



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

BUREAU OF
 INVESTIGATION
 &
 ENFORCEMENT

April 16, 2024

Via Electronic Filing

Secretary Rosemary Chiavetta
 Pennsylvania Public Utility Commission
 Commonwealth Keystone Building
 400 North Street
 Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v.
 Community Utilities of Pennsylvania Inc.
 Docket Nos. R-2023-3042804 (Water) and R-2023-3042805 (Wastewater)
I&E Pre-Served Testimony, Exhibits, and Verification Statements

Dear Secretary Chiavetta:

Enclosed for electronic filing please find the **NON-PROPRIETARY** versions of the Pre-Served Testimony, Exhibits, and Verification Statements of the Bureau of Investigation and Enforcement’s (I&E) witnesses in the above-captioned proceeding. The **PROPRIETARY** versions will be submitted to the Secretary Bureau’s file-share site. The following documents were admitted into the record by Administrative Law Judges Steven K. Haas’s and Alphonso Arnold III’s Order Granting Joint Stipulation and Admitting Evidence:

Zachari Walker:	I&E Statement No. 1 (PROPRIETARY)	I&E Exhibit No. 1 (PROPRIETARY)
D. C. Patel:	I&E Statement No. 2	I&E Exhibit No. 2
Esyan Sakaya:	I&E Statement No. 3 (W)	I&E Exhibit No. 3 (W)
Esyan Sakaya:	I&E Statement No. 3 (WW)	I&E Exhibit No. 3 (WW)

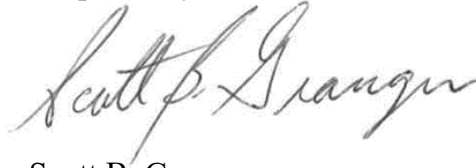
D. C. Patel **I&E Statement No. 2-R**

Zachari Walker:	I&E Statement No. 1-SR	I&E Exhibit No. 1-SR
D. C. Patel:	I&E Statement No. 2-SR	
Esyan Sakaya:	I&E Statement No. 3-SR (W)	I&E Exhibit No. 3-SR (W)
Esyan Sakaya:	I&E Statement No. 3-SR (WW)	I&E Exhibit No. 3-SR (WW)

Verification Statements for Zachari Walker, D. C. Patel, and Esyan Sakaya.

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

Respectfully,

A handwritten signature in cursive script that reads "Scott B. Granger".

Scott B. Granger
Prosecutor
Bureau of Investigation and Enforcement
PA Attorney ID No. 63641
(717) 425-7593
sgranger@pa.gov

SBG/ac
Enclosures

cc: Administrative Law Judge Steven K. Haas (*Cover Letter and Certificate of Service only*)
Administrative Law Judge Alphonso Arnold III (*Cover Letter and Certificate of Service only*)
Per Certificate of Service (*Cover Letter and Certificate of Service only*)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :
 :
 v. : Docket Nos. R-2023-3042804 (Water)
 : R-2023-3042805 (Wastewater)
 Community Utilities of Pennsylvania Inc. :

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Letter Regarding Pre-Served Testimony, Exhibits, and Verification Statements** dated April 16, 2024, in the manner and upon the persons listed below:

Served via Electronic Mail Only

ALJ Steven K. Haas
ALJ Alphonso Arnold III
Pennsylvania Public Utility Commission
Office of Administrative Law Judge
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120
sthaas@pa.gov
alphonarno@pa.gov

Sharon E. Webb, Esq.
Office of Small Business Advocate
555 Walnut Street
1st Floor, Forum Place
Harrisburg, PA 17101-1923
swebb@pa.gov

Whitney E. Snyder, Esq.
Thomas J. Sniscak, Esq.
Phillip D. Demanchick, Jr., Esq.
Hawke McKeon & Sniscak LLP
100 N. Tenth Street
Harrisburg, PA 17101
wesnyder@hmslegal.com
tjsniscak@hmslegal.com
pddemanchick@hmslegal.com
Counsel for CUPA

Harrison W. Breitman, Esq.
Erin L. Gannon, Esq.
Jacob D. Guthrie, Esq.
Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
OCACUPA2023@paoca.org

Oleg Chuchin
89 Webster Avenue, Unit A
Jersey City, NJ 07307
readypads@gmail.com

Christine Corbissero
221 Ravenhill Road
Tamiment, PA 18371
turkeyhunter333@gmail.com

Christ R. Nielsen
Community Utilities of Pennsylvania
513 Gandolf Road
Tamiment, PA 18371
cnielsen4u@yahoo.com

Scott Furey
212 Ravenhill Road
Tamiment, PA 18371
furiousvicky1@aol.com

John Hoopingarner
1110 Long Lake Road
Tamiment, PA 18371
jwhoop@ptd.net

Christina G. Boers
157 Oakenshield Drive
Tamiment, PA 18371
christina.boers82@gmail.com

Rose Cocklin
2104 Tamiment Lane
Tamiment, PA 18371
tintofrose@aol.com

George Lingg
417 Underhill Drive
Tamiment, PA 18371
glingg52@gmail.com

Michael John Sanfilippo
503 Dwalin Way
Tamiment, PA 18371
michaeljsanfilippo@gmail.com

Gregory Leone
213 Thistlebrook Court
Tamiment, PA 18371
gregleone@msn.com

Rafail Kovalenko
2138 Wilderland Road
Tamiment, PA 18371
dmitrykov@outlook.com

Natalie Ortiz
106 Thorin Way
Tamiment, PA 18371
natalie.e.ortiz@gmail.com

Jenny Howard
212 Hobbit Drive
Tamiment, PA 18371
djandjenny@gmail.com

Cassandra Kramer
1321 Sterling Drive
East Stroudsburg, PA 18301
cassierovitti@hotmail.com

Monica Wagner
314 Hyland Drive
East Stroudsburg, PA 18301
monica.wagner4@gmail.com

Lynn Buckingham
981 Bell Aven
Teaneck, NJ 07666
lynn.buckingham@gmail.com

Ernesha Bolden
119 Sundew Drive
East Stroudsburg, PA 18301
ehollo3609@aol.com

Daniel McKoy
Community Utilities of Pennsylvania
151 Oakenshield Drive
Tamiment, PA 18371
lisabj115@gmail.com

Petricia Perville-Davy
448 Deborah Drive
East Stroudsburg, PA 18301
pp.perville@gmail.com

Rene Bressant
204 Gollum Lane
Tamiment, PA 18371
rbjrcd@gmail.com

Nanette De Bartolo
1215 Woodland Drive
East Stroudsburg, PA 18301
nanettedb1@gmail.com

Christopher Williams
1604 Russell Drive
Downingtown, PA 19335
cwilliams10@gmail.com

Susan and Stilianos Nikolaou
111 Tomnoddy Drive
Tamiment, PA 18371
susankostelnik@hotmail.com

Denise Cooper
109 Thorin Way
Tamiment, PA 18371
hotspursproductions@gmail.com

Brian Anthony Fenimore
1433 Henry Drive
Downingtown, PA 19335
bfenimore10@comcast.net

Ryan Ellison
167 Oakenshield Drive
Tamiment, PA 18371
ellisonhomebuy@gmail.com

Dave Fardig
Bureau of Labs
1498 Sawmill Road
Downingtown, PA 19335
dfardig@pa.gov

Craig Morris
4205 Woodacre's Drive
East Stroudsburg, PA 18301
motorman_18301@yahoo.com

Anna Majewski
209 Thistlebrook Court
Tamiment, PA 18371
kurzatwarz1@yahoo.com

Larisa Shin
507 Gandolf Road
Tamiment, PA 18371
larisa_shin@yahoo.com

Anna Paryzki
212 Gollum Lane
Tamiment, PA 18371
ppemail@msn.com

Brian Morrison
500 Killi Way
Tamiment, PA 18371
bmorrison@me.com

Richard and Susan DiPiazza
215 Withywindle Way
Tamiment, PA 18371
impact451@hotmail.com

Joseph Bellantoni
425 Underhill Drive
Tamiment, PA 18371
joebellan@earthlink.net

Grazyna Paryzka
217 Oakenshield Drive
Tamiment, PA 18371
ppemail@msn.com

Served Via First-Class Mail Only

Maureen Madden
Northeast Delegation
325 Main Capitol Bld
P.O. Box 202115
Harrisburg, PA 17120-2115



Scott B. Granger
Prosecutor
Bureau of Investigation and Enforcement
PA Attorney ID No. 63641
(717) 425-7593
sgranger@pa.gov

**I&E Statement No. 1
Witness: Zachari Walker
NON-PROPRIETARY**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

COMMUNITY UTILITIES OF PENNSYLVANIA INC.

Docket Nos. R-2023-3042804 & R-2023-3042805

Direct Testimony

of

Zachari Walker

Bureau of Investigation and Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES

UNCOLLECTIBLE ACCOUNTS

INTEGRATION CUSTOMER PROTECTION DEFERRAL MECHANISM

DEFERRED CHARGES

CASH WORKING CAPITAL

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Zachari Walker, and my business address is Pennsylvania Public
4 Utility Commission, 400 North Street, Harrisburg, PA 17120.

5

6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A. I am employed by the Pennsylvania Public Utility Commission (Commission) in
8 the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial
9 Analyst.

10

11 **Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT EXPERIENCE?**

12 A. My education and employment background is attached as Appendix A.

13

14 **Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.**

15 A. I&E is responsible for representing the public interest in rate and other
16 proceedings before the Commission. I&E's analysis in this proceeding is based on
17 its responsibility to represent the public interest. This responsibility requires
18 balancing the interests of ratepayers, the regulated utility, and the regulated
19 community as a whole.

1 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

2 A. The purpose of my direct testimony is to review the base rate filing of Community
3 Utilities of Pennsylvania, Inc. (CUPA or Company) and recommend adjustments
4 to the Company's proposed operating and maintenance (O&M) expenses, taxes,
5 rate base, and cash working capital (CWC) claims for the water and wastewater
6 rates for the fully projected future test year (FPFTY) ending July 31, 2025.

7
8 **Q. DOES YOUR DIRECT TESTIMONY INCLUDE AN EXHIBIT?**

9 A. Yes. I&E Exhibit No. 1 contains schedules that support my direct testimony.

10

11 **Q. WHAT ARE THE TEST YEARS USED BY THE COMPANY IN THIS**
12 **PROCEEDING?**

13 A. CUPA is using the twelve months ended July 31, 2023, as the historic test year
14 (HTY), the twelve months ending July 31, 2024, as the future test year (FTY), and
15 the twelve months ending July 31, 2025, as the FPFTY.¹

16

17 **Q. PLEASE SUMMARIZE THE COMPANY'S REQUESTED REVENUE**
18 **INCREASE.**

19 A. CUPA's base rate case was filed on November 9, 2023, with a total requested
20 increase of \$3,169,707 to the combined operations claimed present rate revenues

¹ CUPA Statement No. 2, pp. 2-3.

1 of \$5,710,888 resulting in an overall revenue requirement of \$8,880,595.² This
2 represents a \$1,449,638 requested increase to claimed water operations present
3 rate revenues of \$2,329,862 resulting in an overall revenue requirement of
4 \$3,779,500.³

5 Additionally, the total requested increase represents a \$1,720,070 requested
6 increase to claimed wastewater operations present rates revenues of \$3,381,026
7 resulting in an overall revenue requirement of \$5,101,096.⁴

8
9 **Q. WHAT NET INCOME RETENTION FACTOR DID THE COMPANY**
10 **CLAIM?**

11 A. CUPA claimed a net income retention factor of 0.726879 which included
12 adjustments for state and federal income taxes.⁵

13
14 **Q. DO YOU AGREE WITH THIS NET INCOME RETENTION FACTOR?**

15 A. No. I&E incorporates adjustments for the uncollectible rate and utility tax
16 assessment factors in its net income retention factor of 0.707617 as calculated
17 below:

² CUPA Schedule B-1.

³ Id.

⁴ Id.

⁵ CUPA Schedule D-1.

1

I&E Net Income Factor:	
Total Revenue	1.0000
Less: Uncollectible Accounts Write-off %	0.0199
	0.9801
Less: Utility tax assessment	0.0066
	0.9735
Less: State tax at 7.99%	0.0778
	0.8957
Less: Federal tax at 21%	<u>0.1881</u>
	<u>0.707617</u>

2

3 **Q. DID THE COMPANY EXPLAIN WHY THE ABOVE FACTORS WERE**
4 **EXCLUDED FROM THE CALCULATION OF ITS NET INCOME**
5 **FACTOR?**

6 A. Yes. In response to I&E-RR-15-D, Part A, the Company stated that the original
7 intent was to include the uncollectible rate and utility tax assessment factors, but
8 the inclusion of these factors resulted in a circular reference error.⁶

9

10 **Q. HOW DOES USING YOUR CALCULATED RETENTION FACTOR**
11 **IMPACT I&E’S OVERALL REVENUE REQUIREMENT**
12 **CALCULATION?**

13 A. Incorporating related increases to revenues for iterative assessments and the
14 uncollectible rate provides a slight increase to the overall revenue requirement

⁶ I&E Exhibit No. 1, Schedule 1.

1 compared to what the Company would calculate when using its own factor of
2 0.726879.

3

4 **Q. PLEASE SUMMARIZE YOUR ADJUSTMENTS.**

5 A. The following tables summarize my recommended adjustments:

6 **Water Operations:**

	<u>Company Claim</u>	<u>I&E Recommended Allowance</u>	<u>I&E Adjustment</u>
O&M Expenses:			
Office Utilities Expense	\$20,491	\$16,340	(\$4,151)
Deferred Maintenance Expense	\$49,175	\$10,383	(\$38,792)
Total O&M Expense Adjustments			<u>(\$42,943)</u>
Rate Base Adjustments:			
Deferred Rate Case Expense	\$124,573	\$0	(\$124,573)
COVID-19 Regulatory Asset	\$70,858	\$0	(\$70,858)
Other Deferred Charges (net of COVID-19)	\$132,408	\$0	(\$132,408)
Cash Working Capital	\$401,124	\$394,428	(\$6,696)
Total Rate Base Adjustments			<u>(\$334,535)</u>

1

Wastewater Operations:

	<u>Company Claim</u>	<u>I&E Recommended Allowance</u>	<u>I&E Adjustment</u>
O&M Expenses:			
Office Utilities Expense	\$32,390	\$25,083	(\$7,307)
Deferred Maintenance Expense	\$79,356	\$12,454	(\$66,902)
Total O&M Expense Adjustments			<u>(\$74,209)</u>
Rate Base Adjustments:			
Deferred Rate Case Expense	\$149,406	\$0	(\$149,406)
COVID-19 Regulatory Asset	\$85,092	\$0	(\$85,092)
Other Deferred Charges (net of COVID-19)	(\$17,543)	\$0	(\$17,543)
Cash Working Capital	\$570,351	\$563,195	(\$7,196)
Total Rate Base Adjustments			<u>(\$224,111)</u>

2

3 **SUMMARY OF I&E OVERALL POSITION**

4 **Q. WHAT IS I&E’S TOTAL RECOMMENDED REVENUE REQUIREMENT**
5 **FOR WATER OPERATIONS?**

6 A. I&E’s total recommended revenue requirement for CUPA’s water operations is
7 \$3,526,417. This recommended revenue requirement represents an increase of
8 \$1,149,600 to the present rate revenues of \$2,376,817. As stated above, this
9 incorporates the I&E net income retention factor. This total recommended

10 allowance incorporates my adjustments made in this testimony to O&M and rate

1 base, and those made in the testimonies of I&E witnesses DC Patel⁷ and Esyan
 2 Sakaya.⁸

3 A calculation of the I&E recommended revenue requirement for water
 4 operations is shown in the table below:

Community Utilities of PA Inc. - Water R-2023-3042804	TABLE I				
	INCOME		SUMMARY		
	7/31/25	INVESTIGATION & ENFORCEMENT			
	Proforma	[-----]			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	2,376,817	0	2,376,817	1,149,600	3,526,417
Deductions:					
O&M Expenses	1,937,875	-71,884	1,865,991	22,877	1,888,868
Depreciation	328,515	0	328,515		328,515
Taxes, Other	64,297	0	64,297	7,587	71,884
Income Taxes:					
Current State	-27,702	6,443	-21,259	89,419	68,160
Current Federal	-66,991	15,584	-51,407	216,241	164,834
Deferred Taxes	0	0	0		0
ITC	0	0	0		0
Total Deductions	2,235,994	-49,857	2,186,137	336,124	2,522,261
Income Available	140,823	49,857	190,680	813,476	1,004,156
Rate Base	14,993,742	-334,535	14,659,207	0	14,659,207
Rate of Return	0.94%		1.30%		6.85%

5

⁷ I&E Statement No. 2.
⁸ I&E Statement No. 3.

1 **Q. WHAT IS I&E'S TOTAL RECOMMENDED REVENUE REQUIREMENT**
2 **FOR WASTEWATER OPERATIONS?**

3 A. I&E's total recommended revenue requirement for the CUPA's wastewater
4 operations is \$4,754,062. This recommended revenue requirement represents an
5 increase of \$1,304,989 to the present rate revenues of \$3,449,073. As stated
6 above, this incorporates the I&E net income retention factor. This total
7 recommended allowance incorporates my adjustments made in this testimony to
8 O&M and rate base, and those made in the testimony of I&E witnesses DC Patel⁹
9 and Esyan Sakaya.¹⁰

10 A calculation of the I&E recommended revenue requirement for wastewater
11 operations is shown in the table below:

⁹ I&E Statement No. 2.

¹⁰ I&E Statement No. 3.

Community Utilities of PA Inc. - Wastewater R-2023-3042805	TABLE I				
	INCOME		SUMMARY		
	7/31/25	INVESTIGATION & ENFORCEMENT			
	Proforma	[-----]			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	3,449,073	0	3,449,073	1,304,989	4,754,062
Deductions:					
O&M Expenses	2,830,108	-74,208	2,755,900	25,969	2,781,869
Depreciation	499,728	-20,222	479,506		479,506
Taxes, Other	100,082	0	100,082	8,613	108,695
Income Taxes:					
Current State	-34,962	9,707	-25,255	101,506	76,251
Current Federal	-84,547	23,476	-61,071	245,469	184,398
Deferred Taxes	0	0	0		0
ITC	0	0	0		0
Total Deductions	3,310,409	-61,247	3,249,162	381,557	3,630,719
Income Available	138,664	61,247	199,911	923,432	1,123,343
Rate Base	17,432,191	-1,033,030	16,399,161	0	16,399,161
Rate of Return	0.80%		1.22%		6.85%

1

2

3 **UNCOLLECTIBLE ACCOUNTS**

4 **Q. WHAT ARE UNCOLLECTIBLE ACCOUNTS?**

5 A. They are specific receivable accounts that are determined to be uncollectible, in
6 whole or in part, either because the debtors do not pay or because the creditor
7 finds it impracticable to enforce payment. Those accounts deemed uncollectible
8 are charged against income as an uncollectible accounts expense.

1 **Q. HOW DO UTILITIES TYPICALLY RECOGNIZE UNCOLLECTIBLE**
2 **ACCOUNTS EXPENSE FOR RATEMAKING PURPOSES?**

3 A. Generally, for ratemaking purposes, utilities recognize uncollectible accounts
4 expense as an O&M expense - a deduction from total operating revenues, similar
5 to payroll expense, rent, etc.

6
7 **Q. HOW DID THE COMPANY RECOGNIZE ITS UNCOLLECTIBLE**
8 **ACCOUNTS CLAIM?**

9 A. CUPA presented its uncollectible accounts claim as a contra revenue account or a
10 reduction to gross revenues.¹¹

11

12 **Q. WHAT DO YOU RECOMMEND FOR UNCOLLECTIBLE ACCOUNTS?**

13 A. I recommend uncollectible accounts be accounted for as an expense rather than a
14 contra account to revenues for ratemaking purposes. Regulated utilities generally
15 claim uncollectible accounts in the expense section of a rate filing, and I reflected
16 it as such in I&E's overall revenue requirement calculation. I address this merely
17 to clarify why the revenues and expenses appear higher in the present rate revenue
18 columns in the revenue requirement tables above.

¹¹ CUPA Schedule B, pp. 1-3.

1 **Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?**

2 A. If CUPA starts to display the uncollectible accounts as an expense item in future
3 base rate filings, it would make I&E's revenue requirement more consistent with
4 the Company's tables, and it would bring CUPA in line with how other regulated
5 utilities make such claims.

6

7 **OFFICE UTILITIES EXPENSE**

8 **Q. WHAT IS THE COMPANY'S CLAIM FOR OFFICE UTILITIES**
9 **EXPENSE?**

10 A. The Company's claim for office utilities expense consists of \$20,491 for water
11 operations and \$32,390 for wastewater operations.¹² Included in CUPA's claims
12 are subaccounts for business office or property costs such as electric bills,
13 cellular/mobile phones, garbage disposal/removal, etc.¹³ I will address two of
14 these subaccounts, cellular/mobile phones and garbage disposal/removal.

15

16 **Cellular/Mobile Phones Subaccount**

17 **Q. WHAT IS THE COMPANY'S CLAIM FOR THE CELLULAR/MOBILE**
18 **PHONES SUBACCOUNT CLAIM?**

19 A. The Company's FPFTY combined operations claim for the cellular/mobile phones
20 subaccount is \$22,314 (\$10,149 + \$12,165).¹⁴ The operational system claims are

¹² CUPA Schedule B-20.

¹³ CUPA Schedule B-20.

¹⁴ Id.

1 determined using allocation of the combined operations cost, \$10,149¹⁵ for water
2 operations, or 45.48% ($\$10,149 \div \$22,314$) of the combined operations claim, and
3 \$12,165¹⁶ for wastewater operations, or 54.52% ($\$12,165 \div \$22,314$) of the
4 combined operations claim.

5
6 **Q. WHAT IS THE BASIS FOR THE COMPANY'S CELLULAR/MOBILE**
7 **PHONES SUBACCOUNT CLAIM?**

8 A. In response to I&E-RE-34-D, the Company indicated the basis for this claim are
9 direct-billed monthly charge for 14 cell phones, an on-call phone, and eight tablets
10 used for field activities and customer interactions.¹⁷

11
12 **Q. DO YOU AGREE WITH THE COMPANY'S CELLULAR/MOBILE**
13 **PHONES SUBACCOUNT CLAIM?**

14 A. No.

15
16 **Q. WHAT IS YOUR RECOMMENDATION FOR THE CELLULAR/MOBILE**
17 **PHONES SUBACCOUNT?**

18 A. I recommend an allowance of \$5,998, or a reduction of \$4,151 ($\$10,149 - \$5,998$)
19 to CUPA's water operations cellular/mobile phones subaccount claim. For the
20 Company's wastewater operations, I recommend an allowance of \$7,190, or a

¹⁵ Id.

¹⁶ Id.

¹⁷ I&E Exhibit No. 1, Schedule 2, p. 1.

1 reduction of \$4,975 (\$12,165 - \$7,190) to cellular/mobile phones subaccount
2 claim.

3

4 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

5 A. In response to I&E-RE-34-D, Parts C and F, **{BEGIN PROPRIETARY}** [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED] **{END PROPRIETARY}**

14 Based on the response above and my corresponding calculation, my
15 recommended allowances represent a reduction of \$4,151 (\$10,149 - \$5,998) to
16 the water operations' office utilities – cellular/mobile phone subaccount and a
17 reduction of \$4,975 (\$12,165 - \$7,190) to the wastewater operations' office
18 utilities – cellular/mobile phone subaccount.

¹⁸ I&E Exhibit No. 1, Schedule 2, p. 3 - PROPRIETARY.

1 **Garbage Disposal/Removal Subaccount**

2 **Q. WHAT IS THE COMPANY’S CLAIM FOR THE GARBAGE**
3 **DISPOSAL/REMOVAL SUBACCOUNT?**

4 A. The water operations claim for garbage disposal/removal subaccount claim for
5 water operations is \$3,086.¹⁹ The claim for the garbage disposal/removal
6 subaccount for wastewater operations is \$9,253.²⁰ The cost for this subaccount is
7 billed directly to CUPA’s operational divisions without allocation.

8
9 **Q. WHAT IS THE BASIS FOR THE COMPANY’S GARBAGE**
10 **DISPOSAL/REMOVAL SUBACCOUNT?**

11 A. In response to I&E-RE-35-D, CUPA provided copies of the invoices received for
12 one year in support of its office utilities expense – garbage disposal/removal
13 subaccount for water and wastewater operations.²¹

14
15 **Q. DO YOU AGREE WITH THE COMPANY’S GARBAGE**
16 **DISPOSAL/REMOVAL SUBACCOUNT CLAIM?**

17 A. Yes, in part. I accept the Company’s claim for water operations; however, I
18 disagree with the Company’s wastewater operations claim.

¹⁹ CUPA Schedule B-20.

²⁰ CUPA Schedule B-20.

²¹ I&E Exhibit No.1, Schedule 3, attachment “Response to I&E-RE-35A”, and attachment “Response to I&E-RE-35B”.

1 **Q. WHAT IS YOUR RECOMMENDATION FOR THE WASTEWATER**
2 **OPERATIONS GARBAGE DISPOSAL/REMOVAL SUBACCOUNT?**

3 A. I recommend an allowance of \$6,291, or a reduction of \$2,332 (\$9,253 - \$6,921)
4 to the Company's wastewater operations garbage disposal/removal subaccount
5 claim.

6
7 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION FOR THIS**
8 **SUBACCOUNT?**

9 A. In response to I&E-RE-35-D, the invoices provided for water operations supported
10 its \$3,086 claim.²² However, the invoices for wastewater operations only
11 supported an annual expense of \$6,921.²³ My recommended allowance is a direct
12 reflection of the expense supported by the provided invoices.

13
14 **Q. PLEASE SUMMARIZE YOUR OVERALL RECOMMENDATION FOR**
15 **OFFICE UTILITIES EXPENSE.**

16 A. In summary, my recommended allowance for water operations office utilities
17 expense is \$16,340, or a reduction of \$4,151 (\$20,491 - \$16,340), based on the
18 adjustment to the cellular/mobile phones subaccount. For wastewater operations,
19 my recommended allowance is \$25,083, or a reduction of \$7,307 (\$32,390 -
20 \$25,083) to the office utilities expense based on my total adjustment of \$7,307

²² I&E Exhibit No.1, Schedule 3, and attachment "Response to I&E-RE-35A".

²³ I&E Exhibit No.1, Schedule 3, and attachment "Response to I&E-RE-35B".

1 (\$4,975 + \$2,332), the sum of my recommended adjustments to the cellular/mobile
2 phones subaccount, \$4,975, and the garbage disposal/removal subaccount, \$2,332.

3
4 **Summary of Office Utilities Expense Adjustments**

5 **Q. PLEASE SUMMARIZE YOUR ADJUSTMENTS TO OFFICE UTILITIES**
6 **EXPENSE.**

7 A. My recommended allowance for the water division's office utilities and expenses
8 is \$16,340 or a reduction of \$4,151 (\$20,491 - \$16,340) as explained above due to
9 the recommended reduction for cellular/mobile phones. Additionally, my
10 recommended allowance for the wastewater division is \$25,083 or a reduction of
11 \$7,307 (\$32,390 - \$25,083) as explained above due to my recommended reduction
12 of \$4,975 for cellular/mobile phones and my recommended reduction of \$2,332
13 for garbage disposal/removal.

14
15 **RATE CASE EXPENSE**

16 **Q. DESCRIBE THE NATURE AND TYPES OF EXPENDITURES**
17 **TYPICALLY ALLOWED AS PART OF A REGULATED UTILITY'S**
18 **OVERALL RATE CASE EXPENSE.**

19 A. The nature and types of individual expenditures that comprise a utility's allowable
20 claim for rate case expense are those directly incurred to compile, present, and
21 defend a utility's request for a rate base increase before the Commission. The
22 actual expenditures and estimated costs typically found in an allowable rate case

1 expense claim include legal fees for outside counsel, fees to outside consultants,
2 and the cost of printing, document assembly, and postage.

3
4 **Q. THE COMPANY REFERENCES ITS CLAIM AS AN AMORTIZED**
5 **COST.²⁴ BRIEFLY DISCUSS THE CONCEPT OF AMORTIZATION.**

6 A. Amortization is an accounting procedure that writes off a non-recurring or
7 infrequently recurring expense over a reasonable period of years by expensing a
8 pro rata share based on the selected amortization period. Although a claim for an
9 unrecovered *normalized* expense would be disallowed if requested in a subsequent
10 base rate case, an amortized expense allowance could be claimed in a succeeding
11 rate case if there is a remaining unamortized balance.

12
13 **Q. IS THE COMPANY'S PROPOSED AMORTIZATION TREATMENT**
14 **PROPER?**

15 A. No. The Company's rate case expense claim should be normalized rather than
16 amortized.

17
18 **Q. WHAT IS NORMALIZATION?**

19 A. Normalization is a ratemaking concept that describes the transformation of an
20 operating expense that recurs at irregular intervals into a "normal" annual test year

²⁴ CUPA Schedule B-16 and CUPA Statement No. 3, p. 4.

1 allowance. Normalization specifically addresses the prospective recovery of an
2 ongoing expense that recurs sporadically. Normalized expenses are no different
3 than other O&M expenses in that the Company is given the opportunity to achieve
4 full recovery.

5
6 **Q. HOW HAS THE COMMISSION TRADITIONALLY TREATED RATE**
7 **CASE EXPENSE FOR RATEMAKING PURPOSES?**

8 A. The Commission has historically stated that it considers prudently incurred rate
9 case expense as an ongoing expense, occurring at irregular intervals, related to the
10 rendering of utility service. Thus, it is necessary to normalize rate case expense
11 for ratemaking purposes. The Commission has also cited the importance of
12 considering the involved utility's history regarding the frequency of rate case
13 filings as an essential element in determining the normalized level of rate case
14 expense for ratemaking purposes.

15
16 **Q. WHAT IS THE COMPANY'S CLAIM FOR RATE CASE EXPENSE IN**
17 **THIS PROCEEDING?**

18 A. CUPA's total rate case expense claim for combined operations is \$342,475.²⁵ The
19 total claim for rate case expense represents an allocation to water operations,
20 \$155,717,²⁶ and to wastewater operations, \$186,758.²⁷ CUPA stated it intends to

²⁵ CUPA Supplement to Schedule A-10 & B-16.

²⁶ Id.

²⁷ Id.

1 amortize the combined operations' total rate case expense claim over three years
2 yielding an annual claim of \$114,158 ($\$342,475 \div 3$ years).²⁸ The result is an
3 allocated annual rate case expense claim of \$51,906 for water operations and
4 \$62,253 for wastewater operations.²⁹

5
6 **Q. WHAT IS THE BASIS FOR THE COMPANY'S RATE CASE EXPENSE**
7 **CLAIM?**

8 A. The Company stated its proposed expense claim is based on current and planned
9 rate case costs with the increase in rate case expense being driven by the projected
10 expense to be incurred for the current case.³⁰

11
12 **Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?**

13 A. No.

14
15 **Q. WHAT IS YOUR RECOMMENDATION FOR RATE CASE EXPENSE?**

16 A. First, I accept the Company's proposed total rate case expense claim, allocation
17 amounts of the rate case expense to each division, and the proposed interval for
18 which the Company will account for the expense (due to it aligning with the
19 Company's recent historic filing frequency); however, I disagree with
20 amortization treatment of rate case expense and recommend that the Company be

²⁸ CUPA Supplement to Schedule A-10 & B-16 and I&E Exhibit No. 1, Schedule 4.

²⁹ CUPA Supplement to Schedule A-10 & B-16.

³⁰ CUPA Statement No. 3, pp. 4-5.

1 required to normalize this expense rather than amortizing this expense for the
2 reasons explained above.

3
4 **Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?**

5 A. My recommendation to normalize the rate case expense as opposed to using
6 amortization is directly based on the Commission's traditional treatment of this
7 expense. The practice of normalization is appropriate for ratemaking purposes
8 when an expense is ongoing, occurs at irregular intervals, and is related to the
9 rendering of utility service.

10
11 **Q. DO YOU HAVE FURTHER RECOMMENDATIONS RELATED TO RATE
12 CASE EXPENSE?**

13 A. Yes. I will address the Company's related capitalized portion of unamortized rate
14 case expense claimed in rate base, described by CUPA as deferred rate case
15 expense, in the next section.

16
17 **DEFERRED CHARGES – DEFERRED RATE CASE EXPENSE**

18 **Q. WHAT DID THE COMPANY CLAIM IN RATE BASE RELATED TO
19 RATE CASE EXPENSE?**

20 A. CUPA claimed deferred rate case expense for rate base treatment of \$124,573 for

1 water operations³¹ and \$149,406 for wastewater operations.³²

2
3 **Q. WHAT IS THE COMPANY'S BASIS FOR THIS CLAIMED RATE BASE**
4 **TREATMENT OF THE DEFERRED RATE CASE EXPENSE?**

5 A. In response to I&E-RE-8-D, Part E, CUPA asserts that rate base treatment of
6 unamortized rate case expense along with the other components of deferred
7 charges included in this proceeding are reasonable.³³

8
9 **Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED RATE BASE**
10 **TREATMENT OF DEFERRED RATE CASE EXPENSE?**

11 A. No.

12
13 **Q. WHAT IS YOUR RECOMMENDATION FOR DEFERRED RATE CASE**
14 **EXPENSE?**

15 A. I recommend the entire claim amounts of \$124,573 for water operations and
16 \$149,406 for wastewater operations be disallowed for ratemaking purposes.

17
18 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

19 A. My recommended disallowance for rate base treatment for the net deferred rate
20 case expenses of \$124,573 for water operations and \$149,406 for wastewater

³¹ CUPA Schedule A-10, p. 1.

³² CUPA Schedule A-10, p. 2.

³³ I&E Exhibit No. 1, Schedule 4, p. 1.

1 operations is directly supported by my recommendation to normalize, and not
2 amortize, rate case expense. Items included in rate base increase the value of the
3 Company or its assets such as investment in a new water or wastewater plant or
4 facility. On the other hand, items included in O&M are expenses that the
5 Company is required to pay to operate, such as material expense, chemical
6 expense, payroll expense, and rate case expense. As described in the previous
7 section, normalization is the process used to fund operations that occur
8 intermittently on a “prospective” basis.
9

10 **DEFERRED CHARGES – COVID-19 REGULATORY ASSET AND RELATED**
11 **EXPENSE CLAIM**

12 **COVID-19 Regulatory Asset**

13 **Q. WHAT IS CUPA’S CLAIM FOR THE COVID-19 REGULATORY ASSET?**

14 A. CUPA’s claim for its COVID-19 regulatory assets are \$88,572 for water
15 operations before accumulated amortization of \$17,714 for a net balance of
16 \$70,858 in rate base, and \$106,340 for wastewater operations before accumulated
17 amortization of \$21,248 for a net balance of \$85,092 in rate base.³⁴
18

19 **Q. WHAT IS THE BASIS FOR THE COMPANY’S CLAIM?**

20 A. The Company has proposed a regulatory asset to recover costs incurred related to

³⁴ CUPA Supplement to Schedule A-10 & B-9.

1 COVID-19 through deferral and amortization over five years.³⁵ The majority of
2 the related costs consist of incremental bad debt, and forgone revenues for late
3 penalties and reconnection fees.³⁶ CUPA has proposed rate base treatment of the
4 unamortized balance for this claim for water and wastewater operations.³⁷

5 As previously stated, CUPA has included forgone reconnection fees and
6 forgone late payment charges in the proposed costs for regulatory asset recovery.
7 The total allocated to each operational system is as follows: water operations,
8 \$36,659 (\$99 + \$36,560) and wastewater operations, \$43,972 (\$119 + \$43,853).³⁸

9 And as a final note, in response to I&E-RE-15-D, the Company provided
10 monthly breakdowns of forgone reconnection fees, forgone late payments, and
11 incremental bad debt.³⁹ In the file provided, the ‘Expense detail’ worksheet of the
12 ‘Response to I&E-RE-15’ Excel workbook, the Company has recorded
13 transactions as late as July 31, 2023.⁴⁰

14
15 **Q. WHAT OTHER INFORMATION DID THE COMPANY PROVIDE TO**
16 **SUPPORT ITS CLAIM?**

17 A. In response to I&E-RE-15-D, CUPA referenced former Governor Wolf’s
18 Proclamation of Disaster Emergency (Emergency Proclamation), the

³⁵ CUPA Statement No. 2, p. 10.

³⁶ CUPA Statement No. 2, p. 10.

³⁷ CUPA Supplement to Schedule A-10 & B-9.

³⁸ CUPA Supplement to Schedule A-10 & B-9.

³⁹ I&E Exhibit No. 1, Schedule 5, pp. 1-3.

⁴⁰ CUPA Attachment ‘Response to I&E-RE-15’, ‘Expense detail’ worksheet, row 59.

1 corresponding Commission-issued emergency order and Moratorium Proclamation
2 of Disaster Emergency (Emergency Order), and the Commission-issued
3 Secretarial Letter (Secretarial Letter), which declared a state of emergency
4 throughout Pennsylvania, declared a termination moratorium for public utility
5 services, and directed utilities to account for prudently incurred incremental
6 extraordinary, nonrecurring expense related to COVID-19 resulting from the
7 preceding Emergency Proclamation and Emergency Order, respectively.⁴¹ The
8 Company further noted the Secretarial Letter’s authorization for Commission-
9 regulated public utilities to create regulatory assets for incremental uncollectible
10 expenses above those embedded in rates following the issuance of the Emergency
11 Order.⁴² Also included for consideration, CUPA provided the basis for the chosen
12 five-year amortization period is to balance the non-recurring nature of these costs
13 and the impact of the annual amortization expense on rate payers.⁴³

14 In response to I&E-RE-15-D, Part D, CUPA contended the basis for
15 including forgone reconnection fees in a COVID-19 regulatory asset is the
16 authorization established in the Secretarial Letter.⁴⁴ Similarly, in response to I&E-
17 RE-15-D, Part F, CUPA contended the basis for including forgone reconnection
18 fees represents an non-recurring, incremental expense incurred above those

⁴¹ I&E Exhibit No. 1, Schedule 5, pp. 1-2.

⁴² I&E Exhibit No. 1, Schedule 5, pp. 1-2.

⁴³ I&E Exhibit No. 1, Schedule 5, p. 3.

⁴⁴ I&E Exhibit No. 1, Schedule 5, pp. 1-2.

1 embedded in rates and as such were authorized for inclusion in the Secretarial
2 Letter in response to the Emergency Order.⁴⁵

3
4 **Q. DO YOU AGREE WITH THE COMPANY'S CLAIMED RATE BASE**
5 **TREATMENT OF ANY UNAMORTIZED BALANCE?**

6 A. No.

7
8 **Q. WHAT IS YOUR RECOMMENDATION FOR THE COMPANY'S**
9 **PROPOSED RATE BASE TREATMENT OF THE COVID-19**
10 **REGULATORY ASSET?**

11 A. I recommend the entire unamortized balance of \$70,858 for water operations and
12 \$85,092 be disallowed for rate base treatment.

13
14 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

15 A. Routine O&M expenses such as cleaning supplies, other materials and supplies,
16 safety supplies, etc., would inappropriately add to the value of CUPA's rate base.
17 By subjecting the unamortized COVID-19 regulatory asset balance to rate base
18 treatment, the utility would unjustly earn a return on these expenses. Therefore, I
19 recommend the Company should not be granted permission for rate base treatment
20 of the unamortized COVID-19 regulatory asset.

⁴⁵ I&E Exhibit No. 1, Schedule 5, pp. 1-2.

1 **COVID-19 Expense**

2 **Q. WHAT IS YOUR RECOMMENDATION FOR THE EXPENSE PORTION**
3 **OF THE PROPOSED COVID-19 REGULATORY ASSET?**

4 A. I recommend an allowance of \$10,383 for water operations or a reduction of
5 \$7,331 (\$17,714 - \$10,383) to the Company's claim and an allowance of \$12,454
6 for wastewater operations or a reduction of \$8,794 (\$21,248 - \$12,454) to the
7 Company's claim. It should be noted that this adjustment is encapsulated in a
8 subsequent section of testimony entitled deferred maintenance expense where
9 these COVID-19 related expenses are included.

10
11 **Q. HOW DID YOU CALCULATE YOUR RECOMMENDATIONS?**

12 A. First, I accept the Company's proposed five-year amortization period. Secondly, I
13 recalculated the total allowance amounts to be \$51,913 (by reducing the
14 Company's claims by the forgone reconnection fees and forgone late payment
15 charges as further explained below) for water operations and \$62,268 (again by
16 reducing the Company's claims for forgone reconnection fees and forgone late
17 payment charges) for wastewater operations, which was then amortized over the
18 proposed five-year period. The result is an annual amortization expense allowance
19 for the COVID-19 regulatory asset of \$10,383 ($\$51,913 \div 5$) for water operations
20 and \$12,454 ($\$62,268 \div 5$) for wastewater operations. This represents a reduction
21 of \$7,331 (\$17,714 - \$10,383) for water operations and \$8,794 (\$21,248 -

1 \$12,454) for wastewater operations to the Company's respective operational
2 system expense claims.

3
4 **Q. WHAT IS THE BASIS OF YOUR COVID-19 EXPENSE**
5 **RECOMMENDATION?**

6 A. My recommendation removes the forgone reconnection fees and forgone late
7 payment charges from the total costs associated with the COVID-19 regulatory
8 asset, a reduction of \$36,659 (\$99 + \$36,560)⁴⁶ for water operations and \$43,972
9 (\$119 + \$43,853).⁴⁷

10 In the 2020 Pennsylvania-American Water Company (PAWC) petition, in which
11 PAWC requested authorization to defer for future recovery, among other items, the
12 lost revenues associated with forgone late payment charges and forgone
13 reconnection fees (lost revenues), the Commission denied tracking and deferral of
14 these lost revenues, as stated,

15 That, the Petition is denied, in part, with respect to the request
16 to defer and record in a regulatory asset voluntarily foregone
17 reconnection fees, late payment charges, and term loan
18 interest.⁴⁸

19 Considering the Commission's Order, the inclusion of forgone reconnection fees
20 and forgone late payment charges in CUPA's COVID-19 regulatory asset is in
21 direct contradiction to the precedent set in the corresponding PAWC petition; and

⁴⁶ CUPA Supplement to Schedule A-10 & B-9.

⁴⁷ CUPA Supplement to Schedule A-10 & B-9.

⁴⁸ *Pa. PUC v. Pennsylvania-American Water Company*, Docket No. P-2020-3022426, p. 50 (Order entered September 15, 2021).

1 therefore, the deferral of the lost revenues should be disallowed and removed
2 entirely from the regulatory asset for ratemaking purposes.

3
4 **Q. ARE THERE ANY OTHER CONCERNS RELATED TO THE PROPOSED**
5 **DEFERRAL FOR RATEMAKING PURPOSES?**

6 A. Yes. As stated above, in response to I&E-RE-15-D, the Company provided
7 monthly breakdowns of forgone reconnection fees, forgone late payments, and
8 incremental bad debt.⁴⁹ In the ‘Expense detail’ worksheet of the provided
9 ‘Response to I&E-RE-15’ Excel workbook, the Company has recorded
10 transactions as late as July 31, 2023.⁵⁰ While the Company has not indicated that
11 it intends to continue to track and record additional incremental expenses related
12 to COVID-19, I feel it is prudent to address the potential continued tracking and
13 deferral treatment past the effective date of new rates for the instant proceeding.

14
15 **Q. WHAT IS YOUR RECOMMENDATION FOR THE POTENTIAL**
16 **CONTINUED DEFERRAL OF COVID-19 RELATED COSTS?**

17 A. I recommend the Company should not be allowed to continue recording a
18 regulatory asset for ongoing COVID-19 related incremental bad debt (other than
19 reductions to bad debt in the regulatory asset associated with late recovery of such
20 related bad debt) and other COVID-19 related expenses after the effective date of

⁴⁹ I&E Exhibit No. 1, Schedule 5, pp. 2-3.

⁵⁰ CUPA Attachment ‘Response to I&E-RE-15’, ‘Expense detail’ worksheet, row 59.

1 new rates for the instant proceeding. Per the Center for Disease Control and
2 Prevention, the federal COVID-19 public health emergency declaration ended on
3 May 11, 2023, and the pandemic is officially over.⁵¹ Any COVID-19 related
4 expenses such as masks, cleaning supplies, etc. should now be built into routine
5 expenses and are likely not material in nature.

6
7 **DEFERRED CHARGES – OTHER DEFERRED CHARGES (NET OF THE**
8 **COVID-19 REGULATORY ASSET)**

9 **Q. WHAT IS CUPA’S CLAIM FOR NET OTHER DEFERRED CHARGES**
10 **NET OF THE COVID-19 REGULATORY ASSET PROPOSAL?**

11 A. CUPA’s claim other deferred charges (net of the COVID-19 regulatory asset) is
12 \$132,408 (\$203,266 - \$70,858) for water operations and a negative balance of
13 (\$17,543) (\$67,549 - \$85,092) for wastewater operations.⁵²

14
15 **Q. WHAT IS THE BASIS FOR THE COMPANY’S CLAIM?**

16 A. The Company states the other deferred charges (net of the COVID-19 regulatory
17 asset) are made up of adjustments to remove balances and accumulated
18 amortizations related to the Tamiment acquisition and pro-forma adjustments to
19 reflect the net of amortization associated with multi-year tank inspections and
20 painting, and updates to the multi-year testing schedule.⁵³

⁵¹ [End of the Federal COVID-19 Public Health Emergency \(PHE\) Declaration | CDC](#), accessed February 1, 2024.

⁵² CUPA Schedule A-10, pp. 1-2.

⁵³ CUPA Statement No. 2, pp. 10-11.

1 **Q. DO YOU AGREE WITH THE COMPANY’S CLAIM FOR OTHER**
2 **DEFERRED CHARGES (NET OF THE COVID-19 REGULATORY**
3 **ASSET)?**

4 A. No.

5
6 **Q. WHAT IS YOUR RECOMMENDATION?**

7 A. I recommend that the total amounts for other deferred charges (net of the COVID-
8 19 regulatory asset) of \$132,408 for water operations and negative (\$17,543) for
9 wastewater operations be disallowed rate base treatment for ratemaking purposes.
10 The total amounts stated above are the net sum of deferred charges excluding the
11 amounts addressed above related to COVID-19.⁵⁴

12
13 **Q. WHAT IS THE BASIS FOR YOUR OVERALL RECOMMENDATION FOR**
14 **OTHER DEFERRED CHARGES (NET OF THE COVID-19**
15 **REGULATORY ASSET)?**

16 A. When routine O&M expenses are subjected to capitalization and considered for
17 ratemaking purposes, inherently the value of the utility’s rate base is increased
18 inappropriately. Additionally, the corresponding deferral and amortization of the
19 capitalized expenses included in rate base unfairly produces a return for the utility.

⁵⁴ CUPA Schedule A-10, pp. 1-2 and CUPA Supplement to Schedule A-10 & B9.

1 **DEFERRED MAINTENANCE EXPENSE**

2 **Q. WHAT IS THE COMPANY’S CLAIM FOR DEFERRED MAINTENANCE**
3 **EXPENSE?**

4 A. CUPA’s FPFTY claim for deferred maintenance expense is \$49,175 for water
5 operations,⁵⁵ and \$79,356 for wastewater operations.⁵⁶ As explained in the
6 deferred charges – COVID-19 regulatory asset section above, CUPA’s deferred
7 maintenance expense claim includes amortization expense amounts of \$17,714 for
8 water operations and \$21,248 for wastewater operations⁵⁷ relating to the recovery
9 of the COVID-19 regulatory asset.

10

11 **Q. WHAT IS THE BASIS FOR THE COMPANY’S DEFERRED**
12 **MAINTENANCE EXPENSE CLAIM?**

13 A. In response to I&E-RE-26-D concerning deferred maintenance expenses,⁵⁸ when
14 asked why it is appropriate to include deferred expenses for ratemaking the
15 Company points to I&E-RE-8-D, Part E.⁵⁹ In the referenced response, CUPA
16 witness Clark opines that including deferred expenses, such as deferred
17 maintenance expense, in rate base allows for the recognition of the time value of
18 money and counters the delay in recovery of the Company’s cash outlay.⁶⁰

⁵⁵ CUPA Schedule B-9, p. 1.

⁵⁶ CUPA Schedule B-9, p. 2.

⁵⁷ CUPA Statement No. 2, pp. 10-11.

⁵⁸ I&E Exhibit No. 1, Schedule 6.

⁵⁹ I&E Exhibit No. 1, Schedule 4, pp. 1-2.

⁶⁰ Id.

1 **Q. DO YOU AGREE WITH THE COMPANY’S CLAIMS?**

2 A. No.

3

4 **Q. WHAT IS YOUR RECOMMENDATION FOR DEFERRED**
5 **MAINTENANCE EXPENSE?**

6 A. My recommended allowance for water operations is \$10,383 or a reduction of
7 \$38,792 (\$49,175 - \$10,383) to the Company’s FPFTY claim. For wastewater
8 operations, I recommend an allowance of \$12,453 or a reduction of \$66,903
9 (\$79,356 - \$12,453) to the corresponding FPFTY claim.

10

11 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

12 A. I recommend disallowance of the deferred maintenance expense amounts other
13 than my recommended allowances for COVID-19 related expenses. Routine
14 operating expenses are not appropriately subjected to deferral treatment,
15 representing an out of period expense. Therefore, the Company should not be
16 granted permission to recover prior period routine operating expenses. However,
17 since there is a Commission Order allowing for recovery of the deferred COVID-
18 19 related expenses, it is appropriate for the annual expense portion to be claimed
19 for ratemaking purposes.

1 **INTEGRATION CUSTOMER PROTECTION DEFERRAL MECHANISM**

2 **Q. BRIEFLY DESCRIBE THE BACKGROUND OF THE COMPANY’S**
3 **PROPOSAL.**

4 A. On November 9, 2022, CUPA filed an Application for Certificates of Public
5 Convenience (under Sections 1102(a)(3) and 1103 of the Public Utility Code And
6 All Other Approvals Necessary Under the Public Utility Code) for Approval of a
7 Merger of Equals Transaction.⁶¹ CUPA sought Commission approval for a
8 change of indirect control of CUPA – Water and Wastewater Division as a result
9 of the proposed merger of SW Merger Acquisition Corp. (SWMAC) and Corix
10 Infrastructure (US) Inc. (Corix US) and the creation of Intermediate Newco, a
11 holding company (Proposed Transaction.) Intermediate Newco will be a
12 subsidiary of the newly merged SWMAC and Corix US (with Corix US being the
13 surviving entity) and will acquire indirect control of CUPA.⁶² On May 24, 2023,
14 the Office of Consumer Advocate and CUPA filed a Joint Petition for Full
15 Settlement.⁶³ On September 8, 2023, in agreement with Administrative Law
16 Judge Mary D. Long, the Commission approved the Joint Petition for Full
17 Settlement in its entirety and without modification.⁶⁴ In the Joint Petition for Full
18 Settlement, CUPA agreed to track and quantify all benefits customers in its service

⁶¹ Joint Petition for Full Settlement, Docket Nos. R-2022-3036744 (wastewater) and R-2022-3036745 (water) (Order entered September 8, 2023).

⁶² Id.

⁶³ Id.

⁶⁴ Id.

1 territory receive for five years after the closing date of the Proposed Transaction.⁶⁵

2
3 **Q. WHAT IS THE COMPANY’S PROPOSAL RELATED TO TRACKING**
4 **AND QUANTIFYING BENEFITS TO CUSTOMERS FROM THE**
5 **PROPOSED TRANSACTION?**

6 A. In the instant proceeding, CUPA proposed to track benefits related to the Proposed
7 Transaction in a to-be-established deferral account.⁶⁶ Included in the proposed
8 deferral account, named Integration Customer Protection Deferral Mechanism, the
9 Company states it would also track costs related to the Proposed Transaction.⁶⁷
10 When the benefits to customers in its service area of the Proposed Transaction fall
11 short of the tracked costs, the Company referred to this as “Net Costs.” On the
12 other hand, should benefits exceed costs this is referred to as “Net Benefits.”⁶⁸
13 After the five-year period is completed, the Company proposed that it be allowed
14 to recover the costs of integration only to the extent that the benefits of integration
15 meet or exceed such costs.⁶⁹

16
17 **Q. WHAT IS THE BASIS FOR THE COMPANY’S PROPOSAL TO**
18 **RECOVER THESE NET COSTS OF INTEGRATION?**

19 A. CUPA opines the proposed deferral account provides customer protection for
20 unknown scale or timing of potential impacts of the proposed transaction,

⁶⁵ Id., p. 27, Commitment No. 64 (Order entered September 8, 2023).

⁶⁶ CUPA Statement No. 6, p. 10.

⁶⁷ Id.

⁶⁸ Id.

⁶⁹ Id.

1 leveraging the approved tracking process from the Joint Petition for Full
2 Settlement.⁷⁰

3
4 **Q. DID THE COMPANY CLAIM ANY NET BENEFITS DIRECTLY**
5 **RELATED TO THE PROPOSED TRANSACTION IN THE INSTANT**
6 **PROCEEDING?**

7 A. No. CUPA has not reflected any impacts from the Proposed Transaction in the
8 current rate case proceeding.⁷¹

9
10 **Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED INTEGRATION**
11 **CUSTOMER PROTECTION DEFERRAL MECHANISM?**

12 A. No.

13
14 **Q. WHAT DO YOU RECOMMEND FOR PROPOSED INTEGRATION**
15 **CUSTOMER PROTECTION DEFERRAL MECHANISM?**

16 A. I recommend the Company be disallowed from recovering the costs of the
17 proposed transaction for ratemaking purposes in any future proceedings.

18
19 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

20 A. While Commitment 64 in the Joint Petition for Full Settlement requires the

⁷⁰ Id.

⁷¹ CUPA Statement No. 6, p. 9.

1 Company to track and quantify all the benefits customers in its service territory
2 receive under its new ownership and addressed CUPA’s submission of that
3 information in any future base rate case in which the tracked benefits accrue in
4 corresponding applicable test years, it did not provide any agreement for the
5 recovery of any such net costs.⁷²

6 In fact, the Joint Petition for Full Settlement, Commitment 58 states,
7 Transaction Costs have been and will be incurred before, or on
8 the date, the Proposed Transaction closes. CUPA will not seek
9 to recover Transaction Costs. Likewise, while CUPA’s
10 definition of Transaction Costs does not include incentive and
11 retention payments made to employees, CUPA will not seek
12 recovery from customers of Transaction Costs or incentive and
13 retention payments directly related to and paid solely because
14 of the Proposed Transaction.⁷³

15 Additionally, CUPA Commitment 3 of the Joint Petition for Full Settlement
16 contains the language, “The combined companies have incurred and will incur
17 transaction costs. The combined companies, including CUPA, will not seek to
18 recover transaction costs from customers.”⁷⁴

19 Finally, Appendix A of the Joint Petition for Full Settlement, p. 10,
20 Paragraph 25 included the following language, “In addition to these affirmative
21 public benefits that will result from the Proposed Transaction, the combined
22 companies made the following commitments to protect CUPA’s customers (CUPA
23 Statement No. 3 at 19-20; CUPA Statement No. 4 at 10-12): ...The combined

⁷² Joint Petition for Full Settlement, Docket Nos. R-2022-3036744 (wastewater) and R-2022-3036745 (water), p. 27, Commitment No. 64 (Order entered September 8, 2023).

⁷³ Id., p. 25, Commitment No. 58 (Order entered September 8, 2023).

⁷⁴ Id., p. 12, CUPA Commitment No. 3 (Order entered September 8, 2023).

1 companies, including CUPA, will not seek to recover Transaction Costs from
2 customers...”⁷⁵

3 It is due to these statements included in the May 24, 2023, Joint Petition for
4 Full Settlement, agreed upon by both CUPA and the Office of Consumer
5 Advocate, approved in its entirety without modification by the Commission, and
6 ordered on September 8, 2023, that I recommend CUPA should not be allowed to
7 recover any such costs from customers in this or any future base rate case
8 proceeding.

9
10 **CASH WORKING CAPITAL**

11 **Q. WHAT IS A CASH WORKING CAPITAL (CWC) ALLOWANCE FOR**
12 **RATEMAKING PURPOSES?**

13 A. CWC includes the amount of funds necessary to operate a utility during the
14 interim period between the rendition of service, including the payment of related
15 expenses, and the receipt of revenue in payment for services rendered by the
16 utility.

17
18 **Q. HOW HAS THE COMPANY CALCULATED ITS CWC CLAIM?**

19 A. The Company calculated its CWC claim using a lead/lag study. A lead/lag study
20 measures the differences in time between: (1) the time services are rendered until

⁷⁵ Joint Petition for Full Settlement, Docket Nos. R-2022-3036744 (wastewater) and R-2022-3036745 (water), Appendix A, p. 10, Paragraph No. 25 (Order entered September 8, 2023).

1 payment of those services is received; and (2) the time between the point when a
2 utility has incurred an expense and the actual payment of the expense. Stated a
3 different way, the lead/lag study measures how many days exist on average
4 between the midpoint of the service period and the date the payment is made.

5
6 **Q. DO YOU AGREE WITH THE COMPANY'S USE OF THE LEAD/LAG**
7 **METHOD?**

8 A. Yes. I agree with the Company's use of the lead/lag method for its CWC
9 calculation.

10
11 **Q. WHAT IS THE COMPANY'S CWC CLAIM?**

12 A. The Company's claim for CWC is \$401,124⁷⁶ for water operations and \$570,351⁷⁷
13 for wastewater operations.

14
15 **Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?**

16 A. No. I disagree with the Company's CWC claim in as much as I disagree with the
17 O&M expenses as discussed above.

⁷⁶ CUPA Schedule A, p. 2.

⁷⁷ CUPA Schedule A, p. 3.

1 **Q. WHAT IS YOUR RECOMMENDED ALLOWANCE FOR CWC?**

2 A. I recommend an allowance of \$394,428⁷⁸ or a reduction of \$6,696 (\$401,124 -
3 \$394,428) to CUPA's water operations claim. Additionally, I recommend an
4 allowance of \$563,195⁷⁹ or a reduction of \$7,156 (\$570,351 - \$563,195) to
5 CUPA's wastewater operations claim.

6
7 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

8 A. My recommendation includes modification of the Company's claim based on my
9 recommended adjustments to O&M expenses as discussed previously in this
10 testimony and I&E witness Sakaya as explained below.

11

12 **Q. HOW DO YOUR PROPOSED ADJUSTMENTS, DISCUSSED ABOVE,
13 IMPACT YOUR RECOMMENDATION FOR CWC?**

14 A. All O&M adjustments that are cash-based expense claims are included in
15 determining the Company's overall CWC requirement. Therefore, CWC was
16 adjusted to reflect these recommended adjustments. To reflect my recommended
17 adjustments, I modified the Company's electronic CWC file as shown on CUPA
18 Exhibit No. HW-1, Schedule 1, pp. 1-2.⁸⁰

⁷⁸ I&E Exhibit No. 1, Schedule 7, p. 1.

⁷⁹ Id., p. 2.

⁸⁰ Id., pp. 1-2.

1 **Q. SUMMARIZE WHERE EACH OF THE I&E RECOMMENDED O&M**
2 **EXPENSE ADJUSTMENTS ARE REFLECTED IN THE CWC**
3 **COMPUTATION.**

4 A. **Expense Lag Days – Maintenance and Repair:**

5 I recommended a deferred maintenance expense adjustment of (\$38,792) for water
6 operations in the Expense Lag – Maintenance and Repair, which is reflected as a
7 reduction to the maintenance and repair line of the Company’s Exhibit No. HW-1,
8 Schedule 1, p. 2 as shown in I&E modified Exhibit No. HW-1, p. 2.⁸¹

9 Additionally, I recommended a deferred maintenance expense adjustment
10 of (\$66,902) for wastewater operations in the Expense Lag – Maintenance and
11 Repair, which is reflected as a reduction to the maintenance and repair line of the
12 Company’s Exhibit No. HW-1, Schedule 1, p. 3 as shown in I&E modified Exhibit
13 No. HW-1, p. 3.⁸²

14 **Expense Lag Days – Office Utilities:**

15 I recommended an office utilities expense adjustment of (\$4,151) for water
16 operations in the Expense Lag – Office Utilities, which is reflected as a reduction
17 to the office utilities line of the Company’s Exhibit No. HW-1, Schedule 1, p. 2 as
18 shown in I&E modified Exhibit No. HW-1, p. 2.⁸³

19 Additionally, I recommended a maintenance and repair expense adjustment
20 of (\$7,307) for wastewater operations in the Expense Lag – Office Utilities, which

⁸¹ I&E Exhibit No. 1, Schedule 7, p. 1.

⁸² Id., p. 2.

⁸³ Id., p. 1.

1 is reflected as a reduction to the office utilities line of the Company's Exhibit No.
2 HW-1, Schedule 1, p. 3 as shown in I&E modified Exhibit No. HW-1, p. 3.⁸⁴

3 **Expense Lag Days – Purchased Power:**

4 Mr. Sakaya recommended a purchased power expense adjustment of (\$3,129) for
5 water operations in the Expense Lag – Purchased Power, which is reflected as a
6 reduction to the purchased power line of the Company's Exhibit No. HW-1,
7 Schedule 1, p. 2 as shown in I&E modified Exhibit No. HW-1, p. 2.⁸⁵

8 **Expense Lag Days – Purchased Water:**

9 Mr. Sakaya recommended a purchased water expense adjustment of (\$21,395) for
10 water operations in the Expense Lag – Purchased Water, which is reflected as a
11 reduction to the purchased water/sewer line of the Company's Exhibit No. HW-1,
12 Schedule 1, p. 2 as shown in I&E modified Exhibit No. HW-1, p. 2.⁸⁶

13 **Expense Lag Days – Chemicals Expense:**

14 Mr. Sakaya recommended a chemicals expense adjustment of (\$4,417) for water
15 operations in the Expense Lag – Chemicals Expense, which is reflected as a
16 reduction to the chemicals line of the Company's Exhibit No. HW-1, Schedule 1,
17 p. 2 as shown in I&E modified Exhibit No. HW-1, p. 2.⁸⁷

⁸⁴ I&E Exhibit No. 1, Schedule 7, p. 2.

⁸⁵ I&E Exhibit No. 1, Schedule 7, p. 1.

⁸⁶ I&E Exhibit No. 1, Schedule 7, p. 1.

⁸⁷ I&E Exhibit No. 1, Schedule 7, p. 1.

1 **Q. DOES YOUR RECOMMENDED ALLOWANCE REPRESENT A FINAL**
2 **RECOMMENDED ALLOWANCE FOR CWC?**

3 A. No. All adjustments to the Company’s claims for revenues, expenses, taxes, and
4 rate base must be consistently brought together in the Administrative Law Judge’s
5 Recommended Decision and again in the Commission’s Final Order. This
6 process, which is known as iteration, effectively prevents the determination of a
7 precise calculation until such time as all adjustments have been made to the
8 Company’s claim.

9

10 **PUBLIC INPUT HEARINGS**

11 **Q. WERE PUBLIC INPUT HEARINGS HELD IN THIS PROCEEDING?**

12 A. Yes. Two in-person hearings were held on January 30, 2023, in Bethlehem; two
13 telephonic hearings were held on January 31, 2023; and, two in-person hearings
14 were held on February 1, 2023, in Tamiment, Pa.

15

16 **Q. DID YOU ADDRESS THE PUBLIC INPUT HEARINGS TESTIMONY IN**
17 **THIS DIRECT TESTIMONY?**

18 A. No. I did not have time to review all of the public input testimony prior to the due
19 date for this direct testimony. But I reserve my right to address the voluminous
20 public input testimony in my rebuttal and/or surrebuttal testimony.

1 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A. Yes.

Zachari Walker

Professional and Educational Background

Experience:

Pennsylvania Public Utility Commission, Harrisburg, Pennsylvania

March 2021 to Present:

Fixed Utility Financial Analyst, Bureau of Investigation and Enforcement

Bridgestone Retail Operations, LLC, Nashville, Tennessee

December 2014 to July 2020:

Business Manager

Evaluated and validated accounting entry postings. Monitored, reconciled, and corrected daily transactions and accounts. Ensured accuracy of daily reports of business and researched inaccuracies. Utilized data analysis to determine key performance indicators and corresponding trends.

Education/Professional Development:

Bridging the Gap, Holly Ridge, North Carolina, 2021

Business Analyst Blueprint Training Program, 36 PD hours

Stevenson University, Stevenson, Maryland, 2014

Bachelor of Science, *magna cum laude*, Business Administration

Concentration in Finance

Professional Affiliations:

International Institute of Business Analysis (IIBA), Pickering, Ontario, Canada

Active Member 2021

Utility-Related Trainings & Other Courses/Webinars:

Pennsylvania Public Utility Commission Rate School 2022, January 18-February 8, 2022

Michigan State University Institute of Public Utilities Accounting and Ratemaking Course 2021, September 14-16, 2021

NARUC Staff Subcommittee on Accounting & Finance, Spring 2021 Virtual Conference, April 6-8, 2021

Testimony Submitted:

R-2023-3037933	Philadelphia Gas Works
R-2022-3035730	National Fuel Gas Distribution Corporation
R-2022-3032369	Citizens' Electric Company of Lewisburg, PA
R-2022-3032806	The York Water Company – Wastewater Division
R-2022-3031340	The York Water Company – Water Division
R-2021-3030218	UGI Utilities, Inc. – Gas Division
R-2021-3026682	City of Lancaster – Bureau of Water
R-2021-3026116	Borough of Hanover – Hanover Municipal Water Works
R-2021-3025206	Community Utilities of Pennsylvania Inc. – Water Division
R-2021-3025207	Community Utilities of Pennsylvania Inc. – Wastewater Division

Casework Not Requiring Testimony:

R-2023-3041575	Conneaut Lake Park Water Corporation, Inc.
R-2023-3040285	PECO Energy Co. – Gas Operations 1307(f)
R-2022-3032250	PECO Energy Co. – Gas Operations 1307(f)

**I&E Exhibit No. 1
Witness: Zachari Walker
NON-PROPRIETARY**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

COMMUNITY UTILITIES OF PENNSYLVANIA INC.

Docket No. R-2023-3042804 & R-2023-3042805

Exhibit to Accompany

the

Direct Testimony

of

Zachari Walker

Bureau of Investigation and Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES

UNCOLLECTIBLE ACCOUNTS

INTEGRATION CUSTOMER PROTECTION DEFERRAL MECHANISM

DEFERRED CHARGES

CASH WORKING CAPITAL

Community Utilities of Pennsylvania, Inc.’s Responses to Bureau of Investigation and Enforcement Data Requests, Set RR Nos. 1-D through 16-D

I&E-RR-15-D Reference CUPA filing Schedule D-1, p. 985 concerning net income factor calculation:

- A. Explain why the uncollectible rate and utility tax factors for water and wastewater operations (Column E and F) are not considered or included in the calculation of the net income factor.
- B. Identify and provide the calculation for the gross revenue conversion factor separately for water, wastewater, and total Company for the HTY, FTY, and FPPTY to account for the need to gross-up revenue for taxes, uncollectible, assessments (utility tax), etc.

RESPONSE:

- A. The original intent was to include both items as part of the net income retention factor calculation shown on Schedule D-1, however the inclusion resulted in circular references.
- B. Uncollectible** - The retention factor that includes the uncollectible gross up is shown on filing “Schedule D-4 Service Revenue Requirement.”

Utility Tax – included as normal expense adjustment to TOTI and is included as part of the revenue requirement on “Schedule D-3 Total Revenue Requirement.” Supporting calculations are shown on filing “Schedules B-4 Utility Commission Tax” and “Schedule B-26 Taxes other than Income.”

Taxes – Gross up for taxes are shown on Schedule D-1.

Provided by: Anthony Gray

Date: 12/31/2023

**COMMUNITY UTILITIES OF PENNSYLVANIA, INC. WATER AND
WASTEWATER DIVISIONS' RESPONSES TO BUREAU OF INVESTIGATION
AND ENFORCEMENT DATA REQUESTS, SET RE NOS. 18-D THROUGH 35-D**

- I&E-RE-34-D** Reference CUPA Response to 53.53 Exhibit D III-1 and Schedule B-20, concerning office utilities expenses – cellular mobile phones:
- A. Provide a detailed explanation with supporting documentation for the \$5,419 (\$5,425 - \$6) increase for Water between fiscal year 2021 and fiscal year 2022.
 - B. State how many employees have Company-paid mobile phones for Water operations and whether those devices are used solely for business purposes.
 - C. Provide the most recent cell phone bills available to support the FPFTY Water claim of \$10,149.
 - D. Provide a detailed explanation with supporting documentation for the \$6,491 (\$6,498 - \$7) increase for Wastewater between fiscal year 2021 and fiscal year 2022.
 - E. State how many employees have Company-paid mobile phones for Wastewater operations and whether those devices are used solely for business purposes.
 - F. Provide the most recent cell phone bills available to support the FPFTY Wastewater claim of \$12,165.

- RESPONSE:**
- A. Prior to October of 2021, cellular phone charges were coded to GL account 512014 – Communication Expense. From October 2021 forward, they have been coded to GL 586200 – Cellular/Mobile Phones. This change in coding causes the increase in the cellular phone category, with a corresponding decrease in the communication expense category.
 - B. The most recent bill as provided in the response to item C below, shows the detailed breakdown of monthly charges. This includes 14 employees cell phones, 1 on-call phone, and 8 tablets used for field activities and customer interactions. These are all used solely for business purposes. These expenses are booked to the combined Water/Wastewater operations and then pro-rated between water vs wastewater based on ERC count.
 - C. Please refer to the attachment labeled “**Response to I&E-RE-34C&F-Confidential**” for the most recent Verizon bill available. Additional fluctuations in the bill amounts can occur based on equipment charges.

**COMMUNITY UTILITIES OF PENNSYLVANIA, INC. WATER AND
WASTEWATER DIVISIONS' RESPONSES TO BUREAU OF INVESTIGATION
AND ENFORCEMENT DATA REQUESTS, SET RE NOS. 18-D THROUGH 35-D**

- D. Please refer to the response to item A above.
- E. Please refer to the response to item B above.
- F. Please refer to the attachment labeled "Response to I&E-RE-34C&F-Confidential".

PROVIDED BY: David Clark

DATE: 1/5/2024

**COMMUNITY UTILITIES OF PENNSYLVANIA, INC. WATER AND
WASTEWATER DIVISIONS' RESPONSES TO BUREAU OF INVESTIGATION
AND ENFORCEMENT DATA REQUESTS, SET RE NOS. 18-D THROUGH 35-D**

- I&E-RE-35-D** Reference CUPA Response to 53.53 Exhibit D III-1 and Schedule B-20,
concerning office utilities expenses – office garbage disposal removal:
- A. Provide supporting documentation including contracts, invoices, etc.
used to determine the Water claim of \$3,086.
 - B. Provide supporting documentation including contracts, invoices, etc.
used to determine the Wastewater claim of \$9,253.
- RESPONSE:** A. Please refer to the attachment labeled “**Response to I&E-RE-35A**”.
- B. Please refer to the attachment labeled “**Response to I&E-RE-35B**”.
- PROVIDED BY:** David Clark
- DATE:** 1/5/2024

**COMMUNITY UTILITIES OF PENNSYLVANIA, INC. WATER AND
WASTEWATER DIVISIONS' RESPONSES TO BUREAU OF INVESTIGATION
AND ENFORCEMENT DATA REQUESTS, SET RE NOS. 1-D THROUGH 17-D**

- I&E-RE-8-D** Reference CUPA filing Supplement to Schedule A-10 & B-16, concerning rate case expense, provide the following:
- A. Breakdown by category of the Company's actual rate case expenses from its prior rate case filing.
 - B. Copies of all current outside service contract agreements for rate case-related services.
 - C. Receipts, bills, and estimates for rate case expenses incurred to date for the current filing.
 - D. Justification for the Company's claimed three-year amortization period.
 - E. Explanation for amortization of rate case expense as opposed to normalization.
 - F. Detailed description and detailed explanation with supporting documentation for the items labeled Stock and Stock price per customer.
 - G. Estimated breakdown of rate case expense for the current proceeding:
 - 1. If the case is settled prior to testimony; and
 - 2. If the case is settled after testimony is prepared by the parties.

RESPONSE:

- A. Please refer to the attachment labeled **"Response to I&E-RE-8A"**.
- B. Please refer to the attachment labeled **"Response to I&E-RE-8B"**.
- C. Please refer to the attachment labeled **"Response to I&E-RE-8C"**.
- D. The Company is using a 3-year amortization period based on the historical and expected rate case filing timing. Previous rate filings occurred in 2016, 2019, and 2021.
- E. The Company believes that the inclusion of rate case expense in rate base along with the other components of deferred charges included in this proceeding are reasonable. Recovery of these costs through normalization or solely through an amortization ignores the time value

**COMMUNITY UTILITIES OF PENNSYLVANIA, INC. WATER AND
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AND ENFORCEMENT DATA REQUESTS, SET RE NOS. 1-D THROUGH 17-D**

of money which at its basic premise states that a dollar today is worth more than a dollar in the future because of the opportunity costs of not being able to invest differently and earn a return on present day dollars over the same time period. The recovery of rate case expense (along with the other components of deferred charges) in rate base follows this concept as it recognizes the Company's cash outlay in the near term compared to the delay in recovery of those dollars in future years. Normalization is typically used for expenses that are recurring or otherwise continuously incurred across years (e.g., legal expenses). Deferral and amortization is appropriate when the costs are only incurred once across multiple periods, and the timing of future cost incurrence and need for recovery can be reasonably estimated and aligned with recovery. For rate case expenses, the costs are only incurred during a rate setting proceeding, and such filings are cyclical (not recurring or continuously incurred). Additionally, deferral and amortization best aligns the recovery of the costs with the period of expense recognition. If rate case expenses are instead normalized, the utility would incur significant costs in a single period – and take a resulting blow to its financial results (in this filing, \$324,475 would be expensed immediately as incurred) – and prospective recovery of a normalized level would coincide with no costs, artificially inflating financial results. Therefore, deferral and amortization of rate case expenses, and inclusion of the unamortized portion in rate base, best reflects the timing realities of cash outflow and inflow, and aligns cost recovery and cost recognition.

- F. Stock is referring to the costs associated with printing and paper expenses related to the required customer notices.
- G. Please see attachment labelled “Response to I&E-RE-8-D, question G. 1.

PROVIDED BY: David Clark

DATE: 12/28/2023

**COMMUNITY UTILITIES OF PENNSYLVANIA, INC. WATER AND
WASTEWATER DIVISIONS' RESPONSES TO BUREAU OF INVESTIGATION
AND ENFORCEMENT DATA REQUESTS, SET RE NOS. 1-D THROUGH 17-D**

I&E-RE-15-D Reference CUPA Supplement to Schedule A-10 & B-9, p. 7, concerning the COVID regulatory asset recovery:

- A. Explain why it is appropriate to include any portion of the unamortized COVID-related deferral in rate base.
- B. Provide a detailed breakdown of other miscellaneous expenses of \$4,208 (\$1,913 attributed to Water and \$2,295 attributed to Wastewater) and explain why such claims are appropriate for deferral treatment.
- C. Explain why immaterial amounts for cleaning supplies, other materials and supplies, and safety supplies are appropriate for deferral treatment.
- D. Provide the Company's basis for including foregone reconnection fees in the FPFTY claim for the regulatory asset.
- E. Provide a monthly breakdown of foregone reconnection fees of \$218.
- F. Provide the Company's basis for including foregone late payment charges in the FPFTY claim for the regulatory asset.
- G. Provide a monthly breakdown of foregone late payment charges of \$80,413.
- H. Provide a monthly breakdown of incremental bad debt total of \$109,289.
- I. Explain why a five-year amortization period is appropriate for the COVID-related deferral.

RESPONSE:

- A. On March 6, 2020, Governor Wolf issued Proclamation of Disaster Emergency ("Emergency Proclamation"), which declared a state of emergency through Pennsylvania due to the COVID-19 pandemic. The Emergency Proclamation authorized the suspension of regulatory statutes, rules or regulations to the extent compliance therewith would undermine emergency mitigation efforts. The Commission subsequently issued an emergency order on March 13, 2020, which it ratified along with two other emergency orders related to the pandemic on March 26, 2020. See Re: Public Utility Service Termination

**COMMUNITY UTILITIES OF PENNSYLVANIA, INC. WATER AND
WASTEWATER DIVISIONS' RESPONSES TO BUREAU OF INVESTIGATION
AND ENFORCEMENT DATA REQUESTS, SET RE NOS. 1-D THROUGH 17-D**

Moratorium Proclamation of Disaster Emergency – COVID-19, Docket No. M-2020-3019244 (Emergency Order dated March 13, 2020) (“Emergency Order”). The Emergency Order declared a termination moratorium for public utility services. Emergency Order, at p. 1. Further recognizing that the COVID-19 pandemic generally, and the service termination moratorium specifically, would likely increase costs to utilities (e.g., uncollectible expense), the Commission issued another Secretarial Letter dated May 13, 2020. See Re: COVID-19 Cost Tracking and Creation of Regulatory Asset, Docket No. M-2020-3019775 (Secretarial Letter dated May 13, 2020) (“Secretarial Letter”). Therein, the Commission directed utilities to “account for prudently incurred incremental extraordinary, nonrecurring expenses related to COVID-19, which result from compliance with the Emergency Proclamation and Emergency Order.” Secretarial Letter, at p. 1. Moreover, public utilities were specifically authorized to create regulatory assets for incremental uncollectible expenses (related to COVID-19) above those embedded in base rates since the issuance of the Emergency Order. See Secretarial Letter, at p. 2.

- B. These expenses are made up of costs related to customer mailings for notices related to the pandemic. Since these were non-recurring, incremental expenses incurred above those embedded in rates, the Company contends that they qualify for inclusion in a COVID-19 regulatory asset as authorized by the Commission.
- C. These expenses are made up of cleaning/safety supply costs related to the pandemic. Since these were non-recurring, incremental expenses incurred above those embedded in rates, the Company contends that they qualify for inclusion in a COVID-19 regulatory asset as authorized by the Commission.
- D. These foregone reconnection fees were in direct relation to the March 13, 2020 termination moratorium and emergency order. The Company contends that they qualify for inclusion in a COVID-19 regulatory asset as authorized by the Commission.
- E. Please refer to the attachment labeled **“Response to I&E RE-15”**.
- F. Foregone late payment charges related to the COVID-19 pandemic were non-recurring, incremental expenses incurred above those embedded in rates, and the Company contends that they qualify for inclusion in a COVID-19 regulatory asset as authorized by the Commission.

**COMMUNITY UTILITIES OF PENNSYLVANIA, INC. WATER AND
WASTEWATER DIVISIONS' RESPONSES TO BUREAU OF INVESTIGATION
AND ENFORCEMENT DATA REQUESTS, SET RE NOS. 1-D THROUGH 17-D**

- G. Please refer to the attachment labeled **“Response to I&E RE-15”**.
- H. Please refer to the attachment labeled **“Response to I&E RE-15”**.
- I. The 5-year amortization period was chosen to balance the non-recurring nature of these costs and the impact of the annual amortization expense on rate payers.

PROVIDED BY: Anthony Gray

DATE: 12/28/2023

**COMMUNITY UTILITIES OF PENNSYLVANIA, INC. WATER AND
WASTEWATER DIVISIONS' RESPONSES TO BUREAU OF INVESTIGATION
AND ENFORCEMENT DATA REQUESTS, SET RE NOS. 18-D THROUGH 35-D**

- I&E-RE-26-D** Reference CUPA Response to 53.53 Exhibit D III-1 and Schedule B-9, p. 2, concerning maintenance and repair expenses – deferred maintenance expense:
- A. Provide a detailed explanation with supporting documentation for the \$15,222 (\$47,345 - \$32,123) increase for Wastewater between fiscal year 2021 and fiscal year 2022.
 - B. Provide a breakdown with supporting documentation for the FPFTY claim of \$79,356. In the response state the year(s) the actual expenses were incurred.
 - C. Explain why it is appropriate to include deferred expenses for ratemaking.
 - D. Provide the docket numbers where the Commission approved such deferral treatment for each approved instance.

RESPONSE:

- A. The increase is primarily related to recording of the Tamiment Construction Work in Progress balance at the time of acquisition being amortized over 11 years pursuant to the terms of the Commission-approved Settlement in the Company's previous rate case.
- B. Please see file labeled "Supplement to Schedules A-10 & B-9" and supporting work paper labeled "Supplement to Schedules A-10 & B-9 COVID Regulatory Asset Recovery", both served on November 14, 2023. The amount included for the FPFTY is derived from these two files.
- C. Please see response to I&E Set RE 1D-17-D, Nos. 8, E and 17, E.
- D. Please see response to question C.

PROVIDED BY: David Clark

DATE: 1/5/2024

I&E Exhibit No. 1

Schedule 7

~~The cash working capital for HTY is \$877,062. The cash working capital requirement for FPY is \$939,911 and the cash working capital requirement for FPFTY is \$982,701.~~

Community Utilities of Pennsylvania, Inc - Water Operations

Summary of Calculation of Cash Working Capital Requirements

Based on Lead-Lag Study For the Twelve Months Ended July 31, 2023

	Revenue Lag Days	Expense Lead Days	Net (Lead) Lag Days	Expense Claim 12-Months Ending 7/31/2023	12-Months Ending 7/31/2023 CWC	Expense Claim Future Test Year 7/31/2024	Future Test Year 7/31/2024 CWC	Expense Claim Fully Projected Year Under Present Rates 7/31/2025	Fully Projected Year Under Present Rates 7/31/2025 CWC	Expense Claim Fully Projected Future Test Year Under Proposed Rates 7/31/2025	Fully Projected Future Test Year Under Proposed Rates 7/31/2025 CWC
Utility Operating Expenses											
Purchased Power	91.0	57.5	33.5	\$ 39,569	\$ 3,632	\$ 39,569	\$ 3,632	\$ 39,569	\$ 3,632	\$ 36,440	\$ 3,345
Purchased Water / Sewer	91.0	38.5	52.5	270,582	38,919	270,582	38,919	270,582	38,919	249,187	35,842
Maintenance and Repair	91.0	28.7	62.3	208,402	35,571	241,196	41,168	247,106	42,177	208,314	35,556
Maintenance Testing	91.0	12.6	78.4	39,509	8,486	39,509	8,486	39,509	8,486	39,509	8,486
Meter Reading	91.0	22.9	68.1	8,036	1,499	8,036	1,499	8,036	1,499	8,036	1,499
Chemicals	91.0	35.5	55.5	38,286	5,822	53,756	8,174	55,865	8,495	51,448	7,823
Transportation	91.0	22.9	68.1	30,928	5,770	30,928	5,770	30,928	5,770	30,928	5,770
Operating Exp. Charged to Plant	91.0	7.9	83.1	(26,207)	(5,967)	(26,207)	(5,967)	(26,207)	(5,967)	(26,207)	(5,967)
Outside Services - Other	91.0	58.0	33.0	40,020	3,618	40,020	3,618	40,020	3,618	40,020	3,618
Salaries and Wages	91.0	7.9	83.1	546,427	124,406	513,359	116,877	534,723	121,741	534,723	121,741
Office Supplies & Other Office Exp	91.0	36.6	54.4	25,708	3,832	25,708	3,832	25,708	3,832	25,708	3,832
Pension & Other Benefits	91.0	18.4	72.6	100,368	19,964	102,678	20,423	104,541	20,794	104,541	20,794
Rent	91.0	(14.7)	105.7	2,592	751	2,592	751	2,592	751	2,592	751
Insurance	91.0	(118.0)	209.0	71,137	40,733	75,455	43,206	81,113	46,446	81,113	46,446
Office Utilities	91.0	(4.6)	95.6	20,491	5,367	20,491	5,367	20,491	5,367	16,340	4,280
Miscellaneous	91.0	1.4	89.6	11,982	2,941	11,982	2,941	11,982	2,941	11,982	2,941
Corporate Allocation (CAM)	91.0	18.4	72.6	318,070	63,265	345,055	68,633	352,455	70,105	352,455	70,105
Payroll Taxes	91.0	7.9	83.1	39,811	9,064	37,936	8,637	39,432	8,977	39,432	8,977
Property Taxes	91.0	(112.6)	203.6	9,245	5,157	9,245	5,157	9,245	5,157	9,245	5,157
Utility/Commission Tax	91.0	(106.0)	197.0	13,882	7,492	13,882	7,492	15,533	8,384	24,887	13,432
Total				\$ 380,322		\$ 388,615		\$ 401,124		\$ 394,428	

I&E Exhibit No. 1

Schedule 7

~~The cash working capital for HTY is \$380,322. The cash working capital requirement for FPY is \$388,615 and the cash working capital requirement for FPFTY is \$394,428.~~

Community Utilities of Pennsylvania, Inc - Sewer Operations

Summary of Calculation of Cash Working Capital Requirements

Based on Lead-Lag Study For the Twelve Months Ended July 31, 2023

	Revenue Lag Days	Expense Lead Days	Net (Lead) Lag Days	Expense Claim 12-Months Ending 7/31/2023	12-Months Ending 7/31/2023 CWC	Expense Claim Future Test Year 7/31/2024	Future Test Year 7/31/2024 CWC	Expense Claim Fully Projected Year Under Present Rates 7/31/2025	Fully Projected Year Under Present Rates 7/31/2025 CWC	Expense Claim Fully Projected Future Test Year Under Proposed Rates 7/31/2025	Fully Projected Future Test Year Under Proposed Rates 7/31/2025 CWC
Utility Operating Expenses											
Purchased Power	91.0	57.5	33.5	\$ 227,308	\$ 20,863	\$ 227,308	\$ 20,863	\$ 227,308	\$ 20,863	\$ 227,308	\$ 20,863
Purchased Water / Sewer	91.0	38.5	52.5	-	-	-	-	-	-	-	-
Maintenance and Repair	91.0	28.7	62.3	537,136	91,681	693,903	118,439	700,693	119,598	633,790	108,178
Maintenance Testing	91.0	12.6	78.4	89,352	19,192	89,352	19,192	89,352	19,192	89,352	19,192
Meter Reading	91.0	22.9	68.1	2,924	545	2,924	545	2,924	545	2,924	545
Chemicals	91.0	35.5	55.5	188,313	28,634	254,468	38,693	275,681	41,919	275,681	41,919
Transportation	91.0	22.9	68.1	41,893	7,816	41,893	7,816	41,893	7,816	41,893	7,816
Operating Exp. Charged to Plant	91.0	7.9	83.1	(31,508)	(7,173)	(31,508)	(7,173)	(31,508)	(7,173)	(31,508)	(7,173)
Outside Services - Other	91.0	58.0	33.0	38,956	3,522	38,956	3,522	38,956	3,522	38,956	3,522
Salaries and Wages	91.0	7.9	83.1	586,167	133,453	612,359	139,416	637,982	145,250	637,982	145,250
Office Supplies & Other Office Exp	91.0	36.6	54.4	22,128	3,298	22,128	3,298	22,128	3,298	22,128	3,298
Pension & Other Benefits	91.0	18.4	72.6	114,086	22,692	122,908	24,447	125,144	24,892	125,144	24,892
Rent	91.0	(14.7)	105.7	3,107	900	3,107	900	3,107	900	3,107	900
Insurance	91.0	(118.0)	209.0	85,284	48,834	90,497	51,819	97,283	55,705	97,283	55,705
Office Utilities	91.0	(4.6)	95.6	32,390	8,484	32,390	8,484	32,390	8,484	25,083	6,570
Miscellaneous	91.0	1.4	89.6	13,718	3,367	13,718	3,367	13,718	3,367	13,718	3,367
Corporate Allocation (CAM)	91.0	18.4	72.6	381,366	75,855	413,883	82,323	422,759	84,088	422,759	84,088
Payroll Taxes	91.0	7.9	83.1	42,960	9,781	45,499	10,359	47,292	10,767	47,292	10,767
Property Taxes	91.0	(112.6)	203.6	27,195	15,169	27,195	15,169	27,195	15,169	27,195	15,169
Utility/Commission Tax	91.0	(106.0)	197.0	18,185	9,815	18,185	9,815	22,510	12,149	33,956	18,327
Total				\$ 496,728		\$ 551,294		\$ 570,351		\$ 563,195	

I&E Statement No. 2
Witness: D. C. Patel

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

COMMUNITY UTILITIES OF PENNSYLVANIA, INC.

Docket No. R-2023-3042804 (Water)
&
Docket No. R-2023-3042805 (Wastewater)

Direct Testimony

of

D. C. Patel

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is D. C. Patel, and my business address is Pennsylvania Public Utility
4 Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg,
5 PA 17120.

6

7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am employed by the Pennsylvania Public Utility Commission (Commission) in
9 the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial
10 Analyst.

11

12 **Q. WHAT IS YOUR EDUCATION AND PROFESSIONAL EXPERIENCE?**

13 A. My education and professional experience is set forth in the attached Appendix A.

14

15 **Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.**

16 A. I&E is responsible for protecting the public interest in proceedings before the
17 Commission. I&E's analysis in the proceedings is based on its responsibility to
18 represent the public interest. This responsibility requires the balancing of the
19 interests of ratepayers, the regulated utility, and the regulated community as a
20 whole.

1 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

2 A. The purpose of my direct testimony is to address the rate of return, including
3 capital structure, cost of long-term debt, the cost of equity, and the overall fair rate
4 of return for water and wastewater operations of the Community Utilities of
5 Pennsylvania, Inc. (CUPA or Company) for the fully projected future test year
6 (FPFTY) ending July 31, 2025.

7
8 **Q. DOES YOUR DIRECT TESTIMONY INCLUDE AN EXHIBIT?**

9 A. Yes. I&E Exhibit No. 2 contains schedules that support my direct testimony.

10

11 **BACKGROUND**

12 **Q. WHAT IS THE GENERAL DEFINITION OF RATE OF RETURN IN THE**
13 **CONTEXT OF A RATE CASE?**

14 A. Rate of return is one of the components of the revenue requirement formula. Rate
15 of return is the amount of revenue an investment generates in the form of net
16 income and is usually expressed as a percentage of the amount of capital invested
17 over a given period of time.

18

19 **Q. WHAT IS THE REVENUE REQUIREMENT FORMULA?**

20 A. The revenue requirement formula used in base rate cases is as follows:

21
$$RR = E + D + T + (RB \times ROR)$$

22 Where:

1 RR = Revenue Requirement

2 E = Operating Expenses

3 D = Depreciation Expense

4 T = Taxes

5 RB = Rate Base

6 ROR = Overall Rate of Return

7 In the above formula, the rate of return is expressed as a percentage. The
8 calculation of that percentage is independent of the determination of the
9 appropriate rate base value for ratemaking purposes. As such, the appropriate total
10 dollar return is dependent upon the proper computation of the rate of return and
11 the proper valuation of the Company's rate base.

12

13 **Q. WHAT CONSTITUTES A FAIR AND REASONABLE OVERALL RATE**
14 **OF RETURN?**

15 A. A fair and reasonable overall rate of return is one that will allow the utility an
16 opportunity to recover those costs prudently incurred by all classes of capital used
17 to finance the rate base during the prospective period in which its rates will be in
18 effect.

19 *The Bluefield Water Works & Improvements Co. v. Public Service Comm.*
20 *of West Virginia*, 262 U.S. 679, 692-93 (1923), and the *FPC v. Hope Natural Gas*
21 *Co.*, 320 U.S. 591, 603 (1944) cases set forth the principles that are generally

1 accepted by regulators throughout the country as the appropriate criteria for
2 measuring a fair rate of return:

- 3 1. A utility is entitled to a return similar to that being earned by other
4 enterprises with corresponding risks and uncertainties, but not as
5 high as those earned by highly profitable or speculative ventures.
- 6 2. A utility is entitled to a return level reasonably sufficient to assure
7 financial soundness.
- 8 3. A utility is entitled to a return sufficient to maintain and support its
9 credit and raise necessary capital.
- 10 4. A fair return can change (increase or decrease) along with economic
11 conditions and capital markets.

12
13 **Q. EXPLAIN HOW THE OVERALL RATE OF RETURN IS**
14 **TRADITIONALLY CALCULATED IN BASE RATE PROCEEDINGS.**

15 A. In base rate proceedings, the overall rate of return is traditionally calculated using
16 the weighted average cost of capital method. To calculate the weighted average
17 cost of capital, a company's capital structure must first be determined by
18 comparing the percentage of each capitalization component, which has a financed
19 rate base, to total capital. Next, the effective cost rate of each capital structure
20 component must be determined. The historical component of the cost rate of debt
21 can be computed accurately, and any future debt issuances are based on estimates.
22 The cost rate of common equity is not fixed and is more difficult to measure.

1 Because of this difficulty, a proxy group is used as discussed later in this
2 testimony. Then, each capital structure component percentage is multiplied by its
3 corresponding effective cost rate to determine the weighted cost of capital. The
4 I&E table in the “*I&E Position*” section below demonstrates the interaction of
5 each capital structure component and its corresponding effective cost rate.
6 Finally, the sum of the weighted cost rates produces the overall rate of return.
7 This overall rate of return is multiplied by the rate base to determine the return
8 portion of a company’s revenue requirement.

9
10 **COMPANY’S RATE OF RETURN CLAIM**

11 **Q. WHO IS THE COMPANY’S RATE OF RETURN WITNESS?**

12 A. CUPA witness Matthew R. Howard is the primary witness addressing rate of
13 return (CUPA Statement No. 8). Throughout his direct testimony, Mr. Howard
14 provides his analysis for the claimed capital structure, long-term debt, and cost of
15 common equity for the Company’s water and wastewater operations.

16
17 **Q. PLEASE SUMMARIZE MR. HOWARD’S RECOMMENDATIONS FOR
18 THE COMPANY’S RATE OF RETURN CLAIM.**

19 A. Mr. Howard recommends the following rate of return for the Company’s water
20 and wastewater operations based on its FPFTY ending July 31, 2025 (CUPA
21 Schedule MRH-1, p. 1):

1

COMMUNITY UTILITIES OF PENNSYLVANIA, INC.			
Water and Wastewater Operations			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	50.00%	5.24%	2.62%
Common Equity	<u>50.00%</u>	10.60%	<u>5.30%</u>
Total	<u>100.00%</u>		<u>7.92%</u>

2

3 **I&E POSITION**

4 **Q. PLEASE SUMMARIZE YOUR RATE OF RETURN RECOMMENDATION**
5 **FOR THE COMPANY.**

6 A. I recommend the following rate of return for the Company’s water and wastewater
7 operations (I&E Exhibit No. 2, Schedule 2):

8

I&E Recommendation			
Community Utilities of PA, Inc. - Water and Wastewater Operations			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	50.00%	5.24%	2.62%
Common Equity	<u>50.00%</u>	8.45%	<u>4.23%</u>
Total	<u>100.00%</u>		<u>6.85%</u>

9

10 **PROXY GROUP**

11 **Q. WHAT IS A PROXY GROUP AS USED IN BASE RATE CASES?**

12 A. A proxy group is a set of companies that have similar traits of risk in comparison

1 to the subject utility. This group of companies acts as a benchmark for
2 determining the subject utility's rate of return in a base rate case.

3
4 **Q. WHAT ARE THE REASONS FOR USING A PROXY GROUP?**

5 A. A proxy group's cost of equity is used as a benchmark to satisfy the long-
6 established guideline of utility regulation that seeks to provide the subject utility
7 with the opportunity to earn a return similar to that of enterprises with
8 corresponding risks and uncertainties.

9 A proxy group is typically utilized since the use of data exclusively from
10 one company may be less reliable. The lower reliability occurs because the data
11 for one company may be subject to events that can cause short-term anomalies in
12 the marketplace. The rate of return on common equity for a single company could
13 become distorted in these circumstances and would therefore not be representative
14 of similarly situated companies. Therefore, a proxy group has the effect of
15 smoothing out potential anomalies associated with a single company.

16
17 **Q. DID YOU REQUIRE THAT THE COMPANIES IN YOUR PROXY**
18 **GROUP EXCLUSIVELY PROVIDE WATER OR WASTEWATER**
19 **SERVICE?**

20 A. No. Few, if any, publicly held 'wastewater-only' companies exist because most
21 water companies diversified their businesses to include wastewater operations.
22 Accordingly, this type of criterion would produce an insufficient sample of

1 companies for my proxy group, adversely affecting the calculation of a fair rate of
2 return for the subject utility. Further, Value Line does not offer a wastewater
3 utilities industry category as an option so, instead, my proxy group begins with a
4 search of the regulated water utility companies.

5
6 **Q. WHAT CRITERIA DID YOU USE IN SELECTING YOUR WATER**
7 **INDUSTRY PROXY GROUP?**

8 A. The criteria for my proxy group was designed to select companies that are
9 representative of CUPA. I applied the following criteria to Value Line's "Water
10 Utility" company group:

- 11 1. Fifty percent or more of the company's revenues must be generated
12 from the regulated water utility industry.
- 13 2. The company's stock must be publicly traded.
- 14 3. Investment information for the company must be available from
15 more than one source, which includes Value Line.
- 16 4. The company must not be currently involved in an announced
17 merger or the target of an acquisition.
- 18 5. The company must have four consecutive years of historic earnings
19 data.

1 **Q. WHAT CRITERIA DID MR. HOWARD USE IN SELECTING THE**
2 **COMPANIES THAT FORMULATE HIS PROXY GROUP?**

3 A. Mr. Howard determined his proxy group of six water companies by using the
4 following criteria (CUPA Statement No. 8, p. 8, lines 13-25):

- 5 1. The water utilities must be covered by Value Line Investment
6 Survey's Standard Edition.
- 7 2. The water utilities must have a Value Line-reported Beta coefficient.
- 8 3. The water utilities must have an earnings growth projection from at
9 least one of the following sources: Zacks, Yahoo! Finance, or Value
10 Line.
- 11 4. Any water utility that recently cut or suspended dividend payments
12 is excluded.
- 13 5. Any water utility that is currently a party to a merger or significant
14 transaction is excluded.
- 15 6. Any water utility that did not derive either sixty percent or greater of
16 operating income, or sixty percent or greater of total assets
17 attributable to regulated water utility operations in the most recent
18 fiscal year is excluded.

19
20 **Q. WHAT PROXY GROUP DID YOU USE IN YOUR ANALYSIS?**

21 A. I included the following five companies in my proxy group:

1

Company	Stock Ticker
American Water Works Company, Inc.	AWK
American States Water Company	AWR
California Water Service Group	CWT
Middlesex Water Company	MSEX
SJW Group	SJW

2

3 **Q. WHAT PROXY GROUP DID MR. HOWARD USE IN HIS ANALYSIS?**

4 A. Mr. Howard included the following six companies in his proxy group (CUPA
5 Statement No. 8, p. 9, lines 1-3):

6

Company	Stock Ticker
American Water Works Company, Inc.	AWK
American States Water Company	AWR
California Water Service Group	CWT
Essential Utilities, Inc.	WTRG
Middlesex Water Company	MSEX
SJW Group	SJW

7

8 **Q. DO YOU AGREE WITH MR. HOWARD’S PROXY GROUP?**

9 A. No. Mr. Howard includes all of the five water utility companies of my proxy
10 group. However, he has included one additional company, Essential Utilities, Inc.,
11 because it appears Essential Utilities meets his proxy group selection Criterion No.

1 6. More specifically, it complies with his sixty percent or greater rule of operating
2 income from the regulated water utility industry. I do not include Essential
3 Utilities in my proxy group because it does not meet with my proxy group
4 selection Criterion No. 1 that fifty percent or more of the company's revenues
5 must be generated from the regulated water utility industry. This criterion is
6 important because revenues represent the percentage of cash flow a company
7 receives from each business line related to providing a good or service. The net
8 operating income is an indicator of financial performance and strength and is a
9 direct result of a company's business decisions and operations. The financial
10 community relies more on measures of net operating income; however, it is more
11 appropriate to examine the percentage of revenues in a base rate proceeding. If
12 less than fifty percent of revenues come from the regulated water sector, the
13 companies are not comparable to the subject utility as they do not provide a
14 similar level of regulated business.

15 In the most recent Columbia Water Company (Columbia Water) rate case
16 order, the Commission endorsed I&E's use of fifty percentage of revenues
17 generated from regulated utility operations as appropriate criterion for the proxy
18 group selection and concurred with I&E's exclusion of Essential Utilities from the
19 proxy group,

20 Based on the specific record developed in the instant case, we
21 find that the percentage of revenues generated from regulated
22 utility operations, in this instance regulated water utility
23 operations, is the appropriate criterion to include when setting
24 Columbia's proxy group. Therefore, we concur with I&E that

1 Essential Utilities should be excluded from the proxy group
2 that we will use in setting the authorized ROE and the resulting
3 overall rate of return for Columbia in this proceeding.¹
4

5 **CAPITAL STRUCTURE**

6 **Q. WHAT IS A CAPITAL STRUCTURE?**

7 A. A capital structure represents how a firm has financed its rate base with different
8 sources of funds. The primary funding sources are long-term debt and common
9 equity. A capital structure may also include preferred stock and/or short-term
10 debt.

11
12 **Q. WHAT IS THE COMPANY’S CLAIMED CAPITAL STRUCTURE?**

13 A. The Company’s FPFTY claimed capital structure for water and wastewater
14 operations is summarized in the table below (CUPA Statement No. 8, p. 9, lines 7-
15 10 and CUPA Schedule MRH-1, p. 3):

16

CUPA	
Water and Wastewater Operations	
Type of Capital	Capitalization Ratio
Long-Term Debt	50.00%
Common Equity	<u>50.00%</u>
Total	<u>100.00%</u>

¹ Pa. PUC v. Columbia Water Company, Docket Nos. R-2023-3040258, p. 77 (Order entered January 18, 2024).

1 **Q. WHAT IS THE BASIS FOR THE COMPANY’S CLAIMED CAPITAL**
2 **STRUCTURE?**

3 A. Mr. Howard states that the ratemaking common equity ratio of 50% in his
4 recommended capital structure is based on the actual capital structure of CUPA’s
5 parent company, CORIX Regulated Utilities, Inc. (CRU) as of July 31, 2023
6 (CUPA Statement No. 8, p. 9, lines 7-10). He then opines that his recommended
7 capital structure is reasonable and consistent with the range of common equity
8 ratios maintained by the companies in his Utility Proxy Group (CUPA Statement
9 No. 8, p. 9, lines 14-19).

10

11 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY’S**
12 **CAPITAL STRUCTURE?**

13 A. I accept the Company’s claimed capital structure of 50% long-term debt and 50%
14 common equity as presented in the table above.

15

16 **Q. WHAT IS THE BASIS FOR YOUR CAPITAL STRUCTURE**
17 **RECOMMENDATION?**

18 A. I accept the Company’s claimed capital structure as it falls within the range of my
19 proxy group’s capital structures. The most recent five-year average range contains
20 individual company capital structure ratios from 42.44% to 58.43% long-term debt
21 and 41.57% to 57.18% common equity, with an overall five-year average of

1 49.16% long-term debt and 50.76% common equity (I&E Exhibit No. 2, Schedule
2 3).

3
4 **COST OF LONG-TERM DEBT**

5 **Q. WHAT IS THE COMPANY'S CLAIMED COST RATE OF LONG-TERM**
6 **DEBT?**

7 A. Mr. Howard recommends a 5.24% weighted cost rate of long-term debt for water
8 and wastewater operations, which is based on CRU's actual long-term debt cost
9 rate as of July 31, 2023 (CUPA Statement No. 8, p. 9, lines 22-23 and CUPA
10 filing Exhibit D-VII-4).

11
12 **Q. WHAT IS YOUR RECOMMENDATION FOR THE COMPANY'S COST**
13 **RATE OF LONG-TERM DEBT?**

14 A. I accept the Company's claimed actual long-term debt cost rate of 5.24% for water
15 and wastewater operations.

16
17 **Q. WHAT IS THE BASIS FOR YOUR ACCEPTANCE OF THE COMPANY'S**
18 **COST RATE OF LONG-TERM DEBT?**

19 A. The Company's claimed cost rate of long-term debt appears reasonable because it
20 is based on CUPA's actual long-term debt cost rate, and it is representative of the
21 water industry. The 5.24 % long-term debt cost falls within my proxy group's
22 implied long-term debt cost range of 3.19% to 5.67%. Additionally, the Mergent

1 Bond Record shows an average yield of 5.54% (November 2022 through
2 November 2023) for A-rated public utility bonds (I&E Exhibit No. 2, Schedule 4).
3 Therefore, I recommend applying the Company’s claimed long-term debt cost rate
4 in determining the weighted cost of long-term debt for water and wastewater
5 operations.

7 **COST OF COMMON EQUITY**

8 **COMMON METHODS**

9 **Q. WHAT METHODS ARE COMMONLY PRESENTED BY UTILITIES IN** 10 **DETERMINING THE COST OF COMMON EQUITY?**

11 A. Four methods commonly presented to estimate the cost of common equity are the
12 Discounted Cash Flow (DCF), the Capital Asset Pricing Model (CAPM), the Risk
13 Premium (RP) Method, and the Comparable Earnings (CE) Method.

15 **Q. WHAT IS THE THEORETICAL BASIS FOR THE DCF METHOD?**

16 A. The DCF method is the “dividend discount model” of financial theory, which
17 maintains that the value (price) of any security or commodity is the discounted
18 present value of all future cash flows. The DCF method assumes that investors
19 evaluate stocks in the classical economic framework, which maintains that the
20 value of a financial asset is determined by its earning power, or its ability to
21 generate future cash flows. The DCF method is also considered as a forward-
22 looking model to estimate the cost of common equity.

1 **Q. WHAT IS THE THEORETICAL BASIS FOR THE CAPM?**

2 A. The CAPM describes the relationship of a stock's investment risk and its market
3 rate of return. It identifies the rate of return investors expect so that it is
4 comparable with returns of other stocks of similar risk. This method hypothesizes
5 that the investor-required return on a company's stock is equal to the return on a
6 "risk free" asset plus an equity premium reflecting the company's investment risk.
7 In the CAPM, two types of risk are associated with a stock: (1) firm-specific risk
8 (unsystematic risk); and (2) market risk (systematic risk), which is measured by a
9 firm's beta. The CAPM allows investors to receive a return only for bearing
10 systematic risk. Unsystematic risk is assumed to be diversified away, and
11 therefore, does not earn a return.

12
13 **Q. WHAT IS THE THEORETICAL BASIS FOR THE RP METHOD?**

14 A. The theoretical basis for the RP method is a simplified version of the CAPM. The
15 RP method's theory is that common stock is riskier than debt, and thus, investors
16 require a higher expected return on stocks than bonds. In the RP approach, the
17 cost of equity is made up of the cost of debt and a risk premium. While the
18 CAPM uses the market risk premium, it also directly measures the systematic risk
19 of a company group through the use of beta. The RP method does not measure the
20 specific risk of a company.

1 **Q. WHAT IS THE THEORETICAL BASIS FOR THE CE METHOD?**

2 A. The CE method utilizes the concept of “opportunity cost.” This means that
3 investors will likely dedicate their capital to the investment offering the highest
4 return with similar risk to alternative investments. Unlike the DCF, CAPM, and
5 the RP methods, the CE method is not market-based and relies upon historic
6 accounting data. The most problematic issue with the CE method is determining
7 what constitutes comparable companies.

8
9 **I&E RECOMMENDED METHOD TO EMPLOY**

10 **Q. WHAT METHOD DO YOU RECOMMEND TO DETERMINE AN**
11 **APPROPRIATE COST OF COMMON EQUITY FOR THE COMPANY?**

12 A. I recommend using the DCF method as the primary method to determine the cost
13 of common equity. Additionally, I provide a CAPM analysis to be used as a
14 comparison, not as a check, to the DCF results. The DCF method has the most
15 widespread regulatory acceptance, and the Commission has historically relied
16 mostly upon the DCF results in base rate proceedings including as recently as
17 2017, 2018, 2020, and 2021.²

² *Pa. PUC v. City of DuBois – Bureau of Water; Docket No. R-2016-2554150 (Order Entered March 28, 2017). See generally Disposition of Cost Rate Models, pp. 96-97; Pa. PUC v. UGI Utilities, Inc. - Electric Division; Docket No. R-2017-2640058 (Order Entered October 25, 2018). See generally Disposition of Cost of Common Equity, p. 119; Pa. PUC v. Wellsboro Electric Company; Docket No. R-2019-3008208 (Order Entered April 29, 2020). See generally Disposition of Primary Methodology to Determine ROE, pp. 80-81; Pa. PUC v. Citizens Electric Company of Lewisburg, PA; Docket No. R-2019-3008212 (Order Entered April 29, 2020). See generally Disposition of Cost of Common Equity, pp. 91-92. Pa. PUC v. Columbia Gas of Pennsylvania, Inc.; Docket No. R-2020-3018835 (Order Entered February 19, 2021). See generally Disposition of Cost of Common Equity, p. 131; Pa. PUC v. PECO Energy Company – Gas Division; Docket No. R-2020-3018929 (Order Entered June 22, 2021). See generally Disposition of Return of Rate on Common Equity, p. 171.*

1 **Q. PLEASE EXPLAIN WHY YOU CHOSE TO EMPLOY THE DCF TO**
2 **DETERMINE YOUR RECOMMENDED RETURN ON EQUITY.**

3 A. I recommend using the DCF for a variety of reasons. The DCF is appealing to
4 investors since it is based upon the concept that the receipt of dividends in addition
5 to expected appreciation is the total return requirement determined by the market.³
6 The use of a growth rate and expected dividend yield are also strengths of the
7 DCF, as this recognizes the time value of money and is forward-looking. The use
8 of the utilities' own, or in this case the proxy group's, stock prices and growth
9 rates directly in the calculation also causes the DCF to be industry and company
10 specific. Finally, current financial, inflationary, and economic trends are most
11 certainly reflected in a stock's price, which is used in determining the dividend
12 yield, and forecasted earnings growth rates by stock market analysts. Therefore,
13 the DCF contains the most up-to-date projected information of any model and is
14 the superior method for determining the rate of return for the current economic
15 and capital market conditions because it measures the cost of equity directly.

16
17 **Q. PLEASE EXPLAIN WHY YOU CHOSE TO USE THE CAPM AS A**
18 **COMPARISON TO THE DCF IN YOUR ANALYSIS.**

19 A. I have included a CAPM analysis only as a comparison, and not as a basis, for my
20 recommendation because both the CAPM and the DCF include inputs that allow

³ David C. Parcell, "The Cost of Capital – A Practitioner's Guide," 2010 Edition, p. 151.

1 the results to be specific to the utility industry. However, it is important to note
2 that the CAPM is based on the performance of U.S. Treasury bonds and the
3 performance of the market as measured through the S&P 500 and is company-
4 specific only through the use of beta. Beta reflects a stock's volatility relative to
5 the overall market, thereby incorporating an industry-specific aspect to the CAPM,
6 but only as a measure of how reactive the industry is compared to the market as a
7 whole. Changes in the utility industry are more likely to be accurately reflected in
8 the DCF, which uses the companies' actual prices, dividends, and growth rates,
9 however, I have included the results of my CAPM analysis because changes in the
10 market, whether as a whole or specific to the utility industry, affect the outcome of
11 each method in different ways. Although I have provided the results of my CAPM
12 analysis as a comparison, and not as a check, it does have several disadvantages
13 and should not be given comparable weight to the DCF result.

14
15 **Q. EXPLAIN THE DISADVANTAGES OF THE CAPM.**

16 A. The CAPM, and the RP method by virtue of its similarities to the CAPM, give
17 results that indicate to an investor what the equity cost rate should be if current
18 economic and regulatory conditions are the same as those present during the
19 historical period in which the risk premiums were determined. This is because
20 beta, which is the only company-specific variable in the CAPM model, measures
21 the *historical* volatility of a stock compared to the *historical* overall market return.
22 Reliance on historical values is especially problematic now given the recent

1 impact of the COVID-19 pandemic on economic conditions. Although the CAPM
2 and RP results can be useful to investors in making rational buy and sell decisions
3 within their portfolios, the DCF method is the superior method for determining the
4 rate of return for the *current economic market* and measuring the cost of equity
5 directly. The CAPM and the RP methods are less reliable indicators because they
6 measure the cost of equity indirectly and risk premiums vary depending on the
7 debt and equity being compared. The use of historic risk premiums contains the
8 implicit assumption that future risk premiums will mirror historic premiums. In
9 addition, the period of time chosen to measure the risk premium is subjective.
10 Also, regulators can never be certain that economic and regulatory conditions
11 underlying the historical period during which the risk premiums were calculated
12 are the same today or will be the same in the future.

13
14 **Q. IS THERE ANY ACADEMIC EVIDENCE THAT QUESTIONS THE**
15 **CREDIBILITY OF THE CAPM MODEL?**

16 A. Yes. An article, “Market Place; A Study Shakes Confidence in the Volatile-Stock
17 Theory,” which appeared in the *New York Times* on February 18, 1992,
18 summarized a CAPM study conducted by professors Eugene F. Fama and
19 Kenneth R. French.⁴ Their study examined the importance of beta, CAPM’s risk
20 factor, in explaining returns on common stock. In CAPM theory a stock with a

⁴ Berg, Eric N. “Market Place; A Study Shakes Confidence in the Volatile-Stock Theory” *The New York Times*, 18 Feb 1992: *nytimes.com* Web. 23 Mar 2016.

1 higher beta should have a higher expected return. However, they found that the
2 model did not do well in predicting actual returns and suggested the use of more
3 elaborate multi-factor models.

4 A more recent article, “The Capital Asset Pricing Model: Theory and
5 Evidence,” which appeared in the *Journal of Economic Perspectives*, states that
6 “the attraction of the CAPM is that it offers powerful and intuitively pleasing
7 predictions about how to measure risk and the relation between expected return
8 and risk. Unfortunately, the empirical record of the model is poor - poor enough
9 to invalidate the way it is used in applications.”⁵ As a result, I conclude that the
10 CAPM’s relevance to the investment decision making process does not carry over
11 into the regulatory rate setting process.

12
13 **Q. PLEASE EXPLAIN WHY YOU HAVE CHOSEN TO EXCLUDE THE RP**
14 **METHOD FROM YOUR ANALYSIS.**

15 A. The RP method is excluded because it is a simplified version of the CAPM and is
16 subject to the same faults listed above. Most importantly, unlike the CAPM, the
17 RP method does not recognize the company-specific risk through beta.

⁵ Fama, Eugene F. and French, Kenneth R., “The Capital Asset Pricing Model: Theory and Evidence.” *Journal of Economic Perspectives* (2004): Volume 18, Number 3, pp. 25-46.

1 **Q. EXPLAIN WHY YOU HAVE CHOSEN TO EXCLUDE THE CE METHOD**
2 **FROM YOUR ANALYSIS.**

3 A. The CE method is excluded because the choice of which companies are
4 comparable is highly subjective, and it is debatable whether historic accounting
5 values are representative of the future. Moreover, its historical usage in this
6 regulatory forum has been minimal.

7
8 **Q. ARE THERE ANY RECENT COMMISSION ORDERS THAT DEVIATE**
9 **FROM THE USE OF THE DCF AS THE PRIMARY METHOD IN**
10 **DETERMINING A COMPANY’S RETURN ON EQUITY?**

11 A. Yes. The Commission indicated in the 2021 Aqua Pennsylvania, Inc. (Aqua) base
12 rate case order that its method “for determining Aqua’s ROE shall utilize both
13 I&E’s DCF and CAPM methodologies”⁶ and that “I&E’s DCF and CAPM
14 produce a range of reasonableness for the ROE...”⁷, which deviates from prior
15 Commission practice of primarily relying on the DCF model. Most recently, the
16 Commission’s Columbia Water base rate case order relied on the results of I&E’s
17 DCF and CAPM analyses for determining that utility’s ROE.⁸

⁶ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 154 (Order entered May 16, 2022).

⁷ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 178 (Order entered May 16, 2022).

⁸ *Pa. PUC v. Columbia Water Company*, Docket Nos. R-2023-3040258, p. 105 (Order entered January 18, 2024).

1 **Q. SHOULD THE COMMISSION’S USE OF THE CAPM AS A CEILING**
2 **FOR A “RANGE OF REASONABLENESS” APPLY IN THIS**
3 **PROCEEDING?**

4 A. No. In a report issued by Regulatory Research Associates, a group within S&P
5 Global Market Intelligence,⁹ Aqua’s ROE of 10.00% was stated as being above
6 the national average for water utility base rate cases and above the Distribution
7 System Improvement Charge (DSIC) rate authorized by the Commission of
8 9.80%¹⁰ for water and wastewater utilities for the year ended December 31, 2021.
9 This DSIC rate for water and wastewater utilities has since dropped 5 basis points
10 to 9.75% for the year ended March 31, 2023¹¹ and further dropped 10 basis points
11 to 9.65% for the year ended June 30, 2023,¹² remaining at the same level of 9.65%
12 for the year ended September 30, 2023.¹³ The above referenced S&P report,
13 which directly reviews Aqua’s ROE of 10.00% on the very date the Commission
14 entered its related order demonstrated that the ROE awarded to Aqua was higher
15 than average. Specifically, the S&P report determined that the average ROE for

⁹ Regulatory Research Associates, “Commission authorizes management performance bonus for Aqua Pennsylvania,” S&P Global Market Intelligence, May 16, 2022. [CIO Pro: RRA Regulatory Focus: Commission authorizes management performance bonus for Aqua Pennsylvania \(spglobal.com\)](https://www.spglobal.com/pro/cio/pro-rra-regulatory-focus-commission-authorizes-management-performance-bonus-for-aqua-pennsylvania) (Accessed January 24, 2024).

¹⁰ PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended December 31, 2021, approved at Public Meeting on June 16, 2022, at Docket No. M-2022-3032405.

¹¹ PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended March 31, 2023, approved at Public Meeting on July 13, 2023, at Docket No. M-2023-3041106.

¹² PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended June 30, 2023, approved at Public Meeting on October 19, 2023, at Docket No. M-2023-3042679.

¹³ PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended September 30, 2023, approved at Public Meeting on January 18, 2024, at Docket No. M-2023-3044811.

1 water utility base rate cases completed during the first four months of 2022 was
2 9.63% and for the twelve months ended April 30, 2022 was 9.53%, each of which
3 were well below the 10.00% ROE authorized by the Commission for Aqua. This
4 demonstrates the unreasonable skewing of results associated with using the CAPM
5 as a ceiling for determining a utility's ROE.

6 In the Columbia Water order, the Commission noted that I&E's DCF and
7 CAPM produced a range of reasonableness for the ROE from 7.84% to 11.09%
8 and approved an ROE of 9.75% as reasonable and appropriate for that company,
9 which is based upon consideration of a variety of factors such as increasing
10 inflation leading to increases in interest rates and capital costs.¹⁴ I respectfully
11 disagree with the Commission's basis (current inflation and interest rates) for
12 determining Columbia Water's ROE of 9.75%. I have presented and discussed the
13 forecasted lower-level inflation rates, and the Federal Reserve's intention to cut
14 interest rates in 2024 herein below.

15 Additionally, as explained above, the CAPM should not be used as a
16 primary method, and it should only be used as a comparison to and not as a check
17 of the DCF. Also, as demonstrated below, the use of the CAPM in this proceeding
18 would result in a significant burden to ratepayers. Therefore, I disagree with
19 giving the CAPM similar weight to the DCF method.

¹⁴ *Pa. PUC v. Columbia Water Company*, Docket Nos. R-2023-3040258, pp.108-109 (Order entered January 18, 2024).

1 **Q. PLEASE COMMENT ON CURRENT INFLATION AND INTEREST RATE**
2 **CONCERNS.**

3 A. First, I cannot dispute the current economic conditions with respect to increased
4 interest rates and government bond yields, however, it is important to note that all
5 companies, including regulated utilities, are impacted by high interest rates. Most
6 recently at the Federal Open Market Committee meeting held on December 13,
7 2023, the Federal Reserve indicated that it would lower the Fed-fund rate to 4.60%
8 by the end of 2024 equivalent to a three quarter-point reduction from the current
9 level. Federal Reserve Chairman Powell indicated that inflation is well on its way
10 to the targeted 2% level, and they would not wait for the 2% inflation target to cut
11 the interest rate (I&E Exhibit No. 2, Schedule 1, pp. 1-6). Per the most recent
12 monthly Blue Chip Financial Forecasts,¹⁵ the 2024 inflation rates by two measures
13 are forecasted to be slightly over 2% as shown in the table below:

14

	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025
Consumer Price Index	2.9%	2.4%	2.4%	2.4%	2.3%	2.2%	2.2%
PCE Price Index	2.6%	2.2%	2.2%	2.2%	2.2%	2.1%	2.0%

15 The Federal Reserve’s commitment to an interest rate reduction and
16 forecasted gradual reduction in inflationary pressure to the Federal Reserve target
17 level of 2.0% would have the effect of reducing potential inflation and interest rate

¹⁵ Blue Chip Financial Forecasts Vol. 43, No. 1, December 28, 2023.

1 risks in the capital costs during 2024-2025, when CUPA's rates will be in effect.
2 Lastly, it is important to note that unlike unregulated companies, public utilities
3 may file rate cases to address unforeseen or increased expenses and/or revenue
4 shortfalls due to changes in market conditions.

5
6 **SUMMARY OF THE COMPANY'S RESULTS**

7 **Q. WHAT ARE THE RESULTS OF THE COMPANY'S COST OF EQUITY**
8 **ANALYSES?**

9 A. Mr. Howard employed the DCF, CAPM including Empirical Capital Asset Pricing
10 Model (ECAPM), and the RP methods in analyzing the Company's cost of equity.
11 (CUPA Statement No. 8, p. 10, lines. 13-15). Based on the application of multiple
12 models to the market data of the Utility Proxy Group results, Mr. Howard opines
13 that a reasonable range for CUPA's cost of equity is 10.00% to 11.00% (CUPA
14 Statement No. 8, p. 29, lines 13-15). He then recommends that the cost of equity
15 be increased by 60 basis points (0.60%) for the size premium to the indicated cost
16 of equity for the Company's smaller size relative to the Utility Proxy Group
17 (CUPA Statement No. 8, p. 32, pp. 15-16). Ultimately, Mr. Howard recommends
18 the cost of equity of 10.60% for CUPA (CUPA Statement No. 8, p. 32, ln. 21 and
19 p. 33, lines 1-2 and CUPA Schedule MRH-1, pp. 1-2).

1 **I&E RECOMMENDATION**

2 **Q. WHAT IS YOUR RECOMMENDED COST OF COMMON EQUITY FOR**
3 **CUPA?**

4 A. Based upon my analysis, I recommend a cost of common equity of 8.45% for
5 water and wastewater operations (I&E Exhibit No. 2, Schedule 2).

6
7 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

8 A. My recommendation is based on the use of the DCF method. As explained below,
9 I used my CAPM result only to present to the Commission a comparison to my
10 DCF results. My DCF analysis uses a spot dividend yield, a 52-week dividend
11 yield, and earnings growth forecasts.

12

13 **DISCOUNTED CASH FLOW**

14 **Q. PLEASE EXPLAIN YOUR DCF ANALYSIS.**

15 A. My analysis employs the constant growth DCF model as portrayed in the
16 following formula:

17
$$K = D_1/P_0 + g$$

18 Where:

19 K = Cost of equity

20 D₁ = Dividend expected during the year

21 P₀ = Current price of the stock

22 g = Expected growth rate

1 When a forecast of D_1 is not available, D_0 (the current dividend) must be adjusted
2 by one half of the expected growth rate to account for changes in the dividend paid
3 in period one. As forecasts for each company in my proxy group were available
4 from Value Line, no dividends were adjusted for the purpose of my analysis.

5
6 **Q. PLEASE EXPLAIN HOW YOU DEVELOPED THE DIVIDEND YIELDS**
7 **USED IN YOUR DCF ANALYSIS.**

8 A. A representative dividend yield must be calculated over a time frame that avoids
9 the problems of both short-term anomalies and stale data series. For my DCF
10 analysis, the dividend yield calculation places equal emphasis on the most recent
11 spot and the 52-week average dividend yields. The following table summarizes
12 my dividend yield computations for the proxy group (I&E Exhibit No. 2,
13 Schedule 5):

14

Proxy Group - Average Dividend Yields	
(a) Spot Dividend Yield	2.24%
(b) 52-week Average Dividend Yield	2.06%
(c) Average $((a + b) \div 2)$	2.15%

15
16 **Q. WHAT INFORMATION DID YOU RELY UPON TO DETERMINE YOUR**
17 **EXPECTED GROWTH RATE?**

18 A. I have used five-year projected growth rate estimates from Yahoo! Finance, Zacks,

1 and Value Line.

2

3 **Q. WHAT WERE THE RESULTS OF YOUR FORECASTED EARNINGS**
4 **GROWTH RATES?**

5 A. The expected average growth rates for my proxy group ranged from 3.85% to
6 8.65% with an overall average of 6.30% (I&E Exhibit No. 2, Schedule 6).

7

8 **Q. WHAT ARE THE RESULTS OF YOUR DCF ANALYSIS BASED ON**
9 **YOUR RECOMMENDED DIVIDEND YIELD AND GROWTH RATE?**

10 A. The results of my DCF analysis are calculated as follows, which is based on the
11 source data published in the first week of January 2024 (I&E Exhibit No. 2,
12 Schedule 7):

13

$K = D_1/P_0 + g$
$8.45\% = 2.15\% + 6.30\%$

14

15 **CAPITAL ASSET PRICING MODEL**

16 **Q. PLEASE EXPLAIN YOUR CAPM ANALYSIS.**

17 A. My analysis employs the traditional CAPM as portrayed in the following formula:

18
$$K = R_f + \beta(R_m - R_f)$$

19 Where:

- 1 K = Cost of equity
- 2 R_f = Risk-free rate of return
- 3 R_m = Expected rate of return on the overall stock market
- 4 β = Beta measures the systematic risk of an asset

5

6 **Q. WHAT IS BETA AS EMPLOYED IN YOUR CAPM ANALYSIS?**

7 A. Beta is a measure of the systematic risk of a stock in relation to the rest of the

8 stock market. A stock's beta is estimated by calculating the linear regression of a

9 stock's return against the return on the overall stock market. The beta of a stock

10 with a price pattern identical to that of the overall stock market will equal one. A

11 stock with a price movement that is greater than the overall stock market will have

12 a beta that is greater than one and would be described as having more investment

13 risk than the market. Conversely, a stock with a price movement that is less than

14 the overall stock market will have a beta of less than one and would be described

15 as having less investment risk than the overall stock market.

16

17 **Q. HOW DID YOU DETERMINE YOUR BETA FOR YOUR CAPM**

18 **ANALYSIS?**

19 A. In estimating an equity cost rate for my proxy group of five water companies, I

20 used the average of the betas for the companies as provided in the Value Line

21 Investment Survey. The average beta for my proxy group is 0.80 (I&E Exhibit

22 No. 2, Schedule 8).

1 **Q. WHAT RISK-FREE RATE OF RETURN HAVE YOU USED FOR YOUR**
2 **FORECASTED CAPM ANALYSIS?**

3 A. I have chosen to use the risk-free rate of return (R_f) from the projected yield on 10-
4 year Treasury Notes. The yield on the short-term T-Bill is a more theoretically
5 correct parameter to represent a risk-free rate of return, however, it can be
6 extremely volatile. The volatility of short-term T-Bills is directly influenced by
7 Federal Reserve policy. At the other extreme, the 30-year Treasury Bond exhibits
8 more stability but is not risk-free. Long-term Treasury Bonds have substantial
9 maturity risk associated with market risk and the risk of unexpected inflation.
10 Long-term treasuries normally offer higher yields to compensate investors for
11 these risks. As a result, I chose to use the yield on the 10-year Treasury Note
12 because it mitigates the shortcomings of the other two alternatives. Additionally,
13 the Commission has recently agreed with I&E and recognized the 10-year
14 Treasury Note as the superior measure of the risk-free rate of return.¹⁶

15 The forecasted yield on the 10-year Treasury Note, as seen in Blue Chip
16 Financial Forecasts, is expected to range between 4.20% and 3.90% from the first
17 quarter of 2024 through the fourth quarter of 2024, and it is forecasted to be 3.90%
18 from 2025-2029. For my forecasted CAPM analysis, I used 4.00%, the average of
19 all the yield forecasts I observed (I&E Exhibit No. 2, Schedule 9).

¹⁶ *Pa. PUC v. UGI Utilities, Inc. - Electric Division*; Docket No. R-2017-2640058 (Order Entered October 25, 2018). *See generally* Disposition of Capital Asset Pricing Model (CAPM), p. 99; *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, p. 154 (Order entered May 16, 2022).

1 **Q. HOW DID YOU DETERMINE THE RETURN ON THE OVERALL**
2 **STOCK MARKET EMPLOYED IN YOUR FORECASTED CAPM**
3 **ANALYSIS?**

4 A. To arrive at a representative expected return on the overall stock market, I
5 observed Value Line's 1700 stocks and the S&P 500. Value Line expects its
6 universe of 1700 stocks to have an average yearly return of 11.93% over the next
7 three to five years based on a forecasted dividend yield of 2.20% and a yearly
8 index appreciation of 45%. The S&P 500 index has an average yearly return of
9 12.16% over the past 98 years (1926-2023). I have averaged these two figures,
10 which results in an estimated or expected market return of 12.05% (11.93% +
11 12.16%) ÷ 2) (I&E Exhibit No. 2, Schedule 10, pp. 1-3).

12
13 **Q. WHAT IS THE COST OF EQUITY RESULT FROM YOUR CAPM**
14 **ANALYSIS?**

15 A. The result of my analysis based on the source data published in the December
16 2023 and the first week of January 2024 is as follows (I&E Exhibit No. 2,
17 Schedule 11):

18

K	=	R_f	+	$\beta(R_m - R_f)$
10.44%	=	4.00%	+	0.80 (12.05% - 4.00%)

1 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING YOUR**
2 **CAPM ANALYSIS?**

3 A. Yes. As discussed earlier in my testimony, my recommended cost of equity is
4 based upon my DCF analysis. For the multiple reasons I explained above, I only
5 present a CAPM analysis to the Commission as a comparison and not for
6 recommendation purposes. It must also be recognized that CAPM inputs are
7 highly subjective, and other than beta, they are not company or industry specific.
8

9 **Q. IS IT NECESSARY TO APPLY THE CAPM WITH SIMILAR WEIGHT**
10 **TO THE DCF WHEN DETERMINING A SPECIFIC RETURN ON**
11 **EQUITY DUE TO RECENT INFLATIONARY TRENDS AND HIGHER**
12 **INTEREST RATES?**

13 A. No. I have previously addressed the potential inflation and interest rates concerns.
14 My use of the DCF as a primary method in determining an appropriate return on
15 equity sufficiently takes recent inflationary trends and current capital market
16 conditions into consideration. As mentioned above, the DCF includes a spot stock
17 price in the dividend yield calculation and analysts who determine forecasted
18 earnings growth should take inflation and capital market conditions into
19 consideration as well, so it contains the most up-to-date projected information of
20 any model. In other words, the inputs of the DCF capture all known economic
21 factors.

1 **Q. HAVE YOU QUANTIFIED THE NUMBER OF BASIS POINTS BETWEEN**
2 **YOUR DCF AND CAPM RESULTS TO ILLUSTRATE THE FINANCIAL**
3 **IMPACT BETWEEN USING EACH MODEL?**

4 A. Yes. The difference between my DCF and CAPM analysis is 199 basis points
5 (CAPM result of 10.44% - DCF result of 8.45% = 1.99% difference). As
6 demonstrated below, relying on the results of the CAPM is unnecessary and places
7 undue hardship on CUPA's ratepayers.

8
9 **Q. BASED ON THE COMPANY'S CLAIMED RATE BASE AND CAPITAL**
10 **STRUCTURE, WHAT IS THE VALUE OF AN ADDITIONAL 199 BASIS**
11 **POINTS TO THE COST OF EQUITY BASED ON THE DIFFERENCE IN**
12 **RESULTS BETWEEN YOUR CAPM ANALYSIS (10.44%) AND YOUR**
13 **DCF ANALYSIS (8.45%)?**

14 A. The example below illustrates the impact of 199 additional basis points to the
15 Company's cost of equity if the results of my CAPM analysis, rather than my DCF
16 results were applied to the Company's claimed FPFTY rate base and capital
17 structure for water and wastewater operations:

1

Water Operations:

CUPA's Claimed Equity Percentage of Capital Structure*	50.00%
Difference in Return on Equity between I&E's CAPM and DCF Analysis (10.44 – 8.45% = 1.99%)	1.99%
Claimed Rate Base **	\$14,993,742
Impact Prior to Gross Up (0.50 x 0.0199 x \$14,993,742)	\$149,188
CUPA Claimed Gross Revenue Conversion Factor*** (1 / 0.726879)	1.3757
Total Impact to Ratepayers (\$149,188 x 1.3757)	<u>\$205,238</u>

2

* CUPA Schedule MRH-1, p. 3.

3

** CUPA Schedule A, p. 2.

4

*** CUPA Schedule D-1.¹⁷

5

Wastewater Operations:

CUPA's Claimed Equity Percentage of Capital Structure*	50.00%
Difference in Return on Equity between I&E's CAPM and DCF Analysis (10.44 – 8.45% = 1.99%)	1.99%
Claimed Rate Base **	\$17,432,191
Impact Prior to Gross Up (0.50 x 0.0199 x \$17,432,191)	\$173,450
Company Claimed Gross Revenue Conversion Factor*** (1 / 0.726879)	1.3757
Total Impact to Ratepayers (\$173,450 x 1.3757)	<u>\$238,615</u>

6

* CUPA Schedule MRH-1, p. 3.

7

** CUPA Schedule A, p. 3.

8

*** CUPA Schedule D-1.

¹⁷ I&E Exhibit No. 2, Schedule 12 shows a flaw in the Company's revenue conversion factor which is addressed in I&E Statement No. 1 by I&E witness Zachari Walker.

1 In this example, an addition of 199 basis points (1.99%) to the cost of equity would
2 burden water and wastewater ratepayers to fund additional annual amounts of
3 \$205,238 and \$238,615 to cover the increase of the inflated rate of return along
4 with the associated impact resulting from increases to income taxes.

5
6 **Q. DOES THE FINANCIAL IMPACT THAT RATEPAYERS WOULD BEAR**
7 **TO FUND THIS ADDITIONAL AMOUNT OF \$443,853 (\$205,238 +**
8 **\$238,615) ANNUALLY DEMONSTRATE THAT IT IS INAPPROPRIATE**
9 **TO USE THE CAPM TO ESTABLISH A “ZONE OF REASONABLENESS”**
10 **IN THIS PROCEEDING?**

11 A. Yes. It is inappropriate to use the CAPM as the top end of a range in this
12 proceeding as was done by the Commission in the recent Aqua and Columbia
13 Water base rate proceedings to determine a return on equity. Contrary to the 199-
14 basis point spread in this proceeding, as illustrated above, the spread between the
15 DCF and the CAPM in the Aqua case was more modest at 99 basis points.¹⁸ In the
16 Columbia Water case, the spread between the CAPM and DCF results has
17 significantly increased to 325-basis points (11.09% - 7.84%). In this proceeding,
18 with two times the basis-point impact of the Aqua base rate case results, the burden
19 would be far more onerous for ratepayers and would be unwarranted and
20 inappropriate. In my opinion, and as demonstrated by my analysis, any amount

¹⁸ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 178 (Order entered May 16, 2022).

1 granted above the DCF (8.45% based on my recommendation) is not justified and
2 places an inappropriate burden on water and wastewater ratepayers.

3
4 **CRITIQUE OF MR. HOWARD'S PROPOSED COST OF EQUITY**

5 **Q. DO YOU AGREE WITH MR. HOWARD'S PROPOSED COST OF**
6 **EQUITY?**

7 A. No. I disagree with Mr. Howard's proposed cost of equity analysis for several
8 reasons. First, I disagree with weights given to the results of his DCF, CAPM
9 including ECAPM, and RP analyses in his recommendation. Second, I disagree
10 with the use of a proxy group of companies that includes Essential Utilities, which
11 was used in the calculation of the Company's cost of equity. Third, I disagree
12 with his reliance on the 30-year Treasury Bond for his risk-free rate. Finally, I
13 disagree with Mr. Howard's recommendation to include a 60-basis point (0.60%)
14 size adjustment premium to the recommended cost of common equity. The
15 following table summarizes Mr. Howard's ROE results relative to his proxy group
16 (CUPA Statement No. 8, p. 30, ln. 1):

1

Discounted Cash Flow	8.29%	8.51%
Midpoint	8.40%	
Capital Asset Pricing Model	12.62%	12.61%
Midpoint	12.61%	
Risk Premium Model	10.73%	
Recommended Range Prior to the Application of Company-Specific Size Adjustment of 0.60%	10.00% - 11.00%	

2

3

DISCOUNTED CASH FLOW

4

Q. PLEASE SUMMARIZE MR. HOWARD’S DCF ANALYSIS.

5

A. Mr. Howard excludes Middlesex Water Company’s (MSEX) Constant Growth DCF result of 5.43%, (lowest in the proxy group) because it is lower than the Moody’s A2-rated utility bonds prospective yield of 5.49% (CUPA Statement No. 8, p. 13, lines 18-20). He then calculates an average of the mean and median results with and without MSEX, which results in mean DCF of 8.29% and median DCF of 8.51% (CUPA Schedule MRH-2).

11

12

Q. DO YOU AGREE WITH MR. HOWARD’S DCF ANALYSIS?

13

A. No. It is inappropriate to exclude MSEX’s lowest DCF result from the proxy group analysis. Applying a similar rationale, it would be proper to exclude Essential Utilities, Inc.’s (gas and water utility) highest DCF result of 9.08% in the calculation of mean and median DCF results. Mr. Howard’s DCF result without

14

15

16

1 excluding MSEX's DCF result of 5.43%, produces mean and median DCF results
2 of 8.03% and 8.50% (CUPA Schedule MRH-2). Averaging these mean and
3 median results yields a DCF result of 8.26%, which is lower than his
4 recommended DCF result of 8.40%.

5
6 **WEIGHTS GIVEN TO THE CAPM AND RP MODELS**

7 **Q. DO YOU AGREE WITH MR. HOWARD'S RELIANCE ON THE CAPM**
8 **AND RP MODELS?**

9 A. No. While I am not opposed to providing the Commission the results of the
10 CAPM for a point of comparison to the results of the DCF calculation, I am
11 opposed to giving the CAPM including ECAPM and RP results considerable
12 weight. For the reasons discussed above, including my reference to recent
13 Commission orders, it is not appropriate to give the CAPM including ECAPM and
14 RP models similar weight to the DCF as Mr. Howard has done in creating his
15 recommended cost of equity range (CUPA Statement No. 8, p. 4, line 9). As
16 discussed above, the CAPM measures the cost of equity indirectly and can be
17 manipulated by the time period chosen. Since the RP is a simplified version of the
18 CAPM, it suffers these same flaws. In effect, Mr. Howard blends the RP approach
19 into the DCF and CAPM models to calculate the risk premium estimates using the
20 S&P Utilities Index and S&P 500 market return data (CUPA Schedule MRH-4,
21 p. 6). In response to I&E-RR-7-D, Mr. Howard confirms that he is not aware of
22 any instances where the Commission relied upon an RP analysis to determine an

1 appropriate cost of equity in a base rate proceeding (I&E Exhibit No. 2,
2 Schedule 13, p. 1). Also, as discussed in more detail below, the results of the
3 lesser-used ECAPM should also be rejected. I have not used the ECAPM because
4 it only weights the results of the CAPM in order to flatten the Security Market
5 Line, but it does not correct the previously discussed problems with the CAPM.

6
7 **EMPIRICAL CAPITAL ASSET PRICING MODEL**

8 **Q. WHAT IS THE BASIS FOR MR. HOWARD'S USE OF THE ECAPM?**

9 A. Mr. Howard opines that the beta coefficient is related to security returns, and the
10 empirical Security Market Line (SML) described by the CAPM formula is not as
11 steeply sloped as predicted (CUPA Statement No. 8, p. 16, lines 1-3). Therefore,
12 Mr. Howard used the ECAPM ($K = RF + 0.25(RM - RF) + 0.75 \beta(RM - RF)$) to
13 account for the systematic risk that is not accounted for with beta in the CAPM
14 formula (CUPA Statement No. 8, p. 16, ln. 15).

15
16 **Q. DO YOU AGREE WITH MR. HOWARD'S USE OF THE ECAPM?**

17 A. No. Although some studies indicate that the CAPM does not properly define the
18 SML, the degree to which the CAPM would require adjustment varies widely and
19 is dependent on the inputs used to determine the difference between the SML and
20 actual historical figures. The ECAPM attempts to add a factor, alpha, to "correct"
21 the perceived underestimation of the cost of capital for betas lower than one but as
22 identified in *New Regulatory Finance* by Roger A. Morin, estimations for alpha

1 have a wide range from -9.61% to 13.56%.¹⁹ This large range demonstrates the
2 difficulty of accurately and precisely measuring the difference between what the
3 CAPM is estimating and actual results. The use of the ECAPM in estimating the
4 cost of capital does not increase the validity of the result but merely adds another
5 difficult to measure factor to the CAPM. The CAPM attempts to measure a
6 variable that changes; the difference between a risk-free rate and the market is not
7 a constant factor. The ECAPM attempts to correct the CAPM's inability to
8 accurately predict the cost of capital but does so through an additional factor that
9 corrects none of the underlying problems of the model.

10 Mr. Howard used the ECAPM result with the CAPM result to calculate an
11 average number for his CAPM based ROE recommendation of 12.61%, which
12 inflated his CAPM recommendation from (a) 12.26% to 12.62% (+ 0.36%) and (b)
13 12.25% to 12.61% (+ 0.36%) as shown in the table below (CUPA Statement No. 8
14 p. 19 ln. 13):

¹⁹ Morin, Roger A. (2006). *New Regulatory Finance*. Vienna, VA: Public Utilities Reports, Inc.

1

	CAPM	ECAPM	Average
At Current Risk Free-Rate (3.90%)			
Mean	12.55%	13.19%	12.87%
Median	<u>11.97%</u>	<u>12.76%</u>	<u>12.36%</u>
Average of Mean and Median	<u>12.26%</u>	<u>12.97%</u>	<u>12.62%</u>
At Projected Risk Free-Rate (3.85%)			
Mean	12.54%	13.18%	12.86%
Median	<u>11.96%</u>	<u>12.74%</u>	<u>12.35%</u>
Average of Mean and Median	<u>12.25%</u>	<u>12.96%</u>	<u>12.61%</u>

2

Lastly, Mr. Howard confirms that he is not aware of any instance where the

3

Commission relied upon an ECAPM analysis to determine an appropriate cost of

4

equity in a base rate proceeding (I&E Exhibit No. 2, Schedule 13, p. 2).

5

6

RISK-FREE RATE

7

Q. WHAT RISK-FREE RATE DOES MR. HOWARD USE IN HIS CAPM AND RP MODELS?

8

9

A. Mr. Howard calculates his risk-free rates of 3.90% (current) and 3.85% (projected)

10

based on 30-day average of 30-year Treasury yield as of July 14, 2023 from

11

Bloomberg Professional and the Blue-Chip Financial Forecast Vol. 42, No. 7,

12

June 31, 2023 at p. 2 and Vol. 42, No. 6, June 1, 2023 at p. 14 for the six quarters

13

ending Q4 2024, and the periods 2025-2029 and 2030-2034 respectively (CUPA

14

Schedule MRH-3, p. 1).

1 **Q. DO YOU AGREE WITH MR. HOWARD’S USE OF THE 30-YEAR**
2 **TREASURY BOND TO DETERMINE THE RISK-FREE RATE?**

3 A. No. As discussed above, long-term Treasury Bonds have substantial maturity risk
4 associated with the market risk, the risk of unexpected inflation, and normally
5 offer higher yields to compensate investors for these risks. Using the 10-year
6 Treasury Note is more appropriate to balance the short-term volatility risk and the
7 long-term inflation risk. Additionally, Mr. Howard’s reliance on risk free rates,
8 which were published in June/July 2023 are now six months old.

9

10 **SIZE ADJUSTMENT**

11 **Q. WHAT SIZE ADJUSTMENT HAS MR. HOWARD PROPOSED?**

12 A. Mr. Howard added 60-basis points (0.60%) to his cost of common equity because
13 he opined that size affects business risk because smaller companies are less able to
14 handle fluctuations in revenues, expenses, and capital outlays than larger
15 companies. He further stated that the loss of revenue from a few larger customers
16 would have a greater financial effect on a small company. Therefore, investors
17 require an increased return to compensate for this additional risk (CUPA
18 Statement No. 8, p. 30 lines and p. 31, line 1). Mr. Howard relied upon technical
19 literature of Duff & Phelps’ (now Kroll), Cost of Capital Navigator: U.S. Cost of
20 Capital Module, and Eugene F. Brigham’s, textbook entitled “Fundamentals of
21 Finance Management” (CUPA Statement No. 8, p. 31 lines 2-25). Mr. Howard
22 quantified his size adjustment based on his proxy group’s average market to book

1 ratio of 2.61 and size premiums of Kroll's market capitalization data of listed
2 companies ranked by deciles 1 through 10. While Mr. Howard's proxy group
3 companies fell in the 5th decile, he asserts that CUPA fell in the last 10th decile for
4 size measurement in Kroll's market capitalization data. Accordingly, he opines
5 that his calculation indicates an upward risk premium adjustment of 3.90% (390
6 basis points for a difference between 10th decile and 5th decile size premium) for
7 CUPA's smaller size relative to his proxy group (CUPA Statement No. 8, p. 32
8 lines 1-16 and CUPA Schedule MRH-5). Ultimately, he recommends an upward
9 size risk premium adjustment of 0.60% (60 basis points) to the cost of common
10 equity (CUPA Statement No. 8, p. 32 lines 19-21).

11
12 **Q. DO YOU AGREE WITH MR. HOWARD'S SIZE ADJUSTMENT?**

13 A. No. Mr. Howard's' proposed size adjustment is unnecessary because the technical
14 literature he cites supporting investment adjustments related to the size of a
15 company is not specific to the utility industry; therefore, it has no relevance in this
16 proceeding. Additionally, size premium data based on market capitalization is not
17 reliable because for certain periods, large-capitalization stocks outperform small-
18 capitalization stocks, and it is difficult to establish a sufficient correlation to prove
19 that size is a specific risk for utilities.

1 **Q. IS THERE ACADEMIC EVIDENCE THAT SUPPORTS YOUR**
2 **CONCLUSION THAT THE SIZE ADJUSTMENT FOR RISK IS NOT**
3 **APPLICABLE TO UTILITY COMPANIES?**

4 A. Yes. In the article “Utility Stocks and the Size Effect: An Empirical Analysis,”
5 Dr. Annie Wong concludes,

6 The objective of this study is to examine if the size effect exists
7 in the utility industry. After controlling for equity values, there
8 is some weak evidence that firm size is a missing factor from
9 the CAPM for the industrial but not for utility stocks. This
10 implies that although the size phenomenon has been strongly
11 documented for the industriales, the findings suggest that there
12 is no need to adjust for the firm size in utility rate regulation.²⁰

13 Absent any credible article to refute Dr. Wong’s findings, Mr. Howard’s size
14 adjustment to his cost of common equity results should be rejected.

15

16 **Q. DID THE COMMISSION AWARD A SIZE ADJUSTMENT IN THE**
17 **RECENT PAST?**

18 A. No. In UGI Utilities, Inc. - Electric Division rate case order, the Commission
19 while rejecting the application of a size adjustment noted as follows,

20 Finally, we reject UGI’s request for a leverage adjustment and
21 a size adjustment in the calculation of the CAPM cost of equity.
22 As previously noted, we find no basis in this proceeding to add
23 a leverage adjustment. Additionally, the record indicates that
24 in advocating for a size adjustment, the technical literature UGI
25 cited to is not specific to the regulated utility industry. Further,
26 UGI has not presented any evidence to support application of

²⁰ Dr. Annie Wong, “Utility Stocks and the Size Effect: An Empirical Analysis,” *Journal of Midwest Finance Association* 1993, pp. 95-101.

1 a non-utility study regarding a size adjustment for risk to a
2 utility setting.²¹

3 Similarly, in the Citizens' Electric Company of Lewisburg, PA rate case order, the
4 Commission rejected the claim for an explicit 100-basis point size adjustment as it
5 determined that there was not enough evidence to show whether size is
6 specifically a risk for utilities,

7 Consistent with the foregoing discussion, like the ALJs, we
8 shall not specify an exact size adjustment. Instead, we shall
9 adopt the ALJs' recommendation that Citizens' be awarded a
10 DCF cost of common equity of 9.49%. In our view, this cost
11 of equity is reasonable and strikes an appropriate balance by
12 recognizing the general inverse relationship between a
13 company's size and its risk, while acknowledging that there is
14 not substantial evidence in the record to prove that an explicit
15 size basis point adjustment is warranted in this case.²²
16

17 **Q. BASED ON THE COMPANY'S CLAIMED RATE BASE AND CAPITAL**
18 **STRUCTURE, WHAT IS THE VALUE OF AN ADDITIONAL 60 BASIS**
19 **POINTS FOR SIZE ADJUSTMENT TO THE COST OF EQUITY?**

20 A. The example below illustrates the impact of 60 additional basis points (0.60%) to
21 the Company's ROE if the Commission approves the size adjustment when
22 applied to the Company's FPFTY claimed rate base and capital structure for the
23 water and wastewater operations:

²¹ *Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058 (Order Entered October 25, 2018). *See generally* Disposition of Capital Asset Pricing Model (CAPM), p. 100.

²² *Pa. PUC v. Citizens Electric Company of Lewisburg, PA*; Docket No. R-2019-3008212 (Order Entered April 29, 2020). *See generally* Disposition of Cost of Common Equity, pp. 103-104.

1 **Water Operations:**

CUPA's Claimed Equity Percentage of Capital Structure*	50.00%
Size Adjustment to ROE	0.60%
Claimed Rate Base **	\$14,993,742
Impact Prior to Gross Up (0.50 x 0.0060 x \$14,993,742)	\$44,981
I&E Calculated Gross Revenue Conversion Factor*** (1/0.726879)	1.3757
Total Impact to Ratepayers (\$44,981 x 1.3757)	<u>\$61,880</u>

2 *CUPA Schedule MRH-1, p. 3.
 3 ** CUPA Schedule A, p. 2.
 4 *** CUPA Schedule D-1.

5 **Wastewater Operations:**

CUPA's Claimed Equity Percentage of Capital Structure*	50.00%
Size Adjustment to ROE	0.60%
Claimed Rate Base **	\$17,432,191
Impact Prior to Gross Up (0.50 x 0.0060 x \$17,432,191)	\$52,296
I&E Calculated Gross Revenue Conversion Factor*** (1 / 0.726879)	1.3757
Total Impact to Ratepayers (\$52,296 x 1.3757)	<u>\$71,944</u>

6 *CUPA Schedule MRH-1, p. 3.
 7 ** CUPA Schedule A, p. 3.
 8 *** CUPA Schedule D-1.

9 In this example, an addition of 60 basis points to the cost of equity would burden
 10 water and wastewater ratepayers to fund additional annual amounts of \$61,880 and
 11 \$71,944 to cover the size adjustment premium along with the associated impact
 12 resulting from increases to income taxes.

1 **OVERALL RATE OF RETURN RECOMMENDATION**

2 **Q. WHAT IS THE COMPANY'S PROPOSED COST OF EQUITY AND**
3 **OVERALL RATES OF RETURN?**

4 A. The Company recommends a cost of equity of 10.60% and overall rate of return of
5 7.92% for both water and wastewater operations.

6

7 **Q. WHAT IS I&E'S RECOMMENDED COST OF EQUITY AND OVERALL**
8 **RATES OF RETURN?**

9 A. I&E Exhibit No. 2, Schedule 1, shows the calculation of an appropriate cost of
10 equity for CUPA to be 8.45% and overall rate of return of 6.85% for water and
11 wastewater operations.

12

13 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

14 A. Yes.

D. C. Patel
Professional and Educational Background

EXPERIENCE:

- Pennsylvania Public Utility Commission, Harrisburg, Pennsylvania
June 2015 to Present
Fixed Utility Financial Analyst, Bureau of Investigation and Enforcement
- Pennsylvania Insurance Department, Harrisburg, Pennsylvania
March 2013 - June 2015
Insurance Company Financial Analyst, Bureau of Company Licensing & Financial Analysis
- Pennsylvania Department of Revenue, Harrisburg, Pennsylvania
November 2010 - March 2013
Accounting Assistant, Bureau of Corporation Taxes (Accounting)
- Hersha Hospitality Management, Harrisburg, Pennsylvania
June 2007 - November 2010
Staff Accountant (Taxes), Accounting Department
- Corporate Experience-India
February 1987 - April 2007
Worked as Company Secretary for three different companies during this period, which were listed on the Stock Exchanges.

EDUCATION/CERTIFICATION:

- Gujarat State University, Ahmedabad, India:
Bachelor of Commerce (Major concentration: Accounting)
June 1980 - April 1983
Bachelor of Law
June 1983 - December 1988
- The Institute of Company Secretaries of India, New Delhi, India:
Post Graduate Professional Degree: Company Secretary
June 1983 - December 1985

RATE CASE TRAINING:

- Attended SURFA - 54th Financial Forum (ROR) in April 2023
- Attended 37th Western NARUC Utility Rate School in May 2016

WORKED ON THE FOLLOWING CASES (Testimony not required):

- R-2022-3032167 - Columbia Gas of Pennsylvania, Inc. (Green Path Rider)
- R-2022-3031172 - Columbia Gas of Pennsylvania, Inc. (1307(f))
- R-2021-3024349 - Columbia Gas of Pennsylvania, Inc. (1307(f))
- R-2021-3023541 - National Fuel Gas Distribution Corporation (§ 1307(f))
- A-2020-3021460 - PA American Water Co.-Upper Pottsgrove-Wastewater (1329)
- A-2020-3020178 - PA American Water Co.-Valley Township-Wastewater (1329)
- A-2020-3019859 - PA American Water Co.-Valley Township-Water (1329)
- R-2020-3019661 - PECO Energy Co. - Gas Operations (1307(f))
- U-2020-3015258 - Pittsburgh Water and Sewer Authority
- R-2019-3008255 - Columbia Gas of Pennsylvania, Inc. (1307(f))
- R-2018-3001568 - PECO Energy Co. - Gas Operations (1307(f))
- R-2018-3000253 - Columbia Gas of Pennsylvania, Inc. (1307(f))
- R-2017-2631441 - Reynolds Water Co.
- A-2017-2629534 - PPL Electric Utilities (Restructuring Plan)
- R-2017-2602611 - PECO Energy Co. - Gas Operations (1307(f))
- R-2016-2567893 - Andreassi Gas Co.
- R-2016-2525128 - Columbia Water Co. - Marietta Division
- R-2015-2493905 - Sands, Inc.
- R-2015-2479962 - Corner Water Supply and Service Corporation
- R-2015-2479955 - Allied Utility Services, Inc.

SUBMITTED TESTIMONY IN THE FOLLOWING CASES:

- R-2023-3038630 Columbia Gas of Pennsylvania, Inc. (1307(f))
- R-2023-3037933 Philadelphia Gas Works
- R-2022-3037368 UGI Electric, Inc. - Electric Division
- A-2022-3034143 Aqua Pennsylvania, Inc. - Borough of Shenandoah (Water System) (1329)
- R-2022-3031672 and R-2022-3031673 - PA American Water Co.
- R-2022-3031211 - Columbia Gas of Pennsylvania, Inc.
- R-2021-3024773 et al. - Pittsburgh Water and Sewer Authority
- A-2021-3024058- PA American Water Co. - Borough of Brentwood (Wastewater System) - 1329
- A-2021-3024681 - PA American Water Co. - York City Sewer Authority/City of York (Wastewater System) (1329)
- R-2021-3024601 - PECO Energy Co. - Electric Operations
- A-2021-3024267 - Aqua Pennsylvania Wastewater, Inc. - Lower Makefield (WW) (1329)
- A-2020-3019634 - PA American Water Co. - Royersford Wastewater (1329)
- R-2020-3018993 - Columbia Gas Pennsylvania, Inc. (1307(f))

- R-2020-3018921 - PECO Energy Co. - Gas Operations
- R-2020-3017951 et al. - Pittsburgh Water and Sewer Authority
- A-2019-3008491 - Aqua Pennsylvania Wastewater, Inc.
- R-2019-3008212 - Citizens Electric Company of Lewisburg, PA
- R-2019-3008208 - Wellsboro Electric Company
- R-2018-3006814 - UGI Utilities, Inc. (Gas Division)
- R-2018-3002645 and 3002647 - Pittsburgh Water and Sewer Authority
- R-2018-3000834 - Suez Water Pennsylvania, Inc.
- R-2018-2647577 - Columbia Gas of Pennsylvania, Inc.
- M-2018-2640802 and M-2018-2640803 - Pittsburgh Water and Sewer Authority (Compliance Plan Stage 2)
- R-2017-2595853 - Pennsylvania American Water Co.
- R-2016-2580030 - UGI Penn Natural Gas, Inc.
- R-2016-2554150 - City of DuBois - Bureau of Water
- R-2016-2529660 - Columbia Gas of Pennsylvania, Inc.
- P-2016-2526627 - PPL Electric Utilities Corp. (DSP IV)

I&E Exhibit No. 2
Witness: D. C. Patel

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

COMMUNITY UTILITIES OF PENNSYLVANIA, INC.

Docket No. R-2023-3042804 (Water)
&
Docket No. R-2023-3042805 (Wastewater)

Exhibit to Accompany

the

Direct Testimony

of

D. C. Patel

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

ECONOMY | CENTRAL BANKING

Fed Begins Pivot Toward Lowering Rates as Inflation Declines

Officials don't rule out further hikes while penciling in three rate cuts in 2024

By *Nick Timiraos* [Follow](#)

Updated Dec. 13, 2023 6:32 pm ET

WASHINGTON—Slowing inflation prompted Federal Reserve Chair Jerome Powell to pivot away from raising interest rates and toward considering when to cut them, igniting a rally on Wall Street.

The Fed held its benchmark federal-funds rate steady at a 22-year high on Wednesday and offered every reason to think that its most recent increase this past July probably marked the end of the most aggressive cycle of hikes in four decades.

At a press conference, Powell focused instead on the risk of causing unnecessary harm to the economy by leaving rates too high as inflation falls. “We’re aware of the risk that we would hang on too long,” he said. “We’re very focused on not making that mistake.”

All three major stock indexes climbed, with the Dow industrials up 512 points or 1.4% to 37090, a record close. Yields on the 10-year Treasury note declined 0.173 percentage point to 4.032%, the lowest level since August.

Officially, the Fed’s policy statement indicated policy makers left the door open to raising rates again. “It is far too early to declare victory, and there are certainly risks,” Powell said.

But Powell’s comments made the carefully crafted policy communiqué feel stale less than an hour after it was released by suggesting officials had turned their attention to rate cuts. “There’s a general expectation that this will be a topic for us, looking ahead. That’s really what happened in today’s meeting,” he said.

Powell's remarks, along with new projections showing Fed officials anticipated three rate cuts next year, marked a notable U-turn. For more than a year, he had warned that they would raise rates as much as needed to lower inflation even if that triggered a recession.

The comment about rate cuts was surprising because just two weeks ago during an appearance at Spelman College in Atlanta, Powell said it was too soon to speculate about when lower rates might be appropriate.

I&E Exhibit No. 2
Schedule 1
Page 2 of 6



The Federal Reserve, led by Chair Jerome Powell, has held its benchmark rate steady at three consecutive meetings. PHOTO: BRENDAN SMIALOWSKI/AGENCE FRANCE-PRESSE/GETTY IMAGES

“Powell played Santa Claus early,” said Diane Swonk, chief economist at KPMG. “It was a 180-degree shift, right there.”

Powell indicated officials were turning their attention to rate cuts because inflation has declined much faster than they expected. In their latest projections, they expected core prices, which exclude volatile food and energy items, to rise 3.2% this quarter from a year ago, down from their September projection of 3.7%. They see core inflation of 2.4% at the end of next year, down from their September expectation of 2.6%.

Government data released
Wednesday morning suggest that
core prices registered a very mild
rise in November as measured by the

Fed's preferred inflation gauge, which will be released by the Commerce Department later this month. Wall Street forecasters said that could put core inflation on track to reach or even dip below 2% on a six-month annualized basis, and it could drop the 12-month rate to 3.1%. The Fed targets 2% annual inflation.

"I welcome the progress," Powell said. "We just need to see more."

Powell said it was too soon to say whether the last stretch of inflation reduction would prove harder than the ground covered so far. "We kind of assume that it will get harder from here, but so far, it hasn't," he said.

With Wednesday's decision, the Fed has held its fed-funds rate steady at three consecutive policy meetings in a range between 5.25% and 5.5%.

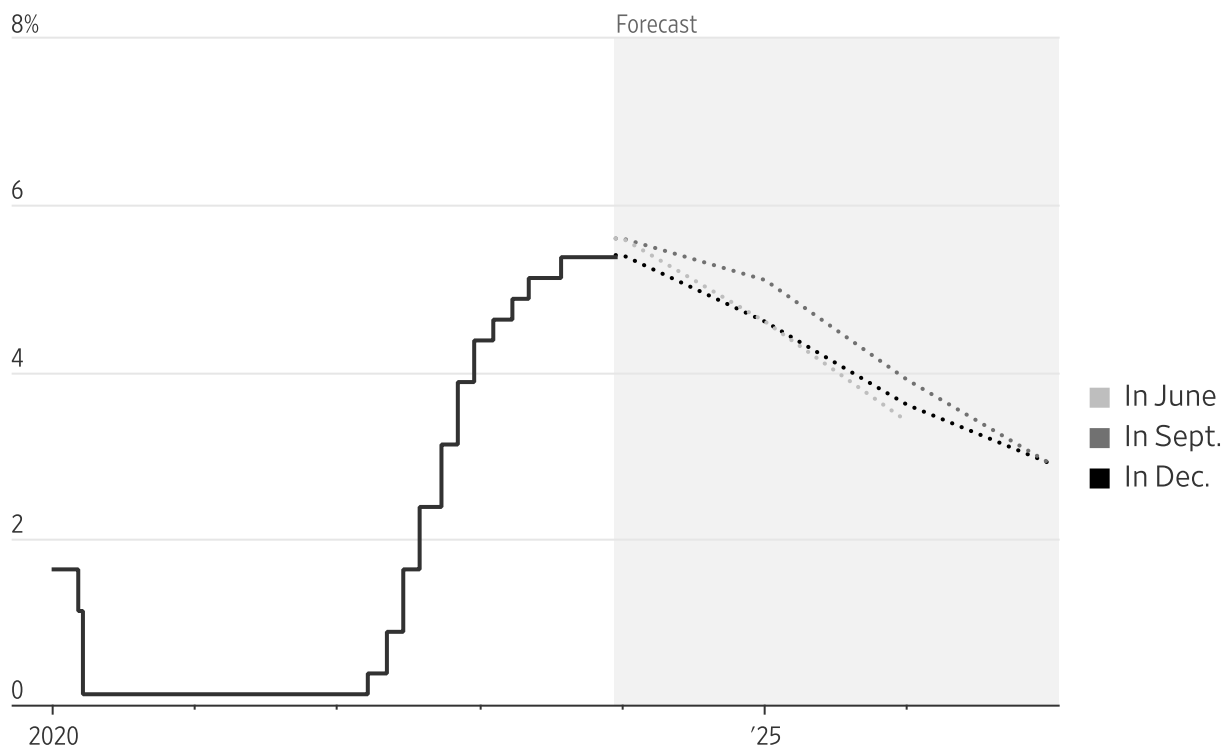
In September, officials had projected one more hike this year followed by two cuts next year, taking the fed-funds rate to around 5.1%. On Wednesday, officials projected they would lower it to around 4.6% by the end of 2024, the equivalent of three quarter-point reductions from the current level.

Investors in interest-rate futures markets dialed up bets that the Fed would begin cutting rates in March, placing a roughly 80% probability of lower rates, according to CME Group.

The U.S. economic outlook has brightened in recent months because inflation and wage growth are slowing. That would give the Fed more room to lower rates rapidly if the economy weakens more than officials expect, and it could open the door to cuts even if the expansion doesn't stall.

One year ago, many economists anticipated that Fed officials would have to raise rates to levels that would create enough slack—such as unemployed workers and idled factories—to significantly slow inflation. But healed supply chains and an influx of workers into the labor force are curbing wage and price increases without causing broad economic weakness.

Federal-funds rate target



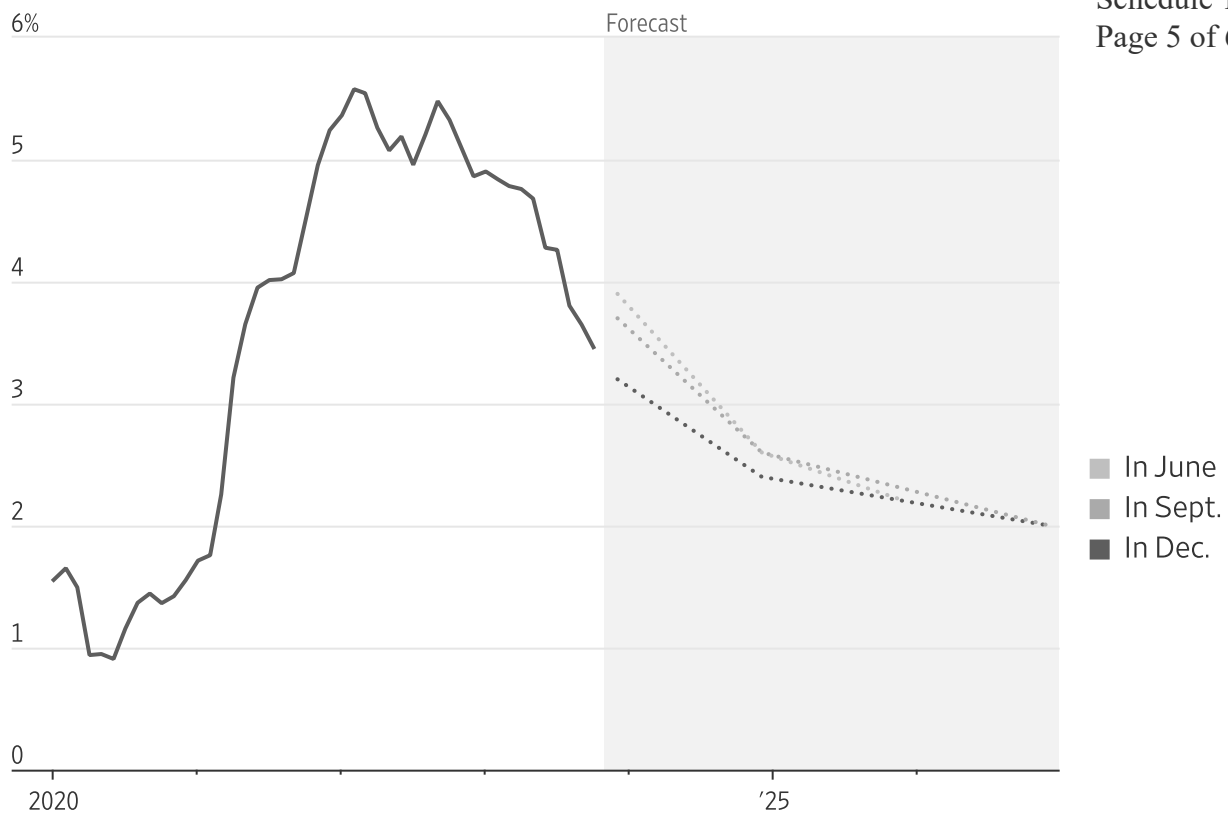
Notes: Midpoint of range; forecasts are the median value projected at the end of each year
 Source: Federal Reserve

The labor market has been cooling but remains solid. The unemployment rate ticked down to 3.7% last month from 3.9% in October, and private-sector employers have added an average of 130,000 jobs a month over the past six months, down from 228,000 during the six months before that.

Powell repeated his view that officials could lower rates next year simply because inflation is well on its way to their 2% target. Holding rates steady as inflation falls would lead inflation-adjusted or “real” rates to rise, which the Fed doesn’t want. Officials could lower nominal rates simply to prevent real interest rates from turning too tight.

“You wouldn’t wait to get to 2% [inflation] to cut rates,” Powell said. “It would be too late. You’d want to be reducing” the amount of “restriction on the economy well before you get to 2%.”

Change in core prices from a year earlier



Notes: Seasonally adjusted personal consumption expenditure prices excluding food and energy costs; forecasts are the median value projected at the end of each year
Source: Commerce Department (actual), Federal Reserve (forecast)

Still, officials don't want a premature declaration of victory over inflation to cause market rallies that might make it harder to sustain the slower economic growth they believe necessary to conquer inflation.

Before cutting rates, "you'd want to be highly confident that you were going to be able to pull off" maintaining inflation around 2%, said Dudley. "Things are going to be very tricky this coming year. This is going to be more art than science."

Swonk said Powell's comments on Wednesday suggested officials were comfortable with some easing in financial conditions now after a bond-market selloff this fall had pushed up a range of borrowing costs for auto loans, mortgages and business debt.

"They clearly don't want to look like they are the enemy of growth with inflation coming down," she said. "Financial conditions easing are going to stimulate the economy enough to slow down the deceleration of inflation, and I think the Fed is comfortable with that."

Inflation and the Economy

Analysis from The Wall Street Journal, selected by the editors



Fed Holds Rates Steady and Sees Cuts Next Year



Inflation Eased in November



Yellen Says Economy on Path to Soft Landing



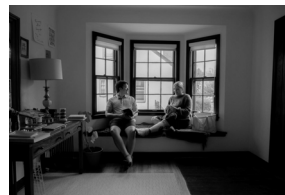
Here's Where Prices Are Actually Coming Down



The Economy Is Great. Why Are Americans in Such a Rotten Mood?



Household Net Worth Surged After the Pandemic Hit



Americans Finally Start to Feel the Rate-Hike Sting



What to Know About Inflation

Appeared in the December 14, 2023, print edition as 'Fed Starts The Pivot Toward Lowering Rates'.

I & E

Summary of Cost of Capital - Water and Wastewater Operations

Type of Capital	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	50.00%	5.24%	2.62%
Common Equity	50.00%	8.45%	4.23%
Total	100.00%		6.85%

	Proxy Group Capital Structure					Average
	2022	2021	2020	2019	2018	
American Water Works Company, Inc.						
Long-term Debt	\$ 10,999,000	\$ 10,424,000	\$ 9,414,000	\$ 8,733,000	\$ 7,576,000	58.43%
Preferred Stock	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%
Common Equity	\$ 7,693,000	\$ 7,298,000	\$ 6,454,000	\$ 6,121,000	\$ 5,864,000	41.57%
	\$ 18,692,000	\$ 17,722,000	\$ 15,868,000	\$ 14,854,000	\$ 13,440,000	100.00%
American States Water Company						
Long-term Debt	476,637	595,596	584,184	492,735	376,587	43.93%
Preferred Stock	-	-	-	-	-	0.00%
Common Equity	709,549	685,947	641,673	601,530	558,223	56.07%
	1,186,186	1,281,543	1,225,857	1,094,265	934,810	100.00%
California Water Service Group						
Long-term Debt	1,066,325	1,069,395	794,968	799,682	710,027	47.71%
Preferred Stock	-	-	-	-	-	0.00%
Common Equity	1,317,590	1,177,594	921,344	779,906	730,157	52.29%
	2,383,915	2,246,989	1,716,312	1,579,588	1,440,184	100.00%
Middlesex Water Company						
Long-term Debt	293,986	310,887	278,286	236,509	152,851	42.44%
Preferred Stock	2,084	2,084	2,084	2,084	2,433	0.38%
Common Equity	400,328	367,726	346,208	323,792	248,787	57.18%
	696,398	680,697	626,578	562,385	404,071	100.00%
SJW Group						
Long-term Debt	1,491,965	1,492,935	1,287,580	1,283,597	431,424	53.30%
Preferred Stock	-	-	-	-	-	0.00%
Common Equity	1,110,868	1,034,519	917,160	889,984	889,312	46.70%
	2,602,833	2,527,454	2,204,740	2,173,581	1,320,736	100.00%
Five-Year Average Capital Structure						
Long-term Debt	49.16%	Maximum	Minimum	42.44%		
Preferred Stock	0.08%					
Common Equity	50.76%	Minimum	Maximum	57.18%		
	100.00%					

Source:
Compustat (S&P Global Market Intelligence - Data Management Solutions)
Yearly data updates typically provided late April of each year

Proxy Group Debt Cost

2022

Company	Interest Charges	Long-Term Debt	Debt Cost
American Water Works Company, Inc.	\$ 447.00	\$ 10,999.00	4.06%
American States Water Company	27.03	476.64	5.67%
California Water Service Group	46.69	1,066.32	4.38%
Middlesex Water Company	9.37	293.99	3.19%
SJW Group	62.76	1,491.96	4.21%
	Range:	Low	3.19%
		High	5.67%
		Average	<u>4.30%</u>

Source:

Compustat (S&P Global Market Intelligence - Data Management Solutions)

Yearly data updates typically provided late April of each year

Dollar amount in millions.

Mergent Bond Record
A-Rated Public Utility Bond Yields

Month	Yield
11/1/2022	5.75%
12/1/2022	5.28%
1/1/2023	5.20%
2/1/2023	5.29%
3/1/2023	5.39%
4/1/2023	5.13%
5/1/2023	5.36%
6/1/2023	5.38%
7/1/2023	5.41%
8/1/2023	5.71%
9/1/2023	5.86%
10/1/2023	6.34%
11/1/2023	5.96%
Average	<u>5.54%</u>

Source: Mergent Bond Record - Public Utility Bonds 12/1/2023.

Dividend Yields of the Proxy Group

Company	American Water Works Company, Inc.	American States Water Company	California Water Service Group	Middlesex Water Company	SJW Group
<i>Symbol</i>	<i>AWK</i>	<i>AWR</i>	<i>CWT</i>	<i>MSEX</i>	<i>SJW</i>
Div	3.00	1.80	1.12	1.32	1.60
52-wk low	114.25	75.20	45.44	61.34	56.96
52-wk high	162.59	99.19	63.92	90.56	81.90
Spot Price	133.51	79.52	51.89	62.95	65.65
Spot Div Yield	2.25%	2.26%	2.16%	2.10%	2.44%
52-wk Div Yield	2.17%	2.06%	2.05%	1.74%	2.30%
Average	2.21%	2.16%	2.10%	1.92%	2.37%

	Average
Spot Div Yield	2.24%
52-wk Div Yield	2.06%
Average	2.15%

Source: Barrons 1/3/2024
Value Line 01/05/24

Five-Year Growth Estimate Forecast for Proxy Group (Actual)

Company	Symbol	Yahoo!	Zacks	Value Line	Average
		Source			
American Water Works Company, Inc.	AWK	7.78%	7.80%	3.00%	6.19%
American States Water Company	AWR	4.40%	6.30%	6.50%	5.73%
California Water Service Group	CWT	10.80%	NA	6.50%	8.65%
Middlesex Water Company	MSEX	2.70%	NA	5.00%	3.85%
SJW Group	SJW	6.10%	NA	8.00%	7.05%
Average					6.30%

Sources date:

1/3/2024 & 1/4/2024

Expected Market Cost Rate of Equity for the Proxy Group

	Adjusted Dividend Yield	Growth Rate	Expected Return on Equity
	(1)	(2)	(3=1+2)
American Water Works Company, Inc.	2.21%	6.19%	8.40%
American States Water Company	2.16%	5.73%	7.90%
California Water Service Group	2.10%	8.65%	10.75%
Middlesex Water Company	1.92%	3.85%	5.77%
SJW Group	2.37%	7.05%	9.42%
Average	2.15%	6.30%	8.45%

Minimum ROE **5.77%**
Maximum ROE **10.75%**

I&E Exhibit No. 2
Schedule 8

<u>Company</u>	<u>Beta</u>
American Water Works Company, Inc.	0.95
American States Water Company	0.70
California Water Service Group	0.75
Middlesex Water Company	0.75
SJW Group	0.85
Average beta for CAPM	<u>0.80</u>

Source:
Value Line
01/05/24

Risk-Free Rate

<u>10-Year Treasury Note</u>	<u>Yield</u>
1Q 2024	4.20
2Q 2024	4.10
3Q 2024	3.90
4Q 2024	3.90
2025-2029	3.90
Average	<u>4.00</u>

Source:
12/1/2023 & 12/28/2023

Required Rate of Return on Market as a Whole Forecasted

	<u>Dividend Yield</u>	+	<u>Growth Rate</u>	=	<u>Expected Market Return</u>
Value Line Estimate	2.20%		9.73%	(a)	11.93%
S&P 500 Historical Return					12.16%
Average Expected Market Return				=	<u>12.05%</u>

(a) $((1+45\%)^{.25}-1)$ Value Line forecast for the 3 to 5 year index appreciation is 45%

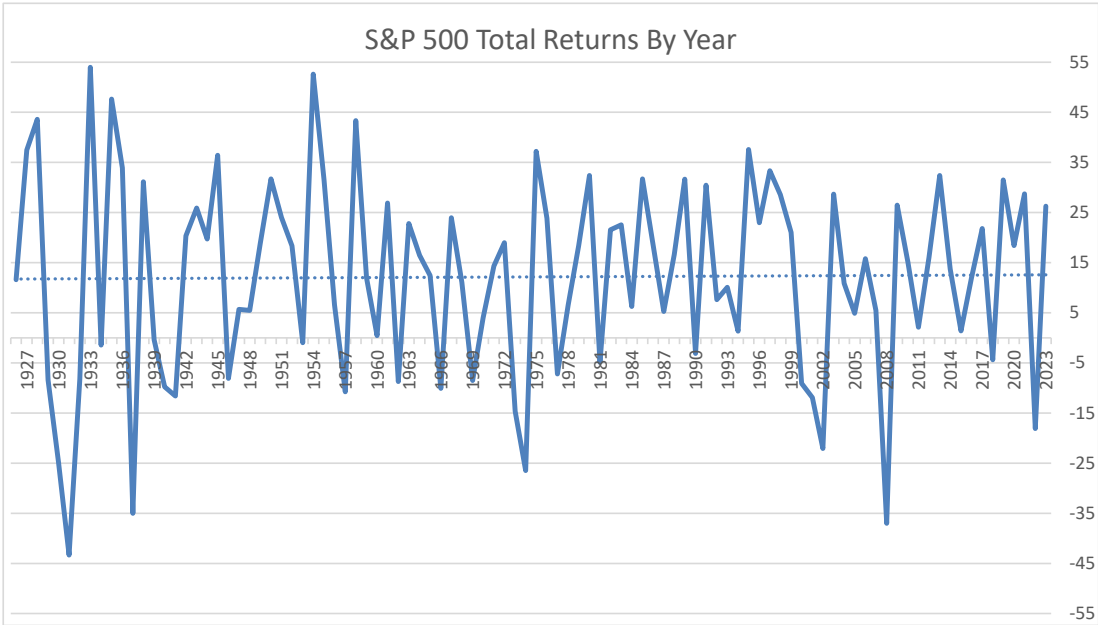
Sources:

S&P 500 Historical Return	1926-2023	12.16%
Value Line Dividend Yield	1/5/2024	2.20%
Value Line Appreciation Potential	1/5/2024	45.00%

S&P 500 Total Return

Year	Return
2023	26.29
2022	-18.11
2021	28.71
2020	18.4
2019	31.49
2018	-4.38
2017	21.83
2016	11.96
2015	1.38
2014	13.69
2013	32.39
2012	16
2011	2.11
2010	15.06
2009	26.46
2008	-37
2007	5.49
2006	15.79
2005	4.91
2004	10.88
2003	28.68
2002	-22.1
2001	-11.89
2000	-9.1
1999	21.04
1998	28.58
1997	33.36
1996	22.96
1995	37.58
1994	1.32
1993	10.08
1992	7.62
1991	30.47
1990	-3.1
1989	31.69
1988	16.61
1987	5.25
1986	18.67
1985	31.73
1984	6.27
1983	22.56
1982	21.55
1981	-4.91
1980	32.42
1979	18.44
1978	6.56
1977	-7.18
1976	23.84
1975	37.2
1974	-26.47
1973	-14.66
1972	18.98
1971	14.31
1970	4.01
1969	-8.5
1968	11.06
1967	23.98
1966	-10.06
1965	12.45
1964	16.48
1963	22.8
1962	-8.73

1961	26.89
1960	0.47
1959	11.96
1958	43.36
1957	-10.78
1956	6.56
1955	31.56
1954	52.62
1953	-0.99
1952	18.37
1951	24.02
1950	31.71
1949	18.79
1948	5.5
1947	5.71
1946	-8.07
1945	36.44
1944	19.75
1943	25.9
1942	20.34
1941	-11.59
1940	-9.78
1939	-0.41
1938	31.12
1937	-35.03
1936	33.92
1935	47.67
1934	-1.44
1933	53.99
1932	-8.19
1931	-43.34
1930	-24.9
1929	-8.42
1928	43.61
1927	37.49
1926	11.62



Average 12.16

Source:
<https://www.slickcharts.com/sp500/returns>

CAPM with Forecasted Return

Re Required return on individual equity security
Rf Risk-free rate
Rm Required return on the market as a whole
Be Beta on individual equity security

$$\mathbf{Re} = Rf + Be(Rm - Rf)$$

$$\mathbf{Rf} = 4.00$$

$$\mathbf{Rm} = 12.05$$

$$\mathbf{Be} = 0.80$$

$$\mathbf{Re} = \underline{\underline{10.44}}$$

Sources: Blue Chip Financial Forecasts
Value Line

12/1/2023 & 12/28/2023
1/5/2024

Community Utilities of Pennsylvania, Inc.’s Responses to Bureau of Investigation and Enforcement Data Requests, Set RR Nos. 1-D through 16-D

I&E-RR-15-D Reference CUPA filing Schedule D-1, p. 985 concerning net income factor calculation:

- A. Explain why the uncollectible rate and utility tax factors for water and wastewater operations (Column E and F) are not considered or included in the calculation of the net income factor.
- B. Identify and provide the calculation for the gross revenue conversion factor separately for water, wastewater, and total Company for the HTY, FTY, and FPPTY to account for the need to gross-up revenue for taxes, uncollectible, assessments (utility tax), etc.

RESPONSE:

- A. The original intent was to include both items as part of the net income retention factor calculation shown on Schedule D-1, however the inclusion resulted in circular references.
- B. **Uncollectible** - The retention factor that includes the uncollectible gross up is shown on filing “Schedule D-4 Service Revenue Requirement.”

Utility Tax – included as normal expense adjustment to TOTI and is included as part of the revenue requirement on “Schedule D-3 Total Revenue Requirement.” Supporting calculations are shown on filing “Schedules B-4 Utility Commission Tax” and “Schedule B-26 Taxes other than Income.”

Taxes – Gross up for taxes are shown on Schedule D-1.

Provided by: Anthony Gray

Date: 12/31/2023

Community Utilities of Pennsylvania, Inc.'s Responses to Bureau of Investigation and Enforcement Data Requests, Set RR Nos. 1-D through 16-D

I&E-RR-7-D Reference CUPA Statement No. 8, p. 29 concerning Risk Premium (RP) results. State whether Mr. Howard is aware of any instances where the Commission relied upon RP analysis to determine an appropriate cost of equity in a base rate proceeding. If so, identify the underlying cases, including the docket number.

RESPONSE:

Mr. Howard has not conducted an exhaustive study of all Commission orders, but he is not aware of any instances where the Commission solely relied upon an RP analysis to determine an appropriate cost of equity in a base rate proceeding.

Provided by: Matthew R. Howard

Date: 12/13/2023

Community Utilities of Pennsylvania, Inc.'s Responses to Bureau of Investigation and Enforcement Data Requests, Set RR Nos. 1-D through 16-D

I&E-RR-6-D Reference CUPA Statement No. 8, p. 19 concerning the empirical capital asset pricing model (ECAPM) result. State whether Mr. Howard is aware of any instances where the Commission relied upon an ECAPM analysis to determine an appropriate cost of equity in a base rate proceeding. If so, identify the underlying cases, including the docket number.

RESPONSE:

Mr. Howard has not conducted an exhaustive study of all Commission orders, but he is not aware of any instances where the Commission solely relied upon an ECAPM analysis to determine an appropriate cost of equity in a base rate proceeding.

Provided by: Matthew R. Howard

Date: 12/13/2023

**I&E Statement No. 3
Witness: Esyan A. Sakaya**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

V.

COMMUNITY UTILITIES OF PENNSYLVANIA - WATER DIVISION

Docket No. R-2023-3042804

Direct Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

Test Year

Rate Base

Plant and Reporting Requirements

Unaccounted-For Water

Cost of Service

Rate Structure

Public Input Hearings

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Esyan A. Sakaya. My business address is Pennsylvania Public Utility
4 Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg,
5 Pennsylvania 17120.

6
7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am employed by the Pennsylvania Public Utility Commission (“Commission”) in
9 the Bureau of Investigation and Enforcement (“I&E”) as a Fixed Utility Valuation
10 Engineer.

11

12 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL
13 BACKGROUND?**

14 A. My education and professional background are set forth in Appendix A, which is
15 attached.

16

17 **Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.**

18 A. I&E is responsible for protecting the public interest in proceedings before the
19 Commission. The I&E analysis in the proceeding is based on its responsibility to
20 represent the public interest. This responsibility requires balancing the interests of
21 the ratepayers, the company, and the regulated community as a whole.

1 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

2 A. The purpose of my direct testimony is to evaluate Community Utilities of
3 Pennsylvania, Inc. (“CUPA” or “Company”) Water Division’s request for an
4 annual increase in operating revenue of \$1,449,638 (CUPA Schedule B, p. 2). My
5 direct testimony will address issues related to rate base, reporting requirements,
6 unaccounted for water, and rate structure.

7
8 **Q. DOES YOUR DIRECT TESTIMONY INCLUDE AN EXHIBIT?**

9 A. Yes. I&E Exhibit No. 3 contains schedules that support my direct testimony.

10

11 **Q. SUMMARIZE THE COMPANY’S PROPOSED RATES.**

12 A. In this filing, the Company is proposing to merge rates across six classes of
13 service in the Consolidated and Tamiment service divisions in a manner that
14 would bill users with the same size service meters uniform rates. The six classes
15 of service being proposed are: Residential, Low-Income Residential, Commercial,
16 Pool, Availability, and Fire Service.

17

18 **EXPLANATION OF TEST YEARS**

19 **Q. WHAT IS A TEST YEAR AND HOW IS IT USED BY A COMPANY IN A**
20 **RATE PROCEEDING?**

21 A. A test year is the twelve-month period over which a utility’s costs and revenues
22 are measured as the basis for setting prospective base rates. In order to meet its

1 burden of proof, a utility has the option of selecting to use a historic test year
2 (“HTY”), a future test year (“FTY”), or a Fully Projected Future Test Year
3 (“FPFTY”). An HTY is a twelve-month period selected by a utility that represents
4 a recent full year of actual data. An FTY begins the day after the HTY ends and is
5 determined using a combination of actual data with a projection of annualized and
6 normalized estimates of future revenues and expenses and a corresponding
7 measure of value at the end of that period. The FPFTY is defined as the twelve-
8 month period that begins with the first month that the new rates will be placed into
9 effect, after the application of the full suspension period permitted under Section
10 1308(d). The FPFTY is a shift from the fundamental ratemaking principle that a
11 public utility should only be permitted to include projects in rate base and earn a
12 reasonable return on its investments after they become “used and useful” for the
13 utility’s public service.

14
15 **Q. WHAT TEST YEARS HAS THE COMPANY USED IN THIS**
16 **PROCEEDING?**

17 A. The Company used the twelve months ended July 31, 2023 as the HTY, the twelve
18 months ending July 31, 2024 as the FTY, and the twelve months ending July 31,
19 2025 as the FPFTY (CUPA St. No. 1, p. 10).

1 **Q. WHAT TEST YEAR HAS THE COMPANY BASED ITS REVENUE**
2 **REQUIREMENT ON IN THIS PROCEEDING?**

3 A. CUPA based its requested revenue requirement on the FPFTY ending July 31,
4 2025 (CUPA St. No. 2, p. 2).

5

6 **Q. DID THE COMPANY PROVIDE A COST OF SERVICE STUDY?**

7 A. Yes. As part of this filing, the Company submitted a cost of service study (“COSS”)
8 that allocated and assigned the various costs of providing service to various functions
9 (CUPA EX SAM-2).

10

11 **Q. BRIEFLY DESCRIBE THE WATER SERVICE TERRITORY OF CUPA.**

12 A. CUPA provides water service to approximately 3,257 customers via (9) wells and
13 more than 294,000 linear feet of water distribution mains. Additionally, CUPA
14 purchases bulk water from the City of Bethlehem for a portion of its customers
15 located in Hanover Township in Northampton County, Pennsylvania (CUPA St.
16 No. 1, p. 4). CUPA’s water service divisions are located in Stroud and Pocono
17 Townships in Monroe County, a portion of Hanover Township in Northampton
18 County, and portions of Lehman Township in Pike County.

19

20 **RATE BASE**

21 **Q. WHAT IS RATE BASE?**

22 A. Rate base is the depreciated original cost of a utility’s investment in plant to serve

1 customers plus additions and deductions that are determined to be necessary to
2 keep the utility operating and providing safe and reliable service to its customers.

3
4 **Q. HOW IS RATE BASE USED WITHIN THE RATEMAKING FORMULA?**

5 A. Rate base is one part of the financial equation used by the Commission to
6 determine the appropriate revenue that a utility is granted in a rate proceeding.
7 The revenue determination allows the utility to meet its expense obligations and
8 gives it the opportunity to earn the rate of return established by the Commission in
9 a rate proceeding. The equation used to determine the proper revenue requirement
10 level is as follows: $\text{Revenue Requirement} = (\text{Rate Base} \times \text{Rate of Return}) +$
11 $\text{Operating Expenses} + \text{Depreciation Expense} + \text{Taxes}.$

12
13 **Q. HOW IS THE DEPRECIATED ORIGINAL COST OF PLANT-IN-**
14 **SERVICE AT THE END OF THE TEST YEAR DETERMINED?**

15 A. The depreciated original cost is equal to the original cost of the plant-in-service
16 that is used and useful in the provision of utility service to the customers less the
17 depreciation reserve as adjusted by other items such as salvage value and removal
18 costs. By using an FPFTY, the depreciated original cost of the plant in service is
19 computed by taking a “snapshot” look at the depreciated original cost value of
20 used and useful utility plant estimated to be in service at the end of the FPFTY.

1 **Q. WHAT OTHER ADDITIONS AND DEDUCTIONS TO THE**
2 **DEPRECIATED ORIGINAL COST OF UTILITY PLANT ARE**
3 **ALLOWED TO DETERMINE RATE BASE?**

4 A. In general, the type of the utility dictates what additions it is allowed to claim in a
5 rate proceeding. Materials and supplies, prepayments, and cash working capital,
6 among others, are the additions to the depreciated original cost of utility plant.
7 Deductions may include items such as deferred income taxes and customer
8 deposits.

9
10 **Q. WHAT WAS THE COMPANY'S INITIAL DEPRECIATED ORIGINAL**
11 **COST CLAIM AND WHAT ADDITIONS AND DEDUCTIONS IS THE**
12 **COMPANY PROPOSING TO THE DEPRECIATED ORIGINAL COST?**

13 A. The FPPTY depreciated original cost claimed by the Company in this proceeding
14 for CUPA's Water Division is \$16,297,355 (CUPA Sch. A, p. 2). The originally
15 claimed additions to the Company's Water Division depreciated original cost are
16 as follows: cash working capital, customer deposits, inventory, the Oracle Fusion
17 asset, and deferred charges.

18 The deductions to the depreciated original cost are: contributions in aid of
19 construction, accumulated deferred income taxes, and the net plant acquisition
20 adjustment.

1 **Q. WHAT TOTAL RATE BASE IS THE COMPANY CLAIMING IN ITS**
2 **FILING?**

3 A. The Company is claiming \$14,993,742 in FPFTY rate base (I&E Ex. No. 3,
4 Sch. 1, Col. K, line 11 and CUPA, Sch. A, p. 2, Col. I, line 13).

5

6 **PLANT AND REPORTING REQUIREMENTS**

7 **Q. WHAT IS PLANT IN SERVICE?**

8 A. The plant in service is the part of the utility's rate base investment in plant used
9 and useful to provide service to ratepayers.

10

11 **Q. WHAT IS THE COMPANY CLAIMING FOR PLANT IN SERVICE FOR**
12 **THE FTY AND FPFTY?**

13 A. The Company's claim for gross utility plant in service is \$19,994,942 for the FTY
14 and \$21,824,776 for the FPFTY (I&E Ex. No. 3, Sch. 2, Columns G, F, and H,
15 line 44 and CUPA Sch. A-1, Columns E and G, line 50).

16

17 **Q. WHAT IS THE COMPANY'S CLAIM FOR PLANT ADDITIONS IN EACH**
18 **TEST YEAR?**

19 A. The Company's plant forecast adjustment claim going into the FTY running from
20 August 1, 2023 into July, 31, 2024 is \$3,407,936. The Company's plant forecast
21 adjustment claim going into the FPFTY year running from August 1, 2024 into

1 July 31, 2025 is \$1,829,834 (I&E Ex. No. 3, Sch. 1, Columns F and H, line 2 and
2 CUPA Sch. A-1, Columns D and F, line 50).

3
4 **Q. DO YOU HAVE ANY RECOMMENDATIONS REGARDING PLANT**
5 **ADDITIONS THAT THE COMPANY PROJECTS TO BE IN SERVICE**
6 **DURING THE FTY AND THE FPFTY?**

7 A. Yes. I recommend that the Company be required to provide the Commission's
8 Bureau of Investigation and Enforcement and the Office of Consumer Advocate
9 with an update to the CUPA Schedule A-1, Columns A-G, lines 1-50 no later than
10 November 1, 2024, under this docket number, which should include actual capital
11 expenditures, plant additions, and retirements by month for the twelve months
12 ending July 31, 2024. An additional update should be provided for actuals
13 through July 31, 2025, no later than November 1, 2025.

14
15 **Q. WHY DO YOU RECOMMEND THAT CUPA PROVIDE THESE**
16 **UPDATES?**

17 A. I&E believes that there is value in determining how closely CUPA's projected
18 investments in future facility compare with the actual investments that are made
19 by the end of the FTY and FPFTY. Determining the correlation between CUPA's
20 projected and actual results will help inform the Commission and the parties in
21 CUPA's future rate cases.

1 The updates are important because, as previously explained, through the
2 use of the FPFTY, CUPA is essentially requiring ratepayers to pre-pay a return on
3 its projected investment in future plant that are not in place and providing service
4 at the time the new rates take effect, but also are not subject to any guarantee of
5 being completed and placed into service. While the FPFTY provides for such
6 projections, there should be verification of the accuracy of the projections.
7 Therefore, requiring the Company to provide updates demonstrating that actual
8 investments comport with projections used in setting rates using the FPFTY
9 provides the Commission with actual data to gauge the accuracy of CUPA's
10 projected.

11
12 **UNACCOUNTED-FOR WATER**

13 **Q. WHAT IS UNACCOUNTED-FOR WATER?**

14 A. Unaccounted-for water (“UFW”) is the difference between the total system output
15 and the metered quantity of water billed plus an estimate for the amount used for
16 fire service, testing, main flushing, and unmetered company use.

17
18 **Q. DOES THE COMMISSION HAVE A POLICY STATEMENT**
19 **REGARDING THE LEVEL OF UFW THAT IS ACCEPTABLE?**

20 A. Yes. The Commission policy statement on water conservation is set forth in 52
21 Pa. Code § 65.20(4), which reads as follows:

1 (4) *Unaccounted-for water*. Levels of unaccounted-for water
2 should be kept within reasonable amounts. Levels above 20%
3 have been considered by the Commission to be excessive.
4

5 **Q. WHAT ARE THE CAUSES OF UFW?**

6 A. The primary causes of UFW are: (1) under registration of meters; (2) leaks in
7 mains, hydrants, and services; (3) theft of service; and (4) natural losses.
8

9 **Q. WHY IS IT IMPORTANT TO REDUCE UNACCOUNTED-FOR WATER?**

10 A. A reduction in the amount of UFW correlates with lower expenses incurred by a
11 utility due to reducing the amount of water that needs to be pumped, treated, and
12 sent out into the distribution system. Reducing UFW also increases the amount of
13 water available to customers, especially during peak demand periods, and
14 improves overall quality of service.
15

16 **Q. WHAT IS THE COMPANY'S OVERALL UFW LEVEL?**

17 A. In response to I&E-RB-2-D, the Company provided a series of spreadsheets that
18 detail the levels of UFW for a 36-month period from August 2020 to July of 2023.
19 During this period, the Company sent out 611,452,438 gallons and reported UFW
20 of 152,292,930 gallons. The overall percentage of UFW during this period
21 averaged 24.91% (152,292,930 / 611,452,438) (I&E Ex. No. 3, Sch. 3, p. 1, Col.
22 O, line 13). In summary, the Company has a combined three-year average of

1 UFW at all three facilities that is above the 20% level. As previously stated, this
2 percentage is considered excessive by Commission standards.

3
4 **Q. WHAT PERCENTAGE OF UFW WAS REPORTED IN THE WESTGATE**
5 **SERVICE TERRITORY?**

6 A. The UFW average in the Westgate Division was 12.16% over a 36-month period
7 from August 2020 to July of 2023 (I&E Ex. No. 3, Sch. 3, p. 2, Col. O, line 13).

8
9 **Q. WHAT PERCENTAGE OF UFW WAS REPORTED IN THE PENN**
10 **ESTATES SERVICE TERRITORY?**

11 A. The UFW average in the Penn Estates Division was 23.48% over a 36-month
12 period from August 2020 to July of 2023 (I&E Ex. No. 3, Sch. 3, p. 3, Col. O, line
13 13). This 23.48% of UFW exceeds the acceptable level established by the
14 Commission's policy statement by 3.48%. This number is slightly higher than the
15 Commission's policy, as the Company reported the percentage levels of UFW
16 fluctuated between 20.50% in 2020-21, 18.69% in 2021-22, and 30.92% in 2022-
17 23.

18
19 **Q. WHAT PERCENTAGE OF UFW WAS REPORTED IN THE TAMIMENT**
20 **SERVICE TERRITORY?**

21 A. The UFW average in the Tamiment Division was 48.46% over a 36-month period
22 from August 2020 to July of 2023 (I&E Ex. No. 3, Sch. 3, p. 4, Col. O, line 13).

1 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE**
2 **COMPANY’S DETERMINATION OF UFW?**

3 A. Yes, the Company’s 18,310,832-gallon adjustment for main breaks/leaks and the
4 56,000-gallon adjustment labeled as “adjustment” used to determine UFW are
5 improper and should be removed. These amounts are shown on I&E Exhibit
6 No. 3, Schedule 3, p. 1, Columns F and K, line 13.

7
8 **Q. WHY DO YOU RECOMMEND ADJUSTMENTS TO THE COMPANY’S**
9 **DETERMINATION OF UFW?**

10 A. As described above, the determination of UFW does not include adjustments for
11 main breaks/leaks and “adjustments.” The Commission allows utilities to have
12 UFW up to 20% to account for main breaks, leaks, and unknown losses.
13 Therefore, they should not be removed or “adjusted” from the UFW calculation.

14
15 **Q. WHAT IS YOUR CALCULATION OF THE COMPANY’S UFW?**

16 A. After I removed CUPA’s adjustments, I determined that the Company has
17 170,659,762 gallons, or 27.91% ($170,659,762 / 611,452,438$) of UFW (I&E Ex.
18 No. 3, Sch. 3, p. 1, Col. O, line 14). This level is 48,347,911 gallons more than
19 the 20% UFW guideline (I&E Ex. No. 3, Sch. 3, p. 1, Col. N, line 15).

1 **Q. DO YOU RECOMMEND AN EXPENSE ADJUSTMENT TO REMOVE**
2 **THE COST OF THIS EXCESS UFW?**

3 A. Yes. I recommend a \$28,941 adjustment to expenses to remove the cost of the
4 48,347,911 gallons of excess UFW. The \$28,941 was determined by multiplying
5 the \$0.599 cost per gallon to purchase/produce 1,000 gallons of water times the
6 48,347,911 gallons of excess water (I&E Ex. No. 3, Sch. 3, p. 5, Col. E, line 5).

7
8 **Q. HOW DID YOU DETERMINE THE \$0.599 PER THOUSAND GALLONS**
9 **COST TO PURCHASE OR PRODUCE WATER?**

10 A. The Company incurs \$0.065 per thousand gallons in purchased power expense to
11 produce water, \$0.443 per thousand gallons to purchase water and \$0.091 per
12 thousand gallons for chemicals to treat water (I&E Ex. No. 3, Sch. 3, p. 5,
13 Columns B-D, line 3). This results in a total incremental cost to produce and
14 purchase water of \$0.599 per thousand gallons. To determine these incremental
15 costs to produce or purchase water, I divided the total water production by each
16 2023 cost on a total Company basis (I&E Ex. No. 3, Sch. 3, p. 5, Col. E, line 3).

17

18 **COST OF SERVICE STUDY**

19 **Q. WHAT IS THE OBJECTIVE OF A COST OF SERVICE STUDY?**

20 A. A COSS is typically conducted to assist a utility in determining the level of costs
21 properly recoverable from each of the various classes of customers to which the
22 utility provides service. Allocation of recoverable costs to each customer class is

1 generally based on cost causation principles. A COSS is typically conducted to
2 assist a utility in determining the level of costs properly recoverable from each of
3 the various classes of customers to which the utility provides service. Allocation
4 of recoverable costs to each customer class is generally based on cost causation
5 principles.

6
7 **Q. WHAT ARE THE PRIMARY COST OF SERVICE STUDY**
8 **METHODOLOGIES UTILIZED FOR WATER UTILITIES?**

9 A. The two most used and widely recognized methods of allocating costs to customer
10 classes for water utilities are the base-extra capacity method and the commodity-
11 demand method. Both methods are set forth in the American Water Works
12 Association's Manual, M1, Principles of Water Rates, Fees, and Charges
13 ("AWWA M1 Manual").

14
15 **Q. WHAT METHODOLOGY HAS THE COMPANY UTILIZED FOR ITS**
16 **CLASS COST OF SERVICE STUDY?**

17 A. The Company has utilized the base-extra capacity method in preparing its COSS.
18 Typically, under the base-extra capacity method, investment and costs are first
19 classified into four primary functional cost categories: (1) base or average
20 capacity, (2) extra capacity, (3) customer, and (4) fire protection. Once
21 investments and costs are classified to these functional categories, they would then

1 be allocated to the various customer classes served by the utility (CUPA St. No. 7,
2 p. 7).

3
4 **Q. PLEASE DESCRIBE IN GREATER DETAIL THE FOUR PRIMARY**
5 **FUNCTIONAL COST CATEGORIES AND HOW THEY ARE**
6 **ALLOCATED TO THE VARIOUS CUSTOMER CLASSES UNDER THE**
7 **BASE-EXTRA CAPACITY METHOD.**

8 A. Base costs are costs that tend to vary with the quantity of water used, plus costs
9 associated with supplying, treating, pumping and distributing water to customers
10 under average load conditions. Base costs are typically allocated to customer
11 classes on the basis of average daily usage. Extra capacity costs are costs
12 associated with meeting usage requirements in excess of average usage. This
13 includes operating and capital costs for additional plant and system capacity
14 beyond that required for average usage. Extra capacity costs in the Company's
15 study have been subdivided into costs necessary to meet maximum day extra
16 demand and maximum hour extra demand. Extra capacity costs are typically
17 allocated to customer classes on the basis of each class's maximum day and
18 maximum hour usage in excess of average usage. Customer costs are costs
19 associated with serving customers regardless of their usage or demand
20 characteristics. Customer costs include the operating costs related to meters and
21 services, meter reading costs, and billing and collection costs. Customer costs are
22 typically allocated based on the capital costs of meters and services and the

1 number of customer bills. Fire protection costs are costs associated with providing
2 the facilities to meet the potential peak demand of fire protection service.

3
4 **Q. DO YOU AGREE WITH CUPA’S OPERATING AND MAINTENANCE**
5 **EXPENSE ALLOCATIONS IN ITS COSS?**

6 A. No. Specifically, I do not agree with CUPA’s \$352,455 in corporate allocations of
7 operating expenses to customer costs (CUPA St. No. 3, p. 6).

8
9 **Q. AS IT PERTAINS TO CUPA, WHAT IS A CORPORATE ALLOCATION?**

10 A. Corporate allocations are charges between commonly owned companies that
11 follow methods outlined in an affiliate interest agreement. In this case, the
12 transactions are between CUPA and an affiliated company, Water Services
13 Corporation (“WSC”).

14
15 **Q. WHAT POTENTIAL HARM CAN AFFILIATE AGREEMENTS CAUSE**
16 **RATEPAYERS?**

17 A. In this case, it appears that WSC, the affiliate, will receive some of the revenue
18 from the rate increase to fund a Company-based incentive compensation and
19 bonus plan at the expense of CUPA’s water customers (CUPA St. No. 3, pp. 5-6
20 and CUPA Exhibit A, III. Operating Expense, No. 22).

1 **Q. WHAT IS CUPA CLAIMING ABOUT THESE CORPORATE**
2 **ALLOCATIONS?**

3 A. CUPA claims that the corporate allocations are consistent with the allocation
4 process in CUPA’s last rate case and are consistent with existing affiliate
5 agreements approved by the Commission at Docket Nos. G-2019-3014555 and G-
6 2019-3014557 (CUPA St. No. 3, pp. 5-6).

7
8 **Q. WHAT IN CUPA’S LAST RATE CASE WAS APPLICABLE TO**
9 **CORPORATE ALLOCATIONS?**

10 A. CUPA did not utilize a COSS in its last rate increase request at Docket No.
11 R-2021-3025206. However, at Docket No. R-2019-3008947, CUPA used a COSS
12 that employed the base-extra capacity methodology. With respect to operating and
13 maintenance expenses in that case, no line item pertaining to corporate allocations
14 appears on page 8¹ of the COSS for water (I&E Ex. No. 3, Sch. 4).

15
16 **Q. WHAT IS THE COMMISSION’S POSITION REGARDING AFFILIATED**
17 **INTEREST AGREEMENTS?**

18 A. The Commission approved CUPA’s affiliate interest agreement at Docket No. G-
19 2019-3014555. However, the conclusion of the Commission Order states,

20 Investigation and analysis of the proposed affiliated interest
21 transactions indicates that the terms and conditions appear to

¹ *Petitioners Attachment SAM-1 at Docket R-2019-3008948 Community Utilities of Pennsylvania, Inc. Accounting Report on Water Utility Cost of Service and Rate Design March 29, 2019.*

1 be reasonable and consistent with the public interest. However,
2 this approval does not constitute a determination that the
3 associated costs or expenses are reasonable or prudent for the
4 purposes of determining just and reasonable rates”²
5

6 **Q. WHAT DO YOU PROPOSE REGARDING THE \$352,455 IN CORPORATE**
7 **ALLOCATIONS RELATED TO CUSTOMER BILLING AND**
8 **COLLECTING?**

9 A. I propose removing the \$352,455 in corporate allocations from the billing and
10 collection portion of operating expenses (I&E Ex. No. 3, Sch. 3, p. 2, Col. G, line
11 29).

12
13 **Q. WHY DO YOU PROPOSE REMOVING THE \$352,455 IN CORPORATE**
14 **ALLOCATIONS RELATED TO CUSTOMER BILLING AND**
15 **COLLECTIONS FROM THE CUSTOMER COST ANALYSIS?**

16 A. CUPA’s \$352,455 in corporate allocations of operating expenses is tied to a
17 Company-based incentive compensation and bonus plan (CUPA, Exhibit A, III.
18 Operating Expense, No. 22). Additionally, the corporate allocations are indirect
19 customer costs that should not be recovered through the customer charge (CUPA
20 EX SAM-2, pp. 8 and 12).

² Pa. PUC v. *Affiliate Interest Agreement between Community Utilities of Pennsylvania and Water Service Corporation*, Docket Nos. G-2019-3014555, p. 8 (Order entered January 14, 2022).

1 **RATE STRUCTURE - PRESENT AND PROPOSED RATES**

2 **Q. WHAT RATES DOES THE COMPANY CURRENTLY CHARGE FOR**
3 **WATER SERVICE?**

4 A. For 5/8th inch customers in the Consolidated system, the Company applies a
5 present customer charge of \$17.25 per month and a usage rate of \$13.51 per
6 thousand gallons. For 5/8th inch customers in the Tamiment Division, the
7 Company applies a present customer charge of \$18.18 per month and a usage rate
8 of \$11.45 per thousand gallons. For low-income customers the usage rate situation
9 is different. In the Consolidated system low-income customers pay a usage rate of
10 \$8.78 per thousand gallons, and Tamiment low-income customers pay a usage rate
11 of \$7.44 per thousand gallons. All other customer classes with meters larger than
12 5/8th inch, the Company applies a higher monthly charge and the same
13 corresponding usage rates. For availability customers, the Company applies a flat
14 rate of \$18.81 per month in the Consolidated system and \$9.31 per month in the
15 Tamiment system. For public fire service in the Combined system, the Company
16 applies a flat rate of \$56.67 per month (I&E Ex. No. 3, Sch. 5, Columns C and E,
17 lines 1 and 11, and CUPA Ex. SAM-2, Supplement to Schedule B-1, line 24).

18

19 **Q. WHAT RATES DID THE COMPANY PROPOSE FOR ITS CUSTOMERS?**

20 A. For all regular Consolidated residential and commercial customers, the Company
21 proposes a \$23.40 per month customer charge with a usage rate of \$22.59 per
22 thousand gallons. For low-income customers the Company proposed the same

1 monthly customer charge of \$23.40 but a usage rate that was 35% below the
2 regular customer usage rate or \$14.68 per thousand gallons (\$14.68-\$22.59) /
3 \$22.59. For all other customers with meters larger than 5/8th inch, the Company
4 applies a higher monthly charge and the same corresponding usage rates. For
5 availability customers, the Company is proposing a flat rate of \$45.60 per month.
6 For public fire service, the Company is proposing a flat rate of \$39.60 per month
7 (I&E Ex. No. 3, Sch. 5, p. 1, Col. G, lines 1,8 and 13, and CUPA St. No. 7, pp. 13-
8 16).

9
10 **Q. WHAT MONTHLY CUSTOMER CHARGES DO YOU RECOMMEND**
11 **FOR ALL RESIDENTIAL AND COMMERCIAL CUSTOMERS?**

12 A. While removing the affiliate charges as I recommended previously would result in
13 direct customer costs below the current monthly charge, I recommend a 5.5%
14 across-the-board increase for Consolidated residential and commercial customers
15 to moderate the impact to volumetric charges. For 5/8"- inch meter customers, I
16 recommend a customer charge of \$18.20 per month. For 1"- inch customers I
17 recommend a customer charge of \$45.50 per month. For 1.5"- inch meter size
18 customers I recommend a customer charge of \$91.00 per month, and for 2"- inch
19 meter customers I recommend a customer charge of \$145.00 per month. For all
20 Tamiment customers including low income, I recommend the same
21 abovementioned charges with the exception of 6-inch meter customers paying a
22 customer charge of \$221.50 per (I&E Ex. No. 3, Sch. 5, Col. I, lines 1-10).

1 **Q. DO YOU ACCEPT THE COMPANY’S PROPOSAL TO UNIFY THE**
2 **REGULAR USAGE RATE?**

3 A. Yes. However, I disagree with the proposed rate.
4

5 **Q. PLEASE EXPLAIN WHY YOU RECOMMEND THE PROPOSED USAGE**
6 **RATE BE UNIFORMLY INCREASED IN THE CONSOLIDATED AND**
7 **TAMIMENT SYSTEMS.**

8 A. While CUPA wanted a uniform usage rate structure of \$22.59 per thousand
9 gallons for regular customers, I found this level to be too low because of my
10 previous recommendation to provide all customers rate relief with a lower
11 monthly customer charge. Because of this, I had to increase the monthly usage
12 rate to offset the decrease in my proposed monthly customer charge. As a result, I
13 recommend the monthly usage rate be increased to \$25.106 per thousand gallons
14 (I&E Ex. No. 3, Sch. 5, col. I, lines 13 -16, and 21-25).
15

16 **Q. DO YOU ACCEPT THE COMPANY’S PROPOSAL TO UNIFY THE**
17 **LOW-INCOME USAGE RATE?**

18 A. Yes. However, I disagree with the proposed rate.

1 **Q. PLEASE EXPLAIN WHY YOU RECOMMEND THE PROPOSED LOW-**
2 **INCOME USAGE RATE BE UNIFORMLY INCREASED IN THE**
3 **CONSOLIDATED AND TAMIMENT SYSTEMS.**

4 A. While CUPA wanted a uniform low-income usage rate structure of \$14.68 per
5 thousand gallons per month, I found this level to be too low because of my
6 previous recommendation to provide all customers rate relief with a lower
7 monthly customer charge. Because of this, I had to increase the monthly usage
8 rate to offset the decrease in my proposed monthly customer charge. As a result, I
9 recommend a monthly usage rate be increased to \$16.32 per thousand gallons
10 which is 35% below my proposed \$25.106 usage rate for regular customers (I&E
11 Ex. No. 3, Sch. 5, col. I, lines 13 -30).

12
13 **Q. WHAT IS YOUR REASONING FOR LOWER CUSTOMER CHARGES**
14 **AND HIGHER USAGE RATES?**

15 A. Because CUPA is experiencing ongoing issues with lost and unaccounted for
16 water, consumers should not have to bear the burden of higher monthly customer
17 charges that provide greater fixed revenues that help offset the revenue lost as a
18 result of the high UFW. Although the result of lowering the monthly charge is a
19 higher volumetric rate, shifting more revenues to volumetric rates gives the
20 customer a greater opportunity to save money through conservation efforts..

1 **Q. DO YOU DISAGREE WITH OTHER RATES PROPOSED BY THE**
2 **COMPANY?**

3 A. Yes. As described below, the proposed public fire service charge is too low, and
4 the 6-inch customer charge and availability charges proposed by the Company are
5 too high. In addition to this, some of the proposed Tamiment commercial rate
6 declines are excessive. In light of the large percentage changes associated with
7 these rates, both increases and decreases, I believe the Commission should apply
8 the concept of gradualism in this proceeding.

9
10 **Q. WHAT IS GRADUALISM AND WHY SHOULD THE CONCEPT OF**
11 **GRADUALISM BE FOLLOWED?**

12 A. Gradualism refers to moderating rate changes to achieve desired rates over an
13 extended time period. Large increases in rates can make a new bill unaffordable
14 to customers, whereas increasing those rates over successive cases allows
15 customers time to become accustomed to higher rates and also allows time for
16 customers' personal income to increase to better keep pace with rising utility
17 costs. Likewise, abrupt decreases in rates are unnecessary as the customers are
18 accustomed to paying existing rates, and those large decreases harm other
19 customers by requiring that the lost revenue from the lowered rates must be made
20 up elsewhere.

1 **Q. WITH THE CONCEPT OF GRADUALISM IN MIND, WHAT PUBLIC**
2 **FIRE SERVICE RATE DO YOU RECOMMEND?**

3 A. I recommend the public fire service rate stay at \$56.67 per month. This equates to
4 an increase of \$0 per month over present rates, but there is no lost revenue to be
5 made up elsewhere (I&E Ex. No. 3, Sch. 5, Col. F, line 11).

6
7 **Q. WHY DO YOU RECOMMEND NO DECREASE TO PUBLIC FIRE**
8 **SERVICE?**

9 A. I believe the Company's proposal to lower the fire rate to \$39.60 violates the
10 Public Utility Code. While the fire rate customers would benefit by paying a
11 lower rate, other customer classes are burdened in tandem with higher rates to
12 compensate for this. Specifically, reducing fire rates to comport with the 25%
13 ceiling specified in the Code is unjustified as it violates Section 1328 of the Public
14 Utility Code (66 Pa. C.S. Section 1328) in the determination of public fire hydrant
15 rates as it pertains to the effect on current rates. Part C of Section 1328 states:

16 The legal rates charged to municipalities for public fire
17 hydrants in effect on the effective date of this section shall
18 remain frozen and shall not be changed until the present rates
19 for those public fire hydrants are determined to be below the
20 25% ceiling established under subsection (b). The remaining
21 cost of service for those public fire hydrants not recovered from
22 the municipality shall be recovered from all customers of the
23 public utility in the public utility's fixed or service charge or
24 minimum bill³.

³ 66 Pa. C.S. § 1328 (2022).

1 **Q. WHAT IS THE PRESENT AND PROPOSED SIX-INCH METER**
2 **CUSTOMER CHARGE?**

3 A. The present six-inch customer charge is \$158.41 per month. The Company is
4 proposing to increase this customer charge to \$605.70 per month. This equates to
5 an increase of \$447.29 per month over the present rate of \$158.41 per month or
6 282.4% ($\$447.29 / \158.41) (I&E Ex. No. 3, Sch. 5, Col. E, line 10).

7
8 **Q. WHAT SIX-INCH CUSTOMER CHARGE DO YOU RECOMMEND?**

9 A. I recommend a six-inch customer charge of \$221.50 per month (I&E Ex. No. 3,
10 Sch. 6, Col. I, line 10). This equates to an increase of \$63.09 per month or 39.8%
11 ($\$63.09 / \158.41). This 39.8% increase is the maximum increase that I have
12 recommended for customer charge increases to comport with the concept of
13 gradualism (I&E Ex. No. 3, Sch. 5, Col. G, line 10).

14
15 **Q. WHAT INCREASE IS THE COMPANY PROPOSING FOR THE**
16 **AVAILABILITY CHARGE?**

17 A. The Company is proposing to consolidate the availability rates in all divisions.
18 For all availability customers, the Company proposed a \$45.60 per month
19 customer charge (CUPA Supplement to Schedule B-1 and I&E Ex. No. 3, Sch. 5,
20 Col. E, lines 12-13).

1 **Q. WHAT AVAILABILITY CHARGE DO YOU RECOMMEND?**

2 A. Charging the availability class customer \$45.50 per month for an empty lot where
3 there isn't a service line is excessive. Therefore, I recommend an availability
4 charge of \$19.85 per month for Consolidated and \$13.00 per month for Tamiment.
5 While not uniform, this equates to an increase of \$1.04 per month or a 5.5%
6 increase to the present rate of \$18.81 for Consolidated and an increase of \$3.69 to
7 the present rate of \$9.31 or a 39.6% increase for Tamiment instead of the
8 Company proposed increases of 142% and 389.8% (I&E Ex. No, 5, Sch. 5, cols.
9 E, F, and H- J, lines 12-13).

10

11 **Q. WHY ARE YOU OPPOSED TO THE CONSOLIDATION OF THE**
12 **AVAILABILITY CHARGE?**

13 A. The proposed Consolidated rate of \$45.60 in either division was based on too large
14 of an increase and violates the concept of gradualism described above.

15

16 **Q. WHAT IS THE TOTAL IMPACT OF YOUR RATE**
17 **RECOMMENDATIONS?**

18 A. Keeping the public fire service rate at its present level of \$56.67 maintains
19 revenues of \$50,946 and lowering the six-inch customer charge reduces proposed
20 revenue by \$4,610. Increasing the low-income usage rate from \$14.68 to \$16.32
21 per thousand gallons increases the proposed low-income revenues by \$26,476.
22 Lowering the availability charge reduces revenues by \$13,596. Combining these

1 changes with my adjustments to the remaining rate classes results in a revenue
2 increase of \$3,830,610, which is close to the \$3,830,148 that CUPA requested in
3 the FPFTY (I&E Ex. No. 3, Sch. 6, Col. G., line 12).

4
5 **Q. WHAT IS THE TOTAL IMPACT OF ALL YOUR RATE CHANGES**
6 **ABOVE?**

7 A. The net impact of all the rate changes above is approximately zero. The result is a
8 revenue increase of \$1,449,470 which is close to the amount the Company
9 requested \$1,449,450 (I&E Ex. No. 3, Sch. 7, Col. J, line 11).

10
11 **PUBLIC INPUT HEARINGS**

12 **Q. WERE PUBLIC-INPUT HEARINGS HELD IN THIS PROCEEDING?**

13 A. Yes. Two in-person hearings were held on January 30, 2023, in Bethlehem; two
14 telephonic hearings were held on January 31, 2023; and, two in-person hearings
15 were held on February 1, 2023, in Tamiment, Pa.

16
17 **Q. DID YOU ADDRESS THE PUBLIC INPUT HEARINGS TESTIMONY IN**
18 **THIS DIRECT TESTIMONY?**

19 A. No. I did not have time to review all of the public input testimony prior to the due
20 date for this direct testimony. But I reserve my right to address the voluminous
21 public input testimony in my rebuttal and/or surrebuttal testimony.

1 **SCALE BACK OF RATES**

2 **Q. WHAT DID YOU RECOMMEND IF THE COMMISSION GRANTS CUPA**
3 **LESS THEIR PROPOSED \$1,449,638 INCREASE?**

4 A. I proposed that If the Commission accepts my proposed customer charge and
5 usage rate recommendations, and grants CUPA their proposed \$1,449,638
6 increase. However, if the Commission does not accept my customer charge and
7 usage rate recommendations, then both the customer charges and usage rates
8 should be scaled back proportionally to the percentage increase originally
9 proposed. Finally, there should be no scale back applied to Public Fire rates since
10 this would be in violation of abovementioned Title 66 Statute regarding Public
11 Fire Hydrant rates.

12
13 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

14 A. Yes

Esyan A. Sakaya

THE PENNSYLVANIA PUBLIC UTILITY COMMISSION
400 North Street
HARRISBURG, PA 17120

Education:

National Association of Regulatory Utility Commissioners, Clearwater, FL
Utility Rate School; Utility Rate Making Basics, October 2019

Society of Depreciation Professionals, Philadelphia, PA
Introduction to Depreciation; Depreciation Fundamentals, September 2019

Temple University, Philadelphia, PA
Bachelor of Science; Major in Engineering Technology, 2015

Community College of Philadelphia, Philadelphia, PA
Associate of Applied Science; Major in Construction Management Technology, 2011

Island School of Building Arts, Gabriola Island, BC-Canada
Certificate Graduate: Heavy Timber Construction Aug 2002-November 2002

Solar Energy International, Carbondale, CO
Certificate Graduate: Basic and Advanced Photovoltaic Design, April 2002-May 2002

Experience:

12/2018-Present

Pennsylvania Public Utility Commission-Harrisburg, PA

Fixed Utility Valuation Engineer - Assist in engineering related studies related to valuation, depreciation, cost of service, quality of service as they apply to regulated utilities. Contribute in evaluating, contrasting and conducting performance analyses in distinctive sections of valuation engineering and rate structure involving valuation concepts, original cost, rate base, fixed capital costs, inventory processing, excess capacity, cost of service, and rate design. Provide expert testimony in rate related utility cases.

4/2018-12/2018

Pennsylvania Department of Transportation-Harrisburg, PA

Photogrammetry Technician I - Created three-dimensional mapping layouts of natural and man-made features from stereoscopic images on a computer workstation. Assisted in the field placement of ground based surveyed control-points prior to aerial photography acquisition. Provided field support in the use of laser scans for comprehensive digital surveying data. Operated global positioning satellite surveying equipment to obtain accurate geodetic coordinates of pre-established benchmarks.

8/2017-4/2018

Pennoni and Associates. Consulting Engineers-King of Prussia, PA

Construction Inspector - Provided quality assurance in the onsite material testing of concrete, soils, and asphalt. Read and interpreted construction drawings and specifications of materials and components. Completed daily reports regarding project progress to engineers, project managers/superintendents, contractors, and clients.

TESTIMONY SUBMITTED:

I have assisted and/or submitted testimony in the following proceedings:

- | <u>No.</u> | <u>Case</u> |
|------------|--|
| 1. | UGI Gas Utilities - Gas Division, Docket No. R-2018-3006814 |
| 2. | Newtown Artesian Water Company, Docket No. R-2018-3006904 |
| 3. | Pittsburgh Wastewater, Docket No. M-2018-2640803 |
| 4. | PAWC Purchase of Steelton, Docket No. A-2019-3006814 |
| 5. | Philadelphia Gas Works, Docket Nos. R-2019-3009016 / 3007636 |
| 6. | Community Utilities Water, Docket No. R-2019-3008947 |
| 7. | Aqua Purchase of Cheltenham, Docket No. A-2019-3008491 |
| 8. | UGI North, Docket No. R-2019-3009647 |
| 9. | UGI Central, Docket No. R-2019-3009647 |
| 10. | UGI South, Docket No. R-2019-3009647 |
| 11. | Twin Lakes Utilities, Docket No. R-2019-3010958 |
| 12. | Penn Power Company, Docket No. P-2019-3012628 |
| 13. | UGI Gas Utilities, Docket No. R-2019-3015162 |
| 14. | National Fuel and Gas Distribution, Docket No. R-2020-3015251 |
| 15. | Columbia Gas of Pennsylvania, Docket Nos. R-2020-3018993 / 3018835 |
| 16. | Duquesne Light Company, Docket No. P-2020-3019522 |
| 17. | PA American Water Company, Docket No. R-2020-3019369 / 310937 |
| 18. | Bethlehem Water Company, Docket No. R-2020-3020256 |
| 19. | Audubon Water Company, Docket No. R-2020-3020919 |
| 20. | Twin Lakes Utilities, Docket No. P-2020-3020914 |
| 21. | Pike County Light and Power-Gas, Docket No. R-2020-3022134 |

22. Pike County Light and Power-Electric, Docket No. R-2020-3022135
23. Duquesne Light Company, Docket No. R-2021-3024750
24. Community Utilities Water, Docket No. R-2021-3025206
25. Community Utilities Wastewater, Docket No. R-2021-3025206
26. Hanover Municipal Water Works, Docket No. R-2021-3026116
27. Aqua Pennsylvania, Inc., Docket Nos. R-2021-3027385 / 3027386
28. Aqua Purchase of Willistown, Docket No. A-2021-3027268
29. National Fuel and Gas Distribution, Docket No. R-2022-3030235
30. UGI Gas Utilities, Docket No. R-2021-3030218
31. PECO Energy Company – Gas, Docket No. R-2022-3031113
32. Valley Energy, Inc, Gas, Docket No. R-2022-3032300
33. Citizens Electric Company, Docket No. R-2022-3032369
34. Leatherstocking Gas Company, LLC, Docket No. R-2022-303276
35. National Fuel and Gas Distribution, Docket No. R-2022-3035730
36. Aqua Purchase of Shenandoah, Docket No. A-2022-3034143
37. UGI Electric Utilities, Docket No. R-2022-3037368
38. Philadelphia Gas Works, Docket No. R-2023-3037933
39. Columbia Water, Docket No. R-2023-3040258
40. Community Utilities Water, Docket No. R-2023-3042804

PENNSYLVANIA PUBLIC UTILITY COMMISSION

V.

COMMUNITY UTILITIES OF PENNSYLVANIA - WATER DIVISION

Docket No. R-2023-3042804

Exhibit to Accompany

The

Direct Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

Test Year

Rate Base

Plant and Reporting Requirements

Unaccounted-For Water

Cost of Service

Rate Structure

I&E Exhibit No. 3
Schedule No. 1

Community Utilities of Pennsylvania, Inc.
Water Divisions
R-2023-3042804
Rate Base - Summary

Line No.	Description	(A)	Supporting Schedule No.	(B)	7/31/2023 Per Books	(C)	7/31/2023 Per Books Adjustment	(D)	7/31/2023 Per Books Adjusted	(E)	7/31/2023 Forecast	(F)	7/31/2024 Forecast	(G)	7/31/2024 Forecast Adjustment	(H)	7/31/2025 Future Test Year	(I)	Proposed Increase	(J)	Proposed After Increase	(K)
1	Water Operations																					
2	Gross Plant In Service		A-1		\$ 16,587,005.72		\$ 0	\$ 16,587,005.72	\$ 16,587,005.72		3,407,935.87	\$ 19,994,941.58	\$ 1,829,834	\$ 21,824,776			\$ 21,824,776		\$ 0	\$ 21,824,776		
3	Accumulated Depreciation		A-2		\$ (4,794,607.32)		\$ 0	\$ (4,794,607.32)	\$ (4,794,607.32)		(287,420.24)	\$ (5,082,027.56)	\$ (445,393.74)	\$ (5,527,421.30)			\$ (5,527,421.30)		\$ 0	\$ (5,527,421.30)		
4	Net Plant In Service				\$ 11,792,398.40		\$ -	\$ 11,792,398.40	\$ 11,792,398.40		3,120,515.62	\$ 14,912,914.02	\$ 1,384,440.64	\$ 16,297,354.66			\$ 16,297,354.66		\$ 0	\$ 16,297,354.66		
5	Cash Working Capital		A-3		-		\$ 380,322	\$ 380,322.00	\$ 380,322.00		8,293.00	\$ 388,615	\$ 12,509	\$ 401,124.00			\$ 401,124.00		\$ 0	\$ 401,124.00		
6	Contributions in Aid of Construction		A-4		(\$1,220,399)		\$ 0	(\$1,220,399)	(\$1,220,399)		\$ 31,013	(\$1,189,387)	\$ 31,013	(\$1,158,374)			(\$1,158,374)		\$ 0	(\$1,158,374)		
7	Accumulated Deferred Income Taxes		A-5		(352,768.88)		\$ 0	(352,769)	(352,769)		(224,953.05)	(577,722)	(525,464)	(603,186.39)			(603,186.39)		\$ 0	(603,186.39)		
8	Customer Deposits		A-6		\$ 2,055		\$ 0	\$ 2,055	\$ 2,055		\$ 0	\$ 2,055	\$ 0	\$ 2,055			\$ 2,055		\$ 0	\$ 2,055		
9	Inventory		A-7		\$ 2,483		\$ 0	\$ 2,483	\$ 2,483		\$ 0	\$ 2,483	\$ 0	\$ 2,483			\$ 2,483		\$ 0	\$ 2,483		
10	Oracle Fusion Asset		A-8		\$ 66,293		\$ 0	\$ 66,293	\$ 66,293		(\$11,211)	\$ 55,082	(\$11,915)	\$ 43,166			\$ 43,166		\$ 0	\$ 43,166		
11	Net Plant Acquisition Adjustment		A-9		(\$562,227)		\$ 0	(\$562,227)	(\$562,227)		\$ 36,137	(\$526,089)	\$ 36,137	(\$489,952)			(\$489,952)		\$ 0	(\$489,952)		
12	Deferred Charges		A-10		\$ 357,084.87		\$ 0	\$ 357,085	\$ 357,085		76,482.47	\$ 433,567	\$ 65,504	\$ 499,071			\$ 499,071		\$ 0	\$ 499,071		
13	Total Rate Base				\$ 10,084,919.18		\$ 380,322.00	\$ 10,465,241.18	\$ 10,465,241.18		3,036,277.06	\$ 13,501,518.24	\$ 1,492,223.94	\$ 14,993,742.18			\$ 14,993,742.18		\$ -	\$ 14,993,742.18		

I&E Exhibit No. 3
Schedule No. 2

Community Utilities of Pennsylvania, Inc.
R-2023-3042804 (Water)
Filing Schedules
Historic Test Year: July 31, 2023
Fully Projected Future Test Year: July 31, 2025

Community Utilities of Pennsylvania, Inc.
Water Divisions
R-2023-3042804
Utility Plant in Service

Schedule A-1

Line No.	Account	Description	7/31/2023		7/31/2023		7/31/2023		7/31/2024		7/31/2024		7/31/2025		
			Per Books	Adjustment	Per Books	Adjustment	Per Books	Adjustment	Forecast	Adjustment	Forecast	Adjustment	Future Test Year		
1	141101	Land and Rights General	\$ 28,515.22	\$ -	\$ 28,515.22	\$ -	\$ 28,515.22	\$ -	\$ 28,515.22	\$ -	\$ 28,515.22	\$ -	\$ 28,515.22	\$ -	
2	141201	Organization	\$ 220,781.75	\$ -	\$ 220,781.75	\$ -	\$ 221,062.95	\$ 281.20	\$ 221,062.95	\$ 281.20	\$ 221,344.15	\$ -	\$ 221,344.15	\$ -	
3	141202	Franchises	\$ 6,608.05	\$ -	\$ 6,608.05	\$ -	\$ 6,608.05	\$ -	\$ 6,608.05	\$ -	\$ 6,608.05	\$ -	\$ 6,608.05	\$ -	
4	141203	Struct and Improv General Plant	\$ 65,510.09	\$ -	\$ 65,510.09	\$ -	\$ 66,237.62	\$ 727.53	\$ 66,237.62	\$ 727.53	\$ 66,993.70	\$ -	\$ 66,993.70	\$ -	
5	141204	Struct and Improv Service Supplies	\$ 455,339.37	\$ -	\$ 455,339.37	\$ -	\$ 459,665.53	\$ 4,326.16	\$ 459,665.53	\$ 4,326.16	\$ 464,161.47	\$ -	\$ 464,161.47	\$ -	
6	141205	Struct and Improv Water Treat Pfl	\$ 42,754.03	\$ -	\$ 42,754.03	\$ -	\$ 933,161.78	\$ 933,161.78	\$ 933,161.78	\$ 933,161.78	\$ 933,161.78	\$ 933,161.78	\$ 933,161.78	\$ 933,161.78	\$ 933,161.78
7	141206	Struct and Improv Trans Dist Pfl	\$ 51,965.52	\$ -	\$ 51,965.52	\$ -	\$ 51,965.52	\$ -	\$ 51,965.52	\$ -	\$ 51,965.52	\$ -	\$ 51,965.52	\$ -	
8	141209	Struct and Improv Treatment Plant	\$ 318,994.65	\$ -	\$ 318,994.65	\$ -	\$ 318,994.65	\$ -	\$ 318,994.65	\$ -	\$ 318,994.65	\$ -	\$ 318,994.65	\$ -	
9	141220	Struct and Improv Office	\$ 119,738.00	\$ -	\$ 119,738.00	\$ -	\$ 112,575.44	\$ (7,162.56)	\$ 112,575.44	\$ (7,162.56)	\$ 115,184.60	\$ 2,609.16	\$ 115,184.60	\$ 2,609.16	
10	141223	Wells and Springs	\$ 1,003,172.79	\$ -	\$ 1,003,172.79	\$ -	\$ 1,290,386.54	\$ 287,213.75	\$ 1,290,386.54	\$ 287,213.75	\$ 1,525,815.74	\$ 235,429.20	\$ 1,525,815.74	\$ 235,429.20	
11	141225	Supply Mains	\$ 267,208.89	\$ -	\$ 267,208.89	\$ -	\$ 314,707.85	\$ 47,498.96	\$ 314,707.85	\$ 47,498.96	\$ 364,070.90	\$ 49,363.05	\$ 364,070.90	\$ 49,363.05	
12	141226	Power Generation Equipment	\$ 1,154.16	\$ -	\$ 1,154.16	\$ -	\$ 1,188.14	\$ 33.98	\$ 1,188.14	\$ 33.98	\$ 1,223.46	\$ 35.32	\$ 1,223.46	\$ 35.32	
13	141227	Electric Pump Equip Sec Pump	\$ 144,920.26	\$ -	\$ 144,920.26	\$ -	\$ 175,553.57	\$ 30,633.31	\$ 175,553.57	\$ 30,633.31	\$ 31,835.51	\$ 31,835.51	\$ 31,835.51	\$ 31,835.51	
14	141228	Electric Pump Equip WTP	\$ 379,016.22	\$ -	\$ 379,016.22	\$ -	\$ 394,612.22	\$ 15,596.00	\$ 394,612.22	\$ 15,596.00	\$ 410,820.27	\$ 16,208.06	\$ 410,820.27	\$ 16,208.06	
15	141229	Electric Pump Equip Trans Dist	\$ 9,260.07	\$ -	\$ 9,260.07	\$ -	\$ 9,260.07	\$ -	\$ 9,260.07	\$ -	\$ 9,260.07	\$ -	\$ 9,260.07	\$ -	
16	141230	Water Treatment Equipment	\$ 267,053.69	\$ -	\$ 267,053.69	\$ -	\$ 296,680.78	\$ 29,627.09	\$ 296,680.78	\$ 29,627.09	\$ 30,789.80	\$ 30,789.80	\$ 30,789.80	\$ 30,789.80	
17	141231	Dist Resv and Sandpipes	\$ 2,092,547.71	\$ -	\$ 2,092,547.71	\$ -	\$ 542,728.66	\$ 542,728.66	\$ 2,635,276.37	\$ 2,635,276.37	\$ 28,757.01	\$ 2,664,033.38	\$ 28,757.01	\$ 2,664,033.38	
18	141232	Trans and Distr Mains	\$ 5,836,534.69	\$ -	\$ 5,836,534.69	\$ -	\$ 1,478,907.18	\$ 1,478,907.18	\$ 7,315,441.87	\$ 1,478,907.18	\$ 1,202,701.89	\$ 8,518,143.76	\$ 1,202,701.89	\$ 8,518,143.76	
19	141233	Service Lines	\$ 1,268,895.01	\$ -	\$ 1,268,895.01	\$ -	\$ 87,711.16	\$ 87,711.16	\$ 1,356,606.17	\$ 1,356,606.17	\$ 91,153.35	\$ 1,447,759.52	\$ 91,153.35	\$ 1,447,759.52	
20	141234	Meters	\$ 936,932.60	\$ -	\$ 936,932.60	\$ -	\$ 45,227.56	\$ 45,227.56	\$ 982,160.16	\$ 982,160.16	\$ 47,002.50	\$ 1,029,162.66	\$ 47,002.50	\$ 1,029,162.66	
21	141235	Meter Installations	\$ 123,361.47	\$ -	\$ 123,361.47	\$ -	\$ 12,589.95	\$ 12,589.95	\$ 135,951.42	\$ 135,951.42	\$ 13,084.04	\$ 149,035.46	\$ 13,084.04	\$ 149,035.46	
22	141236	Hydrants	\$ 848,004.11	\$ -	\$ 848,004.11	\$ -	\$ 36,228.70	\$ 36,228.70	\$ 884,232.81	\$ 884,232.81	\$ 37,650.48	\$ 921,883.29	\$ 37,650.48	\$ 921,883.29	
23	141237	Backflow Prevention Devices	\$ 412.90	\$ -	\$ 412.90	\$ -	\$ 63.80	\$ 63.80	\$ 476.70	\$ 476.70	\$ 66.31	\$ 543.01	\$ 66.31	\$ 543.01	
24	141253	Treat/Disp Equip Trt Pfl	\$ 549,659.83	\$ -	\$ 549,659.83	\$ -	\$ 549,659.83	\$ -	\$ 549,659.83	\$ -	\$ 549,659.83	\$ -	\$ 549,659.83	\$ -	
25	141269	Office and Misc Equip WTP	\$ 5,057.40	\$ -	\$ 5,057.40	\$ -	\$ 1,315.45	\$ 1,315.45	\$ 6,372.85	\$ 6,372.85	\$ 1,367.07	\$ 7,739.92	\$ 1,367.07	\$ 7,739.92	
26	141303	Other Furniture	\$ 59,692.57	\$ -	\$ 59,692.57	\$ -	\$ (7,330.78)	\$ (7,330.78)	\$ 52,361.79	\$ (435.33)	\$ 51,926.46	\$ (435.33)	\$ 51,926.46	\$ (435.33)	
27	141304	Office Equipment	\$ 15.63	\$ -	\$ 15.63	\$ -	\$ (4.05)	\$ (4.05)	\$ 11.58	\$ (4.05)	\$ 11.58	\$ (4.05)	\$ 11.58	\$ (4.05)	
28	141305	Stores Equipment	\$ 10,728.52	\$ -	\$ 10,728.52	\$ -	\$ (5.58)	\$ (5.58)	\$ 10,722.94	\$ (5.58)	\$ 10,722.94	\$ (5.58)	\$ 10,722.94	\$ (5.58)	
29	141306	Lab Equipment	\$ 58,049.39	\$ -	\$ 58,049.39	\$ -	\$ 4,772.90	\$ 4,772.90	\$ 62,822.29	\$ 62,822.29	\$ 4,960.22	\$ 67,782.51	\$ 4,960.22	\$ 67,782.51	
30	141308	Tool Shop Equipment	\$ 253,693.44	\$ -	\$ 253,693.44	\$ -	\$ 10,828.80	\$ 10,828.80	\$ 264,522.24	\$ 264,522.24	\$ 11,314.74	\$ 275,836.98	\$ 11,314.74	\$ 275,836.98	
31	141309	Power Operated Equipment	\$ 30,629.22	\$ -	\$ 30,629.22	\$ -	\$ 1,198.53	\$ 1,198.53	\$ 31,827.75	\$ 31,827.75	\$ 1,245.56	\$ 33,073.31	\$ 1,245.56	\$ 33,073.31	
32	141310	Communications Equipment	\$ 359,163.11	\$ -	\$ 359,163.11	\$ -	\$ 4,302.58	\$ 4,302.58	\$ 363,465.69	\$ 363,465.69	\$ 5,511.80	\$ 368,977.49	\$ 5,511.80	\$ 368,977.49	
33	141311	Misc Equipment	\$ 25,023.45	\$ -	\$ 25,023.45	\$ -	\$ 8,732.74	\$ 8,732.74	\$ 33,756.19	\$ 33,756.19	\$ 9,075.45	\$ 42,831.63	\$ 9,075.45	\$ 42,831.63	
34	141399	Building and Equipment Clearing	\$ -	\$ -	\$ -	\$ -	\$ 1,066.59	\$ 1,066.59	\$ 1,066.59	\$ 1,066.59	\$ 2,133.19	\$ 2,133.19	\$ 2,133.19	\$ 2,133.19	
35	141401	Vehicles	\$ 212,763.46	\$ -	\$ 212,763.46	\$ -	\$ (12,747.79)	\$ (12,747.79)	\$ 200,015.67	\$ (12,747.79)	\$ 200,015.67	\$ (12,747.79)	\$ 200,015.67	\$ (12,747.79)	
36	141501	Computer Hardware	\$ 76.72	\$ -	\$ 76.72	\$ -	\$ (19.88)	\$ (19.88)	\$ 56.84	\$ (19.88)	\$ 56.84	\$ (19.88)	\$ 56.84	\$ (19.88)	
37	141502	Desktop/Laptop Computers	\$ 9,890.90	\$ -	\$ 9,890.90	\$ -	\$ (2,563.42)	\$ (2,563.42)	\$ 7,327.48	\$ (2,563.42)	\$ 7,327.48	\$ (2,563.42)	\$ 7,327.48	\$ (2,563.42)	
38	141503	Mainframe Computers	\$ 11,722.95	\$ -	\$ 11,722.95	\$ -	\$ (3,038.22)	\$ (3,038.22)	\$ 8,684.73	\$ (3,038.22)	\$ 8,684.73	\$ (3,038.22)	\$ 8,684.73	\$ (3,038.22)	
39	141504	Mini Comp Wtr	\$ 125,660.93	\$ -	\$ 125,660.93	\$ -	\$ (29,442.01)	\$ (29,442.01)	\$ 96,218.92	\$ (29,442.01)	\$ 96,218.92	\$ (29,442.01)	\$ 96,218.92	\$ (29,442.01)	
40	141601	Computer Software	\$ 18,791.63	\$ -	\$ 18,791.63	\$ -	\$ (4,870.22)	\$ (4,870.22)	\$ 13,921.41	\$ (4,870.22)	\$ 13,921.41	\$ (4,870.22)	\$ 13,921.41	\$ (4,870.22)	
41	141602	Comp Systems	\$ 362,306.43	\$ -	\$ 362,306.43	\$ -	\$ (108,748.07)	\$ (108,748.07)	\$ 253,558.36	\$ (108,748.07)	\$ 253,558.36	\$ (108,748.07)	\$ 253,558.36	\$ (108,748.07)	
42	141603	Micro Systems	\$ 6,064.76	\$ -	\$ 6,064.76	\$ -	\$ (1,571.79)	\$ (1,571.79)	\$ 4,492.97	\$ (1,571.79)	\$ 4,492.97	\$ (1,571.79)	\$ 4,492.97	\$ (1,571.79)	
43	141699	Computer Clearing	\$ (665.87)	\$ -	\$ (665.87)	\$ -	\$ 665.87	\$ 665.87	\$ -	\$ 665.87	\$ -	\$ -	\$ -	\$ -	
44		Total Water Plant	\$ 16,587,005.72	\$ -	\$ 16,587,005.72	\$ -	\$ 3,407,935.87	\$ 3,407,935.87	\$ 19,994,941.58	\$ 3,407,935.87	\$ 18,299,834.37	\$ 1,829,834.37	\$ 21,824,775.96	\$ 1,829,834.37	

Community Utilities of Pennsylvania, Inc.
Water Divisions
R-2023-3042804
UNACCOUNTED FOR WATER
 2020-2023

Line No.	Date	Subdivision	Water Produced/Purchased	WWTP	Main Breaks/Leaks	Flushing	Sampling	CL17	Filters/Softners	Adjustments	Sewer Cleaning/Misc	Total Water Sold	Unaccounted For Water	Percent Unaccounted
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
1	Aug	CUPA	49,209,149	234,670	1,037,600	1,385,000	0	340,139	0	0	0	37,832,365	8,379,375	17.03%
2	Sep	CUPA	68,768,315	168,881	2,056,340	671,220	11,301	225,940	0	50,000	0	44,663,154	20,921,479	30.42%
3	Oct	CUPA	44,013,070	217,436	1,850,000	226,038	0	241,181	0	0	0	31,391,192	10,087,223	22.92%
4	Nov	CUPA	41,899,276	158,786	1,880,500	214,000	0	212,532	0	0	0	30,542,334	8,891,124	21.22%
5	Dec	CUPA	63,975,825	311,402	732,500	348,500	0	275,185	0	3,000	0	38,580,806	23,724,432	37.08%
6	Jan	CUPA	45,159,542	119,331	3,331,500	344,000	0	214,045	0	0	0	33,580,630	7,570,036	16.76%
7	Feb	CUPA	39,481,518	96,960	1,448,750	233,000	792	204,634	3,077	0	0	31,541,159	5,953,146	15.08%
8	Mar	CUPA	61,895,333	137,528	1,039,100	417,500	1,150	177,172	0	3,000	0	37,756,042	22,363,841	36.13%
9	Apr	CUPA	44,148,333	265,963	1,630,197	734,509	0	190,527	21,600	0	75,596	32,026,801	8,603,340	19.49%
10	May	CUPA	47,528,191	126,520	559,424	308,800	1,930	181,125	15,000	0	60,520	34,939,307	11,335,565	23.85%
11	Jun	CUPA	57,627,647	186,432	896,300	551,430	0	177,617	21,600	0	0	42,185,563	13,608,705	23.61%
12	Jul	CUPA	47,746,239	126,379	1,848,621	549,194	150	194,160	22,320	0	0	34,150,751	10,854,664	22.73%
13		Company Total	611,452,438	2,150,288	18,310,832	5,983,191	15,323	2,634,057	83,597	56,000	136,116	429,790,104	152,292,930	24.91%
14		I&E Total	611,452,438	2,150,288	0	5,983,191	15,323	2,634,057	83,597	0	136,116	429,790,104	170,659,762	27.91%
15		Adjustment	0	0	0	0	0	0	0	0	0	0	-48,347,911	0.00%
16		Target UPW	611,452,438	2,150,288	0	5,983,191	0	0	0	0	0	429,790,104	122,311,851	20.00%

2020-2023

WATER USED OR LOST-3 Year Average

Community Utilities of Pennsylvania, Inc.
 Water Divisions
 R-2023-3042804
 UFW

(A) Line No.	(B) Date	(C) Subdivision	(D) Water Produced	(E) WWTP	(F) Main Breaks/Leaks	(G) Flushing	(H) Sampling	(I) CL17	(J) Filters/Softners	(K) Adjustments	(L) Sewer Cleaning/Misc	(M) Total Water Sold	(N) Unaccounted For Water	(O) Percent Unaccounted
1	Aug	WEST GATE	15,782,130	0	20,000	31,000				0		13,734,022	1,718,108	10.89%
2	Sep	WEST GATE	14,114,710	0	0	315,000				50,000		12,080,003	1,669,707	11.83%
3	Oct	WEST GATE	13,324,060	0	0	185,000				0		11,195,003	1,944,057	14.59%
4	Nov	WEST GATE	12,515,510	0	0	139,000				0		10,804,003	1,572,507	12.56%
5	Dec	WEST GATE	14,005,620	0	75,000	324,000				0		11,513,003	2,091,617	14.94%
6	Jan	WEST GATE	12,832,140	0	100,000	289,000				0		10,341,004	2,102,136	16.38%
7	Feb	WEST GATE	11,819,000	0	0	214,000				0		10,118,002	1,486,998	12.58%
8	Mar	WEST GATE	12,742,040	0	30,000	212,000				0		10,695,004	1,805,036	14.17%
9	Apr	WEST GATE	12,680,380	0	0	407,336				0		10,698,003	1,575,041	12.42%
10	May	WEST GATE	15,658,930	0	0	186,000				0		14,398,005	1,074,925	6.86%
11	Jun	WEST GATE	14,694,310	0	0	211,000				0		12,553,000	1,930,310	13.14%
12	Jul	WEST GATE	16,026,470	0	1,509,240	451,000				0		12,830,000	1,236,230	7.71%
13	TOTAL	WEST GATE	166,195,300	0	1,734,240	3,243,336	0	0	0	50,000	0	140,959,052	20,206,672	12.16%

Community Utilities of Pennsylvania, Inc.
 Water Divisions
 R-2023-3012801
 UFW

2020-2023 WATER USED OR LOST-3 Year Average

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
Line No.	Date	Subdivision	Water Produced	WWTP	Main Breaks/Leaks	Flushing	Sampling	CL17	Filters/Sofmers	Adjustments	Sewer Cleaning/Misc	Total Water Sold	Unaccounted For Water	Percent Unaccounted
1	Aug	PENN ESTATES	30,292,432	230,205	833,800	1,050,000	0	340,139	0	0	0	22,397,243	5,441,045	17.96%
2	Sep	PENN ESTATES	27,850,179	131,706	598,340	35,000	0	225,940	0	0	0	20,922,312	5,925,580	21.28%
3	Oct	PENN ESTATES	28,952,294	213,282	1,850,000	40,000	0	241,181	0	0	0	19,022,389	7,585,442	26.20%
4	Nov	PENN ESTATES	27,789,415	156,919	1,880,500	75,000	0	212,532	0	0	0	18,534,231	6,930,233	24.94%
5	Dec	PENN ESTATES	28,335,186	298,479	625,000	11,000	0	275,185	0	0	0	17,443,170	9,682,352	34.17%
6	Jan	PENN ESTATES	29,906,467	117,854	3,231,500	55,000	0	214,045	0	0	0	21,608,126	4,679,942	15.65%
7	Feb	PENN ESTATES	25,473,040	94,267	1,448,750	77,000	792	204,634	3,077	0	0	19,842,357	3,862,163	15.16%
8	Mar	PENN ESTATES	26,446,431	123,939	526,000	1,150	0	177,172	0	0	0	16,939,255	8,601,915	32.53%
9	Apr	PENN ESTATES	26,499,835	260,926	1,630,197	200,081	0	190,327	0	0	75,596	19,115,098	5,027,610	18.97%
10	May	PENN ESTATES	27,204,328	123,067	529,424	65,000	1,930	181,125	0	0	60,520	18,045,102	8,198,160	30.14%
11	Jun	PENN ESTATES	26,791,443	170,826	720,000	110,000	0	177,617	0	0	0	21,861,763	3,741,237	13.96%
12	Jul	PENN ESTATES	29,514,024	125,191	272,000	98,194	150	194,160	0	0	0	19,821,251	9,003,078	30.50%
13		TOTAL	335,055,074	2,046,661	14,155,511	1,833,275	15,323	2,634,057	3,077	0	136,116	235,552,297	78,678,757	23.48%

Community Utilities of Pennsylvania, Inc.
 Water Divisions
 R-2021-3025206
 R-2023-3012804

Purchased Taminent 8/14/2019
 2020-2023

WATER USED OR LOST-3 Year Average

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
Line No.	Date	Subdivision	Water Produced	WWTP	Main Breaks/Leaks	Flushing	Sampling	CL17	Filers/Softhars	Adjustments	Sewer Cleaning/Misc	Total Water Sold	Unaccounted For Water	Percent Unaccounted
1	Aug	TAMINENT	3,134,587	4,465	183,800	25,000	0	0	0	0	0	1,701,100	1,220,222	38.93%
2	Sep	TAMINENT	26,803,426	37,175	1,458,000	321,220	0	0	0	0	0	11,660,839	13,326,192	49.72%
3	Oct	TAMINENT	1,736,716	4,154	0	1,038	0	0	0	0	0	1,173,800	557,724	32.11%
4	Nov	TAMINENT	1,594,351	1,867	0	0	0	0	0	0	0	1,204,100	388,384	24.36%
5	Dec	TAMINENT	21,637,019	12,923	32,500	13,500	0	0	0	3,000	0	9,624,633	11,950,463	55.23%
6	Jan	TAMINENT	2,420,935	1,477	0	0	0	0	0	0	0	1,631,500	787,958	32.55%
7	Feb	TAMINENT	2,189,478	2,693	0	2,000	0	0	0	0	0	1,580,800	603,985	27.59%
8	Mar	TAMINENT	22,706,862	13,589	483,100	128,500	0	0	0	3,000	0	10,121,783	11,956,890	52.66%
9	Apr	TAMINENT	4,968,118	5,037	0	127,092	0	0	21,600	0	0	2,813,700	2,000,689	40.27%
10	May	TAMINENT	4,664,933	3,453	30,000	57,800	0	0	15,000	0	0	2,496,200	2,062,480	44.21%
11	Jun	TAMINENT	16,141,894	15,606	166,300	230,430	0	0	21,600	0	0	7,770,800	7,937,158	49.17%
12	Jul	TAMINENT	2,205,745	1,188	67,381	0	0	0	22,320	0	0	1,499,500	615,356	27.90%
13		TOTAL	110,204,064	103,627	2,421,081	906,580	0	0	80,520	6,000	0	53,276,755	53,407,501	48.46%

Community Utilities of Pennsylvania, Inc.
Water Divisions
R-2023-3042804
Unaccounted For Water

I&E
PROPOSED PURCHASED POWER EXPENSE ADJUSTMENTS

Line No.	(A)	(B)	(C)	(D)	(E)
1	Expense*	Purchased Power \$39,569	Purchase Water \$270,582	Chemicals \$55,865	TOTAL \$366,017
2	Total Send Out	611,452,438	611,452,438	611,452,438	611,452,438
3	Cost Per Thousand	\$0.065	\$0.443	\$0.091	\$0.599
4	Excess UFW	-48,347,911	-48,347,911	-48,347,911	-48,347,911
5	UFW Adjustment	-\$3,129	-\$21,395	-\$4,417	-\$28,941

* CUPA Schedules:

B-7 column G and line 3, B-8 column G and line 4, and B-12 column G and line 5.

COMMUNITY UTILITIES OF PENNSYLVANIA, INC.
CONSOLIDATED WASTEWATER SERVICES

**ALLOCATION OF PRO FORMA OPERATION AND MAINTENANCE EXPENSES
TO FUNCTIONAL COST COMPONENTS**
See explanation of Reference, page 8.

	Pro Forma Expense	Allocation				Percentage Allocation				Ref.
		Treatment and Disposal	Collection System	Billing and Collecting	Administrative	Treatment and Disposal	Collection System	Billing and Collecting	Administrative	
Maintenance Expenses:										
Salaries and wages	\$302,488	\$157,687	\$144,801			52.13%	47.87%			(1)
Purchased power	152,785	76,392	76,393			50.00%	50.00%			(2)
Maintenance and repair	68,427	35,671	32,756			52.13%	47.87%			(1)
Sludge Handling	195,596	195,596				100.00%				(3)
Maintenance testing	31,235	16,283	14,952			52.13%	47.87%			(1)
Chemicals	60,175	60,175				100.00%				(3)
Transportation	19,714	10,277	9,437			52.13%	47.87%			(1)
Operating expense charged to plant	(51,267)	(21,265)	(19,528)			41.48%	38.09%			(4)
Outside services - other	84,152							5.44%	14.99%	(4)
General Expenses:										(5)
Salaries and Wages	77,667							26.62%	73.38%	(6)
Billing and customer service expense	10,590							100.00%		(7)
Office supplies and other expenses	23,891	12,137	11,145			50.80%	46.65%	2.55%		(8)
Regulatory commission expense	38,570							5.44%	100.00%	(5)
Pension and other benefits	108,892	45,168	41,477			41.48%	38.09%			(4)
Rent	11,426							2.55%	100.00%	(5)
Insurance	38,070	19,339	17,760			50.80%	46.65%			(8)
Office utilities	29,049							50.00%	50.00%	(9)
Miscellaneous	16,376							100.00%		(5)
Uncollectible Accounts	18,495							100.00%		(7)
Sub-totals	1,236,331	607,460	329,193			49.13%	26.63%	5.58%	18.66%	
Reallocate administrative pro rata	-	139,340	75,511							
Total operation and maintenance disbursements	\$1,236,331	\$746,800	\$404,704	\$84,827	\$-	60.41%	32.73%	6.86%	0.00%	

(Continued on next page)

(See Accountants' Special Purpose Report)

Community Utilities of Pennsylvania, Inc.
Water Divisions
R-2023-3042806
Fully Projected Future Test Year : July 31, 2025
Supplement to Schedule B-1
Company and I&E Rates

Line No.	Line No.	Customer C	Meter Sizes (B)	Company				I&E			
				Present		Company		Present		I&E	
				Monthly Rates (C)	Increase (D)	Monthly Rates (E)	Percent Increase (F)	Monthly Rates (G)	Increase (H)	Monthly Rates (I)	Percent Increase (J)
CONSOLIDATED											
1	Residential and Commercial		5/8"	\$17.25	\$6.15	\$23.40	35.7%	\$17.25	\$0.95	\$18.20	5.5%
2			1"	\$43.13	-\$1.88	\$41.25	-4.4%	\$43.13	\$2.37	\$45.50	5.5%
3			1.5"	\$86.25	-\$15.30	\$70.95	-17.7%	\$86.25	\$4.75	\$91.00	5.5%
4			2"	\$138.00	-\$31.40	\$106.60	-22.8%	\$138.00	\$7.60	\$145.60	5.5%
TAMIMENT											
5	Residential		5/8"	\$18.18	\$5.22	\$23.40	28.7%	\$18.18	\$0.02	\$18.20	0.1%
6	Commercial		5/8"	\$121.25	-\$97.85	\$23.40	-80.7%	\$121.25	-\$103.05	\$18.20	-85.0%
7			1"	\$121.25	-\$80.00	\$41.25	-66.0%	\$121.25	-\$75.75	\$45.50	-62.5%
8			1.5"	\$121.25	-\$50.30	\$70.95	-41.5%	\$121.25	-\$30.25	\$91.00	-24.9%
9			2"	\$121.25	-\$50.30	\$70.95	-41.5%	\$121.25	\$24.35	\$145.60	20.1%
10			6"	\$158.41	\$447.29	\$605.70	282.4%	\$158.41	\$63.09	\$221.50	39.8%
Unmetered Water											
Unmetered Public Fire Protection (Hydrants)-FTY and FPFTY											
11				\$56.67	-\$17.07	\$39.60	-30.1%	\$56.67	\$0.00	\$56.67	0.0%
12	Unmetered - Other Availability			\$18.81	\$26.79	\$45.60	142.4%	\$18.81	\$1.04	\$19.85	5.5%
13	Unmetered - Tamiment			\$9.31	\$36.29	\$45.60	389.8%	\$9.31	\$3.69	\$13.00	39.6%
Consumption Charge											
				Company				I&E			
				Present Rates Per 1,000 Gallons	Increase	Proposed Rates Per 1,000 Gallons	Percent Increase	Present Rates Per 1,000 Gallons	Increase	Proposed Rates Per 1,000 Gallons	Percent Increase
Consolidated Residential											
13			5/8"	\$13.51	\$9.08	\$22.59	67.2%	\$13.51	\$11.59	\$25.106	85.8%
14			1"	\$13.51	\$9.08	\$22.59	67.2%	\$13.51	\$11.59	\$25.106	85.8%
15			1.5"	\$13.51	\$9.08	\$22.59	67.2%	\$13.51	\$11.59	\$25.106	85.8%
16			2"	\$13.51	\$9.08	\$22.59	67.2%	\$13.51	\$11.59	\$25.106	85.8%
Consolidated Low Income											
17			5/8"	\$8.78	\$5.90	\$14.68	67.1%	\$8.78	\$7.54	\$16.320	85.8%
18			1"	\$8.78	\$5.90	\$14.68	67.1%	\$8.78	\$7.54	\$16.320	85.8%
19			1.5"	\$8.78	\$5.90	\$14.68	67.1%	\$8.78	\$7.54	\$16.320	85.8%
20			2"	\$8.78	\$5.90	\$14.68	67.1%	\$8.78	\$7.54	\$16.320	85.8%
Commercial											
21			5/8"	\$12.88	\$9.71	\$22.59	75.4%	\$12.88	\$12.23	\$25.106	95.0%
22			1"	\$12.88	\$9.71	\$22.59	75.4%	\$12.88	\$12.23	\$25.106	95.0%
23			1.5"	\$12.88	\$9.71	\$22.59	75.4%	\$12.88	\$12.23	\$25.106	95.0%
24			2"	\$12.88	\$9.71	\$22.59	75.4%	\$12.88	\$12.23	\$25.106	95.0%
25			6"	\$12.88	\$9.71	\$22.59	75.4%	\$12.88	\$12.23	\$25.106	95.0%
Tamiment											
26	Residential		All	\$11.45	\$11.14	\$22.59	97.3%	\$11.45	\$13.65	\$25.106	119.2%
Tamiment Low Income											
27			5/8"	\$7.44	\$7.24	\$14.68	97.2%	\$7.44	\$8.88	\$16.320	119.2%
28			1"	\$7.44	\$7.24	\$14.68	97.2%	\$7.44	\$8.88	\$16.320	119.2%
29			1.5"	\$7.44	\$7.24	\$14.68	97.2%	\$7.44	\$8.88	\$16.320	119.2%
30			2"	\$7.44	\$7.24	\$14.68	97.2%	\$7.44	\$8.88	\$16.320	119.2%
31	Commercial		All	\$10.81	\$11.78	\$22.59	109.0%	\$10.81	\$14.30	\$25.106	132.2%

**PRO FORMA ANNUAL OPERATING REVENUE AT ADJUSTED
RATES AND CHARGES BASED UPON ALLOCATED COST OF SERVICE
I&E Proposed**

Line No.	(A)	(B)	(C)	Billing Determinants		(F)	Pro Forma	
				Pro Forma Consumption (1,000's Gallons)	Bills		Allocated Cost of Service Rates	Under Adjusted Rates
	Base Charge:							
1	5/8	inch meter			37,836	\$18.20	\$688,615	
2	1	inch meter			60	45.50	\$2,730	
3	1 1/2	inch meter			12	91.00	\$1,092	
4	2	inch meter			36	145.60	\$5,242	
5	6	inch meter			12	221.50	\$2,658	
6		Availability Fee -Consolidated			528	19.85	\$10,481	
7		Availability Fee Tamiment			3,240	13.00	\$42,120	
8							\$752,938	19.66%
	Volume Charge:							
9		All Other Flow	87.21%	110,046.1		25.11	\$ 2,763,258	72.14%
10		Low-Income Flow	12.79%	16,143.9		16.32	\$ 263,468	6.88%
11		Fire Protection			899	56.67	50,946	1.33%
12		Totals	100.00%	126,190.0	42,623		\$3,830,610	100.000%

Community Utilities of Pennsylvania, Inc.
R-2023-3042804
Summary of Operating Revenues
Water Operations

Line No.	Description	7/31/2023		7/31/2024		7/31/2025		7/31/2025		Fully Projected Future Test Year	
		Per Books	Adjustment	Per Books Adjusted	FTY Forecast Adjustment	FTY Forecast	FFTY Forecast Adjustment	FFTY Forecast	FFTY Proposed Increase \$		
1	Residential	\$ 2,371,765.40	\$ (10,532.46)	\$ 2,361,232.94	\$ (60,348.58)	\$ 2,300,884.36	\$ (72,101.81)	\$ 2,228,782.54	\$ 1,434,081.61	64.34%	\$ 3,662,864.16
2	Commercial	\$ 43,447.10	\$ (79.53)	\$ 43,367.57	\$ (1,478.27)	\$ 41,889.30	\$ (1,080.03)	\$ 40,809.28	\$ 22,946.10	56.23%	\$ 63,755.38
3	Guarantee	\$ 40,846.18	\$ (1,253.06)	\$ 39,593.12	\$ 502.96	\$ 40,096.08	\$ -	\$ 40,096.08	\$ 12,504.72	31.19%	\$ 52,600.80
4	Public Fire Protection	\$ 47,432.79	\$ -	\$ 47,432.79	\$ 3,513.54	\$ 50,946.33	\$ -	\$ 50,946.33	\$ -	0.00%	\$ 50,946.33
5	Miscellaneous Service Revenue - NSF Check Charge	\$ 975.00	\$ -	\$ 975.00	\$ -	\$ 975.00	\$ -	\$ 975.00	\$ -	0.00%	\$ 975.00
6	Miscellaneous Service Revenue - Reconnect Fees	\$ 2,220.00	\$ -	\$ 2,220.00	\$ -	\$ 2,220.00	\$ -	\$ 2,220.00	\$ -	0.00%	\$ 2,220.00
7	Miscellaneous Revenue - State Tax Adjustment Surcharge	\$ (3,396.33)	\$ -	\$ (3,396.33)	\$ -	\$ (3,396.33)	\$ -	\$ (3,396.33)	\$ -	0.00%	\$ (3,396.33)
8	Late Payment Charges (LPC)	\$ 16,384.37	\$ -	\$ 16,384.37	\$ -	\$ 16,384.37	\$ -	\$ 16,384.37	\$ 8,703.71	53.12%	\$ 25,088.08
9	Revenue Accrued	\$ (21,864.45)	\$ -	\$ (21,864.45)	\$ 21,864.45	\$ -	\$ -	\$ -	\$ (28,766.53)	0.00%	\$ -
10	Uncollectible Accounts	\$ (166,053.49)	\$ -	\$ (166,053.49)	\$ -	\$ (166,053.49)	\$ 119,097.95	\$ (46,955.54)	\$ -	0.00%	\$ (75,722.07)
11	Total Service Revenue - Water	\$ 2,331,756.57	\$ (11,865.05)	\$ 2,319,891.52	\$ (35,945.50)	\$ 2,283,945.61	\$ 45,916.11	\$ 2,329,861.72	\$ 1,449,469.61		\$ 3,779,331.34

(A) CURA Water (B) 7/31/2023 (C) 7/31/2023 (D) 7/31/2023 (E) 7/31/2023 (F) 7/31/2024 (G) 7/31/2024 (H) 7/31/2025 (I) 7/31/2025 (J) 7/31/2025 (K) 7/31/2025 (L) 7/31/2025

**I&E Statement No. 3
Witness: Esyan A. Sakaya**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

V.

COMMUNITY UTILITIES OF PENNSYLVANIA - WASTEWATER DIVISION

Docket No. R-2023-3042805

Direct Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

Test Year

Rate Base

Plant and Reporting Requirements

Inflow and Infiltration

Cost of Service

Rate Structure

Public Input Hearings

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Esyan A. Sakaya. My business address is 400 North Street,
4 Harrisburg, Pennsylvania 17120.

5

6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A. I am employed by the Pennsylvania Public Utility Commission (“Commission”) in
8 the Bureau of Investigation and Enforcement (“I&E”) as a Fixed Utility Valuation
9 Engineer.

10

11 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL
12 BACKGROUND?**

13 A. My education and professional background are set forth in Appendix A, which is
14 attached.

15

16 **Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.**

17 A. I&E is responsible for protecting the public interest in proceedings before the
18 Commission. The I&E analysis in the proceeding is based on its responsibility to
19 represent the public interest. This responsibility requires the balancing of the
20 interests of ratepayers, the regulated utility, and the regulated community as a
21 whole.

1 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

2 A. The purpose of my direct testimony is to evaluate Community Utilities of
3 Pennsylvania, Inc. Wastewater Division’s (“CUPA” or “Company”) request for an
4 annual increase in operating revenue of \$1,720,070 (CUPA Schedule 3, p. 3). My
5 testimony will address issues related to the rate base, plant additions, depreciation
6 expense, reporting requirements, inflow and infiltration, and rate structure.

7

8 **Q. DOES YOUR DIRECT TESTIMONY INCLUDE AN EXHIBIT?**

9 A. Yes. I&E Exhibit No. 3 contains schedules that support my direct testimony.

10

11 **Q. SUMMARIZE THE COMPANY’S PROPOSED RATES.**

12 A. In this filing, the Company is proposing to consolidate wastewater rates so all
13 customers in the Penn Estates and Westgate sections (Consolidated system) pay
14 the same flat charge and usage rates as the customers in the Tamiment system. In
15 addition to this, CUPA seeks to implement low-income wastewater service to
16 residential customers in all service territories. The Company provided a cost of
17 service study (“COSS”) using the User Charge System methodology to support its
18 proposed rates.

1 **EXPLANATION OF TEST YEARS**

2 **Q. WHAT IS A TEST YEAR AND HOW IS IT USED BY A UTILITY IN A**
3 **RATE PROCEEDING?**

4 A. A test year is the twelve-month period over which a utility’s costs and revenues
5 are measured as the basis for setting prospective base rates. In order to meet its
6 burden of proof, a utility has the option of selecting either a historic test year
7 (“HTY”), a future test year (“FTY”), or a Fully Projected Future Test Year
8 (“FPFTY”). An HTY is a twelve-month period selected by a utility that represents
9 a recent full year of actual data. An FTY begins the day after the HTY ends and is
10 determined using a combination of actual data with a projection of annualized and
11 normalized estimates of future revenues and expenses and a corresponding
12 measure of value at the end of that period. The FPFTY is defined as the twelve-
13 month period that begins with the first month that the new rates will be placed into
14 effect, after the application of the full suspension period permitted under Section
15 1308(d). The FPFTY is a shift from the fundamental ratemaking principle that a
16 public utility should only be permitted to include projects in rate base and earn a
17 reasonable return on its investments after they become “used and useful” for the
18 utility’s public service.

19
20 **Q. WHAT TEST YEARS HAS THE COMPANY USED IN THIS**
21 **PROCEEDING?**

22 A. CUPA has selected the twelve months ended July 31, 2023 as the HTY, the twelve

1 months ending July 31, 2024 as the FTY, and the twelve months ending July, 31,
2 2025 as the FPFTY (CUPA-WW St. No. 1, p. 10).

3
4 **Q. WHAT TEST YEAR HAS THE COMPANY BASED ITS REVENUE**
5 **REQUIREMENT ON IN THIS PROCEEDING?**

6 A. CUPA based its requested revenue requirement on the FPFTY ending July 31,
7 2025 (CUPA Supplement to Schedule-B1-Proposed Service Revenue- July 31,
8 2025, p. 2, and CUPA-WW St. No. 2, p. 2).

9
10 **RATE BASE**

11 **Q. WHAT IS RATE BASE?**

12 A. Rate base is the depreciated original cost of a utility's investment in plant that is in
13 place to serve customers plus other additions and deductions that are determined to
14 be necessary to keep the utility operating and providing safe and reliable service to
15 its customers.

16
17 **Q. HOW IS RATE BASE USED WITHIN THE RATEMAKING FORMULA?**

18 A. Rate base is one part of the financial equation used by the Commission to
19 determine the appropriate revenue that a utility is granted in a rate proceeding.
20 The revenue determination allows the utility to meet its expense obligations and
21 gives it the opportunity to earn the rate of return established by the Commission in
22 a rate proceeding. The equation used to determine the proper revenue requirement

1 level is as follows: Revenue Requirement = (Rate Base x Rate of Return) +
2 Operating Expenses + Depreciation Expenses + Taxes.

3
4 **Q. HOW IS THE DEPRECIATED ORIGINAL COST OF PLANT-IN-**
5 **SERVICE AT THE END OF THE TEST YEAR DETERMINED?**

6 A. The depreciated original cost is equal to the original cost of the plant-in-service
7 that is used and useful in the provision of utility service to the customers less the
8 depreciation reserve as adjusted by other items such as salvage value and removal
9 costs. By using an FPFTY, the depreciated original cost of the plant in service is
10 computed by taking a “snapshot” look at the depreciated original cost value of
11 used and useful utility plant estimated to be in service at the end of the FPFTY.

12
13 **Q. WHAT OTHER ADDITIONS AND DEDUCTIONS TO THE**
14 **DEPRECIATED ORIGINAL COST OF UTILITY PLANT ARE**
15 **GENERALLY ALLOWED?**

16 A. Some of the additions to the depreciated original cost a utility may include are
17 materials and supplies, prepayments, and cash working capital. Deductions may
18 include items such as deferred income taxes and customer deposits. Some
19 additions are only applicable to a specific utility or utility type.

1 **Q. WHAT IS THE COMPANY’S CLAIM FOR DEPRECIATED ORIGINAL**
2 **COST AND WHAT ADDITIONS AND DEDUCTIONS DID THE**
3 **COMPANY PROPOSE TO THAT DEPRECIATED ORIGINAL COST?**

4 A. CUPA’s claimed FPFTY depreciated original cost for the Wastewater Division is
5 \$19,566,036 (UPA Schedule A, p. 3).

6 The claimed additions to the Company’s depreciated original cost are as
7 follow: cash working capital, inventory, the Oracle Fusion asset, and deferred
8 charges (CUPA Schedule A, p. 3).

9 The deductions to the depreciated original cost are as follow: contributions
10 in aid of construction, accumulated deferred income taxes, customer deposits, and
11 the net plant acquisition adjustment.

12

13 **Q. WHAT RATE BASE IS THE COMPANY CLAIMING FOR THE FPFTY?**

14 A. The Company is claiming total wastewater rate base of \$17,432,191 (I&E Ex. 3,
15 Sch. No.1, col. J, line 12 and CUPA Schedule A, p. 3).

16

17 **Q. DOES THE FPFTY RATE BASE CLAIM INCLUDE PLANT ADDITIONS**
18 **PROJECTED TO TAKE PLACE DURING THE ACTUAL FPFTY?**

19 A. Yes. CUPA listed all planned pro-forma plant addition projects for the FTY and
20 FPFTY in a separate schedule entitled Pro-Forma Projects, Supplement to A-1, A-
21 2, & B-23 and in CUPA Ex. D V-12.

1 **PLANT ADDITIONS AND ANNUAL DEPRECIATION EXPENSE**

2 **Q. WHAT ARE THE COMPANY’S PLANNED PLANT ADDITIONS FOR**
3 **THE FTY AND FPFTY?**

4 A. CUPA plans to spend \$10,629,465.97 in Capital Project Investments between the
5 period of August 1st of 2023 to July 30, 2025 (CUPA St. No. 5, p. 6). CUPA’s
6 claim for FTY wastewater net rate base additions is \$1,862,692.02 with
7 corresponding retirements of \$385,123.51 (CUPA Supplement to A-1, A-2, & B-
8 23). CUPA’s claim for FPFTY wastewater net rate base additions are
9 \$3,254,627.46 with corresponding retirements of \$713,074 (I&E Ex. 3, Sch. 2,
10 cols. G-H, lines 25 and 27).

11
12 **Q. DID THE COMPANY PROVIDE DETAILS OF THESE PLANNED**
13 **PROJECTS?**

14 A. Yes. The Company provided a breakdown of projects that listed the cost of each
15 project, the starting date, and the in-service (CUPA-WW Supplement to A-1, A-2
16 and B-23 and CUPA Ex. D V-12).

17
18 **Q. ARE ALL THESE LISTED PROJECTS SCHEDULED TO BE**
19 **COMPLETED ON OR BEFORE THE END OF THE FPFTY?**

20 A. No.

1 **Q. WHICH PROJECT WILL MOST LIKELY NOT BE COMPLETED ON OR**
2 **BEFORE JULY 31, 2025?**

3 A. The Company has indicated the following project will not be completed by then in
4 Company Exhibit D V-12 as shown I&E Exhibit No. 3, Sch. No. 2.

5

Project	Estimated In Service Date	Adjusted In Service Date	Cost
UIP Chestnut LS Conversion	6/30/2025	12/31/2025	\$1,426,469

6
7 **Q. WHAT DO YOU RECOMMEND WITH RESPECT TO THIS PROJECT?**

8 A. I recommend that the UIP Chestnut LS Conversion be removed from the
9 Company's projected FPFTY plant additions.

10
11 **Q. WHY DO YOU RECOMMEND THAT THE \$1,426,469 PROJECT NOT BE**
12 **INCLUDED IN THE FPFTY NET PLANT IN SERVICE BALANCE?**

13 A. I recommended the removal of the \$1,426,469 project from the FPFTY net plant
14 in service because of the project was started on September 30, 2022, and
15 according to CUPA, has experienced numerous permit delays and design changes
16 since then and is only 15% complete (I&E Exhibit No. 3, Sch. No. 3).

17
18 **Q. WHAT IS THE NET VALUE OF THIS \$1,426,469 PROJECT?**

19 A. The \$1,426,469 UIP Chestnut project, has a Company claim of negative \$617,590
20 in retirements. Therefore, the net impact to FPFTY plant for this project is

1 \$808,879 (\$1,426,469 - \$617,590). Thus, I show the total \$808,879 reduction to
2 net plant in service on I&E Exhibit No. 3, Sch. 2, line 2, col. I.

3
4 **Q. WHAT IS THE COMPANY’S FPFTY CLAIM FOR ANNUAL**
5 **DEPRECIATION EXPENSE?**

6 A. The Company’s FPFTY claim for annual depreciation expense for wastewater is
7 \$645,040 (CUPA Schedule B, p. 3).

8
9 **Q. IF THE COMMISSION ACCEPTS YOUR RECOMMENDATION TO**
10 **REMOVE \$808,879 OF NET PLANT, SHOULD THERE BE A**
11 **CORRESPONDING REDUCTION TO ANNUAL DEPRECIATION**
12 **EXPENSE?**

13 A. Yes. I recommend that annual depreciation expense for this \$808,879 project be
14 adjusted by \$20,222 (I&E Ex. No. 3, Sch. 2, col. I, line 1).

15
16 **Q. HOW DID YOU DETERMINE THE VALUE OF \$20,222 FOR ANNUAL**
17 **DEPRECIATION EXPENSE?**

18 A. The Company’s depreciation rate of 2.5% was multiplied by the \$808,879 net rate
19 base addition which produced a corresponding depreciation expense of \$20,222
20 (\$808,879 x 0.025) (I&E Ex. No. 3, Sch. 3, p. 1, cols. I and J, and K, line 2).

1 **Q. IF THE COMMISSION APPROVES YOUR RECOMMENDED REMOVAL**
2 **OF \$808,879 OF NET PLANT, WHAT WILL BE THE FPFTY ADJUSTED**
3 **TOTAL NET RATE BASE?**

4 A. The adjusted FPFTY net rate base would be \$18,757,157 or (\$19,566,036 -
5 \$808,879) (I&E Ex. No. 3, Sch. 4, Col K, line 3).

6
7 **Q. IF APPROVED, WHAT WOULD BE THE FINAL ADJUSTED TOTAL**
8 **FPFTY RATE BASE?**

9 A. Not including any adjustments made by I&E witness Zachari Walker to cash
10 working capital or deferred charges, the adjusted total rate base for the FPFTY
11 would be \$16,623,312 or (\$17,432,191 -\$808,879) (I&E Ex. No. 3, Sch. 4, Cols H,
12 I and K, line 12).

13

14 **RATE BASE – RECOMMENDED REPORTING REQUIREMENT**

15 **Q. DO YOU HAVE ANY ADDITIONAL RECOMMENDATIONS**
16 **REGARDING PLANT ADDITIONS THAT THE COMPANY PROJECTS**
17 **TO BE IN SERVICE DURING THE FTY AND THE FPFTY?**

18 A. Yes. I recommend that the Company provide the Commission’s Bureau of
19 Investigation and Enforcement and the Office of Consumer Advocate with an
20 update to the CUPA Water Filing, Sch. A-1, cols. A-G, lines 51-119 no later than
21 November 1, 2024, under this docket number, which should include actual capital
22 expenditures, plant additions, and retirements by month for the twelve months

1 ending July 31, 2024. An additional update should be provided for actuals
2 through July 31, 2025, no later than November 1, 2025.

3
4 **Q. WHY DO YOU RECOMMEND THAT CUPA PROVIDE THESE**
5 **UPDATES?**

6 A. I&E believes that there is value in determining how closely CUPA's projected
7 investments in future facility comports with the actual investments that are made
8 by the end of the FTY and FPFTY. Determining the correlation between CUPA's
9 projected and actual results will help inform the Commission and the parties in
10 CUPA's future rate cases.

11 The updates are important because, as previously explained, through the
12 use of the FPFTY, CUPA is requiring ratepayers to pay a return on its projected
13 investment in future plant that is not in place and providing service at the time the
14 new rates take effect, but also is not subject to any guarantee of being completed
15 and placed into service. While the FPFTY provides for such projections, there
16 should be verification of the accuracy of the projections. Therefore, requiring the
17 Company to provide updates demonstrating that actual investments comport with
18 projections used in setting rates in the FPFTY provides the Commission with
19 actual data to gauge the accuracy of CUPA's projected investments in future
20 proceedings as has become common practice among Pennsylvania utilities
21 utilizing the FPFTY.

1 **INFLOW AND INFILTRATION**

2 **Q. WHAT IS INFLOW AND INFILTRATION?**

3 A. Inflow and Infiltration (I&I) is excess water that flows into sewer lines from
4 groundwater and stormwater sources.

5

6 **Q. HAS CUPA IDENTIFIED ANY NEW I&I ISSUES IN ITS SYSTEM?**

7 A. No. However, Company witness Capwen reports the status of three ongoing capital
8 sewer projects related to improving I&I issues in the CUPA wastewater system. The
9 Company reported that these three projects were either current or are scheduled to be
10 completed by May 2025 (CUPA St. No. 5, pp. 14-17). No new I&I issues were
11 reported in the CUPA filing.

12

13 **Q. WHAT DO YOU RECOMMEND CONCERNING I&I?**

14 A. I recommend that the Company continue tracking repairs to deficient parts of its
15 collection system and report the level of I&I in the next base rate case. The
16 Company should also describe steps taken to reduce I&I and future plans to reduce
17 excessive I&I.

18

19 **Q. WHY DO YOU MAKE THIS RECOMMENDATION?**

20 A. If I&I is reduced, the Company will reduce the overall costs to operate its wastewater
21 system by reducing electric and chemical expenses. This will also reduce the need

1 for future capital improvements, additions, and upgrades since less flow will be
2 collected and treated.

3
4 **COST OF SERVICE STUDY**

5 **Q. WHAT IS THE OBJECTIVE OF A COST OF SERVICE STUDY?**

6 A. A COSS is typically conducted to assist a utility in determining the level of costs
7 properly recoverable from each of the various classes of customers to which the
8 utility provides service. Allocation of recoverable costs to each customer class is
9 generally based on cost causation principles. A COSS is typically conducted to
10 assist a utility in determining the level of costs properly recoverable from each of
11 the various classes of customers to which the utility provides service. Allocation
12 of recoverable costs to each customer class is generally based on cost causation
13 principles.

14
15 **Q. WHAT ARE THE COST OF SERVICE STUDY METHODOLOGIES
16 UTILIZED FOR WASTEWATER UTILITIES?**

17 A. The methodologies used in allocating costs to customer classes for wastewater
18 customers are varied and can be found in manuals published by entities such as the
19 Water Environment Federation's Manual of Practice No. 27, Financing and
20 Charges for Wastewater Systems; The American Water Works Association's
21 Manual, M1, Principles of Water Rates, Fees, and Charges ("AWWA M1

1 Manual”); or the U.S. Environmental Protection Agency’s (“EPA”) User Charge
2 System.

3
4 **Q. WHAT METHODOLOGY DID THE COMPANY USE FOR ITS COSS IN**
5 **THIS PROCEEDING?**

6 A. The Company has utilized a methodology based upon the U.S. EPA’s User Charge
7 System in preparing its COSS. In summary, the User Charge System begins with
8 the allocation of the utility’s investment in plant and its projected costs to the
9 functional cost components. These include Treatment and Disposal, Collection
10 System, and Billing and Collecting. After learning what the relationships are
11 between costs, rate recovery can be obtained by either a fixed monthly charge, a
12 volumetric flow charge, or a combination of both (CUPA St. No. 7, pp. 19-20).

13
14 **Q. DO YOU AGREE WITH ALL OF THE RATES PROPOSED BY THE**
15 **COMPANY IN ITS COSS?**

16 A. No. While the Company’s goal to consolidate lower wastewater rates is good, I
17 will discuss my concerns below regarding CUPA’s use of Corporate Allocations
18 as a functional cost component in its COSS (CUPA St. No. 3, p. 6).

19
20 **Q. AS IT PERTAINS TO CUPA, WHAT IS A CORPORATE ALLOCATION?**

21 A. Corporate allocations are charges between commonly owned companies that
22 follow methods outlined in an affiliated interest agreement.

1 **Q. HOW DO THESE CORPORATE ALLOCATIONS ORIGINATE FOR**
2 **CUPA?**

3 A. The allocations originate as transactions between CUPA and its affiliate company,
4 Water Services Corporation (“WSC”).

5
6 **Q. WHAT POTENTIAL HARM CAN AFFILIATED AGREEMENTS CAUSE**
7 **RATEPAYERS?**

8 A. In this case, it appears that an affiliated company, WSC, will receive some of the
9 revenue from the rate increase to fund a Company-based incentive compensation
10 and bonus plan at the expense of CUPA’s water and wastewater customers (CUPA
11 St. No. 3, pp. 5-6 and CUPA filing, Exhibit A, III. Operating Expense, No. 22).

12
13 **Q. WHAT DID CUPA CLAIM ABOUT THESE CORPORATE**
14 **ALLOCATIONS?**

15 A. CUPA claimed that the corporate allocations are consistent with the allocation
16 process in CUPA’s last rate case and are consistent with existing affiliate
17 agreements approved by the Commission at Docket Nos. G-2019-3014555 and G-
18 2019-3014557 (CUPA St. No. 3, pp. 5-6).

19
20 **Q. WHAT IN CUPA’S LAST RATE CASE WAS APPLICABLE TO**
21 **CORPORATE ALLOCATIONS?**

22 A. CUPA did not utilize a COSS in its last rate increase request at Docket No.

1 R-2021-3025206. However, at Docket R-2019-3008947, CUPA used a COSS that
2 employed the same methodology used in this wastewater case. With respect to
3 operating and maintenance expenses in that case, no line item pertaining to
4 corporate allocations appears on page 7¹ of the COSS for wastewater (I&E Ex.
5 No. 3, Sch. 5).

6
7 **Q. WHAT IS THE COMMISSION’S POSITION REGARDING AFFILIATE**
8 **AGREEMENTS?**

9 A. The Commission approved CUPA’s affiliate agreement at Docket No. G-2019-
10 3014555. However, the conclusion of the Commission Order states,

11 Investigation and analysis of the proposed affiliated interest
12 transactions indicates that the terms and conditions appear to
13 be reasonable and consistent with the public interest. However,
14 this approval does not constitute a determination that the
15 associated costs or expenses are reasonable or prudent for the
16 purposes of determining just and reasonable rates.²
17

18 **Q. WHAT DO YOU PROPOSE REGARDING THE \$422,759 IN CORPORATE**
19 **ALLOCATIONS RELATED TO CUSTOMER BILLING AND**
20 **COLLECTING?**

21 A. I propose removing the \$422,759 in Corporate Allocations from the billing and
22 collection aspect of operating expenses (I&E Ex. 3, Sch. No. 7, cols. A, E and F,

¹ *Petitioners Attachment SAM-1 at Docket R-2019-3008948 Community Utilities of Pennsylvania, Inc. Accounting Report on Wastewater Utility Cost of Service and Rate Design March 29, 2019.*

² *Pa. PUC v. Affiliate Interest Agreement between Community Utilities of Pennsylvania and Water Service Corporation, Docket Nos. G-2019-3014555, p. 8 (Order entered January 14, 2022).*

1 line 22), meaning these expenses should be removed from the customer cost
2 analysis.

3
4 **Q. WHY DO YOU PROPOSE REMOVING THE \$422,759 IN CORPORATE**
5 **ALLOCATIONS RELATED TO CUSTOMER BILLING AND**
6 **COLLECTIONS FROM THE CUSTOMER COST ANALYSIS?**

7 A. CUPA's \$422,759 in Corporate Allocation of operating expenses is tied to a
8 Company-based incentive compensation and bonus plan (CUPA Exhibit A, III.
9 Operating Expense, No. 22). Additionally, the Corporate Allocations are indirect
10 customer costs that should not be recovered through the customer charge (CUPA
11 EX SAM-3, pp. 8 and 12).

12
13 **RATE STRUCTURE - PRESENT AND PROPOSED RATES**

14 **Q. WHAT RATES DOES THE COMPANY CURRENTLY CHARGE FOR**
15 **WASTEWATER SERVICE?**

16 A. In the Consolidated system, the Company currently charges residential and
17 commercial customers a flat rate of \$74.73 per month, a flat school rate of \$4.59
18 per quarter, per pupil, and an availability rate of \$32.80 per month.

19 In the Tamiment system, residential and commercial customers pay a
20 customer charge of \$26.15 per month. Tamiment customers also pay a usage
21 charge of \$13.98 per thousand gallons. Tamiment charges availability customers a

1 flat rate of \$20.22 per quarter (CUPA Supporting Schedule B-1 – Present Service
2 Revenue (July 31, 2025)).

3
4 **Q. WHAT RATES DID THE COMPANY PROPOSE FOR ITS CUSTOMERS?**

5 A. CUPA proposed monthly flat rates of \$51.65 per month for the Consolidated
6 unmetered household, residential, and commercial customers, a flat rate of \$1.53
7 per pupil (tariff rate of \$4.59 per pupil, per quarter) for the unmetered school class,
8 and a monthly availability fee of \$22.70 per lot in all service areas. In addition to
9 this, CUPA is proposing the implementation of low-income wastewater rates with
10 the same abovementioned monthly flat rate of \$51.65. For regular Tamiment and
11 Consolidated wastewater customers, CUPA is proposing the implementation of a
12 usage charge of \$17.90 per thousand gallons. For low-income Tamiment and
13 Consolidated wastewater customers, CUPA is proposing to use a usage charge of
14 \$11.60 per thousand gallons (CUPA Supporting to Schedule B-1 – Proposed
15 Service Revenue (July 31, 2025)).

16
17 **Q. WHAT MONTHLY CUSTOMER CHARGE IS CUPA PRESENTLY**
18 **CHARGING CONSOLIDATED AND TAMIMENT RESIDENTIAL**
19 **WASTEWATER CUSTOMERS?**

20 A. Consolidated wastewater customers pay a monthly customer charge of \$74.73 per
21 month. Tamiment wastewater customers pay a monthly customer charge of
22 \$26.15 per month (CUPA EX SAM-3, p. 2)

1 **Q. TO UNIFY RATES ACROSS SYSTEMS, WHAT MONTHLY CUSTOMER**
2 **CHARGE DOES CUPA PROPOSE FOR CONSOLIDATED AND**
3 **TAMIMENT RESIDENTIAL WASTEWATER CUSTOMERS?**

4 A. For Consolidated and Tamiment wastewater customers, CUPA has proposed a
5 uniform residential wastewater customer charge of \$51.65 per month (CUPA EX
6 SAM-3, p. 10).

7
8 **Q. DOES I&E AGREE WITH CUPA'S WASTEWATER RATE**
9 **UNIFICATION PROPOSAL FOR CONSOLIDATED AND TAMIMENT**
10 **RESIDENTIAL WASTEWATER CUSTOMERS?**

11 A. Yes. For Consolidated and Tamiment wastewater customers, I&E agrees with the
12 uniform residential wastewater customer charge of \$51.65 per month (I&E Ex.
13 No. 3, Sch. 8, Col. H, lines 1 and 15).

14
15 **Q. HOW DID I&E VERIFY THE PROPOSED MONTHLY CUSTOMER**
16 **CHARGE OF \$51.65 FOR CONSOLIDATED AND TAMIMENT**
17 **RESIDENTIAL WASTEWATER CUSTOMERS?**

18 A. For Consolidated, I took the Pro-Forma revenue under the COSS and used the pro-
19 forma revenue under proposed rates of \$2,032,324, dividing it by 39,348 bills to
20 calculate \$51.65 per month or $(\$2,032,324 / 39,348)$. For Tamiment, I took the
21 pro-forma revenue under the COSS and used the base-residential charge of

1 \$303,082, dividing it by 5,868 bills to calculate \$51.65 per month or (\$303,082 /
2 5,868) (I&E Ex. No. 3, Sch. 8, Cols. D and I, lines 1 and 15).

3
4 **Q. WHAT MONTHLY CUSTOMER CHARGE IS CUPA PRESENTLY**
5 **CHARGING CONSOLIDATED AND TAMIMENT COMMERCIAL**
6 **WASTEWATER CUSTOMERS?**

7 A. Consolidated commercial wastewater customers pay a monthly customer charge
8 fee of \$74.73 per month. Tamiment wastewater customers pay a monthly
9 customer charge fee of \$26.15 per month (CUPA EX SAM-3, p. 2)

10
11 **Q. TO UNIFY RATES ACROSS SYSTEMS, WHAT MONTHLY CUSTOMER**
12 **CHARGE DOES CUPA PROPOSE FOR CONSOLIDATED AND**
13 **TAMIMENT COMMERCIAL WASTEWATER CUSTOMERS?**

14 A. For Consolidated and Tamiment commercial wastewater customers, CUPA
15 proposes a uniform commercial wastewater customer charge of \$51.65 per month
16 (CUPA EX SAM-3, p. 10).

17
18 **Q. DOES I&E AGREE WITH CUPA'S WASTEWATER RATE**
19 **UNIFICATION PROPOSAL FOR CONSOLIDATED AND TAMIMENT**
20 **COMMERCIAL WASTEWATER CUSTOMERS?**

21 A. Yes. For Consolidated and Tamiment commercial wastewater customers, I&E
22 agrees with the uniform commercial wastewater customer charge of \$51.65 per

1 month (I&E Ex. No. 3, Sch. 8, Col. H, lines 2 and 16).

2
3 **Q. HOW DID I&E VERIFY THE PROPOSED MONTHLY CUSTOMER**
4 **CHARGE OF \$51.65 FOR CONSOLIDATED AND TAMIMENT**
5 **COMMERCIAL WASTEWATER CUSTOMERS?**

6 A. For Consolidated, I took the Pro-Forma revenue under the COSS and used the pro-
7 forma revenue under proposed rates of \$4,339, dividing that by 84 bills to
8 calculate \$51.65 per month or ($\$4,339 / 84$). For Tamiment, I took the pro-forma
9 revenue under the COSS and used the base-residential charge of \$2,479, dividing
10 that by 48 bills to calculate \$51.65 per month or ($\$2,479 / 48$). (I&E Ex. No. 3,
11 Sch. 8, Cols. H and I, lines 2 and 16).

12
13 **Q. WHAT MONTHLY AVAILABILITY FEE IS CUPA PRESENTLY**
14 **CHARGING CONSOLIDATED AND TAMIMENT COMMERCIAL**
15 **WASTEWATER CUSTOMERS?**

16 A. Consolidated availability wastewater customers pay a monthly customer charge
17 fee of \$32.80 per month. Tamiment wastewater customers pay a monthly
18 customer charge fee of \$20.22 per month (CUPA EX SAM-3, p. 2).

1 **Q. TO UNIFY RATES ACROSS SYSTEMS, WHAT MONTHLY**
2 **AVAILABILITY FEE DOES CUPA PROPOSE FOR CONSOLIDATED**
3 **AND TAMIMENT COMMERCIAL WASTEWATER CUSTOMERS?**

4 A. For Consolidated and Tamiment, CUPA proposes an availability wastewater
5 customer charge of \$22.70 per month (CUPA EX SAM-3, p. 10).

6
7 **Q. DOES I&E AGREE WITH CUPA'S WASTEWATER RATE**
8 **UNIFICATION PROPOSAL FOR CONSOLIDATED AND TAMIMENT**
9 **COMMERCIAL WASTEWATER CUSTOMERS?**

10 A. Yes. For Consolidated and Tamiment commercial wastewater customers;
11 however, I&E proposes a uniform availability wastewater customer charge of
12 \$24.00 per month (I&E Ex. No. 3, Sch. 8 Col. H, lines 6 and 19).

13
14 **Q. HOW DID I&E VERIFY THE PROPOSED MONTHLY AVAILABILITY**
15 **FEE OF \$24.00 FOR CONSOLIDATED AND TAMIMENT COMMERCIAL**
16 **WASTEWATER CUSTOMERS?**

17 A. For Consolidated, I took the pro-forma revenue under the COSS and used the pro-
18 forma revenue under proposed rates of \$77,600, dividing it by 3,240-bills which
19 produced a fee of \$51.65 per month. For Consolidated, I took the pro-forma
20 revenue under the COSS and used the pro-forma revenue under proposed rates of
21 \$4,339, dividing it by 84 bills to arrive at a fee of \$51.65 per month ($\$4,339 / 84$).
22 For Tamiment, I took the pro-forma revenue under the COSS and used the base-

1 residential charge of \$2,479, dividing it by 48 bills to arrive at a fee of \$51.65 per
2 month (\$2,479 / 48) (I&E Ex. No. 3, Sch. 8, Cols. D, H and I, line 16).

3
4 **Q. WHAT ALL-OTHER MONTHLY FLOW FEE IS CUPA PRESENTLY**
5 **CHARGING CONSOLIDATED AND TAMIMENT CUSTOMERS?**

6 A. Consolidated wastewater customers pay an all-other monthly flow fee of \$0.00 per
7 1,000 gallons Tamiment wastewater customers pay an all-other monthly flow fee
8 of \$13.98 per 1,000 gallons (CUPA EX SAM-3, p. 2)

9
10 **Q. TO UNIFY RATES ACROSS SYSTEMS, WHAT ALL-OTHER MONTHLY**
11 **FLOW FEE DOES CUPA PROPOSE FOR CONSOLIDATED AND**
12 **TAMIMENT COMMERCIAL WASTEWATER CUSTOMERS?**

13 A. For Consolidated and Tamiment, CUPA proposes an all-other monthly flow fee of
14 \$17.90 per month (CUPA EX SAM-3, p. 10).

15
16 **Q. DOES I&E AGREE WITH CUPA'S WASTEWATER RATE**
17 **UNIFICATION PROPOSAL FOR CONSOLIDATED AND TAMIMENT**
18 **COMMERCIAL WASTEWATER CUSTOMERS?**

19 A. Yes. For Consolidated and Tamiment, I&E agrees with the proposed all-other
20 monthly flow fee of \$17.90 per month (I&E Ex. No. 3, Sch. 8, Col. H, lines 3 and
21 17).

1 **Q. HOW DID I&E VERIFY THE PROPOSED ALL-OTHER MONTHLY**
2 **FLOW FEE OF \$17.90 FOR CONSOLIDATED AND TAMIMENT**
3 **COMMERCIAL WASTEWATER CUSTOMERS?**

4 A. For Consolidated, I took the pro-forma revenue under the COSS and used the pro-
5 forma revenue under proposed rates of \$2,295,924, dividing it by 128,984.1
6 gallons ($\$2,295,924 / 128,984.1$) to calculate \$17.90 per month. For Tamiment, I
7 took the pro-forma revenue under the COSS and used the pro-forma revenue under
8 proposed rates of \$231,379, dividing it by 12,998.8 gallons to calculate 17.90 per
9 month or ($\$231,379 / 12,998.8$) (I&E Ex. No. 3, Sch. 8, Cols. C and I, lines 3 and
10 17).

11
12 **Q. WHAT LOW-INCOME RESIDENTIAL FLOW FEE IS CUPA**
13 **PRESENTLY CHARGING CONSOLIDATED AND TAMIMENT**
14 **CUSTOMERS?**

15 A. Consolidated residential wastewater customers pay a low-income flow fee of
16 \$0.00 per month. Tamiment residential wastewater customers pay a low-income
17 flow fee of \$13.98 per month (CUPA EX SAM-3, p. 2)

18
19 **Q. TO UNIFY RATES ACROSS SYSTEMS, WHAT MONTHLY LOW-**
20 **INCOME FLOW FEE DOES CUPA PROPOSE FOR CONSOLIDATED**
21 **AND TAMIMENT RESIDENTIAL WASTEWATER CUSTOMERS?**

22 A. For residential Consolidated and Tamiment customers, CUPA proposes a low-

1 income flow fee of \$11.60 per 1,000 gallons of usage (CUPA EX SAM-3, p. 10).

2
3 **Q. DOES I&E AGREE WITH CUPA'S WASTEWATER RATE**
4 **UNIFICATION PROPOSAL FOR THE LOW-INCOME FLOW FEE FOR**
5 **RESIDENTIAL CONSOLIDATED AND TAMIMENT WASTEWATER**
6 **CUSTOMERS?**

7 A. Yes. However, for Consolidated and Tamiment, I&E proposes a low-income flow
8 fee of \$11.60 per month.

9
10 **Q. HOW DID I&E VERIFY THE PROPOSED LOW-INCOME FLOW FEE**
11 **OF \$11.60 FOR RESIDENTIAL CONSOLIDATED AND TAMIMENT**
12 **COMMERCIAL WASTEWATER CUSTOMERS?**

13 A. For Consolidated, I took the pro-forma annual operating revenue at adjusted rates
14 and charges in the COSS and used the pro-forma revenue under proposed rates of
15 \$159,380, dividing it by 13,377.5 ($\$159,380 / 13,777.5$) gallons to calculate
16 \$11.60 per month. For Tamiment, I took the pro-forma revenue under the COSS
17 and used the pro-forma revenue under proposed rates of \$27,404, dividing it by
18 2,368.5 gallons to calculate 11.60 per month or ($\$27,404 / 2,368.5$) (CUPA EX
19 SAM-3, p. 10 and I&E Ex. No. 3, Sch. 8, Col. H, lines 4 and 18).

1 **Q. WHAT MONTHLY UNMETERED SCHOOL RATE IS CUPA**
2 **PRESENTLY CHARGING CONSOLIDATED WASTEWATER**
3 **CUSTOMERS?**

4 A. Consolidated wastewater customers pay a monthly school rate \$912.63
5 per month (CUPA EX SAM-3, p. 2).
6

7 **Q. TO UNIFY RATES ACROSS SYSTEMS, WHAT UNMETERED SCHOOL**
8 **RATE DOES CUPA PROPOSE?**

9 A. For Consolidated wastewater customers, CUPA proposed a monthly unmetered
10 school rate of \$788.35 per month. (CUPA EX SAM-3, p. 11).
11

12 **Q. WHAT UNMETERED SCHOOL RATES DOES I&E RECOMMEND FOR**
13 **CONSOLIDATED WASTEWATER CUSTOMERS?**

14 A. For Consolidated wastewater customers, I&E agrees with the Company's
15 proposed unmetered school rate of \$788.35 per month (I&E Ex. No. 3, Sch. 8,
16 Col. H, line 5).
17

18 **Q. HOW DID I&E VERIFY THE UNMETERED SCHOOL RATE OF \$788.35**
19 **FOR CONSOLIDATED WASTEWATER CUSTOMERS?**

20 A. For Consolidated, I took the pro-forma revenue under the COSS and used the pro-
21 forma revenue under proposed rates of \$18,920 and divided it by 24 (\$18,920 / 24
22 bills) to calculate \$788.33 per month (I&E Ex. No. 3, Sch. 8, Col. H, line 5).

1 Rounding the unmetered rate up to \$788.35 is acceptable.

2
3 **Q. WHAT IS THE TOTAL IMPACT OF ALL YOUR RATE**
4 **RECOMMENDATIONS ABOVE?**

5 A. The net impact of all the rate changes made above is approximately zero. The
6 result is a revenue increase of \$5,175,377 in the FPFTY which is close to the
7 amount requested by CUPA in its filing of \$5,116,618.53 (I&E Ex. No, 3, Sch. 9,
8 Col. K, line 9). This rate structure does not reflect any I&E-recommended
9 changes to the revenue requirement. All adjustments to the Company's claims for
10 revenues, expenses, taxes, and rate base must be continually brought together in
11 the Administrative Law Judge's Recommended Decision and again in the
12 Commission's Final Order. This process, known as iteration, effectively prevents
13 the determination of a precise calculation until all adjustments have been made to
14 the Company's claims.

15
16 **PUBLIC INPUT HEARINGS**

17 **Q. WERE PUBLIC-INPUT HEARINGS HELD IN THIS PROCEEDING?**

18 A. Yes. Two in-person hearings were held on January 30, 2023, in Bethlehem; two
19 telephonic hearings were held on January 31, 2023; and, two in-person hearings
20 were held on February 1, 2023, in Tamiment, Pa.

1 **Q. DID YOU ADDRESS THE PUBLIC INPUT HEARINGS TESTIMONY IN**
2 **THIS DIRECT TESTIMONY?**

3 A. No. I did not have time to review all of the public input testimony prior to the due
4 date for this direct testimony. But I reserve my right to address the voluminous
5 public input testimony in my rebuttal and/or surrebuttal testimony.

6

7 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

8 A. Yes.

Esyan A. Sakaya

THE PENNSYLVANIA PUBLIC UTILITY COMMISSION
400 North Street
Harrisburg, PA 17120

Education:

National Association of Regulatory Utility Commissioners, Clearwater, FL
Utility Rate School; Utility Rate Making Basics, October 2019

Society of Depreciation Professionals, Philadelphia, PA
Introduction to Depreciation; Depreciation Fundamentals, September 2019

Temple University, Philadelphia, PA
Bachelor of Science; Major in Engineering Technology, 2015

Community College of Philadelphia, Philadelphia, PA
Associate of Applied Science; Major in Construction Management Technology, 2011

Island School of Building Arts, Gabriola Island, BC, Canada
Certificate Graduate: Heavy Timber Construction Aug 2002-November 2002

Solar Energy International, Carbondale, CO
Certificate Graduate: Basic and Advanced Photovoltaic Design, April 2002-May 2002

Experience:

12/2018-Present

Pennsylvania Public Utility Commission, Harrisburg, PA

Fixed Utility Valuation Engineer - Assist in engineering related studies related to valuation, depreciation, cost of service, quality of service as they apply to regulated utilities. Contribute to evaluating, contrasting and conducting performance analyses in distinctive sections of valuation engineering and rate structure involving valuation concepts, original cost, rate base, fixed capital costs, inventory processing, excess capacity, cost of service, and rate design. Provide expert testimony in rate related utility cases.

4/2018-12/2018

Pennsylvania Department of Transportation, Harrisburg, PA

Photogrammetry Technician I - Created three-dimensional mapping layouts of natural and man-made features from stereoscopic images on a computer workstation. Assisted in the field placement of ground based surveyed control-points prior to aerial photography acquisition. Provided field support in the use of laser scans for comprehensive digital surveying data. Operated global positioning satellite surveying equipment to obtain accurate geodetic coordinates of pre-established benchmarks.

8/2017-4/2018

Pennoni and Associates - Consulting Engineers, King of Prussia, PA

Construction Inspector - Provided quality assurance in the onsite material testing of concrete, soils, and asphalt. Read and interpreted construction drawings and specifications of materials and components. Completed daily reports regarding project progress to engineers, project managers/superintendents, contractors, and clients.

TESTIMONY SUBMITTED:

I have assisted and/or submitted testimony in the following proceedings:

- | <u>No.</u> | <u>Case</u> |
|------------|--|
| 1. | UGI Gas Utilities - Gas Division, Docket No. R-2018-3006814 |
| 2. | Newtown Artesian Water Company, Docket No. R-2018-3006904 |
| 3. | Pittsburgh Wastewater, Docket No. M-2018-2640803 |
| 4. | PAWC Purchase of Steelton, Docket No. A-2019-3006814 |
| 5. | Philadelphia Gas Works, Docket Nos. R-2019-3009016 / 3007636 |
| 6. | Community Utilities Water, Docket No. R-2019-3008947 |
| 7. | Aqua Purchase of Cheltenham, Docket No. A-2019-3008491 |
| 8. | UGI North, Docket No. R-2019-3009647 |
| 9. | UGI Central, Docket No. R-2019-3009647 |
| 10. | UGI South, Docket No. R-2019-3009647 |
| 11. | Twin Lakes Utilities, Docket No. R-2019-3010958 |
| 12. | Penn Power Company, Docket No. P-2019-3012628 |
| 13. | UGI Gas Utilities, Docket No. R-2019-3015162 |
| 14. | National Fuel and Gas Distribution, Docket No. R-2020-3015251 |
| 15. | Columbia Gas of Pennsylvania, Docket Nos. R-2020-3018993 / 3018835 |
| 16. | Duquesne Light Company, Docket No. P-2020-3019522 |

17. PA American Water Company, Docket Nos. R-2020-3019369 / 310937
18. Bethlehem Water Company, Docket No. R-2020-3020256
19. Audubon Water Company, Docket No. R-2020-3020919
20. Twin Lakes Utilities, Docket No. P-2020-3020914
21. Pike County Light and Power-Gas, Docket No. R-2020-3022134
22. Pike County Light and Power-Electric, Docket No. R-2020-3022135
23. Duquesne Light Company, Docket No. R-2021-3024750
24. Community Utilities Water, Docket No. R-2021-3025206
25. Community Utilities Wastewater, Docket No. R-2021-3025206
26. Hanover Municipal Water Works, Docket No. R-2021-3026116
27. Aqua Pennsylvania, Inc, Docket Nos. R-2021-3027385 / 3027386
28. Aqua Purchase of Willistown, Docket No. A-2021-3027268
29. National Fuel and Gas Distribution, Docket No. R-2022-3030235
30. UGI Gas Utilities, Docket No. R-2021-3030218
31. PECO Energy Company – Gas, Docket No. R-2022-3031113
32. Valley Energy, Inc, Gas, Docket No. R-2022-3032300
33. Citizens Electric Company, Docket No. R-2022-3032369
34. Leatherstocking Gas Company, LLC Docket No. R-2022-303276
35. National Fuel and Gas Distribution, Docket No. R-2022-3035730
36. Aqua Purchase of Shenandoah, Docket No. A-2022-3034143
37. UGI Electric Utilities, Docket No. R-2022-3037368
38. Philadelphia Gas Works, Docket No. R-2023-3037933
39. Columbia Water, Docket No. R-2023-3040258
40. Community Utilities Water, Docket No. R-2023-3042804
41. Community Utilities Wastewater, Docket No. R-2023-3042805

PENNSYLVANIA PUBLIC UTILITY COMMISSION

V.

COMMUNITY UTILITIES OF PENNSYLVANIA - WASTEWATER DIVISION

Docket No. R-2023-3042805

Exhibit to Accompany

The

Direct Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

Test Year

Rate Base

Plant and Reporting Requirements

Inflow and Infiltration

Cost of Service

Rate Structure

I&E Exhibit No 3
Sch. No. 1

Sewer Operations
Rate Base and Rate of Return

Community Utilities of Pennsylvania, Inc.
R-2023 3042805
Rate Base and Rate of Return
Wastewater Operations

Line No.	Description	7/31/2023	7/31/2023	7/31/2023	7/31/2023	7/31/2024	7/31/2024	7/31/2025	Proposed Increase	Proposed After Increase
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]
	Description	Per Books	Per Books Adjustment	Per Books Adjusted	Forecast Adjustment	Forecast	Forecast Adjustment	Fully Projected Future Test Year	Proposed Increase	Proposed After Increase
1	Gross Plant In Service	26,174,986.38	-	26,174,986.38	2,012,314.18	28,187,300.56	2,978,969.77	31,166,270.33	-	31,166,270.33
2	Accumulated Depreciation	(10,481,062.22)	-	(10,481,062.22)	(679,761.77)	(10,960,823.99)	(639,410.07)	(11,600,234.06)	-	(11,600,234.06)
3	Net Plant In Service	15,693,924.16	-	15,693,924.16	1,332,552.40	17,226,476.57	2,339,559.69	19,566,036.26	-	19,566,036.26
4	Cash Working Capital	-	496,728.00	496,728.00	54,566.00	551,294.00	19,057.00	570,351.00	-	570,351.00
5	Contributions In Aid of Construction	(1,724,448.61)	-	(1,724,448.61)	86,761.84	(1,637,686.77)	86,761.84	(1,550,924.93)	-	(1,550,924.93)
6	Accumulated Deferred Income Taxes	(832,117.68)	-	(832,117.68)	139,227.88	(692,889.80)	(30,540.77)	(723,430.57)	-	(723,430.57)
7	Customer Deposits	(5,434.33)	-	(5,434.33)	-	(5,434.33)	-	(5,434.33)	-	(5,434.33)
8	Inventory	7,839.29	-	7,839.29	-	7,839.29	-	7,839.29	-	7,839.29
9	Oracle Fusion Asset	79,507.96	-	79,507.96	(13,445.89)	66,062.07	(14,230.75)	51,771.32	-	51,771.32
10	Net Plant Acquisition Adjustment	(1,023,439.17)	-	(1,023,439.17)	58,550.08	(964,889.09)	58,550.08	(906,339.01)	-	(906,339.01)
11	Deferred charges	338,555.87	-	338,555.87	(1,376.79)	337,179.08	85,142.74	422,321.82	-	422,321.82
12	Total Rate Base	12,534,387.49	496,728.00	13,031,115.49	1,566,835.53	14,887,951.02	2,544,239.84	17,432,190.85	-	17,432,190.85

Community Utilities of Pennsylvania, Inc.
R-2023-3042804 and R-2023-3042805
Rate Base and Rate of Return
Water and Wastewater Spending

Line No.	Completion Year	System	Estimated In Service Date	Project Name	Project Status	Depreciation Expense Account	Total Cost to Completion	Retirements	Net Rate Base Additions	Depreciation Rate	Annual		
											(K)		
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)			
1	2025	Utilities Inc - Westgate	6/30/2025	Westgate 2024 Water Line Replacement Program	FUTURE PROJECT	710232	1,187,000	(29,702.50)	1,157,298	1.33%	\$10,111.87		
2	2025	Util Inc of Pennsylvania	6/30/2025	UP Chestnut LS Conversion	ACTIVE	710208	1,426,469	(617,589.50)	808,879	2.5%	20,222		
3	2023	Util Inc of Pennsylvania	12/31/2023	UP Blower Replacement	ACTIVE	710208	167,240	(129,071.96)	36,168	2.5%	954		
4	2025	Util Inc of Pennsylvania	6/30/2025	UP 2024 I&I	FUTURE PROJECT	710241	440,025	(95,484.31)	344,541	2.5%	8,614		
5	2024	Tamiment W	8/31/2024	Tamiment Well 1 Water Treatment Building Eng.	ACTIVE	710205	929,785	-	929,785	3.33%	30,962		
6	2023	Tamiment W	12/31/2023	Tamiment Well 1 Rehab	ACTIVE	710223	315,736	(41,542.87)	274,193	2.86%	7,842		
7	2024	Tamiment S	12/31/2024	Tamiment Lakeside LS Rehab	ACTIVE	710208	1,430,215	(299,756.55)	1,130,458	2.5%	28,261		
8	2024	Tamiment W	12/31/2024	Tamiment 2024 Water Line Replacement Program	FUTURE PROJECT	710232	55,000	-	55,000	1.33%	732		
9	2024	Tamiment S	12/31/2024	Tamiment 2024 Manhole Rehab and I&I	FUTURE PROJECT	710243	250,000	(51,542.40)	198,458	1.54%	3,056		
10	2025	Penn Estates W	4/30/2025	PEU Well 8 Replacement	ACTIVE	710223	639,810	(417,912.89)	221,898	2.86%	6,346		
11	2025	Penn Estates S	6/30/2025	Pilot Study Implementation - COA Schedule	FUTURE PROJECT	710208	998,134	-	998,134	2.5%	24,953		
12	2024	Penn Estates W	12/31/2024	PEU HighZone Booster Station	FUTURE PROJECT	710232	1,134,000	-	1,134,000	1.33%	15,082		
13	2024	Penn Estates S	9/30/2024	PEU 2024 I&I	FUTURE PROJECT	710242	182,482	(33,824.56)	148,657	2.5%	3,716		
14	2023	Penn Estates S	9/30/2023	PEU 2023 pilot test/ results	ACTIVE	710208	252,353	-	252,353	2.5%	6,309		
15	2023	Utilities Inc - Westgate	12/31/2023	2022 Westgate Fire Flow	ACTIVE	710232	115,451	-	115,451	1.33%	1,536		
16	2024	Penn Estates W	9/30/2024	2022 PEU Distribution System Upgrade	FUTURE PROJECT	710232	75,544	-	75,544	1.33%	1,005		
17	2024	Penn Estates W	12/30/2024	Tank 5/6 Rehab and Building	FUTURE PROJECT	710231	195,000	(69,942.41)	125,058	2%	2,501		
18	2025	Tamiment S	6/30/2025	TAM Train 2 Rehab	FUTURE PROJECT	710208	195,000	-	195,000	2.5%	4,875		
19	2025	Tamiment S	6/30/2025	TAM Train 3 Rehab	FUTURE PROJECT	710208	195,000	-	195,000	2.5%	4,875		
20	2024	Tamiment W	12/31/2024	Tank 3 Rehab	FUTURE PROJECT	710231	390,000	-	390,000	2%	7,800		
21	2023	Penn Estates W	12/31/2023	Penn Estates Leak Detection	ACTIVE	710232	55,222	-	55,222	1.33%	734		
							\$10,629,465.97	-\$1,786,369.95	\$8,843,096.02		\$196,767.64		
22							2023 WATER		\$486,409.01		-\$41,542.87	\$444,866.14	\$10,111.87
23							2023 SEWER		\$419,592.70		-\$129,071.96	\$290,520.74	\$7,263.02
24							2024 WATER		\$2,779,329.29		-\$89,942.41	\$2,709,386.88	\$58,081.43
25							2024 SEWER		\$1,862,697.02		-\$385,123.51	\$1,477,573.51	\$35,034.14
26							2025 WATER		\$1,826,810.49		-\$417,912.89	\$221,897.60	\$6,346.27
27							2025 SEWER		\$3,254,627.46		-\$713,073.81	\$2,541,553.65	\$63,538.84
28							I&E CHECK		\$10,629,465.97				

In \$

I&E Exhibit No. 3 Schedule No. 3

Community Utilities of Pennsylvania, Inc.
Response to 5333 Exhibit D V-12
Plant Major Additions

System	Project Name	Description	Original Budget		Current Budget		Reason for Budget Change	Original PIS Date	Current PIS Date	Reason for Date Change	Retirement Amount	Starting Date	Amount Expended to Date	Percent Completed to Date	Depreciation Rate	PA/DEP or EPA Requirement	
			AFUDC	Non-AFUDC	AFUDC	Non-AFUDC											AFUDC
	PEU 2023 pilot	Per DEP recommendation, testing a hybrid-SBR style modification to Penn Balance operation to bring effluent parameters into compliance	\$ 164,650.00	\$ 5,860.00	\$ 170,000.00	\$ 239,000.24	\$ 12,945.68	\$ 252,352.92	Additional labor and electrical needed	5/31/2023	9/30/2023		1/1/2023	\$ 219,180.00	95%	3.33%	N/A
	Penn Balance 5	Upon receipt of the final report generated by DEP presenting the successful findings observed during the pilot test, this project entails procuring and installing the necessary materials, equipment and infrastructure to permanently improve the system's performance. The project includes the procurement of the necessary materials, equipment and infrastructure to permanently improve the system's performance during the pilot period.	\$ 924,533.97	\$ 68,899.61	\$ 993,433.58	\$ 924,533.97	\$ 68,899.61	\$ 993,433.58	N/A	12/31/2024	12/31/2024		10/31/2023			1.50%	PA/DEP (COA)
	Penn Balance 5	Continued maintenance and CIPPI lining per COA schedule	\$ 167,940.38	\$ 12,911.60	\$ 182,481.98	\$ 167,940.38	\$ 12,911.60	\$ 182,481.98	N/A	9/30/2024	9/30/2024		4/1/2024			2.50%	PA/DEP (COA)
	TAM Train 2	Per the tank inspection report completed in 2020, the overtop and interior recoiling is overdue for Tamment CQ Train 2	\$ 178,598.06	\$ 13,401.94	\$ 195,000.00	\$ 178,598.06	\$ 13,401.94	\$ 195,000.00	N/A	12/30/2024	12/30/2024		1/1/2024			3.33%	N/A
	TAM Train 3	Per the tank inspection report completed in 2020, the overtop and interior recoiling is overdue for Tamment CQ Train 3	\$ 178,598.06	\$ 13,401.94	\$ 195,000.00	\$ 178,598.06	\$ 13,401.94	\$ 195,000.00	N/A	12/30/2024	12/30/2024		1/1/2024			3.33%	N/A
	Tamment 2024	In response to an increase in SSO events in 2022, the intent of this project is to evaluate CCTV footage collected in 2022 and generate a rehabilitation plan based on severity. This project will include the initial evaluation of CCTV and development of the plan, as well as address the most severe issues. The future plan will be to use the evaluation as guidance for future R/I/ maintainable repair projects moving forward.	\$ 230,818.03	\$ 17,181.97	\$ 250,000.00	\$ 230,818.03	\$ 17,181.97	\$ 250,000.00	N/A	12/31/2024	12/31/2024		1/31/2024			2.00%	N/A
	Tamment Labelsid 15	Labelsid 15 is an open pit style filtration that presents an safety risk and operationally is obsolete. The project involved the rehabilitation of the filtration to a standard wet-dry configuration, and includes new electric, pumps, building, etc. The second phase involved installing 2,100 head feet of new man to recoring the man from Labelsid 15 to Labelsid 15. The project also includes the installation of 4,000 lined feet, 20 manholes, and the settlement. Labelsid filtration which is currently installed throughout the abandoned portion of the historical asset and represents an environmental hazard (lake-effect) and a substantial contributor to R/I/ SSO events.	\$ 600,000.00	\$ 22,816.00	\$ 622,816.00	\$ 1,329,919.39	\$ 98,295.65	\$ 1,430,215.04	Engineering redesign needed during delays	9/30/2022	12/31/2024		8/31/2022	\$ 41,245.98	15%	2.50%	N/A
	Tamment 5	Continued phased approach for manhole rehabilitations and CIPPI lining per the engineers' evaluation completed in June of 2023. One of 117PN1 two blowers experienced full failure in February of 2023, causing the second, backup blower to be overworked in order to maintain system operations. This project was conducted as an emergency capital project and includes the replacement of both blowers, new pipe installation, new filters, and a new VFD.	\$ 407,783.01	\$ 30,241.99	\$ 440,025.00	\$ 407,783.01	\$ 30,241.99	\$ 440,025.00	Minor revisions to permit needed	12/31/2023	12/31/2023		2/1/2023	\$ 132,458.32	80%	2.50%	N/A
	UP Blower	Channel filtration is current an older style wet-well configuration. This project will upgrade the system to a standard wet/dry configuration while addressing safety concerns associated with the driveway orientation, increasing the size of the pumps and generator in order to accommodate peak flow requirements as calculated based on the existing customer base, and moving the footprint of the filtration out of the neighboring floodplains.	\$ 165,239.95	\$ 12,918.32	\$ 177,258.27	\$ 154,070.74	\$ 11,494.04	\$ 167,239.78	Redesign needed. Original budget was design only	9/30/2022	12/31/2025		9/31/2022	\$ 113,246.54	15%	2.50%	N/A
	UP Chestnut 15	UP Chestnut 15 Conversion	\$ 130,000.00	\$ 6,244.00	\$ 136,244.00	\$ 1,300,430.70	\$ 98,038.19	\$ 1,428,468.89	Redesign needed. Original budget was design only	9/30/2022	12/31/2025		9/31/2022	\$ 113,246.54	15%	2.50%	N/A

I&E Exhibit No. 3
Sch. No. 4

Sewer Operations
Rate Base and Rate of Return

Community Utilities of Pennsylvania, Inc.
R-2023-3042305
Rate Base and Rate of Return
Wastewater Operations

I&E Exhibit No. #
Schedule 1
Page x of x

Line No.	Description	7/31/2023		7/31/2023		7/31/2023		7/31/2023		7/31/2024		7/31/2025		I&E ADJUSTED	Proposed Increase	Proposed After Increase
		[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]				
1	Gross Plant In Service	26,174,986.38	-	-	26,174,986.38	2,012,314.18	28,187,300.56	2,978,969.77	31,166,270.33	-	-	31,166,270.33	-	-	31,166,270.33	
2	Accumulated Depreciation	(10,481,062.23)	-	-	(10,481,062.23)	(479,761.77)	(10,960,823.99)	(639,410.07)	(11,600,234.06)	-	-	(11,600,234.06)	-	-	(11,600,234.06)	
3	Net Plant In Service	15,693,924.16	-	-	15,693,924.16	1,532,552.40	17,226,476.57	2,339,559.69	19,566,036.26	-	-	19,566,036.26	-	-	19,566,036.26	
4	Cash Working Capital	-	496,728.00	-	496,728.00	54,586.00	551,294.00	19,057.00	570,351.00	-	-	570,351.00	-	-	570,351.00	
5	Contributions In Aid of Construction	(1,224,448.61)	-	-	(1,224,448.61)	86,761.84	(1,637,686.77)	86,761.84	(1,550,924.93)	-	-	(1,550,924.93)	-	-	(1,550,924.93)	
6	Accumulated Deferred Income Taxes	(832,117.68)	-	-	(832,117.68)	139,227.88	(692,889.80)	(90,540.77)	(723,430.57)	-	-	(723,430.57)	-	-	(723,430.57)	
7	Customer Deposits	(5,434.33)	-	-	(5,434.33)	-	(5,434.33)	-	(5,434.33)	-	-	(5,434.33)	-	-	(5,434.33)	
8	Inventory	7,839.29	-	-	7,839.29	-	7,839.29	-	7,839.29	-	-	7,839.29	-	-	7,839.29	
9	Grade/Fusion Asset	79,507.96	-	-	79,507.96	(13,445.89)	66,062.07	(14,290.75)	51,771.32	-	-	51,771.32	-	-	51,771.32	
10	Net Plant Acquisition Adjustment	(1,023,439.17)	-	-	(1,023,439.17)	58,550.08	(964,889.09)	58,550.08	(906,339.01)	-	-	(906,339.01)	-	-	(906,339.01)	
11	Deferred charges	338,555.87	-	-	338,555.87	(1,376.79)	337,179.08	85,143.74	422,321.82	-	-	422,321.82	-	-	422,321.82	
12	Total Rate Base	12,534,387.49	496,728.00	13,031,115.49	1,856,855.53	14,887,971.02	2,514,239.84	17,402,190.85	(808,879.00)	-	-	16,623,311.85	-	-	16,623,311.85	

COMMUNITY UTILITIES OF PENNSYLVANIA, INC.
CONSOLIDATED WASTEWATER SERVICES

**ALLOCATION OF PRO FORMA OPERATION AND MAINTENANCE EXPENSES
TO FUNCTIONAL COST COMPONENTS**
See explanation of References, page 8.

	Pro Forma Expense	Allocation				Percentage Allocation				Ref.
		Treatment and Disposal	Collection System	Billing and Collecting	Administrative	Treatment and Disposal	Collection System	Billing and Collecting	Administrative	
Maintenance Expenses:										
Salaries and wages	\$302,488	\$157,687	\$144,801			52.13%	47.87%			(1)
Purchased power	152,785	76,392	76,393			50.00%	50.00%			(2)
Maintenance and repair	68,427	35,671	32,756			52.13%	47.87%			(1)
Sludge Hauling	195,596	195,596				100.00%				(1)
Maintenance testing	31,235	16,283	14,952			52.13%	47.87%			(1)
Chemicals	60,175	60,175				100.00%				(3)
Transportation	19,714	10,277	9,437			52.13%	47.87%			(1)
Operating expense charged to plant	(51,267)									(4)
Outside services - other	84,152	(21,265)	(19,528)		(\$2,789)	41.48%	38.09%	5.44%	14.99%	(5)
General Expenses:										
Salaries and Wages	77,667				20,676			26.62%	73.38%	(6)
Billing and customer service expense	10,590				10,590			100.00%		(7)
Office supplies and other expenses	23,891	12,137	11,145		609	50.80%	46.65%	2.55%		(8)
Regulatory commission expense	38,570				38,570			100.00%		(5)
Pension and other benefits	108,892	45,168	41,477		5,924	41.48%	38.09%	5.44%	14.99%	(4)
Rent	11,426				11,426			100.00%		(5)
Insurance	38,070	19,339	17,760		971	50.80%	46.65%	2.55%	50.00%	(8)
Office utilities	29,049				14,524			50.00%		(9)
Miscellaneous	16,376				16,376			100.00%		(5)
Uncollectible Accounts	18,495				18,495			100.00%		(7)
Sub-totals	1,236,331	607,460	329,193		69,000	49.13%	26.63%	5.58%	18.66%	
Reallocate administrative pro rata	-	139,340	75,511		15,827					
Total operation and maintenance disbursements	\$1,236,331	\$746,800	\$404,704		\$84,827	60.41%	32.73%	6.86%	0.00%	

Through this Order, the Commission will require that CUPA, upon filing with the Commission a tariff or tariff supplement which constitutes a “general rate increase” pursuant to Section 1308(d) of the Public Utility Code, 66 Pa.C.S. § 1308(d), must provide with such tariff or tariff supplement an updated electronic working copy of the document CUPA provided in response to the Commission’s Data Request Set 2, Item G-22, including updated information for the historic test year period in a similar format.⁴ Additionally, CUPA is reminded that any modification of the methodology for determining the number of ERCs attributable to customer connections under the AIA will require CUPA to file an amended AIA describing such modifications.

V. CONCLUSION

Investigation and analysis of the proposed affiliated interest transactions indicates that the terms and conditions appear to be reasonable and consistent with the public interest. However, this approval does not constitute a determination that the associated costs or expenses are reasonable or prudent for the purposes of determining just and reasonable rates. Additionally, the Commission’s approval is contingent upon the possibility that subsequent audits, reviews and inquiries in any Commission proceeding may be conducted pursuant to 66 Pa.C.S. §§ 2102, *et seq*; **THEREFORE,**

IT IS ORDERED:

1. That the affiliated interest agreement between Community Utilities of Pennsylvania Inc. and Water Service Corporation, filed on November 22, 2019 at Docket No. G-2019-3014555 is hereby approved, consistent with this Order.

2. That Community Utilities of Pennsylvania, Inc., upon filing with the Commission a tariff or tariff supplement which constitutes a “general rate increase” pursuant to Section 1308(d) of the Public Utility Code, 66 Pa.C.S. § 1308(d), shall

⁴ See Ordering Paragraph No. 2.

COMMUNITY UTILITIES OF PENNSYLVANIA, INC.
CONSOLIDATED WASTEWATER SERVICES

**ALLOCATION OF PRO FORMA OPERATION AND MAINTENANCE EXPENSES
TO FUNCTIONAL COST COMPONENTS**
See explanation of references, page .

Line No.	Maintenance Expenses: (A)	Pro Forma Expense (B)	Allocation				Percentage Allocation				FP	Ref.
			Treatment and Disposal (C)	Collection System (D)	Billing and Collecting (E)	Administrative (F)	Treatment and Disposal (G)	Collection System (H)	Billing and Collecting (I)	Administrative (J)		
1	Salaries and wages	\$446,587	\$239,526	\$207,261	\$17,472	670,785	53.59%	46.41%	100.00%	2.31%	100.00%	(6)
2	Purchased power	227,308	113,654	113,654	108	37,543	50.00%	50.00%	100.00%	2.31%	30.00%	(5)
3	Purchased sewer	-	-	-	3,107	3,107	50.00%	46.41%	100.00%	2.31%	100.00%	(4)
4	Maintenance and repair	700,693	375,501	325,192	2,247	16,195	53.59%	46.41%	100.00%	2.31%	50.00%	(8)
5	Sludge hauling	-	-	-	16,195	16,195	100.00%	46.41%	100.00%	2.31%	50.00%	(9)
6	Lab testing	89,352	47,884	41,468	2,247	16,195	53.59%	46.41%	100.00%	2.31%	50.00%	(10)
7	Water rearing	2,924	1,567	1,357	13,719	13,719	100.00%	46.41%	100.00%	2.31%	50.00%	(10)
8	Chemicals	275,681	275,681	19,443	13,719	13,719	100.00%	46.41%	100.00%	2.31%	50.00%	(10)
9	Transportation	41,893	22,450	19,443	13,719	13,719	100.00%	46.41%	100.00%	2.31%	50.00%	(10)
10	Operating expense charged to pl	(31,508)	(31,508)	(10,237)				32.49%				(10)
11	Outside services - other	38,956	(11,819)					32.49%				(10)
12	General Expenses:											
13	Salaries and Wages	191,395			\$17,472	191,395						(6)
14	Billing and customer service exp	17,472			108	62,253						(7)
15	Office supplies and other expen	4,656	2,437	2,111		37,543	52.35%	45.34%	100.00%	2.31%	100.00%	(7)
16	Regulatory commission expense	62,253				3,107	37.51%	32.49%	100.00%	2.31%	30.00%	(8)
17	Pension and other benefits	125,144	46,942	40,659		3,107	50.00%	45.34%	100.00%	2.31%	50.00%	(9)
18	Rent	3,107			2,247	16,195	52.35%	45.34%	100.00%	2.31%	50.00%	(9)
19	Insurance	97,283	50,928	44,108	16,195	16,195	52.35%	45.34%	100.00%	2.31%	50.00%	(9)
20	Office utilities	32,390			16,195	16,195	50.00%	45.34%	100.00%	2.31%	50.00%	(9)
21	Miscellaneous	13,719			13,719	13,719	100.00%	45.34%	100.00%	2.31%	50.00%	(9)
22	Corporate allocation	422,759			105,690	317,069	25.00%	25.00%	100.00%	2.31%	75.00%	(5)
23	Sub-totals	2,762,064			141,712	670,785	42.16%	28.42%	100.00%	5.13%	24.29%	(10)
24	Reallocate administrative pro ra	-	1,164,551	785,016	45,455	(670,785)						(10)
25	Total operation and maintenance	\$2,762,064	\$1,538,084	\$1,036,813	\$187,167	\$	55.68%	37.54%	6.78%	0.00%		(10)

COMMUNITY UTILITIES OF PENNSYLVANIA, INC.
CONSOLIDATED WASTEWATER SERVICES

PRO FORMA ANNUAL OPERATING REVENUE AT ADJUSTED
RATES AND CHARGES BASED UPON ALLOCATED COST OF SERVICE

R-2023-3042805

I&E WASTEWATER PROPOSED RATES

Line No. (A)	Consolidated Service: (B)	Pro Forma Flow (C)	Number of Bills (D)	Present Rate (E)	Present Revenue Under Present Rates (F)	Increase (G)	Proposed Rate (H)	Pro Forma Revenue Under Proposed Rates (I)	Percent Increase (J)
1	Residential		39,348	\$74.73 /mo.	\$2,940,476	-\$908,152	\$51.65 /mo.	\$2,032,324	-30.9%
2	Commercial		84	\$74.73 /mo.	\$6,277	-\$1,938	\$51.65 /mo.	\$4,339	-30.9%
3	All Other Flow	128,984,467		\$0.00 /1,000 gals.	\$0	\$2,295,924	\$17.80 /1,000 gals.	\$2,295,924	
4	Low-Income Flow	13,775,308		\$0.00 /1,000 gals.	\$0	\$159,380	\$11.57 /1,000 gals.	\$159,380	
5	School (unmetered)		24	\$912.58 /mo.	\$21,902	\$6,538	\$1,185.00 /mo.	\$28,440	29.9%
6	Availability Fee (unmetered)		528	\$32.80 /mo.	\$17,318	-\$4,646	\$24.00 /mo.	\$12,672	-26.8%
14	Tamiment:					\$0			
15	Residential		5,868	\$26.15 /mo.	\$153,448	\$149,634	\$51.65 /mo.	\$303,082	97.5%
16	Commercial		48	\$26.15 /mo.	\$1,255	\$1,224	\$51.65 /mo.	\$2,479	97.5%
17	All Other Flow	12,998,814		\$13.98 /1,000 gals.	\$181,684	\$49,695	\$17.80 /1,000 gals.	\$231,379	27.4%
18	Low-Income Flow	2,368,569		\$13.98 /1,000 gals.	\$33,105	-\$5,701	\$11.57 /1,000 gals.	\$27,404	-17.2%
19	Availability Fee (unmetered)		3,240	\$20.22 /mo.	\$65,513	\$12,247	\$24.00 /mo.	\$77,760	18.7%
20	Total Rate Revenue	158,127,158	49,140		\$3,420,979	\$1,754,204		\$5,175,183	51.3%
21									
22	Average Usage in Tamiment		2,215		\$32,864	\$16,701		\$49,565	
23	Accrued Revenue				-\$68,047	-\$35,575		-\$103,622	
24	Uncollectible Accounts								
25									
26	TOTAL REVENUE				\$3,385,796	\$1,735,330		\$5,121,126	

I&E Exhibit No. 3
Schedule No. 9

Community Utilities of Pennsylvania, Inc.
R-2023-3042805
Summary of Operating Revenues
Wastewater Operations

Line No.	Description	7/31/2023		7/31/2023		7/31/2023		7/31/2023		7/31/2024		7/31/2024		7/31/2025		7/31/2025	
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)					
1	Residential	3,346,918.89	(27,438.36)	3,319,480.53	(11,688.51)	3,308,012.02	(9,379.34)	3,298,632.68	1,747,372.92	52.97%	5,046,005.60						
2	Commercial	40,744.68	(131.72)	40,612.96	(633.58)	39,979.38	(461.91)	39,517.47	4,390.82	11.11%	43,908.29						
3	Guarantee	85,532.73	(2,949.39)	82,583.34	247.86	82,831.20	-	82,831.20	2,702.40	3.26%	85,533.60						
4	Miscellaneous Service Revenue - NSF Check Charge	100.00	-	100.00	-	100.00	-	100.00	-	0.00%	100.00						
5	Miscellaneous Revenue - State Tax Adjustment Surcharge	(4,872.05)	-	(4,872.05)	-	(4,872.05)	-	(4,872.05)	-	0.00%	(4,872.05)						
6	Late Payment Charges (LPC)	32,864.03	-	32,864.03	-	32,864.03	-	32,864.03	16,701.41	50.82%	49,565.44						
7	Miscellaneous Revenue	(21,423.49)	-	(21,423.49)	21,423.49	-	-	-	-	0.00%	-						
8	Uncollectible Accounts	(1,782.26)	-	(1,782.26)	-	-	(66,264.73)	-	(35,575.36)	52.28%	(103,622.35)						
9	Total Service Revenue - Sewer	3,478,082.53	(30,519.47)	3,447,563.06	9,569.26	3,457,132.33	(76,105.98)	3,381,026.34	1,735,592.19		5,116,618.53						

I&E Statement No. 2-R
Witness: D. C. Patel

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

COMMUNITY UTILITIES OF PENNSYLVANIA, INC.

Docket No. R-2023-3042804 (Water)
&
Docket No. R-2023-3042805 (Wastewater)

Rebuttal Testimony

of

D. C. Patel

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

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1 **INTRODUCTION OF WITNESS**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is D. C. Patel, and my business address is Pennsylvania Public Utility
4 Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg,
5 PA 17120.

6

7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am employed by the Pennsylvania Public Utility Commission (Commission) in
9 the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial
10 Analyst.

11

12 **Q. ARE YOU THE SAME D. C. PATEL WHO IS RESPONSIBLE FOR THE**
13 **DIRECT TESTIMONY CONTAINED IN I&E STATEMENT NO. 2 AND**
14 **THE SCHEDULES IN I&E EXHIBIT NO. 2?**

15 A. Yes.

16

17 **Q. DOES YOUR REBUTTAL TESTIMONY INCLUDE AN**
18 **ACCOMPANYING EXHIBIT?**

19 A. No.

20

21 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

22 A. The purpose of my rebuttal testimony is to address the direct testimony of the

1 Office of Small Business Advocate (OSBA) witness Justin Bieber concerning his
2 recommended return on equity (ROE) of 9.65% applied in the revenue
3 requirement computation for Community Utilities of Pennsylvania, Inc. (CUPA or
4 Company) (OSBA Statement No. 1, p. 5). This recommended ROE contributed a
5 reduction of \$97,980 and \$113,916 (total \$211,896) for the water and wastewater
6 operations respectively in his recommended revenue requirements for the
7 Company's operations (OSBA Statement No. 1, pp. 6 and 9).

8
9 **RETURN ON EQUITY**

10 **Q. WHAT IS CUPA'S CLAIMED ROE?**

11 A. CUPA has claimed an ROE of 10.60% (CUPA Statement No. 8, p. 3 and CUPA
12 Schedule MRH-1, p. 1) in the calculation of the claimed revenue increases of
13 \$1,470,360 and \$1,738,944 for its water and wastewater operations respectively
14 for the fully projected future test year of 12-month period ending July 31, 2025
15 (CUPA Statement No. 1, p. 9).

16
17 **Q. SUMMARIZE MR. BIEBER'S DIRECT TESTIMONY CONCERNING HIS**
18 **RECOMMENDED ROE.**

19 A. First, Mr. Bieber states that his recommended proxy ROE of 9.65% is based on the
20 ROE authorized by the Commission for the Distribution System Improvement
21 Charge (DSIC) for most water utilities in Pennsylvania¹ as proxy in his revenue

¹ Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended September 30, 2023, Attachment D, p. 15, at Docket No. M-2023-3044811 approved at the Commission's Public Meeting Held January 18, 2024.

1 requirement calculation (OSBA Statement No. 1, p. 5). Second, he states that the
2 use of this proxy ROE is not intended to displace the Commission's consideration
3 of traditional cost of capital analyses that may be offered by the Office of
4 Consumer Advocate (OCA) and perhaps other parties in this proceeding (OSBA
5 Statement No. 1, p. 9). Lastly, he states that based on his experience in other
6 proceedings, he would not be surprised if other parties present credible analyses
7 indicating that CUPA's ROE should be set lower than 9.65% (OSBA Statement
8 No. 1, p. 9).

9
10 **Q. WHAT ARE THE ROE RECOMMENDATIONS MADE BY I&E AND**
11 **OCA?**

12 A. I recommend an ROE of 8.45% based on the analysis of financial modeling
13 applying the Discounted Cash Flow (DCF) and Capital Asset Pricing Method
14 (CAPM) results (I&E Statement No. 2, p. 27). Similarly, the OCA recommends
15 an ROE of 8.39% based on its analysis of the DCF and CAPM results (OCA
16 Statement No. 3, p. 18).

17
18 **Q. WHAT IS THE BASIS OF MR. BIEBER'S RECOMMENDED ROE OF**
19 **9.65%?**

20 A. Mr. Bieber did not specify or elaborate his basis or rationale for applying the
21 Pennsylvania water utilities' DSIC ROE rate in the computation of OSBA's
22 overall revenue requirement recommendation for the Company's water and
23 wastewater operations.

1 **Q. DO YOU AGREE WITH MR. BIEBER’S USE OF THE DSIC ROE OF**
2 **9.65% IN THIS BASE RATE PROCEEDING?**

3 A. No.

4

5 **Q. DID MR. BIEBER CONDUCT ANY ANALYSIS BEFORE APPLYING**
6 **THE DSIC ROE OF 9.65% FOR CUPA?**

7 A. No. Mr. Bieber confirms that he did not conduct any analysis for the ROE, but
8 simply utilized the 9.65% ROE authorized by the Commission for the DSIC for
9 most water utilities in the state as a proxy in his revenue requirement calculation
10 (OSBA Statement No. 1, p. 9).

11

12 **Q. WHAT IS THE BASIS FOR YOUR DISAGREEMENT WITH MR.**
13 **BIEBER’S USE OF THE DSIC ROE OF 9.65% IN THE COMPUTATION**
14 **OF HIS RECOMMENDED REVENUE REQUIREMENTS FOR CUPA?**

15 A. The DSIC rate is specifically designed to encourage its use and to incentivize
16 accelerated pipeline replacement and infrastructure upgrades to bring the existing
17 aging infrastructure closer to meeting the safety and reliability requirements in
18 between base rate filings. The DSIC rate is not intended to substitute the ROE
19 established in a base rate proceeding after conducting a detailed ROE analysis.
20 Additionally, the DSIC rate establishes a benchmark above which a utility
21 company is considered “overearning.” As such, the DSIC rate does not serve as a
22 proper measurement of a subject utility’s cost of equity in a rate case proceeding.
23 To suggest the cost of equity must be at the DSIC rate absent a detailed analysis in

1 a base rate proceeding is inappropriate and not in the public interest.

2
3 **Q. SHOULD THE COMMISSION CONSIDER THE AUTHORIZED DSIC**
4 **ROE RATE ESTABLISHED IN THE QUARTERLY EARNINGS**
5 **SUMMARY REPORTS AS AN APPROPRIATE MEASURE TO**
6 **DETERMINE THE COST OF EQUITY IN THIS PROCEEDING?**

7 A. No. Mr. Bieber's application of the DSIC ROE rate in this proceeding is used as
8 more of a placeholder for a properly analyzed and determined ROE. As discussed
9 above, the DSIC rate should not serve as a proper measurement of a subject
10 utility's cost of equity in a base rate proceeding since the DSIC rate is subject to
11 change at quarterly intervals. In fact, 66 Pa. C.S. § 1358(b)(3) states,

12 The distribution system improvement charge shall be reset at
13 zero if, in any quarter, data filed with the commission in the
14 utility's most recent annual or quarterly earnings report show
15 that the utility will earn a rate of return that would exceed the
16 allowable rate of return used to calculate its fixed costs under
17 the distribution system improvement charge.

18 Finally, the DSIC mechanism serves to lower a utility's risk because it reduces the
19 lag time in the recovery of a company's capital outlays. The DSIC spending
20 requires preapproval of eligible plant via a Long-Term Infrastructure Improvement
21 Plan so there is little question as to the prudence of those expenditures.

22
23 **Q. ARE THERE ANY POTENTIAL PROBLEMS WITH AWARDING AN**
24 **ROE THAT IS EQUAL TO OR HIGHER THAN THE DSIC RATE?**

25 A. Yes. First, if a company ultimately achieves a return that is above the DSIC rate,
26 it eliminates the possibility for the utility to utilize the DSIC mechanism until its

1 earnings fall below the DSIC rate. Further, if a company believes it will receive a
2 return higher than the DSIC rate in a litigated base rate proceeding, it will remove
3 the incentive to use the DSIC mechanism between rate filings and may encourage
4 the more frequent filing of base rate cases.

5 Therefore, in my opinion, the DSIC rate should generally be viewed as an
6 incentive rate that is higher than a return on equity percentage granted in a base
7 rate proceeding.

8

9 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

10 A. Yes.

**I&E Statement No. 1-SR
Witness: Zachari Walker**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

COMMUNITY UTILITIES OF PENNSYLVANIA INC.

Docket Nos. R-2023-3042804 & R-2023-3042805

Surrebuttal Testimony

of

Zachari Walker

Bureau of Investigation and Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES

UNCOLLECTIBLE ACCOUNTS

INTEGRATION CUSTOMER PROTECTION DEFERRAL MECHANISM

DEFERRED CHARGES

CASH WORKING CAPITAL

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Zachari Walker, and my business address is Pennsylvania Public
4 Utility Commission, 400 North Street, Harrisburg, PA 17120.

5
6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A. I am employed by the Pennsylvania Public Utility Commission (Commission) in
8 the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial
9 Analyst.

10

11 **Q. ARE YOU THE SAME ZACHARI WALKER WHO PREPARED I&E**
12 **STATEMENT NO. 1 AND I&E EXHIBIT NO. 1?**

13 A. Yes.

14

15 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

16 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of
17 Community Utilities of Pennsylvania, Inc. (CUPA or Company) witnesses
18 Anthony Gray¹ and Steve Lubertozi.²

¹ CUPA Statement No. 2-R.

² CUPA Statement No. 6-R.

1 **Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN EXHIBIT?**

2 A. Yes. I&E Exhibit No. 1-SR accompanies this surrebuttal testimony. Furthermore,
3 I will refer to my direct testimony and its corresponding exhibit (I&E Statement
4 No. 1 and I&E Exhibit No. 1) in this surrebuttal testimony.

5

6 **SUMMARY OF COMPANY'S REQUEST**

7 **Q. PLEASE SUMMARIZE THE COMPANY'S UPDATED REQUESTED**
8 **REVENUE INCREASE.**

9 A. In rebuttal testimony, CUPA updated its total requested increase to \$3,121,014³
10 for the combined operations' claimed present rate revenues of \$5,710,888
11 resulting in an overall revenue requirement of \$8,831,902. This represents a
12 \$1,419,558⁴ requested increase to claimed water operations' present rate revenues
13 of \$2,329,862 resulting in an overall revenue requirement of \$3,749,420.⁵

14 Additionally, the total requested increase represents a \$1,701,456⁶
15 requested increase to claimed wastewater operations' present rates revenues of
16 \$3,381,026 resulting in an overall revenue requirement of \$5,082,482.

³ CUPA Statement No. 2-R, p. 2.

⁴ Id.

⁵ Id.

⁶ Id.

1 **Q. WHAT NET INCOME RETENTION FACTOR DID THE COMPANY**
2 **CLAIM?**

3 A. CUPA claimed a net income retention factor of 0.726879, which included
4 adjustments for state and federal income taxes.⁷

5
6 **Q. DO YOU AGREE WITH THIS NET INCOME RETENTION FACTOR?**

7 A. No. As stated in direct testimony, I&E incorporates adjustments for the
8 uncollectible rate and utility tax assessment factors in its net income retention
9 factor of 0.707617 as calculated below:⁸

I&E Net Income Factor:	
Total Revenue	1.0000
Less: Uncollectible Accounts Write-off %	0.0199
	0.9801
Less: Utility tax assessment	0.0066
	0.9735
Less: State tax at 7.99%	0.0778
	0.8957
Less: Federal tax at 21%	0.1881
	0.707617

10

11

12 **Q. DID ANY WITNESS RESPOND YOUR DIRECT TESTIMONY**
13 **CONCERNING YOUR USE OF A 0.707617 RETENTION FACTOR?**

14 A. No. It is safe to assume that CUPA takes no issue with I&E using its method for
15 this computation as it provides a slight increase to the overall revenue requirement

⁷ CUPA Schedule D-1.

⁸ I&E Statement No. 1, pp. 3-4.

1 compared to what the Company would calculate when using its own factor of
 2 0.726879.

3
 4 **Q. PLEASE SUMMARIZE YOUR ADJUSTMENTS.**

5 A. The following tables summarize my recommended adjustments:

6 **Water Operations:**

	<u>Company Claim</u>	<u>I&E Recommended Allowance</u>	<u>I&E Adjustment</u>
O&M Expenses:			
COVID-19 Regulatory Asset Related Expense	\$17,714	\$10,383	(\$7,331)
Total O&M Expense Adjustments			<u>(\$7,331)</u>
Rate Base Adjustments:			
Cash Working Capital	\$405,257	\$399,970	(\$5,287)
Total Rate Base Adjustments			<u>(\$5,287)</u>

7
 8 **Wastewater Operations:**

	<u>Company Claim</u>	<u>I&E Recommended Allowance</u>	<u>I&E Adjustment</u>
O&M Expenses:			
Office Utilities Expense	\$27,415	\$26,602	(\$813)
COVID-19 Regulatory Asset Related Expense	\$21,248	\$12,454	(\$8,794)
Total O&M Expense Adjustments			<u>(\$9,607)</u>
Rate Base Adjustments:			
Cash Working Capital	\$575,223	\$573,510	(\$1,713)
Total Rate Base Adjustments			<u>(\$1,713)</u>

1 **SUMMARY OF I&E OVERALL POSITION**

2 **Q. WHAT IS I&E’S TOTAL RECOMMENDED REVENUE REQUIREMENT**
3 **FOR WATER OPERATIONS?**

4 A. I&E’s updated total recommended revenue requirement for CUPA’s water
5 operations is \$3,568,127. This recommended revenue requirement represents an
6 increase of \$1,191,309 to the present rate revenues of \$2,376,818. As stated
7 above, this incorporates the I&E net income retention factor. This total
8 recommended allowance incorporates my adjustments made in this testimony to
9 rate base, and those made in the testimony of I&E witnesses DC Patel⁹ and Esyan
10 Sakaya.¹⁰

11 A calculation of the I&E recommended revenue requirement for water
12 operations is shown in the table below:

⁹ I&E Statement No. 2-SR.

¹⁰ I&E Statement No. 3-SR.

Community Utilities of PA Inc. - Water R-2023-3042804		TABLE IA INCOME SUMMARY			
7/31/25		INVESTIGATION & ENFORCEMENT			
Proforma		[-----]			
Present Rates	Adjustments	Present Rates	Allowances	Proposed	
\$	\$	\$	\$	\$	
Operating Revenue	2,376,818	0	2,376,818	1,191,309	3,568,127
Deductions:					
O&M Expenses	1,933,723	-36,271	1,897,452	23,707	1,921,159
Depreciation	351,642	0	351,642		351,642
Taxes, Other	64,297	0	64,297	7,863	72,160
Income Taxes:					
Current State	-28,182	2,909	-25,273	92,663	67,390
Current Federal	-68,151	7,035	-61,116	224,086	162,970
Deferred Taxes	0	0	0		0
ITC	0	0	0		0
Total Deductions	2,253,329	-26,327	2,227,002	348,319	2,575,321
Income Available	123,489	26,327	149,816	842,990	992,806
Rate Base	14,498,804	-5,287	14,493,517	0	14,493,517
Rate of Return	0.85%		1.03%		6.85%

1

2

3 **Q. WHAT IS I&E’S TOTAL RECOMMENDED REVENUE REQUIREMENT**
 4 **FOR WASTEWATER OPERATIONS?**

5 A. I&E’s updated total recommended revenue requirement for CUPA’s wastewater
 6 operations is \$4,917,795. This recommended revenue requirement represents an
 7 increase of \$1,468,722 to the present rate revenues of \$3,449,073. As stated
 8 above, this incorporates the I&E net income retention factor. This total
 9 recommended allowance incorporates my adjustments made in this testimony to
 10 operating and maintenance (O&M) expenses and rate base, and those made in the

1 testimony of I&E witness DC Patel.¹¹

2 A calculation of the I&E recommended revenue requirement for wastewater
3 operations is shown in the table below:

Community Utilities of PA Inc. - Wastewater R-2023-3042805		TABLE IB INCOME SUMMARY			
7/31/25		INVESTIGATION & ENFORCEMENT			
Proforma		[-----]			
Present Rates		Adjustments	Present Rates	Allowances	Proposed
\$		\$	\$	\$	\$
Operating Revenue	3,449,073	0	3,449,073	1,468,722	4,917,795
Deductions:					
O&M Expenses	2,825,134	-9,606	2,815,528	29,228	2,844,756
Depreciation	527,464	0	527,464		527,464
Taxes, Other	100,082	0	100,082	9,694	109,776
Income Taxes:					
Current State	-35,906	772	-35,134	114,241	79,107
Current Federal	-86,832	1,865	-84,967	276,267	191,300
Deferred Taxes	0	0	0		0
ITC	0	0	0		0
Total Deductions	3,329,942	-6,969	3,322,973	429,430	3,752,403
Income Available	119,131	6,969	126,100	1,039,292	1,165,392
Rate Base	17,014,741	-1,713	17,013,028	0	17,013,028
Rate of Return	0.70%		0.74%		6.85%

4

5

6 **UNCOLLECTIBLE ACCOUNTS**

7 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
8 **FOR UNCOLLECTIBLE ACCOUNTS.**

9 A. I recommended the Company display the uncollectible accounts as an expense
10 item in future base rate filings rather than as a contra account to revenues for

¹¹ I&E Statement No. 2-SR.

1 ratemaking purposes. The purpose of bringing attention to this was to clarify why
2 the revenues and expenses appear higher in the present rate revenue columns in
3 the revenue requirement tables above. By displaying the uncollectible accounts as
4 an expense in future base rate filings, it would make CUPA's tables more
5 consistent with I&E's revenue requirement and with the practices of other
6 regulated utilities within the Commission's jurisdiction.¹²

7
8 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

9 A. No; however, I reiterate this point so as to further record my recommendation.

10
11 **OFFICE UTILITIES EXPENSE**

12 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
13 **FOR OFFICE UTILITIES EXPENSE.**

14 A. My recommendation for office utilities expense consisted of adjustments made to
15 two subaccounts of this expense, cellular/mobile phones and garbage
16 disposal/removal. I recommended an allowance of \$16,340 for CUPA's water
17 operations, or a reduction of \$4,151 to the FPFTY claim.¹³ For wastewater
18 operations I recommended an allowance of \$25,083, or a reduction of \$7,307 to
19 the Company's FPFTY claim.¹⁴ I summarize the basis for my recommendations
20 below.

¹² I&E Statement No. 1, pp. 9-10.

¹³ I&E Statement No. 1, p. 12.

¹⁴ I&E Statement No. 1, pp. 14-15.

1 **Cellular/Mobile Phones Subaccount**

2 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
3 **FOR THE CELLULAR/MOBILE PHONES SUBACCOUNT.**

4 A. I recommended an allowance of \$5,998, or a reduction of \$4,151 (\$10,149 -
5 \$5,998) to CUPA’s water operations cellular/mobile phones subaccount claim. For
6 the Company’s wastewater operations, I recommend an allowance of \$7,190, or a
7 reduction of \$4,975 (\$12,165 - \$7,190) to cellular/mobile phones subaccount
8 claim. These recommendations were based on my calculation and subsequent
9 allocation using expense information provided in response to I&E-RE-34-D, Parts
10 C and F.¹⁵

11
12 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

13 A. Yes. CUPA witness Anthony Gray accepts my recommended adjustments to the
14 cellular/mobile phones subaccounts.¹⁶

15
16 **Garbage Disposal/Removal Subaccount**

17 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
18 **FOR THE GARBAGE DISPOSAL/REMOVAL SUBACCOUNT.**

19 A. I accepted CUPA’s water operations claim but took issue with the wastewater
20 operations’ portion of the garbage disposal/removal subaccount based on the lack

¹⁵ I&E Statement No. 1, pp. 12-13.

¹⁶ CUPA Statement No. 2-R, p. 15.

1 of supporting invoices for \$2,332 of the expense. This amount represented my
2 recommended adjustment yielding a recommended allowance of \$6,291 for the
3 Company's wastewater operations claim.¹⁷

4
5 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

6 A. Yes. CUPA witness Anthony Gray disagrees with my recommendation.¹⁸

7
8 **Q. SUMMARIZE MR. GRAY'S RESPONSE.**

9 A. Witness Gray states that the Company did not provide the entirety of the invoices
10 in response to I&E-RE-35, Part B and provided an attachment, CUPA Exhibit AG-
11 1R (CONFIDENTIAL), which he states includes the missing invoices.¹⁹ Based on
12 the additional invoices provided, he opines that the Commission should approve
13 the as-filed amount.²⁰

14
15 **Q. WHAT IS YOUR RESPONSE TO MR. GRAY?**

16 A. The referenced confidential exhibit includes 36 invoices, eight of which were not
17 included in the response to I&E-RE-35, Part B. Of the eight unique invoices, two
18 contain issues rendering them inappropriate for inclusion – one invoice dated July
19 19, 2022,²¹ is outside of the 12-month period under scrutiny, August 2022 through

¹⁷ I&E Statement No. 1, pp. 14-15.

¹⁸ CUPA Statement No. 2-R, p. 16.

¹⁹ Id.

²⁰ Id.

²¹ CUPA Exhibit AG-1R (CONFIDENTIAL), p. 8.

1 July 2023. The final questionable invoice is a digital receipt that is not legible for
2 analysis purposes.²²

3 The remaining six invoices total an additional \$1,519 of supporting
4 documentation, resulting in my updated recommended allowance for the garbage
5 removal/disposal subaccount of \$8,440 (\$6,921 + \$1,519) or a reduction of \$813
6 (\$9,253 - \$8,440) to the Company's FPFTY expense claim for wastewater
7 operations.

8
9 **Summary of Office Utilities Expense Adjustments**

10 **Q. PLEASE SUMMARIZE YOUR UPDATED RECOMMENDATION FOR**
11 **OFFICE UTILITIES EXPENSE.**

12 A. My updated recommendation for CUPA's wastewater division office utilities
13 expense is an allowance of \$26,602, or a reduction of \$813 (\$27,415 - \$26,602) to
14 the Company's updated FPFTY claim. Consistent with CUPA's acceptance of my
15 recommended adjustment in direct testimony for water operations, my
16 recommended allowance remains \$16,340.

²² CUPA Exhibit AG-1R (CONFIDENTIAL), p. 3.

1 **RATE CASE EXPENSE**

2 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
3 **FOR RATE CASE EXPENSE.**

4 A. I recommended the Company normalize rather than amortize its claimed rate case
5 expense over its proposed three-year period directly based on the Commission’s
6 traditional treatment of this expense.²³

7
8 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

9 A. Yes. CUPA witness Anthony Gray accepts this recommendation. Further
10 discussion of this will be addressed in the following section.

11

12 **DEFERRED CHARGES – DEFERRED RATE CASE EXPENSE**

13 **Q. SUMMARIZE YOUR RECOMMENDATION FOR DEFERRED**
14 **CHARGES – DEFERRED RATE CASE EXPENSE IN DIRECT**
15 **TESTIMONY.**

16 A. I recommended the entire claim amounts of \$124,573 for water operations and
17 \$149,406 for wastewater operations be disallowed for ratemaking purposes based
18 on my recommendation to normalize rather than amortize rate case expense,
19 consistent with Commission precedent. Consequently, normalization treatment of
20 rate case expense supports the disallowance of rate base treatment for the net

²³ I&E Statement No. 1, pp. 19-20.

1 deferred rate case expenses of \$124,573 for water operations and \$149,406 for
2 wastewater operations.²⁴

3
4 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

5 A. Yes. CUPA witness Anthony Gray accepts my recommendation to remove rate
6 case expenses from rate base consistent with his acceptance to use normalization
7 treatment for rate case expense.²⁵

8
9 **DEFERRED CHARGES – COVID-19 REGULATORY ASSET AND RELATED**
10 **EXPENSE CLAIM**

11 **COVID-19 Regulatory Asset**

12 **Q. SUMMARIZE YOUR RECOMMENDATION FOR THE COMPANY'S**
13 **PROPOSED RATE BASE TREATMENT OF THE COVID-19**
14 **REGULATORY ASSET.**

15 A. I recommended the entire unamortized balance of \$70,858 for water operations
16 and \$85,092 for wastewater operations be disallowed for rate base treatment. This
17 recommendation was based on the fact that the utility would unjustly earn a return
18 on routine O&M expenses if the unamortized COVID-19 regulatory asset balance
19 was subjected to rate base treatment.²⁶

²⁴ I&E Statement No. 1, p. 21.

²⁵ CUPA Statement No. 2-R, p. 7.

²⁶ I&E Statement No. 1, pp. 24-25.

1 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

2 A. Yes. CUPA witness Anthony Gray accepts my recommendation.²⁷

3

4 **COVID-19 Expense**

5 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
6 **FOR THE EXPENSE PORTION OF THE PROPOSED COVID-19**
7 **REGULATORY ASSET.**

8 A. I recommended an allowance of \$10,383 for water operations or a reduction of
9 \$7,331 (\$17,714 - \$10,383) to the Company's claim and an allowance of \$12,454
10 for wastewater operations or a reduction of \$8,794 (\$21,248 - \$12,454) to the
11 Company's claim. It was noted that this adjustment was encapsulated in a
12 subsequent section of testimony entitled deferred maintenance expense where
13 these COVID-19 related expenses were included.²⁸ My recommendations were
14 calculated by removing forgone reconnection fees and forgone late payment
15 charges (forgone charges) from the Company's claims and utilizing the Company's
16 proposed amortization period.²⁹ The removal of the lost revenues was based on
17 the Commission's denial to track and defer these forgone charges in its Order in
18 the 2020 PAWC petition as described in my direct testimony.³⁰

²⁷ CUPA Statement No. 2-R, p. 7.

²⁸ I&E Statement No. 1, p. 25.

²⁹ I&E Statement No. 1, p. 26.

³⁰ I&E Statement No. 1, pp. 26-27.

1 Additionally, I recommended that the Company should not be allowed to
2 continue recording a regulatory asset for ongoing COVID-19 related incremental
3 bad debt (other than reductions to bad debt in the regulatory asset associated with
4 late recovery of such related bad debt) and other COVID-19 related expenses after
5 the effective date of new rates for the instant proceeding.³¹

6
7 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

8 A. Yes. CUPA witness Anthony Gray disagrees with my recommendation to remove
9 the forgone charges from the Company's claims.

10
11 **Q. SUMMARIZE MR. GRAY'S RESPONSE.**

12 A. Mr. Gray asserts that the recovery of the forgone charges is prudent as they were
13 incurred during the Commission ordered prohibition of utility service termination.
14 Additionally, he opines that customers directly benefitted from these fees not
15 being charged and contends that it would be fair for the Company to recover
16 interest to account for the time value of money, but rather CUPA has taken a
17 conservative approach by seeking to only recover the forgone charges.³²

18
19 **Q. DO YOU AGREE WITH MR. GRAY'S ASSERTION?**

20 A. No.

³¹ I&E Statement No. 1, p. 28.

³² CUPA Statement No. 2-R, pp. 20-21.

1 **Q. WHAT IS YOUR RESPONSE?**

2 A. In addition to my reference to the precedent set by the Commission Order in the
3 2020 PAWC petition denying the inclusion of forgone reconnection fees and late
4 payment charges,³³ I wish to provide a point for further consideration. Mr. Gray
5 describes the forgone charges as though they are costs that the Company has
6 incurred similar to purchased power expense; however, in reality these are fees
7 normally charged to incentivize customers to pay on time. The Company did not
8 incur incremental costs due to its inability to shut off customers' service or to
9 charge customers who were unable to pay their utility bills during the pandemic
10 for a variety of reasons, including increased unemployment and restrictions on
11 business operations. Any incremental costs or bad debt will be recovered through
12 the annual amortization of the regulatory asset, making the Company whole in this
13 regard. Therefore, I continue to recommend CUPA be denied inclusion of forgone
14 charges in its COVID-19 regulatory asset.

15
16 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
17 **THE COMPANY'S COVID-19 RELATED EXPENSE CLAIM?**

18 A. No. I continue to recommend an allowance of \$10,383 for water operations or a
19 reduction of \$7,331 (\$17,714 - \$10,383) to the Company's claim and an allowance
20 of \$12,454 for wastewater operations or a reduction of \$8,794 (\$21,248 - \$12,454)

³³ I&E Statement No. 1, pp. 26-27.

1 to the Company's claimed FPFTY expense claim related to its COVID-19
2 regulatory asset based on removal of all forgone charges from the Company's
3 claim and amortization of the adjusted regulatory asset balance over five years.
4

5 **Q. ARE THERE ANY OTHER CONCERNS RELATED TO THE PROPOSED**
6 **DEFERRAL FOR RATEMAKING PURPOSES?**

7 A. Yes. As stated in my direct testimony the Company has not indicated that it
8 intends to discontinue tracking and recording additional incremental expenses
9 related to COVID-19, it is prudent to address the potential inappropriate continued
10 tracking and deferral treatment past the effective date of new rates for the instant
11 proceeding.³⁴
12

13 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION FOR**
14 **THE POTENTIAL CONTINUED DEFERRAL OF COVID-19 RELATED**
15 **COSTS?**

16 A. No. I continue to recommend that the Company cease tracking any new COVID-
17 19 related deferrals.

³⁴ I&E Statement No. 1, pp. 27-28.

1 **DEFERRED CHARGES – OTHER DEFERRED CHARGES (NET OF THE**
2 **COVID-19 REGULATORY ASSET)**

3 **Q. SUMMARIZE YOUR RECOMMENDATION FOR OTHER DEFERRED**
4 **CHARGES (NET OF THE COVID-19 REGULATORY ASSET).**

5 A. I recommended that the total amounts for other deferred charges (net of the
6 COVID-19 regulatory asset) of \$132,408 for water operations and negative
7 (\$17,543) for wastewater operations be disallowed rate base treatment for
8 ratemaking purposes. The total amounts stated above are the net sum of deferred
9 charges excluding the amounts addressed related to COVID-19.³⁵

10

11 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

12 A. Yes. CUPA witness Anthony Gray accepts the adjustment in principle. My
13 recommendation in direct testimony did not reflect the error indicated in response
14 to I&E-RE-17-D; however, this error was captured in the Company’s schedules in
15 addition to the amounts recommended in my direct testimony.³⁶

16

17 **DEFERRED MAINTENANCE EXPENSE**

18 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
19 **FOR DEFERRED MAINTENANCE EXPENSE.**

20 A. I recommended the disallowance of the deferred maintenance expense amounts

³⁵ I&E Statement No. 1, p. 30.

³⁶ CUPA Statement No. 2-R, p. 6.

1 other than my recommended allowances for COVID-19 related expenses,
2 represented by an allowance of \$10,383 for the Company's water operations, or a
3 reduction of \$38,792 (\$49,175 - \$10,383) to the Company's FPFTY claim, and an
4 allowance of \$12,453 for the Company's wastewater operations, or a reduction of
5 \$66,903 (\$79,356 - \$12,453) to the Company's FPFTY claim. My
6 recommendation was based on the interpretation that routine operating expenses
7 were inappropriately being subjected to deferral treatment, representing an out of
8 period expense. Based on that interpretation the Company should not have been
9 granted permission to recover prior period routine operating expenses. My
10 recommendation included a provision for the recovery of the deferred COVID-19
11 related expenses due to a Commission Order allowing the annual expense portion
12 to be claimed for ratemaking purposes.³⁷

13
14 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

15 A. Yes. CUPA witness Anthony Gray disagrees with my recommended disallowance
16 of the deferred maintenance expense net of COVID-19 related expenses.

17
18 **Q. SUMMARIZE MR. GRAY'S RESPONSE.**

19 A. Mr. Gray explains the deferred maintenance expenses do not represent an out of
20 period lump sum cost being accounted for in a single year, rather the annual

³⁷ I&E Statement No. 1, pp. 31-32.

1 recovery of a portion of the initial cost for each of the expenses included. He then
2 states that the recovery of these expenses through CUPA's amortization
3 methodology is appropriate with the caveat that should the Commission not accept
4 the proposed amortization treatment, the expenses should be normalized.³⁸

5
6 **Q. DO YOU ACCEPT THE COMPANY'S CLAIM FOR DEFERRED**
7 **MAINTENANCE EXPENSE?**

8 A. Yes, in part. After consideration of the additional information provided, I accept
9 the dollar value the Company is claiming in the FPFTY for water and wastewater;
10 however, I disagree with the amortization treatment of this expense. Routine
11 expenses should not be capitalized and amortized using a fixed asset without prior
12 Commission approval, and any such request for deferral treatment should be: (1)
13 extraordinary; (2) unanticipated; (3) nonrecurring; and (4) substantial. Thus, for
14 ratemaking purposes it is appropriate to normalize such expenses as considered in
15 Mr. Gray's testimony.³⁹

³⁸ CUPA Statement No. 2-R, pp. 17-18.

³⁹ CUPA Statement No. 2-R, p. 18.

1 **INTEGRATION CUSTOMER PROTECTION DEFERRAL MECHANISM**

2 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
3 **FOR THE COMPANY’S PROPOSED INTEGRATION CUSTOMER**
4 **PROTECTION DEFERRAL MECHANISM.**

5 A. I recommended the Company be disallowed from recovering the costs of the
6 proposed transaction for ratemaking purposes in any future proceedings based on
7 language in the Joint Petition for Full Settlement that state CUPA will not seek to
8 recover Transaction Costs from customers.⁴⁰

9

10 **Q. DID ANY WITNESS ADDRESS YOUR RECOMMENDATION?**

11 A. Yes. CUPA witness Steve Lubertozi disagrees with my recommendation.⁴¹

12

13 **Q. SUMMARIZE MR. LUBERTOZZI’S RESPONSE.**

14 A. Mr. Lubertozi opines that my recommendation relies on misinterpretation of the
15 terms of the Joint Petition for Full Settlement. He explains that the costs to
16 achieve integration benefits (costs to achieve) differ from the Transaction Costs
17 and are not included in the definition of Transaction Costs. Finally, after giving a
18 thorough explanation and an example of the costs to achieve he asserts the
19 Company is not seeking to recover Transaction Costs from customers.⁴²

⁴⁰ I&E Statement No. 1, pp. 35-37.

⁴¹ CUPA Statement No. 6-R, pp. 2-6.

⁴² CUPA Statement No. 6-R, pp. 3-6.

1 **Q. WHAT IS YOUR RESPONSE TO MR. LUBERTOZZI'S EXPLANATION**
2 **OF THE COMPANY'S PROPOSED RECOVERY OF COSTS TO**
3 **ACHIEVE?**

4 A. Despite Mr. Lubertozzi's clarification of the costs CUPA is requesting to be
5 included in the Integration Customer Protection Deferral Mechanism, I continue to
6 recommend that the Commission reject the recovery of costs to achieve.

7

8 **Q. WHAT IS THE BASIS FOR YOUR CONTINUED RECOMMENDATION**
9 **FOR REJECTION?**

10 A. I recommend the Commission deny CUPA's recovery of costs to achieve for the
11 following reasons. Foremost, as stated in my direct testimony, CUPA is required
12 to track and quantify all the benefits to customers in its service territory; however,
13 and most importantly, the Company is not required to track the costs under its new
14 ownership and did not receive approval to defer and recover costs to achieve.⁴³
15 Next, CUPA has not proposed a specific amortization period for which it will
16 incrementally recover the costs to achieve. Additionally, in his rebuttal testimony,
17 Mr. Lubertozzi suggests that the Company would realize savings from the
18 hypothetical consolidation of the merging companies ERP systems⁴⁴ - savings that
19 the Company will have already recognized in prior years yet is proposing
20 customers pay the costs to achieve which is inappropriate and constitutes
21 retroactive recovery in rates. The previously referenced savings will already have

⁴³ I&E Statement No. 1, p. 35.

⁴⁴ CUPA Statement No. 6-R, p. 5.

1 been experienced in the five-year observation period and CUPA has not proposed
2 retroactively passing those savings back to ratepayers but is proposing it should
3 retroactively recover the costs to achieve despite the Company having already
4 benefited from the savings related to merger in prior years. Moreover, CUPA has
5 not outlined the criteria it will use to determine benefits experienced by the
6 customers or how it will quantify qualitative benefits when comparing them to the
7 costs to achieve. Penultimately, CUPA has not stated how it proposes to avoid
8 incurring costs that are not prudent and reasonable. When taking into account the
9 uncertain nature of quantifying qualitative benefits, this has the potential to create
10 cost overrun while still claiming the benefits outweigh the costs and thus CUPA
11 would recover a larger amount of costs to achieve than if it had preventative
12 measures in place. Lastly, the Company has not provided an estimate of the costs
13 to achieve. Considering the lack of approval to track related costs and the
14 ambiguity with which the Company has proposed the recovery of the costs to
15 achieve through its Integration Customer Protection Deferral Mechanism, I
16 continue to recommend the proposed mechanism to defer and ultimately amortize
17 and recover the costs to achieve integration benefits should be disallowed.

1 **CASH WORKING CAPITAL**

2 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
3 **FOR CASH WORKING CAPITAL (CWC).**

4 A. I recommended an allowance of \$394,428⁴⁵ or a reduction of \$6,696 (\$401,124 -
5 \$394,428) to CUPA's water operations claim. Additionally, I recommended an
6 allowance of \$563,195⁴⁶ or a reduction of \$7,156 (\$570,351 - \$563,195) to
7 CUPA's wastewater operations claim. My recommendation included modification
8 of the Company's claim based on the recommended adjustments to O&M
9 expenses as discussed in my direct testimony.⁴⁷

10

11 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

12 A. Yes. CUPA witness Harold Walker disagrees with my CWC recommendation
13 based on the Company's disagreement with I&E's recommended adjustments to
14 individual O&M Expenses.⁴⁸

15

16 **Q. WHAT IS THE COMPANY'S UPDATED CWC CLAIM?**

17 A. CUPA updated its FPPTY CWC claim from \$401,124 to \$405,257 for water
18 operations and from \$570,351 to \$575,223 for wastewater operations.⁴⁹

⁴⁵ I&E Exhibit No. 1, Schedule 7, p. 1.

⁴⁶ Id., p. 2.

⁴⁷ I&E Statement No. 1, pp. 38-41.

⁴⁸ CUPA Statement No. 9-R, p. 2.

⁴⁹ CUPA Statement No. 9-R, p. 2, footnote 2.

1 **Q. DO YOU AGREE WITH THE COMPANY’S UPDATED CWC CLAIM?**

2 A. No. However, I have an update to my recommendation for CWC based on the
3 changes described above to I&E’s O&M expense recommendations. As stated in
4 my direct testimony, all O&M adjustments that are cash-based expense claims are
5 included in determining the Company’s overall CWC requirement. Therefore,
6 CWC was adjusted to reflect these recommended adjustments. To reflect my
7 recommended adjustments, I modified the Company’s electronic CWC file as
8 shown on CUPA Exhibit Schedule HW-1R.⁵⁰

9

10 **Q. SUMMARIZE WHERE EACH OF THE I&E RECOMMENDED O&M**
11 **EXPENSE ADJUSTMENTS ARE REFLECTED IN THE CWC**
12 **COMPUTATION.**

13 **Expense Lag Days – Office Utilities:**

14 A. I recommended an office utilities expense adjustment of (\$813) for wastewater
15 operations in the Expense Lag – Office Utilities, which is reflected as a reduction
16 to the office utilities line of the Company’s Exhibit No. HW-1R, p. 3 as shown in
17 I&E modified Exhibit No. HW-1R, p. 3.⁵¹

18 **Expense Lag Days – Maintenance and Repair:**

19 I recommended a maintenance and repair expense adjustment of (\$7,331) for
20 water operations in the Expense Lag – Maintenance and Repair, which is reflected

⁵⁰ I&E Exhibit No. 1-SR, Schedule 1, pp. 1-2.

⁵¹ I&E Exhibit No. 1-SR, Schedule 1, p. 2.

1 as a reduction to the maintenance and repair line of the Company's Exhibit No.
2 HW-1R, p. 2 as shown in I&E modified Exhibit No. HW-1R, p. 2.⁵²

3 Additionally, I recommended a maintenance and repair expense adjustment
4 of (\$8,794) for wastewater operations in the Expense Lag – Maintenance and
5 Repair, which is reflected as a reduction to the maintenance and repair line of the
6 Company's Exhibit No. HW-1R, p. 3 as shown in I&E modified Exhibit No. HW-
7 1R, p. 3.⁵³

8 **Expense Lag Days – Purchased Power:**

9 Mr. Sakaya recommended a purchased power expense adjustment of (\$3,129) for
10 water operations in the Expense Lag – Purchased Power,⁵⁴ which is reflected as a
11 reduction to the purchased power line of the Company's Exhibit No. HW-1,
12 Schedule 1, p. 2 as shown in I&E modified Exhibit No. HW-1, p. 2.⁵⁵

13 **Expense Lag Days – Purchased Water:**

14 Mr. Sakaya recommended a purchased water expense adjustment of (\$21,395) for
15 water operations in the Expense Lag – Purchased Water,⁵⁶ which is reflected as a
16 reduction to the purchased water/sewer line of the Company's Exhibit No. HW-1,
17 Schedule 1, p. 2 as shown in I&E modified Exhibit No. HW-1R, p. 2.⁵⁷

⁵² I&E Exhibit No. 1-SR, Schedule 1, p. 1.

⁵³ I&E Exhibit No. 1-SR, Schedule 1, p. 2.

⁵⁴ I&E Statement No. 3-SR.

⁵⁵ I&E Exhibit No. 1-SR, Schedule 1, p. 1.

⁵⁶ I&E Statement No. 3-SR.

⁵⁷ I&E Exhibit No. 1-SR, Schedule 1, p. 1.

1 **Expense Lag Days – Chemicals Expense:**

2 Mr. Sakaya recommended a chemicals expense adjustment of (\$4,417) for water
3 operations in the Expense Lag – Chemicals Expense,⁵⁸ which is reflected as a
4 reduction to the chemicals line of the Company’s Exhibit No. HW-1R, p. 2 as
5 shown in I&E modified Exhibit No. HW-1R, p. 2.⁵⁹

6
7 **Q. BASED ON THE ABOVE TESTIMONY, WHAT IS YOUR UPDATED**
8 **RECOMMENDED ALLOWANCE FOR CWC?**

9 A. Based on reflecting all of I&E’s recommended adjustments as discussed above,
10 my updated recommendation for CWC is an allowance of \$399,970,⁶⁰ or a
11 reduction of \$5,287 (\$405,257 - \$399,970) to the Company’s updated water
12 operations CWC claim and a recommended allowance of \$573,510,⁶¹ or a
13 reduction of \$1,713 (\$575,223 - \$573,510) to the Company’s updated wastewater
14 operations claim.

15
16 **Q. DOES YOUR RECOMMENDED ALLOWANCE REPRESENT A FINAL**
17 **RECOMMENDED ALLOWANCE FOR CWC?**

18 A. No. All adjustments to the Company’s claims for revenues, expenses, taxes, and
19 rate base must be consistently brought together in the Administrative Law Judge’s

⁵⁸ I&E Statement No. 3-SR.

⁵⁹ I&E Exhibit No. 1-SR, Schedule 1, p. 1.

⁶⁰ Id.

⁶¹ I&E Exhibit No. 1-SR, Schedule 1, p. 2.

1 Recommended Decision and again in the Commission's Final Order. This
2 process, which is known as iteration, effectively prevents the determination of a
3 precise calculation until such time as all adjustments have been made to the
4 Company's claim.

5

6 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

7 A. Yes.

**I&E Exhibit No. 1-SR
Witness: Zachari Walker**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

COMMUNITY UTILITIES OF PENNSYLVANIA INC.

Docket No. R-2023-3042804 & R-2023-3042805

Exhibit to Accompany

the

Surrebuttal Testimony

of

Zachari Walker

Bureau of Investigation and Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES

UNCOLLECTIBLE ACCOUNTS

INTEGRATION CUSTOMER PROTECTION DEFERRAL MECHANISM

DEFERRED CHARGES

CASH WORKING CAPITAL

I&E Exhibit No. 1-SR
Schedule 1
Page 1 of 2

I&E Modified

The cash working capital for HTY is \$874,662. The cash working capital requirement for FPY is \$937,521 and the cash working capital requirement for FPFTY is \$980,481.

Community Utilities of Pennsylvania, Inc - Water Operations
 Summary of Calculation of Cash Working Capital Requirements
 Based on Lead-Lag Study For the Twelve Months Ended July 31, 2023

Utility Operating Expenses	Revenue Lag Days	Expense Lead Days	Net (Lead) Lag Days	Expense Claim 12-Months Ending 7/31/2023	12-Months Ending 7/31/2023 CWC	Expense Claim Future Test Year 7/31/2024	Future Test Year 7/31/2024 CWC	Expense Claim Fully Projected Year Under Present Rates 7/31/2025	Fully Projected Year Under Present Rates 7/31/2025 CWC	Expense Claim Fully Projected Future Test Year Under Proposed Rates 7/31/2025	Fully Projected Future Test Year Under Proposed Rates 7/31/2025 CWC
Purchased Power	91.0	57.5	33.5	\$ 39,569	\$ 3,632	\$ 39,569	\$ 3,632	\$ 39,569	\$ 3,632	\$ 36,440	\$ 3,345
Purchased Water / Sewer	91.0	38.5	52.5	270,582	38,919	270,582	38,919	270,582	38,919	249,187	35,842
Maintenance and Repair	91.0	28.7	62.3	208,402	35,571	241,196	41,168	247,106	42,177	239,775	40,926
Maintenance Testing	91.0	12.6	78.4	39,509	8,486	39,509	8,486	39,509	8,486	39,509	8,486
Meter Reading	91.0	22.9	68.1	8,036	1,499	8,036	1,499	8,036	1,499	8,036	1,499
Chemicals	91.0	35.5	55.5	38,286	5,822	53,756	8,174	55,865	8,495	51,448	7,823
Transportation	91.0	22.9	68.1	30,928	5,770	30,928	5,770	30,928	5,770	30,928	5,770
Operating Exp. Charged to Plant	91.0	7.9	83.1	(26,207)	(5,967)	(26,207)	(5,967)	(26,207)	(5,967)	(26,207)	(5,967)
Outside Services - Other	91.0	58.0	33.0	40,020	3,618	40,020	3,618	40,020	3,618	40,020	3,618
Salaries and Wages	91.0	7.9	83.1	546,427	124,406	513,359	116,877	534,723	121,741	534,723	121,741
Office Supplies & Other Office Exp.	91.0	36.6	54.4	25,708	3,832	25,708	3,832	25,708	3,832	25,708	3,832
Pension & Other Benefits	91.0	18.4	72.6	100,368	19,964	102,678	20,423	104,541	20,794	104,541	20,794
Rent	91.0	(14.7)	105.7	2,592	751	2,592	751	2,592	751	2,592	751
Insurance	91.0	(118.0)	209.0	71,137	40,733	75,455	43,206	81,113	46,446	81,113	46,446
Office Utilities	91.0	(4.6)	95.6	16,340	4,280	16,340	4,280	16,340	4,280	16,340	4,280
Miscellaneous	91.0	1.4	89.6	11,982	2,941	11,982	2,941	11,982	2,941	11,982	2,941
Corporate Allocation (CAM)	91.0	18.4	72.6	318,070	63,265	345,055	68,633	352,455	70,105	352,455	70,105
Payroll Taxes	91.0	7.9	83.1	39,811	9,064	37,936	8,637	39,432	8,977	39,432	8,977
Property Taxes	91.0	(112.6)	203.6	9,245	5,157	9,245	5,157	9,245	5,157	9,245	5,157
Utility/Commission Tax	91.0	(106.0)	197.0	13,882	7,492	13,882	7,492	15,533	8,384	25,206	13,604
Total				\$ 379,235	\$ 379,235	\$ 387,528	\$ 387,528	\$ 400,037	\$ 400,037	\$ 399,970	\$ 399,970

I&E Exhibit No. 1-SR
Schedule 1
Page 2 of 2

I&E Modified

The cash working capital for HTY is \$379,236. The cash working capital requirement for FPY is \$387,528 and the cash working capital requirement for FPFTY is \$401,221.

Community Utilities of Pennsylvania, Inc - Sewer Operations
 Summary of Calculation of Cash Working Capital Requirements
 Based on Lead-Lag Study For the Twelve Months Ended July 31, 2023

	Revenue Lag Days	Expense Lead Days	Net (Lead) Lag Days	Expense Claim 12-Months Ending 7/31/2023	12-Months Ending 7/31/2023 CWC	Expense Claim Future Test Year 7/31/2024	Future Test Year 7/31/2024 CWC	Expense Claim Fully Projected Year Under Present Rates 7/31/2025	Fully Projected Year Under Present Rates 7/31/2025 CWC	Expense Claim Fully Projected Future Test Year Under Proposed Rates 7/31/2025	Fully Projected Future Test Year Under Proposed Rates 7/31/2025 CWC
Utility Operating Expenses											
Purchased Power	91.0	57.5	33.5	\$ 227,308	\$ 20,863	\$ 227,308	\$ 20,863	\$ 227,308	\$ 20,863	\$ 227,308	\$ 20,863
Purchased Water / Sewer	91.0	38.5	52.5	-	-	-	-	-	-	-	-
Maintenance and Repair	91.0	28.7	62.3	537,136	91,681	693,903	118,439	700,693	119,598	691,899	118,097
Maintenance Testing	91.0	12.6	78.4	89,352	19,192	89,352	19,192	89,352	19,192	89,352	19,192
Meter Reading	91.0	22.9	68.1	2,924	545	2,924	545	2,924	545	2,924	545
Chemicals	91.0	35.5	55.5	188,313	28,634	254,468	38,693	275,681	41,919	275,681	41,919
Transportation	91.0	22.9	68.1	41,893	7,816	41,893	7,816	41,893	7,816	41,893	7,816
Operating Exp. Charged to Plant	91.0	7.9	83.1	(31,508)	(7,173)	(31,508)	(7,173)	(31,508)	(7,173)	(31,508)	(7,173)
Outside Services - Other	91.0	58.0	33.0	38,956	3,522	38,956	3,522	38,956	3,522	38,956	3,522
Salaries and Wages	91.0	7.9	83.1	586,167	133,453	612,359	139,416	637,982	145,250	637,982	145,250
Office Supplies & Other Office Exp.	91.0	36.6	54.4	22,128	3,298	22,128	3,298	22,128	3,298	22,128	3,298
Pension & Other Benefits	91.0	18.4	72.6	114,086	22,692	122,908	24,447	125,144	24,892	125,144	24,892
Rent	91.0	(14.7)	105.7	3,107	900	3,107	900	3,107	900	3,107	900
Insurance	91.0	(118.0)	209.0	85,284	48,834	90,497	51,819	97,283	55,705	97,283	55,705
Office Utilities	91.0	(4.6)	95.6	27,415	7,180	27,415	7,180	27,415	7,180	26,602	6,968
Miscellaneous	91.0	1.4	89.6	13,718	3,367	13,718	3,367	13,718	3,367	13,718	3,367
Corporate Allocation (CAM)	91.0	18.4	72.6	381,366	75,855	413,883	82,323	422,759	84,088	422,759	84,088
Payroll Taxes	91.0	7.9	83.1	42,960	9,781	45,499	10,359	47,292	10,767	47,292	10,767
Property Taxes	91.0	(112.6)	203.6	27,195	15,169	27,195	15,169	27,195	15,169	27,195	15,169
Utility/Commission Tax	91.0	(106.0)	197.0	18,185	9,815	18,185	9,815	22,510	12,149	33,952	18,325
Total				\$ 495,424	\$ 549,990	\$ 549,990	\$ 549,990	\$ 569,047	\$ 569,047	\$ 573,510	\$ 573,510

**I&E Statement No. 2-SR
Witness: D. C. Patel**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

COMMUNITY UTILITIES OF PENNSYLVANIA, INC.

**Docket No. R-2023-3042804 (Water)
&
Docket No. R-2023-3042805 (Wastewater)**

Surrebuttal Testimony

of

D. C. Patel

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

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1 **INTRODUCTION OF WITNESS**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is D. C. Patel. My business address is Pennsylvania Public Utility
4 Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg,
5 PA 17120.

6
7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am employed by the Pennsylvania Public Utility Commission (Commission) in
9 the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial
10 Analyst.

11
12 **Q. ARE YOU THE SAME D. C. PATEL WHO IS RESPONSIBLE FOR THE**
13 **DIRECT TESTIMONY CONTAINED IN I&E STATEMENT NO. 2 AND**
14 **THE SCHEDULES IN I&E EXHIBIT NO. 2, AND REBUTTAL**
15 **TESTIMONY CONTAINED IN I&E STATEMENT NO. 2-R?**

16 A. Yes.

17
18 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

19 A. The purpose of my surrebuttal testimony is to address statements made by
20 Community Utilities of Pennsylvania Inc. (CUPA or Company) witness Matthew
21 R. Howard (CUPA Statement No. 8-R) in his rebuttal testimony regarding rate of
22 return topics including the proxy group, cost of common equity, a size adjustment

1 premium, and the overall fair rate of return to be applied to CUPA's rate base.

2 The absence of any comments or responses to particular statements
3 or topics addressed in CUPA's rebuttal testimony and that of other parties'
4 witnesses concerning the return on equity does not signify my acceptance
5 or support of the Company's or other parties' positions in this proceeding.

6
7 **Q. WHAT WAS YOUR ORIGINAL OVERALL RECOMMENDATION IN**
8 **DIRECT TESTIMONY?**

9 A. I recommended the following rate of return for the Company's water and
10 wastewater operations (I&E Statement No. 2, p. 6):

I&E Recommendation			
Community Utilities of PA, Inc. - Water and Wastewater Operations			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	50.00%	5.24%	2.62%
Common Equity	<u>50.00%</u>	8.45%	<u>4.23%</u>
Total	<u>100.00%</u>		<u>6.85%</u>

11
12
13 **Q. DID THE COMPANY PROVIDE AN UPDATE TO ITS RATE OF**
14 **RETURN CLAIM?**

15 A. Yes. Mr. Howard performed a similar analysis as to what was included in his
16 direct testimony and exhibit using more recent data available as of January 31,
17 2024. Mr. Howard provided an update to his cost of equity analysis based on

1 recent data to support his recommended return on equity (ROE) range of 10.00% -
 2 11.00%, however, he does not change his recommendation and continues to
 3 recommend an ROE of 10.60% inclusive of his size adjustment of 0.60% (CUPA
 4 Statement No. 8-R, p. 1). The Company's rate of return claim is as follows
 5 (CUPA Schedule MRH-1R, p. 1):

COMMUNITY UTILITIES OF PENNSYLVANIA, INC.			
Water and Wastewater Operations			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	50.00%	5.24%	2.62%
Common Equity	<u>50.00%</u>	10.60%	<u>5.30%</u>
Total	<u>100.00%</u>		<u>7.92%</u>

6
 7
 8 **Q. PLEASE EXPLAIN WHY YOU HAVE NOT PERFORMED AN UPDATED**
 9 **ANALYSIS.**

10 A. I do not dispute Mr. Howard's use of updated information as of January 31, 2024,
 11 because he used financial information from July 2023 in his direct testimony. It is
 12 important to note that financial information from respected and commonly used
 13 sources such as Value Line, Yahoo! Finance, Zacks, etc. is updated regularly
 14 (monthly, weekly, daily, hourly, etc. depending on the source). At the time of my
 15 analysis, I utilized the most recent financial information accessible in the first
 16 week of January 2024. It should be recognized that it is not always prudent or
 17 time conducive in the scope of a rate case to continuously change one's position.

1 **SUMMARY OF MR. HOWARD’S REBUTTAL TESTIMONY**

2 **Q. SUMMARIZE MR. HOWARD’S RESPONSE TO YOUR COST OF**
3 **EQUITY RECOMMENDATIONS.**

4 A. Mr. Howard disputes my ROE recommendation’s exclusive reliance on the
5 Discounted Cash Flow (DCF) model and states that this approach fails to account
6 for CUPA’s specific risk factors, and he asserts that my recommendation is
7 inconsistent with recent Commission decisions (CUPA Statement No. 8-R, p. 2).
8 Mr. Howard’s updated ROE analysis results are summarized as follows (CUPA
9 Statement No. 8-R, p. 4):

	Including Essential	Excluding Essential
Discounted Cash Flow	8.76% - 8.97%	8.45% - 8.62%
Capital Asset Pricing Model (CAPM)	12.14% - 12.15%	12.00% - 12.01%
Risk Premium Model (RP)	10.80%	10.77%
Recommended ROE Range Prior to Size Adjustment Premium	10.00% - 11.00%	9.80% - 10.80%
Size Adjustment Premium	0.60%	0.60%
Recommended ROE Range	10.60% - 11.60%	10.40% - 11.40%
Recommended ROE	10.60%	10.60%

10

1 **PROXY GROUP**

2 **Q. PLEASE SUMMARIZE MR. HOWARD’S RESPONSE REGARDING**
3 **YOUR PROXY GROUP REVENUE CRITERON AND EXCLUSION OF**
4 **ESSENTIAL UTILITIES.**

5 A. First, he disagrees with my proxy group selection criterion that 50% or more of
6 revenues are representative of the operations of a utility’s business and states that
7 Essential Utilities’ fiscal year 2022 was the only year revenues from regulated
8 water operations fell below 50% of total revenues due to an increase in the pass-
9 through cost of gas. He states that in the fiscal year 2021 and 2023, Q1-Q3
10 revenues from the regulated water operations were above 52.19% and 55.36%
11 respectively in the total revenues. Additionally, he asserts that Value Line
12 continues to cover Essential Utilities as part of the Water Utility industry, and
13 Zacks recognizes Essential Utilities as part of the Utility - Water Supply group.
14 Therefore, he opines that Essential Utilities should not be excluded from my proxy
15 group (CUPA Statement No. 8-R, pp. 21-22).

16
17 **Q. WHAT IS YOUR RESPONSE TO MR. HOWARD’S REBUTTAL**
18 **TESTIMONY REGARDING YOUR EXCLUSION OF ESSENTIAL**
19 **UTILITIES FROM YOUR PROXY GROUP?**

20 A. I relied on I&E’s consistently followed proxy group selection criterion that
21 requires 50% or more of the company’s revenues must be generated from the
22 regulated water utility industry. Based on S&P Global’s FY 2022 business

1 segment analysis of Essential Utilities (the most recent information available at the
2 time of my analysis), the regulated water revenue was 47.33% of total revenue,
3 which supports excluding this company from my proxy group. Additionally, I
4 disagree with Mr. Howard's assertion that the revenue does not represent the cash
5 flow to the Company. The generation of revenue is the first step that drives the
6 net income (net profit) and cash flow. A company's realization of net income
7 depends on various factors such as management efficiency, operational and
8 financial efficiency in the best use of utility assets with available resources, O&M
9 cost containment measures, capital expenditure programs, etc. Therefore, I
10 believe a utility's revenue composition is a more appropriate measure than the net
11 income for establishing a proxy group because this measure represents the
12 percentage of cash flow a company receives from each business segment. The
13 purpose of a proxy group is to compile a set of companies that have similar risks
14 to the subject utility. If less than 50% of revenues come from the regulated water
15 business sector, the company is not comparable to the subject utility as it does not
16 provide a similar level of regulated water business.

17 Additionally, in the most recent Columbia Water rate case, the Commission
18 concludes,¹

19 In Columbia Gas 2021, we stated the following regarding the
20 proxy group at issue in that proceeding: First, as I&E and the
21 ALJ pointed out, a company's revenues represent the
22 percentage of cash flow the company receives from each

¹ *Pa. PUC v. Columbia Water Company*, Docket No. R-2023-3040258, pp.75, 76, and 77 (Order Entered January 18, 2024).

1 business line related to providing a good or service. Therefore,
2 if less than fifty percent of revenues come from the regulated
3 gas sector, the company is not comparable to the subject utility
4 as it does not provide a similar level of regulated business.

5 As further noted by I&E, while two companies or segments can
6 have the same level of revenue, their net operating income may
7 vary greatly, depending on their performance and decisions.
8 The purpose of a proxy group is to compile a set of companies
9 that have similar risks to the subject utility. As such, we are of
10 the same opinion, as in our decisions in *Columbia Gas 2021*
11 and *PECO 2021*, that if less than 50% of a utility's revenues
12 come from the regulated business sector, the company is not
13 comparable to the subject utility as it does not provide a similar
14 level of regulated business.

15 Based on the specific record developed in the instant case, we
16 find that the percentage of revenues generated from regulated
17 utility operations, in this instance regulated water utility
18 operations, is the appropriate criterion to include when setting
19 Columbia's proxy group. Therefore, we concur with I&E that
20 Essential Utilities should be excluded from the proxy group
21 that we will use in setting the authorized ROE and the resulting
22 overall rate of return for Columbia in this proceeding.
23

24 **Q. DO YOU HAVE ANY CHANGES IN YOUR PROXY GROUP**
25 **COMPANIES?**

26 A. No. I continue to recommend the same proxy group consisting of five water
27 utility companies.

1 **DISCOUNTED CASH FLOW**

2 **ALLEGED SOLE RELIANCE ON THE DCF RESULTS**

3 **Q. PLEASE SUMMARIZE MR. HOWARD’S DISAGREEMENT WITH I&E’S**
4 **EXCLUSIVE RELIANCE ON THE DCF MODEL.**

5 A. First, Mr. Howard summarizes the DCF characteristics discussed in my direct
6 testimony in support of my use of the DCF as a primary method (CUPA Statement
7 No. 8-R, p. 5). Second, he discusses the Commission’s authorized ROEs for
8 Columbia Water Company (Columbia Water) in the recent rate case order and the
9 2022 Aqua Pennsylvania, Inc. (Aqua) rate case order that were based on the DCF
10 and CAPM results (CUPA Statement No. 8-R, pp. 6-7). He also cited the
11 Massachusetts Department of Public Utilities’ order notation concerning NSTAR
12 Electric Company that the DCF results would understate the Company’s cost of
13 equity when interest rates are higher (CUPA Statement No. 8-R, p. 8). Third, he
14 denies that the current inflation level is under control because economic data,
15 particularly the monthly Consumer Price Index (CPI) has indicated increased
16 uncertainty regarding the Federal Reserve’s efforts to control inflation. He then
17 quotes the Federal Reserve press release of January 31, 2024, and states that
18 Federal Reserve does not expect to reduce the benchmark interest rate until
19 inflation is moving sustainably toward 2% (CUPA Statement No. 8-R, pp. 9-10).
20 Mr. Howard states that my position regarding inflation and the Federal Reserve’s
21 intention for potential interest rate cuts in 2024 and 2025 is incorrect (CUPA
22 Statement No. 8-R, p. 10). Lastly, he references notations of a couple

1 academicians and experts who supported using the DCF, CAPM, and RP models
2 in determining the cost of equity and recommends that the Commission rely on
3 multiple analytical models in determining the cost of equity for CUPA (CUPA
4 Statement No. 8-R, pp. 13-17).

5
6 **Q. PLEASE RESPOND TO MR. HOWARD'S ASSERTION THAT YOU**
7 **RELIED SOLELY ON THE DCF METHOD.**

8 A. As discussed in direct testimony, while my recommendation was based on the
9 results of DCF analysis as the primary method, I also employed the CAPM
10 analysis as a comparison (I&E Statement No. 2, pp. 17-19). The result of my DCF
11 analysis is 8.45% while the result of my CAPM analysis is 10.44%, both of which
12 are lower than the Company's claim of 10.60%. For the reasons discussed in my
13 direct testimony, I continue to assert that the DCF is the most reliable, direct, and
14 forward-looking method. I have considered the fact that no method can perfectly
15 predict the return on equity, which is why I also use the CAPM as a comparison to
16 the DCF model. Although no one method can capture every factor that influences
17 an investor, including the results of methods less reliable than the DCF does not
18 make the end result more reliable or more accurate. As a result, I continue to
19 recommend using the DCF model with the CAPM for comparison purposes, and
20 not as a check, which is consistent with the methodology historically considered
21 and approved by the Commission in base rate proceedings, even as recently as

1 2017, 2018, 2020, and 2021² (I&E Statement No. 2, pp. 17-21).

2
3 **Q. PLEASE RESPOND TO MR. HOWARD’S EMPHASIS ON THE**
4 **COMMISSION ORDERS IN THE AQUA AND COLUMBIA WATER**
5 **PROCEEDINGS THAT CONSIDERED THE RESULTS OF THE DCF AND**
6 **CAPM MODELS.**

7 A. First, I disagree with Mr. Howard’s assertion that the DCF does not provide a
8 more accurate indication of the required return during periods of interest rate
9 uncertainty. The Commission’s orders note that the DCF-only results may
10 understate the utility’s ROE given increased inflation and interest rates. However,
11 it is important to note that the Commission order in the Aqua Pennsylvania base
12 rate proceeding states,³

13 Based upon our informed judgment, which includes
14 consideration of *a variety of factors* (“emphasis added”)
15 including increasing inflation leading to increases in interest
16 rates and capital costs since the rate filing, we determine that a
17 base ROE of 9.75% is reasonable and appropriate for Aqua.
18 When combined with our upward adjustment of 25 basis points
19 to the Company’s ROE for management effectiveness, this will
20 produce a final authorized ROE for Aqua of 10.00% (*i.e.*,
21 9.75% + 0.25% = 10.00%).

² Pa. PUC v. City of DuBois – Bureau of Water; Docket No. R-2016-2554150 (Order Entered March 28, 2017). See generally Disposition of Cost Rate Models, pp. 96-97; Pa. PUC v. UGI Utilities, Inc. - Electric Division; Docket No. R-2017-2640058 (Order Entered October 25, 2018). See generally Disposition of Cost of Common Equity, p. 119; Pa. PUC v. Wellsboro Electric Company; Docket No. R-2019-3008208 (Order Entered April 29, 2020). See generally Disposition of Primary Methodology to Determine ROE, pp. 80-81; Pa. PUC v. Citizens Electric Company of Lewisburg, PA; Docket No. R-2019-3008212 (Order Entered April 29, 2020). See generally Disposition of Cost of Common Equity, pp. 91-92. Pa. PUC v. Columbia Gas of Pennsylvania, Inc.; Docket No. R-2020-3018835 (Order Entered February 19, 2021). See generally Disposition of Cost of Common Equity, p. 131; Pa. PUC v. PECO Energy Company – Gas Division; Docket No. R-2020-3018929 (Order Entered June 22, 2021). See generally Disposition of Return of Rate on Common Equity, p. 171.

³ Pa. PUC v. Aqua Pennsylvania, Inc., Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 178 (Order entered May 16, 2022).

1 The Commission relied on *various other factors* besides inflation leading to
2 increases in interest rates and capital costs for determining a range of
3 reasonableness for the ROE based on I&E’s DCF and CAPM results. Similarly, in
4 the Columbia Water rate case order, the Commission states,⁴

5 Based upon our informed judgment, which includes
6 consideration of *a variety of factors* (“emphasis added”) such
7 as increasing inflation leading to increases in interest rates and
8 capital costs, we determine that an ROE of 9.75% is reasonable
9 and appropriate for Columbia.

10 Also, in the Columbia Water proceeding, the Commission relied on *various other*
11 *factors* besides inflation leading to increases in interest rates and capital costs for
12 determining a range of reasonableness for the ROE based on I&E’s DCF and
13 CAPM results. In both these cases, the Commission concluded its decision to rely
14 on the DCF and CAPM results in determining a reasonable ROE was based on
15 various factors, evidence, and informed judgment specific to each case.

16 Second, I agree that current market conditions are still characterized by
17 higher interest rates and capital costs, however, it is speculative to assume that the
18 current interest rate scenario will continue in the longer term. It is also important
19 to note that the Company’s new rates will be effective during the FPFTY ending
20 July 31, 2025, and will continue thereafter when capital market conditions would
21 be different.

⁴ *Pa. PUC v. Columbia Water Company*, Docket No. R-2023-3040258, p. 108 (Order Entered January 18, 2024).

1 Again, as stated above and in my direct testimony, I did in fact employ the
2 CAPM as a comparison to my DCF result and my recommendation is consistent
3 with the methodology historically relied on by the Commission in base rate
4 proceedings.

5
6 **Q. PLEASE COMMENT ON YOUR ASSERTIONS THAT CURRENT**
7 **INFLATION IS UNDER CONTROL AND THAT THE FEDERAL**
8 **RESERVE’S INTENTION IS TO CUT INTEREST RATES IN 2024 AND IN**
9 **THE SUBSEQUENT YEAR.**

10 A. As discussed at length in my direct testimony, Federal Reserve Chairman Powell
11 indicated that inflation is well on its way to the targeted 2% level, and *they would*
12 *not wait for the 2%* inflation target to cut the interest rate (I&E Statement No. 2,
13 pp. 25-26 and I&E Exhibit No. 2, Schedule 1, pp. 1-6). Per the most recent
14 monthly Blue Chip Financial Forecasts (March 2024),⁵ the 2024 inflation rates by
15 two measures are forecasted to be slightly over 2% as shown in the table below:

	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025
Consumer Price Index	2.7%	2.9%	2.6%	2.4%	2.3%	2.2%	2.2%
PCE Price Index	1.8%	2.3%	2.2%	2.2%	2.1%	2.1%	2.0%

16
17 Most recently on March 6, 2024, Federal Reserve Chairman Powell
18 indicated to the House Financial Services Committee that interest rate cuts are

⁵ Blue Chip Financial Forecasts, Vol. 43, No. 3, March 1, 2024, p. 2.

1 likely “at some point” in 2024. He asserted that he expects cuts likely “at some
2 point this year” even after some hot readings on inflation and that the Federal
3 Reserve wants to see a little bit more data.⁶ Considering Chairman Powell’s latest
4 indication, it is most likely that the Federal Reserve will consider a series of
5 interest rate cuts in 2024 and 2025, which covers CUPA’s FPPTY when the new
6 rates will be in effect.

7
8 **MARKET-TO-BOOK RATIO**

9 **Q. WHAT DOES MR. HOWARD CLAIM REGARDING THE MARKET-TO-**
10 **BOOK RATIO IN THIS PROCEEDING?**

11 A. Mr. Howard discussed the market-to-book (M/B) ratio’s impact on DCF results
12 and opines that when the market value exceeds the book value, the DCF
13 understates investors’ required returns. He argues that the reason for the distortion
14 is that the DCF market return is applied to a book value rate base by the regulator,
15 that is, a utility’s earnings are limited to earnings on a book value rate base (CUPA
16 Statement No. 8-R, pp. 10-11). He illustrates that historically, the M/B ratio for
17 the proxy group companies is above unity (1.00), causing the market based DCF
18 to understate the return required by investors (CUPA Statement No. 8-R, pp. 11-
19 12).

⁶ [Rate cuts likely at 'some point' this year: Fed's Powell \(yahoo.com\)](#) (accessed on March 7, 2024).

1 **Q. DOES A MARKET-TO-BOOK RATIO ABOVE ONE (1.00) CAUSE THE**
2 **DCF TO INCORRECTLY ESTIMATE THE INVESTOR-REQUIRED**
3 **RETURN ON EQUITY?**

4 A. No. Although there are differences between the book value and market value of
5 water utilities in the proxy group, Mr. Howard asserts that the difference causes
6 the DCF to undervalue the rate of return and that investors are unaware of the
7 difference. The forecasted growth rates used in the DCF are set by analysts based
8 on current conditions and what they expect the future could be for the stock. Mr.
9 Howard points out the current average M/B ratio of 2.26 times as compared with
10 the historic ten-year average M/B ratio of 2.99 times for the water proxy group
11 (higher than 1.00). In this scenario, no rational investor would invest in a utility
12 stock that has been trading above book value for several years and be surprised
13 that rates continue to be set based on the book value capital structure. A M/B ratio
14 of above 1.00 for utility stocks reflects their value in the market and implies that
15 investors expect future cash flows to be more valuable than the historical
16 accounting value of the company. Since the stock market is impacted by
17 regulatory policies, and the economic and financial conditions, a M/B ratio could
18 be less than 1.00 when the stock market is in a depression, or a company is
19 experiencing under-performance, so it is inappropriate to evaluate DCF results
20 with the M/B ratio. It is also important to note that in the traditional regulatory
21 framework, the market-determined cost of equity is consistently applied to the
22 book value of the utility's claimed rate base in the revenue requirement

1 computation. Therefore, I disagree with Mr. Howard's assertion that the M/B
2 ratio above (1.0) causes the DCF to incorrectly estimate the investor-required
3 return on equity.

4
5 **USE OF MULTIPLE MODELS**

6 **Q. DO YOU AGREE WITH MR. HOWARD'S ASSERTION THAT**
7 **ACADEMIC AND FINANCIAL LITERATURE SUPPORTS THE USE OF**
8 **MULTIPLE MODELS, SUCH AS THE DCF, CAPM, AND RP ALONG**
9 **WITH THE COMMISSION'S RECENT ORDERS NOTED ABOVE?**

10 A. No. I disagree with Mr. Howard's recommendation that the Commission should
11 rely on multiple cost of equity models for CUPA's ROE determination because
12 academic and financial literature supports the use of multiple models such as the
13 DCF, CAPM, and RP models in determining a cost of equity. Based on various
14 academic and financial literature excerpts provided in Mr. Howard's rebuttal
15 testimony, he concludes that all models have strengths and weaknesses. In this
16 context, I have adequately discussed why I chose to employ the DCF model as the
17 primary method and the CAPM model for comparison purposes, and not as a
18 check (I&E Statement No. 2, pp. 17-21). As discussed above, the Commission's
19 recent orders in the Aqua and Columbia Water proceedings should not be applied
20 as precedent in this case because in my opinion each rate case is decided based on
21 a variety of utility specific factors and individual merits. Additionally, it is worth
22 noting that in the Cost of Equity - A Practitioner's Guide by David Parcell (2020

1 edition, p. 90) a summary chart showing regulatory Commissions' preferences to
2 apply various models is presented as follows:

Cost of Equity Model	No. of Commissions Favoring Model
Discounted Cash Flow	44
Capital Asset Pricing Model	11
Risk Premium	12
Comparable Earnings	21
Earnings/Price Ratio	5
Combination of more than one	27

3
4 Mr. Parcell emphasizes the importance of the DCF model and its dependence on
5 stock prices directly utilized in this model and states (pp. 90-91),

6 The market price of a firm's stock represents the collective
7 judgment of all stock market participants as to the value of the
8 firm at a particular point in time. The stock price takes into
9 consideration the participants' interpretation of all relevant
10 factors, such as past, present, and future earnings, the risk of
11 these earnings, dividend policy and other factors. Thus, the
12 market price of a firm's stock embodies both expected return
13 and risk and, therefore, reflects the markets' trade-off between
14 risk and return.
15

16 **CRITIQUE OF I&E's DCF ANALYSIS**

17 **Q. SUMMARIZE MR. HOWARD'S CONCERN WITH YOUR DCF**
18 **ANALYSIS AND RESULTS.**

19 A. First, Mr. Howard disputes the exclusion of Essential Utilities from the proxy
20 group. Second, he disputes my reliance on the 52-week high and low prices in my

1 DCF computation because, as he asserts, they do not reflect the current market
2 conditions. Therefore, he suggests that I should solely rely on spot prices in my
3 DCF computation. He also modified my DCF results as he deems appropriate
4 after excluding the dividend yields based on the 52-week high and low prices and
5 including Essential Utilities' DCF results, producing a mean DCF result of 8.69%
6 (CUPA Statement No. 8-R, pp. 23-24 and CUPA Schedule MRH-2-R).

7
8 **Q. WHAT IS YOUR RESPONSE TO MR. HOWARD?**

9 A. First, I have addressed Mr. Howard's concern regarding the exclusion of Essential
10 Utilities from my water utility proxy group in the proxy group section above, and,
11 therefore, I will not repeat that discussion here. Second, I disagree with Mr.
12 Howard's opinion that it is appropriate to rely *solely* on spot prices to calculate the
13 dividend yield and ignore the 52-week high and 52-week low prices when
14 calculating a dividend yield average. My DCF analysis considers the spot price,
15 the 52-week high and 52-week low price in the calculation of the average dividend
16 yield as shown in the table below (I&E Exhibit No. 2, Schedule 5).

Dividend Yields of the Proxy Group					
Company	American Water Works Company, Inc.	American States Water Company	California Water Service Group	Middlesex Water Company	SJW Group
Symbol	AWK	AWR	CWT	MSEX	SJW
Div	3.00	1.80	1.12	1.32	1.60
52-wk low	114.25	75.20	45.44	61.34	56.96
52-wk high	162.59	99.19	63.92	90.56	81.90
Spot Price	133.51	79.52	51.89	62.95	65.65
Spot Div Yield	2.25%	2.26%	2.16%	2.10%	2.44%
52-wk Div Yield	2.17%	2.06%	2.05%	1.74%	2.30%
Average	2.21%	2.16%	2.10%	1.92%	2.37%
	Average				
Spot Div Yield	2.24%				
52-wk Div Yield	2.06%				
Average	2.15%				
Source:	Barrons	01/03/24			
	Value Line	01/05/24			

1

2 This calculation reflects the average current dividend yield based on the current or

3 spot stock price and historic average of the 52-week dividend yield based the 52-

4 week high and 52-week low prices of the proxy group companies. It is important

5 note that the stock prices fluctuate on a daily basis and remain volatile throughout

6 the year because the stock market is highly influenced by several internal and

7 external factors, such as economic conditions, capital and financial market

8 conditions, political and regulatory uncertainties, country risks, etc., besides the

9 companies' quarterly and annual financial results updates. Therefore, it is more

10 appropriate to consider the spot stock price as well as the historic 52-week high

11 and low prices in calculating the average dividend yield of the proxy group

12 companies to smooth out anomalies in the price fluctuations and to reflect the true

13 dividend yield in estimating the cost of equity.

1 **Q. PLEASE CONTINUE.**

2 A. As discussed above, the cost of equity measured by applying the average dividend
3 yield is reflective of the current and future market conditions for rates to be effective
4 in the future periods. In fact, an ROE that is based on the DCF result is a forward-
5 looking cost of equity model that considers projections for the dividend payments
6 and earnings per share growth rates. Independent stock market analysts consider all
7 economic and financial market conditions, including the current and future state of
8 interest rates, inflation, and stock market (price) volatility when making their
9 projections for dividend payments and growth rates.

10

11 **Q. DO YOU AGREE WITH MR. HOWARD'S MODIFIED I&E DCF**
12 **RESULTS?**

13 A. No. Considering the above discussion, I disagree with Mr. Howard's modified
14 mean DCF result of 8.69% presented after including the Essential Utilities' DCF
15 results and excluding the dividend yields based on the 52-week high and low prices
16 of the proxy group.

17

18 **CAPITAL ASSET PRICING MODEL**

19 **Q. SUMMARIZE MR. HOWARD'S RESPONSE TO YOUR CAPM**
20 **ANALYSIS.**

21 A. Mr. Howard disputes my use of the 10-year U.S. Treasury Note as a proxy to
22 measure the risk-free rate used in my CAPM analysis as well as the inputs I chose

1 from Blue Chip forecasts. He also disagrees with my exclusion of the ECAPM
2 method in estimating the Company's return on equity (CUPA Statement No. 8-R,
3 p. 25).

4
5 **RISK-FREE RATE**

6 **Q. WHAT IS MR. HOWARD'S RESPONSE TO YOUR USE OF THE 10-**
7 **YEAR U.S. TREASURY NOTE YIELD AS A RISK-FREE RATE?**

8 A. First Mr. Howard claims that his use of the 30-year U.S. Treasury Bond yield as
9 risk-free rate is more appropriate than my use of the 10-year Treasury Note yield
10 because it better reflects the life of the underlying investment. He also claims that
11 the long-term Treasury Bond is held to maturity and there is no risk because
12 investors will get the stated coupon rate and principal at the end. Second, he
13 disagrees with my calculation of the risk-free rate because it does not incorporate
14 the longest projection of 2030-2034 as the investment horizon goes to perpetuity
15 (CUPA Statement No. 5-R, pp. 25-28).

16
17 **Q. IS THE LIFE OF THE INVESTMENT THE ONLY FACTOR THAT**
18 **SHOULD BE CONSIDERED IN THE CHOICE OF A RISK-FREE RATE?**

19 A. No. The risk-free rate is the return that can be earned without accepting any risk.
20 The life of the investment can be considered in the choice of risk-free rates;
21 however, the most important consideration is that the rate be as risk-free as
22 possible. As explained in my direct testimony, I chose the 10-year Treasury Note

1 as it mitigates the short-comings of the short-term Treasury Bill and the 30-year
2 Treasury Bond (I&E Statement No. 2, p. 31). Although long-term Treasury Bonds
3 have less risk of being influenced by federal policies, they have substantial
4 maturity risk associated with economic and market condition risks.

5 While rate base assets are long-lived, the utility company has the
6 opportunity to refinance its debt at any point to capture favorable interest rates,
7 which would reduce the financial risk associated with the corresponding assets. I
8 believe it is more appropriate to utilize a risk-free rate that will be in effect during
9 the investment period being considered, which, in this case, is the FPFTY or
10 possibly the normalization period between base rate cases. Although the short-
11 term Treasury Bills may align closer with the investment timeframe, they are very
12 volatile. Therefore, my choice of a 10-year Treasury Note is appropriate and as
13 pointed out in my direct testimony, the Commission has agreed with I&E that the
14 10-year Treasury Note is the superior measure of the risk-free rate of return.⁷

15
16 **Q. DOES THE PROJECTED RISK-FREE RATE NEED TO REPRESENT**
17 **THE LONGEST TIME PERIOD AVAILABLE AS MR. HOWARD**
18 **ASSERTS?**

19 A. No. The time period reflected in a projected risk-free rate should include the
20 period in which new rates will be in effect. Since CUPA is not setting rates to be

⁷ *Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058 (Order Entered October 25, 2018).
See generally Disposition of Capital Asset Pricing Model (CAPM), p. 99.

1 applicable far into the future, using projections of 2030-2034 for six or more years
2 from now, as Mr. Howard suggests, is inappropriate (CUPA Statement No. 8-R, p.
3 27). The yield on the 10-year Treasury Note is expected to range between 4.20%
4 and 3.90% from the first quarter of 2024 through the fourth quarter of 2024 and is
5 forecasted to be 3.90% from 2025-2029. Mr. Howard's comment that I did not
6 consider the projected yields for the 10-year Treasury Note for the first quarter of
7 2025 (3.80%) and second quarter of 2025 (3.70%)⁸ is misplaced because I
8 considered the projected yields for the immediate four quarters of 2024 available
9 as of the date of my analysis in January 2024 and projected yield for 2025-2029.
10 In fact, if I include yield for the first and second quarters of 2025 in my average
11 yield calculation, it will reduce my average risk-free rate from 4.00% to 3.93%.
12 Therefore, my calculated risk-free rate of 4.00%, which is the average of all the
13 yields I observed, is appropriate (I&E Exhibit No. 2, Schedule 9). In addition, the
14 further out into the future one forecasts (2030-2034), the less reliable and more
15 speculative the estimates become; therefore, to give more weight to less reliable
16 estimates would not be prudent. My calculation provides a balance of future
17 estimates for the FPFTY and future period when CUPA's new rates will be in
18 effect.

⁸ Blue Chip Financial Forecasts Vol. 43, No. 1, December 28, 2023.

1 **EXCLUSION OF THE ECAPM**

2 **Q. PLEASE SUMMARIZE MR. HOWARD’S RESPONSE TO YOUR**
3 **EXCLUSION OF THE ECAPM IN YOUR ANALYSIS.**

4 A. Mr. Howard asserts that the ECAPM reflects the tendency of low-Beta coefficient
5 stocks to earn higher returns than predicted by the CAPM, and high-Beta
6 coefficient stocks to earn less than predicted. He then presents academic articles
7 in support of the ECAPM (CUPA Statement No. 8-R, pp. 28-32). Lastly, he states
8 that the ECAPM has been accepted by Alaska, Minnesota, Mississippi, New York,
9 North Carolina, and South Carolina regulatory authorities (CUPA Statement No.
10 8-R, p. 32).

11
12 **Q. WHY IS THE ECAPM EXCLUDED FROM YOUR ANALYSIS?**

13 A. The ECAPM is a modified version of the CAPM which attempts to address the
14 belief that the actual risk vs. return correlation is flatter than what is predicted by
15 the CAPM. The implication is that the CAPM underestimates returns with lower
16 levels of risk and over-estimates the returns associated with higher levels of risk.
17 This model entails assigning 25% weight to the market beta and 75% weight to the
18 individual company or proxy group.⁹

19 As discussed in direct testimony (I&E Statement No. 2, pp. 40-41), using
20 the ECAPM in estimating the cost of capital does not increase the validity of the

⁹ David C. Parcell, “The Cost of Capital – A Practitioner’s Guide,” 2020 Edition, p. 106.

1 result but merely adds another measure of subjectivity to the CAPM in an attempt
2 to make the Security Market Line more accurate. The ECAPM reduces the
3 purpose of beta, which is the only company-specific variable applied in the CAPM
4 model. This additional layer of subjectivity provides an even stronger basis to rely
5 on the DCF as the primary method to calculate a utility's cost of equity.

6
7 **CRITIQUE OF I&E CAPM ANALYSIS**

8 **Q. WHAT IS YOUR RESPONSE TO MR. HOWARD'S COMMENTS TO**
9 **YOUR CONCERNS WITH THE CAPM ANALYSIS?**

10 A. First, I disagree with Mr. Howard's position that the CAPM reflects current
11 economic conditions and is not historical in nature (CUPA Statement No. 8-R, p.
12 38). In the CAPM model a beta is the only company-specific variable that
13 measures the *historical* volatility of a stock, which is applied to the risk premium
14 calculated after subtracting the risk-free rate from the average of historical and
15 projected overall market returns. Reliance on historical values is especially
16 problematic now given the recent impact of the COVID-19 pandemic on economic
17 conditions (I&E Statement No. 2, pp. 19-20). However, it is also important to
18 apply the *average* overall market return of the historical overall market return and
19 the projected overall market return in the formula to produce an accurate risk
20 premium. Second, I reiterate the words of Fama and French that the empirical
21 record of the CAPM model is poor - poor enough to invalidate the way it is used

1 in applications¹⁰ (I&E Statement No. 2, pp. 20-21). Therefore, I stated that the
2 CAPM's relevance to the investment decision making process does not carry over
3 into the regulatory rate setting process. It appears that Mr. Howard misinterprets
4 the Fama and French study that suggested using more elaborate multi-factor
5 models. In fact, their study examined the importance of beta and CAPM's risk
6 factors, in explaining returns on common stock. In CAPM theory a stock with a
7 higher beta should have a higher expected return. However, they found that the
8 model did not do well in predicting actual returns, and, therefore, in my opinion
9 they suggested use of more elaborate multi-factor models other than the CAPM.

10
11 **Q. DO YOU AGREE WITH MR. HOWARD'S MODIFIED I&E CAPM**
12 **RESULTS OF 10.89% AFTER INCLUDING (1) THE 30-YEAR**
13 **TREASURY BOND YIELD AS THE RISK-FREE RATE AND (2)**
14 **ESSENTIAL UTILITIES IN THE PROXY GROUP?**

15 A. No. I do not agree with Mr. Howard's modified CAPM results of 10.89% for the
16 cost of equity estimation (CUPA Schedule MRH-3-R).

17
18 **Q. HAVE YOU CHANGED YOUR CAPM RESULTS AS A RESULT OF MR.**
19 **HOWARD'S REBUTTAL TESTIMONY?**

20 A. No. I continue to recommend observing my CAPM result of 10.44% (I&E Exhibit

¹⁰ Fama, Eugene F. and French, Kenneth R., "The Capital Asset Pricing Model: Theory and Evidence." Journal of Economic Perspectives (2004): Volume 18, Number 3, pp. 25-46.

1 No. 2, Schedule 11) as simply a comparison to my DCF result of 8.45% (I&E
2 Exhibit No. 2, Schedule 7) and not as a reason to recommend an ROE above my
3 DCF result.
4

5 **SIZE ADJUSTMENT**

6 **Q. SUMMARIZE YOUR DIRECT TESTIMONY REGARDING MR.**
7 **HOWARD'S PROPOSED SIZE ADJUSTMENT IN THE COST OF**
8 **EQUITY.**

9 A. In direct testimony, I stated that Mr. Howard's 60-basis point adjustment is
10 unnecessary because none of the technical literature cited in his direct testimony
11 support an adjustment related to the size of a company that is *specific to the utility*
12 *industry*. Additionally, the size premium data based on market capitalization is
13 not reliable because for certain periods, large-capitalization stocks outperform
14 small-capitalization stocks, and it is difficult to establish a sufficient correlation to
15 prove that size is a specific risk for utilities. In direct testimony, I presented an
16 article by Dr. Annie Wong that demonstrated there is no need to make an
17 adjustment for the small size of a company in utility rate regulation (I&E
18 Statement No. 2, pp. 44-45). Finally, the Commission has recently rejected the
19 application of a size adjustment to the cost of equity calculation (I&E Statement
20 No. 2, pp. 45-46).

1 **Q. SUMMARIZE MR. HOWARD’S RESPONSE IN REBUTTAL**
2 **TESTIMONY REGARDING A SIZE RISK FACTOR ADJUSTMENT.**

3 A. Mr. Howard opines that smaller water utility stocks are more risky than larger
4 ones. He attempts to support this assertion by pointing to two studies. Mr.
5 Howard also attempts to discredit a study performed by Dr. Wong that I relied
6 upon in rejecting his size adjustment, by citing a review of Dr. Wong’s study
7 written by Thomas M. Zepp (CUPA Statement No. 8-R, p. 34). Additionally, Mr.
8 Howard presents his study using the universe of electric, gas, and water
9 companies’ annualized volatility of daily prices (a measure of risk) and current
10 market capitalization (a measure of size) included in Value Line’s Standard and
11 Small and Mid-Cap Editions. He then opines that as the company’s size
12 decreases, risk increases. Similarly, as the company’s size decreases, safety
13 rankings worsen, indicating a link between size and risk for utilities (CUPA
14 Statement No. 8-R, pp. 35-36). Finally, Mr. Howard points to the 2019
15 Commission order where the Commission noted a general inverse relationship
16 between size and risk, such that smaller companies like Citizens Electric¹¹ face
17 greater risk and acknowledged that size is a factor in assessing the company’s
18 ability to attract capital. However, Mr. Howard acknowledges that the
19 Commission did not consider or make an explicit size adjustment in the Citizens
20 Electric proceeding (CUPA Statement No. 8-R, p. 37).

¹¹ *Pa. PUC v. Citizens Electric Company of Lewisburg, PA*; Docket No. R-2019-3008212 (Order Entered April 29, 2020). See generally *Disposition of Cost of Common Equity*, pp. 103-104.

1 **Q. ARE MR. HOWARD’S ASSERTIONS REGARDING FIRMS OF**
2 **SMALLER SIZE RELEVANT TO THE REGULATED UTILITY**
3 **INDUSTRY?**

4 A. No. The study performed by Dr. Wong provides empirical evidence that refutes
5 Mr. Howard’s assertion as explained below.

6
7 **Q. WHAT IS YOUR RESPONSE REGARDING THE STUDIES MR.**
8 **HOWARD RELIES ON TO SUPPORT THE REQUESTED SIZE**
9 **ADJUSTMENT?**

10 A. First, Duff and Phelps (now Kroll) and the Eugene Brigham studies concerning the
11 inverse relationship between size and equity returns referred to by Mr. Howard in
12 his direct testimony (CUPA Statement No. 8, p. 31) are not specific to the utility
13 industry. Second, the article Mr. Howard references from Dr. Zepp does not
14 recreate Dr. Wong’s study; he simply comments on the possibility of a small firm
15 effect for utilities. Dr. Zepp refers to the study completed by the California Public
16 Utilities Commission Staff, which in my opinion has not received wide regulatory
17 support and acceptance, and, therefore, Dr. Zepp’s opinion cannot be properly
18 evaluated. Dr. Zepp also draws his conclusions about the water industry based on
19 the second study, which examines the effects of size for only two small water
20 utility companies and two large water utility companies for the period 1987-1997.
21 This study does not contain enough credible evidence to refute Dr. Wong’s
22 findings. Third, Mr. Howard’s opinion that as the company’s size decreases, risk

1 increases, is speculative and not reliable because it is based on stock price
2 volatility (risk) and market capitalization (size) relationship. Stock price volatility
3 is not an appropriate risk measure as the stock prices are influenced by various
4 factors such as economic conditions, financial and capital markets conditions,
5 regulatory changes, company-specific operational, financial risks, and
6 uncertainties, company's quarterly and annual financial result updates, etc.

7
8 **Q. PLEASE CONTINUE.**

9 A. In my opinion, it is not appropriate to link the small size effect of non-regulated
10 companies with the regulated utility industry because regulated utilities, small or
11 large, have a market monopoly in the certificated service jurisdiction and are
12 permitted to seek recovery of the full cost of service and a fair and reasonable rate
13 of return on the rate base. The regulatory ratemaking mechanism enables utilities
14 to reduce risk as opposed to unregulated companies that face sales revenue and net
15 income pressures due to a highly competitive market structure.

16
17 **Q. HAVE YOU FOUND FURTHER EVIDENCE TO SUPPORT YOUR**
18 **RECOMMENDATION REGARDING THE PROPOSED SIZE**
19 **ADJUSTMENT?**

20 A. Yes. The difficulty in predicting the risk effect of a company's size is
21 demonstrated in the variance from year to year of the measurement of difference
22 between the annual returns on the large and small-capitalization stocks of the

1 NYSE/AMEX/NASDAQ in the Ibbotson *Stocks, Bonds, Bills & Inflation: 2015*
2 *Yearbook*. As stated on page 100,

3 While the largest stocks actually declined in 2001, the smallest
4 stocks rose more than 30%. A more extreme case occurred in
5 the depression-recovery year of 1933, when the difference
6 between the first and 10th decile returns was far more
7 substantial. The divergence in the performance of small- and
8 large- cap stocks is evident. In 30 of the 89 years since 1926,
9 the difference between the total returns of the largest stocks
10 (decile 1) and the smallest stocks (decile 10) has been greater
11 than 25 percentage points.

12 Page 109 states,

13 In four of the last 10 years, large-capitalization stocks (deciles
14 1-2 of NYSE/AMEX/NASDAQ) have outperformed small-
15 capitalization stocks (deciles 9-10). This has led some market
16 observers to speculate that there is no size premium. But
17 statistical evidence suggests that periods of underperformance
18 should be expected.

19 Page 112 states,

20 Because investors cannot predict when small-cap returns will
21 be higher than large-cap returns, it has been argued that they
22 do not expect higher rates of return for small stocks.

23 Aswath Damodaran notes in his study “Equity Risk Premiums (ERP):
24 Determinants, Estimation, and Implications” – The 2022 Edition,

25 Page 50 states,

26 In the four decades since 1980, the small cap premium has
27 been non-existent, raising questions about whether it still
28 persists or whether it was an artifact of the twentieth century.

29 Page 51 states,

30 Finally, a series of studies have argued that market
31 capitalization, by itself, is not the reason for excess returns but
32 that it is a proxy for other ignored risks such as illiquidity and

1 poor information. The argument that there is, in fact, no small
2 cap premium and that we have observed over time is just an
3 artifact of history should be given credence.

4 Page 53-54 states,

5 Even if you believe that small cap companies are more exposed
6 to market risk than large cap ones, this is a sloppy and lazy way
7 of dealing with that risk, since risk ultimately has to come from
8 something fundamental (and size is not a fundamental factor).
9

10 **Q. WHAT IS YOUR RESPONSE TO MR. HOWARD’S REBUTTAL**
11 **TESTIMONY REGARDING THE REFERENCED COMMISSION ORDER**
12 **FOR CITIZENS’ ELECTRIC COMPANY?**

13 A. The Commission did not in fact award an explicit 100-basis point size adjustment
14 as the Commission determined that there was not enough evidence as to whether
15 size is specifically a risk for utilities,

16 Consistent with the foregoing discussion, like the ALJs, we
17 shall not specify an exact size adjustment. Instead, we shall
18 adopt the ALJs’ recommendation that Citizens’ be awarded a
19 DCF cost of common equity of 9.49%. In our view, this cost
20 of equity is reasonable and strikes an appropriate balance by
21 recognizing the general inverse relationship between a
22 company’s size and its risk, while acknowledging that there is
23 not substantial evidence in the record to prove that an explicit
24 size basis point adjustment is warranted in this case.¹²

25 Finally, as discussed in my direct testimony, the Commission has rejected the
26 application of a size adjustment to the cost of equity calculation in base rate case

¹² *Pa. PUC v. Citizens Electric Company of Lewisburg, PA*; Docket No. R-2019-3008212 (Order Entered April 29, 2020). See generally *Disposition of Cost of Common Equity*, pp. 103-104.

1 proceedings¹³ (I&E Statement No. 2, pp. 45-46).

2
3 **Q. HAS YOUR RECOMMENDATION TO REJECT MR. HOWARD'S**
4 **PROPOSED SIZE ADJUSTMENT CHANGED SINCE YOUR DIRECT**
5 **TESTIMONY?**

6 A. No. I continue to recommend that any adjustments in consideration of the
7 Company's size be disallowed.

8
9 **OVERALL RATE OF RETURN**

10 **Q. HAS YOUR OVERALL RATE OF RETURN RECOMMENDATION**
11 **CHANGED FROM YOUR DIRECT TESTIMONY?**

12 A. No. I continue to support each recommendation made in I&E Statement No. 2 for
13 a recommended overall rate of return of 6.85% for CUPA's water and wastewater
14 operations.

15
16 **Q. PLEASE RESTATE YOUR OVERALL RATE OF RETURN**
17 **RECOMMENDATION.**

18 A. I recommend the following rate of return for CUPA's water and wastewater
19 operations:

¹³ *Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058 (Order Entered October 25, 2018). *See generally* Disposition of Capital Asset Pricing Model (CAPM), p. 100.
Pa. PUC v. Citizens Electric Company of Lewisburg, PA; Docket No. R-2019-3008212 (Order Entered April 29, 2020). *See generally* Disposition of Cost of Common Equity, pp. 103-104.

I&E Recommendation			
Community Utilities of PA, Inc. - Water and Wastewater Operations			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	50.00%	5.24%	2.62%
Common Equity	<u>50.00%</u>	8.45%	<u>4.23%</u>
Total	<u>100.00%</u>		<u>6.85%</u>

1

2

3 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

4 **A. Yes.**

**I&E Statement No. 3-SR
Witness: Esyan A. Sakaya**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

V.

COMMUNITY UTILITIES OF PENNSYLVANIA, INC. - WATER DIVISION

Docket No. R-2023-3042804

Surrebuttal Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

**Unaccounted-For Water
Rate Structure
Public Input Hearings**

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Esyan A. Sakaya. My business address is 400 North Street,
4 Harrisburg, Pennsylvania 17120.

5

6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A. I am employed by the Pennsylvania Public Utility Commission (Commission) in
8 the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Valuation
9 Engineer.

10

11 **Q. ARE YOU THE SAME ESYAN A. SAKAYA WHO IS RESPONSIBLE FOR**
12 **THE DIRECT TESTIMONY CONTAINED IN I&E STATEMENT NO. 3**
13 **AND I&E EXHIBIT NO. 3?**

14 A. Yes.

15

16 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

17 A. The purpose of my surrebuttal testimony is to address the rebuttal testimony of
18 Community Utilities of Pennsylvania, Inc. - Water (CUPA or Company) witnesses
19 Anthony Gray (CUPA St. No. 2-R), Emily Long (CUPA St. No. 4-R), and Scott
20 Miller (CUPA St. No. 7-R); OCA witness Jerome Mierzwa (OCA St. No. 4-R);
21 and OSBA witness Justin Bieber (OSBA St. No. 1-R).

1 **Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN EXHIBIT?**

2 A. Yes. I will also refer to my direct testimony and exhibit (I&E St. No. 3 and Ex.
3 No. 3) in this surrebuttal testimony.

4
5 **Q. WHAT ISSUES DO YOU ADDRESS HEREIN?**

6 A. I am addressing the revenue adjustments requested by CUPA. My surrebuttal
7 testimony specifically addresses the following issues:

- 8 • Unaccounted for Water;
- 9 • Rate Structure – Present and Proposed Rates;
- 10 • Fire Protection;
- 11 • Public Input Hearings; and
- 12 • Scale Back of Rates.

13

14 **UNACCOUNTED-FOR WATER**

15 **Q. WHAT IS THE COMPANY’S OVERALL UNACCOUNTED-FOR WATER**
16 **(UFW) LEVEL?**

17 A. In my direct testimony, I determined the average percentage of UFW during 2020,
18 2021, 2022 and 2023 was 24.91% (I&E Ex. No. 3, Sch. 3, p. 1, col. O, line 14).

19 Based upon this determination, I concluded that the Company has a combined
20 three-year average of UFW that is above the Commission’s policy statement,

21 which states UFW should be kept within reasonable amounts and that levels above

1 20% have been considered excessive by the Commission (I&E St. No. 3, pp. 10-
2 12).

3
4 **Q. WHAT DID YOU RECOMMEND REGARDING ADJUSTMENTS TO THE**
5 **COMPANY'S DETERMINATION OF UFW?**

6 A. I recommended the Company's 18,310,832-gallon adjustment for main
7 breaks/leaks and the 56,000-gallon adjustment labeled as an "adjustment" used to
8 determine UFW were improper and should be removed (I&E Ex. No. 3, Sch. 3, p.
9 1, cols. F and K, line 13).

10
11 **Q. WHY DID YOU RECOMMEND THESE ADJUSTMENTS TO THE**
12 **COMPANY'S DETERMINATION OF UFW?**

13 A. As described in my direct testimony, the determination of UFW should not include
14 adjustments for main breaks/leaks or other "adjustments." The Commission
15 allows utilities to have UFW up to 20% to account for main breaks, leaks, and
16 unknown losses. Therefore, they should not be removed or "adjusted" from the
17 UFW calculation (I&E St. No. 3, p. 10-12).

18
19 **Q. WHAT DID YOU CALCULATE FOR CUPA'S UFW?**

20 A. After removing the Company's adjustments, I determined that the CUPA has
21 170,659,762 gallons, or 27.91%, of UFW (I&E Ex. No. 3, Sch. 1, p. 1, col. N, line

1 14). This level is 48,347,911 gallons in excess of the 20% UFW guideline (I&E
2 Ex. 3, Sch. 1, p. 1, col. N, line 15).

3
4 **Q. DID YOU RECOMMEND AN EXPENSE ADJUSTMENT TO REMOVE**
5 **THE COST OF THIS EXCESS UFW?**

6 A. Yes. I recommended a \$28,941 adjustment to expenses to remove the cost of the
7 48,347,911 gallons of excess UFW. The \$28,941 was determined by multiplying
8 the \$0.599 cost per gallon to purchase/produce 1,000 gallons of water times the
9 48,347,911 gallons of excess water (I&E Ex. No. 3, Sch. 3, p. 5, col. E, line 5).

10
11 **Q. DID CUPA RESPOND TO YOUR RECOMMENDATION?**

12 A. Yes. The Company disagrees with my recommendation to reduce expenses by
13 \$28,941 to remove the cost of excess UFW for the following reasons. First,
14 CUPA states that I ignored the Company's efforts to reduce unaccounted for water
15 via maintenance, upgrades, and capital projects, including leak detection projects,
16 which are criteria that must be considered under the Commission's policy
17 statement if it is to be applied. In addition to this, the Company believes that the
18 above-mentioned efforts in detecting and repairing leaks should be considered as a
19 factor in reducing the revenue requirement. (CUPA St. No. 2-R, pp. 13-15).

1 **Q. DO YOU AGREE THAT CUPA’S CURRENT EFFORTS IN DETECTING**
2 **LEAKS DOES NOT WARRANT A REDUCTION IN THE REVENUE**
3 **REQUIREMENT?**

4 A. No. The Commission’s policy regarding water conservation states that in rate
5 proceedings of water utilities, the Commission examines specific factors regarding
6 the action or failure to act to encourage cost-effective conservation by customers
7 and reviews utilities’ efforts to meet the criteria when determining just and
8 reasonable rates (52 Pa. Code § 65.20. Water conservation measures—statement
9 of policy. (pacodeandbulletin.gov)).

10 As such, evaluating UFW and recommending adjustments due to excess
11 UFW is a valid component of determining appropriate rates, which is the purpose
12 of base rate proceedings.

13
14 **Q. DO YOU AGREE THAT THE COST OF DETECTING AND REPAIRING**
15 **THE SYSTEM SHOULD BE A CONSIDERATION IN DETERMINING A**
16 **REASONABLE LEVEL OF UFW?**

17 A. No. The Company has failed to show that any remediation project that could
18 detect and reduce UFW is cost effective based on the consistent percentage of
19 UFW on a year-over-year basis. The Company did not describe any
20 circumstances that exist in its system such as environmental features that would be
21 cost prohibitive to remediate and thereby justify not being able to reduce UFW.
22 Water is typically lost through mains, services, and improper metering. This

1 Company position contradicts the Commission policy statement that describes
2 steps to conserve water. The Company has failed to show how investing in mains,
3 services, and/or improving metering will not reduce UFW. Further, regardless of
4 whether it is less costly to lose treated water than it is to perform leak detection,
5 water conservation and just and reasonable rates are better served through repair of
6 leaks and elimination of UFW.

7
8 **Q. DO YOU CONTINUE TO RECOMMEND THAT \$28,941 BE EXCLUDED**
9 **FROM EXPENSES AS A RESULT OF EXCESS UFW?**

10 A. Yes. The \$28,941 expense adjustment that I recommended was to remove the cost
11 of 48,347,911 gallons of excess UFW. This recommendation is consistent with
12 the Commission's water conservation policy statement and is proper to set just and
13 reasonable rates.

14
15 **RATE STRUCTURE – REVENUE UPDATES**

16 **Q. WHAT AMOUNT OF WATER REVENUE DID CUPA INITIALLY**
17 **REQUEST?**

18 A. CUPA's Water Division originally reflected \$2,329,862 of present rate revenue
19 and requested an annual increase of \$1,449,638, with total proposed water revenue
20 of \$3,779,500 (CUPA Schedule B-1).

1 **Q. DID CUPA UPDATE ANY OF THESE AMOUNTS IN REBUTTAL**
2 **TESTIMONY?**

3 A. Yes. CUPA’s Water Division is now requesting an increase of \$1,419,558 and
4 total proposed water revenue of \$3,749,420 (CUPA St. No. 2, p. 2 and CUPA Ex.
5 No. SAM 2-R, p. 10). These changes reflect the Company’s acceptance of various
6 adjustments proposed by the other witnesses.

7
8 **Q. AS A RESULT OF THESE CHANGES, ARE YOU REVISING THE**
9 **WATER RATES YOU RECOMMENDED IN DIRECT TESTIMONY?**

10 A. Yes. As a result of the Company’s lower proposed revenue, I am revising the
11 water usage rates to match the \$3,749,420 proposed revenues mentioned above.
12 In my updated recommendation I show the present rate revenue, the increase by
13 class and the proposed revenue (I&E Ex. No. 3-SR, Sch. 1), the present and
14 proposed rates (I&E Ex. No. 3-SR, Sch 2), and the billing determinates, proposed
15 rate, and the proposed tariff rate revenue (I&E Ex. No. 3-SR, Sch. 3).

16
17 **RATE STRUCTURE – COST OF SERVICE STUDIES**

18 **Q. DID YOU ADDRESS THE COMPANY’S COST OF SERVICE STUDIES**
19 **(COSS) PREVIOUSLY?**

20 A. Yes. In my direct testimony I described how CUPA did not file a water COSS in
21 the last base rate case at Docket No. Docket No. R-2021-3025206 (I&E St. No. 3,
22 p. 17).

1 **Q. DID THE COMPANY RESPOND TO THIS?**

2 A. Yes. The Company states that it did file a COSS in the prior rate case (CUPA St.
3 No. 7-R, pp. 7-8).

4

5 **Q. DO YOU AGREE THAT CUPA DID FILE A WATER COSS IN THE 2021**
6 **RATE CASE?**

7 A. Yes. To clarify my statement in direct testimony, CUPA did provide a functional
8 COSS that separated the cost of the operating the system into the maximum hour,
9 maximum day, customer cost and direct fire functions. However, the COSS
10 provided at Docket No. R-2021-3025206 did not include a class COSS showing
11 the rate of return and relative rate of return by class to establish the appropriate
12 revenue for the various classes other than Public Fire. Because of this, the COSS
13 provided in the last base rate case at Docket No. R-2021-3025206 could not be
14 used to determine the rates that customers in each class should pay to recover the
15 cost of providing service to that class.

16

17 **Q. DID YOU ADDRESS A CLAIM MADE IN THE COSS IN THIS**
18 **PROCEEDING?**

19 A. Yes. I recommended that \$352,455 of Corporate Allocations be removed from the
20 customer cost analysis and recovered in the volumetric charges (I&E St. No. 3, p.
21 18).

1 **Q. DID THE COMPANY RESPOND TO THIS RECOMMENDATION?**

2 A. Yes. CUPA disagrees with my recommendation for several reasons. First, the
3 Company claims that both water and wastewater filings in 2021 listed Corporate
4 Allocations in each COSS, therefore, I&E should not be allowed to address the
5 claim in this proceeding. Second, the Company states that since it is allocated to
6 the “billing and collecting” function, it should be recovered in the customer
7 charges. Third, the Company states that this expense represents costs necessary to
8 have customers connected to the system. Fourth, CUPA asserts, the cost is a
9 customer cost since it includes administrative and general expenses, encompasses
10 the whole organization including corporate governance, legal mandates, and
11 business operations. Finally, the Company states that my recommendation
12 increases the percentage of revenue that will be recovered in the volumetric rates
13 and shifts more risk to the Company (CUPA St. No. 7-R, p. 8).

14

15 **Q. DOES THE ASSERTION THAT I&E DID NOT ADDRESS THE**
16 **INCLUSION OF THIS CLAIM IN THE LAST BASE RATE PROCEEDING**
17 **SUPPORT THE COMPANY’S CONTENTION THAT IT CANNOT BE**
18 **ADDRESSED IN THIS CASE?**

19 A. No. Each claim by a utility can be reviewed at any time by the Commission.
20 Different claims are often reviewed depending on the claim and the impact to
21 rates. Therefore, as described in my direct testimony, the \$352,455 in Corporate
22 Allocations for water must be removed.

1 **Q. DOES THE COMPANY CATEGORIZING CORPORATE ALLOCATIONS**
2 **TO THE BILLING AND COLLECTING FUNCTION JUSTIFY**
3 **RECOVERING THE COST IN THE CUSTOMER CHARGE?**

4 A. No. They are two separate things. The customer cost analysis is a subset of the
5 COSS and should only include direct customer costs and some indirect costs to
6 provide service to customers, where the direct customer cost changes if one or
7 more customers is added or leaves the system.

8
9 **Q. PLEASE ADDRESS THE THIRD CLAIM THAT THESE COSTS ARE**
10 **NECESSARY TO CONNECT CUSTOMERS TO THE SYSTEM.**

11 A. In theory, all costs are incurred to “connect customers to the system” or provide
12 service to customers, otherwise they would be imprudent costs. For example,
13 mains connect customers “to the system,” yet they are not considered customer
14 costs. A customer cost is different in that it should only include direct customer
15 costs and some indirect customer costs to provide service to customers, where the
16 direct cost changes if one or more customers is added or leaves the system.

17
18 **Q. PLEASE ADDRESS THE FOURTH CLAIM THE COMPANY APPEARS**
19 **TO BE MAKING THAT SOME OF THE ITEMS INCLUDED IN THE**
20 **CORPORATE ALLOCATIONS CLAIM ARE CUSTOMER RELATED?**

21 A. There may be some billing costs included, however, since the Company failed to
22 provide a breakdown of the \$352,455, the Commission has no way of knowing

1 how much that is. Furthermore, the remaining items such as costs of operating the
2 whole organization, business and overhead costs would not be included in the
3 customer cost analysis and recovered in the customer charge.

4
5 **Q. PLEASE ADDRESS THE FINAL POINT CONCERNING THE**
6 **PERCENTAGE RECOVERED FOR CUSTOMER CHARGES AND THE**
7 **RISK TO THE COMPANY.**

8 A. First, the Company failed to describe if there is an optimal percentage of revenue
9 that should be recovered from customer charges versus usage rates. I am not
10 aware of one. Second, I would agree that recovering more revenue from the usage
11 rates adds to the risk of customers using less water and thus the Company
12 potentially receiving less revenue over time. However, the Company failed to
13 quantify the potential decline in volumes or the time period. Finally, I believe that
14 customer charges based upon a proper customer cost analysis outweigh any
15 alleged future unspecified revenue decline of the Company.

16
17 **Q. DID THE COMPANY PROVIDE ANY VALID REASONS FOR**
18 **INCLUDING \$352,455 OF CORPORATE ALLOCATION IN THE**
19 **CUSTOMER COST ANALYSIS?**

20 A. No. Therefore, it should be removed from the customer cost analysis and not
21 recovered in the customer charges.

1 **RATE STRUCTURE – CUSTOMER CHARGES**

2 **Q. WHAT CUSTOMER CHARGES DID CUPA PROPOSE?**

3 A. CUPA proposed customer charges are shown on I&E Ex No. 3-SR, Sch. 2,
4 column E, lines 1-10.

5

6 **Q. WHAT CUSTOMER CHARGES DID YOU PROPOSE?**

7 A. The I&E proposed customer charges are shown on I&E Ex No. 3-SR, Sch. 2,
8 column I, lines 1-10.

9

10 **Q. WHY DID YOU LIMIT THE INCREASE IN THE CUSTOMER CHARGES**
11 **IN THE CONSOLIDATED SECTION TO 5.5%?**

12 A. I recommended that the monthly charge in the Consolidated section increase by
13 5.5% because of the customer cost analysis (I&E St No. 3. p. 20). In order to
14 consolidate customer charges, I also reduced the customer charges in the
15 Tamiment section (I&E Ex No. 3-SR, Sch. 2, col. I, lines 1-10).

16

17 **Q. DID THE COMPANY AND OTHER PARTIES ADDRESS YOUR**
18 **CUSTOMER CHARGE RECOMMENDATIONS?**

19 A. Yes. First, the Company disagrees with my recommendation, stating my rate
20 design unfairly shifts revenue recovery towards volumetric usage as opposed to
21 the customer charge and OCA witness Mierzwa stated my customer charges were

1 not based upon direct costs associated with the addition or subtraction of a
2 customer (CUPA St. No. 7-R, p. 8 and OCA St. No. 4-R, p. 2).

3
4 **Q. PLEASE ADDRESS THESE PARTIES' CONCERNS.**

5 A. In response to CUPA witness Miller, the rate structure being proposed by CUPA
6 puts more emphasis on the fixed charge and less on the volumetric usage, which
7 provides more stable revenues but may reduce affordability and water efficiency.
8 The rate structure I proposed puts more emphasis on the volumetric charge and
9 less on the base charge, giving customers more control over their bills and
10 encouraging conservation. In response to OCA witness Mierzwa regarding total
11 customer costs, my recommendation did allow the inclusion of some indirect
12 expenses. Therefore, I do not object to the customer charge recommendations
13 proposed by OCA.

14
15 **Q. DO YOU HAVE A CHANGE TO YOUR CUSTOMER CHARGE**
16 **RECOMMENDATION?**

17 A. No.

18
19 **RATE STRUCTURE - AVAILABILITY CHARGES**

20 **Q. WHAT ARE CUPA'S CURRENT AVAILABILITY CHARGES?**

21 A. CUPA currently charges \$18.81 per month in the Consolidated section and \$9.81
22 per month in the Tamiment section (CUPA Schedule B, p. 2).

1 **Q. WHAT AVAILABILITY CHARGES DID CUPA PROPOSE?**

2 A. CUPA proposed that the monthly charge in the Consolidated section increase from
3 \$18.81 per month to \$45.60 per month, which equates to an increase of \$26.79 per
4 month or 142.4%. CUPA also proposed that the monthly charge in the Tamiment
5 Consolidated section increase from \$9.31 per month to \$45.60 per month, which
6 equates to an increase of \$36.29 per month or 389.8% (CUPA Ex. SAM-3, p. 2
7 and 14).

8
9 **Q. WHAT AVAILABILITY CHARGES DID YOU RECOMMEND?**

10 A. I recommended that the monthly charge in the Consolidated section increase from
11 \$18.81 per month to \$18.95 per month, which equates to an increase of \$1.04 per
12 month or 5.5%. I also proposed that the monthly charge in the Tamiment
13 Consolidated section increase from \$9.31 per month to \$13.00 per month, which
14 equates to an increase of \$3.69 per month or 36.9% (I&E St. No. 3, p. 26, and
15 I&E Ex. No. 3, Sch. 5, cols. H and J, line 13).

16
17 **Q. WHY DID YOU RECOMMEND THESE AVAILABILITY CHARGES?**

18 A. I had two goals, first, to limit the increases to a reasonable level and to move
19 towards consolidated rates in a more gradual manner. Therefore, I limited the
20 increase to the lower availability charge to under 40% and limited the increase in
21 the larger availability charge to 5.5% in order to close the gap between the two

1 availability charges. The difference between the two present rates is \$9.50 per
2 month and the difference between my two proposed rates is \$6.85 per month.

3
4 **Q. DID THE COMPANY AND OTHER PARTIES ADDRESS YOUR**
5 **AVAILABILITY CHARGE RECOMMENDATIONS?**

6 A. Yes. First, the Company disagreed with my recommendation stating that the 5.5%
7 increase for the Consolidated availability charge is insufficient. Second, the
8 Company asserts that the percentage increases I recommend are arbitrary (CUPA
9 St. No. 7-R, p. 11). The OCA also opines that my rates are insufficient (OCA St.
10 No. 4-R, pp. 4-5).

11
12 **Q. PLEASE ADDRESS THESE CONCERNS REGARDING THE**
13 **AVAILABILITY CHARGES.**

14 A. Both the Company's proposed increases are over 100% and one of the OCA's
15 proposed increases is over 100%. While I agree that my recommendation
16 generates less revenue than either the Company's or the OCA's proposal, I believe
17 the percentage increase proposed by these parties is too large, particularly when
18 compared to the monthly customer charge recommended by the Company and
19 OCA for those customers who actually do receive service have Company-owned
20 facilities installed. Finally, as described above, my proposal reduces the
21 difference between the two rates, thus the rates could be consolidated in the next
22 case.

1 **Q. DO YOU HAVE ANY CHANGES TO YOUR AVAILABILITY CHARGE**
2 **RECOMMENDATION?**

3 A. No.

4
5 **Q. PLEASE SUMMARIZE YOUR RATE DESIGN RECOMMENDATION.**

6 A. My rate design recommendation results in an increase of \$1,419,054,
7 approximately the same as the \$1,419,558 requested by the Company in its revised
8 filing (I&E Ex. No. 3-SR, Sch. 1, col. J., line 11).

9
10 **PUBLIC FIRE SERVICE**

11 **Q. WHAT DID YOU RECOMMEND IN YOUR DIRECT TESTIMONY**
12 **CONCERNING MUNICIPAL PUBLIC FIRE SERVICE?**

13 A. I recommended that the public fire service rate stay at \$56.67 per month (I&E St.
14 No. 3, p. 24).

15
16 **Q. DID CUPA ADDRESS PUBLIC FIRE SERVICE IN REBUTTAL**
17 **TESTIMONY?**

18 A. Yes. CUPA agreed to modify the proposed fire protection calculations to correct
19 an error identified in the original filing. This correction reduces the proposed fire
20 protection rates but does so to appropriately reflect the cost of providing service
21 and the number of customers who receive such service (CUPA St. No. 7-R, p. 10).

1 **Q. DOES CUPA’S PROPOSED MODIFICATION TO PUBLIC FIRE SERVICE**
2 **MENTIONED IN THEIR REBUTTAL TESTIMONY COMPLY WITH**
3 **STATE LAW?**

4 A. No, it does not.

5
6 **Q. WHY DOES CUPA’S PROPOSED MODIFICATION TO PUBLIC FIRE**
7 **SERVICE VIOLATE STATE LAW?**

8 A. CUPA’s proposed modification mentioned on page 14 of CUPA Statement No. 7-
9 R still violates the Public Utility Code. While the fire rate customers would
10 benefit by paying \$16.20, other customer classes are burdened in tandem with
11 higher rates to compensate for this. Specifically, reducing fire rates to comport
12 with the 25% ceiling specified in the Code is unjustified as it violates Section 1328
13 of the Public Utility Code (66 Pa. C.S. Section 1328) in the determination of
14 public fire hydrant rates as it pertains to the effect on current rates. Part C of
15 Section 1328 states:

16 The legal rates charged to municipalities for public fire
17 hydrants in effect on the effective date of this section shall
18 remain frozen and shall not be changed until the present rates
19 for those public fire hydrants are determined to be below the
20 25% ceiling established under subsection (b). The remaining
21 cost of service for those public fire hydrants not recovered from
22 the municipality shall be recovered from all customers of the
23 public utility in the public utility's fixed or service charge or
24 minimum bill¹.

¹ 66 Pa. C.S. § 1328 (2022).

1 **Q. DO YOU RECOMMEND A DECREASE IN THE PUBLIC FIRE SERVICE**
2 **RATE?**

3 A. No. As stated on page 24 of I&E St. No. 3, the public fire service rate should stay
4 at \$56.67 per month. This equates to an increase of \$0 per month over present
5 rates. Because this rate remains unchanged, no lost revenue can be made up in this
6 class (I&E Ex. No. 3, Sch. 5, cols. I and J, line 11 and I&E Ex. No. 3-SR, Sch. 2,
7 cols. I and J, line 11). CUPA’s cost of providing service by reducing the fire
8 protection rate violates state law and thus must be rejected.

9

10 **PUBLIC INPUT HEARINGS**

11 **Q. DID THE COMPANY’S REBUTTAL TESTIMONY ADDRESS THE**
12 **PUBLIC INPUT HEARINGS?**

13 A. Yes. Between January 30, 2024 and February 1, 2024, CUPA held a series of six
14 public input hearings, four in person and two telephonically, that allowed
15 consumers in all three CUPA territories to air grievances about water service. The
16 Company provided details on the issues raised at the public input hearings;
17 however, given the volume of customer input provided at the hearings, I continue
18 to recommend the Company report its findings with respect to customer
19 complaints and service issues to inform the Commission and interested parties
20 about the status of those issues with the goal of improving service in its territory
21 (CUPA St. No. 4-R, pp. 10 – 29).

1 **Q. WHAT DO YOU RECOMMEND BASED UPON THE CUSTOMER**
2 **TESTIMONY PROVIDED AT THE PUBLIC INPUT HEARINGS?**

3 A. I recommend that CUPA track and report customer complaints, service
4 interruptions, main breaks, low water pressure, boil water advisories, and provide
5 the Company's response to each event. I recommend that the report be filed one
6 year after the order is entered in this proceeding and each year for the next three
7 years thereafter.

8
9 **Q. WHY DO YOU RECOMMEND CUPA TRACK AND REPORT**
10 **CUSTOMER COMPLAINTS AND SERVICE ISSUES?**

11 A. The Company is required to provide adequate, safe, and reasonable water service.
12 The issues raised at the public input hearings call into question whether CUPA is
13 adhering to this mandate. Reporting its findings with respect to customer
14 complaints and service issues will inform the Commission and interested parties
15 about the status of those issues with the goal of improving service in its territory.

16
17 **SCALE BACK OF RATES**

18 **Q. WHAT DO YOU RECOMMEND IF THE COMMISSION GRANTS CUPA**
19 **LESS THAN ITS \$1,419,558 REVISED REVENUE INCREASE?**

20 A. If the Commission approves a lesser increase in revenues, both my recommended
21 customer charge and usage rates should be scaled back proportionally to the final
22 revenue allowance. However, there should be no scale back applied to Public Fire

1 rates since this would be in violation of the Title 66 Statute regarding Public Fire
2 Hydrant rates referenced in my direct testimony.

3

4 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

5 A. Yes.

**I&E Exhibit No. 3-SR
Witness: Esyan A. Sakaya**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

V.

COMMUNITY UTILITIES OF PENNSYLVANIA - WATER DIVISION

Docket No. R-2023-3042804

Exhibit to Accompany

The

Surrebuttal Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

**Unaccounted-For Water
Rate Structure
Public Input Hearings**

Community Utilities of Pennsylvania, Inc.
R-2023-3042804
Summary of Operating Revenues
Water Operations

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
Line Nr	Description	7/31/2023 Per Books (C)	7/31/2023 Per Books Adjustment (D)	7/31/2023 Per Books Adjusted (E)	7/31/2024 FTY Forecast Adjustment (F)	7/31/2024 FTY Forecast (G)	7/31/2025 EPFTY Forecast Adjustment (H)	7/31/2025 EPFTY Present Forecast (I)	7/31/2025 EPFTY Proposed Increase \$ (J)	7/31/2025 EPFTY Proposed Increase % (K)	7/31/2025 Fully Projected Future Test Year (L)
1	Residential	\$2,371,765	-\$10,532	\$2,361,233	-\$60,349	\$2,300,884	-\$72,102	\$2,228,783	\$1,404,241	63.0%	\$3,633,024
2	Commercial	\$43,447	-\$80	\$43,368	-\$1,474	\$41,893	-\$1,080	\$40,813	\$22,452	55.0%	\$63,265
3	Guarantee	\$40,846	-\$1,253	\$39,593	\$503	\$40,096	\$0	\$40,096	\$12,505	31.2%	\$52,601
4	Public Fire Protection	\$47,433	\$0	\$47,433	\$3,514	\$50,946	\$737	\$51,683	\$170	0.3%	\$51,853
5	Miscellaneous Service Revenue - NSF Check Charge	\$975	\$0	\$975	\$0	\$975	\$0	\$975	\$0	0.0%	\$975
6	Miscellaneous Service Revenue - Reconnect Fees	\$2,220	\$0	\$2,220	\$0	\$2,220	\$0	\$2,220	\$0	0.0%	\$2,220
7	Miscellaneous Service Revenue - State Tax Adjustment Surcharge	-\$3,396	\$0	-\$3,396	\$0	-\$3,396	\$0	-\$3,396	\$0	0.0%	-\$3,396
8	Late Payment Charges (LPC)	\$16,183	\$0	\$16,183	\$0	\$16,183	\$0	\$16,183	\$8,828	54.6%	\$25,011
9	Revenue Accrued	-\$21,864	\$0	-\$21,864	\$21,864	\$0	\$0	\$0	\$0	0.0%	\$0
10	Uncollectible Accounts	-\$166,053	\$0	-\$166,053	\$0	-\$166,053	\$19,098	-\$46,956	-\$29,142	62.1%	-\$76,098
11	Total Service Revenue - Water	\$2,331,555	-\$11,865	\$2,319,690	-\$85,942	\$2,233,748	\$46,653	\$2,330,401	\$1,419,054		\$3,749,454

**I&E Exhibit No. 3-SR
Schedule No. 2**

**Community Utilities of Pennsylvania, Inc.
Water Divisions
R-2023-3042806
Fully Projected Future Test Year : July 31, 2025
Supplement to Schedule B-1
Company and I&E Rates**

Line No.	Line No. (A)	Customer C	Company				I&E				
			Meter Sizes (B)	Present Monthly Rates (C)	Increase (D)	Company Monthly Rates (E)	Percent Increase (F)	Present Monthly Rates (G)	Increase (H)	I&E Monthly Rates (I)	Percent Increase (J)
CONSOLIDATED											
1	Residential and Commercial		5/8"	\$17.25	\$3.90	\$21.15	22.6%	\$17.25	\$0.95	\$18.20	5.5%
2			1"	\$43.13	-\$7.53	\$35.60	-17.5%	\$43.13	\$2.37	\$45.50	5.5%
3			1.5"	\$86.25	-\$26.60	\$59.65	-30.8%	\$86.25	\$4.75	\$91.00	5.5%
4			2"	\$138.00	-\$49.50	\$88.50	-35.9%	\$138.00	\$7.60	\$145.60	5.5%
TAMIMENT											
5	Residential		5/8"	\$18.18	\$2.97	\$21.15	16.3%	\$18.18	\$0.02	\$18.20	0.1%
6	Commercial		5/8"	\$121.25	-\$100.10	\$21.15	-82.6%	\$121.25	-\$103.05	\$18.20	-85.0%
7			1"	\$121.25	-\$85.65	\$35.60	-70.6%	\$121.25	-\$75.75	\$45.50	-62.5%
8			1.5"	\$121.25	-\$61.60	\$59.65	-50.8%	\$121.25	-\$30.25	\$91.00	-24.9%
9			2"	\$121.25	-\$32.75	\$88.50	-27.0%	\$121.25	\$24.35	\$145.60	20.1%
10			6"	\$158.41	\$63.09	\$221.50	39.8%	\$158.41	\$63.09	\$221.50	39.8%
Unmetered Water											
Unmetered Public Fire Protection (Hydrants)-FTY and FPFTY											
11				\$56.67	-\$40.47	\$16.20	-71.4%	\$56.67	\$0.00	\$56.67	0.0%
12	Unmetered - Other Availability			\$18.81	\$26.29	\$45.10	139.8%	\$18.81	\$1.04	\$19.85	5.5%
13	Unmetered - Tamiment			\$9.31	\$35.79	\$45.10	384.4%	\$9.31	\$3.69	\$13.00	39.6%
Consumption Charge											
			Company				I&E				
				Present Rates Per 1,000 Gallons	Increase	Proposed Rates Per 1,000 Gallons	Percent Increase	Present Rates Per 1,000 Gallons	Increase	Proposed Rates Per 1,000 Gallons	Percent Increase
Consolidated Residential											
13			5/8"	\$13.51	\$9.41	\$22.92	69.6%	\$13.51	\$11.34	\$24.854	83.9%
14			1"	\$13.51	\$9.41	\$22.92	69.6%	\$13.51	\$11.34	\$24.854	83.9%
15			1.5"	\$13.51	\$9.41	\$22.92	69.6%	\$13.51	\$11.34	\$24.854	83.9%
16			2"	\$13.51	\$9.41	\$22.92	69.6%	\$13.51	\$11.34	\$24.854	83.9%
Consolidated Low Income											
17			5/8"	\$8.78	\$6.12	\$14.90	69.6%	\$8.78	\$7.38	\$16.160	84.0%
18			1"	\$8.78	\$6.12	\$14.90	69.6%	\$8.78	\$7.38	\$16.160	84.0%
19			1.5"	\$8.78	\$6.12	\$14.90	69.6%	\$8.78	\$7.38	\$16.160	84.0%
20			2"	\$8.78	\$6.12	\$14.90	69.6%	\$8.78	\$7.38	\$16.160	84.0%
Commercial											
21			5/8"	\$12.88	\$10.04	\$22.92	78.0%	\$12.88	\$11.98	\$24.854	93.0%
22			1"	\$12.88	\$10.04	\$22.92	78.0%	\$12.88	\$11.98	\$24.854	93.0%
23			1.5"	\$12.88	\$10.04	\$22.92	78.0%	\$12.88	\$11.98	\$24.854	93.0%
24			2"	\$12.88	\$10.04	\$22.92	78.0%	\$12.88	\$11.98	\$24.854	93.0%
25			6"	\$12.88	\$10.04	\$22.92	78.0%	\$12.88	\$11.98	\$24.854	93.0%
Tamiment											
26	Residential		All	\$11.45	\$11.47	\$22.92	100.1%	\$11.45	\$13.40	\$24.854	117.0%
Tamiment Low Income											
27			5/8"	\$7.44	\$7.46	\$14.90	100.2%	\$7.44	\$8.72	\$16.160	117.1%
28			1"	\$7.44	\$7.46	\$14.90	100.2%	\$7.44	\$8.72	\$16.160	117.1%
29			1.5"	\$7.44	\$7.46	\$14.90	100.2%	\$7.44	\$8.72	\$16.160	117.1%
30			2"	\$7.44	\$7.46	\$14.90	100.2%	\$7.44	\$8.72	\$16.160	117.1%
31	Commercial		All	\$10.815	\$12.11	\$22.92	111.9%	\$10.815	\$14.04	\$24.854	129.8%

**I&E Exhibit No. 3-SR
Schedule No. 3**

**Community Utilities of Pennsylvania, Inc.
Water Divisions
R-2023-3042804
Base Year / Proposed Revenues - Fully Projected
7/31/2025**

Line	Rate Group (A)	Class (B)	Meter Size (C)	Gallonge (D)	Billing Units (E)	Water		Base Revenue (H)	Vol Revenue (I)	Total Revenues (J)
						BFC (F)	Usage Charge (G)			
1	Consolidated	RES	5/8"	95,323,248	31,608	\$18.20	\$24.854	\$575,266	\$2,369,150	\$2,944,415
2	Consolidated	RES	1"	(4,571)	12	\$45.50	\$24.854	\$546	-\$114	\$432
3	Consolidated	RES	1.5"	94,173	12	\$91.00	\$24.854	\$1,092	\$2,341	\$3,433
4	Consolidated	RES	2"	157,259	12	\$145.60	\$24.854	\$1,747	\$3,908	\$5,656
5	Consolidated	Low-Income	5/8"	13,775,308	-	\$18.200	\$16.160	\$0	\$222,609	\$222,609
6	Tamiment	Low-Income	5/8"	2,368,569	-	\$18.20	\$16.160	\$0	\$38,276	\$38,276
7	Tamiment	RES	3/4"	1,577,438	-	\$18.20	\$24.854	\$0	\$39,205	\$39,205
8	Tamiment	RES	5/8"	10,952,020	5,868	\$18.20	\$24.854	\$106,798	\$272,200	\$378,997
9	Total Residential			124,243,444	37,512			\$685,448	\$2,947,575	\$3,633,024
10	Consolidated	COML	5/8"	437,490	288	\$18.20	\$24.854	\$5,242	\$10,873	\$16,115
11	Consolidated	COML	1"	42,972	36	\$45.50	\$24.854	\$1,638	\$1,068	\$2,706
12	Consolidated	COML	2"	572,351	24	\$145.60	\$24.854	\$3,494	\$14,225	\$17,720
13	Consolidated	Pool	5/8"	101,964	36	\$18.20	\$24.854	\$655	\$2,534	\$3,189
14	Consolidated	Pool	1"	70,369	12	\$45.50	\$24.854	\$546	\$1,749	\$2,295
15	Tamiment	COML	5/8"	320,370	36	\$18.20	\$24.854	\$655	\$7,962	\$8,618
16	Tamiment	COML	6"	400,920	12	\$221.50	\$24.854	\$2,658	\$9,964	\$12,622
17	Total Commercial			1,946,435	444			\$14,888	\$48,376	\$63,265
18	Consolidated	FIRE	Flat		915	\$56.67		\$51,853		\$51,853
19	Consolidated	AVB	Flat		528	\$19.85		\$10,481		\$10,481
20	Tamiment	AVB	Flat		3,240	\$13.00		\$42,120		\$42,120
21	Subtotal (Flat & Availability)				4,683			104,454		104,454
22	Water Total			126,189,880	42,639			804,790	2,995,952	3,800,742

**I&E Statement No. 3-SR
Witness: Esyan A. Sakaya**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

V.

**COMMUNITY UTILITIES OF PENNSYLVANIA, INC. - WASTEWATER
DIVISION**

Docket No. R-2023-3042805

Surrebuttal Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

**Rate Base
Plant Additions and Annual Depreciation
Rate Structure
Public Input Hearings**

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Eryan A. Sakaya. My business address is 400 North Street,
4 Harrisburg, Pennsylvania 17120.

5

6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A. I am employed by the Pennsylvania Public Utility Commission (“Commission”) in
8 the Bureau of Investigation & Enforcement (“I&E”) as a Fixed Utility Valuation
9 Engineer.

10

11 **Q. ARE YOU THE SAME ERYAN A. SAKAYA WHO IS RESPONSIBLE FOR**
12 **THE DIRECT TESTIMONY CONTAINED IN I&E STATEMENT NO. 3**
13 **AND I&E EXHIBIT NO. 3?**

14 A. Yes.

15

16 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

17 A. The purpose of my surrebuttal testimony is to address the rebuttal testimony of
18 Community Utilities of Pennsylvania, Inc. - Wastewater (“CUPA” or “Company”) witnesses Anthony Gray (CUPA St. No. 2-R), Emily Long (CUPA St. No. 4-R),
19 Amber Capwen (CUPA St. No. 5-R), and Scott Miller (CUPA St. No. 7-R); Office
20 of Consumer Advocate (“OCA”) witness Jerome Mierzwa (OCA St. No. 4-R); and
21

1 Office of Small Business Advocate (“OSBA”) witness Justin Bieber (OSBA St.
2 No. 1-R).

3
4 **Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN EXHIBIT?**

5 A. Yes. I will also refer to my direct testimony and exhibit (I&E St. No. 3 and I&E
6 Ex. No. 3) in this surrebuttal testimony.

7
8 **Q. WHAT ISSUES DO YOU ADDRESS HEREIN?**

9 A. I am addressing the revenue adjustments requested by the Wastewater Division
10 of CUPA. My surrebuttal testimony specifically addresses the following issues:

- 11 • Rate Base – Plant Additions;
- 12 • Annual Depreciation;
- 13 • Revenue;
- 14 • Rate Structure – Present and Proposed Rates; and
- 15 • Public Input Hearings.

16
17 **RATE BASE - PLANT ADDITIONS**

18 **Q. WHAT RATE BASE DID THE COMPANY CLAIM FOR THE FPFTY?**

19 A. The Company claimed total wastewater rate base of \$17,432,191 (I&E Ex. 3, Sch.
20 No.1, col. J, line 12 and CUPA Schedule A, p. 3).

1 **Q. WHAT NET RATE BASE DID YOU RECOMMEND FOR CUPA**
2 **WASTEWATER IN YOUR DIRECT TESTIMONY?**

3 A. I recommended a wastewater adjusted total rate base of \$16,623,312 or
4 (\$17,432,191 - \$808,879) for the FPFTY (I&E Ex. No. 3, Sch. 4, cols. H, I, and K,
5 line 12). The \$808,879 reduction was due to a project that the Company estimated
6 would not be complete by the end of the FPFTY (I&E Ex. No. 3, Sch. 3).

7

8 **Q. DID CUPA AGREE WITH YOUR \$808,879 ADJUSTMENT?**

9 A. No.

10

11 **Q. WHAT WAS CUPA's RESPONSE?**

12 A. CUPA now claims the project entitled "UIP Chestnut LS Conversion" will be
13 completed on time, on or before the end of the FPFTY (CUPA St. No. 5-R, pp.3-
14 4).

15

16 **Q. DO YOU HAVE ANY CHANGES TO YOUR \$808,879 NET RATE BASE**
17 **ADJUSTMENT?**

18 A. Yes. Based on this updated information, I am withdrawing my recommendation to
19 reduce wastewater total rate base by \$808,789 and accept the Company's FPFTY
20 rate base claim of \$17,432,191.

1 **DEPRECIATION EXPENSE**

2 **Q. WHAT WAS THE COMPANY’S FPFTY CLAIM FOR DEPRECIATION**
3 **EXPENSE?**

4 A. The Company’s FPFTY claim for depreciation expense is \$645,040 (CUPA
5 Schedule B, p. 3).

6
7 **Q. WHAT WAS YOUR FPFTY ANNUAL DEPRECIATION EXPENSE**
8 **ADJUSTMENT?**

9 A. My annual depreciation expense adjustment to the FPFTY was \$20,222 (I&E Ex.
10 No. 3, Sch. 2, col. I, line 1).

11
12 **Q. DO YOU HAVE A CHANGE TO YOUR RECOMMENDATION?**

13 A. Yes. Based upon the withdrawal of my rate base recommendation explained
14 above, I accordingly withdraw my recommended \$20,222 FPFTY depreciation
15 expense adjustment for the UIP Chestnut LS Conversion project.

16
17 **REVENUE - UPDATES**

18 **Q. WHAT AMOUNT OF WASTEWATER REVENUE DID CUPA INITIALLY**
19 **REQUEST?**

20 A. CUPA originally reflected \$3,381,026 of present rate revenue and requested an
21 annual increase of \$1,735,592, with total proposed wastewater revenue of
22 \$5,116,818 (CUPA Schedule D-II-2, p. 2).

1 **Q. DID CUPA UPDATE ANY OF THESE AMOUNTS IN REBUTTAL**
2 **TESTIMONY?**

3 A. Yes. CUPA's Wastewater Division is now requesting an increase of \$1,701,455
4 and total proposed wastewater revenue of \$5,082,481 (CUPA St. No. 2, p. 2 and
5 CUPA Ex. No. SAM 2-R, p. 10). These changes reflect the Company's
6 acceptance of various adjustments proposed by the other witnesses.

7
8 **Q. AS A RESULT OF THESE CHANGES, ARE YOU REVISING THE**
9 **WASTEWATER RATES YOU RECOMMENDED IN DIRECT**
10 **TESTIMONY?**

11 A. Yes. As a result of the Company's lower proposed revenue, I am revising the
12 customer charges and wastewater usage rates to match the \$5,082,481 proposed
13 revenues mentioned above. In my updated recommendation I show the present
14 rate revenue, increase by class, and the proposed revenue (I&E Ex. No. 3-SR,
15 Sch. 1), I show the present and proposed rates (I&E Ex. No. 3-SR, Sch. 2), and the
16 billing determinates, proposed rate, and the proposed tariff rate revenue (I&E Ex.
17 No. 3-SR, Sch. 3).

18

19 **RATE STRUCTURE – COST OF SERVICE STUDIES**

20 **Q. DID YOU ADDRESS THE COMPANY'S COST OF SERVICE STUDIES**
21 **(COSS) PREVIOUSLY?**

22 A. Yes. In my direct testimony I described how CUPA did not file a water COSS in

1 the last base rate case at Docket No. R-2021-3025207 (I&E St. No. 3, pp. 15-16).

2

3 **Q. DID THE COMPANY RESPOND TO THIS?**

4 A. Yes. The Company states that it did file a COSS in the prior rate case (CUPA St.
5 No. 7-R, pp. 7-8).

6

7 **Q. DO YOU AGREE THAT CUPA DID FILE A WATER COSS IN THE 2021**
8 **RATE CASE?**

9 A. Yes. To clarify my statement in direct testimony, CUPA did provide a functional
10 COSS that separated the cost of the operating the system into treatment and
11 disposal, collection and billing functions. However, the COSS provided at Docket
12 R-2021-3025207 did not include a class COSS showing the rate of return and
13 relative rate of return. Because of this, the COSS provided in the last base rate
14 case at Docket R-2021-3025207 could not be used to determine the rates that
15 customers in each class should pay to recover the cost of providing service to that
16 class.

17

18 **Q. DID YOU ADDRESS A CLAIM MADE IN THE COST OF SERVICE**
19 **STUDY IN THIS PROCEEDING?**

20 A. Yes. I recommended that \$422,759 of Corporate Allocations be removed from the
21 customer cost analysis and recovered in the volumetric charges (I&E St. No. 3, pp.
22 16-17).

1 **Q. DID THE COMPANY RESPOND TO THIS RECOMMENDATION?**

2 A. Yes. CUPA states several things. First, the Company claims that both water and
3 wastewater cases filings in 2021 listed Corporate Allocations in each COSS,
4 therefore, I&E should not be allowed to address the claim in this proceeding.
5 Second, the Company states that since it is allocated to the “billing and collecting”
6 function, it should be recovered in the customer charges. Third, the Company
7 states that this expense represents costs necessary to have customers connected to
8 the system. Fourth, CUPA asserts, the cost is a customer cost since it includes
9 administrative and general expenses, encompasses the whole organization
10 including corporate governance, legal mandates, and business operations. Finally,
11 the Company states that my recommendation increases the percentage of revenue
12 that will be recovered in the volumetric rates and shifts more risk to the Company
13 (CUPA St. No. 7-R, p. 8).

14

15 **Q. DOES THE ASSERTION THAT I&E DID NOT ADDRESS THE**
16 **INCLUSION OF THIS CLAIM IN THE LAST BASE RATE PROCEEDING**
17 **SUPPORT THE COMPANY’S CONTENTION THAT IT CANNOT BE**
18 **ADDRESSED IN THIS CASE?**

19 A. No. Each claim by a utility can be reviewed at any time by the Commission.
20 Different claims are often reviewed depending on the claim and the impact to
21 rates. Therefore, as described in my direct testimony, the \$422,759 in Corporate
22 Allocations for wastewater must be removed.

1 **Q. DOES THE COMPANY CATEGORIZING CORPORATE ALLOCATIONS**
2 **TO THE BILLING AND COLLECTING FUNCTION JUSTIFY**
3 **RECOVERING THE COST IN THE CUSTOMER CHARGE?**

4 A. No. They are two separate things. The customer cost analysis is a subset of the
5 COSS and should only include direct customer costs and some indirect costs to
6 provide service to customers, where the direct customer cost changes if one or
7 more customers is added or leaves the system.

8
9 **Q. PLEASE ADDRESS THE THIRD CLAIM THAT THESE COSTS ARE**
10 **NECESSARY TO CONNECT CUSTOMERS TO THE SYSTEM.**

11 A. In theory, all costs are incurred to “connect customers to the system” or provide
12 service to customers, otherwise they would be imprudent costs. For example,
13 mains connect customers “to the system”, yet they are not considered customer
14 costs. A customer cost is different in that it should only include direct customer
15 costs and some indirect customer costs to provide service to customers, where the
16 direct cost changes if one or more customers is added or leaves the system.

17
18 **Q. PLEASE ADDRESS THE FOURTH CLAIM THE COMPANY APPEARS**
19 **TO BE MAKING THAT SOME OF THE ITEMS INCLUDED IN THE**
20 **CORPORATE ALLOCATIONS CLAIM ARE CUSTOMER RELATED?**

21 A. There may be some billing costs included, however, since the Company failed to
22 provide a breakdown of the \$422,759, the Commission has no way of knowing

1 how much that is. Furthermore, the remaining items such as costs of operating the
2 whole organization, business and overhead costs would not be included in the
3 customer cost analysis and recovered in the customer charge.

4
5 **Q. PLEASE ADDRESS THE FINAL POINT CONCERNING THE**
6 **PERCENTAGE RECOVERED FOR CUSTOMER CHARGES AND THE**
7 **RISK TO THE COMPANY.**

8 A. First, the Company failed to describe if there is an optimal percentage of revenue
9 that should be recovered from customer charges versus usage rates. Second, I
10 would agree that recovering more revenue from usage rates adds to the risk of
11 wastewater revenue declines as a result of customer water conservation efforts.
12 However, the Company failed to quantify the volumes or the time period. Finally,
13 I believe that customer charges based upon a proper customer cost analysis
14 outweighs any alleged future unspecified revenue decline of the Company.

15
16 **Q. DID THE COMPANY PROVIDE ANY VALID REASONS FOR**
17 **INCLUDING \$422,759 OF CORPORATE ALLOCATION IN THE**
18 **CUSTOMER COST ANALYSIS?**

19 A. No. Therefore, it should be removed from the customer cost analysis and not
20 recovered in the customer charges.

1 **RATE STRUCTURE**

2 **Q. WHAT AMOUNT OF WASTEWATER REVENUE INCREASE DID CUPA**
3 **INITIALLY REQUEST?**

4 A. CUPA’s Wastewater Division requested an annual increase in operating revenue
5 of \$1,720,070 (I&E St. No.3, p. 2 and CUPA Schedule 3, p. 3).

6
7 **Q. DID CUPA CHANGE PROPOSED RATES TO GENERATE THE**
8 **PROPOSED REVENUE OF \$5,082,481 AS SHOWN ABOVE?**

9 A. Yes. CUPA revised its proposed rates to match its revised proposed revenue
10 (CUPA Ex. SAM-3-R, p. 11 and I&E Ex. No. 3-SR, Sch. 2, Column E).

11
12 **Q. WHAT MONTHLY CUSTOMER CHARGES DID CUPA CLAIM FOR**
13 **ALL RESIDENTIAL AND COMMERCIAL CUSTOMERS?**

14 A. CUPA proposed monthly flat rates of \$51.65 per month for the Consolidated
15 unmetered household, residential, and commercial customers, a flat rate of \$1.53
16 per pupil (tariff rate of \$4.59 per pupil, per quarter) for the unmetered school class,
17 and a monthly availability fee of \$22.70 per lot in all service areas. In addition to
18 this, CUPA is proposing the implementation of low-income wastewater rates with
19 the same abovementioned monthly flat rate of \$51.65. For regular Tamiment and
20 Consolidated wastewater customers, CUPA is proposing the implementation of a
21 usage charge of \$17.90 per thousand gallons. For low-income Tamiment and
22 Consolidated wastewater customers, CUPA is proposing to use a usage charge of

1 \$11.60 per thousand gallons (CUPA Supporting to Schedule B-1 – Proposed
2 Service Revenue (July 31, 2025)).

3
4 **Q. DO HAVE ANY CHANGES TO YOUR RECOMMENDED RATES?**

5 A. Yes. As a result of the Company changing its proposed revenue, I am revising my
6 recommended rates (I&E Ex. No. 3-SR, Sch. 2, col. I).

7
8 **Q. IN YOUR DIRECT TESTIMONY, DID YOU ACCEPT CUPA
9 WASTEWATER’S RATE DESIGN?**

10 A. Yes. I generally agreed with the CUPA’s wastewater rate design (I&E St. No. 3,
11 pp. 17-27). Therefore, the rates are similar, but I recommend that my rates be
12 approved by the Commission for the reasons stated in my direct testimony.

13
14 **PUBLIC INPUT HEARINGS**

15 **Q. DID THE COMPANY’S REBUTTAL TESTIMONY ADDRESS THE
16 PUBLIC INPUT HEARINGS?**

17 A. Yes. Between January 30, 2024 and February 1, 2024, CUPA held a series of six
18 public input hearings, four in person and two telephonically, that allowed
19 consumers in all three CUPA territories to air grievances about wastewater
20 service. The Company provided details on the issues raised at the public input
21 hearings; however, given the volume of customer input provided at the hearings, I
22 continue to recommend the Company report its findings with respect to customer

1 complaints and service issues to inform the Commission and interested parties
2 about the status of those issues with the goal of improving service in its territory
3 (CUPA St. No. 4-R, pp. 10 – 29)
4

5 **Q. WHAT DO YOU RECOMMEND BASED UPON THE CUSTOMER**
6 **TESTIMONY PROVIDED AT THE PUBLIC INPUT HEARINGS?**

7 A. I recommend that CUPA track and report customer complaints, sewer back flow
8 events, pressure and chemical discharges within the wastewater system to the parties
9 within six months of a Commission order reporting its findings on the issues
10 described above. In regard to any environmental issues, I recommend CUPA track
11 and report DEP letters and violations and summarize these in a report one year after
12 the order date in this proceeding and each year thereafter for the next 3 years.
13

14 **Q. WHY DO YOU RECOMMEND CUPA TRACK AND REPORT**
15 **CUSTOMER COMPLAINTS AND SERVICE ISSUES?**

16 A. The Company is required to provide adequate, safe, and reasonable wastewater
17 service. The issues raised at the public input hearing call into question whether
18 the Company is adhering to this mandate. Reporting its findings with respect to
19 customer complaints and service issues will inform the Commission and interested
20 parties about the status of these issues with the goal of improving service in its
21 territory.

1 **Q. WHY DID YOU MAKE THESE RECOMMENDATIONS?**

2 A. The Company is required to provide adequate, safe, and reasonable wastewater
3 service. The issues raised at the public input hearings and the recent DEP reports
4 call into question whether CUPA is adhering to this requirement. Reporting its
5 findings with respect to the grinder pump issues and tracking DEP violations will
6 inform the Commission and interested parties about the status of those service
7 issues with the goal of improving service in its territory.

8

9 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

10 A. Yes.

**I&E Exhibit No. 3-SR
Witness: Esyan A. Sakaya**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

V.

COMMUNITY UTILITIES OF PENNSYLVANIA - WASTEWATER DIVISION

Docket No. R-2023-3042805

Exhibit to Accompany

The

Surrebuttal Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

**Rate Base
Plant Additions and Annual Depreciation
Rate Structure
Public Input Hearings**

Community Utilities of Pennsylvania, Inc.
R-2023-3042805
Summary of Operating Revenues
Wastewater Operations

Line No.	CUPA Sewer	Description (A)	7/31/2023 Per Books (B)	7/31/2023 Per Books Adjustment (C)	7/31/2023 Per Books Adjusted (D)	7/31/2023 Forecast Adjustment (E)	7/31/2024 FTY Forecast (F)	7/31/2024 FTY Forecast Adjustment (G)	7/31/2025 FPFTY Forecast (H)	7/31/2025 FPFTY Proposed Increase \$ (I)	7/31/2025 FPFTY Proposed Increase % (J)	7/31/2025 Fully Projected Future Test Year (K)
1	Residential		3,346,918.89	(27,438.36)	3,319,480.53	(11,468.51)	3,308,012.02	(9,379.34)	3,298,632.68	1,713,141.16	51.93%	5,011,773.84
2	Commercial		40,744.68	(131.72)	40,612.96	(633.58)	39,979.38	(461.91)	39,517.47	4,502.49	11.39%	44,019.95
3	Guarantee		85,533.73	(2,949.39)	82,583.34	247.86	82,831.20	-	82,831.20	2,702.40	3.26%	85,533.60
4	Miscellaneous Service Revenue - NSF Check Charge		100.00	-	100.00	-	100.00	-	100.00	-	0.00%	100.00
5	Miscellaneous Revenue - State Tax Adjustment Surcharge		(4,872.05)	-	(4,872.05)	-	(4,872.05)	-	(4,872.05)	-	0.00%	(4,872.05)
6	Late Payment Charges (LPC)		32,864.03	-	32,864.03	-	32,864.03	-	32,864.03	16,701.41	50.82%	49,565.44
7	Miscellaneous Revenue		(21,423.49)	-	(21,423.49)	21,423.49	-	-	-	-	0.00%	-
8	Uncollectible Accounts		(1,782.26)	-	(1,782.26)	-	(1,782.26)	(66,264.73)	(68,046.99)	(35,575.36)	52.28%	(103,622.35)
9	Total Service Revenue-Sewer		3,478,082.53	(30,519.47)	3,447,563.06	9,569.26	3,457,132.33	(76,105.98)	3,381,026.34	1,701,472.09		5,082,498.44

**I&E Exhibit No. 3-SR
Schedule No. 2**

**Community Utilities of Pennsylvania, Inc.
Wastewater Divisions
R-2023-3042805
Fully Projected Future Test Year : July 31, 2025
Supplement to Schedule B-1
Company and I&E Rates**

Line No.	Line No.	Customer Charge	Company				I&E				
			Meter Sizes	Present Monthly Rates	Increase	Company Monthly Rates	Percent Increase	Present Monthly Rates	Increase	I&E Monthly Rates	Percent Increase
	(A)		(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
RESIDENTIAL											
1	CONSOLIDATED		Flat	\$74.73	-\$23.33	\$51.40	-31.2%	\$74.73	-\$24.23	\$50.50	-32.4%
2	CONSOLIDATED		3/4"	\$74.73	-\$23.33	\$51.40	-31.2%	\$74.73	-\$24.23	\$50.50	-32.4%
3	CONSOLIDATED		5/8"	\$74.73	-\$23.33	\$51.40	-31.2%	\$74.73	-\$24.23	\$50.50	-32.4%
4	CONSOLIDATED		1"	\$74.73	-\$23.33	\$51.40	-31.2%	\$74.73	-\$24.23	\$50.50	-32.4%
	TAMIMENT		3/4"	\$26.15	\$25.25	\$51.40	96.6%	\$26.15	\$24.35	\$50.50	93.1%
	TAMIMENT		5/8"	\$26.15	\$25.25	\$51.40	96.6%	\$26.15	\$24.35	\$50.50	93.1%
	CONSOLIDATED - Low Income			\$0.00	\$51.40	\$51.40	0.0%	\$0.00	\$50.50	\$50.50	0.0%
	TAMIMENT -Low Income			\$0.00	\$51.40	\$51.40	0.0%	\$0.00	\$50.50	\$50.50	0.0%
SCHOOL - POOL -COMMERCIAL											
5	CONSOLIDATED - SCHOOL		Flat	\$1.53	-\$0.21	\$1.32	-13.7%	\$1.53	\$0.00	\$1.53	0.0%
6	CONSOLIDATED-COMMERCIAL		5/8"	\$74.73	-\$23.08	\$51.65	-30.9%	\$74.73	-\$24.23	\$50.50	-32.4%
7	COMMERCIAL - POOL		1"	\$74.73	-\$23.08	\$51.65	-30.9%	\$74.73	-\$24.23	\$50.50	-32.4%
8	COMMERCIAL - POOL		5/8"	\$74.73	-\$23.08	\$51.65	-30.9%	\$74.73	-\$24.23	\$50.50	-32.4%
9	TAMIMENT		Flat	\$26.15	\$25.50	\$51.65	97.5%	\$26.15	\$24.35	\$50.50	93.1%
10	TAMIMENT		5/8"	\$26.15	\$25.50	\$51.65	97.5%	\$26.15	\$24.35	\$50.50	93.1%
11	TAMIMENT		6"	\$26.15	\$25.50	\$51.65	97.5%	\$26.15	\$24.35	\$50.50	93.1%
Unmetered Wastewater											
12	CONSOLIDATED - AVAILABILITY			\$32.80	-\$10.20	\$22.60	-31.1%	\$32.80	-\$10.10	\$22.70	-30.8%
13	TAMIMENT - AVAILABILITY			\$20.22	\$2.38	\$22.60	11.8%	\$20.22	\$2.48	\$22.70	12.3%
Consumption Charge											
				Company		Percent		I&E		Percent	
				Present Rates	Proposed Rates			Present Rates	Proposed Rates		
				Per 1,000 Gallons	Per 1,000 Gallons			Per 1,000 Gallons	Per 1,000 Gallons		
				Gallons	Gallons	Increase		Gallons	Gallons	Increase	
Consolidated Residential											
13	CONSOLIDATED		Flat	\$0.00	\$17.85	\$17.85	0.0%	\$0.00	\$18.01	\$18.010	0.0%
14	CONSOLIDATED		3/4"	\$0.00	\$17.85	\$17.85	0.0%	\$0.00	\$18.01	\$18.010	0.0%
15	CONSOLIDATED		5/8"	\$0.00	\$17.85	\$17.85	0.0%	\$0.00	\$18.01	\$18.010	0.0%
16	CONSOLIDATED		1"	\$0.00	\$17.85	\$17.85	0.0%	\$0.00	\$18.01	\$18.010	0.0%
17	TAMIMENT		3/4"	\$13.98	\$3.87	\$17.85	27.7%	\$13.98	\$4.03	\$18.010	28.9%
18	TAMIMENT		5/8"	\$13.98	\$3.87	\$17.85	27.7%	\$13.98	\$4.03	\$18.010	28.9%
Consolidated Low Income											
19	CONSOLIDATED		5/8"	\$8.78	\$2.82	\$11.60	32.1%	\$8.78	\$2.96	\$11.740	33.7%
20	TAMIMENT		1"	\$8.78	\$2.82	\$11.60	32.1%	\$8.78	\$2.96	\$11.740	33.7%
Commercial											
21	CONSOLIDATED - SCHOOL		Flat	\$0.00	\$0.00	\$0.00	0.0%	\$0.00	\$0.00	\$0.000	0.0%
22	CONSOLIDATED-COMMERCIAL		5/8"	\$0.00	\$17.85	\$17.85	0.0%	\$0.00	\$18.01	\$18.010	0.0%
23	COMMERCIAL - POOL		1"	\$0.00	\$17.85	\$17.85	0.0%	\$0.00	\$18.01	\$18.010	0.0%
24	COMMERCIAL - POOL		5/8"	\$0.00	\$17.85	\$17.85	0.0%	\$0.00	\$18.01	\$18.010	0.0%
25	TAMIMENT		Flat	\$13.98	\$3.87	\$17.85	27.7%	\$13.98	\$4.03	\$18.010	28.9%
26	TAMIMENT		5/8"	\$13.98	\$3.87	\$17.85	27.7%	\$13.98	\$4.03	\$18.010	28.9%
27	TAMIMENT		6"	\$13.98	\$3.87	\$17.85	27.7%	\$13.98	\$4.03	\$18.010	28.9%

Community Utilities of Pennsylvania, Inc.
Wastewater Divisions
R-2023-3042805
Base Year / Proposed Revenues - Fully Projected Future Test Year
7/31/2025

Line	Rate Group (A)	Class (B)	Meter Size (C)	2025 TY Usage (D)	Billing Units (E)	BFC (F)	Usage Charge (G)	Base Revenue (H)	Vol Revenue (I)	Revenues (J)
1	Consolidated	RES	Flat	74,788,932	19,176	\$50.50	\$18.01	\$968,388	\$1,346,949	\$2,315,337
2	Consolidated	RES	3/4"	-	-	\$50.50	\$18.01	\$0	\$0	\$0
3	Consolidated	RES	5/8"	53,901,713	20,172	\$50.50	\$18.01	\$1,018,686	\$970,770	\$1,989,456
4	Consolidated	RES	1"	-	-	\$50.50	\$18.01	\$0	\$0	\$0
5	Consolidated	Low-Income		13,775,308	-	\$50.50	\$11.74	\$0	\$161,722	\$161,722
6	Tamiment	Low-Income		2,368,569	-	\$50.50	\$11.74	\$0	\$27,807	\$27,807
7	Tamiment	RES	3/4"	1,588,867	-	\$50.50	\$18.01	\$0	\$28,615	\$28,615
8	Tamiment	RES	5/8"	10,688,657	5,868	\$50.50	\$18.01	\$296,334	\$192,503	\$488,837
9				157,112,046	45,216			\$2,283,408	\$2,728,366	\$5,011,774
10	Consolidated	SCHL	Flat	-	14,316	\$1.32		\$18,920	\$0	\$18,920
11	Consolidated	COML	5/8"	124,350	60	\$51.65	\$18.01	\$3,099	\$2,240	\$5,339
12	Consolidated	Pool	1"	70,369	12	\$51.65	\$18.01	\$620	\$1,267	\$1,887
13	Consolidated	Pool	5/8"	99,103	12	\$51.65	\$18.01	\$620	\$1,785	\$2,405
14	Tamiment	COML	Flat	-	-	\$51.65	\$18.01	\$0	\$0	\$0
15	Tamiment	COML	5/8"	320,370	36	\$51.65	\$18.01	\$1,859	\$5,770	\$7,629
16	Tamiment	COML	6"	400,920	12	\$51.65	\$18.01	\$620	\$7,221	\$7,840
17				1,015,111	14,448			\$25,738	\$18,282	\$44,020
18	Consolidated	FIRE	Flat	-	-	\$0.00		\$0	\$0	\$0
19	Consolidated	AVB	Flat	-	528	\$22.70		\$11,986	\$0	\$11,986
20	Tamiment	AVB	Flat	-	3,240	\$22.70		\$73,548	\$0	\$73,548
21				158,127,157	63,432			\$2,394,679	\$2,746,648	\$5,141,327

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket Nos.
	:	R-2023-3042804 (Water)
v.	:	R-2023-3042805 (Wastewater)
	:	
Community Utilities of Pennsylvania, Inc.	:	
Base Rates	:	

**WITNESS VERIFICATION
THE BUREAU OF INVESTIGATION AND ENFORCEMENT**

I, Zachari Walker, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the documents preliminarily identified as:

- I&E Statement No. 1 PROPRIETARY/Non-Proprietary; I&E Exhibit No. 1 PROPRIETARY/Non-Proprietary, and
- I&E Statement No. 1-SR; I&E Exhibit No. 1-SR.

were prepared by me or under my direct supervision and control. Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same at an Evidentiary Hearing in this matter. This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

/s/ Zachari Walker
Zachari Walker
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement

Dated: March 28, 2024

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket Nos.
	:	R-2023-3042804 (Water)
v.	:	R-2023-3042805 (Wastewater)
	:	
Community Utilities of Pennsylvania, Inc.	:	
Base Rates	:	

**WITNESS VERIFICATION
THE BUREAU OF INVESTIGATION AND ENFORCEMENT**

I, D. C. Patel, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the documents preliminarily identified as:

- I&E Statement No. 2; I&E Exhibit No. 2,
- I&E Statement No. 2-R; and
- I&E Statement No. 2-SR.

were prepared by me or under my direct supervision and control. Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same at an Evidentiary Hearing in this matter. This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

/s/ DCPatel

D. C. Patel
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement

Dated: March 28, 2024

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket Nos.
	:	R-2023-3042804 (Water)
v.	:	R-2023-3042805 (Wastewater)
	:	
Community Utilities of Pennsylvania, Inc.	:	
Base Rates	:	

**WITNESS VERIFICATION
THE BUREAU OF INVESTIGATION AND ENFORCEMENT**

I, Esyan A. Sakaya, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the documents preliminarily identified as:

- I&E Statement No. 3 (Water); I&E Exhibit No. 3 (Water),
- I&E Statement No. 3 (Wastewater); I&E Exhibit No. 3 (Wastewater),
- I&E Statement No. 3-SR (Water); I&E Exhibit No. 3-SR (Water), and
- I&E Statement No. 3-SR (Wastewater); I&E Exhibit No. 3-SR (Wastewater).

were prepared by me or under my direct supervision and control. Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same at an Evidentiary Hearing in this matter. This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

/s/ Esyan A. Sakaya
Esyan A. Sakaya
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement

Dated: March 28, 2024