Sterling, a PAWC customer, appeared and testified on behalf of the residents of Moosic. Ms. Sterling expressed strong opposition to the increase. Tr. at 618. Ms. Sterling testified that this increase may cause negative impacts to the environment as well as a result of giving up on conservation efforts and increasing the number of private wells. Tr. at 619.

69. Frank Scavo, a PAWC customer, appeared and testified on behalf of himself. Mr. Scavo testified opposing the rate increase, and stated that these increases are not customary in businesses. Tr. at 622. Mr. Scavo questioned the timing of this proposed increase with the inflation, pandemic, and recession. Tr. at 624. Mr. Scavo stated that there should be no increase until all savings are realized. Tr. at 625.

70. William King, a PAWC customer, appeared and testified on behalf of the Scranotn City council. Mr. King testified opposing the rate increase and pointed to American Water's financial health while people are being forced out of their homes. Tr. at 628-33. Mr. King also testified regarding billing issues with delayed bills that then sometimes included late payment fees and that it is his understanding unless a person affirmatively contacts PAWC about the late fees they will have to pay the fee. Tr. at 635-36. Mr. King also testified regarding service quality issues as a result of a water break. Tr at 637.

71. Lee Spindler, a PAWC customer, appeared and testified on behalf of himself. Mr. Spindler testified about the water conservation efforts he is undertaking such as limiting toilet flushing. Tr. at 640. Mr. Spindler requested that the increase be denied and that they get a reduction instead. Tr. at 640.

72. Jessica Rothschild, a PAWC customer, appeared on behalf of the Scranton City Council as well as herself. Ms. Rothschild testified that her bill has increased year after year for the last three years Tr. at 643. Ms. Rothschild testified that she has heard many complaints about people having trouble paying their bills and that another increase is unreasonable. Tr. at 644. Ms. Rothschild also testified that the paving done by PAWC after projects is not done properly, and that she sees a lot of complaints about dirty water. Tr. at 644-45.

73. Paul Miller, a PAWC customer, appeared and testified on behalf of himself. Mr. Miller testified that being on a fixed income he is not sure how he can afford this requested increase. Tr. at 653-54. Mr. Miller also testified that the water has been dirty and his wife and daughter will not drink it from the tap. Tr. at 654. Mr. Miller stated that he made his house handicap accessible, but should have dug a well and requested that PAWC not be allowed to raise rates again. Tr. at 655.

74. Fay Franus, a PAWC customer, appeared and testified on behalf of herself. Ms. Franus testified that senior citizens don’t know how they’re going to get through with these rate increases. Tr. at 658. She also testified that when you call in to contest a late fee from a double bill you have to wait in line to speak to someone. Tr. at 658. Ms. Franus also testified that the repair work done to the roads by PAWC is lacking. Tr. a 658. Ms. Franus requested that the PUC go back and lower the rate

from the last increase. Tr at 659. Furthermore, regarding the RDM Ms. Franus testified that she did not think it was fair. Tr. at 661.

75. Gerard Dombroski, a PAWC customer appeared and testified on behalf of himself. Mr. Dombroski testified that he had dirty water for four days, and was charged to run the water and then charged his sewer fee for the water he had to run even though it was dirty. Tr. at 666. He testified that he finally received a $20 credit for four days of dirty water after arguing. Tr. at 667. Furthermore, he testified that the water tasted terrible and that he gets bottled water delivered. Tr. at 667. Mr. Dombroski requested that the rate be denied and that it should be decreased. Tr at 668.

76. Sean McAndrew, a PAWC customer, appeared and testified on behalf of himself. Mr. McAndrew testified that multiple times throughout the summer he has had dirty water, and that the service they are getting does not match the rates. Tr. at 670. Mr. McAndrew also testified that as a member of the Scranton School board, this rate increase will impact students Tr. at 671. Mr. McAndrew testified that the rate increase would effect the school's financial recovery plan and that it could be passed on by way of a tax increase. Tr. at 674-75.

77. Doris Koloski, a PAWC customer, appeared and testified on behalf of herself. She testified that the water rate is high and the dirt in the water is very bad. Tr. at 676-77. Furthermore, she testified that she is paying sewer fees for water that never enters the sewer. Tr. at 677. Ms. Koloski testified that the dirt in the water is effecting her filters and other plumbing in her house. Tr. at 678. Ms. Koloski testified that the service is terrible, and that multiple times the same location has been repaired due to leaks. Tr. at 679-80. Ms. Koloski also testified that the notice

of a water break has been happening after people call in to complain, not before work is done. Tr. at 760.

78. Marie Schumacher, a PAWC customer, appeared and testified on her own behalf.
79. Elaine Sporko, a PAWC customer, appeared and testified on behalf of herself. She testified that when the water is dirty and unusable, PAWC provides no compensation and that when that happens basic necessities must be delayed or alternatives found. Tr. 685. She testified that PAWC keeps buying other systems, but is not providing adequate service to its existing territory. Tr. at 687.
80. Frank Serafini, a PAWC customer, appeared and testified on behalf of himself. Mr. Serafini testified that because of the quality of the water he installed filters. Tr. at 694-95. He testified that he is also paying a sewer bill for water that is not going into the sewer. TR. at 695-96.
81. Linda Bonczkiewicz, a PAWC customer, appeared and testified on behalf of herself. She testified concerning the quality of the water. Tr. at 702.
82. Wayne Evans, a PAWC customer, appeared and testified on behalf of himself. Mr. Evans testified that the rates for wastewater have gone up 252% since 2017, and that rates should be frozen for the next six years. Tr. at 710.
83. Mark McAndrew, a PAWC customer, appeared and testified on behalf of himself and his constituents. He testified that the level of service they receive is not fair in comparison to the rates they pay. Tr. at 713. Mr. McAndrew strongly opposed the rate increase, and stated that he has received multiple complaints from people who received bills late that included late fees. Tr. at 713-14.

84. Eva Siarniak, a PAWC customer, appeared and testified on behalf of herself. She testified concerning the lack of notice about rate increases going into effect, and lack of advanced notice for public input hearings. Tr. at 717-18. Ms. Siarniak stated that she opposed the increase and that the last increase should be reversed. Tr. at 718.
85. Stephen Planchock, a PAWC customer, appeared and testified on behalf of himself. Mr. Planchock testified regarding the DSIC and how it stakes on top of the proposed rate increase. Tr. at 722.
86. Thomas Coyne, a PAWC customer, appeared and testified on his own behalf. Mr. Coyne testified that the water is so chlorinated it is like pool water. Tr. at 726.
87. Eli Verchuk, the child of a PAWC customer appeared and testified on behalf of his family. Mr. Verchuk testified that his grandmother is 84 years old, but struggles to retire because of increasing bills, and that this proposed increase will make it even harder for her to retire. Tr. at 732.
88. Donald Jones, a PAWC customer, appeared and testified on behalf of himself. He testified that the company is top heavy, and that he was blindsided by the last increase. Tr. at 736.
89. Joan Hodowanitz, appeared and testified on behalf of herself. Ms. Hodowanitz testified that even though she is not a customer, as a renter will still likely have to feel this increase. Tr. at 746. She also testified that she buys bottled water to drink but has t use the water to shower and wash her clothes and that that the water is "stinky". Tr. at 746.

90. George Young, a PAWC customer, appeared and testified on behalf of himself. Mr. Young testified regarding the high rates, and proposed a rate decrease. Tr. at 756-57.

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91. Senator Judy Schwank appeared and testified on behalf of her constituents. Sen. Schwank testified stating her disturbance by the continual rate increases, concern for affordability, and her opposition to the RDM. Tr. at 789-96.

92. Amanda Johnsen, a PAWC customer, appeared and testified on behalf of herself. Ms. Johnsen testified concerning high rates, fluctuating billing cycles, ranging from 27 to 35 days. Ms. Johnsen also testified regarding affordability and residents receiving shut-off notices before receiving monthly bills. Tr. at 800. Ms. Johnsen testified that her family has cut back on water usage to afford water and wastewater bills, and that she is opposed to the RDM. Tr. at 801,804.

93. Kathleen Schwartz, a PAWC customer, appeared and testified on behalf of herself. Ms. Schwartz testified that despite her continual reduction in usage over the years, her water and wastewater bill has continued to increase. Tr. 807-08. She has cut back on usage to the point were she no longer pressure washes sidewalks or sidings, and can't grow a garden. Tr. at 808. Ms. Schwartz also testified that she purchases water to drink as the water quality she receives at her house is "garbage". Tr. at 808. She invested in a water softener, but due to it cycling water she had to turn it off. Tr. at 808. Ms. Schwartz also testified regarding issues with water pressure cutting out, a problem she states has been increasingly worse over the last four years and in the last month has become more constant. Tr. at 808-10.

94. Diane Michalowski, a PAWC customer, appeared and testified on behalf of herself. Ms. Michalowski testified regarding her water conservation efforts and the amount of surcharges on her bill. Tr. 812-14. Ms. Michalowski also testified that her water and wastewater bill has increased 136% in four years. Tr. at 813

95. Priscilla Gentry, a PAWC customer, appeared and testified on behalf of herself. Ms. Gentry testified that her and her husband are both retired, and that the water bill is now unaffordable. Tr. at 815. She also testified that the quality of the water she is receiving is not good, and that she has had to buy bottled water for her granddaughter to drink as the minerals in the tap water and that she has to buy demineralized water to clean baby bottles. Tr. at 815-16. Ms. Gentry also testified regarding the extreme water conservation methods she is taking to attempt to lower her bill. Tr. at 817. Ms. Gentry testified opposing the RDM. Tr. at 819

96. Keith Sauer, a PAWC customer, appeared and testified on behalf of himself. Mr. Sauer testified that despite his usage decreasing, over the years his water and wastewater bill have increased. Tr. at 822. Mr. Sauer disputed that the bills were affordable as PAWC claims, he stated that they may seem affordable but that is because people are forced to prioritize paying their PAWC bill over other expenses in fear of falling behind on the bills. Tr. at 823. Mr. Sauer also testified regarding the ranging billing cycles, from 27-35 days. Tr. at 824. Finally, Mr. Sauer testified that he company should pursue low interests government loans or grants. Tr. at 825.

97. Ron Foy, a PAWC customer, appeared and testified on behalf of himself. Mr. Foy opposed Act 12 in his testimony, claiming that it is part of a “twofold insult”, the other part of the insult is the RDM. Tr. at 828-29. Mr. Foy also testified that his

water pressure varies, and that he put in a water system because of hard and unusable water. Tr. at 830

98. Alicia Shussett, a PAWC Customer, testified on behalf of herself. Ms. Shussett testified that they purchased a water softener and a filtration system due to the hard water. Tr. at 836. She also testified as to their water conservation attempts, and how it is maddening that these efforts could backfire due to RDM. Tr. 836-38

99. Gary Sirois, a PAWC Customer, testified on behalf of himself. Mr. Sirois testified that despite a 11% decrease in water usage from 2022-2023 he has paid 18.5% more. Tr. at 840. Mr. Sirois also testified that it was important for the PUC to review and scrutinize costs before the company recovers them. Tr. at 843.

100. Judith Kraines, a PAWC Customer, appeared and testified on behalf of herself. Ms. Kraines testified concerning the effects of the rate increase on the community, she was concerned that people would not be able to afford this increase and the ripple effect it would cause. Tr. at 845-47.

101. Karen Robert, a PAWC Customer testified on behalf of herself. Ms. Roberts testified that the rate increase has her concerned, and that she doesn't know how much more water she can conserve and she doesn't know how to make these rates more affordable. Tr. at 850-51

102. Dorothy Pfeffer, a PAWC customer, appeared and testified on behalf of herself. Ms. Pfeffer testified regarding a poor experience with the customer call center. Tr. at 853. She also testified concerning her disagreement for being charged a sewer fee for all water leaving her well, even the water that never enters the sewer system. Tr. at 854. Ms. Pfeffer also opposes the RDM. Tr at 856.

103. Christopher Cappuccitti, a PAWC customer, appeared and testified on behalf of himself. Mr. Cappuccitti testified in opposition to Act 12, the lack of deduct meters, and the rate increase. Tr. at 859-60.

104. Sherri High, a PAWC customer, appeared and testified on behalf of herself. Ms. High testified that she experiences long wait times while trying to contact PAWC. Tr. at 863. She also testified that she doesn't understand why there is no leeway in the summer for water that does not go into the sewer system. Tr. at 864.

105. Fiona Reiter, a PAWC customer, appeared and testified on behalf. Ms. Reiter testified that her bill has increased over the years. Tr. at 867. She testified that a small bill, that is a bill for only 27 days of service, is 10% of her social security. Tr. at 867.

106. Sheila Jones, a PAWC customer, appeared and testified on her own behalf. She testified that the cost of water form PAWC has become exorbitant. Tr. 869-70. She also testified that she was billed for approximately 20,000 gallons of sewage in 2021 when she built her pool because her sewage bill is based on her water bill. Tr. at 871. She also testified that she experiences periods of poor water quality, forcing her to buy a filtration system. Tr. at 872. Ms. Jones testified opposing the continual rate increases filed by PAWC, and the management adder. Tr. at 873-74.

107. Alan Blackburn, a PAWC customer, appeared and testified on behalf of himself. Mr. Blackburn testified that as a teacher, the proposed winter averaging does not make sense, and that profit growth should come from internal sources, not based on rate increases. Tr. at 876-77.

108. Michele Datko, a PAWC customer, appeared and testified on behalf of herself. Ms. Datko, appeared to speak against the proposed rate increase and the RDM. Tr. at 880.

109. Stephen Anton, a PAWC customer, appeared and testified on his own behalf. Mr. Anton testified that bills varied from 4 weeks to 5 weeks, and that they are paying sewer charges for water not going into the sewer system. Tr. at 885-86. Mr. Anton testified that there should not be a penny given for the increase. Tr. at 888.

110. Tim Fenchel, a representative of Schuylkill River Greenways National Heritage Area, is not a PAWC customer, and appeared on behalf of the Schuylkill River greenways national Heritage Area. Mr. Fenchel testified that PAWC has been a valuable partner to his group. He also testified that his group receives donations from PAWC, and that he is not testifying about the rate increase. Tr. at 892-93.

111. Glenna Piho, a PAWC wastewater customer, appeared and testified on behalf of herself. She testified in favor of a meter for wastewater usage. Tr. at 895. She testified that the bills is a huge burden, and she is concerned for other residents such as families and senior citizens on a fixed income. Tr. at 895-96. Ms. Piho urged the PUC to not grant the increase. Tr. at 896.

112. Michael Knoll, a PAWC customer, appeared and testified on behalf of himself. Mr. Knoll testified that they have been conserving water to bring the bill down, but that the revenue decoupling could counteract his attempts. Tr. at 900. He stated that as he understands it, “you’ll never win or find a way to save on your water bill.” Tr. at 901.

113. Terence Reilly, a PAWC customer, appeared and testified on his own behalf. Mr. Reilly testified opposing the rate increase. Tr. at 903. He also testified that they have had to replace a dishwasher and two faucets due to poor water quality. Tr. at 903. He testified that the people of Exeter township can no longer afford the water. Tr. at 904.

114. Mike Cortazzo, a PAWC customer, appeared and testified on behalf of himself. Mr. Corazzo opposed the rate increase and voiced concerns over the cost of PAWC bills. Tr at 908-12.

115. Ruth Benderoth, a PAWC wastewater customer, appeared and testified on her own behalf. Ms. Benderoth testified against the proposed winter averaging. Tr. at 913. She also testified that her family takes water conservation measures, and that the RDM be denied along with the ECIC. Tr. at 915-916. Ms. Benderoth testified that it was hard to make the bills every month, and that just because she can afford them does not mean they are affordable. Tr. at 916.

116. Jim Quinlan, a PAWC customer, appeared and testified on his own behalf.

117. Paul Bassler, a PAWC customer, testified on behalf of himself. Mr. Bassler, testified that the rates are unsustainable, and he doesn't see how people can go on paying them. Tr. at 921. Mr. Bassler asked that the PUC not approve any rate increase. Tr. at 921.

118. Steve Rimby, a PAWC customer, appeard and testified on behalf of himself. Mr. Rimby testified opposing the rate increase, as well as in opposition to the RDM. Tr. at 923-26.

119. David Shirey, a PAWC customer, appeared and testified on his owe behalf. Mr. Shirey stated that he wasn't sure if he'd be able to afford the increase. Tr. at 929. Mr. Shirey also opposed the RDM and asked that the rate increase should be denied. Tr. at 929

120. Charles Bauman, a PAWC customer, appeared and testified on his own behalf. Mr. Bauman testified opposing the use of his water usage to determine sewer usage. Tr. at 932.

121. Natalie Rarick, a PAWC customer, appeared and testified on behalf of herself. Ms. Rarick testified opposing the rate increase, and the effect it is having on the community. Tr. at 936-37.

122. Jeffery Anderson, a PAWC customer, appeared and testified on behalf of himself. Mr. Anderson testified that against the proposed rate increase, and stated that "this is a perfect example of a company holding us hostage just so that we can have water". Tr. at 940.

123. Leroy Reinert, a PAWC customer, appeared and testified on behalf of himself. Mr. Reinert testified that both his wife and himself are retired, and if something would happen to one of them he doesn't know how he would pay the sewer bill. Tr. at 941. Mr. Reinert testified that he wants a meter on his outside water. Tr. at 942.

124. Steven Taylor, a PAWC customer, appeared and testified on behalf of himself. Mr. Taylor testified regarding his concern that the units of water he was using was being rounded up. Tr. at 947.

125. Shawn Schower, a PAWC Customer, appeared and testified on behalf of himself. Mr. Schower testified that his family has been conserving water, and that his water

bill is still $340. Tr. at 951. Furthermore, Mr. Schower testified regarding his fear of the trickle down effect that these rate increases will have on the community. Tr. 952. Mr. Schower also testified regarding his poor customer service experience with the company. Tr. at 954.Mr. Schower voiced opposition to the winter averaging and revenue decoupling mechanism. Tr at 953-55

126. Michelle Kircher, a PAWC customer, appeared and testified on behalf and everyone in the hearing room. Ms. Kircher testified regarding the low quality of water, specifically her need to use bottled water to drink and for her dogs because of how bad the taste is.. Tr. at 957. Ms. Kircher described the taste as moldy with a musty smell. Tr. at 960.

127. Sean Hollis, a PAWC customer, appeared and testified on behalf of himself. Mr. Hollis testified opposing Act 12, and stating that the company has no incentive to decrease costs. Tr. at 964.

128. Sharon Winter, a PAWC customer, appeared and testified on behalf of herself. Ms. Winter testified that she objected "vehemently" to the rate increase. Tr. at 967.

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129. George Bell III, a PAWC customer, appeared and testified on behalf of himself. Mr. Bell testified concerning the impact of this proposed rate increase on low income customers, as well as the 17.1% of Exeter that is over the age of 65.Tr. at 1012-13.Mr. Bell requested that an outright rejection of the rate increase be considered, or atleast that it be tempered. Tr. at 1013.

130. Jordan Henning, a PAWC customer, appeared and testified on behalf of himself. Mr. Henning testified regarding his experience with the customer service of PAWC.

Tr. at 1017. Mr., Henning testified that he had an issue with his water meter not registering, and PAWC sent a contractor to shut off the valve but the contractor was unable to close the valve. Tr. at 1017-18. After months of no fixes and multiple calls to PAWC, MR. Henning received a letter stating that they owed over $1,800 in back payments because they did not contact the company about the meter not working. Tr. at 1018. Mr. Henning had to make multiple calls and advocate fiercely for himself before the company would drop the back payments. Tr. at 1019.

131. Julie Cox, a PAWC customer, appeared and testified on behalf of herself. Ms. Cox testified that if you want to move into Exeter you have to make sure your water bill is with Mount Penn Borough. Tr. at 1024-25. Furthermore, Ms. Cox testified that she has had a 22% reduction in water usage from last year to this year, and despite that she pays 7% more. Tr. at 1025.

132. Cindy Murphy, a PAWC customer, appeared and testified on behalf of herself. Ms. Murphy stated that since PAWC has taken over the wastewater for Exeter, her monthly bill for both water and wastewater has reached an average of $144 a month, compared to $58 which is was prior to that. Tr. at 1030. Ms. Murphy also testified opposing the RDM as it leaves her with no options to reduce costs. Tr. at 1031. Ms. Murphy also voiced concern over the usage of water usage to determine wastewater charges, and the need for a water filtration system so that she can drink water from the tap. Tr. at 1031-32. Ms. Murphy also stated that the wintertime averaging would not help her save money and that as a forced customer of PAWC she is have to put the bill for future acquisitions. Tr. at 1032-33.

133. Patricia Finley, a PAWC customer, appeared and testified on behalf of herself. Ms. Finley testified that the rates have continued to increase, and that the increases have affected her household. Tr.at 1035-36. Furthermore, she testified that she has worked to reduce her consumption as much as she can and that she is worried about the new surcharge that would frustrate those efforts. Tr. at 1036-37. Ms. Finley testified to the wide range of billing cycles she gets from PAWC, from 38-35 days and how it can change her bill by a substantial amount each month. Tr, at 1037. Ms. Finely also testified that the water is very hard and she had to get a water softener. Tr. at 1037-38. Ms. Finley stated that she did not feel the company was managing very well and that they are making too much, when asked about the management adder. Tr. at 1040.

134. Eva Ross, a PAWC customer, appeared and testified on her own behalf. She testified that she strongly opposed the rate increase and that as a result of frequent snowballing rate increase requests PAWC customers are paying some of the highest water and wastewater bills in PA. Tr. at 1042. She stated that any additional financial strain is a genuine threat to stability of homes, and that people are having to make sacrifices to pay the water bill. Tr. at 1042-43. Ms. Ross testified that despite her best conservation efforts, the bill keeps increasing and that the repercussions extend beyond the households to the community. Tr. at 1043. Furthermore, Ms. Ross testified that she does not provide adequate water pressure, the hardness of the water requires filters to be changed prematurely as well as damages appliances, and that she must buy bottled water for drinking. Tr. at 1044. Ms. Ross stated that she can no longer afford to have flowerbeds or a lawn because

she can't pay for the water to water them and that the varying billing cycles make budgeting for your bill difficult.. Tr. at 1044. She stated that the proposed RDM was alarming. Tr. at 1046.

135. Arthur Auchbacuh, appeared and testified on behalf of his industry, the water and wastewater industry. Mr. Auchbacuh testified that the costs of equipment have increased, and that improvements to infrastructure benefit the community. Tr. at 1049-1053. Mr. Auchbacuh stated that his organization receives payments from PAWC and would like to continue to receive PAWC's business. Tr. at 1054.

136. Scott Coquhoun, a PAWC customer, appeared and testified on his own behalf. Mr. Coquhoun testified that his bill stated he used 111 gallons of water per day, but when he checks it comes out to 67 gallons per day. Tr. at 1056-57. Mr. Conquhoun testified that he is concerned that he is being overcharged for his water. Tr. at 1057.

137. Jeffery Greene, a PAWC customer, appeared and testified on behalf of himself. Mr. Greene testified that water is a basic need, and that on any given month water is his highest utility bill. Tr. at 1061. Mr. Greene testified that he isn't sure why a public company that provides a basic necessity is paying dividends. Tr. at 1061-62. He also opposed the winter averaging proposal as people use more water in the winter. Tr. at 1062.

138. Paul Brown, a PAWC customer, appeared and testified on behalf of his family. Mr. Brown stated that he agreed with most of the testimony that he had heard, and stated that in the last three years his bill for water and wastewater had gone from $90/ month to $190/ month. Tr. at 1065. Mr. Brown testified that he is trying to figure

out when to retire but he doesn't know how to budget for a water bill that doubles every four years. Tr. at 1065.

139. Jennifer Cerra, a PAWC customer, appeared and testified on behalf of her family. Ms. Cerra testified that in light of recent increases in water rates, a significant additional would be unjustifiable. Tr. at 1068. Ms. Cerra urged the PUC to evaluate the increase and consider the impact on the community. Tr. at 1068. She stated that they have lived in Exeter for almost 18 years, but are considering moving in no small measure due to the water rate. Tr. at 1068.

140. William Clark, a PAWC customer, appeared and testified on behalf of his family. Mr. Clark testified regarding the variances in billing cycles, the increasing cost of the protection plan from AWR, which he stated was a subsidiary of PAWC. Tr. at 1073.

141. Gail Coleman, a PAWC customer, appeared and testified on behalf of herself. Ms. Coleman testified that she had a problem with her meter and she was being charged based on the previous years usage, after fiercely advocating for herself she was able to resolve her problems. Tr. at 1078-79. Ms. Coleman stated that she received inadequate customer service. Tr. at 1080.

142. Gerald Erdman, a PAWC customer, appeared and testified on his own behalf. Mr. Erdman, testified that at the current rate of increases, the water or sewer bill will double every three and a half years. Tr. at 1082-1083. Mr. Erdman testified that this is not sustainable for consumers, and that he opposes the rate increase. Tr. at 1083. Mr. Erdman also testified in opposition to Act 12. Tr. at 1084.

143. Sherrie Greene, a PAWC customer, appeared and testified on behalf of herself. Ms. Green testified that her sewer bill went from $47 a quarter in 2018 to $106/month in 2023. Tr. at 1088.

144. Michelle White, a PAWC customer, appeared and testified on behalf of herself. Ms. White testified that they have undertaken conservation efforts such as limited toilet flushing and shorter showers. Tr. at 1091. She also testified that she holds her breath every time a bill comes, and that with all the other high prices it is very difficult. Tr. at 1092 Ms. White testified that even without this rate increase it is difficult and she is still paying a $352 average bill. Tr. at 1093. Furthermore, she testified that the proposed RDM is horrible and that the water is not even drinkable. Tr. at 1094.

145. Andrew Kingsbury, a PAWC customer, appeared and testified on his own behalf. Mr. Kingsbury requested that the rate increase be rejected, and PAWC billing practices be changed, along with Act 12 being repealed and a fair rate pegged to the actual costs of operation. Tr. at 1100.

146. Matthew Heligen, a PAWC customer, appeared and testified on his own behalf. Mr. Heligan testified opposing the rate increase and asking that it should be "taken away" along with the previous increase. Tr. at 1104-05. Mr. Heligen also testified opposing the RDM. Tr. at 1106.

147. Stephanie Noecker, a PAWC customer, appeared and testified on behalf of herself. Ms. Noecker testified that she wanted to reiterate what was said and that the rate hike should not go through. Tr. at 1108.

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148. Gary Sanderson, appeared and testified on behalf of himself and his relationship through the Pennsbury School District and PAWC. Mr. Sanderson testified regarding the community partnership he has experienced with PAWC and their willingness to donate and assist in programs. Tr. at 1146. Mr. Sanderson stated that he is not a PAWC customer, but supports an increase that would maintain and upgrade the water system but has no opinion on the specific increase or what it is directed towards. Tr. at 1149.

149. Daniel Skvarla, a PAWC customer, appeared and testified on behalf of himself. Mr. Skvarla testified that the 24% requested increase, on top of the 14% is a 38% increase per month and not a reasonable request. Tr. at 1152. Mr. Skvarla testified that he was not aware of the RDM and ECIC but that he did not think they were reasonable. Tr. at 1154.

150. Brian Dugas, a PAWC customer, appeared and testified on behalf of himself. Mr. Dugas requested that in light of the current economic state, the rate increase be kept to a bare minimum. Tr. at 1157 Mr. Dugas also stated that he was shocked that the Company is asking for an additional $11.8 million for its management performance in the "world that we live in right now." Tr. at 1159.

151. Richard D'Angelo, a PAWC customer, appeared and testified on his own behalf. Mr. D'Angelo questioned the requested increase to the fixed customer charge. Tr. at 1162. Mr. D'Angelo also asked what current expenses are that deserved the requested increase. Tr. at 1163. Mr. D'Angelo opposed paying for the wastewater treatment of other customers. Tr. at 1165.

152. Carla Moran, a PAWC customer, appeared and testified on behalf of herself. Ms. Moran testified that she does not use the water for cooking or drinking, and that there is a lot of dirt in the water and that it smells like chlorine. Tr. at 1167, 71.

153. Brian Winslow, appeared and testified on behalf of the Brandywine Red Clay Alliance. Mr. Winslow testified that the company is a strong supporter of watershed protection and conservation and that he is testifying relating to his positive experience with the company as a community partner. Tr. at 1176-77.

154. Leroy Watters, a PAWC customer, appeared and testified on behalf of the Valley Forge Watershed Association and the Greater Port Indian association.

155. Robert Hughes, appeared and testified on behalf of the Eastern Pennsylvania Coalition for Abandoned Mine Reclamation. Mr. Hughes testified to the partnership that PAWC provides for his organization and the assistance that they render. Tr. 1193. Mr. Hughes himself was not a PAWC customer. Tr. 1193.

156. Richard Black, appeared and testified on behalf of the Brownsville Fire Company. Mr. Black testified that PAWC is a very large supporter of the fire company. Tr. at 1196. Mr. Black also testified that he has no opinion on the proposed rate increase. Tr, at 1199.

157. Lisa Brown, a PAWC customer, appeared and testified on behalf of the Watersheds of South Pittsburgh. TR. at 1202-03. Ms. Brown testified to the positive community partner that PAWC has been to her organization. Tr. at 1204.

158. Laura Manion, appeared and testified on behalf of the Chester County Chamber of Business and Industry. Ms. Manion testified that the Chamber of business requested that the PUC support the request. Tr. at 1212

159. Evan Midler, appeared and testified on behalf of Cross Creek Township. Mr. Midler testified that he has no position on the rate increase but did support an extension of a service line that was taking place. Tr. at 1216-19.

160. Justin Bruce, a PAWC customer, appeard and testified on behalf of himself and his company Bruce and Merrilees electric. Mr. Bruce's company performs many projects for PAWC. Tr. at 1222. Mr. Bruce stated that his company relies on PAWC's investment to provide employment. TR. at 1223-24. Mr. Bruce stated that he supported the rate increase. Tr. at 1224.

161. James Gross, appeared and testified on behalf of the York City Parks conservancy. Mr. Gross testified that the company has been a good corporate partner. Tr. at 1231.

162. Victor Rodriguez, a PAWC customer, appeared and testified on behalf of himself as well as the PA Developer's Council. Mr. Rodriguez testified that the water and sewer bills are making it hard to provide affordable housing. Tr at 1237. He explained that with the water and sewer bills going as high as they are they cannot pay a management fee and are now managing the properties for free. Tr. at 1238.

163. John Brutz, appeared and testified on behalf of himself. Mr. Brutz testified to the positive relationship he had with PAWC. Tr. at 1247. Mr. Brutz also stated that he had an ongoing business relationship with PAWC. Tr at 1248.

164. Timothy Creelman, a PAWC customer, appeared and testified on behalf of himself. Mr. Creelman testified that under the current proposal, as a water customer he will be forced to subsidize the sewer operations of PAWC. Tr. at 1251. Mr. Creelman testified that he receives his sewer service from Aqua, and through this

subsidization of his PAWC water bill is essentially paying a second sewer bill. Tr. at 1251.

165. John Griesser, a PAWC customer, appeared and testified on behalf of himself. Mr. Griesser testified regarding the cost of PAWC service in comparison to other providers. Tr. at 1258. Mr. Griesser requested that the proposed rate increase be denied. Tr. at 1259.

166. Richard Burkhart, a PAWC customer, appeared and testified on behalf of himself. Mr. Burkhart testified regarding the steady increase in his bills since the company purchased the Exeter system. Tr. at 1263.

167. Kendra Robinson, a PAWC customer, appeared and testified on her own behalf. Ms. Robinson testified regarding the conservation efforts she has had to take because of high water bills such as reducing shower time, no longer washing cars, and installing low flow faucets. Tr. at 1268-69. Ms. Robinson also testified that the water tastes bad and reeks of chlorine Tr. at 1269. Ms. Robinson also testified that her bill cycle fluctuates between 28 to 35 days. Tr. at 1270, 72. Ms. Robinson also characterized the proposed RDM as ludicrous. Tr. at 1275.

168. Kathleen Townsend, a PAWC customer, appeared and testified on behalf of herself. Ms. Townsend testified that the water and sewer bill for two people is outrageously high, and that the average bill is $190.41. Tr. at 1279. Ms. Townsend testified that she is vigilant about water usage, but the bill is still high. Tr. at 1279. Furthermore, Ms. Townsend testified that the water is terrible and she hasn't drank it in years. Tr. at 1285. Ms. Townsend testified that the RDM in regards to the RDM, if you try to conserve it feels like you are getting punished. Tr. at 1286.

169. Katherine Hetherington Cunfer, appeared and testified on behalf of the Greater Reading Chamber Alliance. Ms. Cunfer testified in favor of the rate increase. Ms. Cunfer also stated that she is not a PAWC customer and will not be impacted by the proposed rate increase. Tr. at 1293.

170. Jason Winey, appeared and testified on behalf of the Pennsylvania Envirothon. Mr. Winey testified that the company has been a good partner to the Envirothon. Tr. 1310.

171. Raelynn Cox, appeared and testified on behalf of United Way. Ms. Cox testified based on her positive experience with the company as a community partner. Tr. 1318. Ms. Cox took no stance on the proposed rate increase, only the volunteering that the company did. Tr. 1319.

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172. Raymond Sever, a PAWC customer, appeared and testified on his own behalf. Mr. Sever testified that the water and wastewater revenues should be kept separate. Tr. 1349.

173. Joli Harrington, a PAWC customer, appeared and testified on behalf of herself. Ms. Harington testified that the increase is excessive. TR at 1353. Ms. Harington also stated that she conserves water, but she is still concerned about increasing rates. Tr. at 1356.

174. Nelly Jimenez, a PAWC customer, appeared and testified on behalf of herself and Aclamo. Ms. Jimenez testified that PAWC has been a positive partner and supporter of Aclamo. Tr. at 1360

175. Jeronimo Hernandez, a PAWC customer, appeared and testified on behalf of himself. Mr. Hernandez testified regarding the high cost of water and wastewater, and how he has to plan to exit Scranton due to the high water bills. Tr. at 1372. Mr. Hernandez also testified that he conserves water, and believes that the RDM is ridiculous. Tr. at 1375-76.

176. Bob Bielich, a PAWC customer, appeared and testified on behalf of his company Disaster Restoration Services. Mr. Bielich, testified in favor of PAWC and the increase. Tr. at 1381.

177. Dominick York, a PAWC customer, appeared and testified on behalf of himself. Mr. York testified that the rate increase has him concerned. And that he attempts to conserve water. Tr. at 1396.

178. Nicole Vancoeur, a PAWC customer, appeared and testified on behalf of herself. Ms. Vancoeur testified that she is vehemently opposed to any rate increase. Tr. at 1401.

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179. Kathy Anderson-Martin, a PAWC customer, appeared and testified on behalf of herself and the Midwest Food Bank. Ms. Anderson-Martin testified that the company has been a good community partner to her organization. Tr. at 1436. Ms. Anderson-Martin also stated that she found it important to be able to testify in a public input hearing before the rate increase was ruled upon. Tr. at 1446.

180. Clarence Hitz, appeared and testified that PAWC has been a good partner to the Harrisburg YMCA in supporting the YMCA's races. Tr. at 1449.

181. William Dingman appeared and testified on behalf of Manada Conservancy. Mr. Dingman, testified as to the partnership between his organization and the company and the support the company gives. Tr. at 1462.

182. Jodi Asay, a PAWC customer, appeared and testified on her own behalf. Ms. Asay testified to the poor service quality she received from PAWC and the excessive pressure she receives. Tr. at 1484.

183. Michael Iskric, appeared and testified on behalf of the Steelton-Highspire School District. Mr. Iskric, testified as to the positive relationship the school district has with the company and the opportunities it provides to the district students. Tr. at 1526-1528.

184. Michael Langan, a PAWC customer, appeared and testified on behalf of himself. Mr. Langan testified that the expenses need to be scrutinized before they are accepted, and that he does not think the management adder is appropriate. Tr. at 1543, 44, 48.

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185. Senator Carlyn Comitta appeared and testified on behalf of her constituents. Senator Comitta stated that she is concerned about the negative impact the rate increase will have on residents. Tr. at 1576. She also testified that while she recognizes the need for investments, it seems that every two years a ratepayers are facing a significant rate increase. Tr. at 1577.

186. Gary Iorfido, a PAWC customer, appeared and testified on behalf of himself as well as AARP. Mr. Iorfido testified that he supports clean drinkable and affordable water, but members of AARP cannot afford the proposed rate increase. Tr at 1586. Mr.

Iorfido discussed how older Americans are now having to choose between groceries or affording water service. Tr. at 1586. Mr. Iorfido requested that the Commission reject the proposal and trim unnecessary spending. Tr. at 1588. Furthermore, Mr. Iorfido opposed the increase to the fixed customer charge as it makes it difficult to control your bill. Tr. at 1588. Mr. Iorfido also testified that it is unclear why water customers have to bear the burden of wastewater costs. Tr. at 1588-89. Finally, Mr. Iorfido discussed how the RDM creates a disincentive to conserve water. Tr. at 1592.

187. Kevin Hall, a PAWC customer, appeared and testified on his own behalf. Mr. Hall testified that he is a former New Cumberland Borough Council member and that he had a positive working relationship with the company. Tr. at 1597-1600.

188. Jessica Kemmerer, a PAWC customer, appeared and testified on behalf of herself. Ms. Kemmerer testified in support of the company. She testified that she had a great service from the company and knowing that they had the resources to handle issues made her more comfortable. Tr. at 1607.

189. Jason Beale appeared and testified on behalf of the Central Pennsylvania Conservancy. Mr. Beale testified regarding water conservation and concerns about local governments being unable to meet the burden of upgrading infrastructure. Tr. at 1610-11. Mr. Beale also testified that he believes it is important to have the opportunity to testify before the Commission rules on a rate increase. Tr. at 1613.

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190. Representative Donna Oberlander, a PAWC customer, testified on behalf of her capacity as a representative as well as on her own behalf. Representative

Oberlander did not speak to whether the proposed rate increase was fair or reasonable, but rather testified that access to PAWC water is a valuable asset. Tr at 1643.

191. Representative Bud Cook appeared and testified in his capacity as a representative. Representative Cook testified about the company's role in serving as the receiver for the East Dunkard Water Authority and how he is pleased the company is providing safe drinking water to residents. Tr. 1648-49.

192. James Lingwall, a PAWC customer, appeared and testified on behalf of himself. Mr. Lingwall voiced his strong objection to the proposed rate increase. Tr. at 1654. Mr. Lingwall recognized the need for systems to be updated, but stated that the increase is taking unfair advantage of consumers. Tr. at 1654.

193. Harry Liguore, a PAWC customer, appeared and testified on behalf of himself. Mr. Liguore testified that his water bills were lower when he lived in Texas, and that his brother who lives in Ohio has a lower water bill than Mr. Liguore currently has with PAWC. Tr. at 1662.

194. Vernon Ohler, a PAWC customer, appeared and testified on behalf of the City of Connellsville. Mr. Ohler testified to the benefits the city has received from the company's investments in infrastructure within the city. Tr. at 1677-78.

195. Edward Powers, a PAWC customer, appeared and provided testimony on behalf of the fire service. Mr. Powers did not advocate either for or against the rate increase, but spoke on the importance of public water supply to the fire service. Tr. at 1681-82.

196. Steve Strange, appeared and testified on behalf of the East End United Community Center. Mr. Strange stated that he does not have an opinion on the rate increase, but that the company has been an exceptional partner to the Community Center. Tr. at 1689.

197. Charles Wilson, a PAWC customer, appeared and testified on behalf of himself. Mr. Wilson testified regarding the high rates and low water quality that he receives. Tr. at 1697.

198. Tacy Rutherford, a PAWC customer, appeared and testified on behalf of herself. Ms. Rutherford testified that through efforts of conservation her family has reduced their water usage but the average bill, which varies due to changes in billing cycle length from 27-35 days, is still $560 a month for the family of 13. Tr. at 1704-05. Ms. Rutherford testified that she was alarmed to learn of the RDM and that she may now have to pay a bill based on what the company determines it needs to meet financial goals rather than what is actually used. Tr. at 1708.

199. Michael Grigalonis, appeared and testified on behalf of the Chester County Economic Development Council. Mr. Grigalonis testified that the company has proven to be a vital member to the business community. Tr. at 1717.

200. William Kukurin, appeared and testified on behalf of himself. Mr. Kukurin testified regarding the work his family business has done for PAWC, and how great the company has been to work with as a contractor. Tr. at 1724-25.

201. Daniel Feleck, appeared and testified on behalf of Lower Kiski Water Rescue Team. Mr. Feleck testified regarding his positive experience with the company as a community partner. Tr. at 1734.

202. Zachary Zatf, appeared and testified on behalf of Palace Entertainment. Mr. Zatf testified that if water rates continue to increase, they will have to evaluate whether they will be able to continue operation of parks in the region. Tr. at 1739. Mr. Zatf further discussed how this evaluation may have negative impacts on the economic growth within areas. Tr. at 1739-40.

203. Nereida Colon-Gonzalez, a PAWC customer, appeared and testified on behalf of herself. Ms. Colon-Gonzalez stated that she is opposed to the rate increase as it would be a burden on the middle class. Tr. at 1744. Furthermore, she stated that she does not drink the water due to its taste and that the water is hard. Tr. at 1744.

204. Timothy Chamberlain, appeared and testified on behalf of the Yardley-Makefield Fire company. Mr. Chamberlain testified that he has had a good relationship with the company, and that when the fire company needed things such as additional hydrants the company was willing to help. Tr. at 1752

205. John Papalia, appeared and testified on behalf of the Warren County Chamber of Business and Industry. Mr. Papalia did not testify in support or against the rate increase. Tr. at 1755. Mr. Papalia testified that the company is a strong supporter of the community. Tr. at 1755

206. David Beinhower, a PAWC customer, appeared and testified on behalf of EK Services. Mr. Beinhower testified that EK services is a business part of the company, and that it is his belief that the company is a good steward of the funds it requests and utilizes these funds to enhance everyday lives. Tr. at 1759-60.

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207. Representative Christina Sappey, appeared and testified. Representative Sappey strongly opposed the rate increase and stated that she was concerned about the impact It would have on individuals, families, senior citizens, and those on fixed income. Tr. at 1788. Representative Sappey discussed how she recognizes the need for investment, but every two years it feels her constituents are faced with a significant rate increase. Tr. at 1788. Furthermore. Representative Sappey stated that the "cumulative impact of these ongoing rate hikes is unfair and it's unsustainable." Tr. at 1789.

208. Senator Katie Muth, a PAWC customer, appeared and testified. Senator Muth stated that many of her constituents are customers of PAWC, and that as a public servant it is her job to fight for her constituents. Tr. at 1793. Senator Muth discussed how the current rate increase request of $203.9 million was requested only nine months after the $138 million rate increase went into effect. Tr. at 1794. Senator Muth urged the PUC to reject the rate increase and its uncapped set of fees and surcharges baked into this increased request. Tr. at 1796.

209. Shaun Keperling, a PAWC customer, appeared and testified on behalf of himself. Mr. Keperling testified as to his dissatisfaction with the rates he is forced to pay as a resident of Exeter Township. Tr. at 1800. He discussed how in order to control rates he and his family have had to take extreme conservation measures such as no longer watering plants, showering at local fitness centers, and modifying toilets to use less water per flush. Tr. at 1801. Furthermore, Mr. Keperling testified that his interactions with the customer service have been poor, long waits are often met with rudeness and little to no help. Tr. at 1801.

210. William Adams, appeared and testified on behalf of IBEW Local 654. Mr. Adams testified that the company's investments in infrastructure provide public health benefits and jobs for local workers. Tr. at 1814.

211. Thomas Miller, a PAWC customer, appeared and testified on behalf of himself. Mr. Miller requested that the Commission wholly deny the rate increase and bring rates down to what other Pennsylvanians are paying. Tr. at 1823. Furthermore, he testified that this rate increase along with the current rate he pays are unreasonable. Tr. at 1820.

212. Kurt Henry, a PAWC customer, appeared and testified on behalf of the Conodoguinet Creek Watershed Association. Mr. Henry testified that the association has enjoyed a strong partnership with the company, and that the company has been available to work with the association on various issues. Tr. at 1826-28.

213. Diane Godshall, a PAWC customer, appeared and testified on behalf of herself. Ms. Godshall testified that she is the owner of HydroTech Environmental and that her company has bid on work for the company. Tr. at 1832. Ms. Godshall discussed the positive relationship she had when working with the company and as a customer of the company. Tr. at 1832-33.

214. Leonard Wilson, a PAWC customer, appeared and testified on behalf of himself. Mr. Leonard testified that he works with the company on a variety of things, and because of the commitment to infrastructure improvement they have been able to hire more employees. Tr. at 1836. Mr. Wilson also testified that he would like to continue to receive business from PAWC. Tr. at 1838.

215. Phil Choff appeared and testified on behalf of himself. Choff testified that he is part of the Jefferson Township Municipal authority formal complaint, and that he has been in contact with PAWC to extend the mainline to his community. Tr. at 1840-41.

216. Joanna Stuck, a PAWC customer, appeared and testified on behalf of herself. Ms. Stuck testified as to her concern regarding the rate increase as well as the 27-35 day varying bill cycle. Tr. at 1857. Ms. Stuck testified that she agreed with the people that spoke from the 19606 zip code, and that she has been noticing hard water. Tr. at 1857-58. Furthermore, Ms. Stuck discussed how her husband, who has since passed away, had a waterfall built in their back yard to remember him by. Tr. at 1858. Ms. Stuck stated she turned the waterfall off to decrease her water bill. Tr. at 1858.

217. Ofomata Ejike, a PAWC customer, appeared and testified on his own behalf. Mr. Ejike testified that his main concern is the increase is across the board. Tr. at 1865.

218. Maria Figueroa, a PAWC customer, appeared and testified on behalf of herself. Ms. Figueroa testified that with each rate increase, her stipend she receives to cover living expenses dwindles. Tr. at1870. Ms. Figueroa stated that the increases have been out of control and are putting financial strain on students and it may push her our of the area in the future. Tr. at 1870-71.

219. Carla Seidel, a PAWC customer, appeared and testified on behalf of herself. Ms. Seidel testified that the enormous bills are not sustainable and that they are out of line with what households can afford. Tr. at 1874.

220. Muriel Nuttall, a PAWC customer, appeared and testified on behalf of the Fayette County Chamber of Commerce. Ms. Nuttall testified in support of PAWC. Tr. at 1881-82. Ms. Nuttal stated that she was not testifying to advocate for an increase, but rather to talk about the partnership they have with PAWC. Tr. at 1884.

LIST OF OCA-SPONSORED TESTIMONY AND EXHIBITS
ADMITTED INTO THE EVIDENTIARY RECORD

The following qualified expert witnesses provided written testimonies and exhibits in this matter:

Christine M. Hoover	Regulatory Policy
Ralph C. Smith	Revenue Requirement and Accounting Treatment
David J. Garrett	Rate of Return
Jerome D. Mierzwa	Rate Structure, Rate Design and Alternative Ratemaking
Roger D. Colton	Low-Income Customer Assistance
Barbara R. Alexander	Customer Service and Tariffs
Terry L. Fought	Quality of Service

The qualifications of the above witnesses are set forth in the respective testimonies that were admitted into the record, each with supporting verifications. Tr. 1941-44.

OCA Statement 1 **Corrected**, Direct Testimony of Christine Maloni Hoover
Appendix A
Exhibits CMH-1 through CMH-5

OCA Statement 1 Supp., Supplemental Direct Testimony of Christine Maloni Hoover

OCA Statement 1R, Rebuttal Testimony of Christine Maloni Hoover
Exhibit CMH-6

OCA Statement 1SR, Surrebuttal Testimony of Christine Maloni Hoover

OCA Statement 2, Direct Testimony of Ralph C. Smith (**Confidential** and Public versions)
Exhibit RCS-1
Exhibit LA-1
Exhibit LA-2
Exhibit LA-3
Exhibit LA-4 (**Confidential**)
Exhibit LA-5
Exhibit LA-6

OCA Statement 2SR, Surrebuttal Testimony of Ralph C. Smith
Exhibit LA-7

OCA Statement 3, Direct Testimony of David J. Garrett
Appendices A and B
Exhibits DJG-1 through DJG-15

OCA Statement 3R, Rebuttal Testimony of David J. Garrett

OCA Statement 3SR, Surrebuttal Testimony of David J. Garrett

OCA Statement 4, Direct Testimony of Jerome D. Mierzwa
Schedules JDM-1 through JDM-7

OCA Statement 4R, Rebuttal Testimony of Jerome D. Mierzwa

OCA Statement 4SR, Surrebuttal Testimony of Jerome D. Mierzwa
Schedule JDM-2SR
Schedule JDM-4SR
Schedule JDM-6SR

OCA Statement 5, Direct Testimony of Roger D. Colton (**Confidential** and Public versions)
Exhibit RDC-1

OCA Statement 5R, Rebuttal Testimony of Roger D. Colton

OCA Statement 5SR, Surrebuttal Testimony of Roger D. Colton (**Confidential** and Public versions)

OCA Statement 6, Direct Testimony of Barbara R. Alexander (**Confidential** and Public versions)
Exhibit BA-1
Exhibit BA-2 (**Confidential**)
Exhibit BA-3
Exhibit BA-4 (**Confidential**)
Exhibit BA-5
Exhibit BA-6
Exhibit BA-7
Exbibit BA-8
Exhibit BA-9 (**Confidential**)

OCA Statement 6 Supp., Supplemental Direct Testimony of Barbara R. Alexander

OCA Statement 6SR, Surrebuttal Testimony of Barbara R. Alexander (**Confidential** and Public versions)
Exhibit BA-10
Exhibit BA- 11 (**Confidential**)
Exhibit BA-12 (**Confidential**)

OCA Statement 7, Direct Testimony of Terry L. Fought (**Confidential** and Public versions)
Exhibit TLF-1
Exhibit TLF-2 (**Confidential**)
Exhibit TLF-3 (**Confidential**)

OCA Statement 7 Supp., Supplemental Direct Testimony of Terry L. Fought
Exhibit TLF-4

OCA Statement 7SR, Surrebuttal Testimony of Terry L. Fought

OCA Hearing Exhibit 1
List of the Evidence Offered by the Office of Consumer Advocate

OCA Hearing Exhibit 2
Verifications for Responses to Discovery Attached to OCA Testimony

III. OVERALL POSITION ON RATE INCREASE

1. The OCA has reviewed and not challenged the proposed $1.267 billion for PAWC's existing water and wastewater utility plant through the end of the FPFTY as these infrastructure improvement projects seek to ensure the provision of safe, adequate, and reliable service and facilities in the interests of consumers. OCA St. 2 at 18-46; OCA St. 2, Exh. LA-1, LA-2; OCA St. 2SR at 21-27.

2. Apart from $1.267 billion of infrastructure improvement projects, the $203.9 million rate relief request is excessive and unnecessary and the Company's need for rate relief could be met with an annual increase of no more than $45.4 million on a total Water and Wastewater basis. OCA M.B., App. A, Summary Table; OCA St. 2 at 10, Exh. LA-1; OCA St. 3 at 20-61.

3. The first major driver of the excessive increase is PAWC's unreasonable rate of return claim, consisting of (1) an unreasonably high ROE of 10.95%, inclusive of an arbitrary, unsupported, and unreasonable "management performance" adder of up to 25 basis points, and (2) an unreasonable, equity-rich capital on a total Company basis: 55.3% equity and 44.7% debt. OCA St. 3 at 3-4, 50-61; OCA St. 3SR at 2-11.

4. The second major driver of the excessive increase is PAWC's inclusion of sizeable ratemaking claims for six potential acquisitions of water and wastewater systems for which PAWC has not received Commission approval to acquire as of the close of the record. OCA St. 2 at 18-46.

5. PAWC has proposed an Act 11 shift of the entire burden of recovering its requested increase in Wastewater revenue requirement onto Water customers, while decreasing rates for its existing Wastewater customers, which means none of its existing Wastewater customers would bear in the recovery of the Wastewater revenue increase. OCA St. 1 at 34-40; OCA St. 4 at 22-28; OCA St. 4R at 7.

6. Post-shift PAWC seeks to increase rates by 24.2% for water customers while decreasing rates by -0.2% and -0.3% for Wastewater SSS and CSS Wastewater customers, respectively. OCA St. 4 at 27, Sch. JDM-3.

7. The third major of the excessive increase is PAWC's request for approval of various mechanisms that will unreasonably transfer risk from the Company to consumers, and further increase consumers' rates in unknown quantities beyond PAWC's claimed revenue requirement in this case following the effective date of base rates approved in this proceeding and in future rate cases. OCA Sts. 2 at 75-79; 2SR at 50-51;1 at 4, 26, 40-51; 1SR at 9-13, 25-27; 4 at 50-74, 4SR at 21-34.

8. The OCA's recommended revenue requirement of $45.4 million ($17.8 million for Water and $27.6 million for Wastewater (pre-Act 11 shift)) represents an overall 4.49% increase

on a total Water and Wastewater basis. App. A, OCA Table Summary; OCA St. 2 at 10; OCA St. 2, Exh. LA-1; OCA St. 3 at 3-4, 20-61.

9. OCA recommends a market-based return on equity of 9.10% and a capital structure of 51% equity and 49% debt based on cost of capital analyses. OCA St. 3 at 58, 61, Exh. DJG-13, 20-61; OCA St. 3SR at 2-11; OCA St. 2, Exh. LA-1, Sch. D, Exh. LA-6.

10. OCA recommends the removal entirely of claims associated with the six proposed acquisitions in the FPFTY. OCA St. 2 at 18-46; OCA St. 2SR at 4-21.

11. At the OCA's recommended lower revenue requirement increase of $45.4 million, the OCA proposes a shift of 75% of the Wastewater SSS and 50% of the CSS Wastewater revenue requirement increase to Water customers. OCA St. 4 at 28.

12. Post-shift, the OCA's recommended revenue requirement increases would be $36.7 million or 4.5% for Water, 5.1 million or 5.3% for Wastewater SSS, and 3.7 million or 4.7% for CSS Wastewater. App. A, OCA Table Summary; OCA St. 2, Exh. LA-1, Sch. A; OCA St. 4 at 9, 28; OCA St. 4R at 7.

13. This is PAWC's third case in four years. PAWC has been granted rate increases in February 2021, February 2022, and January 2023, and with this rate increase, rates will increase again in August 2024. OCA St. 1 at 18.

14. In the five rate cases prior to 2021, PAWC increased rates in November 2007, November 2009, November 2011, December 2013, and December 2017. Over the period of 2007-2023, the revenue requirement increases were substantial. Importantly, the impact on customers' bills often is well more than the percentage increase in revenues. OCA St. 1 at 18.

15. Approximately 500 formal complaints and 614 informal complaints were filed in this case. OCA St. 6SR at 4.

16. There were 12 public input hearings held, where 220 individuals testified under oath. App. B; OCA St. 6-Supp.

17. PAWC has water customers who are struggling to pay utility bills because of the large burden of their current utility bills but do not qualify for PAWC's low-income customer bill discount program. OCA St. 1 at 5, 12-20. CMH-1, CMH-2.

18. In 18 of 36 counties in PAWC water service territory, the median household income is between the Federal poverty income guidelines but below the ALICE (Asset Limited, Income Constrained, Employed) household survival budget for a family of four. OCA St 1 at 5, 12-20, CMH-1, CMH-2.

19. In 6 of the 18 counties in PAWC's Wastewater service area, the median household income is below the ALICE household survival budget. OCA St. 1 at 5, 12-20, CMH-1, CMH-2.

20. On a Statewide level, ALICE assumes a family of four will spend $292 per month on utilities. OCA St. 1 at 16.

21. Whether an ALICE household or not, the current utility bills at a "typical" level[1] far exceed the amount estimated by ALICE for the cost of utilities for a household of four in Pennsylvania ($292 per month) and is even higher using the proposed Water and Wastewater bills. OCA St. 1 at 17-18.

IV. REVENUE REQUIREMENT – RATE BASE

A. UTILITY PLANT IN SERVICE

1. PLANT TO BE ACQUIRED

22. PAWC's revenue requirement includes utility plant in service claims in the FPFTY for six not yet completed acquisitions. PAWC Exhibit 3-A; OCA St. 2 at 18-19; OCA St. 2SR at 24.

23. The six proposed acquisitions include: (1) Audubon Water Company's water system, (2) Farmington Township's water system, (3) Farmington Township's wastewater system, (4) Sadsbury Township Municipal Authority's wastewater system, (5) Butler Area Sewer Authority's (BASA's) wastewater, and (6) the Borough of Brentwood's wastewater system. OCA St. 2 at 18.

24. The Company's rate base claim for the Audubon water acquisition included in Water Operations in the FPFTY is $7,406,830. OCA St. 2, Exh. LA-2, Sch. B-1; App. G.

25. The OCA's rate base adjustment is to remove the $7,406,830 claim from Water Operations associated with the Audubon water acquisition. OCA St. 2, Exh. LA-2, Sch. B-1; App. G.

26. The Company's rate base claim for the Farmington Township water acquisition included in Water Operations in the FPFTY is $2,773,125. OCA St. 2, Exh. LA-2, Sch. B-2; App. G.

27. The OCA's rate base adjustment is to remove the $2,773,125 claim from Water Operations associated with the Farmington Township water acquisition. OCA St. 2, Exh. LA-2, Sch. B-2; App. G.

[1] The "typical" usage used in the current PAWC rate case notices would likely understate the bills for a 4-person household. OCA St. 1 at 16.

28. The Company's rate base claim for the Farmington Township wastewater acquisition included in Wastewater Operations in the FPFTY is $2,878,461. OCA St. 2, Exh. LA-2, Sch. B-3; App. G.

29. The OCA's rate base adjustment is to remove the $2,878,461 claim from Wastewater Operations associated with the Farmington Township wastewater acquisition. OCA St. 2, Exh. LA-2, Sch. B-3; App. G.

30. The Company's rate base claim for the Sadsbury Township wastewater acquisition included in Wastewater Operations in the FPFTY is $2,018,697. OCA St. 2, Exh. LA-2, Sch. B-4; App. G.

31. The OCA's rate base adjustment is to remove the $2,878,461 claim from Wastewater Operations associated with the Sadsbury Township wastewater acquisition. OCA St. 2, Exh. LA-2, Sch. B-4; App. G.

32. The rate base claims associated with the proposed BASA wastewater acquisition should be removed from the FPFTY. OCA St. 2 at 33. PAWC presented a separate revenue requirement for the BASA wastewater acquisition and the OCA's recommended adjustment is shown on OCA Statement 2, Exh. LA-1, Sch. A, page 2, reflecting the removal of the entire BASA revenue requirement from the Company's overall filing in Exh.LA-1, Sch. A, page 1. OCA St. 2 at 33.

33. The rate base claims associated with the proposed Brentwood wastewater acquisition should be removed from the FPFTY. OCA St. 2 at 37. Since PAWC presented a separate revenue requirement for Brentwood, the OCA's recommended adjustment is shown on OCA St. 2, Exh. LA-1, Sch. A, page 2, reflecting the removal of the entire Brentwood revenue requirement from the Company's overall filing in Exh. LA-1, Sch. A, page 1. OCA St. 2 at 37.

34. Five of the six proposed acquisitions – Audubon water, Farmington water and wastewater, Sadsbury wastewater, and BASA – are in various stages of litigation (OCA St. 2 at 24, 27-28, 30, 31-32), and the sixth acquisition – Brentwood – was denied by Commission order (OCA St. 2SR at 8).

35. PAWC has filed an application with the Commission at Docket No. A-2023-3043194, seeking certificate of public convenience (CPC) authority to acquire the Audubon water system, and as of the close of the record in this proceeding, there is no final, unappealable Commission order granting CPC authority to PAWC to acquire the Audubon water system. OCA St. 2 at 23-24.

36. PAWC has filed an application with the Commission at Docket No. A-2023-3042567, seeking CPC authority to acquire the Farmington water system, and as of the close of the

record in this proceeding, there is no final, unappealable Commission order granting CPC authority to PAWC to acquire the Farmington water system. OCA St. 2 at 26-28.

37. PAWC has filed an application with the Commission at Docket No. A-2023-3042587, seeking CPC authority to acquire the Farmington water system, and as of the close of the record in this proceeding, there is no final, unappealable Commission order granting CPC authority to PAWC to acquire the Farmington water system. OCA St. 2 at 26-28.

38. PAWC has filed an application with the Commission at Docket No. A-2023-3042058, seeking CPC authority to acquire the Sadsbury wastewater system, and as of the close of the record in this proceeding, there is no final, unappealable Commission order granting CPC authority to PAWC to acquire the Sadsbury wastewater system. OCA St. 2 at 29-30.

39. The Commission order at Docket No. A-2022-3037047 approving PAWC's application to acquire the BASA wastewater system was appealed to the Commonwealth Court, and those appeals are pending. OCA St. 2 at 31-32.

40. PAWC's application filed at Docket No. A-2021-3024058 seeking CPC authority to acquire the Brentwood wastewater acquisition was denied by the Commission at the February 22, 2024 Public Meeting. OCA St. 2SR at 8.

41. At a Public Meeting held on February 22, 2024, the Commission considered Exceptions that were filed both by PAWC and by the Borough of Brentwood and ultimately voted 5-0 to reject the Company's application for the Brentwood acquisition.

42. The Commission's Opinion and Order denying PAWC's Brentwood application was entered March 4, 2024, at Docket No. A-2021-3024058.

43. Company witnesses Everette and Abruzzo predicted in testimony that the Commission would approve the Company's application to acquire the Brentwood acquisition. PAWC St. 1R at 4; PAWC St. 6R at 2-11.

44. Company witness Abruzzo did not predict that the Commission would deny the Company's application to acquire the Brentwood acquisition. PAWC St. 6R at 3; Tr. 2087.

45. As a result of the Commission's denying PAWC's application to acquire the Brentwood wastewater system, PAWC removed the revenue requirement for the Brentwood wastewater acquisition from its ratemaking claims in this case. Tr. 1969-70.

46. There is an executed asset purchase agreement (APA) between PAWC and Audubon water for the purchase and sale of that water system which is not publicly available Docket No. A-2023-3043194. OCA St. 2SR at 9.

47. There is an executed APA between PAWC and Farmington Township for the purchase and sale of those water and wastewater systems which is publicly available at Docket Nos. A-2023-3042567 and A-2023-3042587. OCA St. 2SR at 9.

48. There is an executed APA between PAWC and Sadsbury Township for the purchase and sale of that wastewater system which is publicly available at Docket No. A-2023-3042058. OCA St. 2SR at 9.

49. There is an executed APA between PAWC and BASA for the purchase and sale of that wastewater system which is publicly available at Docket No. A-2022-3037047. OCA St. 2SR at 9.

50. There is an executed APA between PAWC and Brentwood for the purchase and sale of that wastewater system which is publicly available at Docket No. A-2021-3024058. OCA St. 2SR at 9.

51. PAWC and the sellers of systems have contractual rights that permit them to terminate the APAs for various reasons prior to closing. OCA St. 2SR at 9-11.

52. Both PAWC and Farmington Township have the contractual right to terminate their APA by mutual agreement for any reason prior to closing. OCA St. 2SR at 9.

53. Both PAWC and Farmington Township have the contractual right to terminate their APA if any Governmental Authority issues an unappealable order, decree, ruling, or takes action that permanently restrains, enjoins, or prohibits the material transaction contemplated by the APA and the terminating party is not in material breach of the APA. OCA St. 2SR at 9.

54. Prior to actual closing, for any reason PAWC or Farmington may terminate the APA if closing does not occur 365 days after the date of the application to the Commission is accepted and the statutory 6-month consideration period is initiated. OCA St. 2SR at 10.

55. Both PAWC and Farmington Township have the contractual right to terminate the APA if they are not in material breach and the other party has committed a material breach of any covenant or agreement to be performed or complied with by that party pursuant to the APA and has continued without cure for 60 days following notice by the non-breaching party to the breaching party or if the breach cannot be cured would result in a condition precedent to closing not being satisfied which has not been waived in writing. OCA St. 2SR at 11.

56. Both PAWC and Sadsbury have the contractual right to terminate their APA by mutual agreement for any reason prior to closing. OCA St. 2SR at 9.

57. Both PAWC and Sadsbury Township have the contractual right to terminate their APA if any Governmental Authority issues an unappealable order, decree, ruling, or takes action that permanently restrains, enjoins, or prohibits the material transaction contemplated by the APA and the terminating party is not in material breach of the APA. OCA St. 2SR at 9.

58. Both PAWC and Sadsbury have the contractual right to terminate the APA if closing does not occur on or prior to June 30, 2024, and the terminating party is not in material breach. OCA St. 2SR at 10.

59. Both PAWC and Sadsbury have the contractual right to terminate the APA if the other party has committed a material breach of any representation, warranty, covenant, or agreement contained in the APA and has not cured such breech within five business days and the terminating party is not in material breach. OCA St. 2SR at 10.

60. Both PAWC and BASA have the contractual right to terminate their APA by mutual agreement for any reason prior to closing. OCA St. 2SR at 9.

61. Both PAWC and BASA have the contractual right to terminate their APA if any Governmental Authority issues an unappealable order, decree, ruling, or takes action that permanently restrains, enjoins, or prohibits the material transaction contemplated by the APA and the terminating party is not in material breach of the APA. OCA St. 2SR at 9.

62. Prior to actual closing, for any reason PAWC or BASA may terminate the APA if closing does not occur 365 days after the date of the application to the Commission is accepted and the statutory 6-month consideration period is initiated. OCA St. 2SR at 10.

63. Both PAWC and BASA have the contractual right to terminate the APA if they are not in material breach and the other party has committed a material breach of any covenant or agreement to be performed or complied with by that party pursuant to the APA and has continued without cure for 60 days following notice by the non-breaching party to the breaching party or if the breach cannot be cured would result in a condition precedent to closing not being satisfied which has not been waived in writing. OCA St. 2SR at 11.

64. Both PAWC and Brentwood have the contractual right to terminate their APA by mutual agreement for any reason prior to closing. OCA St. 2SR at 9.

65. Both PAWC and Brentwood have the contractual right to terminate their APA if any Governmental Authority issues an unappealable order, decree, ruling, or takes action that permanently restrains, enjoins, or prohibits the material transaction contemplated by the APA and the terminating party is not in material breach of the APA. OCA St. 2SR at 9.

66. Prior to actual closing, for any reason PAWC or Brentwood may terminate the APA if closing does not occur 365 days after the date of the application to the PUC is accepted and the statutory 6-month consideration period is initiated. OCA St. 2SR at 10.

67. Both PAWC and Brentwood have the contractual right to terminate the APA if they are not in material breach and the other party has committed a material breach of any covenant or agreement to be performed or complied with by that party pursuant to the APA and has continued without cure for 60 days following notice by the non-breaching party to the

breaching party or if the breach cannot be cured would result in a condition precedent to closing not being satisfied which has not been waived in writing. OCA St. 2SR at 11.

68. There are many reasons that an attempted acquisition can fail prior to closing that do not relate to the existence of a final, unappealable Commission or court order, including: (1) unrealistic expectations by either party as to the value, benefits, or challenges of the potential acquisition; (2) financial concerns of either party as to valuation and financing related to the acquisition; (3) changes in leadership at PAWC or changes in political leadership as to the seller; (4) insufficient or inadequate due diligence that led to the signing of the APA, where further due diligence may reveal additional issues and/or create a desire on either party not to proceed to closing; (5) external economic downturns that may impact the viability of the deal due to unaffordability of service post-acquisition; (6) lack of stakeholder buy-in – opposition by key stakeholders (community, consumers, employees) can create resistance and hinder the ability of an acquisition to take place; and/or (7) failure of PAWC or seller to obtain other necessary governmental approvals by government authorities other than the Commission. OCA St. 2SR at 13-14.

69. Delaware County Regional Water Quality Control Authority (DELCORA), City of Beaver Falls, and Willistown Township are three acquisitions that encountered pitfalls, delays, or terminations. OCA St. 2SR at 11-13.

70. Aqua's attempted acquisition of the Willistown Township wastewater system did not close as a result of the Township exercising its rights under the APA to terminate the APA, notwithstanding the existence of a Commission order approving Aqua's application to acquire that system. OCA St. 2SR 11.

71. Aqua's attempted acquisition of DELCORA has been stayed multiple times due in part to civil litigation brought by Delaware County, DELCORA, and Aqua PA, as well as an Order from the Bankruptcy Court for the Eastern District of Pennsylvania regarding an unresolved reversionary interest in DELCORA assets. OCA St. 2SR at 12-13.

72. PAWC proposed a multistep revenue requirement consisting of a Step 1 that excludes BASA and Brentwood acquisitions, a Step 2 that excludes Brentwood but includes BASA, and a Step 3 that includes BASA and Brentwood. PAWC St. 1R at 4-6.

73. As a result of the Commission's denying PAWC's application to acquire the Brentwood wastewater system, PAWC removed the revenue requirement for the Brentwood wastewater acquisition and Step 3 from its ratemaking claims in this case. Tr. 1969-70.

74. Mr. Smith rejected this multistep plan. OCA St. 2SR at 16-21.

2. ADDITIONS TO RATE BASE

75. The Company claims gross utility plant additions totaling 742,020,740 for the FTY and $797,874,110 for the FPFTY, for an overall gross utility plant addition of 1.540 billion. PAWC St. 3 at 9; OCA St. 2SR at 22-23.

76. The gross plant additions totaling $1.540 billion are offset by PAWC's claimed projected retirements in the FTY and the FPFTY totaling $253,536,706, for a total of $1.286 billion in net additions to rate base through the end of the FPFTY. PAWC St. 3 at 9; OCA St. 2SR at 23-24.

77. The $1.286 billion net claim of proposed utility plant additions does not include the purchase prices for utility plant associated with the six proposed acquisitions but does include post-acquisition plant additions for the BASA and Brentwood systems in an amount of $18.89 million. OCA St. 2SR at 25-27.

78. Excluding the $18.89 million in rate base additions reduces PAWC's proposed $1.286 billion of plant additions net of retirements through June 30, 2025, to $1.267 billion. OCA St. 2SR at 25-27.

79. The OCA has reviewed and has not challenged the Company's claimed capital spend of $1.267 billion for its Water and Wastewater utility plant and equipment through the end of the FPFTY. OCA St. 2SR at 21-27.

B. DEPRECIATION RESERVE

C. CASH WORKING CAPITAL

80. Cash Working Capital (CWC) is the cash needed by the Company to cover its day-to-day operations. OCA St. 2 at 46.

81. The OCA proposes to adjust PAWC's CWC claim to remove the BASA and Brentwood CWC claims by removing the entire revenue requirement for these systems. OCA St. 2 at 47, n.8.

82. The OCA proposes to adjust PAWC's CWC claim with a negative adjustment to CWC for Water Operations by $1.761 million. OCA St. 2 at 47-48. Exh. LA-2 Sch. B-5, B-5.C and B-5.D.

83. The OCA proposes to adjust PAWC's CWC claim with a negative adjustment to CWC for Wastewater SSS General Operations by $150,794. OCA St. 2 at 47-48. Exh. LA-2 Sch. B-5, B-5.C and B-5.D.

84. The OCA proposes to adjust PAWC's CWC claim with a negative adjustment to CWC for CSS Wastewater Operations by $98,811. OCA St. 2 at 47-48. Exh. LA-2 Sch. B-5, B-5.C and B-5.D.

V. REVENUE REQUIREMENT – REVENUES

A. ACQUISITION RELATED

85. The OCA's adjustment is to remove from Water Operations the $2.965 million in operating revenues claim relating to the not-yet-acquired Audubon water system. OCA St. 2 at 33-37, 50; OCA St. 2SR at 30.

86. The OCA's adjustment is to remove from Water Operations the $266,371 in operating revenues claim relating to the not-yet acquired Farmington water system. OCA St. 2 at 33-37,50.

87. The OCA's adjustment is to remove from SSS General Operations the $322,926 in operating revenues claim relating to the not-yet acquired Farmington wastewater system. OCA St. 2 at 51; OCA St.2SR at 32.

88. The OCA's adjustment is to remove from SSS General Operations the $471,228 in operating revenues claim relating to the not-yet acquired Sadsbury wastewater system. OCA St. 2 at 33-37, 52; OCA St. 2SR at 32 .

89. The OCA's adjustment is to remove the entire Brentwood revenue requirement associated with the not-yet acquired Brentwood system. OCA St. 2 at 37.

90. As a result of the Commission's denying PAWC's application to acquire the Brentwood wastewater system, PAWC removed the revenue requirement for the Brentwood wastewater acquisition from its ratemaking claims in this case. Tr. 1969-70.

91. The OCA's Adjustment is to remove the BASA revenue requirement associated with the not-yet acquired BASA system. OCA St. 2 at 33.

B. MISCELLANOUS REVENUES

92. Amounts that a utility has been receiving for miscellaneous revenue offset the amount of revenue requirement that is to be recovered in the utility's base rates, which is the opposite of utility expense claims that add to the overall revenue requirement to be recovered in rates. OCA St. 2SR at 49.

93. In its direct case, PAWC included a claim for miscellaneous revenue in the amount of $659,634 in the FPFTY. OCA St. 2SR at 49-50.

94. No party challenged the amount of the miscellaneous revenue claim of $659,634. OCA St. 2SR at 49-50.

95. The OCA recommended that the Commission initiate an investigation into PAWC's marketing and billing arrangements with AWR (AWR) and pause new customer enrollments until the investigation is completed. OCA St. 6 at 41; OCA St. 6SR at 23-24.

96. In rebuttal, PAWC made a revised claim to remove the $659,624 in miscellaneous revenue in the FPFTY if the Commission determines that PAWC cannot continue to bill customers on behalf of AWR. PAWC St. 1R. at 21; OCA St. 2SR at 49.

97. No PAWC witness testified that PAWC should stop the billing and marketing arrangement with AWR based on the OCA's concerns and recommendations. OCA St. 2SR at 50.

VI. REVENUE REQUIREMENT – EXPENSES

A. PAYROLL COSTS- VACANCY RATE

98. The OCA's proposed a 1.76% vacancy rate adjustment to salaries, wages and related benefits for the water operations. OCA St. 2 at 56-59. OCA St. 2SR at 2, n. 1, n. 2.

99. PAWC accepted the adjustments recommended based on the OCA's 1.76% vacancy rate. PAWC St. 5R at 2-3.

100. The OCA's vacancy rate adjustments reduce salaries and wages by $1,045,353 and related payroll taxes by $79,970, and annual performance pay by $85,523, and related payroll tax by $6,543. OCA St. 2 at 56-59. OCA St. 2SR at 2, n. 1, n. 2.

101. The OCA recommends accompanying adjustments based on vacancy rate for group insurance by $200,623 and 401k, DCP, and ESPP by $72,817, resulting in a total reduction to the Company's claim for salaries, wages, payroll taxes and related benefit by $1,490,829. OCA St. 2 at 56-59. OCA St. 2SR at 2, n. 1, n. 2.

102. OCA recommended, and PAWC agreed, to the removal of PAWC's expense claim of $123,250 from water operations related to its external Board given that PAWC eliminated its external board as of December 31, 2023. OCA St. 2 at 62; OCA St. 2SR at 2.

B. ANNUALIZED PERFORMANCE PAY - PAWC

103. The OCA's vacancy rate adjustment reduces annualized performance plan expense by $85,523 and related payroll tax expense by $6,543 for water operations. OCA St. 2 at 59,60.

C. GROUP INSURANCE EXPENSE

104. The OCA's vacancy rate adjustment reduces projected 2025 group insurance expense by $200,623 for water operations. OCA St. 2 at 60; OCA St. 2SR at 2.

D. 401K, DEFINED CONTRIBUTION PLAN AND EMPLOYEE STOCK PURCHASE PLAN

105. The OCA's vacancy rate reduces projected 2025 expenses by $72,817 for Water Operations. OCA St. 2 at 61; OCA St. 2SR at 2.

E. STOCK BASED COMPENSATION EXPENSE- AWK EXECUTIVES

106. The OCA's adjustment to remove the portion of stock-based compensation linked to shareholder interests, not consumer interests, associated with Long-Term Performance Plan for American Water Works to executive officers reduces PAWC's operation expenses by $1.722 million. OCA St. 2 at 66-67.

107. The stock-based compensation expense referred to as the Long-Term Performance Plan consists of RSU's and PSU and is linked to stock performance. PAWC St. 2R at 9; OCA St. 2SR at 45-46.

108. Stock-based compensation in the form of PSUs should be paid for by shareholders who benefit from the return and earnings per share of AWK's common stock. OCA St. 2SR at 46-47.

109. Recovering that portion of stock-based compensation that is linked to shareholder interests from PAWC's customer does not promote reasonable, adequate, or efficient public utility service. OCA St.2 at 67; OCA St. 2SR at 67.

110. Mr. Smith allocated his recommended adjustments for stock-based compensation to AWW executives to PAWCs water and wastewater operations using the allocation factors from Exh. 3-B on the Company's filing. OCA St. 2 at 69.

111. The OCA's adjustment reduces pre-tax operating expense by $1.643 million for water operations, $51,658 for Wastewater SSS General Operations, and $25,551 for Wastewater CSS Operations. OCA St. 2 at 69.

F. EXECUTIVE PERQUISITES

112. The OCA recommends adjustments to remove expenses related to the executive perquisites associated with Dividend Equivalents for top AWW executives, reducing operating expenses by $31,371 that is projected to be charged to PAWC from AWW in the FOFTY. OCA St. 2 at 70.

113. Dividend equivalents are paid in cash with respect to PSU and RSUs at such time, if PSUS or RSUs are converted to common stock. OCA St. 2 at 70.

114. The OCA's adjustment reduces pre-tax operating expense by $29,928 for Water Operations, $941 for Wastewater SSS General Operations, and $502 for CSS Wastewater operations. OCA St 2 at 71.

G. PAYROLL TAXES

(Payroll taxes are discussed in the section in which the adjustment is made that would result in a payroll tax adjustment.)

H. INSURANCE OTHER THAN GROUP

115. The OCA recommends an adjustment to Insurance Other Than Group expense using actual percentage change grom the test year ended June 30, 2023, rather than the five-year average percentage change. OCA St. 2 at 63-64.

116. The annual percentage change from June 30, 2019, June 30, 2021, and June 30, 2022, were abnormally high compared to the 12 month periods ending June 30, 2020 and HTY ended June 30, 2023. OCA St. 2 at 63-64.

117. The OCA recommends that the HTY percentage change of 4.53% be used to calculate Insurance Other than Group for the FPFTY. OCA St. 2 at 63-64; OCA St. 2SR at 36-37.

118. This adjustment reduces pre-tax operating income by $247,905 for Water Operations, $34,694 for Wastewater SSS General Operations, and $23,713 for CSS Wastewater Operations. OCA St. 2 at 63-64; OCA St. 2SR at 36-37.

I. UNCOLLECTIBLE EXPENSE (RATE OF NET WRITE-OFFS)

119. The OCA recommends using a three-year historic average ratio of net write-offs based on the 12 months ended June 30, 2020, 2022, and 2023 to calculate the going level uncollectable expense which produces an uncollectible write-offs percentage of 1.164%. OCA St. 2 at 54-56; OCA St. 2SR at 32-34.

120. PAWC witness Swiz recommends a two-year percentage write-off ending June 30, 2023. PAWC St. 8R at 2-3.

121. The OCA recommends eliminating the impact of Covid-19 on customer collections, accordingly the period July 1, 2020, through June 30, 2021, should not be used for calculation of going level of uncollectibles expense. OCA St. 2 at 55; OCA ST. 2SR at 33.

122. For the 12-month period ended June 30, 2021, the uncollectibles annual write-off percentage calculates to .548% compared to the 12-month period ended June 30, 2020, of 1.135%. OCA St. 2 at 55-56; OCA St. 2SR at 33-34.

123. The OCA's adjustment reduces claimed Uncollectibles Expense by $100,054 for water operations, $11,591 for Wastewater SS General Operations, $9,547 for CSS Wastewater operations, and $1,438 for BASA Wastewater Operations. OCA St. 2 at 54-55.

J. ARREARAGE MANAGEMENT PLAN (AMP) CREDITS – UNCOLLECTIBLES EXPENSE

124. The OCA recommends an adjustment based on the recommendation of OCA witness Colton in which Mr. Colton recommended that PAWC's addition of dollars to uncollectibles reflect AMP credits should be reduced by the percentage of BDP programs already historically included in uncollectibles. OCA ST. 2SR at 48.

125. This adjustment reduced overall FPFTY uncollectibles expense by $2.162 million in account 670.7 related to the Company's proposed AMP. OCA St. 2 at 73.

126. With this adjustment, account 670.7 should reflect the amount of $214,728 for the AMP-related uncollectibles expense rather than $2,377,200 as proposed by PAWC. OCA St. 2 at 73-74.

127. This adjustment reduces pre-tax operating expenses by $1.848 million for Water Operations, $150,724 for Wastewater SSS General Operations, $113,746 for CSS Wastewater Operations, and $39,573 for BASA Wastewater Operations. OCA St. 2 at 73-74

128. This adjustment eliminates PAWC's double-recovery of dollars added to uncollectibles to reflect AMP credits where those dollars are already historically included in uncollectibles for the BDP. OCA St. 2 at 73-74.

129. The OCA's position is consistent with the Further Amended Joint Petition for Full Settlement of the Arrearage Management Plan. OCA St. 5SR at 26-27.

130. Mr. Colton does not assert that AMP would reduce future uncollectibles, he stated that past uncollectibles include the uncollectibles associated with the Arrears of Confirmed Low-Income customers. OCA St. 5SR at 27.

131. The arrears that will be subject to AMP are already included in rates and are not incremental costs associated with AMP, to include them as both would allow PAWC to collect those costs twice. OCA ST 5SR at 27.

K. ACQUISITION-RELATED EXPENSES

132. The OCA recommends the removal of $1.586 million from O&M expense and taxes other than income expense, $763,977 amortization expense, and $269,599 in depreciation expense from Water Operations in the FPFTY as part of the removal of the proposed Audubon Water acquisition. OCA ST. 2 at 26, 449-50, 52.

133. The OCA recommends the removal of $152,285 of O&M expense and taxes other than income expense, $21,549 amortization expense, and $101,751 of depreciation expense from Water Operations in the FPFTY as part of the removal of the proposed Farmington Water Acquisition. OCA St. 2 at 29, 44-45, 50, 52-53.

134. The OCA recommends the removal of $264,176 of O&M expense and taxes other than income expense, $5,699 amortization expense, and $137,987 depreciation expense from the Wastewater SSS Operations in the FPFTY as part of the removal of the proposed Farmington Wastewater acquisition. OCA St. 2 at 29, 44-45, 50, 52-53

135. The OCA recommends the removal of $249,288 of O&M expense and taxes other than income expense, $85,414 amortization expense, and $51,847 of depreciation expense from Wastewater SSS Operations in the FPFTY as part of the removal of the proposed Sadsbury Wastewater acquisition. OCA St. 2 at 30-31, 45-46, 51-52, 53-54.

136. The OCA proposes the revenue requirement associated with BASA Wastewater be removed entirely. OCA St. 2 at 33.

137. The OCA propose the revenue requirement associated with Brentwood Wastewater should be removed entirely. OCA St. 2 at 37.

138. The OCA recommends the removal of payroll expense for 43 additional positions that PAWC is proposing to add related to these acquisitions, for a total reduction to payroll expense of $2.984 million. OCA St. 2 at 56-57., Exh. LA-1. Sch. A., C-1, C-2, C-3.

L. INTEREST SYNCHRONIZATION

139. Interest synchronization is used to determine the amount of interest expense to be used in calculation of income tax. OCA St. 2SR at 35.

140. OCA witness Smith multiplied the OCA's adjusted rate base by the weighted cost of debt included in the OCA's recommended capital structure. OCA ST. 2 at 61; OCA St. 2SR at 34-36.

141. The use of a different rate base or weighed cost of debt impacts the interest synchronization. OCA St. 2SR at 35.

142. Interest synchronization is a standard ratemaking approach that has been well-established as appropriate and fair to all parties. OCA St. 2 at 61; OCA St. 2SR at 34-36.

143. OCA witness Smith recommends an adjustment in the amount of $2,999,784. OCA St.2 at 61, Exh. LA-2.C-14; OCA St. 3 SR at 34-36.

M. AMORTIZATION EXPENSE

(See Acquisition-related expenses above under VI.K.)

N. CALL CENTER EXPENSE

144. The actual performance of the third-party call centers in answering calls is below the performance of the corporate call centers operated by the Service Company employees. OCA St 6SR at 9.

145. PAWC has not exercised its contractual remedies to address the poor performance. OCA St. 6 at 20; OCA St. 6SR at 9-10.

146. PAWC has ignored the evidence of the actual poor performance of its third-party call centers and refuses in this proceeding to make any changes in its current call center contracts. OCA ST. 6SR at 10; PAWC St. 9R at 15-16.

147. PAWC incurring expenses for the use of contractors who are allowed to perform at less than reasonable levels below PAWC's in house call centers is imprudent and unreasonable. OCA St. 6SR at 10.

148. OCA recommends that the Commission disallow FPFTY expense proposed by PAWC for account 634.8 of $2,475,869 for Transworld and $606,386 for Interlogix to eliminate expense for the third-party call centers that have routinely failed to meet reasonable call performance standards. OCA St. 2 at 73; OCA St. 2SR at 48.

(A more in-depth discussion of the Call Center performance is discussed in the Customer Service Performance section.)

O. DEPRECIATION EXPENSE- WATER OPERATIONS

149. The shorter the useful life, the higher the depreciation expense and the higher the revenue requirement. OCA St. 2SR at 43.

150. PAWC proposed drastically shortened useful lives for certain water plants compared to their last rate case and did not justify the shortening in its initial filing. OCA St. 2 at 64-66, Exh. LA-2, Sch. C-17.

151. In rebuttal, PAWC witness Spanos claimed the shorter useful lives were supported by PAWC's 2021 service life study. OCA St. 2SR at 37; PAWC S. 11R at 1-2.

152. Mr. Spanos asserted that PAWC has made substantial changes to its plant investment since the 2016 study, and significant acquisitions and amounts of capital improvements to all of its asset classes over the last five to six years. OCA St. 2SR at 37; PAWC St. 11R at 5.

153. In the Valley Township water acquisition PAWC's appraiser used the useful lives that are recommended by the OCA in this case. OCA St. 2SR at 38-29; OCA St. 2SR at 39-43.

P. PENSION AND OTHER POST EMPLOYMENT BENEFITS (OPEB) EXPENSE (AND REQUEST FOR DEFERRED REGULATORY ACCOUNTING TREATMENT)

Q. PRODUCTION EXPENSE (AND REQUEST FOR DEFERRED REGULATORY ACCOUNTING TREATMENT)

154. The OCA opposes the ancillary request for Commission approval of deferred regulatory accounting treatment for pension and OPEB expenses and production expenses for recovery in a future rate case. OCA St. 2 at 77.

155. Single issue ratemaking denies customers of the benefit of offsetting cost reductions and shifts the risk of fluctuations in two specific expense items away from investors and onto customers. OCA St. 2 at 75-76; OCA St. 2SR at 50-51.

156. PAWC will lose the incentive to manage or reduce these expenses where it is certain PAWC will recover the expense without review of prudency or reasonable of these expenses within the base rate case. OCA St. 2 at 75-79; OCA St. 2SR at 50-51.

VII. REVENUE REQUIREMENT – TAXES

VIII. REVENUE REQUIREMENT – RATE OF RETURN

A. SUMMARY

157. A major driver of PAWC's 203.9 million rate relief request is its unreasonable rate of return request, consisting of an unreasonably high return on equity (ROE) of 10.95%, inclusive of a management performance adder, and an unreasonable, equity-rich capital structure to a total Company basis of 55.3% equity and 44.7% debt. OCA St. 4 at 3-4, 50-61; OCA St. 3SR at 2-6, 6-7, 8-11.

158. PAWC requests an overall weighted average rate of return of 8.22% for Water Operations and 7.94% for Wastewater Operations. OCA St. 3 at 4; OCA St. 2, Exh. LA-6 at 7-8; PAWC Exh. 13-A. Sch. 12,13.

159. The OCA recommends a market-based return on equity of 9.10%, which is the average of the OCA's Discounted Cash Flow (DCF) result of 9.4% and Capital Asset Pricing Model (CAPM) result of 8.7%. OCA St. 3 at 3-4, 61; OCA St. 3SR at 7.

160. The OCA recommends a reasonable capital structure of 51% equity and 49% debt which is equal to PAWC's proxy group average (inclusive of the six non-water utilities). OCA St. 3 at 58, 61, Exh, DJG-13; OCA St. 3SR at 2-11; OCA St. 2 Exh. LA-1 Sch. D, Exh. LA-6.

161. The OCA's adjustments would produce an overall weighted average rate of return of 6.97% for Water Operations and 6.79% for Wastewater Operations. OCA St. 3 at 4.

162. If the Commission adopts the Company's proposed 10.95% ROE over the OCA's recommended market-based ROE of 9.1%, it will cost consumers an additional $87 million per year in rates. OCA St. 3 at 3; OCA St. 2 Exh. LA-6 at 5-6.

163. If the Commission adopts the Company's request for a management performance adder of up to 25 basis points, it will impose up to $11.8 million of additional costs on ratepayers per year. OCA St. 3 at 3; OCA St. 2 Exh. LA-6 at 2.

164. If the Commission adopts PAWC's proposed capital structure, it will increase the revenue requirement by 30.7 million per year at PAWC's claimed rate base and return on equity, for

Water and Wastewater Operations combined. OCA St. 3 at 4, 57; OCA St. 2, Exh. LA-6 at 3-4.

B. PROXY GROUP

165. OCA Witness Garrett used the same Proxy group as Ms. Bulkley, inclusive of the six non-water utilities in recommending the 51% equity and 49% debt capital structure. OCA St. 3 at 10-11.

166. The water only proxy group consisted of American States Water Company, California Water Service Group, Essential Utilities Inc., Middlesex Water Company, SJW Group. OCA St. 3 Exh. DJG 2.

167. The non-water proxy group consisted of Atmos Energy Corp, Eversource Energy, NiSource Inc., Northwest Natural Gas Company, ONE Gas, Inc., Spire Inc. OCA St. 3 at Exh. DJG2.

168. PAWC's entire proxy group combined consisted of American States Water Company, California Water Service Group, Essential Utilities Inc., Middlesex Water Company, SJW Group, Atmos Energy Corp, Eversource Energy, NiSource Inc., Northwest Natural Gas Company, ONE Gas, Inc., Spire Inc. OCA St. 3 at Exh. DJG2.

169. Mr. Garrett's CAPM and DCF were not materially different when applied to the water only proxy group and total proxy group. OCA St. 3 at 10-11, Exh. DJG 12.

C. CAPITAL STRUCTURE

170. The Company proposed a capital structure consisting of 44.7% debt and 55.3% equity. OCA St. 3 at 4

171. PAWC's proposed capital structure deviates from the average debt ratio of its own proxy group of 49%. OCA St. 3 at 4, 55.

172. AWK, PAWC's parent company, has a debt ratio of 55%. OCA St. 3 at 4, 55.

173. Mr. Garrett recommends a capital structure for PAWC equal to that of PAWC's proxy group (inclusive of the six non-water utilities) of 51% equity and 49% debt. OCA St. 3 at 58, 61; Exhibit DJG-13.

174. Ms. Bulkley disagreed with this recommendation, believing that the capital structure should be compared to the operating subsidiaries of the proxy group rather than the proxy companies themselves. OCA St. 3SR at 6.

175. All the financial models (CAPM and DCF) employed in this case are derived directly from the proxy group holding companies not the operating subsidiaries of the proxy group companies. OCA St. 3SR at 7.

176. PAWC's proposed debt ratio is lower than its parent company (AWK), the proxy group, and comparable industries. OCA St. 3 at 57.

177. The cable TV group had a debt ratio of 68%. OCA St. 3 at 57.

178. The Power group had a debt ratio of 60%. OCA St. 3 at 57.

179. PAWC's excessive equity ratio alone would impose $30.7 million per year of additional expense to ratepayers, at PAWC's claimed rate base and ROE. OCA St. 2 Exh, LA-6 at 3-4.

180. Excessively high capital costs benefit shareholders, not customers. OCA St. 3 at 57-58.

181. There is no fair or reasonable basis in the record on which to authorize PAWC's proposed capital structure. OCA St. 3 at 58.

182. In order for CAPM results to be accurate, any discrepancy between the utility's capital structure and the proxy group's must be reconciled through a capital structure adjustment for ratemaking purposes, or a lower authorized ROE estimated through the Hamadas model. OCA St. 3 at 58-60.

D. COST OF LONG-TERM DEBT

E. RETURN ON EQUITY

183. The Company requested a return on equity of 10.95% inclusive of a management performance adder of up to 25 basis points. OCA St. 3 at 29-33, 44-47, 48-50; OCA St. 3SR at 8-11.

184. PAWC witness Bulkley's DCF model as updated in rebuttal yields a cost of equity range of 8.65% to 11.34%. PAWC St. 13R at 10; OCA St. 3SR at 2.

185. An objective cost of equity analysis shows that the Company's market-determined cost of equity is notably lower than PAWC's requested return on equity. OCA St. 3 at 3, 28, 42-43; OCA St. 3SR at 2-3,2-6.

186. OCA Witness Garrett's CAPM result was 8.7%. OCA St. 3 at 3, 61; OCA St. 3SR at 7.

187. OCA Witness Garrett's DCF Model result was 9.4% OCA St. 3 at 3, 61; OCA St. 3SR at 7.

188. The OCA recommends a market-based return on equity of 9.10%, which is the average of the OCA's DCF result of 9.4% and CAPM result of 8.7%. OCA St. 3 at 3-4, 61; OCA St. 3SR at 7.

1. DCF Analysis

189. The DCF model uses the following three primary inputs: (1) stock price, (2) dividend, and (3) long-term growth rate. OCA St. 3 at 20.

190. For the stock price input to the DCF Model, OCA Witness Garrett utilized a 30-day average of adjusted closing stock prices for each company in the proxy group. OCA St. 3 at 20-22, Exh. DJG-3.

191. For the dividend input to the DCF Model, OCA Witness Garrett used forward-looking annualized dividends published by Yahoo! Finance; OCA St. 3 at 22, Exh. DJG-3.

192. For the long-term growth rate input to the DCF Model, OCA witness Garrett gave more weight to results on the analyst growth variation because of the unique growth opportunities for water utilities. OCA St. 3 at 27-28; OCA St. 3SR at 3.

193. The OCA's DCF result was based on an average long-term analyst growth rate of 6.9% for the water proxy group. OCA St. 3, Exh. DJG-6; OCA St. 3SR at 3.

194. Ms. Bulkley used long-term growth rates in her proxy group as high as 9.5%, which is more than two times as high as projected, long-term nominal U.S. GDP growth. OCA St. 3 at 30.

195. Ms. Bulkley's long-term growth projections exceed that of aggregate economy growth rate and include flotation costs. OCA St. 3 at 30-33; OCA St. 3SR at 2-3.

196. OCA's proposed return on equity for PAWC of 9.1% falls within Ms. Bulkley's overall DCF Model range. OCA St. 3 at 29.

2. CAPM Analysis

197. PAWC witness Bulkley presented several variations of CAPM, with results as high as 11.5%. OCA St. 3 at 44; PAWC St. 13 at 45, fig. 8.

198. The CAPM model is a market-based model founded on the principle that investors expect higher returns for incurring additional risk. OCA St. 3 at 33.

199. The basic CAPM equation requires only three inputs to estimate the cost of equity: (1) the risk-free rate; (2) the beta coefficient; and (3) the equity risk premium. OCA St. 3 at 34.

200. Mr. Garett utilized a risk-free rate of 4.42% based on the 30-day average of daily treasury yield curve on 30-year treasury bonds. OCA St. 3 at 34-35, Exh. DJG-7.

201. Mr. Garrett utilized betas published by Value line. OCA St. 3 at 35-36, Exh. DJG-8.

202. MR. Garett used an implied equity risk premium of 5.0% pursuant to the data he collected for the index value, operating earnings, dividends, and buybacks for the S&P 500 over the past six years; he calculated the dividend yield, buyback yield, and gross cash yield for each year and the component annual growth rate from operating earnings. OCA St. 3 at 41, Exh. DJG-9.

203. Mr. Garrett used a final ERP estimate of 5.3% after considering the results of the ERP survey along with the implied ERP calculations and the ERP reported by Kroll. OCA St. 3 at 42.

204. Ms. Bulkley offers another version of the CAPM called ECAPM. The premise of the ECAPM is that the standard CAPM underestimates the return required from low-beta securities, such as those of the proxy group. The results of Ms. Bulkley's ECAPM are even higher than her traditional CAPM results. OCA St. 3 at 46.

205. The premise of Ms. Bulkley's ECAPM is that the standard CAPM underestimates the return required from low-beta securities. OCA St. 3 at 46.

206. The Value Line betas both Ms. Bulkley and Mr. Garrett used in the real CAPM have already been adjusted upward to account for the theory that low-beta stocks might have a tendency to be underestimated. OCA St. 3 at 46-47.

207. Empirical evidence suggests that the type of beta-adjustment method used by Value Line actually <u>overstates</u> betas from consistently low-beta industries like utilities. OCA St. 3 at 47.

208. According to this research, it is better to employ an adjustment method that adjusts raw betas toward an industry average, rather than the market average, which ultimately would result in betas that are <u>lower</u> than those published in Value Line. OCA St. 3 at 47.

209. Ms. Bulkley's ECAPM suffers from the same overestimated ERP inputs in her CAPM analysis. OCA St. 3 at 47.

210. ERP is an important figure for financial and market analysists in all industries, not just utility regulation. OCA St. 3SR at 3-4.

211. Many analysts, managers, investors, and academics are constantly studying and are concerned with obtaining a reliable and accurate ERP. OCA St. 3SR at 3-4.

212. All else constant, a higher ERP will result in higher indicated cost of equity and apply upward pressure on the authorized ROE. OCA St. 3SR at 4.

213. Mr. Garrett considered three reliable and objective sources in his overall ERP estimate including the result of the IESE Business School survey of experts, the estimate published by Kroll, and the estimate published by Dr. Aswath Damodaran one of the world's leading experts. OCA ST. 3SR at 4.

214. Ms. Bulkley's ERP was higher than all the above estimates. OCA St. 3 at 44-46; OCA St. 3SR at 4, Exh. DJG-10.

215. Ms. Bulkley is suggesting that her ERP estimate is more accurate than the aggregate opinion of more than 1,300 expert survey respondents, a leading global provider of risk

management and valuation, and one of the world's leading academics on the ERP. OCA St. 3SR at 5.

216. The ERP results from Kroll, the survey of experts, and Dr. Damodaran are more objective and unbiased than Ms. Bulkley's ERP estimate. OCA St. 3SR at 6.

217. The ERP results from these sources do not have a wide variance. OCA St. 3SR at 6.

F. BUSINESS RISKS AND MANAGEMENT PERFORMANCE ADDER

218. PAWC is requesting a return on equity of 10.95% inclusive of a performance-based adder of up to 25 basis points. PAWC St. 1 at 33, n. 11.

219. At PAWC's as-filed request, the adder would impose up to $11.8 million of additional costs on ratepayers per year. OCA St. 2, Exh. LA-6 at 2.

220. Investors cannot expect an additional return on equity simply due to prudent managerial performance when they invest in competitive firms in the marketplace. OCA St. 3 at 49.

221. The primary driver of the cost of equity and required rate of return is how market risk impacts individual firms. OCA St. 3 at 48; OCA St. 3SR at 8.

222. Managerial performance does not have an increasing effect on a utility's authorized return on equity. OCA St. 3 at 48; OCA St. 3SR at 8.

223. Managerial performance and the risk of imprudent management is related to firm-specific risk, which is not rewarded by the market, and can be eliminated by diversification of the portfolio and does not have a material effect on the cost of equity. OCA St. 3 at 48; OCA St. 3SR at 8.

224. PAWC witness Ms. Bulkley stated she took into consideration "superior management performance" in her proposed 10.95% Return on Equity for PAWC. PAWC St. 13 at 8.

225. Neither the DCF model nor CAPM analyses account for managerial performance. Tr. at 2113.

226. PAWC has not substantiated the specific amount of 25 basis points request. OCA St. 3SR at 10-11.

227. The concept of the management performance adder is to reward the utility's investors with additional return on equity on the basis of the past and present performance of the utility's management. PAWC St. 15R *passim*; PAWC St. 1 at 33-46.

228. The Company's past and present managerial performance is not exemplary in all areas of service to its customers, as based on the well-documented reasons set forth in testimony of

OCA witnesses Roger Colton and Barbara Alexander. OCA St. 5 at 110-124; OCA St. 6 at 7-24.

229. PAWC's call center performance is inadequate and has been inadequate for some time based on: (1) high call-answer times (percentage of calls answered within 60 seconds and within 30 seconds are inadequate); (2) high call abandonment rate; and (3) high complaint rates. OCA St. 6 at 11-12, 19-24.

230. In 2019, PAWC's percentage of calls answered within 30 seconds was 24%. OCA St. 6 at 22.

231. In 2020, PAWC's percentage of calls answered within 30 seconds was 16%. OCA St. 6 at 22.

232. In 2021, PAWC's percentage of calls answered within 30 seconds was 8%. OCA St. 6 at 22.

233. In 2022, PAWC's percentage of calls answered within 30 seconds was 14%. OCA St. 6 at 22.

234. In 2019, PAWC's call abandonment rate was 6%. OCA St. 6 at 22.

235. In 2020, PAWC's call abandonment rate was 15%. OCA St. 6 at 22.

236. In 2021, PAWC's call abandonment rate was 24%. OCA St. 6 at 22.

237. In 2022, PAWC's call abandonment rate was 22%. OCA St. 6 at 22.

238. From January 2022 through November 2023, the percentage of calls answered within 60 seconds never met PAWC's internal standard of 80% answered in 60 seconds. OCA St. 6 at 20.

239. The call abandonment rate improved from double digit percentages routinely experienced in 2022 and early 2023, but only recorded 8% or lower in five of these months. While there is some evidence of gradual improvements in calls answering performance in 2023 compared to 2022, the overall historical pattern continues to reflect a poor performance. For example, in October 2023 results reflected that only 61% of calls were answered within 60 seconds and a 13% abandonment rate. OCA St. 6 at 20.

240. All Pennsylvania electric and gas utilities are evaluated based on answering 80% of customer calls within 30 seconds. OCA St. 6 at 23.

241. The call center performance for the two third-party contractors are below the call center average as a whole. OCA St. 6 at 20.

242. The results of the two third-party contractors do not reflect the contractual performance standards included in the Service Company's contracts with these contractors. OCA St. 6 at 20.

243. PAWC has not undertaken any action to enforce the contractual standards with its contractors that provide call center services. OCA St. 6 at 20.

244. PAWC's complaint handling performance is inadequate. OCA St. 6 at 12-13.

245. In 2021, the PAWC complaint rate per the Bureau of Consumer Services quarterly Consumer Activities Report and Evaluation was 3.89. OCA St. 6 at 12.

246. In 2022, the complaint rate was 4.22, which exceeds any other Class A water utility except for one smaller Class A utility. OCA St. 6 at 12.

247. PAWC's residential payment arrangement request rate is above average and 18.2% were determined to be justified. OCA St. 6 at 13.

248. The BCS 2022 report shows that PAWC had an infraction rate of .58. OCA St. 6 at 13.

249. The 2023 Management Audit Report recommended that PAWC file a new or amended affiliated interest agreement (AIA). OC St. 6 at 17.

250. PAWC stated that the AIA did not need updated. OCA St. 6 at 17.

251. In the Opinion and Order releasing the 2023 Management Audit report, the Commission directed PAWC to file a new or amended AIA that accurately reflects the current company structure and intercompany transactions between PAWC and the Service company. OC St. 6 at 17.

252. PAWC has been cautioned for years about the need to improve management in particular areas. OCA St. 5 at 110.

253. The Commission's Management Audit issued in December 2018 noted that PAWC had previously been told that it needed to "explore additional strategies to accelerate the recover of overdue customer accounts receivable and continue collection measures already in place." OCA St. 5 at 110 quoting 2018 Management Audit at 80.

254. PAWC did not propose additional strategies, instead they met monthly with local state operations to review accounts receivables and strategies. OCA St. 5 at 111.

255. These monthly meetings were discontinued in 2018. OCA St. 5 at 111.

256. The reduction in short-term receivables was more than offset by increases in long-term receivables. OCA St. 5 at 111.

257. The 2023 Management Audit found that customer account balances aged more than 150 days increased significantly since early 2020. OCA St. 5 at 111.

258. As of February 2023, PAWC's over 150-day customer receivables were substantially higher than they had been pre-pandemic. OCA St. 5 at 111.

259. While PAWC has seen a decline in long-term arrears from the spike during 2020 and 2021, they have not returned to pre-pandemic levels. OCA St. 5 at 113.

260. On a month over month basis, the average percentage of total accounts receivable comprised of long-term arrears is higher as of October 2023 than it was in either 2018 or 2019. OCA St. 5 at 113.

261. In 2022, PAWC had 6.3% of its residential billings in debt, more than 2% higher than Aqua. OCA St. 5 at 114.

262. The percentage of PAWC residential billings in debt increased from 4.4% in 2018 to 6.3% in 2022.

263. PAWC had over 17% of its residential customers in debt, nearly 4% higher than Aqua. OCA St. 5 at 114.

264. PAWC's percentage of gross residential write offs (1.35%) was nearly 2.5 times higher than Aqua PA's. OCA St. 5 at 115.

265. PAWC had nearly 80% of all Class A water utility shutoffs in Pennsylvania despite only having 52% of residential customers in the state. OCA St. 5 at 115.

266. In the first ten months of 2023, the average arrears at the time of disconnection were $495.26. OCA St. 5 at 116.

267. In the first three quarters of 2023, the total number of justified complaints increased over the corresponding quarters of 2022. OCA St. 5 at 117.

268. In the first three quarters of 2023 PAWC had 686 justified complaints, representing a 29% increase from the first three quarters of 2022. OCA St. 5 at 117.

269. Through the first three quarters of 2023, PAWC has 191 verified infractions, 185 of these involved chapter 56 infractions. OCA St. 5 at 118-19.

270. There has been an unprecedented volume of customer opposition to this rate increase. OCA St. 6SR at 4-5.

271. The Company's support to increase shareholder contribution to the H2O hardship program is contingent on the closing of the BASA acquisition. PAWC St. 1 at 34; Tr. 2023-24.

IX. RATE STRUCTURE AND RATE DESIGN

A. COST OF SERVICE STUDIES

1. WATER OPERATIONS

272. The maximum day demand factor of 1.4 used by PAWC was last experienced in 2003 over 20 years ago. OCA St. 4 at 15-16.

273. Since 2003 PAWC water demand has changed due to aggressive water conservation, legislation, development and changing land use. OCA St. 4 at 15-16.

274. The actual annual maximum day extra capacity demand factor has been approximately 1.2 for the last 12 years. PAWC Exh. 12-A, Sch. G; OCA St. 4 at 16; OCA St. 4SR at 3.

275. OSBA witness Higgins also recommends a 1.2 maximum day demand factor. OSBA St. 1R at 10.

276. The American Water Works Association Manual, principles of water rates, fees, and charges states that "demand data over a representative number of recent years" should be utilized. OCA St. 4SR at 3, citing M1 manual at 373.

277. Twelve years meets the standard identified in the M1 Manual. OCA St. 4SR at 3-4.

278. Twenty years does not meet the standard identified in the M1 Manual as it is not recent or representative of current demands. OCA St. 4 at 3-4.

279. Maximum day usage in individual areas is not relevant under the base extra capacity method set forth in the M1 Manual, the relevant consideration is system-wide maximum day usage. OCA St. 4SR at 4.

280. All 38 areas of PAWC's system do not peak on the same day or even in the same month. Tr. 2093; PAWC Exhs. CEH-1SR, CEH-2R.

281. Adjusting the non-coincident maximum day peak demands of each customer class would reduce the diversity ratio of 1.64. OCA St 4SR at 6.

282. The 1.64 diversity ratio, if not explained by atypical class usage patterns, "suggests that the class peaking factors from PAWC's 2013-2015 Customer Class Demand Study may not be an accurate representation of class noncoincident demand." OSBA St. 1R at 11-12. Using PAWC's proposed 1.4 factor could compound that inaccuracy. *Id.*; OCA St. 4SR at 6.

283. PAWC's most recent peak hour demand data for its water system is from an analysis conducted in 1988. PAWC Exh. 12-A, App. A, RS1c at A-4; OCA St. 4 at 15-16.

284. PAWC used this 35 year old data to determine a 2.1 maximum hour demand factor for its CCOS study. PAWC Exh. 12-A, App. A, RS1c at A-4; OCA St. 4 at 15-17.

285. OCA Witness Mierzwa looked at the most recent demand factor data available from a large water utility, York Water, and calculated that utility's maximum hour and day factors and their ratio. OCA ST. 4 at 16-17.

286. Applying the 125% ratio to the OCA's 1.2 maximum day extra capacity demand factor for PAWC results in a maximum hour demand factor of 1.5. OCA St. 4 at 15,17.

287. York Water's maximum hour demand factor is dramatically lower at 1.65. OCA St. 4 at 16-17.

288. PAWC's own witness makes an adjustment to the Company's revenues for the future test years to reflect what he claims has been "a significant and pervasive decline in usage for [residential, commercial and municipal] classes over the past ten years." PAWC St. 10 at 67-72,78-79.

289. This declining consumption trend identified by PAWC from reports analyzing water usage since 1992 and the impact of energy efficiency legislation in 1993 and 2007 all occur after the 1988 demand analysis relied on by PAWC. PAWC St. 10 at 67-70.

290. OSBA witness Higgins agrees the 2.1 maximum hour factor is outdated and should not be used. OSBA St. 1R at 13.

291. OSBA witness Higgins recommends a factor of 1.8. OCA St. 4SR at 41-42.

292. In rebuttal PAWC witness Heppenstall revised her initial water CCOS study to exclude industrial interruptible usage. PAWC St. 12 at 14; PAWC St. 12R at 2.

293. Evidence shows that these industrial customers have not been interrupted in the last 20 years. OCA St. 4SR at 9.

294. There is no reasonable basis to exclude them from the extra capacity factor allocations. OCA St. 4SR at 9.

2. WASTEWATER OPERATIONS

295. The OCA recommends no direct adjustments to the Company's wastewater CCOS studies. OCA St. 4 at 20-21.

3. COST OF SERVICE STUDIES FOR FUTURE GENERAL RATE INCREASES

296. PAWC has agreed to continue providing separate CCOS studies for water operations, SSS Operations, and CSS Operations. PAWC St. 1R at 31.

297. PAWC did not separately determine the costs associated with serving Rider DIS and DRS customers in its water COSS study, these revenues from Rider DIS and DRRS customers were reflected as credit to overall cost of service. OCA St. 4 at 19.

298. Having a revenue requirement associated with each Section 1329 acquisition separately calculated provides information to establish rates that reflects the costs of the system, shows the magnitude of the subsidy proposed for those systems, and facilitates the review and recommended removal of those systems from revenue requirement by parties challenging their inclusion in the FPFTY. OCA St. 4SR at 36; PAWC St. 10 at 47.

4. ALLOCATION OF AMP COSTS AND ADMINSTRATIVE COSTS FOR H2O PROGRAMS

299. In rebuttal PAWC revised its wastewater CCOS study to directly allocated its AMP costs and its H2O Grant and discount administrative costs to residential customers only. PAWC St. 12R at 10-11; OSBA St. 1SR at 15-16.

300. AMP costs do not represent new costs; arrears written off as bad debt are caused by pre-program nonpayment of bills and are not caused by the existence of the Company's program. OCA St. 5R at 1-2.

301. AMP credits are projections, and not known, and isolation of those credits would treat them as if they are known rather than projections OCA St. 5R at 1-2.

302. If anything, PAWC's AMP will reduce overall residential uncollectibles as it trades more immediate write-offs of pre-program arrears in exchange for future in-full BDP payments. OCA St. 5R at 1-2.

303. Arrears that would be made subject to Arrearage forgiveness are substantial and sufficiently high that PAWC will have already contributed to its reserve for write-offs before these low-income customers enter the arrearage forgiveness program. OCA St. 5R at 3-4.

304. There would be no new, and no incremental arrearage forgiveness costs to be directly assigned to the residential class. OCA St. 5R at 4.

305. OSBA witness Higgins agreed that if AMP expense is not "incremental to the general uncollectable expense then it should be removed from the revenue requirement rather than directly assigned to the residential class." OSBA St. 1SR at 17.

306. The administration of the H2O Grant and discount program is expected to result in a decrease in PAWC's administrative costs associated with the nonpayment of bills. OCA St. 5R at 5-6.

307. The OCA's adjustment to provide for the allocation of costs for AMP and customer assistance program administrative expenses consistent with PAWC's initial filing and MR. Colton's recommendations is reflected in the CCOS study. OCA Sch. JDM-2SR.

B. REVENUE ALLOCATION AND ACT 11

1. WATER REVENUE REQUIREMENT

308. Table 4-SR summarizes the results of the OCA's CCOS study at present and proposed rate revenues based on PAWC's claimed cost of service, adjusted to reflect OCA's proposed Act 11 shift. OCA St. 4 at 32; OCA St. 4SR at 15-16.

309. Typically an increase of 1.5 to 2.0 times the system average increase is consistent with the concept of gradualism. OCA St. 4 at 33.

310. The Company's proposal to shift $71 million of wastewater revenue requirement to its water customers fails to meet fundamental principles of fairness and efficiency in setting rates for water and wastewater customers. OCA St. 1 at 39.

311. Allocating 27% of total wastewater revenue through rates for water service moves all customers further from paying rates that reflect their indicated cost of service ad would result in wastewater rates that have no reasonable relationship to the costs of serving those customers. OCA ST. 4 at 24, 26-27.

312. At proposed rates, inclusive of act 11 shift, PAWC is proposing to increase water revenues by 24.3% while decreasing revenues for the SS wastewater customers and CSS customers by .1% and .2% respectively. PAWC Exh. 3-A Revised.

313. Without the $71 million assignment of wastewater revenue requirement to water customers, the increase to water customers would be 15.5%.OCA ST. 4 at 27.

314. I&E proposes no shift. I&E Exh. 3, Sch. 1.

315. I&E witness Kubas's recommendations for wastewater rate design and elimination of any Act 11 assignment would result in an increase of approximately 33% for SSS operations and 22% for CSS operations at the Company's proposed revenue requirement. OCA St. 4 at 7.

316. It is reasonable to provide some Act 11 relief to CSS and SSS populations while not overburdening PAWC's water customers. OCA St. 4 at 28; OCA St. 4R at 7.

317. At the OCA's recommended revenue requirement, it would be reasonable to shift up to 75% of the SSS wastewater revenue requirement increase and up to 50% of the CSS wastewater revenue requirement increase to water customers. OCA St. 4 at 28.

318. This shift would result in an approximate increase in revenue requirement of 5.3%for SSS operations, 4.7% for CSS operations, and 4.2% for water operations. OCA M.B. App. A, Summary table.

319. The OCA excludes BASA from any revenue requirement from its proposed Act 11 shift. OCA M.B. App. A, Summary table.

320. If BASA is included, an Act 11 shift that maintains comparable percentages increases for water and wastewater SSS and CSS customers would be in the public interest. OCA St. 4SR at 35.

321. Act 11 shift allocation to water customer classes should be assigned to various water customer classes based on the cost of service indicated by OCA's water CCOS study. OCA table 4SR; OA St. 4SR at 14; OCA Sch. JDM-2SR.

322. PAWC and OSBA propose instead that cost responsibility to water customers should correspond to the wastewater class that create the revenue shortfall. PAWC St. 10R at 34; OSBA St. 10-11.

323. Most of PAWC Water customers do not obtain wastewater service from PAWC, PAWC serves seven times as many water customers as wastewater customers. OCA St. 4R at 10-11 n. 3.

324. There are several PAWC Wastewater systems whose customers do not purchase water from PAWC. OCA St. 4R at 10.

325. In PAWC's most recent base rate proceeding, PAWC witness Rea supported using water class cost of service for the Company's Act 11 reallocation to water customer classes. OCA St. 4SR at 15.

2. WASTEWATER REVENUE REQUIREMENT

326. The OCA is recommending an SSS revenue requirement increase of $20.3 million, and a CSS revenue requirement increase of $7.3 million for a combined increase of $27.6 million at PAWC's claimed revenue requirement. OCA St. 4 at 37-38.

327. The OCA is recommending that 75% of the SSS revenue requirements increase and 50% of the CSS revenue requirement increase be assigned to water service. OCA St. 4 at 37-38; OCA St. 4R. at 7.

328. OCA recommends an increase of 4.7% for Scranton consistent with the OCA's recommended increase for all CSS systems and less than OCA's recommended increase for the SSS systems. OCA ST. 4 at 38-39.

329. PAWC is claiming that the CSS division, of which Scranton is the largest service area, has an annual revenue deficiency of $15.8 million. PAWC Exh. 3-A Revised Summary.

C. TARIFF STRUCTURE

1. RESIDENTIAL CUSTOMER CHARGE

330. The current customer charge for Residential customers in Rate Zones 1-5 with 5/8 inch, ¾ inch, 1 inch, and 1 ½ inch meters is $17.50 per month. OCA St. 4 at 34.

331. PAWC proposes to increase the residential customer charge from $17.50 to $20.00. OCA St. 4 at 34.

332. Only costs that vary directly with the addition or subtraction of a customer should be included in the calculation of a customer charge. OCA St. 4 at 35.

333. PAWC's analysis of customer charges, which it claims only reflect direct costs, indicates a cost-based charge of $19.31. PAWC Exh. 12-A, ATT. RS1j, 2-3.

334. PAWC's analysis includes costs that are not direct customer costs and do not change with the addition or subtraction of a customer, including office building and furniture expenses. OCA St. 4 at 35-36.

335. I&E Recommends a customer charge of $19.50 based on the adoption of PAWC's cost analysis rounded to the nearest half dollar. I&E St. 4 at 33.

336. Schedule JDM-4SR provides a calculation adjusting the Company's direct customer charge (at PAWC's filed-for revenue requirement increase) to remove the improperly included expenses and to reflect OCA's recommended rate of return, these adjustments reduce the calculated charge to $18.73. JDM-4SR.

337. The OCA recommends the existing monthly charge for residential customers of $17.50 should be mainlined. OCA St. 4 at 36.

338. For Wastewater, the current residential monthly customer charge for most rate zones is $14.30 per month. OCA St. 4 at 46.

339. PAWC is proposing to increase that charge to $20 per month, except for Scranton Rate zone 3 where it proposes to set the customer charge at $19.72 per month. PAWC St. 10 at 41-42.

340. The Company presents a customer cost analysis which it claims only reflects direct costs, that indicates a cost-based monthly customer charge for a 5/8-inch meter would be $43.50. PAWC Exh. 12-B, Attachment RS1j, page 2.

341. PAWC's direct customer charge calculation improperly reflects costs associated with treating infiltration and Inflow. OCA St. 4 at 46-47.

342. Infiltration and inflow cannot reasonably be considered a direct cost because it is a function of precipitation and does not vary directly with the addition or subtraction of a customer. OCA St. 4 at 46-47.

343. Exclusive of Infiltration and Inflow costs, the Company's calculation would indicate a direct cost of $13.87 at PAWC's proposed revue requirement. OCA St. 4 at 47.

344. Mr. Kubas's support for a $20 charge is not cost based, whereas maintaining the $14.30 charge would set a level that was comparable to a cost-based rate. OCA St. 4SR at 40.

345. For each of the CSS rate zones, the decrease in revenues from reducing customer charge to $14.30 would only require an increase of 7-10% in volumetric usage charges. OCA St. 4St at 40.

2. WATER RATE DESIGN

346. The OCA objected to the residential water usage charge proposed by PAWC for Valley customers currently in Rate Zone 2. OCA ST. 4 at 36-37.

347. PAWC proposes to apply the consolidated Rate Zone 1 usage charge, which would cause a 63% increase for a residential customer using 3,201 gallons per month at PAWC's revenue requirement claim. OCA St. 4 at 36-37; PAWC Exh. 10-A at 77.

348. The OCA recommends the usage charge for Valley customers currently served under Rate Zone 2 be set at 70% of the Rate zone 1 usage charge established in this proceeding. OCA St. 4 at 36-37.

349. This reduction in usage charge would limit the increase for a Valley residential customer currently in Rate Zone 2 to about 1.7x of the OCA's proposed system average increase.

350. I&E agrees that PAWC's proposed increase for Valley customers is unnecessarily large and recommends a more moderate increase. I&E ST. 4 at 37-38; I&E St, 4SR at 28.

3. WASTEWATER RATE DESIGN

351. PAWC and OCA agree that if the Commission approves PAWC's proposal to delay the effective date for new rates for certain wastewater rate zones, it should adopt PAWC's proposal to impute revenues by calculation proof of revenues as if the customers were paying new rates without any delay. PAWC St. 4R at 12; OCA St. 4 at 48-49.

4. WINTER AVERAGING WASTEWATER PROPOSAL

352. Winter Averaging is a method of determining the volumetric component of a wastewater bill that attempts to separate meter water usage that is likely used for outdoor purposes in the summer. OCA St. 4 at 41.

353. The Company is defining winter months to be January, February, and March. OCA ST. 4 at 41.

354. If a customer is new or there is no winter average billing data, the Company would assume a usage level of 3,000 gallons per month for a comparison point. OCA St. 4 at 42.

355. Winter averaging will result in volumetric rates that are higher than otherwise would have been for the same revenue requirement. OCA St. 4 at 42.

356. There is not substantial variability in residential water bills between the three winter months, as defined by PAWC, and the remaining 9 months. OCA St. 5 at 97.

357. The number of residential accounts that have no volumetric charge on their bills substantially increases during the winter months. OCA St. 5 at 99.

358. In March 2022, there were 27,690 accounts with no volumetric charges. OCA St. 5 at 100.

359. Under the proposed winter averaging proposal, a new customer would be given a standard sage level of 3,000 gallons per month for a comparison point for billed summer usage. OCA St. 5 at 101.

360. Capping warm weather wastewater bills based on the water bills experienced in the winter months of January- March will involve a direct transfer of costs from those households who can afford to be away from home in those months. OCA St. 5 at 100-01.

361. Applying a standard usage level of 3,000 gallons per month would deny more than half of PAWC's customers a summer adjustment based on average usage during winter months. OCA St. 5 at 103.

362. This would disproportionately disadvantage low-income customers who are more likely to be new or have no winter averaging data. OCA St. 5 at 103.

363. Within PAWC service territory nearly 95% of homeowner units are single family homes. OCA St. 5 at 105.

364. Fewer than 40% of rental units are single-family homes. OCA St. 5 at 105.

365. The difference between winter average period usage and usage during the remaining months is de minimis for PAWC's residential customers and in the last two years ranged from 100 to 173 gallons per month. OCA St. 4 a 43.

366. PAWC witness Rea concedes that the benefits of the Company's winter averaging proposal are likely to be to higher income customers because it is these customers that are more likely to be absent during the winter and residents of single-family homes with substantial outdoor water consumption. PAWC St. 10R at 55; OCA St. 5SR at 9-10.

367. Customers who will pay the increase in charges are disproportionately likely to be low income. OCA St. 5 at 101-09; OCA St. 5SR at 9-11.

368. Mr. Rea acknowledges that lower income customers are less likely to be residents of homes with substantial outdoor summer consumptions. OCA St. 5SR at 10.

D. SCALE BACK OF RATES

369. For water service, the OCA recommends the revenue increase the OCA proposed for each class at PAWC's claimed revenue requirement be at PAWC's claimed revenue requirement based on the OCA's CCOS study should be scaled back to reflect the actual water revenue authorized by the Commission in this proceeding. OCA St. 4SR at 16-17, Table 4-SR.

370. For the direct cost of wastewater service, the OCA accepted PAWC's proposed CCOs study and recommends any scale back to the revenue increase should be made consistent with PAWC's allocation proposal. OCA St. 4SR at 17.

371. The OCA does not recommend any reduction in wastewater requirement should be applied first to the act 11 reallocation, as that may not provide adequate relief to wastewater customers. OCA St. 4SR at 17-18, 35.

X. ALTERNATIVE RATEMAKING REQUESTS

A. REVENUE DECOUPLING MECHANISM (RDM)

372. PAWC has credibly shown in its initial filing that it is already satisfying the requirements of Section 1501 of the Public Utility Code with regard to service and facilities. OCA St. 1 at 46.

373. It is unclear how adding guaranteed rate recovery though the RDM will have the effect of enhancing the safety, security, reliability, and availability of utility infrastructure. OCA St. 1 at 46.

374. The RDM uses rate true-ups resulting from over- or under-recovery of revenues, and such true-ups produce after-the-fact surcharges or credits that misalign consumption decisions with actual utility costs. OCA St. 1 at 47.

375. If sales decrease, the RDM formula will adjust rates to charge customers to make-up for the reduced recovery due to decreased sales. OCA St. 1 at 47.

376. With RDM in place, customers would have to reduce their consumption by more than the reduction of usage by all other customers in order to reap the full benefit of reduction. OCA St. 4 at 58.

377. If a customer's usage reduction turns out to be less than the reduction in usage by all other customers, the RDM will take those savings away and the customer's bill will be higher. OCA St. 4 at 58.

378. Customers at Public Input Hearings expressed opposition to the RDM. See App. B.

379. A customer testified that the RDM will serve as a disincentive to conserve water. Tr. 1592-93.

380. The RDM provides stability to the Company, not customer bills. OCA St. 1SR at 26.

381. The combination of surcharges is likely to result in customer confusion. OCA St. 4 at 59; OCA St. 4SR at 22.

382. The RDM would add another surcharge to customers' bills which would change on a monthly basis and would be unlikely to reduce the frequency of base rate or DSIC rate filings. OCA St. 4 at 59; OCA St. 4SR at 22

383. Under traditional ratemaking, the utility bears the risk of recovery of its costs in the face of normal business risk that exists between rate cases such as weather, recessions, changing technologies, and other sources of sales fluctuations. OCA St. 1 at 47.

384. The guarantee of RDM would shift risk away from the Company and place it entirely on consumers. OCA St. 1 at 47.

385. It is not clear what risk the Company's investors would continue to bear if the RDM is approved. OCA St. 1SR at 26.

386. PAWC has not proposed to reduce its equity return to reflect the reduction in risk associated with the implementation of the RDM. OCA St. 4 at 60.

387. PAWC's FPFTY consumption projections in this proceeding reflect declining per-customer water usage. OCA St. 4SR at 23.

388. RDM shifts risk from the Company, which is compensated for that risk, to customers who would be forced to bear that risk for no compensation. OCA St. 3 at 19.

389. The RDM would result in a transfer of costs from higher-income customers to lower income customers because actions taken by customers to reduce water consumption are disproportionately taken by higher income households. OCA St. 5 at 79-80.

390. Many low-income customers lack the discretionary income to make water conservation investments. OCA St. 5 at 80.

391. The RDM proposal does not make provision for customer arrearages in its calculation of actual revenues recovered, allowing PAWC to recover revenues that have not been reduced

due to weather or conservation but also payment which has been delayed or postponed. OCA St. 5 at 84-85.

392. As PAWC will provide increasingly higher levels of bill credits under the bill discount program (BDP), this in turn will increase the reduction in actual revenues recovered. OCA St. 5 at 88-89.

393. Unless these BDP credits are excluded from the RDM calculation there would be a double collection of BDP discount credits. OCA St. 5 at 88-89.

B. ENVIRONMENTAL COMPLIANCE INVESTMENT CHARGE (ECIC)

394. Unlike DSIC/LTIIP, which are aimed at accelerating the replacement of aging underground infrastructure above and beyond what is required under the law, the ECIC is aimed at shifting the risk of recovery of sizable and wide-ranging environmental capital investments from the Company to its customers based on what is a party of the Company's normal business risk of complying with environmental laws. OCA St. 1 at 49.

395. PAWC has already shown that it can comply with environmental laws without any additional incentive or inducement. OCA St. 1 at 49-50.

396. It is not clear how ECIC will enhance the safety, security, or availably of utility infrastructure. OCA St. 1 at 49-50.

397. The pace of new environmental requirements is not as quick as PAWC alludes. OCA St. 1SR at 26.

398. Mr. Swiz testified sating that rapidly changing standards and compliance monitoring updates for PFAS will require PAWC to act on a very short time frame. Tr. at 2063.

399. Mr. Swiz admitted that he is not a PFAS expert and cannot "speak to the specifics and timeliness associated with that". Tr. 2066.

400. The risk of complying with new and emerging environmental regulations or regulatory policy are typical challenges faced by any utility management and are currently and can in the future be appropriately addressed through traditional ratemaking. OCA St. 4 at 68-69.

401. The proposed ECIC plan would require review and discovery to be completed in an expedited time frame during which parties would also be required to respond to revisions that the Company would have the option of filing within the same period. OCA St. 4SR at 28.

402. The Commission does not have the expertise to determine in advance whether the investments are necessary to comply with environmental laws. OCA St. 1 at 50-51.

403. Consumers, statutory advocates and other parties have limited resources to review these recurring filings with the same scrutiny given to base rate case filings. OCA St. 4 at 69-70.

404. Under PAWC's proposal quarterly updates would take effect on only 10 days' notice. OCA St. 4SR at 28. Parties would be required to conduct review and discovery in an expedited time frame during which parties would also be required to respond to two different sets of revisions that the Company would have the option of filing within the same period. OCA St. 4 at 69-70; OCA St. 4SR at 28.

405. The proposed ECIC does not permit parties to investigate cost reductions that may have been experienced by the Company. OCA St. 4 at 70.

406. ECIC does not align revenues with cost causation as to both fixed and variable costs. OCA St. 4 at 70.

407. Over 80% of the Company's water and wastewater revenues will be collected under volumetric rates under the Company's proposed rate structure, but 95% of Company's costs associated with providing water and wastewater service are fixed. OCA St. 4 at 66-67.

408. The proposed ECIC is likely to result in interclass and intraclass cost shifting. OCA St. 4 at 70.

409. There is no upper limit on the amount that can be charged through the ECIC and having that ECIC in place would mean that rates would be guaranteed to increase as a result of base rate filings and then every quarter between rate filings. OCA St. 1SR at 27.

410. DSIC rate caps are in place to minimize any potential cross-subsidization among customer classes. OCA St. 4SR at 30-31.

411. The ECIC would shift risk from the Company, who is compensated for that risk, to consumer who are not compensated for that risk. OCS St. 3 at 19.

412. PAWC's proposed ECIC would be a charge imposed above and beyond the normal fixed and volumetric charges imposed on residential customers. OCA St. 5 at 90.

413. To the extent that low-income customers have monthly consumption greater than residential customers overall, they will also pay a higher amount of the ECIC. OCA St. 5 at 91.

414. The ECIC does not align revenues with cost causation principles as to both fixed and variable costs. OCA St. 4 at 66.

415. It is unlikely that the ECIC will impact PAWC's capacity utilization. OCA St. 4 at 67.

416. The costs PAWC is proposing to recover through the ECIC would ordinarily be assigned to each customer class based on results of a cost-of-service study. OCA St. 4 at 67.

417. The proposed ECIC is unlikely to impact efficiency programs or incentives. OCA St. 4 at 67.

418. Under the ECIC the number of rate increases experienced by a customer will increase significantly. OCA St. 4 at 67.

419. The ECIC is not designed to address weather impacts on utility revenue. OCA St. 4 at 67.

420. The proposed ECIC will interact with the Company's DSIC because the DSIC is a percentage applied to the total bill and the ECIC will impact the customer's total bill. OCA St. 4 at 68.

421. The proposed ECIC does not include appropriate consumer protections. OCA ST. 4 a 68.

422. PAWC has not provided any evidence the proposed ECIC will be understandable to customers. OCA St. 4 at 68.

423. The proposed ECIC does not provide PAWC with a direct incentive to increase the reliability of its system. OCA St. 4 at 68.

424. The ECIC will harm low-income customers. OCA St. 4 at 67.

425. The Bill to Income ratios do not include ECIC costs. OCA St. 5 90-91.

XI. LOW-INCOME CUSTOMER ASSISTANCE

A. SUMMARY

B. AFFORDABILTY ANALYSIS

426. To determine if rates are affordable, the OCA and PAWC generally agree that a consumer's water/wastewater burden should not exceed 2%. PAWC St. 10 at 4-23; OCA St. 5 at 7-39.

427. It is inappropriate to use Median Household Income of Homeowners as a basis for assessing the affordability of water services. OCA St. 5 at 9.

428. While not true in every zip code served by PAWC. a substantial growth in housing values in 2012-2021 was matched by a corresponding substantial growth in the median household Income of Homeowners in that same period. OCA St. 5 at 9-10.

429. In nearly 160 of the 304 zip codes served by PAWC for which the Census reported housing value data from 2012-2021, housing values increased by more than $25,000. OCA St. 5 at 10.

430. From 2012-2021 Median Income for Homeowners increased by more than $20,000 in 112 zip codes served by PAWC, but only 45 zip codes saw that increase in income for renters. OCA St. 5 at 11.

431. Basing an assessment of water affordability in large part on Median Household Income of Homeowners asserts that as owner-occupied housing becomes less affordable, water services become increasingly more affordable when measured by bills as a percentage of homeowner income. OCA St. 5 at 11.

432. A common way to measure the relationship between two different levels of income is to examine the ratio of higher incomes to lower incomes. OCA St. 5 at 12.

433. Mr. Colton examined the Ratio of Median Household Income by year to the average First Quintile Income by year for the period of 2012-2021. OCA St. 5 at 12-13.

434. From 2012-2014, the ratio of MHI to First Quintile income stayed constant (3.79, 3.8, 3.81, but increased to 3.9 for years 2016-2020 and 3.95 for 2021. OCA St. 5 at 13.

435. In zip codes which PAWC serves, Median Household income is nearly four times higher than the average First Quintile income within those zip codes. OCA St. 5 at 13.

436. The average gap in 2021 between the average Median Household income and the average First Quintile income in PAWC Zip codes was $51,000 on average. OCA St. 5 at 14.

437. Median household income has increased as a percentage of the Federal Poverty Line (FPL) by more than 35% (from 275% to 311%)from 2012-2021 while the average First Quintile income has only increased by 6% (from 76%-82%) of the FPL. OCA St. 5 at 15.

438. Mr. Rea's Enterprise level analysis applies annual PAWC rates to a decreasing level of consumption. OCA St. 5 at 16.

439. The constant level of Bill to income ratio asserted by Mr. Rea would not have occurred in the absence of this declining consumption. OCA St. 5 at 17.

440. Mr. Rea excluded rental multi-family housing but did not exclude owner-occupied multi-housing units from his analysis. OCA St. 5 at 17.

441. Mr. Rea's calculated median household income is artificially high given its disproportionate percentage of higher homeowners' median household incomes due to his exclusion of multi-family housing. OCA St. 5 at 17-18.

442. In 65 zip codes served by PAWC with water service, the percentage of renters in housing structures with 2-4 units is greater than the percentage of renters in single-family homes. OCA St. 5 at 18.

443. In 11 zip codes served by PAWC with water service, the occupants of housing with two to four units is more than 65% of all rental units. OCA St. 5 at 18.

444. OCA Witness Colton examined the Bill to income ratio of customers at the first and second quintile. OCA St. 5 at 19.

445. OCA Witness Colton examined what income would be necessary to achieve a Bill to income ratio of 2% and how many zip codes in PAWC territory had that income at the average first or second quintile. OCA St. 5 at 19.

446. Households in PAWC service territory with incomes in the first quintile, on average have a Bill to income ratio of more than two times the affordable 2.0%. OCA ST. 5 at 19.

447. In 2024, under proposed rates, the Bill to income ratio will increase to more than three times the 2.0% affordable level. OCA St. 5 at 19.

448. Households with average income in the second quintile had a Bill to income of 1.5% to 2.0% through 2022, but in 2023 began experiencing Bill to income ratios exceeding 2.0%. OCA St. 5 at 20.

449. At least 40% of PAWC's residential customers face a Bill to income ratio in excess of 2.0%. OCA St. 5 at 21.

450. The Census data utilized by Mr. Rea reports the income of renters as a whole. OCA St. 5 at 21.

451. The Annual bill in the Fully Projected Future Test Year is $1,038.35 and $811.12 for 2023. OCA St. 5 at 22.

452. OF the 265 zip codes in PAWC's water service area with Census reported incomes, only one had an average first quintile income high enough for households to afford the PAWC water bill in either 2023 or the FPFTY. OCA St. 5 at 22-23.

453. Of the 265 zip codes in PAWC's water service area with Census reported incomes, only 133 had an average second quintile income high enough for households to afford the PAWC water bill in 2023, and only 57 of those zip codes had an average second quintile income high enough for households to afford the PAWC water bill in the fully projected future test year. OCA St. 5 at 23.

454. In 51 zip codes in PAWC water service area, water bills would be unaffordable at the average third quintile income. OCA ST. 5 at 23.

455. A Consideration of affordability is a critical task to undertake within the structure of a utility rate case. OCA St. 5 at 24.

456. As bills become increasingly unaffordable, payment difficulties of customers who face unaffordable bills become substantial. OCA St. 5 at 24.

457. Mr. Rea's Community affordability analysis understates the unaffordability of PAWC bills at the household level. OCA St. 5 at 25.

458. PAWC assumed a basic water use of 40 gallons per day per household member. OCA St. 5 at 29.

459. PAWC defined basic water service as "Service that is necessary and reasonable to meet basic household needs for drinking, cooking, sanitation, and general health service that does not include seasonal discretionary water use." OCA St. 5 at 27; PAWC St. 1 at 11.

460. PAWC's definition and amount needed for basic water service does not vary based on number of children or adults in the household. OCA St. 5 at 29.

461. The 2016 Water Research Foundation report found that the range of per capita water use is 58.6gpcd and does not include outdoor water usage. OCA St. 5 at 30.

462. The EPA estimates water usage as 82 gallons per day, with more than 30% of this usage being outdoor usage. OCA St. 5 at 31.

463. Basic water service, at the Company's definition yields a monthly consumption of 1,200 gallons per person per month. OCA St. 5 at 32.

464. 28.2% of PAWC customers are 1-person households. OCA St. 5 at 32.

465. The percentage of customers comprised of 1-person households far exceeds the percentage of customers with monthly consumption of only 1,200 gallons. OCA St. 5 at 32-33.

466. Only 10.9% of bills in December used 0-1,200 gallons. OCA St. 5 at 33.

467. Five person households make up 5.7% of PAWC customers, but in December accounted for 9.7% of bills. OCA St. 5 at 34.

468. Fifty Gallons per person per day is deemed essential by the Cardoso and Wichman articled cited to by PAWC. OCA St. 5 a 35.

469. Only 72 of the 51,175 customers with an income between 100% and 150% of the FPL have an affordable bill without the PAWC discount. OCA ST. 5 at 37.

470. 4,785 of the 51,252 customers with an income between 150% and 200% of the FPL have an affordable bill without the PAWC discount. OCA St. 5 at 37.

471. 13,544 of the 21,906 customers with an income less than 50% of the FPL have a Bill to income ratio greater than 14% without the PAWC discount. OCA St. 5 at 39.

472. 22,000 of the 35,081 customers with an income between 50% and 100% of FPL have a bill to income ratio between 5% and 11% without the PAWC discount. OCA St. 5 at 37.

473. 19,782 customers with an income between 50% and 100% of the FPL have an average BTI of 6.3% with 2,440 additional customers having an average BTI of 8.8% without the PAWC discount. OCA St. 5 at 39.

474. 9,593 of the 21,906 customers with an income less than 50% of FPL have BTI ratios averaging 79.1% before discounts. OCA St. 5 at 39.

475. Of the 21,906 customers with an income of less than 50% FPL 4,232 have an average BTI of 9.8% without the PAWC discount. OCA St. 5 at 39

476. Of the 21,906 customers with an income of less than 50% FPL 3,510 have an average BTI of 12.3% without the PAWC discount. OCA St. 5 at 39.

477. Of the 21,906 customers with an income of less than 50% FPL 2,497 have an average BTI of 15.4% without the PAWC discount. OCA St. 5 at 39.

478. Of the 21,906 customers with an income of less than 50% FPL 1,455 have an average BTI of 18.8% without the PAWC discount. OCA St. 5 at 39.

C. H2O BILL DISCOUNT PROGRAM DESIGN

479. Notwithstanding the OCA's and Company's disagreements over the affordability analysis, the Company does not oppose the modifications recommended by Mr. Colton and Mr. Geller to the BDP and admit that they would "provide greater levels of affordability for customers at the lowest end of the income scale." PAWC St. 10R at 31.

480. PAWC proposed to expand eligibility of its Bill Discount Program to include customers with incomes from 151% to 200% of the FPL. OCA St. 5 at 40.

481. Fewer than 10% of the 487,980 customers with a BTI ratio of less than 2% have an income at or below 200% of the FPL. OCA St. 5 at 40-41.

482. Of the 46,632 customers with an income under 200% of the FPL and a 2% BTI ratio, 27,249 have incomes between 151% - 200% of the FPL. OCA ST. 5 at 41.

483. More than 25% of all PAWC customers have an income at or below 200% of the FPL. OCA St. 5 at 41.

484. Only 3,319 of the 21,906 customers with an income at or below 50% of the FPL have an affordable BTI ratio after receiving the PAWC as filed discount. OCA St. 5 at 41.

485. Only 6,935 of the 35,081customer with an income between 51%-100% of the FPL have an affordable BTI ratio after receiving PAWC's as filed discount. OCA St. 5 at 41.

486. Only 9,129 of the 51,175 customers with an income of 101%-150% of he FPL have an affordable BTI Ratio after receiving PAWC's as filed discount. OCA St. 5 at 41.

487. Only 27,249 of the 51,252 customers with an income of 151% to 200% of the FPL have an affordable BTI ratio after receiving PAWC's as filed discount. OCA St. 5 at 41.

488. At PAWC's as filed proposed discount, the average BTI ratio for customers with incomes from 0-50% of the FPL would be 8.6%.

489. At PAWC's as filed proposed discount, the average BTI ratio for customers with incomes from 51-100% of the FPL would be 2.9%. OCA St. 5 at 43.

490. At PAWC's as filed proposed discount, the average BTI ratio for customers with incomes from 101%-150% of the FPL would be 2.7%. OCA St. 5 at 43.

491. At PAWC's as filed proposed discount, the average BTI ratio for customers with incomes from 151%-200% of the FPL would be 2.2%.

492. Even if PAWC's water rates were kept at the current customer charge, with the volumetric charge increased by half of what PAWC has requested, the existing discounts would still result in an unaffordable BTI ratio for each income range below 150%. OCA St. 5 at 43 Fn. 17.

493. The conclusions reached in respect to unaffordability of water bills applies with equal force to PAWC wastewater bills. OCA St. 5 at 43.

494. When Mr. Colton's recommendations are applied, more than 70% of customers with incomes less than 50% of the FPL have BTI ratios less than or equal to 5% and one third have BTI Ratios of 25 or less. OCA St. 5 at 46.

495. When Mr. Colton's recommendations are applied, the remaining three FPL tiers roughly 75% of customers have BTI ratios of 2% or less and 100% have BTI ratios of 5% or less. OCA St. 5 at 46.

496. After applying Mr. Colton's recommendations to discounts, nearly 40% of customers with an income at or below 50% of the FPL have an affordable 2% BTI and nearly 75% have BTIs of less than 5%. OCA St. 5 at 47.

497. After applying MR. Colton's recommendations to discounts, nearly 85% of customers with an income from 51%-100% of the FPL have a BTI of 2%. OCA St. 5 at 47.

498. After applying MR. Colton's recommendations to discounts, nearly 90% of customers with an income of 101%-150% of the FOL have a BTI of 2%. OCA St. 5 at 48.

499. After applying Mr. Colton's recommendations to discounts, nearly 90% of customers with an income of 151%-200% of the FPL have a BTI of 2%. OCA St. 5 at 48.

500. The Self-Sufficiency standard generally reaches between 200%-300% of the FPL in Pennsylvania. OCA St. 5 at 53.

501. Vulnerabilities faced by low wage workers to economic disruptions due to lack of paid leave have been well-documented. OCA St.5 at 51.

502. PAWC's Arrearage management plan was just recently approved by the Commission. OCA St. 5 at 55.

503. From January 2022 to December 2022, 11,706 PAWC customers received nearly 7.7 million in LIHWAP grants. OCA St. 5 at 55.

504. PAWC customers received nothing from LIHWAP from January 2023-June 2023.

505. From July through September 2023 PAWC customers received $1.1 million in LIHWAP grants, but by October only $41,532.50 was given out to PAWC customers. OCA St. 5 at 55.

506. PAWC mailed 37,153 letters regarding LIHWAP in July 2023 and sent 39,375 emails to customers in July and August 2023 to customers who were in arrears and potentially eligible. OCA St. 5 at 55.

507. From November 2021 to October 2023, PAWC enrolled 10,715 low-income water customers in its BDP. OCA St. 5 at 55.

508. For purposes of identification, PAWC defines "confirmed Low-Income customers as a customer that has provided income information to the Company that indicates the customer has a household income at or below 150% of the FPL. OCA St. 5 at 56.

509. PAWC has 48,765 confirmed low-income customers receiving only water service. OCA ST. 5 at 56.

510. PAWC has 2,351 confirmed low-income customers receiving only wastewater service. OCA St. 5 at 56.

511. PAWC has 9,544 confirmed low-income customers receiving a combination of water/wastewater service. OCA St. 5 at 56.

512. OF the 60,660 confirmed low-income customers, PAWC has enrolled fewer than 13,700 in its BDP in the past 24 months. OCA St. 5 at 56-57.

513. From January 2021 through October 2023, PAWC disconnected 35,488 confirmed low-income customer accounts. OCA St. 5 at 57.

514. The total arrearage of these accounts was $14,550,181 at the time of disconnection. OCA ST. 5 at 57.

515. PAWC provided 412,518 disconnection notices to confirmed low-income customers. OCA St. 5 at 57.

516. PAWC disconnected nearly 10,000 more customers who had provided information establishing their status as low-income customers than it enrolled in its BDP. OCA St. 5 at 57.

517. PAWC enrolls confirmed low-income customers into deferred payment arrangements without also enrolling those customers into the BDP. OCA St. 5 at 59.

518. PAWC reports that the average arrearage subject to payment agreements for all customers was $994.63 and 15.96 bills behind in 2022. OCA St. 5 at 60.

519. PAWC reports that the average arrearage subject to payment agreements for all customers was $1,203.27 and 19.08 bills behind in 2021.

520. PAWC reports that the average arrearage subject to payment agreements for all customers was $1,044.99 and 17.89 bills behind in 2020. OCA St. 5 at 61.

521. PAWC and the CSO do not currently use any software that engages in speech pattern or linguistic analytics. OCA St. 5 at 61.

522. The CSO is evaluating options to utilize speech and linguistic analytics. OCA St. 5 at 61.

D. HARDSHIP FUND

523. The maximum income eligibility for PAWC's hardship grants should be increased to 250% of the FPL. OCA St. 5 at 64-66.

524. The Current PAWC hardship program only allows for one grant of no more than $500 per year per service. OCA St. 5 at 64.

525. The 2022 rate proceeding settlement provided that PAWC will work with its CAAG members to develop a solution to allow customers to receive multiple hardship fund grants up the maximum amount allowed per year. OCA St. 5 at 64.

526. In the 27 scenarios examined by Mr. Colton, the Self-Sufficiency Standard fell between 200-250% of the FPL 18 times. OCA St. 5 at 66.

E. CONSERVATION ASSISTANCE

527. PAWC is proposing to increase the irreducible portion of the bill to low-income customers who have demonstrable inability to pay their bills. OCA St. 5 at 76.

528. PAWC's proposed customer charge of $20 even at a monthly usage of 3,600 gallons results in nearly one-fifth of the low-income bill being irreducible when coupled with a volumetric charge of $2.139/100 gallons. OCA St. 5 at 72.

529. From November 2021-October 2023, 31% of confirmed Low-Income customers have a monthly water usage of 1,500 gallons or less, while an additional 52% have a monthly water usage between 1,500 and 3,000 gallons. OCA St. 5 at 73.

530. A customer with a usage rate of 1,200 gallons would have 42% of their bill made up of fixed charges. OCA St. 5 at 73.

531. PAWC does not contract with third-parties to provide conservation assistance to low-income customers. OCA St. 5 at 73.

532. The only conservation investment that PAWC makes in low-income households is the provision of water conservation kits. OCA St. 5 at 74.

533. PAWC does not develop annual budgets for any water conservation investments but anticipates spending $32,500 on conservation kits for its low-income population. OCA St. 5 at 74.

534. From 2020-2023 PAWC distributed 1,639 conservation kits in 2020, 1,556 in 2021, 1,788 in 2022, and 959 conservation kits in 2023. OCA St. 5 at 74.

535. In 2020-2023 PAWC has no separate budgets for its conservation kits but anticipates that its projected expenditure of $32,500 will be a normal level of expenditure. OCA St. 5 at 74.

536. PAWC provides water conservation kits only to BDP participants. OCA St. 5 at 74.

537. In 2022, PAWC averaged 16,849 BDP participants per month, compared to 1,788 water conservation kits it delivered. OCA St. 5 at 74.

538. In 2023 PAWC averaged 23,122 BDP participants each month compared to 959 water conservation kits it delivered. OCA St. 5 at 74.

539. PAWC does not track per household usage reduction achieved through its water conservation kit. OCA St. 5 at 74-75.

F. LOW-INCOME OUTREACH, SCRENING, AND INTAKE

540. PAWCs low-income customer outreach and intake for its BDP and AMP programs are currently inadequate. OCA St. 5 at 54-63.

541. From January 2022 to December 2022, 11,706 PAWC customers received nearly 7.7 million in LIHWAP grants. OCA St. 5 at 55.

542. PAWC customers received nothing from LIHWAP from January 2023-June 2023.

543. From July through September 2023 PAWC customers received $1.1 million in LIHWAP grants, but by October only $41,532.50 was given out to PAWC customers. OCA St. 5 at 55.

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550. OF the 60,660 confirmed low-income customers, PAWC has enrolled fewer than 13,700 in its BDP in the past 24 months. OCA St. 5 at 56-57.

551. From January 2021 through October 2023, PAWC disconnected 35,488 confirmed low-income customer accounts. OCA St. 5 at 57.

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557. PAWC reports that the average arrearage subject to payment agreements for all customers was $1,203.27 and 19.08 bills behind in 2021.

558. PAWC reports that the average arrearage subject to payment agreements for all customers was $1,044.99 and 17.89 bills behind in 2020. OCA St. 5 at 61.

559. In no month from January 2023-October 2023 did PAWC enroll more confirmed low-income customers than it disconnected. OCA St. 5 at 69.

560. PAWC and the CSO do not currently use any software that engages in speech pattern or linguistic analytics. OCA St. 5 at 61.

561. The CSO is evaluating options to utilize speech and linguistic analytics. OCA St. 5 at 61.

562. PAWC reports that it disconnected service for nonpayment of 14,562 confirmed low-income water accounts in 2022 and 8,724 in 2023. OCA St. 5 at 70.

563. PAWC reports that it only provided 961 hardship grants to water accounts in 2022, and 1,916 in 2023. OCA St. 5 at 70.

564. During the 2020-2021 program year, no hardship grant applications were denied for insufficient funds. OCA St. 5 at 70.

565. During the 2021-2022 program year one application was recorded as denied for insufficient funds, but that appears to be an error which PAWC assumes was denied for ineligibility. OCA St. 5 at 71.

566. During the 2022-2023 application year 40 applications were denied for insufficient funds. OCA St. 5 at 71.

567. During the 2023-2024 program year no applications were denied for insufficient funds. OCA St. 5 at 71.

G. DATA COLLECTION, REPORTING, AND MONITORING OF LOW-INCOME PROGRAMS

568. No quarterly survey is directed toward confirmed low-income customers. OCA St. 5 at 120.

569. No quarterly survey is directed toward Bill Discount Programs participants. OCA St. 5 at 120.

570. In the survey that the Company performs and is directed towards customers having particular transactions with PAWC, no questions are asked with respect to [redacted]

[redacted]

571. In the survey that the Company performs and is directed towards customers having particular transactions with PAWC [redacted]

H. COMPRHENSIVE WRITTEN PLAN

572. PAWC does not prepare a written low-income plan. OCA St. 5 at 67.

573. PAWC does not have specific metrics for the BDP. OCA St. 5 at 68.

I. ADMINSTRATION OF PAWC'S LOW-INCOME ASSISTANCE PROGRAMS

XII. SERVICE QUALITY AND CUSTOEMR SERVICE ISSUES

A. SUMMARY

B. CUSTOMER SERVICE PERFROMANCE

574. PAWC is a subsidiary of American Water Works Company, Inc. (AWK) OCA St. 6 at 7.

575. AWK, through the use a subsidiary service company – American Water Works Service Company, Inc. (Service Company) – provides PAWC, along with other subsidiaries, Call Answering and Customer Service. OCA St. 6 at 8.

576. The Service Company's Customer Service Organization is led by a Vice President and Chief Customer Officer who is performing management and oversight functions for the CSO for all regulated utility subsidiaries of the Parent Company, not just PAWC. OCA St. 6 at 8.

577. PAWC customer calls are answers by Service Company employees or third-party entities contracted with the service company to handle both outbound and inbound calls. OCA St. 6 at 8.

578. The Service Company employees and contractors perform their duties for all regulated utility subsidiaries of AWK not just PAWC. OCA St. 6 at 9.

579. Calls from PAWC customers are directed to a customer service representative, either a third-party contractor or service company employee who has passed a "test". OCA St. 6 at 8.

580. PAWC does not conduct audits or professional root cause analyses of the Service Company's call center operations. OCA St.6 at 10.

581. PAWC keeps a Complaint Spreadsheet that reflects a short summary of the complaints and what steps were taken. OCA St. 6 at 10.

582. No internal documentation supports any analysis was performed on this complaint data, and no analysis of trends or findings was provided. OCA St. 6 at 10.

583. PAWC does not use performance standards that are applicable, internally or with the third-party contractors, that reflect compliance with Pennsylvania policies and programs. OCA St. 6 at 11.

584. PAWC's Complaint rate was 3.89 in 2021 and 4.22 in 2022, which exceeds any other Class A water utility with the exception of one smaller class A utility. OCA St. 6 at 12.

585. PAWC's justified residential complaint numbers and rates reflect a similar pattern of exceeding other Class A water utilities. OCA ST. 6 at 13.

586. PAWC's Payment arrangement request rate is above average and 18.2% were determined to be justified. OCA St. 6 at 13.

587. Per the 2022 BCS report, PAWC's infraction rate of .58 exceeds all other major class A water utilities. OCA St. 6 at 13.

588. PAWC's infraction rates are categorized as 30% related to reconnection of service, 23% dispute handling, 13% termination procedures, and 10% for credit standards and deposits. OCA St. 6 at 13.

589. The third Quarter UCARE report for 2023 indicates a total of 158 verified infractions relating primarily to Chapter 56. OCA St. 6 at 13.

590. The Company has implemented a new quality assurance program. OCA St. 6 at 14.

591. There are no changes, reforms, or revisions to the internal training programs and policies as a result of Pennsylvania specific results or complaint data. OCA St. 6 at 14.

592. A Proper root cause analysis requires the identification of symptoms and first level causes. OCA St. 6 at 15.

593. From January 2022 To November 2023 the internal standard of 80% of calls answered within 60 seconds was never met. OCA St. 6 at 20.

594. In her direct testimony, Ms. Degillio claims this standard is an "industry standard" but is unable to defend this reference. OCA St. 6 at 23.

595. All Pennsylvania electric and gas utilities are evaluated based on answering 80% of customer calls within 30 seconds. OCA St. 6 at 23; Exh. BA-3.

596. In October 2023, only 61% of calls were answered within 60 seconds and there was a 13% abandonment rate. OCA St. 6 at 20.

597. The call center performance results for two third party contractors are very poor and far below the call center average as a whole. OCA St. 6 at 20.

598. These results fall below the contractual performance standards included in the contracts with these entities. OCA St. 6 at 20.

599. No actions have been undertaken to enforce these standards. OCA St. 6 at 20.

600. The Commission's Bureau of Audits found that since 2019, PAWC has experienced a sustained decline in call handling performance. OCA St. 6 at 21.

601. The percentage of calls answered within 30 seconds decreased from 24% to 14% from 2019-2022. OCA St. 6 at 22.

602. The Commission directed PAWC to file a new or amended AIA that accurately reflects current company structure and the intercompany transactions occurring between PAWC and the Service Company. OCA St. 6 at 17.

603. [redacted]

C. TENANT ISSUES AND PROTECTIONS

D. WATER SERVICES ACT AND SECTION 12.1(h) OF WATER TARIFF

604. PAWC agreed with Ms. Alexander's suggestion to move the proposed language in Section 12.1(h) to a separate section 12.8 of the Company's tariff. OCA St. 6SR at 17

605. The Company has over 120 shut-off agreements governed by the Water Services act. Tr. 2022.

606. PAWC has agreements with approximately 178 non-utility sewer providers. OCA St. 6 at 27.

E. AMERICAN WATER RESOURCES (AWR)

607. PAWC provides billing services for insurance products or warranty services offered by AWR in return for a service fee. OCA St. 6 at 31.

608. AWR provides the warranty Services to PAWC customers with whom it has a service contract. The warranty services offered by AWR include repair and maintenance services for covered water service lines owned by customers, sewer service laterals owned by customers, and in-home plumbing. OCA St. 6 at 31.

609. The fees for AWR programs appear as line items on customer bills and are included in the total amount due. OCA St. 6 at 36.

610. In fine print on customer bills, it states “Protection Programs for water sewer, and in-home plumbing are offered by American Wate Resources”. OCA St. 6 at 36.

611. AWR is not a subsidiary or affiliate of PAWC or AWK. OCA St. 6 at 31.

612. AWR is owned by a non-affiliate, Oncourse Home Solutions. OCA St. 6 at 32.

613. AWR and its affiliates are part of a trademark license agreement with AWK that allows AWR to utilize the American Water name, logo, and branding when selling warranty services to PAWC’s customers. OCA St. 6 at 33-34; Exhibit BA-7 (Confidential).

614. AWR and PAWC are parties to a Utility Billing Agreement. OCA St. 6 at 33; Exhibit BA-8 (Confidential).

615. AWK sold its non-regulated subsidiary business that marketed and sold warranty services to PAWC customers on or around December 9, 2021. OCA St. 6 at 34. At or around the same date, AWK entered into a License Agreement with AWR and its affiliates and PAWC entered into a Utility Billing Agreement with AWR. OCA St. 6 at 34.

616. Even though there is no formal corporate relationship between AWR and PAWC or AWK [redacted]

617. [redacted]

618. [redacted]

619. [redacted]

[redacted]

620. [redacted]

621. [redacted]

622. [redacted]

623. [redacted]

624. [redacted]

625. [redacted]

626. [redacted]

627. PAWC receives payments from Oncourse Home Services reaching $663,147.12 in 2022 and as of filing of direct testimony $548,412.24 in 2023. OCA St. 6 at 38.

628. [redacted]

629. [redacted]

630. [redacted]

631. Consumers testified at public input hearings regarding inconsistent billing periods, ranging from 27-35 days. OCA St. 6- Supp at 2.

632. At the Public Input Hearing, regarding AWR, a consumer stated "Everybody thinks that it's American Water Company, but then they found out that it was not American Water Company." OCA St. 6 Supp at 3; Tr. at 1517.

633. Another customer testified at a Public Input Hearing stating "One of the subsidiaries they offer is AWR. They're the ones the insurance company basically to handle the sewage pipe going across my property, across the road to the main sewer lines." OCA St. 6 Supp. At 3; Tr. at 1072-73.

F. MAIN EXTENSIONS

634. Mr. Phil Choff is part of the Jefferson Township Municipal Authority (JTMA) formal complaint requesting an extension of water service within PAWC's existing service territory in Avella, Washington County, to at least 39 residents who struggle with quantity and quality of water. Tr. 1840-41; OCA St. 7-Supp. at 8-9, Exh. TLF-4.

635. Subject to further investigation, PAWC witness Aiton believes that based on the magnitude of water issues, the proposed project may meet the substantial public need requirements of Tariff Rule 27.1(F) such that no customer contribution will be required. PAWC St. at 3-4.

G. PRESSURE SURVEYS AND PRESSURE REDUCING VALVES

636. The Company agreed to establish a notification process for customers "where PAWC systems regularly exceed 100 pounds per square inch. Tr. at 1983.

637. In this notice the Company will educate customers that they may need a pressure reduction valve and encourage them to contact a licensed plumber. Tr. at 1983.

638. The Company has agreed to utilize its GIS system to identify these customers. Tr. at 1983-84.

XII. MISCELLANEOUS

A. CUSTOMER NOTICES RELATED TO RATE CHANGES

639. PAWC's notices to customers regarding the contents of its proposed rate changes are deficient and therefore constitute inadequate notice. OCA St. 1 at 55-62.

640. The notice is deficient in terms of accuracy of the bill impact of PAWC's proposed revenue shift under Section 1311(c); the residential customer usage level used by PAWC; and the Commission's final order's disposition of PAWC's proposed alternative ratemaking mechanisms under Section 1330. OCA St. 1 at 55-62.

641. The OCA recommends that a chart using three usage levels be included in the rate case notices for water and wastewater in PAWC's next base rate filing. OCA St. 1 at 60,63.

642. Even if a customer reviewed PAWC's proposed tariffs and calculated their bill based on the proposed rate, it is not a true picture of what the increase might be but would only reflect PAWC's proposal. OCA St. 1SR at 22.

B. TARIFF CHANGES (NOT ADDRESSED ABOVE)

OCA Proposed Conclusions of Law

Overall

1. The regulation of utilities is one of the most important functions traditionally associated with the police power of the States. *Ark. Elec. Coop. Corp. v. Ark. Pub. Serv. Comm'n*, 461 U.S. 375, 377 (1983) (*Ark. Elec.*).

2. The Public Utility Code (Code) governing sales that are only rationally dealt in by a monopoly is a proper exercise of the state police power to regulate the health, safety, morals, and general welfare of citizens. *Relief Elec. Light, Heat & Power Co's. Petition*, 63 Pa. Super. 1, *5-10 (1916), 1916 Pa. Super. LEXIS 89, **6-15 (*Relief Elec.); Jenkins Twp. v. Pub. Serv. Comm'n*, 65 Pa. Super. 122 (1916), 1916 Pa. Super. LEXIS 30, **15-16 (*Jenkins Twp.*).

3. Pennsylvania-American Water Company (PAWC) is a public utility as defined in Section 102 of the Public Utility Code. 66 Pa. C.S. § 102.

4. The Commission has jurisdiction over the parties and the subject matter of this proceeding. 66 Pa. C.S. § 101, *et seq.*

5. The utility requesting the rate increase has the burden of establishing the justness and reasonableness of every element of its requested rate increase. 66 Pa. C.S. §§ 315(a), 1301; *Lower Frederick Twp. Water Co. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980).

6. PAWC has the burden of proving that the rate involved is just and reasonable. 66 Pa. C.S. §§ 315(a), 1301, and 1308(e).

7. As a matter of law, a public utility's rates must be just and reasonable and in conformity with regulations or orders of the Commission. 66 Pa. C.S. § 1301(a).

8. A public utility may obtain "a rate that allows it to recover those expenses that are reasonably necessary to provide service to its customers[,] as well as a reasonable rate of return on its investment." City of Lancaster Sewer Fund v. Pa. PUC, 793 A.2d 978, 982 (Pa. Cmwlth. 2002) (*Lancaster 2002*).

9. The Commission "has broad discretion in determining whether rates are reasonable" and "is vested with discretion to decide what factors it will consider in setting or evaluating a utility's rates." *Popowsky v. Pa. PUC*, 683 A.2d 958, 961 (Pa. Cmwlth. 1996) (*Popowsky 1996*).

10. The Commission has the "power to make and apply policy" concerning the appropriate balance between rates charged to consumers and returns allowed to utility investors. *Popowsky v. Pa. PUC*, 665 A.2d 808, 812 (Pa. 1995).

11. Given that a utility's general rate increase request will substantially affect the interests of consumers, the Commission must "consistent with its other statutory responsibilities, take such action with due consideration to the interests of consumers." 71 P.S. § 309-5.

12. The Company has not met its burden of proving its requested annual revenue increase of $203.9 million will produce just and reasonable rates.

13. The OCA's adjustments to the overall revenue requirement are supported by substantial evidence of record.

14. An overall revenue requirement increase of $45.4 million, as based on the OCA's fully-substantiated adjustments, will produce rates that are just and reasonable, equitable among customer groups, and in the public interest, will allow PAWC to recover its reasonable costs, have an opportunity to earn a fair rate of return, and maintain its financial stability to provide safe and adequate water and wastewater service to consumers.

Rate Base

15. For utility plant in service, what constitutes "used and useful property" is committed to the wide discretion of the Commission, and if the Commission reasonably finds that the property will not be used and useful in serving the public, it may make adjustments to exclude the value of the property from rate base and disallow the utility's return on that property. *Pa. Power & Light Co. v. Pa. PUC*, 516 A.2d 426, 430 (Pa. Cmwlth. 1985) (citations omitted); *UGI Corp. v. Pa. PUC*, 410 A.2d 923, 929 (Pa. Cmwlth. 1980) (*UGI 1980*). The adjustments must be supported with a reasonable degree of specificity in findings and reasoning. *Phila. Suburban Water Co. v. Pa. PUC*, 394 A.2d 1063, 1066-67 (Pa. Cmwlth. 1978).

16. To determine whether property will be "used and useful" in the FPFTY, a utility must sufficiently demonstrate by the close of the record that the utility property is reasonably certain to be used and useful in the FPFTY. *Pa. PUC v. UGI Utils., Inc. - Elec. Div.,* R-2017-2640058 (Order Oct. 25, 2018), at 27-31 (*UGI 2018*), a*ff'd by McCloskey v. Pa. PUC*, 225 A.3d 192 (Pa. Cmwlth. 2020) (*McCloskey 2020*).

17. PAWC has not met its burden of proof in demonstrating by a preponderance of evidence that there is reasonable certainty that the property that PAWC seeks to own but does not yet own in the six proposed acquisitions will be acquired by PAWC and used and useful by the end of the FPFTY.

18. PAWC has not affirmatively demonstrated by a preponderance of evidence that the claimed plant will be acquired and used and useful by the end of the FPFTY but rather PAWC has merely demonstrated that the acquisitions are in preliminary planning and litigation stages.

19. Given the Commission's denial of PAWC's application to acquire the Brentwood wastewater system, PAWC has agreed to remove related rate base and other ratemaking costs from its claimed revenue requirement because it is not reasonably certain that the property PAWC sought to own in the Brentwood acquisition will be acquired by PAWC and used and useful by the end of the FPFTY.

20. Given that there is no reasonable certainty based on the record that the property that PAWC seeks to acquire will be used and useful by the end of the FPFTY, PAWC's claimed rate base relating to the acquisitions, including the post-acquisition improvements to the not yet acquired systems, will not be used and useful in serving the public in the FPFTY, and these values of property shall be excluded from rate base and disallowed from the utility's return on that property.

21. PAWC has met its burden of proof in demonstrating the inclusion of the $1.267 billion (net of retirements and net of excluded property) in planned capital improvements to PAWC's Water, Wastewater SSS, and CSS Wastewater Operations and these values shall be included in rate base in the FPFTY and allowed for the purposes of applying the utility's return on that property.

22. Cash working capital ordinarily is the amount of cash required to operate a utility during the interim between the rendition of service and the receipt of payment therefor. *UGI 1980* at 929.

23. PAWC has not met its burden of proof in demonstrating PAWC's cash working capital claims.

24. The OCA's adjustments to PAWC's cash working capital are supported by substantial evidence.

25. Given that the utility plant in service claims related to BASA and Brentwood shall be excluded in their entirety, PAWC's cash working capital claims for the BASA and Brentwood systems also shall be excluded.

26. PAWC's cash working capital claims shall be adjusted based on the OCA's recommendations as follows: (1) negative adjustment to cash working capital for Water by $1.761 million; (2) negative adjustment to cash working capital for Wastewater SSS by $150,794; and (3) negative adjustment to cash working capital for CSS Wastewater by $98,811.

<u>Revenues</u>

27. Given that the utility plant in service related to the six proposed acquisitions shall be excluded, the following revenues shall be excluded from the revenue requirements: (1) from Water Operations, the $2.965 million and $266,371 in operating revenues related to Audubon water and Farmington water, respectively; (2) from Wastewater SSS General Operations, the $322,926 and $471,228 in operating revenues related to Farmington wastewater and Sadsbury wastewater, respectively; and (3) BASA and Brentwood entirely.

28. PAWC's $659,624 miscellaneous revenue claim related to American Water Resources for billing and marketing services that PAWC provides to this entity should be included in PAWC's revenue requirement in the FPFTY because it is supported by substantial evidence and PAWC has not demonstrated that this claim should be disallowed.

<u>Expenses</u>

29. The Commission must determine whether projected expenses "are reasonably necessary to provide service…" during the prospective period in which its rates will be in effect. *Lancaster 2002* at 982.

30. Only prudently incurred expenses are includable in expense claims; it is the burden of the public utility to prove that the expenses incurred are just and reasonable; and it is within the discretion of the Commission to exclude expenses as unreasonable. *Popowsky v. Pa. PUC*, 674 A.2d 1149, 1154 (Pa. Cmwlth. 1996) (*LP Water*).

31. PAWC has not met its burden in demonstrating its claims for salaries and wages expense and related payroll tax expense, annual performance pay expense and related payroll tax expense, external Board expense, group insurance expense, 401K, Defined contribution Plan and Employee Stock Purchase Plan expense, stock-based compensation – AWK Executives expense, executive perquisites (AWK Executives dividend equivalents) expense, insurance other than group expense, uncollectibles expense (rate of net write-offs), Arrearage Management Plan (AMP) credits – uncollectibles expense, interest synchronization expense, call center expense, and depreciation expense – Water Operations are reasonable and prudently incurred.

32. The OCA's proposed adjustments to PAWC's claimed expenses above are supported by substantial evidence, are reasonable, and shall be adopted.

33. The Commission "has no authority to permit, in the rate-making process, the inclusion of hypothetical expenses not actually incurred" or not reasonably certain to be incurred, and the Commission must consider "evidence of actual expenses, properly adjusted when the evidence warrants." *Lancaster 2002* at 982-83 (citing *Barasch v. Pa. PUC*, 493 A.2d 653, 656 (Pa. 1985)).

34. In *UGI 2018*, because the Commission removed the utility's $17.3 million plant in service claims after finding that there was no reasonable certainty the operations center would be in operation in the FPFTY, the Commission similarly rejected the utility's related expense claims: $13k relocation expense claim and $225k depreciation expense claim. *UGI 2018* at 27-31, 79.

35. Given that PAWC's claimed utility plant in service related to the six proposed acquisitions shall be excluded, all claimed expenses in the FPFTY related to the not-yet-acquired property, including acquisition expense, O&M expenses, amortization expense, and depreciation expense shall be excluded.

<u>Requests for Deferred Accounting Treatment</u>

36. PAWC has not met its burden of proving its proposed cost tracker and deferral mechanism for Pension and Other Post Employment Benefit (OPEB) expenses is necessary or will produce just and reasonable rates.

37. The Company has not met its burden of proving its proposed cost tracker for Production Cost expenses is necessary or will produce just and reasonable rates.

38. PAWC's requested trackers of isolated expenses for deferred recovery in future base rate cases are squarely impermissible single-issue ratemaking.

39. Single-issue ratemaking is similar to retroactive ratemaking and, in general, is prohibited if it impacts on a matter that is normally considered in a base rate case. *Pa. Indus. Energy Coalition v. Pa. PUC*, 653 A.2d 1336, 1350 (Pa. Cmwlth. 1995), aff'd, 543 Pa. 307, 670 A.2d 1152 (1996) (*PIEC*).

40. Single-issue ratemaking is impermissible. *See Nat'l Fuel Gas Dist. Corp. v. Pa. PUC*, 464 A.2d 546, 567 (Pa. Cmwlth. 1983) (in the context of tariff supplements, the consideration of expense and revenue items in isolation could result in confiscatory rates); *see also Phila. Elec. Co. v. Pa. PUC*, 502 A.2d 722, 727-28 (Pa. Cmwlth. 1985) (holding that there should be no line-by-line examination of items in a rate case and an isolated item of revenue or expense may not be, without more, the subject of a refund or recovery).

<u>Rate of Return</u>

41. A public utility is entitled to no more than a reasonable opportunity to earn a fair rate of return on its investments dedicated to public service. *Pennsylvania Gas & Water Co. v. Pa. PUC*, 341 A.2d 239, 251 (Pa. Cmwlth. 1975)

42. 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 raise the money necessary for the proper discharge of public duties. *Bluefield Water Works and Improvement Co. v. Public Serv. Comm'n of W.V*a., 262 U.S. 679, 692-93 (1923) (*Bluefield*).

43. A return on the value of the [utility's] property which it employs for the convenience of the public equal to that being made at the same time on investments in other business undertakings which are attended by corresponding risks and uncertainties. *Bluefield* at 692.

44. However, a fair return for public utility service is not equivalent to "profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." *Id*. At 692-693.

45. A fair rate of return "should be commensurate with returns on investments in other enterprises having corresponding risks" while being sufficient "to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital." *Federal Power Comm'n v. Hope Natural Gas Co*., 320 U.S. 591, 603 (1944) (*Hope*).

46. The rate-making process under the Act, *i.e*., the fixing of just and reasonable rates, involves a balancing of the investor and consumer interests. However, regulation does not insure that the business shall produce net revenues. *Hope* at 603; *see also Pa. PUC v.*

Philadelphia Suburban Water Co., 71 PaPUC 593, 623 (1989) (*PSW 1989*) (citing Pittsburgh v. Pa. PUC, 69 A.2d 844 (Pa. Super Ct. 1949)); see also Duquesne Light Co. v. Barasch, 488 U.S. 299, 310, 312 (1989) (*Duquesne Light*), *aff'g Barasch v. Pa. PUC*, 532 A.2d 325 (Pa. 1987).

47. Consumers must "rely upon" the Commission to provide "a complete, permanent, and effective bond of protection from excessive rates and charges" of the public utility. *Permian Basin Area Rate Cases*, 390 U.S. 747, 794-95 (1968) (*Permian Basin*) (citing *Atlantic Ref. Co. v. Pub. Serv. Comm'n*, 360 U.S. 378, 388 (1981)).

48. The Commission's "responsibilities include the protection of future, as well as present, consumer interests." *Permian Basin* at 798.

49. Rates adopted by the Commission that are within a "zone of reasonableness" can withstand constitutional scrutiny. *Permian Basin* at 797.

50. The "just and reasonable" standard of the Code coincides with applicable constitutional standards, and any rate selected by the Commission from the "broad zone of reasonableness" permitted by the Code cannot properly be attacked on constitutional grounds as confiscatory. *Permian Basin* at 769-70.

51. Rates that are determined by the Commission to be in conformity with the Code and intended to "balance the investor and the consumer interests" are constitutionally permissible. *Permian Basin* at 770.

52. Cost of capital analyses are generally accepted by the Commission as a basis for determining a fair rate of return under the "just and reasonable" standard of the Code. *PSW 1989* at 622-23.

53. A fair rate of return for a public utility is not a matter which is to be determined by the application of a mathematical formula. It requires the exercise of informed judgment based upon an evaluation of the particular facts presented in each proceeding. There is no one precise answer to the question as to what constitutes the proper rate of return. The interests of the Company and its investors are to be considered along with those of the customers, all to the end of assuring adequate service to the public at the least cost, while at the same time maintaining the financial integrity of the utility. *Pa. PUC v. Pa. Power Co*., 55 PaPUC 552, 579 (1982) (*Pa. Power*) (emphasis added); s*ee also Pa. PUC v. Nat'l Fuel Gas Dist. Corp*., 73 PaPUC 552, 603-05 (1990) (*NFGD 1990*).

54. The use of the hypothetical capital structure is appropriate to reduce costs to ratepayers, as opposed to increasing costs, where the utility's management proposes an actual capital structure that imposes an unfair cost burden on ratepayers. *See e.g. T.W. Phillips Gas and Oil Co. v. Pa. PUC*, 474 A.2d 355, 362 (Pa. Cmwlth. 1984); *Carnegie Natural Gas Co. v. Pa. PUC*, 433 A.2d 938 (Pa. Cmwlth. 1981) (Carnegie) (100% equity actual capital structure).

55. The Commission has the duty to regulate utilities in a manner which provides customers with reliable service at reasonable cost. This is not to say that we may mandate to regulated utilities the proportions of debt and equity contained in their capital structures. Rather, the actual capital structure is a matter within the discretion of corporate management; however, this does not preclude the commission from determining that a particular utility's capital structure is unreasonable or uneconomical when balancing the goals of safety, prudent management, and economy and utilize a hypothetical capital structure for rate- making purposes. *Pa. PUC v. Carnegie Natural Gas Co*., 54 Pa. P.U.C. 381, 393 (1980), *aff'd by Carnegie*.

56. The Commission and Pennsylvania courts do not allow the utility's financial interests to outweigh the public interest. *Pa. PUC v. Pa. Gas and Water*, 424 A.2d 1213, 1217 (*Pa. 1980*) (stating that such property must be regulated in the interest of the public no less than in the interest of the utility); *see also Arrowhead Pub. Serv. Corp. v. Pa. PUC*, 600 A.2d 251, 257 (Pa. Cmwlth. 1991) (supporting the Commission's use of the utility's actual cost of debt where the cost is clearly identifiable); *Big Run Tel. Co. v. Pa. PUC*, 449 A.2d 86, 89 (Pa. Cmwlth. 1982) (a hypothetical capital structure is justified in the event actual capital structure is disproportionate, meaning, the actual capital structure "imposes an unfair tax burden on ratepayers").

57. The evidence shows the Company's proposed 10.95% ROE is contrary to law because it will not produce just and reasonable rates.

58. PAWC's proposed capital structure of 55.3% equity and 44.7% debt is contrary to law because it will not produce just and reasonable rates.

59. The OCA's recommendations for a 9.1% ROE and 51% equity and 49% debt will allow PAWC to have an opportunity to earn a fair rate of return within the zone of reasonableness and maintain its financial integrity and stability to provide safe and adequate water and wastewater service to consumers. *Bluefield* at 692-93; *Hope* at 603; *Duquesne Light* at 310, 312; *Permian Basin* at 797.

60. The OCA's recommendations for a 9.1% ROE and 51% equity and 49% debt protect consumer interests from paying excessive rates. *Permian Basin* at 770, 797.

61. The OCA's recommendations for a 9.1% ROE and 51% equity and 49% debt are based on fully substantiated cost of capital analyses. *Pa. Power* at 579; *NFGD* 1990 at 603-05; *PSW 1989* at 622-23.

62. The OCA's recommendations for a 9.1% ROE and 51% equity and 49% debt fall within the zone of reasonableness that will produce just and reasonable rates. *Permian Basin* at 770, 797.

63. PAWC has not demonstrated by a preponderance of evidence that its request for a management performance adder of up to 25 basis points is either necessary or just and reasonable.

64. Based on substantial record evidence, the requested increment of 25 basis points in ROE is unsupported and excessive and would impose significant additional costs onto consumers without justification in the law.

65. The Commission is not obliged to grant a management performance adder in determining the authorized ROE under the constitutional limits because a reward for management performance is not commensurate with returns on investments in other enterprises having corresponding risks. *Bluefield* at 692; *Hope* at 603.

66. PAWC's requested management performance adder is outside the zone of reasonableness because it is an unsubstantiated excessive rate, and it is the Commission's responsibility to protect future and present consumers from excessive rates. *Permian Basin* at 794-95, 797.

67. While Section 523 authorizes the Commission to consider the efficiency, effectiveness and adequacy of service when determining just and reasonable rates, it requires the Commission to "give effect to this section by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate." 66 Pa. C.S. § 523 (emphasis added).

68. It would be neither proper nor appropriate for the Commission to award shareholder interests based on prudent managerial performance when shareholders themselves cannot expect an additional ROE simply due to prudent managerial performance when they invest in competitive firms in the marketplace. *Bluefield* at 692-93; *Hope* at 603; *Duquesne Light* at 310, 312; *Permian Basin* at 797.

69. PAWC's evidence of past and current management performance is countered by substantial record evidence as presented by the OCA regarding less-than-exemplary service and customer service.

70. PAWC has not met its burden of supporting its request for the management performance adder with substantial evidence or shown that it will produce just and reasonable rates.

Rate Structure and Rate Design

71. A utility's cost of providing service guides the ratemaking process with the additional important consideration of quality of service, rate gradualism, and rate affordability. *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1019-21 (Pa. Cmwlth. 2006) (*Lloyd*); *Pa. PUC v. Columbia Gas of Pa, Inc.*, R-2020-3018835 (Order Feb. 19, 2021) (*Columbia 2021*), at 46-47 (citing 66 Pa. C.S. §§ 523, 526(a)).

72. Rates must not be unduly discriminatory among customer groups. 66 Pa. C.S. § 1304.

73. The Commission has discretion to determine reasonable classification of service of rates as may be justified "by a variety of considerations including the quantity of service used, the nature of the use, the time of the use, the pattern of the use, differences of conditions of service or cost of service." *Zucker v. Pa. PUC*, 402 A.2d 1377, 1382 (Pa. Cmwlth. 1979).

74. PAWC has not shown that its water cost of service study, including allocation of Arrearage Management Program costs and the administrative costs for the H2O Grant and Discount programs to Residential customers only, is consistent with cost-causation, will produce rates that are equitable among customer groups, or will produce just and reasonable rates. 66 Pa.C.S. §§ 1301(a), 1304.

75. The Commission may allocate wastewater revenue requirement to be recovered from water customers where it is in the public interest. 66 Pa.C.S. § 1311(c).

76. An allocation under Section 1311(c) is discretionary, not mandatory, and should be equitable to water customers and just and reasonable. 66 Pa. C.S. §§ 1311(c), 1301(a), 1304; *Pa. PUC v. Aqua Pa., Inc.*, 2022 Pa. PUC LEXIS 161, *112, 114-15 (Order May 16, 2022) (*Aqua 2022*).

77. An allocation under Section 1311(c) cannot result in water customers supporting a disproportionate share of the wastewater revenue requirement or being moved away from their indicated class cost of service. 66 Pa. C.S. § 1311(c); *Aqua 2022* at *114-15.

78. PAWC's proposal to shift to shift $71 million, or 94%, of its claimed wastewater revenue deficiency (inclusive of PAWC's claimed revenue requirement deficiency for the Brentwood and BASA systems) to water customers cannot be found in the public interest, particularly where this level of shift would <u>*decrease*</u> current rates for wastewater customers.

79. When excluding Brentwood and BASA, PAWC's proposal to shift the entire burden of recovering its requested increase in Wastewater SSS and CSS Wastewater revenue requirement onto Water customers, where none of its Wastewater SSS and CSS Wastewater customers would bear in the recovery of the Wastewater revenue increase, is not in the public interest, inequitable to Water customers, and unjust and unreasonable. 66 Pa.C.S. §§ 1311(c), 1301(a), 1304; *Aqua 2022* at *114-15.

80. PAWC's proposal to assign the Act 11 shift to water customer classes based on wastewater class cost responsibility is contrary to Section 1311(c) and Commission precedent and, to the extent it moves water customers away from their indicated class cost of service, will not produce just and reasonable rates. 66 Pa.C.S. §§ 1311(c), 1301(a), 1304; *Aqua 2022* at *114-15.

81. The Company has not met its burden of showing that moving most of its Residential water and wastewater customer charges to $20 per month will produce just and reasonable rates.

82. PAWC should be directed to impute revenues, to prevent other customers from paying the cost of its proposal to delay the effective date for new rates for certain wastewater rate zones, in order to meet its burden of showing the delayed rates are just and reasonable.

83. PAWC's winter averaging proposal is contrary to law because PAWC has not met its burden of showing it will produce just and reasonable rates and the substantial record

evidence shows it will disproportionately harm low-income customers. 66 Pa.C.S. §§ 1301(a), 1304.

Alternative Ratemaking

84. The Commission has the authority and discretion to permit alternative ratemaking where it will produce just and reasonable and non-discriminatory rates. 66 Pa.C.S. §§ 1330, 1301, 1304.

85. The Commission has the authority and discretion to permit alternative ratemaking where it will enhance the safety, security, reliability, or availability of utility infrastructure and is consistent with efficient consumption of utility service. 66 Pa.C.S. § 1330(a)(2).

86. PAWC has not met its burden of proving that its proposed Revenue Decoupling Mechanism (RDM) surcharge will produce just and reasonable rates.

87. PAWC has not met its burden of proving that its proposed Environmental Compliance Investment Charge (ECIC) will produce just and reasonable rates.

88. PAWC has not met its burden of proving the RDM will enhance the safety, security, reliability, or availability of utility infrastructure and is consistent with efficient consumption of utility service. 66 Pa.C.S. § 1330(a)(2).

89. PAWC has not met its burden of proving the ECIC will enhance the safety, security, reliability, or availability of utility infrastructure and is consistent with efficient consumption of utility service. 66 Pa.C.S. § 1330(a)(2).

90. Substantial record evidence demonstrates that the proposed RDM will harm customers generally and disproportionately harm low-income customers.

91. Substantial record evidence demonstrates that the proposed ECIC will harm customers generally and disproportionately harm low-income customers.

92. Regarding PAWC's ECIC Plan proposal, the Commission does not have the expertise to determine *in advance* whether investments planned by the Company are necessary to comply with environmental laws.

93. The Company has this expertise and has the responsibility for this type of decision-making, and the Commission does not have the authority to micro-manage a utility in this way. The Pennsylvania appellate courts have repeatedly ruled that the Commission is not a super board of directors to manage such business decisions of utilities. *Northern Pa. Power Co. v. Pa. PUC*, 5 A.2d 133, 134-135 (Pa. 1939); *see also Metropolitan Edison Co. v. Pa. PUC*, 437 A.2d 76, 80 (Pa. Cmwlth. 1981); *NAACP v. Pa. PUC*, 290 A.2d 704, 708 (Pa. Cmwlth. 1972).

Affordability and Low-Income Customer Assistance

94. To be just and reasonable, rates must be within a zone of reasonableness where consumer and shareholder interests overlap. 66 Pa.C.S. § 1301; *Permian Basin*, 390 U.S. at 770.

95. While shareholders have an interest in earning a fair return on investment that maintains the financial integrity of the utility, consumers have an interest in paying affordable bills for safe, adequate, and reasonable utility service. Thus, it stands to reason that just and reasonable rates are affordable rates. 66 Pa.C.S. § 1301.

96. The Commission has broad discretion when determining whether a rate is just and reasonable and is vested with the discretion to decide what factors it will consider when setting rates. *Popowsky 1996*, 683 A.2d at 961.

97. The Commission has previously acknowledged that it can consider rate affordability when setting rates. *Columbia Order* at 48.

98. To determine if bills and rates are affordable for PAWC's customers, it is just and reasonable to examine a consumer's water/wastewater burden, or the proportion of income dedicated to paying the consumer's bill for water and wastewater service, or the bill-to-income (BTI) ratio (BTI Ratio).

99. To determine if bills and rates are affordable for PAWC's customers, based on this record, it is just and reasonable to set the BTI Ratio standard at not to exceed 2%.

100. The parties do not agree on the affordability analysis that is used to determine those customers or customer groups who have a BTI Ratio exceeding the affordable 2% standard.

101. The Company's affordability analysis is flawed and is not just and reasonable and does not support the conclusion that PAWC's existing or proposed bills will be affordable for certain groups of customers and just and reasonable.

102. The OCA's recommended adjustments to the affordability analysis at the enterprise and community levels are just and reasonable and will support a conclusion of bill affordability for certain groups of customers.

103. The purpose of a well-designed bill discount program (BDP) is to turn unaffordable bills into affordable bills for those low-income customers whose BTI Ratio exceeds the 2% burden level by bringing a low-income customer's water burden closer to or below the 2% affordability level.

104. The Commission has broad discretion to authorize and modify BDPs in setting just and reasonable rates. 66 Pa.C.S. § 1301; *Popowsky 1996*, 683 A.2d at 961.

105. The Commission has discretion to determine reasonable classification of service of rates as may be justified by a variety of considerations. *Zucker*, 402 A.2d at 1382.

106. Additionally, the Commission has authority and discretion to approve "other ratemaking mechanisms" that enhance the availability of utility infrastructure and consistent with the efficient consumption of utility service. 66 Pa. C.S. § 1330(a)(2); 1330(b)(1)(iv).

107. The substantial evidence of record supports two changes to PAWC's existing bill discount program (BDP) to generate reasonably affordable Bill-to-Income Ratios for all four

Federal Poverty Level (FPL) tiers: (1) PAWC's proposal to add a fourth tier of eligibility for customers whose household incomes are between 151% and 200% of FPL and (2) the OCA's and CAUSE-PA's proposed, higher percentage discounts for each tier.

108. The substantial record evidence supports adjusting PAWC's Hardship Grant program to improve affordability of rates: (1) increasing the maximum income eligibility for PAWC's hardship grants to 250% of the FPL; and (2) amend the rules of the program to allow for multiple distributions (rather than a single distribution) to a customer in a year up to the existing maximum of $500 per year.

<u>Customer Service</u>

109. PAWC has not met its burden of proving that the rates, rules and regulations in its existing and proposed tariffs are just and reasonable.

110. PAWC has not met its burden of proving that its proposed tariff change address water customer shut-offs for nonpayment of non-company wastewater provider charges are just and reasonable.

111. The OCA's proposed tariff changes regarding the same are just and reasonable.

112. The Commission has broad authority to consider a utility's customer service and quality of service and is required to evaluate the "efficiency, effectiveness and adequacy of service" in reviewing existing and proposed rates. 66 Pa. C.S. §§ 523(a), 1501.

113. The Commission has authority to prescribe just and reasonable standards and practices to be furnished by a utility and to require changes and improvements, as necessary to make such service and facilities adequate, efficient, safe and reasonable. 66 Pa. C.S. §§ 1501, 1504, 1505.

114. PAWC has failed to show that, currently and as proposed, its assistance to low-income customers and it customer service are reasonable, efficient, and adequate.

115. PAWC's call center performance is inadequate and has been inadequate for some time based on: (1) high call-answer times (percentage of calls answered within 60 seconds and within 30 seconds are inadequate); (2) high call abandonment rate; and (3) high complaint rates.

116. To ensure adequate and reasonable service, PAWC shall be required to adopt the standard applicable to Pennsylvania electric and gas utilities: answering 80% of customer calls within 30 seconds as reflected in the annual BCS Reports. PAWC shall be required to manage its call center performance in meeting this standard.

117. The OCA's other recommendations to improve call center performance are supported by substantial evidence and shall be adopted to ensure adequate and reasonable service.

118. PPAWC is engaging in deceptive and discriminatory billing and marketing practices for non-utility "protection services" of customer-owned service lines and in-home plumbing provided by PAWC's ex-affiliate, AWR, to the detriment of consumer interests. This

relationship is enabled by (1) a written billing and marketing agreement between PAWC and AWR; and (2) a licensing agreement between AWK and its ex-subsidiary, AWR, both of which were entered into at or around the time AWK sold off AWR on or around December 9, 2021. This is a serious customer protection issue, and the OCA alleges that it is inadequate and unreasonable utility service under Section 1501.

119. Under PAWC's tariff, main extensions may be provided to customers without a CIAC where there is a substantial public need, and the public health and safety may be compromised without access to a public water supply. Pennsylvania-American Water Company Water Tariff, Supplement No. 2 to Tariff Water Pa. PUC No. 5, First Revised Tariff Page No. 89 (effective Jan. 1, 2018).

120. To ensure adequate and reasonable service, PAWC shall establish a notification process for customers where PAWC systems regularly exceed 100 pounds per square inch that will inform customers they may need a pressure reducing valve and encourage them to contact a licensed plumber regarding installation, guidance, and maintenance.

Customer Notices Regarding Rate Changes

121. An increase in base rates involves a substantial property right, entitling ratepayers to notice and procedural due process. *McCloskey v. Pa. PUC, 195 A.3d 1055, 1068 (Pa. Cmwlth. 2018) (McCloskey 2018)* (citing *Barasch 1988* at 1305-06; U.S. Const. amend. XIV, § 1).

122. The Company has not met its burden of showing that its existing customer notices provide adequate and reasonable notice about bill impact of the proposed rate increase at different usage levels, at both the time of filing and closely following the Commission's final order approving new rates.

OCA Proposed Ordering Paragraphs

It is hereby ORDERED THAT:

1. Pennsylvania-American Water Co. shall not place into effect the rates, rules and regulations contained in Supplement Nos. 45 (water) or 47 (wastewater), which have been found to be unjust, unreasonable and, therefore, unlawful.

2. Pennsylvania-American Water Co. is authorized to file tariffs, tariff supplement, or tariff revisions containing rates designed to produce no more than an annual base rate increase of $17,787,250 for water operations and $27,649,831 for wastewater operations.

3. Pennsylvania-American Water Co. shall file detailed calculations with its tariff filing, which shall demonstrate to this Commission's satisfaction that the filed rates comply with the proof of revenue, in the form and manner customarily filed in support of compliance tariffs.

4. The request of Pennsylvania-American Water Co. to track and defer Pension and Other Post Employment Benefit expenses is denied.

5. The request of Pennsylvania-American Water Co. to track and defer Production Cost expenses is denied.

6. In future base rate filings, Pennsylvania-American Water Co. shall include Rider Demand Industrial Sales (DIS) and Rider Demand Resale Sales (DRS) customers as separate customer classes.

7. In future base rate filings, Pennsylvania-American Water Co. shall provide a separate Class Cost of Service (CCOS) study for any pending acquisitions for which it provided a CCOS study in the current case. OCA St. 4 at 21-22; *see also* I&E St. 3 at 73-75.

8. Going forward, for systems acquired under Section 1329, Pennsylvania-American Water Co. shall prepare separate COSS studies in the first base rate case that includes those systems, unless the Commission determines in the Section 1329 proceeding that a separate CCOS study should not be required.

9. Going forward, after the initial base rate case in which the Commission allows a Section 1329 system to be included for ratemaking, Pennsylvania-American Water Co. shall continue to provide separate CCOS studies for the Section 1329 systems individually or (for non-CSS systems only) as a group.

10. Pennsylvania-American Water Co. shall allocate the authorized increase in operating revenues to each operating division, customer class and rate schedule within each class in the manner set forth in this Order.

11. Pennsylvania-American Water Co. shall assign the revenue requirement reallocated to water operations under 66 Pa. C.S. § 1311(c) based on the cost of service indicated by the Office of Consumer Advocate's water CCOS study. This includes:

a. Pennsylvania-American Water Co. shall allocate Arrearage Management Program costs and the administrative costs for the H2O Grant and Discount programs based on the allocation of uncollectibles.

b. Pennsylvania-American Water Co. shall directly allocate/credit the amortization of the regulatory liability for Arrearage Management Program (AMP) costs anticipated in the last rate case, but never incurred, to the Residential class. OCA St. 5R at 5.

12. Pennsylvania-American Water Co. shall impute revenues for those rate zones where the effective date for new rates is delayed.

13. The request of Pennsylvania-American Water Co. to implement the winter averaging proposal is denied.

14. The request of Pennsylvania-American Water Co. to implement the proposed Revenue Decoupling Mechanism is denied.

15. The request of Pennsylvania-American Water Co. to implement the proposed Environmental Compliance Investment Charge is denied.

16. Pennsylvania-American Water Co. shall implement its proposed Bill Discount (BDP) expansion, with the modified discounts recommended by the Office of Consumer Advocate (OCA) and Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania.

17. Pennsylvania-American Water Co. shall increase income eligibility for PAWC's hardship grants to 250% of the Federal Poverty Level and allow for multiple distributions (rather than a single distribution) to a customer in a year up to the existing maximum of $500 per year.

18. Pennsylvania-American Water Co. shall develop and submit to Bureau of Consumer Services, no later than six months after a final order is entered in this proceeding, a plan through which the Company will use the U.S. Department of Energy's Weatherization Assistance Program and the PUC-regulated utilities' Low-Income Usage Reduction Program agencies as partners to develop and deliver water conservation investments to low-income customers.

19. Pennsylvania-American Water Co. shall take steps to improve outreach, intake and enrollment in its BDP and AMP programs; implement targeted surveys for payment troubled customers and related reporting; and develop a comprehensive written customer assistance plan, consistent with the OCA's recommendations.

20. Pennsylvania-American Water Co. shall take actions to improve call center performance, including: adoption of specific performance standards; having conducted a root cause analysis; providing managerial oversight; and reforming its Pennsylvania-specific "test" and training for customer representatives, consistent with the OCA's recommendations.

21. Pennsylvania-American Water Co. shall file a new or amended affiliated interest agreement (AIA), consistent with the 2003 Management Audit report and the OCA's recommendations.

22. Pennsylvania-American Water Co. shall revise its water tariff, consistent with the OCA's recommendation regarding proposed Tariff Rule 12.8 (Termination by Company for Non-Payment of Wastewater Service to a Non-Company Wastewater Provider).

23. Pennsylvania-American Water Co. shall suspend new customer enrollments in the American Water Resources "protection services" until the Commission concludes its investigation of this program. The Commission directs its Bureau of Investigation and Enforcement to initiate a complaint and investigation, consistent with the OCA's recommendation.

24. Pennsylvania-American Water Co. shall seek grant funding, lower-cost funding, or contributions from other sources to help offset the costs of the Jefferson Township Municipal Authority (JTMA) main extension project, whether or not the extension is funded under Rule 27.1(F).

25. Pennsylvania-American Water Co. shall meet regularly with the OCA to provide updates on the JTMA main extension project, consistent with the OCA's recommendations.

26. Pennsylvania-American Water Co. shall establish a notification process, for customers who the Company knows to have normal operating pressures above 100 pounds per square inch (psi), consistent with the timing and content recommended by the Office of Consumer Advocate.

27. Pennsylvania-American Water Co. shall provide customers notice of bill impacts at multiple usage levels for proposed rate increases under 66 Pa. C.S. § 1308(d), at both the time of filing and closely following the Commission's final order approving new rates.

28. Pennsylvania-American Water Co. shall comply with all directives, conclusions and recommendations contained in this Commission's Opinion and Order that are not the subject of individual ordering paragraphs as fully as if they were the subject of specific ordering paragraphs.

29. The Complaints filed by the various parties to this proceeding at Docket Numbers R-2023-3043189 and R-2023-3043190 are granted in part and denied in part, to the extent consistent with this Commission's Opinion and Order.

DATE: ________________

____
Christopher P. Pell
Deputy Chief Administrative Law Judge

John M. Coogan
Administrative Law Judge

BASA and Brentwood – remove the revenue requirement in entirety.

Water

Rate Base Adjustments - Water Operations	PAWC Filing	OCA Recommended Allowance	OCA Adjustment
Acquisition - Audubon Water	$ 7,406,830	$ -	$ (7,406,830)
Acquisition - Farmington Township Water	$ 2,773,125	$ -	$ (2,773,125)
Cash Working Capital [a]	$ 14,811,340	$ 13,065,971	$ (1,745,369)
Accumulated Depreciation - Reclassification of Lead Service Line Inventory [b]	$ -	$ (1,258,893)	$ (1,258,893)
Total Rate Base Adjustments - Water Operations			$ (13,184,217)

Notes:
[a]: The Cash Working Capital amounts reflect the combined expense and interest and dividend components

[b]: PAWC reclassified Lead Service Line Inventory from Account 348 to Account 340.3, which increased Accumulated Depreciation by $1,258,893.
As noted in Ralph Smith's Surrebuttal Testimony, OCA agrees with this adjustment.

Wastewater

Rate Base Adjustments - Wastewater Operations	PAWC Filing	OCA Recommended Allowance	OCA Adjustment
Acquisition - Farmington Township Wastewater	$ 2,878,461	$ -	$ (2,878,461)
Acquisition - Sadsbury Township Municipal Authority Wastewater	$ 2,018,697	$ -	$ (2,018,697)
Cash Working Capital [a]	$ 1,984,260	$ 1,735,245	$ (249,015)
Total Rate Base Adjustments - Wastewater Operations			$ (5,146,173)

[a]: The Cash Working Capital amounts reflect the combined expense and interest and dividend components

BASA and Brentwood – remove the revenue requirement in entirety.

Water Summary Table #1

Operating Expense Adjustments - Water Operations	PAWC Filing	OCA Recommended Allowance	OCA Adjustment
Acquisition Revenues and Expenses - Audubon Water Company	$ 615,475	$ -	$ (615,475)
Acquisition O&M Expense - Farmington Township - Water	$ 92,437	$ -	$ (92,437)
Depreciation Expense - Audubon Water	$ 269,599	$ -	$ (269,599)
Depreciation Expense - Farmington Township Water	$ 101,751	$ -	$ (101,751)
Uncollectibles Expense	$ 9,691,618	$ 9,591,564	$ (100,054)
Vacancies - Salary and Wages Expense (includes related Payroll Tax Expense)*	$ 64,054,886	$ 62,929,564	$ (1,125,323)
Annualized Performance Plan Expense (includes related Payroll Tax Expense)*	$ 5,240,482	$ 5,148,416	$ (92,066)
Group Insurance Expense*	$ 11,419,747	$ 11,219,124	$ (200,623)
401K, Defined Contribution Plan and Employee Stock Purchase Plan*	$ 4,115,138	$ 4,042,321	$ (72,817)
Interest Synchronization [a]	$ 46,982,378	$ 43,982,594	$ (2,999,784)
PAWC External Board Members Expense*	$ 123,250	$ -	$ (123,250)
Insurance Other Than Group	$ 14,893,805	$ 14,645,901	$ (247,905)
Depreciation Expense - Water Utility	$ 216,716,701	$ 201,238,002	$ (15,478,699)
Stock-Based Compensation Expense - AWW Executives	$ 1,642,726	$ -	$ (1,642,726)
AWW Executives - Dividend Equivalents	$ 29,928	$ -	$ (29,928)
American Water Works Service Company - Supplemental Executive Retirement Plan Expense [c]	$ 29,906	$ -	$ (29,906)
Call Center Expense	$ 3,224,799	$ 142,544	$ (3,082,255)
Arrearage Management Plan Credits - Uncollectibles Expense	$ 2,031,317	$ 183,485	$ (1,847,832)
Depreciation Expense - Reclassification of Lead Service Line Inventory [b]	$ -	$ 1,660,367	$ 1,660,367
Total Operating Expense Adjustments - Water Operations			$ (26,492,063)

Notes:

[a]: The Interest Synchronization adjustment reflects a decrease to federal and state income tax expense.

[b]: PAWC reclassified Lead Service Line Inventory from Account 348 to Account 340.3, which increased Depreciation Expense by $1,660,367. As noted in Ralph Smith's Surrebuttal Testimony, OCA agrees with this adjustment.

[c]: OCA adopted the correct amount AWWSC SERP expense that is provided in the response to OCA 35-008, which OCA agrees with as noted in Ralph Smith's Surrebuttal Testimony, thus we reflected the $29,906 rather than the $145,742 for Water Operations as shown on Exh. LA-2, Schedule C-20.

*PAWC has adopted the OCA adjustments as described in PAWC St. 5-R, Company witness O'Malley, at pages 3 and 7. See also OCA St. 2SR at 2.

Payroll Costs Summary Table #2

Payroll Costs Description	Adjustment Schedule	OCA Adjustment	Adjustment Amounts in O'Malley Rebuttal
Vacancies - Salary and Wages Expense (includes related Payroll Tax Expense)	C-10	$ (1,125,323)	$ (1,045,353)
Payroll Tax Expense for Salary and Wages	C-10	$ -	$ (79,970)
Annualized Performance Plan Expense (includes related Payroll Tax Expense)	C-11	$ (92,066)	$ (85,523)
Payroll Tax Expense for Annualized Performance Plan Expense	C-11	$ -	$ (6,543)
Group Insurance Expense	C-12	$ (200,623)	$ (200,623)
401K, Defined Contribution Plan and Employee Stock Purchase Plan	C-13	$ (72,817)	$ (72,817)
Total Payroll Related Adjustments		$ (1,490,830)	$ (1,490,829)

Wastewater Summary Table #3

Operating Expense Adjustments - Wastewater Operations	PAWC Filing	OCA Recommended Allowance	OCA Adjustment
Acquisition O&M Expense - Farmington Township Wastewater	$ 53,051	$ -	$ (53,051)
Acquisition O&M Expense - Sadsbury Township Municipal Authority	$ 307,354	$ -	$ (307,354)
Depreciation Expense - Farmington Township Wastewater	$ 137,987	$ -	$ (137,987)
Depreciation Expense - Sadsbury Township Municipal Authority	$ 51,847	$ -	$ (51,847)
Uncollectibles Expense	$ 2,208,277	$ 2,185,479	$ (22,798)
Interest Synchronization [a]	$ 16,492,980	$ 15,765,532	$ (727,448)
Insurance Other Than Group	$ 3,532,497	$ 3,474,090	$ (58,407)
Stock-Based Compensation Expense - AWW Executives	$ 79,209	$ -	$ (79,209)
AWW Executives - Dividend Equivalents	$ 1,443	$ -	$ (1,443)
American Water Works Service Company - Supplemental Executive Retirement Plan Expense [b]	$ 1,442	$ -	$ (1,442)
Arrearage Management Plan Credits - Uncollectibles Expense	$ 345,883	$ 31,243	$ (314,640)
Total Operating Expense Adjustments - Wastewater Operations			$ (1,755,625)

[a]: The Interest Synchronization adjustment reflects a decrease to federal and state income tax expense.

[b]: OCA adopted the correct amount AWWSC SERP expense that is provided in the response to OCA 35-008, which the OCA agrees with as noted in Ralph Smith's Surrebuttal Testimony, thus we reflected the $1,442 rather than the $7,027 for Wastewater Operations as shown on Exh. LA-2, Schedule C-20.

Appendix I	
Page 1	Schedule JDM-2SR (OCA Statement 4SR) Summary of PAWC rebuttal CCOS with OCA modifications
Page 2	OCA Table 1SR (OCA Statement 4SR, page 12) Comparison of PAWC's rebuttal CCOS study and OCA Schedule JDM-2SR
Page 3	Table 4-SR (OCA Statement 4SR, page 16) OCA updated CCOS study, at PAWC increase, with OCA Act 11 shift
Page 4	Table 5 (OCA Statement 4, page 39) OCA Wastewater revenue allocation, at OCA revenue increase, with OCA Act 11 shift

PENNSYLVANIA AMERICAN WATER COMPANY - WATER OPERATIONS

COMPARISON OF PRO FORMA COST OF SERVICE WITH REVENUES UNDER PRESENT AND PROPOSED RATES
FOR THE TWELVE MONTHS ENDED JUNE 30, 2025

	Pro Forma Cost of Service, as of June 30, 2025				Pro Forma Revenues Under Present Rates		Pro Forma Revenues Under Proposed Rates		Proposed Increase	
Customer Classification	Cost of Service	Allocation of Other COS*	Total Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Increase
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Residential	$ 606,110,184	$ 46,505,573	$ 652,615,757	65.0%	$ 528,290,043	65.5%	$ 657,085,231	65.4%	$ 128,795,188	24.4%
Commercial	230,359,742	18,320,153	248,679,895	24.8%	202,779,636	25.1%	254,604,000	25.3%	51,824,364	25.6%
Industrial	49,618,335	3,939,176	53,557,511	5.3%	37,580,738	4.7%	48,143,784	4.8%	10,563,046	28.1%
Public (Municipal)	26,459,930	1,635,240	28,095,170	2.8%	22,559,539	2.8%	26,209,929	2.6%	3,650,390	16.2%
Other Water Utilities - Group A	12,399		12,399	0.0%	51,822	0.0%	53,666	0.0%	1,844	3.6%
Other Water Utilities - Group B	450,547		450,547	0.0%	202,436	0.0%	277,021	0.0%	74,585	36.8%
Private Fire Protection	7,115,758	341,990	7,457,748	0.7%	5,301,032	0.7%	6,304,285	0.6%	1,003,253	18.9%
Public Fire Protection	13,666,426	-	13,666,426	1.4%	9,519,368	1.2%	11,847,068	1.2%	2,327,700	24.5%
Total Sales of Water	$ 933,793,321	$ 70,742,132	$ 1,004,535,453	100.0%	$ 806,284,614	100.0%	$ 1,004,524,984	100.0%	$ 198,240,370	24.6%
Other Water Revenues	$ 10,675,369	345,262	11,020,631		10,034,383		11,031,091		996,708	9.9%
Contract Sales - Industrial	4,482,099		4,482,099		4,482,099		4,482,099		-	0.0%
Contract Sales - Resale	3,316,086		3,316,086		3,316,086		3,316,086		0	0.0%
Total	$ 952,266,876	$ 71,087,394	$ 1,023,354,270		$ 824,117,182		$ 1,023,354,261		$ 199,237,079	24.2%

* Includes unrecovered Wastewater Cost of Service.

Table 1SR. Water Cost of Service Study Comparison			
Classification	Company	OCA	Difference
Residential	$612,997,598	$606,110,184	($6,887,414)
Commercial	233,858,828	230,359,742	(3,499,086)
Industrial	44,198,427	49,618,335	5,419,908
Public (Municipal)	24,425,618	26,459,930	2,034,312
Other Water Utilities - Group A	11,845	12,399	554
Other Water Utilities - Group B	628,455	450,547	(177,908)
Private Fire Protection	5,808,618	7,115,758	1,307,140
Public Fire Protection	11,863,933	13,666,426	1,802,493
Total:	**$933,793,321**	**$933,793,321**	**$0**

Table 4-SR. Summary of OCA Cost of Service Study and Present and Proposed Rates for Water Service							
Classification	Direct Cost of Service	Wastewater to Water Allocation	Total Cost of Service	Present Rates	Proposed Rates	Increase	Percent
Residential	$606,110,184	$12,306,954	$618,417,138	$528,290,043	$619,195,214	$90,905,171	17.2%
Commercial	230,359,742	4,677,412	235,037,154	202,779,636	235,332,871	32,553,235	16.1%
Industrial	49,618,335	1,007,491	50,625,826	37,580,738	50,625,826	13,045,088	34.7%
Public (Municipal)	26,459,930	543,497	26,997,194	22,559,539	27,031,161	4,471,622	19.8%
Other Water Utilities - Group A	12,399	252	12,651	51,822	53,666	1,844	3.6%
Other Water Utilities - Group B	450,547	9,148	459,696	202,436	272,706	70,270	34.7%
Private Fire Protection	7,115,758	144,484	7,260,242	5,301,032	7,141,135	1,840,103	34.7%
Public Fire Protection	13,666,426	0	13,666,426	9,519,368	12,823,747	3,304,379	34.7%
Other	18,473,554	216,761	18,690,315	17,832,568	18,690,315	857,747	4.8%
Total	**$952,266,876**	**$18,899,766**	**$971,166,642**	**$824,117,182**	**$971,166,642**	**$147,049,460**	**17.8%**

Table 5. OCA Wastewater Revenue Allocation

Service Type	OCA-Pre-Act 11				OCA Revenue Distribution			
	Present Rates	**Increase**	**Proposed Rates**	**Percent**	**Act 11 Reduction**	**Proposed Rates**	**Total Increase**	**Percent**
Sanitary Sewer Service								
Zone 1 - Most WW Areas	$54,207,581	$11,370,577	$65,578,158	21.0%	($8,527,932)	$57,050,225	$2,842,644	5.2%
Zone 2 - New Cumberland	3,421,549	810,327	4,231,876	23.7%	(607,745)	3,624,131	202,582	5.9%
Zone 5 - Valley WW	4,200,644	868,433	5,069,077	20.7%	(651,325)	4,417,752	217,108	5.2%
Zone 7 - York WW	27,048,738	6,656,077	33,704,815	24.6%	(4,992,058)	28,712,757	1,664,019	6.2%
Zone 8 - Foster Township	1,198,710	251,287	1,449,997	21.0%	(188,465)	1,261,532	62,822	5.2%
Zone 9 - Royersford WW	1,366,765	354,180	1,720,945	25.9%	(265,635)	1,455,310	88,545	6.5%
Zone XX - Farmington WW	322,926	-		0.0%	-	-	-	0.0%
Zone XX - Sadsbury WW	471,228	-		0.0%	-	-	-	0.0%
Subtotal:	*$92,238,141*	*$20,310,880*	*$112,549,021*	*22.0%*	*($15,233,160)*	*$96,521,707*	*$5,077,720*	*5.6%*
IPP Surcharge	$1,835,040	$0	$1,835,040	0.0%	0	$1,835,040	$0	0.0%
Oher Revenues	1,397,685	8,332	1,406,017	0.6%	0	$1,406,017	8,332	0.6%
Total Sanitary Sewer Service:	**$95,470,866**	**$20,319,212**	**$115,790,078**	**21.3%**	**($15,233,160)**	**$99,762,764**	**$5,086,052**	**5.4%**
Combined Sewer Service								
Zone 3 - Scranton WW	$53,064,842	$4,988,245	$58,053,087	9.4%	($2,494,123)	$55,558,965	$2,494,123	4.7%
Zone 4 - Kane WW	2,752,606	258,644	3,011,250	9.4%	(129,322)	2,881,928	129,322	4.7%
Zone 6 - McKeesport WW	22,145,403	2,086,323	24,231,726	9.4%	(1,043,161)	23,188,564	1,043,161	4.7%
Subtotal:	*$77,962,851*	*$7,333,212*	*$85,296,063*	*9.4%*	*($3,666,606)*	*$81,629,457*	*$3,666,606*	*4.7%*
IPP Surcharge	$226,040	$0	$226,040	0.0%	$0	$226,040	$0	0.0%
Other Revenues	447,331	(4)	447,326	0.0%	0	$447,326	(4)	0.0%
Total Combined Sewer Service:	**$78,636,222**	**$7,333,208**	**$85,969,429**	**9.3%**	**($3,666,606)**	**$82,302,823**	**$3,666,602**	**4.7%**
Other Sanitary Sewer Acquisitions								
Brentwood	$0	$0	$0	0.0%	$0	$0	$0	0.0%
BASA	0	0	0	0.0%	0	0	0	0.0%
Subtotal:	*$0*	*$0*	*$0*	*0.0%*	*$0*	*$0*	*$0*	*0.0%*
TOTAL WASTEWATER:	**$174,107,088**	**$27,652,420**	**$201,759,507**	**15.9%**	**($18,899,766)**	**$182,065,587**	**$8,752,654**	**5.1%**

Proposed Revenues Decoupling Mechanism (RDM)

<u>OCA St. 4, Schedule JDM-6</u>

Pennsylvania-American Water Company
Response to Distribution Rates – Statement of Policy
Proposed Revenues Stabilization Mechanism

52 Pa. Code § 69.3302. Distribution rate considerations.

(a) In determining just and reasonable alternative distribution ratemaking mechanisms and rate designs that promote the purpose and scope of this statement of policy and the objectives of 66 Pa. C.S. § 1330 (relating to alternative ratemaking for utilities), the Commission may consider, among other relevant factors, the following:

(1) How the ratemaking mechanism and rate design align revenues with cost causation principles as to both fixed and variable costs.

<u>PAWC</u>

The RDM better aligns actual revenue collection with authorized revenues for all customer classes. The RDM specifically treats fixed and variable costs separately by customer class using rate design concepts associated with Straight-Fixed Variable ("SFV") pricing. The RDM is calculated and administered separately for residential and non-residential customer classes and treats fixed cost and variable cost separately so that fixed cost recovery is aligned with approved fixed costs (per customer) and variable cost recovery is aligned with approved variable costs (per hundred gallons of water). The recovery mechanism is on a volumetric basis.

<u>OCA</u>

The RDM provides for the recovery of fixed costs on a volumetric basis and, therefore, does not align revenues with cost causation principles as to both fixed and variable costs.

(2) How the ratemaking mechanism and rate design impact the fixed utility's capacity utilization.

<u>PAWC</u>

The Company's proposed RDM is not expected to impact the fixed utility's capacity utilization.

OCA

The Company's proposed RDM is unlikely to impact the fixed utility's capacity utilization.

(3) Whether the ratemaking mechanism and rate design reflect the level of demand associated with the customer's anticipated consumption levels.

PAWC

The Company's proposed RDM directly reflects changing consumption levels in variable cost recovery. As consumption levels increase, the Company's variable cost recovery increases, but only by the approved level of production cost per unit delivered or billed. The opposite is true whereas consumption levels decrease, the Company's variable cost recovery decreases, but only by the approved level of production cost per unit delivered or billed.

OCA

The adjustment mechanism creates the anomaly where customers see rate increases when they reduce consumption and rate decreases when they increase consumption.

(4) How the ratemaking mechanism and rate design limit or eliminate interclass and intraclass cost shifting.

PAWC

The proposed RDM would apply to both water and wastewater service with separate tariffs and separate recovery/credit mechanisms for residential nonresidential customers. The proposed RDM will not affect interclass or intraclass cost shifting between residential and non-residential customer classes.

OCA

It does not appear that the proposed RDM will cause interclass shifting between residential and non-residential customers. With respect to intraclass cost shifting, as explained in the Direct Testimony of OCA witness Colton (OCA Statement 5), the RDM could shift revenue within the residential class from customers who are financially able to invest in water conservation measures to low-income customers who are not financially able to make those investments.

(5) How the ratemaking mechanism and rate design limit or eliminate disincentives for the promotion of efficiency programs.

PAWC

The proposed RDM reduces the throughput incentive, which gives the Company an incentive to collect more revenue when customers increase consumption. By connecting variable cost recovery directly to approved levels of production cost but not to fixed cost, the RDM removes this incentive from the Company and therefore eliminates any disincentives for the promotion of water efficiency efforts.

<u>OCA</u>

PAWC has not proposed any new efficiency or conservation programs for customers in this proceeding. Furthermore, the Company has not demonstrated that the lack of an RDM has been a major obstacle to the promotion of water efficiency. The Company has been able to implement methods to improve water efficiency without an RDM. Moreover, there has been a long-term trend of per-customer declining water consumption (i.e. improved water efficiency use) without an RDM.

(6) How the ratemaking mechanism and rate design impact customer incentives to employ efficiency measures and distributed energy resources.

<u>PAWC</u>

See response to item (5). The proposed mechanism encourages water efficiency by reducing the throughput incentive. In addition, if customers employ efficiency measures, those measures will far outweigh any surcharges that may result from the proposed RDM.

<u>OCA</u>

The proposed RDM could provide a disincentive to ratepayers to undertake water conservation efforts because they would be required to pay for water they did not use. Revenue savings to individual customers that would ordinarily be achieved through usage reductions would be offset by surcharges to all customers under the RDM. Hence, under the RDM, if customers improve their water efficiency and reduced their consumption, customers will be forced to share their bill savings with the utility, and in many cases, return all, or nearly all, of those savings to the utility. Moreover, with the high and apparently never-ending rate increases that PAWC has implemented and will apparently continue to seek, customers are already incented to conserve water without a new RDM surcharge.

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

<u>PAWC</u>

The proposed RDM does not have any specific impacts on low-income customers that do not apply to residential customers generally. Because the recovery mechanism is volumetric in nature, lower-use low-income customers will not be adversely impacted.

OCA

In his Direct Testimony, OCA witness Colton addresses how the RDM could affirmatively harm low-income customers that do not have the financial means to pursue investments in water conservation measures.

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

PAWC

The proposed RDM will, by definition, improve rate stability. In years where revenues are relatively low relative to SFV pricing and fixed costs are under recovered, rates would increase slightly in the next year to bring actual revenues back up. The opposite would be true in years where usage resulted in revenues that were higher than that implied by SFV pricing, which represents a scenario where fixed costs are over-recovered. In higher revenue years, the RDM will reduce rates which would offset higher revenues from the year before and "smooth out" revenues over the longer term.

OCA

Under the current regulatory standard in Pennsylvania, base rate cost under and over recoveries are currently not tracked and are not eligible for recovery in future base rate proceedings. The proposed RDM would add another surcharge to customers' bills and would not reduce the frequency of PAWC base rate or DSIC rate filings. Thus, it does not appear that a new RDM surcharge would improve rate stability. In contrast, under traditional cost-of-service ratemaking, if a utility experiences sales reductions and under-recovery, it cannot simply achieve the same result as an RDM true-up by filing another base rate case with adjusted sales forecasts. When a utility files a general rate increase, all relevant information is reviewed to determine just and reasonable rates, not just sales forecasts. Traditional ratemaking produces rate stability.

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

PAWC

Weather will still have an impact on revenues but only to the extent that variable costs are impacted. Under the proposed RDM, volatility of utility revenue and customer bills would be reduced over the long term. Increases in fixed cost recovery revenue due to abnormal weather variations (e.g., drought conditions) would be returned to customers in the following year, and reductions in fixed cost recovery due to abnormal weather variations (e.g., excessive rainfall) would be collected from customers in the following year.

OCA

The RDM adjustment or true-up mechanism creates the anomaly where customers see rate increases when they reduce consumption due to weather variations and rate decreases when they increase consumption due to weather variations.

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

PAWC

To the extent that future rate cases are driven by lower-than-expected usage, the RDM likely would result in fewer rate cases, or at least rate cases seeking lower rate increases. However, the RDM does not affect future revenue requirements and does not recover fixed costs that are incurred after a rate case that are over and above those approved by the Commission. Therefore, if future rate cases are driven by future investment needs and associated cost recovery, the RDM would not reduce the need for such cases.

OCA

The RDM will have no impact on the magnitude of base rate increases requested by the Company in the future. The RDM does not affect future revenue requirements and does not recover fixed costs that are incurred after a rate case that are over and above those approved by the Commission. Therefore, if future rate cases are driven by future investment needs and associated cost recovery, the RDM would not reduce the need for such cases.

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

PAWC

The Company's proposed RDM does not interact with other revenue sources.

OCA

The proposed RDM will interact with the Company's DSIC because the DSIC is a percentage applied to the total bill and the RDM will impact a customer's total bill.

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

PAWC

The RDM proposal includes consumer protections through the formal reconciliation process which includes audits and external stakeholder review. Tariff administration of the mechanism will contain consumer protections to make sure that the appropriate levels of revenue are being collected. Customers still can control their bill through controlling usage because the standard rate design still applies.

OCA

The proposed RDM does not include appropriate consumer protections and should be rejected for the reasons discussed in my testimony and the testimony of OCA witness Colton.

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

PAWC

The Company does not anticipate that there would be any issues related to customer confusion over the proposed RDM. Revenue reconciliation riders are not new to the utility industry. There is no reason to think that customers would be more confused about an RDM surcharge or credit on their bill than they would be for any other rate design element that makes up a part of the customer's bill.

OCA

PAWC has not provided any evidence that the proposed RDM will be understandable to customers. When combined with the rate changes that occur under PAWC's DSIC and potentially the proposed ECIC, significant customer confusion is likely.

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

PAWC

The proposed RDM will support improvements in utility reliability by permitting the Company to more reliably recover fixed costs that can't be avoided by customers using less water, and will therefore enhance the Company's ability to prudently invest in and manage the business.

OCA

The proposed RDM does not provide a direct incentive to increase the safety and reliability of the PAWC system.

Proposed Revenues Compliance Investment Charge (ECIC)
<u>OCA St. 4, Schedule JDM-7</u>

Pennsylvania-American Water Company
Response to Distribution Rates – Statement of Policy
Proposed Revenues Compliance Investment Charge (ECIC)

52 Pa. Code § 69.3302. Distribution rate considerations.

(a) In determining just and reasonable alternative distribution ratemaking mechanisms and rate designs that promote the purpose and scope of this statement of policy and the objectives of 66 Pa. C.S. § 1330 (relating to alternative ratemaking for utilities), the Commission may consider, among other relevant factors, the following:

(1) How the ratemaking mechanism and rate design align revenues with cost causation principles as to both fixed and variable costs.

<u>PAWC</u>
The ECIC recovers the costs associated with eligible environmental compliance costs from all customer classes via a percentage applied to the total amount billed. The ECIC is thus applied consistent with PAWC's base rates.

<u>OCA</u>
The ECIC does not align revenues with cost causation principles as to both fixed and variable costs. The ECIC will be assessed as a percentage applied to each customer's total bill. Over 80% of the Company's water and wastewater revenues will be collected under volumetric rates under the Company's proposed rate structure in this case. However, 95% of the Company's costs associated with providing water and wastewater service are fixed.

(2) How the ratemaking mechanism and rate design impact the fixed utility's capacity utilization.

<u>PAWC</u>
This factor is not applicable to water and wastewater utilities.

<u>OCA</u>
In response to this same question concerning PAWC's proposed RDM, the Company responded that the RDM is unlikely to impact the fixed utility's capacity utilization. It is unlikely that the ECIC will impact PAWC's capacity utilization.

(3) Whether the ratemaking mechanism and rate design reflect the level of demand associated with the customer's anticipated consumption levels.

<u>PAWC</u>

See the response to item (1).

<u>OCA</u>
See the response to item (1).

(4) How the ratemaking mechanism and rate design limit or eliminate interclass and intraclass cost shifting.

<u>PAWC</u>
The proposed ECIC will be applied equally to all customer classes and will not affect interclass or intraclass cost shifting.

<u>OCA</u>
The costs PAWC is proposing to recover through the ECIC would ordinarily be assigned to each customer class based on the results of a cost of service study. In a cost of service study, costs are assigned to each customer class based on class responsibility for the incurrence of those costs. The ECIC will be assessed to each customer as a percentage applied to each customer's total bill, without consideration as to the extent that customer's class is responsible for the incurrence of those costs. Therefore, interclass cost shifting is likely to result.

(5) How the ratemaking mechanism and rate design limit or eliminate disincentives for the promotion of efficiency programs.

<u>PAWC</u>
The proposed ECIC will not impact efficiency programs or incentives.

<u>OCA</u>
The proposed ECIC is unlikely to impact efficiency programs or incentives.

(6) How the ratemaking mechanism and rate design impact customer incentives to employ efficiency measures and distributed energy resources.

<u>PAWC</u>
See response to item (5).

<u>OCA</u>
See response to item (5).

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

<u>PAWC</u>
The proposed ECIC does not have any specific impacts on low-income customers that do not apply to residential customers (or other customers) generally. Without the ECIC, the same costs for environmental projects would be borne by the same ratepayers effective after the next base rate case. The

ECIC will allow for rates to increase as certain environmental projects are undertaken, and thus those increases will be more gradual than if deferred between base rate cases.

OCA
In his Direct Testimony, OCA witness Colton addresses the adverse impact the ECIC would have on low-income customers, and concludes that the ECIC will harm low-income customers.

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

PAWC
The proposed ECIC, updated quarterly and reconciled annually, will provide gradual changes to customer rates and bills as opposed to more significant increases typically experienced in base rate cases.

OCA
Under the ECIC, the number of rate increases experienced by customers will increase significantly.

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

PAWC
The ECIC, like the Company's existing DSIC mechanism, will be reconciled annually whereby actual recoveries are compared to authorized/required recoveries, with any variances recovered from or credited to customers in subsequent ECIC charges. Specific to any weather variability in customer usage, this reconciliation ensures that no more or less than what the Company is required or authorized to recover is actually recovered in rates and charges to customers.

OCA
The ECIC is not designed to address weather impacts on utility revenue.

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

PAWC
The company's environmental compliance requirements are continuously evolving and is one of the drivers that increases the costs of water and wastewater service and the need for rate relief. As discussed in more detail in PAWC Statement Nos. 3 and 8, the need for and timing of measures to comply with new or changed government mandates under applicable environmental laws are outside of the Company's control The Company's proposed ECIC will

provide a reasonable mechanism for gradually adjusting the Company's rates between base rate cases to ensure full and timely rate recognition of PAWC's investments and related operating costs undertaken to comply with new environmental mandates in a prudent and efficient manner as they emerge. Permitting PAWC to recover ECIC-eligible capital costs and expenses through an automatic adjustment clause will reduce a major driver of the need for rate relief that would otherwise trigger a base rate case filing.

OCA
While the ECIC *may* reduce base rate case frequency, it is almost certainly going to lead to more frequent rate changes as the ECIC moves predominantly upward. The ECIC will provide for the recovery of certain Environmental Compliance investments made by the Company without consideration of any potential cost of service reductions that PAWC may experience. The proposed ECIC does not permit parties to investigate cost reductions that may have been experienced by the Company. Cost reductions are currently investigated and evaluated in base rate proceedings.

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

PAWC
The Company's proposed ECIC does not interact with other revenue sources. The proposed ECIC excludes assets that are currently eligible for recovery under the existing DSIC mechanism, and will function similar to the DSIC in design, applicability, and recovery. The proposed ECIC will be reset to zero at the implementation of new base rates in future proceedings.

OCA
The proposed ECIC will interact with the Company's DSIC because the DSIC is a percentage applied to the total bill and the ECIC will impact a customer's total bill.

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

PAWC
The proposed ECIC incorporates consumer protection by:

(1) Requiring that costs recoverable through the ECIC be consistent with the set of projects and activities set forth in an annual environmental compliance plan to be filed by the Company and approved by the

Commission; and

(2) Requiring the audit and reconciliation annually of the ECIC, to ensure that all costs included for recovery are eligible and appropriate, and that customers in total pay no more or less over the course of a year than the authorized level of costs associated with the Environmental Plan.

<u>OCA</u>
The proposed ECIC does not include appropriate consumer protections and should be rejected for the reasons discussed in my testimony and the testimony of OCA witness Colton.

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

<u>PAWC</u>
The Company does not anticipate that there would be any issues related to customer confusion over the proposed ECIC. Infrastructure mechanisms like the ECIC exist today and are not new to the utility industry. The ECIC is separate and distinct from other existing mechanisms. An explanatory bill insert will be included with the first billing, and customers will be notified of changes in the ECIC by including appropriate information of the first bill they receive following any change.

<u>OCA</u>
PAWC has not provided any evidence that the proposed ECIC will be understandable to customers. When combined with the rate changes that occur under PAWC's DSIC and potentially the proposed RDM, significant customer confusion is likely.

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

<u>PAWC</u>
The proposed ECIC will support improvements in the ability of PAWC to continue providing safe, adequate, and reliable water quantity and quality, while complying with applicable drinking water and environmental regulation. The ECIC will support investment in PAWC's water and wastewater system to address emerging contaminants in a cost-effective manner.

<u>OCA</u>
The proposed ECIC does not provide PAWC a direct incentive to increase the reliability of its systems.