



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

BUREAU OF
 INVESTIGATION
 &
 ENFORCEMENT

July 2, 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.
 Veolia Water Pennsylvania, Inc.
 Docket Nos. R-2024-3045192 (Water) and R-2024-3045193 (Wastewater)
I&E Pre-Served Testimony, Exhibits, and Verification Statements

Dear Secretary Chiavetta:

Enclosed for electronic filing please find the **Non-Proprietary** version of the Bureau of Investigation and Enforcement’s Pre-Served Testimony, Exhibits, and Verification Statements in the above-captioned proceeding. The **Proprietary** version will be submitted to the Secretary Bureau’s via their ShareFile. The following documents were admitted into the record via the Joint Stipulation for Admission of Evidence filed on June 27, 2024, and approved by the Interim Order entered on July 1, 2024:

Vanessa Okum:	I&E Statement No. 1 (PROPRIETARY)	I&E Exhibit No. 1
D. C. Patel:	I&E Statement No. 2	I&E Exhibit No. 2
Esyan Sakaya:	I&E Statement No. 3	I&E Exhibit No. 3

Esyan Sakaya: I&E Exhibit No. 3, Schedule 1 and Schedule 2 – Corrected 5-24-24

Esyan Sakaya: I&E Statement No. 3-R

Vanessa Okum:	I&E Statement No. 1-SR	I&E Exhibit No. 1-SR
D. C. Patel:	I&E Statement No. 2-SR	
Esyan A. Sakaya:	I&E Statement No. 3-SR	I&E Exhibit No. 3-SR

Verification Statements for Vanessa Okum, 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.

Sincerely,

A handwritten signature in black ink that reads "Michael Podskoch". The signature is written in a cursive, slightly slanted style.

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MAP/ac
Enclosures

cc: Administrative Law Judge Emily I. DeVoe (*Cover Letter and Certificate of Service only – via email*)
Per Certificate of Service (*Cover Letter and Certificate of Service only – via email*)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :
 :
 v. : Docket Nos. R-2024-3045192 (Water)
 : R-2024-3045193 (Wastewater)
 Veolia Water Pennsylvania, Inc. :

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Letter Regarding Pre-Served Testimony, Exhibits, and Verification Statements** dated July 2, 2024, in the manner and upon the persons listed below.

Served via Electronic Mail Only

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**I&E Statement No. 1
Witness: Vanessa Okum
NON-PROPRIETARY**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

VEOLIA WATER PENNSYLVANIA, INC.

Docket No. R-2024-3045192 (Water)

and

Docket No. R-2024-3045193 (Wastewater)

Direct Testimony

of

Vanessa Okum

Bureau of Investigation and Enforcement

Concerning:

**OPERATING AND MAINTENANCE EXPENSES, CAP TRACKER
CASH WORKING CAPITAL**

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1 **INTRODUCTION**

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

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

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

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

10

11 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL
12 BACKGROUND.**

13 A. My educational background and professional experience are described in the
14 attached Appendix A.

15

16 **Q. 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 this proceeding is based on its responsibility to
19 represent the public interest. This responsibility requires balancing the interests of
20 the ratepayers, the regulated utility, 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 review the base rate filing of Veolia
3 Water Pennsylvania, Inc. (VWPA or Company) and make recommended
4 adjustments to the Company's proposed operating and maintenance (O&M)
5 expense claims and cash working capital for the fully projected future test year
6 (FPFTY) ending October 31, 2025.

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

9 A. Yes. I&E Exhibit No. 1 contains schedules relating to my direct testimony.
10

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

13 A. VWPA is using the year ended September 30, 2023 as the historic test year
14 (HTY), the year ending September 30, 2024 as the future test year (FTY), and the
15 year ending October 31, 2025 as the FPFTY in this proceeding.¹
16

17 **Q. WHAT IS VWPA'S REQUESTED REVENUE INCREASE?**

18 A. VWPA is requesting a total annual revenue increase of \$16,063,339 (or 26.6%)
19 based upon the FPFTY pro forma revenue requirement,² which reflects a total rate
20 base claim for the combined water and wastewater operations. The revenue
21 increase includes the recent acquisition of Mahoning Township Water (Mahoning

¹ VWPA Statement No. 2, pp. 3-4.

² I&E Exhibit No. 1, Schedule 1.

1 Water) and Mahoning Township Wastewater (Mahoning Wastewater), and is
2 broken down into separate revenue requirements by operation as follows:

	Revenue Increase	% Increase	Reference
Main Water Division	\$14,878,448	25.6%	VWPA Exhibit No. GRH-2, Schedule-1, p. 2
Mahoning Water	\$616,172	96.2%	VWPA Exhibit No. GRH-2, Schedule-1, p. 3
Columbia Wastewater	\$109,625	235.1%	VWPA Exhibit No. GRH-4, Schedule-1, p. 3
Mahoning Wastewater	\$459,094	28.9%	VWPA Exhibit No. GRH-4, Schedule-1, p. 2
Total Company	<u>\$16,063,339</u>	26.6%	

3
4 The requested revenue increase of \$14,878,448 for the Main Water division
5 includes \$237,000 allocated from Main Water, which is intended to mitigate the
6 rate increase to Mahoning Water customers.³ This allocation is being addressed
7 by I&E witness Esyan Sakaya in I&E Statement No. 3.

8

9 **I&E OPERATING AND MAINTENANCE EXPENSE ADJUSTMENTS**

10 **Q. PLEASE SUMMARIZE YOUR ADJUSTMENTS.**

11 **A.** The following tables summarize my recommended adjustments:

³ VWPA Statement No. 2, p. 9.

1

Main Water Division:

	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&E Adjustment</u>
O&M Expenses:			
Labor Expense	\$7,418,529	\$7,101,016	(\$317,513)
Employee Group Health and Life Insurance	\$1,596,912	\$1,039,945	(\$556,967)
401k Matching and Other Benefits	\$444,896	\$425,857	(\$19,039)
Payroll Tax Expense	\$918,219	\$878,919	(\$39,300)
Management & Service Fees	\$4,611,336	\$4,202,062	(\$409,274)
Lab Testing Fees	\$212,334	\$199,532	(\$12,802)
Outside Contractors	\$1,711,389	\$1,617,403	(\$93,986)
Other O&M Expense	\$164,161	\$155,043	(\$9,118)
Rate Case Expense	\$236,460	\$166,913	(\$69,547)
Customer Assistance Program	\$1,000,000	\$700,000	<u>\$300,000</u>
Total O&M Expense Adjustments			<u>(\$1,827,546)</u>
Rate Base:			
Cash Working Capital	\$795,083	\$721,316	<u>(\$73,767)</u>
Total Rate Base Adjustments			<u>(\$73,767)</u>

2

3

Mahoning Water:

	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&E Adjustment</u>
O&M Expenses:			
Employee Group Health and Life Insurance	\$1,061	\$640	(\$421)
Management & Service Fees	\$68,840	\$62,730	(\$6,110)
Other O&M Expense	\$894	\$845	<u>(\$49)</u>
Total O&M Expense Adjustments			<u>(\$6,580)</u>
Rate Base:			
Cash Working Capital	\$5,223	\$4,873	<u>(\$350)</u>
Total Rate Base Adjustments			<u>(\$350)</u>

4

1 **Columbia Wastewater:**

	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&E Adjustment</u>
O&M Expenses:			
Lab Testing Fees	\$3,669	\$3,592	(<u>\$77</u>)
Outside Contractors	\$29,795	\$29,342	(<u>\$453</u>)
Total O&M Expense Adjustments			<u>(\$530)</u>
Rate Base:			
Cash Working Capital	\$3,438	\$3,435	(<u>\$3</u>)
Total Rate Base Adjustments			<u>(\$3)</u>

2

3 **Mahoning Wastewater:**

	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&E Adjustment</u>
O&M Expenses:			
Lab Testing Fees	\$108,368	\$106,077	(<u>\$2,291</u>)
Outside Contractors	\$880,038	\$866,583	(<u>\$13,455</u>)
Total O&M Expense Adjustments			<u>(\$15,746)</u>
Rate Base:			
Cash Working Capital	\$15,292	\$15,110	(<u>\$182</u>)
Total Rate Base Adjustments			<u>(\$182)</u>

4

5

6 **OVERALL I&E RECOMMENDED POSITION**

7 **Q. WHAT IS I&E'S TOTAL RECOMMENDED REVENUE REQUIREMENT**
8 **FOR THE MAIN WATER DIVISION?**

9 A. I&E's total recommended revenue requirement for the Main Water Division is
10 \$67,056,811. This recommended revenue requirement represents an increase of

1 \$8,933,954 to present rate revenues of \$58,122,857. This total recommended
 2 allowance incorporates my adjustments made in this testimony to O&M expenses
 3 and cash working capital, as well as the recommended adjustments made in the
 4 testimony of I&E witnesses D.C. Patel⁴ and Esysan Sakaya.⁵ A calculation of the
 5 I&E recommended revenue requirement is shown in Table I(a) below:

Veolia Main Water Division R-2024-3045192	TABLE I(a)				
	INCOME		SUMMARY		
	10/31/25	INVESTIGATION & ENFORCEMENT			
	Proforma	[-----]			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	58,122,857	0	58,122,857	8,933,954	67,056,811
Deductions:					
O&M Expenses	24,822,808	-1,827,546	22,995,262	48,154	23,043,416
Depreciation	11,480,732	0	11,480,732		11,480,732
Taxes, Other	1,261,241	0	1,261,241	56,224	1,317,465
Income Taxes:					
Current State	619,497	147,204	766,701	716,079	1,482,780
Current Federal	1,525,139	350,260	1,875,399	1,703,834	3,579,233
Deferred Taxes	1,107,248	0	1,107,248		1,107,248
ITC	0	0	0		0
Total Deductions	40,816,665	-1,330,082	39,486,583	2,524,291	42,010,874
Income Available	17,306,192	1,330,082	18,636,274	6,409,663	25,045,937
Rate Base	349,877,351	-73,767	349,803,584	0	349,803,584
Rate of Return	4.95%		5.33%		7.16%

6

7

8 **Q. WHAT IS I&E'S TOTAL RECOMMENDED REVENUE REQUIREMENT**
 9 **FOR MAHONING WATER?**

10 A. I&E's total recommended revenue requirement for Mahoning Water is

⁴ I&E Statement No. 2.

⁵ I&E Statement No. 3.

1 \$1,196,368. This recommended revenue requirement represents an increase of
 2 \$555,530 to present rate revenues of \$640,838. This total recommended
 3 allowance incorporates my adjustments made in this testimony to O&M expenses
 4 and cash working capital, as well as the recommended adjustments made in the
 5 testimony of I&E witnesses D.C. Patel and Esyan Sakaya. A calculation of the
 6 I&E recommended revenue requirement is shown in Table I(b) below:

Mahoning Water R-2024-3045192	TABLE I(b)				
	INCOME		SUMMARY		
	10/31/25	INVESTIGATION & ENFORCEMENT			
	Proforma	[-----]			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	640,838	0	640,838	555,530	1,196,368
Deductions:					
O&M Expenses	509,880	-6,580	503,300	2,994	506,294
Depreciation	340,733	-122,766	217,967		217,967
Taxes, Other	7,469	0	7,469	1,256	8,725
Income Taxes:					
Current State	-37,231	12,370	-24,861	44,688	19,827
Current Federal	-87,672	29,432	-58,240	105,415	47,175
Deferred Taxes	21,705	0	21,705		21,705
ITC	0	0	0		0
Total Deductions	754,884	-87,544	667,340	154,353	821,693
Income Available	-114,046	87,544	-26,502	401,177	374,675
Rate Base	6,338,138	-1,105,246	5,232,892	0	5,232,892
Rate of Return	-1.80%		-0.51%		7.16%

7
8

9 **Q. WHAT IS I&E'S TOTAL RECOMMENDED REVENUE REQUIREMENT**
 10 **FOR COLUMBIA WASTEWATER?**

11 A. I&E's total recommended revenue requirement for Columbia Wastewater is
 12 \$150,401. This recommended revenue requirement represents an increase of

1 \$103,772 to present rate revenues of \$46,629. This total recommended allowance
 2 incorporates my adjustments made in this testimony to O&M expenses and cash
 3 working capital, as well as the recommended adjustments made in the testimony
 4 of I&E witnesses D.C. Patel and Esyan Sakaya. A calculation of the I&E
 5 recommended revenue requirement is shown in Table I(c) below:

Columbia Wastewater R-2024-3045193	TABLE I(c)				
	INCOME		SUMMARY		
	10/31/25	INVESTIGATION & ENFORCEMENT			
	Proforma	[-----]			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	46,629	0	46,629	103,772	150,401
Deductions:					
O&M Expenses	99,024	-530	98,494	2	98,496
Depreciation	16,891	0	16,891		16,891
Taxes, Other	48	0	48	97	145
Income Taxes:					
Current State	-10,225	47	-10,178	8,402	-1,776
Current Federal	-23,918	111	-23,807	19,580	-4,227
Deferred Taxes	9,548	0	9,548		9,548
ITC	0	0	0		0
Total Deductions	91,368	-372	90,996	28,081	119,077
Income Available	-44,739	372	-44,367	75,691	31,324
Rate Base	437,484	-3	437,481	0	437,481
Rate of Return	-10.23%		-10.14%		7.16%

6

7

8 **Q. WHAT IS I&E'S TOTAL RECOMMENDED REVENUE REQUIREMENT**
 9 **FOR MAHONING WASTEWATER?**

10 A. I&E's total recommended revenue requirement for Mahoning Wastewater is
 11 \$1,695,010. This recommended revenue requirement represents an increase of
 12 \$105,590 to present rate revenues of \$1,589,420. This total recommended

1 allowance incorporates my adjustments made in this testimony to O&M expenses
 2 and cash working capital, as well as the recommended adjustments made in the
 3 testimony of I&E witnesses D.C. Patel and Esyan Sakaya. A calculation of the
 4 I&E recommended revenue requirement is shown in Table I(d) below:

Mahoning Wastewater R-2024-3045193	TABLE I(d)				
	INCOME SUMMARY				
	10/31/25	INVESTIGATION & ENFORCEMENT			
	Proforma	[-----]			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	1,589,420	0	1,589,420	105,590	1,695,010
Deductions:					
O&M Expenses	1,056,124	-15,746	1,040,378	2	1,040,380
Depreciation	462,973	-153,034	309,939		309,939
Taxes, Other	4	0	4	812	816
Income Taxes:					
Current State	-13,232	16,102	2,870	8,497	11,367
Current Federal	-30,419	38,313	7,894	20,219	28,113
Deferred Taxes	24,298	0	24,298		24,298
ITC	0	0	0		0
Total Deductions	1,499,748	-114,365	1,385,383	29,530	1,414,913
Income Available	89,672	114,365	204,037	76,060	280,097
Rate Base	5,289,456	-1,377,489	3,911,967	0	3,911,967
Rate of Return	1.70%		5.22%		7.16%

5

6

7 **Q. PLEASE SUMMARIZE I&E’S COMBINED RECOMMENDED REVENUE**
 8 **REQUIREMENT.**

9 A. I&E’s total recommended revenue requirement for all VWPA operations combined
 10 is \$70,098,590 as shown in Table II below. This recommended revenue
 11 requirement represents an increase of \$9,698,846 to the I&E-adjusted total present
 12 rate revenues of \$60,399,744 for the Main Water Division, Mahoning Water,

1 Columbia Wastewater, and Mahoning Wastewater. As mentioned above, this total
 2 recommended allowance incorporates my adjustments made in this testimony to
 3 O&M expenses and cash working capital, as well as the recommended
 4 adjustments made in the testimony of I&E witnesses D.C. Patel and Esyan
 5 Sakaya.⁶

6
 7 **Q. WHAT IS I&E’S RESPONSE TO THE COMPANY’S ATTEMPT TO**
 8 **MITIGATE THE IMPACT OF THE REVENUE INCREASE TO**
 9 **MAHONING WATER VIA A REVENUE CONTRIBUTION?**

10 A. As further discussed in his testimony,⁷ I&E witness Esyan Sakaya does not
 11 support this arbitrary allocation in the instant proceeding as shown in the table
 12 below:

Table II						
Veolia Water Pennsylvania, Inc						
I&E Recommended - Combined Water and Wastewater Revenue Requirement Summary						
		Total Company	Main Water Division	Mahoning Water	Columbia Wastewater	Mahoning Wastewater
I&E Present Rate Revenue	(1)	\$ 60,399,744	\$ 58,122,857	\$ 640,838	\$ 46,629	\$ 1,589,420
I&E Recommended:						
Additional Revenue Requirement	(2)	\$ 9,698,846	\$ 8,933,954	\$ 555,530	\$ 103,772	\$ 105,590
Act 11 - Wastewater &/or Other Allocation	(3)	\$ -	\$ -	\$ -	\$ -	\$ -
Proposed Revenues	(4)	\$ 70,098,590	\$ 67,056,811	\$ 1,196,368	\$ 150,401	\$ 1,695,010
Rate Increase/(Decrease)	(5)	\$ 9,698,846	\$ 8,933,954	\$ 555,530	\$ 103,772	\$ 105,590
		16.1%	15.4%	86.7%	222.5%	6.6%

6 I&E Statement Nos. 2 and 3.

7 I&E Statement No. 3.

1 **LABOR EXPENSE**

2 **Q. WHAT IS INCLUDED IN VWPA'S CLAIM FOR LABOR EXPENSE?**

3 A. {BEGIN PROPRIETARY} [REDACTED] 1

4 [REDACTED] {END

5 PROPRIETARY}⁸

6

7 **Q. WHAT IS THE COMPANY'S CLAIM FOR LABOR EXPENSE?**

8 A. The Company is claiming FPFTY labor expense broken down as follows:⁹

	FPFTY Claim
Main Water Division	\$7,418,529
Mahoning Water	\$4,076
Columbia Wastewater	\$47,282
Mahoning Wastewater	<u>\$4,076</u>
Total	<u>\$7,473,963</u>

9

10

11 **Q. WHAT IS THE BASIS FOR THE COMPANY'S LABOR EXPENSE**

12 **CLAIM?**

13 A. {BEGIN PROPRIETARY} [REDACTED]

14 [REDACTED]

15 [REDACTED] {END PROPRIETARY}¹⁰ In response to I&E-RE-8-

16 D¹¹ and I&E-RE-46,¹² the Company forecasts a total of 120 employees in the

⁸ VWPA Workpaper GRH-2.1 CONFIDENTIAL.

⁹ VWPA Exhibit No. GRH-3, Schedule-2 and VWPA Exhibit No. GRH-5, Schedule-2.

¹⁰ VWPA Workpaper GRH-2-1 CONFIDENTIAL.

¹¹ I&E Exhibit No. 1, Schedule 2.

¹² I&E Exhibit No. 1, Schedule 3.

1 FPPTY, all of which are budgeted under the Main Water Division. {BEGIN

2 PROPRIETARY} [REDACTED]

3 [REDACTED] {END PROPRIETARY}¹³

4
5 **Q. DO YOU AGREE WITH THE COMPANY'S LABOR EXPENSE CLAIM?**

6 A. No.

7
8 **Q. WHAT DO YOU RECOMMEND FOR LABOR EXPENSE?**

9 A. I recommend an allowance of \$7,101,016 for Main Water Division labor expense,
10 or a reduction of \$317,513 (\$7,418,529 - \$7,101,016) to the Company's expense
11 claim.

12
13 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

14 A. My recommendation is based on adjusting payroll expense for the vacant positions
15 that are budgeted in the FPPTY claim. I am not recommending a labor adjustment
16 for Mahoning Water, Columbia Wastewater, or Mahoning Wastewater because the
17 Company has indicated that all of its employees are budgeted under the Main
18 Water Division, and any potential adjustments to the Company's claims would not
19 have a significant impact on those revenue requirements.

¹³ VWPA Workpaper GRH-2-1 CONFIDENTIAL.

1 **Q. HOW DID YOU CALCULATE YOUR RECOMMENDED ALLOWANCE**
2 **FOR THE MAIN WATER DIVISION LABOR EXPENSE?**

3 A. First, I calculated a vacancy rate based on historic vacancy data provided by the
4 Company. VWPA has indicated that it expects three employee vacancies and has
5 included the expenses related to these positions in its budget. However, I based
6 my calculation on data from the HTY and the two prior years,¹⁴ as the Company
7 did not provide support for its forecasted vacancies. The vacancy rate was
8 calculated by comparing planned headcount to actual headcount by month. I
9 calculated an average for each twelve-month period ended September 30, 2021,
10 2022, and 2023. I then averaged those three rates together resulting in a historic
11 vacancy rate of 4.28%.

12 Next, I applied my calculated vacancy rate to the Company’s FPFTY claim.
13 The following table shows the calculation of my recommended Main Water
14 Division FPFTY allowance and adjustment for labor expense:

1. VWPA FPFTY claim	\$7,418,529
2. I&E Calculated Vacancy Rate	4.28%
3. I&E Vacancy Rate Adjustment (1 x 0.0428)	<u>\$317,513</u>
4. I&E Allowance (1 - 3)	<u>\$7,101,016</u>

15

¹⁴ I&E Exhibit No. 1, Schedule 4.

1 **Q. SUMMARIZE YOUR RATIONALE FOR THE VACANCY**
2 **ADJUSTMENT.**

3 A. In its workpapers, the Company indicates that it expects employee vacancies, yet
4 still claims expenses that it should not actually expect to incur. It is unreasonable
5 to charge ratepayers for labor expenses that the Company does not expect to incur.

6 It is unreasonable to assume that the Company will fill and maintain 100%
7 full staffing of all budgeted positions throughout the FPFTY based on its own
8 historic vacancy records.

9 There will always be a certain level of normal vacancies due to retirements,
10 resignations, etc., on a day-to-day operating basis, and there will always be search
11 and placement time involved in filling normal vacancies as well as newly added
12 positions. Such vacancies will yield an annual savings in payroll costs which need
13 to be reflected for ratemaking to eliminate an unreasonable impact on rates.

14

15 **EMPLOYEE GROUP HEALTH AND LIFE INSURANCE**

16 **Q. WHAT IS INCLUDED IN VWPA'S CLAIM FOR EMPLOYEE GROUP**
17 **HEALTH AND LIFE INSURANCE?**

18 A. VWPA's claim for employee group health and life insurance includes medical
19 insurance, dental insurance, and various levels of group life insurance.¹⁵

¹⁵ VWPA Exhibit No. GRH-3, Schedule-3.

1 **Q. WHAT IS THE COMPANY’S CLAIM FOR EMPLOYEE GROUP HEALTH**
2 **AND LIFE INSURANCE?**

3 A. The Company is claiming FPFTY employee group health and life insurance
4 broken down as follows:¹⁶

	FPFTY Claim
Main Water Division	\$1,596,912
Mahoning Water	\$1,061
Columbia Wastewater	\$6,915
Mahoning Wastewater	<u>\$596</u>
Total	<u>\$1,605,484</u>

5
6

7 **Q. WHAT IS THE BASIS FOR THE COMPANY’S EMPLOYEE GROUP**
8 **HEALTH AND LIFE INSURANCE CLAIM?**

9 A. The Company’s claim for employee group health and life insurance for Water
10 Operations is based on HTY actuals and adjusted for the 11 new employees in
11 addition to inflation.¹⁷ The Company’s claim for employee group health and life
12 insurance for Wastewater Operations is based on HTY actuals and adjusted for
13 inflation only.¹⁸

¹⁶ VWPA Exhibit No. GRH-3, Schedule-3 and VWPA Exhibit No. GRH-5, Schedule-3.
¹⁷ VWPA Statement No. 2, p. 11.
¹⁸ VWPA Statement No. 2, p. 26.

1 **Q. DO YOU AGREE WITH THE COMPANY'S EMPLOYEE GROUP**
2 **HEALTH AND LIFE INSURANCE CLAIM?**

3 A. No.

4

5 **Q. WHAT DO YOU RECOMMEND FOR EMPLOYEE GROUP HEALTH**
6 **AND LIFE INSURANCE?**

7 A. I recommend an allowance of \$1,039,945 for Main Water Division employee
8 group health and life insurance expense, or a reduction of \$556,967 (\$1,596,912 -
9 \$1,039,945) to the Company's claim and an allowance of \$640 for Mahoning
10 Water, or a reduction of \$421 (\$1,061 - \$640) to the Company's claim.

11

12 **Q. WHAT IS THE BASIS AND CALCULATION FOR YOUR**
13 **RECOMMENDATION?**

14 A. My recommendation is based on the data inputs provided by VWPA in support of
15 the Company's adjustment;¹⁹ however, my calculations yielded a different result.
16 The increase of eleven employees in the FTY over an average of 101 employees in
17 the HTY represents a percentage increase of just under 11% , yet the
18 corresponding total water increase of \$642,907 claimed by the Company in the
19 FTY over the HTY expense of \$920,056 for employee group health and life
20 insurance expense is almost 70%. As a result of this finding, I duplicated the table
21 provided in support of the adjustment and calculated my own results,²⁰ which

¹⁹ VWPA Exhibit No. GRH-3, Schedule-3.

²⁰ I&E Exhibit No. 1, Schedule 5.

1 shows a much more reasonable 15.42% increase (\$141,979 / \$920,056). I then
 2 added the additional expense for the eleven employees to the FTY amount for the
 3 Main Water Division only, since the labor expense for the eleven employees
 4 impacted the Main Water Division only. I calculated the FTY amount for
 5 Mahoning Water using the same 2024 inflation rate used to calculate the increase
 6 in this expense for Wastewater Operations. I then applied the Company's 2025
 7 inflation rate to both divisions to calculate the FPFTY amount. In addition, as a
 8 result of my recommended vacancy adjustment to labor expense, I have included a
 9 corresponding adjustment to the Main Water Division claim for employee group
 10 health and life insurance expense. The tables below show the calculations in more
 11 detail:

Main Water Division	
HTY Actuals	\$920,056
Add new employees	<u>\$141,979</u>
FTY Allowance	\$1,062,035
2025 Inflation (2.2%)	\$23,365
Vacancy Adjustment (4.28%)	<u>(\$45,455)</u>
FPFTY Allowance	<u>\$1,039,945</u>

12

Mahoning Water	
HTY Actuals	\$611
2024 Inflation (2.375%)	<u>\$15</u>
FTY Allowance	\$626
2025 Inflation (2.2%)	<u>\$14</u>
FPFTY Allowance	<u>\$640</u>

13

1 **Q. PLEASE BRIEFLY EXPLAIN WHY THERE IS NO CORRESPONDING**
2 **ADJUSTMENT TO THE WASTEWATER CLAIMS.**

3 A. As stated above, the Company's claims for employee group health and life
4 insurance for Wastewater Operations are based on HTY actuals and adjusted for
5 inflation only.²¹ Therefore, I have no corresponding adjustment for Columbia
6 Wastewater or Mahoning Wastewater.

7
8 **401K MATCHING AND OTHER BENEFITS**

9 **Q. WHAT IS THE COMPANY'S CLAIM FOR 401K MATCHING AND**
10 **OTHER BENEFITS?**

11 A. The Company is claiming FPFTY 401k matching and other benefits broken down
12 as follows:²²

	FPFTY Claim
Main Water Division	\$444,896
Mahoning Water	\$287
Columbia Wastewater	\$823
Mahoning Wastewater	<u>\$67</u>
Total	<u>\$446,073</u>

13

²¹ VWPA Statement No. 2, p. 26.

²² VWPA Exhibit No. GRH-3, Schedule-6.

1 **Q. WHAT IS THE BASIS FOR THE COMPANY’S 401K MATCHING AND**
2 **OTHER BENEFITS CLAIM?**

3 A. The Company’s claim for 401k matching and other benefits is primarily based on
4 annual gross salary multiplied by the HTY 401k contribution percentage of 3.75%.
5 There is also a small number of other benefits that are based on the HTY and
6 adjusted for inflation.²³

7
8 **Q. DO YOU AGREE WITH THE COMPANY’S 401K MATCHING AND**
9 **OTHER BENEFITS CLAIM?**

10 A. No.

11
12 **Q. WHAT DO YOU RECOMMEND FOR 401K MATCHING AND OTHER**
13 **BENEFITS?**

14 A. I recommend an allowance of \$425,857 for the Main Water Division 401k
15 matching and other benefits expense, or a reduction of \$19,039 (\$444,896 -
16 \$425,857) to the Company’s claim.

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

19 A. My recommendation corresponds to the vacancy adjustment made to labor
20 expense above.

²³ VWPA Exhibit No. GRH-3, Schedule-6.

1 **Q. HOW DID YOU CALCULATE YOUR RECOMMENDED ADJUSTMENT**
2 **TO 401K MATCHING AND OTHER BENEFITS?**

3 A. I calculated my adjustment by applying the same vacancy rate that was calculated
4 for the labor adjustment to the 401k Matching portion of this expense as shown in
5 the table.

Main Water Division	
FPPTY 401k Matching Claim	\$444,828
Vacancy Adjustment (4.28%)	(\$19,039)
Add Other Benefits	<u>\$68</u>
I&E FPPTY Allowance	\$425,857

6
7 It should be noted that I am not addressing or making any recommendations to
8 Mahoning Water, Columbia Wastewater, or Mahoning Wastewater since I am not
9 recommending any adjustments to labor expense in these operational units, nor am
10 I adjusting the Other Benefits portion of the expense. I am only adjusting the 401k
11 Matching portion of the expense because this is the portion that is directly based
12 on labor expense.

13
14 **PAYROLL TAX EXPENSE**

15 **Q. WHAT IS INCLUDED IN THE COMPANY'S CLAIM FOR PAYROLL TAX**
16 **EXPENSE?**

17 A. The Company's claim for payroll tax expense includes its share of federal and
18 state payroll taxes, such as Social Security, Medicare, and federal and state
19 unemployment taxes, and is based on employee compensation.

1 **Q. WHAT IS THE COMPANY'S CLAIM FOR PAYROLL TAX EXPENSE?**

2 A. The Company's FPFTY payroll tax expense claim is broken down as follows:²⁴

	FPFTY Claim
Main Water Division	\$918,219
Mahoning Water	\$468
Columbia Wastewater	\$44
Mahoning Wastewater	<u>4</u>
Total	<u>\$918,735</u>

3

4

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

6 A. No.

7

8 **Q. WHAT DO YOU RECOMMEND FOR PAYROLL TAX EXPENSE?**

9 A. I recommend an allowance of \$878,919 for Main Water Division payroll tax
10 expense, or a reduction of \$39,300 (\$918,219 - \$878,919) to the Company's
11 FPFTY Main Water Division claim.

12

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

14 A. My recommendation corresponds to the vacancy adjustment made to labor
15 expense above.

²⁴ VWPA Exhibit No. GRH-3, Schedule-1, pp. 2 and 4, and VWPA Exhibit No. GRH-5, Schedule-1, pp. 2-3.

1 **Q. HOW DID YOU CALCULATE YOUR RECOMMENDED ADJUSTMENT**
2 **TO PAYROLL TAX EXPENSE?**

3 A. I calculated my adjustment by applying the same vacancy rate to this expense that
4 was calculated for the labor adjustment as shown in the table.

Main Water Division	
FPFTY Claim	\$918,219
Vacancy Adjustment (4.28%)	<u>\$39,300</u>
I&E FPFTY Allowance	<u>\$878,919</u>

5
6 It should be noted that I am not addressing or making any recommendations to
7 Mahoning Water, Columbia Wastewater, or Mahoning Wastewater since I am not
8 recommending any adjustments to labor expense in these operational units.

9
10 **MANAGEMENT AND SERVICE (M&S) FEES**

11 **Q. BRIEFLY EXPLAIN THE COMPANY’S M&S FEES.**

12 A. The M&S fees charged to the Company represent centralized services provided to
13 VWPA by Veolia Water Management & Services, Inc. (VWM&S). These services
14 include administrative, engineering, legal, operations, accounting, finance, human
15 resources, purchasing, insurance, data processing, customer service, billing, public
16 relations, planning and ratemaking services and other general services necessary in
17 the proper conduct of business.²⁵

²⁵ VWPA Statement No. 8, p. 3.

1 **Q. WHAT IS THE COMPANY’S CLAIM FOR M&S FEES?**

2 A. The Company is claiming FPFTY M&S fees of \$4,611,336 for the Main Water
3 Division and \$68,840 for Mahoning Water.

4
5 **Q. WHAT IS THE BASIS FOR THE COMPANY’S CLAIM?**

6 A. According to VWPA witness Anupa Jacob, M&S fees for the twelve-month period
7 ended September 30, 2023 were normalized to remove one-time costs and then
8 adjusted upward by a factor of 3% to account for a general increase in costs to
9 arrive at the FTY forecast. The FTY was then adjusted an additional 3% to arrive
10 at the FPFTY claim.²⁶

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

13 A. No. First, the Company’s assertion that the FTY forecast is based on a 3%
14 increase over the HTY does not appear to be accurate, as the FTY forecast is more
15 than 11% higher than the Company’s adjusted HTY historic data:

	HTY	FTY
Total M&S Fees	\$4,049,242	\$4,513,925
FTY Increase over HTY		\$464,683 or 11.48%

16

17 Second, I disagree with the Company’s use of a generic 3% per year
18 adjustment when VWPA has already conducted an inflation study as part of its

²⁶ VWPA Statement No. 8, p. 5.

1 current rate case filing.²⁷ The Company has applied its calculated inflation factors
2 to all other relevant adjustments related to O&M expenses in this case.

3
4 **Q. WHAT DO YOU RECOMMEND FOR M&S FEES?**

5 A. I recommend an FPFTY allowance of \$4,202,062, or a reduction of \$409,274
6 (\$4,611,336 - \$4,202,062) for the Main Water Division and \$62,730, or a
7 reduction of \$6,110 (\$68,840 - \$62,730) for Mahoning Water.

8
9 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

10 A. My recommendation is based on the Company's calculated inflation factors of
11 2.375% in the FTY and 2.20% in the FPFTY. I started with the Company's
12 adjusted HTY expense, then applied the FTY inflation factor to arrive at the FTY
13 forecast, then applied the FPFTY inflation factor to arrive at the FPFTY forecast
14 as shown below:

	HTY	FTY Infl. Factor	FTY	FPFTY Infl. Factor	FPFTY
Main Water Division	\$4,016,221	2.375%	\$4,111,606	2.20%	\$4,202,062
Mahoning Water	<u>\$59,956</u>	2.375%	<u>\$61,380</u>	2.20%	<u>\$62,730</u>
Total	\$4,049,242		\$4,172,956		\$4,264,792

15

²⁷ VWPA Exhibit No. GRH-3, Schedule 31.

1 **LAB TESTING FEES**

2 **Q. WHAT IS THE COMPANY'S CLAIM FOR LAB TESTING FEES?**

3 A. The Company is claiming FPFTY lab testing fees broken down as follows:²⁸

	FPFTY Claim
Main Water	\$212,334
Mahoning Water	\$0
Columbia Wastewater	\$3,669
Mahoning Wastewater	<u>\$108,368</u>
Total	<u>\$324,371</u>

4

5

6 **Q. WHAT IS THE BASIS FOR THE COMPANY'S LAB TESTING FEES**
7 **CLAIM?**

8 A. The FPFTY claim for lab testing fees is calculated by applying the Company's
9 2025 inflation factor to the FTY forecast, which is based on a two-year historic
10 average using data from the two most recent complete periods, or the fiscal years
11 ended September 30, 2022 and September 30, 2023, and applying the Company's
12 2024 inflation factor.²⁹

13

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

16 A. No.

²⁸ VWPA Exhibit No. GRH-3, Schedule-13 and VWPA Exhibit No. GRH-5, Schedule-9.

²⁹ VWPA Statement No. 2, pp. 13 and 27.

1 **Q. WHAT DO YOU RECOMMEND FOR LAB TESTING FEES?**

2 A. I recommend a total FPFTY allowance of \$309,201 for lab testing fees broken
3 down as follows:

FPFTY	VWPA Claim	I&E Allowance	Adjustment
Main Water Division	\$212,334	\$199,532	(\$12,802)
Columbia Wastewater	\$3,669	\$3,592	(\$77)
Mahoning Wastewater	<u>\$108,368</u>	<u>\$106,077</u>	<u>(\$2,291)</u>
Total	<u>\$324,371</u>	<u>\$309,201</u>	<u>(\$15,170)</u>

4

5

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

8 A. My recommendation is based on a three-year historic average of lab testing fees,
9 using the years ended September 30, 2021, 2022, and 2023,³⁰ and applying the
10 Company's 2024 inflation factor to calculate the FTY, then applying the
11 Company's 2025 inflation factor to calculate the FPFTY.³¹ Since the Company
12 did not track costs by operating unit prior to the HTY, I used the totals for Water
13 and Wastewater and then applied an allocation factor to calculate the expense at
14 the operating unit level. I calculated the allocation factor based on the HTY
15 amounts³² distributed among the Water operating units and Wastewater operating
16 units as shown below:

³⁰ I&E Exhibit No. 1, Schedule 6 (Water), and I&E Exhibit No. 1, Schedule 7 (Wastewater).

³¹ I&E Exhibit No. 1, Schedule 8.

³² VWPA Exhibit No. GRH-3, Schedule-13 and VWPA Exhibit No. GRH-5, Schedule-9.

	HTY Actual	Allocation
Main Water Division	\$247,303	100%
Mahoning Water	<u>\$0</u>	<u>0%</u>
Total	<u>\$247,303</u>	100%

1

	HTY Actual	Allocation
Columbia Wastewater	\$4,060	3.275%
Mahoning Wastewater	<u>\$119,905</u>	<u>96.725%</u>
Total	<u>\$123,965</u>	100%

2

3

4 **Q. BRIEFLY EXPLAIN YOUR RATIONALE FOR USING A THREE-YEAR**
5 **AVERAGE RATHER THAN A TWO-YEAR AVERAGE AS THE**
6 **COMPANY HAS SUGGESTED.**

7 A. Despite using a three-year average for several other expenses, in response to I&E-
8 RE-19-D, the Company states that a two-year average is appropriate for this
9 expense because the result is more representative of future lab testing costs than
10 that of a three-year average due to increases in monitoring and testing.³³
11 However, the Company provides no support for this assertion that a two-year
12 historic average is more representative of the FPPTY experience. Therefore, it is
13 more appropriate to be consistent with the majority of the Company's other O&M
14 expenses in using a three-year average, in the absence of any other supportable
15 forecasting method.

³³ I&E Exhibit No. 1, Schedule 9.

1 **OUTSIDE CONTRACTORS**

2 **Q. WHAT IS THE COMPANY’S CLAIM FOR OUTSIDE CONTRACTORS?**

3 A. The Company is claiming FPFTY outside contractors expense broken down as
4 follows:³⁴

	FPFTY Claim
Main Water Division	\$1,711,389
Mahoning Water	\$0
Columbia Wastewater	\$29,795
Mahoning Wastewater	<u>\$880,038</u>
Total	<u>\$2,621,222</u>

5

6

7 **Q. WHAT IS THE BASIS FOR THE COMPANY’S OUTSIDE**
8 **CONTRACTORS EXPENSE CLAIM?**

9 A. The claim for outside contractors expense is based on a two-year historic average
10 using data from the two most recent complete periods, or the fiscal years ended
11 September 30, 2022 and September 30, 2023, applying the Company’s 2024
12 inflation factor, and then applying the Company’s 2025 inflation factor to arrive at
13 the FPFTY forecast.³⁵

³⁴ VWPA Exhibit No. GRH-3, Schedule-14 and VWPA Exhibit No. GRH-5, Schedule-10.

³⁵ VWPA Statement No. 2, pp. 13 and 27.

1 **Q. DO YOU AGREE WITH THE COMPANY’S OUTSIDE CONTRACTORS**
2 **CLAIM?**

3 A. No.

4

5 **Q. WHAT DO YOU RECOMMEND FOR OUTSIDE CONTRACTORS**
6 **EXPENSE?**

7 A. I recommend a total FPFTY allowance of \$2,513,328 for outside contractors
8 expense broken down as follows:

FPFTY	Company Claim	I&E Allowance	Adjustment
Main Water Division	\$1,711,389	\$1,617,403	(\$93,986)
Columbia Wastewater	\$29,795	\$29,342	(\$453)
Mahoning Wastewater	<u>\$880,038</u>	<u>\$866,583</u>	<u>(\$13,455)</u>
Total	<u>\$2,621,222</u>	<u>\$2,513,328</u>	<u>(\$107,894)</u>

9

10

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

13 A. My recommendation is based on a three-year historic average of outside
14 contractors expense, using the fiscal years ended September 30, 2021, 2022, and
15 2023,³⁶ and applying the Company’s 2024 inflation factor to calculate the FTY,
16 then applying the Company’s 2025 inflation factor to calculate the FPFTY.³⁷

17 Since the Company did not track costs by operating unit prior to the HTY, I used

³⁶ I&E Exhibit No. 1, Schedule 6 (Water), and I&E Exhibit No. 1, Schedule 7 (Wastewater).

³⁷ I&E Exhibit No. 1, Schedule 8.

1 the totals for Water and Wastewater and then applied an allocation factor to
2 calculate the expense at the operating unit level. I calculated the allocation factor
3 based on the HTY amounts³⁸ distributed among the Water operating units and
4 Wastewater operating units as shown below:

	HTY Actual	Allocation
Main Water Division	\$1,723,551	100%
Mahoning Water	<u>\$0</u>	<u>0%</u>
Total	<u>\$1,723,551</u>	<u>100%</u>

	HTY Actual	Allocation
Columbia Wastewater	\$28,292	3.275%
Mahoning Wastewater	<u>\$835,662</u>	<u>96.725%</u>
Total	<u>\$863,954</u>	<u>100%</u>

5
6
7
8 **Q. BRIEFLY EXPLAIN YOUR RATIONALE FOR USING A THREE-YEAR**
9 **AVERAGE RATHER THAN A TWO-YEAR AVERAGE AS THE**
10 **COMPANY HAS SUGGESTED.**

11 A. Despite using a three-year average for several other expenses, in response to I&E-
12 RE-20-D, the Company states that a two-year average is appropriate for this
13 expense because the result is closer to the estimated FTY costs compared to when
14 using a three-year average or HTY only.³⁹ However, the Company provides no
15 support for this claim. Therefore, it is more appropriate to be consistent with the

³⁸ VWPA Exhibit No. GRH-3, Schedule-14 and VWPA Exhibit No. GRH-5, Schedule-10.

³⁹ I&E Exhibit No. 1, Schedule 10.

1 majority of the Company's other expense claims in using a three-year average, in
2 the absence of any other supportable forecasting method.

3
4 **OTHER O&M EXPENSE**

5 **Q. WHAT IS THE COMPANY'S CLAIM FOR OTHER O&M EXPENSE?**

6 A. The Company is claiming FPFTY other O&M expense of \$164,161 for the Main
7 Water Division and \$894 for Mahoning Water.⁴⁰

8
9 **Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?**

10 A. The Company's FPFTY claim for other O&M expense is calculated by applying
11 the Company's 2025 inflation factor to the FTY forecast, which is based on a two-
12 year historic average using data from the two most recent complete periods, or the
13 fiscal years ended September 30, 2022 and 2023, and applying the Company's
14 2024 inflation factor.⁴¹

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

17 A. No.

18
19 **Q. WHAT IS YOUR RECOMMENDATION FOR OTHER O&M EXPENSE?**

20 A. I recommend an FPFTY allowance of \$155,043, or a reduction of \$9,118
21 (\$164,161 - \$155,043) to the Company's claim for the Main Water Division, and

⁴⁰ VWPA Exhibit No. GRH-3, Schedule-28.

⁴¹ VWPA Statement No. 2, p. 15.

1 \$845, or a reduction of \$49 (\$894 - \$845) to the Company's claim for Mahoning
2 Water.

3

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

6 A. My recommendation is based on a three-year historic average of other O&M
7 expense, using the fiscal years ended September 30, 2021, 2022, and 2023,⁴² and
8 applying the Company's 2024 inflation factor to calculate the FTY, then applying
9 the Company's 2025 inflation factor to calculate the FPFTY.⁴³ Since the Company
10 did not track costs by operating unit prior to the HTY, I used the Water total and
11 then applied an allocation factor to calculate the expense at the operating unit
12 level. I calculated the allocation factor based on the HTY amounts⁴⁴ distributed
13 among the Water operating units as shown below:

	HTY Actual	Allocation
Main Water Division	\$145,258	99.458%
Mahoning Water	<u>\$791</u>	<u>0.542%</u>
Total	<u>\$146,049</u>	<u>100%</u>

14

⁴² I&E Exhibit No. 1, Schedule 6 (Water), and I&E Exhibit No. 1, Schedule 7 (Wastewater).

⁴³ I&E Exhibit No. 1, Schedule 8.

⁴⁴ VWPA Exhibit No. GRH-3, Schedule-28.

1 **Q. BRIEFLY EXPLAIN YOUR RATIONALE FOR USING A THREE-YEAR**
2 **AVERAGE RATHER THAN A TWO-YEAR AVERAGE AS THE**
3 **COMPANY HAS SUGGESTED.**

4 A. Despite using a three-year average for several other expenses, in response to I&E-
5 RE-31-D, the Company states that a two-year average is appropriate for this
6 expense because the result is closer to anticipated costs compared to when using a
7 three-year average.⁴⁵ However, the Company provides no support for this claim.
8 Therefore, it is more appropriate to be consistent with the majority of the
9 Company's other O&M expenses in using a three-year average, in the absence of
10 any other supportable forecasting method.

11

12 **RATE CASE EXPENSE**

13 **Q. DESCRIBE THE NATURE AND TYPES OF EXPENDITURES**
14 **TYPICALLY ALLOWED AS PART OF A REGULATED UTILITY'S**
15 **OVERALL RATE CASE EXPENSE.**

16 A. The nature and types of individual expenditures that comprise a utility's allowable
17 claim for rate case expense are those directly incurred to compile, present, and
18 defend a utility's request for a base rate increase before the Commission. The
19 actual expenditures and estimated costs typically found in an allowable rate case
20 expense claim include legal fees for outside counsel, fees to outside consultants,
21 and the cost of printing, document assembly, and postage.

⁴⁵ I&E Exhibit No. 1, Schedule 11.

1 **Q. THE COMPANY REFERENCES ITS CLAIM AS AN AMORTIZED**
2 **COST.⁴⁶ BRIEFLY DISCUSS THE CONCEPT OF AMORTIZATION.**

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

9
10 **Q. IS THE COMPANY'S PROPOSED AMORTIZATION TREATMENT**
11 **PROPER?**

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

14
15 **Q. WHAT IS NORMALIZATION?**

16 A. Normalization is a ratemaking concept that describes the transformation of an
17 operating expense that recurs at irregular intervals into a "normal" annual test year
18 allowance. Normalization specifically addresses the prospective recovery of an
19 ongoing expense that recurs sporadically. Normalized expenses are no different
20 than other O&M expenses in that the Company is given the opportunity to achieve
21 full recovery.

⁴⁶ I&E Exhibit No. 1, Schedule 12.

1 **Q. HOW HAS THE COMMISSION TRADITIONALLY TREATED RATE**
2 **CASE EXPENSE FOR RATEMAKING PURPOSES?**

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

10

11 **Q. HOW IS THE FREQUENCY OF RATE CASE FILINGS DETERMINED?**

12 A. The frequency is determined by calculating the average number of months
13 between the utility's previous rate case filings.

14

15 **Q. WHAT IS THE COMPANY'S CLAIM FOR RATE CASE EXPENSE?**

16 A. The Company is claiming FPPTY rate case expense of \$236,460 for the Main
17 Water Division.⁴⁷ VWPA is not allocating any portion of the expense to
18 Mahoning Water, Columbia Wastewater, or Mahoning Wastewater.

19

20 **Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?**

21 A. VWPA forecasts a total rate case expense of \$712,320 and deducts a regulatory

⁴⁷ VWPA Exhibit No. GRH-3, Schedule-22.

1 liability employee retention credit of \$2,941. This results in a net rate case
2 expense of \$709,379 to be amortized over a three-year period.

3
4 **Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?**

5 A. No. I disagree with the Company's use of a three-year period as well as its request
6 to amortize the amount rather than normalize it.

7
8 **Q. WHAT IS YOUR RECOMMENDATION FOR RATE CASE EXPENSE?**

9 A. I recommend normalizing the expense over a 51-month period, resulting in an
10 allowance of \$166,913 for rate case expense, or a reduction of \$69,547 (\$236,640
11 - \$166,913) to the Company's FPFTY claim.

12
13 **Q. WHY ARE YOU RECOMMENDING A 51-MONTH NORMALIZATION
14 PERIOD?**

15 A. My recommendation is based on VWPA's historic filing frequency as provided by
16 the Company in response to I&E-RE-26-D⁴⁸ and exact filing dates pulled from the
17 Commission's document storage system. My calculation is shown below:

18

Docket No.	Date Filed	Interval (Months)	Average
R-2011-2232985	3/25/2011		51
R-2015-2462723	12/29/2014	45	
R-2018-3000834	3/28/2018	39	
R-2024-3045192	12/27/2023	69	

⁴⁸ I&E Exhibit No. 1, Schedule 12.

1 VWPA's proposed three-year period is not supported by historic filing
2 frequency and is speculative in nature. In fact, the Company has not filed a base
3 rate case since 2018, nearly six years ago. A three-year period is inappropriate and
4 lacks the proper support, therefore, it should not be used to calculate the annual
5 amount for rate case expense.

6 Additionally, my recommendation is based on normalization of rate case
7 expense as opposed to the Company's intent to amortize the expense. This
8 position is directly based on the Commission's traditional treatment of this
9 expense. The practice of normalization is appropriate for ratemaking purposes
10 when an expense is ongoing, occurs at irregular intervals, and is related to the
11 rendering of utility service.

12
13 **Q. HAVE OTHER UTILITIES BEEN GRANTED A NORMALIZATION**
14 **PERIOD BASED ON SPECULATION OF FUTURE FILINGS, AND IF SO,**
15 **WHAT WAS THE RESULT?**

16 A. Yes. In 2012, the Commission granted PPL Electric Utilities Corporation (PPL)
17 permission to normalize its rate case expense over a 24-month period based on
18 PPL's representations regarding its expected timing of future base rate case
19 filings.⁴⁹ That base rate case was filed on March 30, 2012; however, despite PPL's
20 representations, PPL did not file its next rate case until March 31, 2015, which was
21 36 months after the 2012 rate case filing. It should be noted that I&E's

⁴⁹ *PA. PUC v. PPL Electric Utilities Corporation*, Docket No. R-2012-2290597, pp. 47-48 (Order Entered December 28, 2012).

1 recommended normalization period in the 2012 PPL proceeding was a 32-month
2 interval based on PPL's historic filing frequency.⁵⁰ The I&E recommendation in
3 that instance produced a much more accurate result than relying on PPL's stated
4 future intention to file a rate case.

5
6 **Q. ARE THERE ANY COMMISSION DECISIONS THAT SUPPORT YOUR**
7 **RECOMMENDATION FOR A RATE CASE FILING INTERVAL BASED**
8 **ON HISTORIC FILING FREQUENCY?**

9 A. Yes. The following six cases are the most recent instances where the Commission
10 used the company's historic average filing frequency.

11 First, in a base rate case filed by Emporium Water Company, the
12 Commission adopted the I&E recommended historic filing frequency finding in
13 favor of I&E's recommended five-year normalization period based on a historic
14 average filing frequency that was rounded down from 64 months.⁵¹

15 Second, in a base rate case filed by the City of DuBois, the Commission
16 agreed with I&E's recommendation to use a historic filing frequency finding in
17 favor of I&E's recommended 64-month normalization period, which matched the
18 actual historic filing frequency.⁵²

⁵⁰ I&E Statement No. 2, pp. 13-14 at Docket No. R-2012-2290597.

⁵¹ *PA PUC v. Emporium Water Company*, Docket No. R-2014-2402324, p. 50 (Order Entered January 28, 2015).

⁵² *PA PUC v. City of DuBois - Bureau of Water*, Docket No. R-2016-2554150, pp. 65-66 (Order Entered March 28, 2017); *PA PUC v. City of DuBois - Bureau of Water*, Docket No. R-2016-2554150, p. 13 (Order Entered May 18, 2017).

1 Third, in a base rate case filed by Columbia Gas of Pennsylvania, Inc., the
2 Commission held that the normalization period should align with the historic data
3 rather than the company's intent to file its next rate case.⁵³

4 Fourth, in a base rate case filed by PECO Energy Company – Gas Division,
5 the Commission granted I&E's recommended five-year normalization period
6 rather than PECO's claim based on a three-year period because the Commission
7 determined that a normalization period based on actual historic filing frequency is
8 more reliable than future speculation.⁵⁴

9 Fifth, in a base rate case filed by Philadelphia Gas Works (PGW), the
10 Commission agreed with I&E's recommended 53-month normalization period
11 rather than PGW's claim based on a three-year period because the Commission
12 determined a normalization period based on actual historic filing frequency and
13 not based on PGW's future intention to file a rate case.⁵⁵

14 Finally, in the most recent base rate case filed by Columbia Water
15 Company, the Commission held that the normalization period should align with
16 the historic filing frequency rather than that company's intent to file its next rate
17 case and that the intent to file a base rate case does not justify deviating from the
18 Commission's practice of relying on historical filing frequency.⁵⁶

⁵³ *PA PUC v. Columbia Gas*, Docket No. R-2020-3018835, Opinion and Order, pp. 78-79 (Order Entered February 19, 2021).

⁵⁴ *PA PUC v. PECO Energy Company- Gas Division*, Docket No. R-2020-3018929, Opinion and Order, pp. 117-119 (Order Entered June 22, 2021).

⁵⁵ *PA PUC v. Philadelphia Gas Works*, Docket No. R-2023-3037933, Opinion and Order, pp. 65-66 (Order Entered November 9, 2023).

⁵⁶ *PA PUC v. Columbia Water Company*, Docket No. R-2023-3040258, Opinion and Order, p. 34 (Order Entered January 18, 2024).

1 **Q. DO YOU HAVE ANY FURTHER RECOMMENDATIONS REGARDING**
2 **THE COMPANY’S RATE CASE EXPENSE CLAIM?**

3 A. Yes. The Company’s approach in allocating all rate case expense to Main Water
4 Division is inappropriate and should be discontinued. Rate case costs should be
5 appropriately allocated to all divisions as opposed to requiring Main Water
6 Division customers to bear this entire expense. I recommend that the Commission
7 require the Company to properly allocate shared expenses across all customer
8 divisions in future proceedings.

9

10 **CUSTOMER ASSISTANCE PROGRAM AND TRACKER**

11 **Q. DOES THE COMPANY CURRENTLY UTILIZE ANY PROGRAMS**
12 **DESIGNED TO HELP CUSTOMERS THAT HAVE DIFFICULTY PAYING**
13 **THEIR UTILITY BILLS?**

14 A. Yes. The Veolia Cares program, which is administered by a third party and funded
15 entirely by shareholders, provides hardship grants and conservation kits to water
16 and wastewater customers in need based on a variety of reasons regardless of
17 income levels. This program is expected to continue, in addition to the proposed
18 Customer Assistance Program (CAP).⁵⁷

⁵⁷ VWPA Statement No. 7, p. 5.

1 **Q. WHAT IS THE COMPANY’S PROPOSAL REGARDING THE**
2 **CUSTOMER ASSISTANCE PROGRAM?**

3 A. The Company states that the proposed CAP was based on a review of other
4 Commission-regulated water utilities in the state and will include tiered customer
5 discounts, arrearage forgiveness, and service line repair, in addition to
6 conservation efforts including education, free conservation kits, and free
7 installation of such kits for seniors. According to Veolia, the elements of this
8 program, unlike the Veolia Cares program, will be based on income levels in
9 relation to the Federal Poverty Level. In addition to direct customer assistance,
10 expenses for the program will also include third-party administration and one-time
11 setup costs.⁵⁸

13 **Q. WHAT IS THE COMPANY’S PROPOSED BUDGET FOR THE CAP?**

14 A. The Company anticipates the launch of this program to occur during the FPPTY
15 and is claiming \$1,000,000 in base rates for Main Water Division. Additionally,
16 the Company has committed to providing shareholder contributions of \$300,000 to
17 support the CAP.⁵⁹ The Company has attempted to quantify the costs of the
18 program, but admits that, at the present time, the levels of costs are unknown and
19 will likely not be fully known until the program is rolled out.⁶⁰

⁵⁸ VWPA Statement No. 7, pp. 6-10.

⁵⁹ VWPA Statement No. 7, p. 3.

⁶⁰ VWPA Statement No. 6, pp. 6-7.

1 **Q. HOW DOES THE COMPANY PROPOSE TO RECOVER THESE COSTS?**

2 A. The Company proposes ratemaking treatment that would track the difference
3 between the overall costs of the program and the proposed target amount as a
4 regulatory asset or liability to be addressed in the Company's next rate case filing.
5 The shareholder contribution of \$300,000 would be included as a direct offset to
6 the overall program cost.⁶¹

7
8 **Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL CONCERNING**
9 **THE CAP?**

10 A. No.

11

12 **Q. WHAT IS YOUR RECOMMENDATION CONCERNING THE PROPOSED**
13 **CAP?**

14 A. I recommend an FPFTY allowance of \$700,000, or a reduction of \$300,000
15 (\$1,000,000 - \$700,000) for the proposed CAP, as well as disallowance of the
16 tracker and deferred accounting treatment in its entirety.

17

18 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION TO REDUCE**
19 **THE CAP ALLOWANCE TO \$700,000?**

20 A. My recommendation to reduce the FPFTY allowance for the CAP to \$700,000 is
21 based on the Company's estimation of expenses at \$1,000,000 as well as the

⁶¹ VWPA Statement No. 6, p. 7.

1 Company's assertion that shareholders will contribute \$300,000 annually to the
2 CAP. If the Company is expecting \$1,000,000 in costs and \$300,000 of that total
3 will be supplied by shareholders, then only the remaining \$700,000 should be
4 charged to ratepayers.

5
6 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION TO DISALLOW**
7 **THE TRACKER AND DEFERRED ACCOUNTING TREATMENT FOR**
8 **THE CAP?**

9 A. While I do not dispute that the Commission has previously authorized utilities to
10 track certain expenses via a regulatory asset, the Company's CAP expenses do not
11 meet the requirements to be treated as a regulatory asset. Specifically, the
12 Commission has previously ruled that deferred accounting treatment may be
13 granted if the expense is: (1) extraordinary; (2) unanticipated; (3) non-recurring;
14 and (4) substantial.⁶²

15
16 **Q. HOW DO CAP EXPENSES FAIL TO MEET THE COMMISSION'S**
17 **CRITERIA?**

18 A. First, while I agree that CAP costs may be considered substantial for VWPA, the
19 costs are not extraordinary because they are normal expenses incurred by many
20 other water and wastewater utilities. Second, the costs are not unanticipated

⁶² *Petition of Columbia Gas of Pa., Inc. for Authority to Defer for Accounting and Financial Purposes Certain Start Up Expenses Assoc. with the Redesign of Upgrade of Financial Processes and Info. Systems*, Docket No. P-2012-2319920, p. 5 (Order Entered December 5, 2012).

1 because they are part of a planned program being purposefully implemented by the
2 Company. Finally, the expenses cannot be categorized as non-recurring while also
3 being forecasted to continue indefinitely as an ongoing annual expense. As the
4 Company's CAP expenses meet only one of four criteria to be considered for
5 regulatory asset treatment, it is not appropriate for the Commission to approve
6 deferral of these expenses.

7 CAP expenses are normal, expected, recurring costs of which the Company
8 cannot expect to have a virtually guaranteed dollar-for-dollar recovery. These
9 expenses are common among regulated utilities and although this is a new
10 program for VWPA with no historic data on which to base a budget, this data will
11 be forthcoming over time to allow for a more refined forecast. There is no
12 reasonable justification for the argument that the Company should be allowed to
13 establish a regulatory asset for CAP expenses, and, therefore, I recommend that
14 the Commission deny the Company's request.

15
16 **Q. IS THERE ANYTHING ELSE YOU WOULD LIKE TO ADD**
17 **CONCERNING THE COMPANY'S PROPOSED CAP BUDGET?**

18 A. Yes. Based on the Company's budget versus actual spending as it applies to the
19 Veolia Cares program,⁶³ I believe my recommendation for CAP expenses is more
20 than fair. The Company's implementation of the Veolia Cares program was a
21 process that took several years to get fully up and running, as is normal for the

⁶³ I&E Exhibit No. 1, Schedule 13.

1 roll-out of any new large-scale program, and I expect the same to be true of the
2 CAP. However, having no concrete means of further adjusting this expense, I did
3 not make an additional adjustment as it would be arbitrary.

4 5 **CASH WORKING CAPITAL**

6 **Q. WHAT IS A CASH WORKING CAPITAL (CWC) ALLOWANCE FOR** 7 **RATEMAKING PURPOSES?**

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

12 13 **Q. HOW DOES THE COMPANY CALCULATE ITS CWC CLAIM?**

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

1 **Q. DO YOU AGREE WITH THE COMPANY’S USE OF A LEAD/LAG**
2 **METHOD?**

3 A. Yes. I agree with the Company’s use of this method.
4

5 **Q. WHAT IS THE COMPANY’S CLAIM FOR CWC?**

6 A. The following table shows VWPA’s CWC claim broken down by business
7 operation:⁶⁴

	FPFTY Claim
Main Water Division	\$795,083
Mahoning Water	\$5,223
Columbia Wastewater	\$3,438
Mahoning Wastewater	<u>\$15,292</u>
Total (with rounding error)	<u>\$819,040</u>

8

9

10 **Q. DO YOU AGREE WITH THE COMPANY’S CLAIM?**

11 A. No.
12

13 **Q. WHAT DO YOU RECOMMEND?**

14 A. I recommend an adjustment to the Company’s FPFTY claim broken down by
15 business operation as shown in the table below:

⁶⁴ VWPA Exhibit HW-2, Schedule HW-1.

	FPFTY Claim	I&E Allowance	Adjustment
Main Water Division	\$795,083	\$721,316	(\$73,767)
Mahoning Water	\$5,223	\$4,873	(\$350)
Columbia Wastewater	\$3,438	\$3,435	(\$3)
Mahoning Wastewater	<u>\$15,292</u>	<u>\$15,110</u>	<u>(\$182)</u>
Total	<u>\$819,036</u>	<u>\$744,734</u>	<u>(\$74,302)</u>

1

2

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

4 A. All O&M adjustments that are cash-based expense claims are included when
5 determining each operating unit's overall CWC requirement. My CWC
6 recommendation is based on my recommended adjustments to O&M expenses as
7 discussed in this direct testimony.

8 I subtracted all of my recommended O&M expense adjustments from the
9 tables above in the I&E Operating and Maintenance Expense Adjustments section
10 that correspond to the Company's CWC calculation. I also updated the state and
11 federal tax figures affecting the Company's CWC calculation using the tables from
12 the Overall I&E Recommended Position section above. I did this using the
13 Company's electronic workpapers for each operation. I&E-modified CWC
14 schedules⁶⁵ reflect my changes for each operation's CWC allowance calculation
15 and modified cells are indicated in gray.

⁶⁵ I&E Exhibit No. 1, Schedule 14.

1 **Q. ARE YOUR ABOVE-RECOMMENDED CWC ALLOWANCES FINAL**
2 **RECOMMENDATIONS?**

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

9

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

11 A. Yes.

Vanessa Okum

Professional and Educational Background

Experience:

Pennsylvania Public Utility Commission, Harrisburg, Pennsylvania

June 2022 – Present

Fixed Utility Financial Analyst, Bureau of Investigation and Enforcement

Magnolia Realty Services, Elizabethville, Pennsylvania

February 2016 – Present

Realtor

May 2015 – May 2019

Business Manager

The Vanguard Group, Malvern, Pennsylvania

October 2011 – December 2014

Financial Administrator, Corporate Financial Services

March 2010 – October 2011

Financial Analyst, Fund Financial Services

June 2008 – March 2010

Financial Associate, Fund Financial Services

Education/Professional Development:

University of Massachusetts – Amherst, Amherst, Massachusetts, 2012

Master of Business Administration

Elizabethtown College, Elizabethtown, Pennsylvania, 2008

Bachelor of Science in International Business

Concentration in Finance

Testimony Submitted:

I have submitted testimony in the following proceedings:

R-2023-3043189 et al. – Pennsylvania-American Water Company

R-2023-3039919 et al. – Pittsburgh Water and Sewer Authority

R-2023-3037428 – National Fuel Gas Distribution Corporation (1307(f))

R-2022-3037368 – UGI Utilities, Inc. – Electric Division

I have assisted with testimony in the following proceedings:

R-2022-3031704 – Borough of Ambler Water Department

R-2022-3032764 – Leatherstocking Gas Company, LLC

**I&E Exhibit No. 1
Witness: Vanessa Okum**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

VEOLIA WATER PENNSYLVANIA, INC.

Docket No. R-2024-3045192 (Water)

and

Docket No. R-2024-3045193 (Wastewater)

Exhibit to Accompany

the

Direct Testimony

of

Vanessa Okum

Bureau of Investigation and Enforcement

Concerning:

**OPERATING AND MAINTENANCE EXPENSES, CAP TRACKER
CASH WORKING CAPITAL**

BUREAU OF INVESTIGATION AND ENFORCEMENT DATA REQUESTS

VEOLIA WATER PENNSYLVANIA INC.

Docket Nos. R-2024-3045192 and R-2024-3045193

I&E-RE-35 Reference VWPA Statement No. 2, p. 5 and VWPA Exhibit No. GRH-1, Schedule-1 concerning the proposed overall increase in revenues. Reconcile \$15,494,620 mentioned in VWPA Statement No. 2, p. 5, line 3 with \$16,063,286 stated on VWPA Exhibit No. GRH-1, Schedule-1, line 1.

Answer: VWPA Exhibit No. GRH-1, Schedule-1 shows the overall revenue increase of \$16,063,286 for the Company's combined water and wastewater operations. The amount listed in VWPA Statement No. 2, p. 5, line 3 was the increase for the water operations, only and is shown in detail below.

Operating Unit	Revenue Increase
Main Water (VWPA, Bethel, Overbrook, Kensington)	\$14,878,448
Mahoning Water	\$616,172
Total	\$15,464,620

After review, the file GRH-1, Schedule-1 had not fully updated with the finalized rate design and caused the schedule to be off by \$53. See 'I&E-RE-35-D Attachment' for a revised GRH-1, Schedule-1 that shows the correct overall increase of \$16,063,339.

Answer provided by: Greg Herbert
Title: Assistant Project Manager, Rate Studies
Address: 207 Senate Ave. Camp Hill, PA 17011
Date: April 4, 2024

Veolia Water Pennsylvania
Docket No. R-2024-3045192 & R-2024-3045193

I&E-RE-35-D Attachment
Exhibit No. GRH-1
Schedule-1-Revised
Page 1 of 1

VEOLIA WATER PENNSYLVANIA INC.
COMBINED WATER AND WASTEWATER OPERATIONS
STATEMENT OF THE CALCULATION OF THE RATE OF RETURN UNDER PRESENT RATES FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2023, 2024 AND OCTOBER 31, 2025
AND THE ANTICIPATED RATE OF RETURN UNDER PROPOSED RATES FOR THE YEAR ENDING OCTOBER 31, 2025

Line No.	Description (1)	12 Months Ended 30-Sep-23 (2)	Pro Forma FTY Adjustments		Pro Forma Present Rates, 30-Sep-24 (5)	Pro Forma FPFTY Adjustments and DSIC Adjustment		Pro Forma Present Rates, 31-Oct-25 (8)	Under Proposed Rates, Supplement No. to Tariff Water Pa-PUC No. 7			
			Ref. (3)	Amount (4)		Ref. (6)	Amount (7)		Ref.	Increase (9)	Pro Forma 31-Oct-25 (10)	
1	Operating Revenues	\$ 55,784,278	GRH-1 Sch 5	\$ 368,282	\$ 56,152,560	GRH-1 Sch 4,7	\$ 4,247,184	\$ 60,399,745	GRH-1 Sch 2,7	\$ 16,063,339	\$	76,463,084
2												
3	Operating Revenue Deductions:											
4	Operation and Maintenance											
5	Expenses	\$ 21,946,646	GRH-2	\$ 2,555,162	\$ 24,501,809	GRH-2	\$ 1,986,027	\$ 26,487,836	GRH-2	\$ 182,157	\$	26,669,993
6	Taxes Other than Income	\$ 1,152,201	GRH-2	\$ 86,326	\$ 1,238,527	GRH-2	\$ 30,236	\$ 1,268,763	GRH-2	\$ -	\$	1,268,763
7												
8												
9	Depreciation	8,840,555	GRH-2	1,085,278	9,925,834	GRH-2	1,992,121	11,917,955	GRH-2	\$ -	\$	11,917,955
10	Amortization of Acquisition Adjustment	57,744	GRH-2	-	57,744	GRH-2	325,630	383,374	GRH-2	\$ -	\$	383,374
11	Amortization of Regulatory Asset	-	GRH-2	-	-	GRH-2	-	-	GRH-2	\$ -	\$	-
12												
13	Total Operating											
14	Revenue Deductions	\$ 31,997,147	GRH-2	\$ 3,726,766	\$ 35,723,913	GRH-2	\$ 4,334,015	\$ 40,057,928		\$ 182,157	\$	40,240,085
15												
16	Total Income Before Taxes and Return	\$ 23,787,131		\$ (3,358,484)	\$ 20,428,647		\$ (86,830)	\$ 20,341,817		\$ 15,881,182	\$	36,222,998
17												
18	Less Federal and State Taxes	\$ 4,495,020	GRH-2	\$ (1,173,856)	\$ 3,321,164		\$ (127,545)	\$ 3,193,619	GRH-2	\$ 4,263,064	\$	7,456,683
19												
20												
21	Net Operating Income											
22	Available for Return	\$ 19,292,111		\$ (2,184,628)	\$ 17,107,483		\$ 40,714	\$ 17,148,197		\$ 11,618,118	\$	28,766,315
23												
24												
25	Rate Base	\$ 293,604,062	GRH-1.1	\$ 39,791,873	\$ 333,395,935		\$ 28,546,493	\$ 361,942,428		\$ -	\$	361,942,428
26												
27	Rate of Return	6.57%			5.13%			4.74%				7.95%

BUREAU OF INVESTIGATION AND ENFORCEMENT DATA REQUESTS

VEOLIA WATER PENNSYLVANIA INC.

Docket Nos. R-2024-3045192 and R-2024-3045193

I&E-RE-8-D Reference VWPA Exhibit No. GRH-3, Schedule-2 and Exhibit No. GRH-5, Schedule-2, concerning labor expense:

- A. Provide the actual or forecasted number of employees by month in Excel format for each of the four operating units for the years ended 9/30/2021 and 9/30/2022, as well as the HTY, FTY, and FPPTY.
- B. Provide the actual or forecasted number of vacancies by month in Excel format for each of the four operating units for the years ended 9/30/2021 and 9/30/2022, as well as the HTY, FTY, and FPPTY.

Answer:

- A. Please see I&E-RE-8-D Attachment.
- B. Please see response to Part A.

Answer provided by: Greg Herbert
Title: Assistant Project Manager, Rate Studies
Address: 207 Senate Ave. Camp Hill, PA 17011
Date: March 21, 2024

Veolia Water Pennsylvania
 Docket Nos. R-2024-3045192 and R-2024-3045193

I&E-RE-8-D Attachment
 Page 1 of 1

VWPA Planned and Actual Headcount

12 months ending 9/30/21	20-Oct	20-Nov	20-Dec	21-Jan	21-Feb	21-Mar	21-Apr	21-May	21-Jun	21-Jul	21-Aug	21-Sep
Planned Headcount	98	98	8	98	98	8	98	8	98	98	98	98
Actual Headcount	93	94	95	94	96	95	95	96	97	94	94	97
Variance	5	4	3	4	2	3	3	2	1	4	4	1
12 months ending 9/30/22	21-Oct	21-Nov	21-Dec	22-Jan	22-Feb	22-Mar	22-Apr	22-May	22-Jun	22-Jul	22-Aug	22-Sep
Planned Headcount	98	98	98	102	102	102	102	102	103	103	103	102
Actual Headcount	98	99	97	96	97	95	96	96	97	96	97	98
Variance	0	-1	1	6	5	7	6	6	6	7	6	4
HTY 12 months ending 9/30/23	22-Oct	22-Nov	22-Dec	23-Jan	23-Feb	23-Mar	23-Apr	23-May	23-Jun	23-Jul	23-Aug	23-Sep
Planned Headcount	102	102	102	107	107	107	107	107	108	108	108	107
Actual Headcount	102	102	102	101	99	97	95	100	101	102	103	106
Variance	0	0	0	6	8	10	2	7	7	6	5	1
FTY	23-Oct	23-Nov	23-Dec	24-Jan	24-Feb	24-Mar	24-Apr	24-May	24-Jun	24-Jul	24-Aug	24-Sep
Planned Headcount	107	107	107	120	120	120	120	120	120	120	120	120
Actual Headcount	107	108	107	110	110	110	115	120	120	120	120	120
Variance	0	-1	0	10	10	10	5	0	0	0	0	0
FPFTY	24-Oct	24-Nov	24-Dec	25-Jan	25-Feb	25-Mar	25-Apr	25-May	25-Jun	25-Jul	25-Aug	25-Sep
Planned Headcount	120	120	120	120	120	120	120	120	120	120	120	120
Actual Headcount	120	120	120	120	120	120	120	120	120	120	120	120
Variance	0	0	0	0	0	0	0	0	0	0	0	0

*Highlighted months are estimated.

BUREAU OF INVESTIGATION AND ENFORCEMENT DATA REQUESTS

VEOLIA WATER PENNSYLVANIA, INC.

Docket Nos. R-2024-3045192 (Water) and R-2024-3045193 (Wastewater)

- I&E-RE-46** Reference VWPA Response to I&E-RE-8-D and VWPA Exhibit GRH-3, Workpaper GRH-2.1 concerning labor expense:
- A. State whether all 120 forecasted employees are budgeted in the Water Main Division.
 - A. If so, explain what constitutes the labor expense claims in Mahoning Water, Columbia Wastewater, and Mahoning Wastewater and explain how these expenses are determined.

Answer: Yes, there are 120 employees budgeted in the Water Main Division in workpaper GRH-2.1. However, workpaper GRH-2.1's projected labor costs accounts for the labor transferred out to the Mahoning Water, Columbia Wastewater and Mahoning Wastewater operating units. Therefore, there will not be any double counting of labor costs among the individual water and wastewater operating units' revenue requirements.

Answer provided by: Gregory Herbert
Title: Assistant Project Manager, Rate Studies
Address: 207 Senate Ave, Camp Hill, PA 17011
Date: April 29, 2024

Vacancy Rate Calculation

Compiled by I&E from VWPA Attachment in Response to I&E-RE-8-D

Headcount	2021	2022	2023	2024	2025
October	93	98	102	107	120
November	94	99	102	108	120
December	95	97	102	107	120
January	94	96	101	110	120
February	96	97	99	110	120
March	95	95	97	110	120
April	95	96	95	115	120
May	96	96	100	120	120
June	97	97	101	120	120
July	94	96	102	120	120
August	94	97	103	120	120
September	<u>97</u>	<u>98</u>	<u>106</u>	<u>120</u>	<u>120</u>
1 - Average Headcount	95.00	96.83	100.83	113.92	120.00

Variance	2021	2022	2023	2024	2025
October	5	0	0	0	
November	4	-1	0	-1	
December	3	1	0	0	
January	4	6	6	10	
February	2	5	8	10	
March	3	7	10		
April	3	6	12		
May	2	6	7		
June	1	6	7		
July	4	7	6		
August	4	6	5		
September	<u>1</u>	<u>4</u>	<u>1</u>		
2 - Average Vacancies	<u>3.00</u>	<u>4.42</u>	<u>5.17</u>		
Vacancy Rate (2 / 1)	3.16%	4.56%	5.12%	Average Rate	4.28%

Veolia Water Pennsylvania
 Docket No. R-2024-3045192
 Employee Group Health and Life Insurance

Line No.		12-Months Ending 9/30/2023	Future Test Year	Fully Projected Future Test Year
1	VW Pennsylvania	\$ 920,056	\$ 1,562,536	\$ 1,596,912
2	Bethel Water	-	-	-
3	Mahoning Township	611	1,038	1,061
4				
5	Total Employee Group Health and Life Insurance	\$ 920,667	\$ 1,563,574	\$ 1,597,973
6				
7	Adjustment		\$ 642,907	\$ 34,399
8				
9				
10	Description		Future Test Year	Fully Projected Future Test Year
11				
12	Medical Insurance - VW PA		\$ 1,428,469 (a)	\$ 1,459,895 (b)
13				
14				
15	Dental		83,095 (a)	84,923 (b)
16				
17				
18	Group Life Insurance		52,011 (a)	53,155 (b)
19				
20				
21				
22	Total Employee Pensions & Benefits		\$ 1,563,574	\$ 1,597,973
23				
24				
25	New Employees Adjustment	Number of New Employees	Average HTY Cost of Coverage	Total Employees with Coverage (%)
26	2023 Medical	11	\$ 15,278	77%
27	2023 Dental	11	813	75%
28	2023 Group Life			
29	Basic STD	11	32	100%
30	Basic LTD	11	335	100%
31	Basic Life 1X annual	11	106	62%
32	Basic Life 3 X annual	11	322	31%
33	Basic Life 20K and 37K	11	21	4%
34				
35	Inflation Rate:			
36	Fully Projected Future Test Year		2.200%	
37				
38	Reference Notes:			
39	(a) The company provided Future Test Year Employee Group Health and Life Insurance expenses are adjusted for the eleven new employees in 2024. The new employee adjustment takes the number of new hires, multiplied by the average Cost of Coverage of existing employees and the percentage of existing employees with coverage, and added to the Future Test Year Insurance expenses.			
40				
41				
42				
43				
44	(b) Based upon Future Test Year cost with Fully Projected Future Test Year inflation rate.			

I&E Modified Section				
New Employees Adjustment	# New Emp	Avg HTY Cost	% Emp Covered	Total Cost
2023 Medical	11	15,278	77%	129,405
2023 Dental	11	813	75%	6,707
2023 Group Life				
Basic STD	11	32	100%	352
Basic LTD	11	335	100%	3,685
1x Annual	11	106	62%	723
3x Annual	11	322	31%	1,098
20k and 37k	11	21	4%	9
				\$ 141,979

Veolia Water Pennsylvania, Inc.
Docket Nos. R-2024-3045192 and R-2024-3045193

I&E-RE-4-D Attachment
Page 1 of 1

Veolia Water Pennsylvania, Inc.
Docket No. R-2024-3045192
Operation and Maintenance Expenses - Combined
For the Historical, Future and Fully Projected Future Test Year

I&E Modified
Exhibit No. GRH-3
Schedule-1
Summary of Adjustments
Page 1 of 4

Line No.	Account Number	Utility Operating Expenses	Adjustment No.	VW Pennsylvania 12-Months Ending 9/30/2021	VW Pennsylvania 12-Months Ending 9/30/2022	VW Pennsylvania 12-Months Ending 9/30/2023
1	601.0	Labor Expense	1	\$ 5,079,472	\$ 5,267,575	\$ 5,811,878
2	604.0	Employee Group Health & Life	2	871,463	672,826	920,667
3	604.0	Employee Pension Benefits	3	560,056	530,710	367,354
4	604.0	Employee Post Retirement Benefits Other than Pension	4	136,469	109,601	75,249
5	604.0	Other Employee Benefits	5	286,132	324,361	370,146
6	610.0	Purchased Water	6	1,541,498	1,669,526	1,825,613
7	615.0	Purchased Power	7	1,424,081	1,635,590	2,245,114
8	616.0	Fuel for Power Production	8	2,000	2,000	2,000
9	618.0	Chemicals	9	526,507	898,942	986,229
10	620.0	Materials and Supplies	10	309,971	337,511	396,023
11	634.0	Management and Service Fees	11	4,326,152	4,108,200	4,076,177
12	635.0	Lab Testing Fees	12	166,237	158,583	247,303
13	636.0	Outside Contractors	13	1,375,294	1,538,771	1,723,551
14	636.0	Outside Professional Services	14	66,045	26,072	162,491
15	641.0	Rental - Building/Real Property	15	-	-	-
16	642.0	Rental of Equipment	16	112,681	110,902	119,512
17	650.0	Transportation Expense	17	500,461	534,164	559,928
18	657.0	Prop & Gen Liab. Insurance	18	430,960	258,188	(312)
19	658.0	Worker Compensation	19	47,097	22,959	19,075
20	660.0	Advertising	20	-	-	-
21	666.0	Rate Case Expense - Amort	21	146,962	48,881	-
22	666.0	Regulatory Commission Expense	22	336,192	356,461	344,697
23	667.0	Amortization of Tax Reform Liability	22.1	(264,888)	(264,888)	(264,888)
24	670.0	Bad Debt Expense	23	631,008	(326,130)	253,213
25	675.0	Fringe Benefit Expense Transfer	24	(906,973)	(814,137)	(858,759)
26	675.6	Office Expense and Utilities	25	724,743	828,219	845,482
27	675.9	Postage and Air Freight Expense	26	373,638	394,283	422,855
28	Various	Other O&M	27	131,469	169,463	146,049
29		Customer Assistance Program	28	-	-	-
30		Adjustments for Acquisitions	29	-	-	-
31		Total Operation and Maintenance Expenses		\$ 18,934,728	\$ 18,598,631	\$ 20,796,646
32						
33		Inflation Rate Calculator	30			
34						
35		Taxes Other Than Income				
36		Real Estate Tax	31	\$ 427,253	\$ 447,960	\$ 447,173
37		Payroll	32	606,208	636,405	704,987
38						
39		Total Taxes Other Than Income		\$ 1,033,461	\$ 1,084,365	\$ 1,152,160
40						
41		Depreciation Expense	33	\$ 8,906,635	\$ 8,923,652	\$ 8,828,651
42		Amortization of Acquisition Adjustment		57,744	57,744	57,744
43		Amortization of Regulatory Liability				
44						
45		Income Taxes	34	\$ (709,073)	\$ 6,586,967	\$ 4,495,020
46						
47		Total		\$ 28,223,495	\$ 35,251,358	\$ 35,330,221

Veolia Water Pennsylvania, Inc.
Docket Nos. R-2024-3045192 and R-2024-3045193

I&E-RE-5-D Attachment
Page 1 of 1

Veolia Water Pennsylvania, Inc.
Docket No. R-2024-3045193
Operation and Maintenance Expenses - Combined
For the Historical, Future and Fully Projected Future Test Year

I&E Modified
Exhibit No. GRH-5
Schedule-1
Summary of Adjustments
Page 1 of 3

Line No.	Account Number	Utility Operating Expenses	Adjustment No.	12-Months Ending 9/30/2021	12-Months Ending 9/30/2022	12-Months Ending 9/30/2023
1	601.0	Labor Expense	1	\$ 54,863	\$ 50,417	\$ 48,598
2	604.0	Employee Group Health & Life	2	8,368	6,150	7,179
3	604.0	Employee Pension Benefits	3	3,980	3,256	2,055
4	604.0	Employee Post Retirement Benefits Other than Pension	4	969	677	422
5	604.0	Other Employee Benefits	5	708	703	780
6	610.0	Purchased Water	6	-	-	-
7	615.0	Purchased Power	7	-	-	-
8	616.0	Fuel for Power Production	8	-	-	-
9	618.0	Chemicals	9	655	1,160	929
10	620.0	Materials and Supplies	10	4,275	7,104	3,801
11	634.0	Management and Service Fees	11	-	-	-
12	635.0	Lab Testing Fees	12	100,291	90,200	123,964
13	636.0	Outside Contractors	13	829,716	875,235	863,955
14	636.0	Outside Professional Services	14	39,845	14,830	81,451
15	641.0	Rental - Building/Real Property	15	-	-	-
16	642.0	Rental of Equipment	16	-	-	-
17	650.0	Transportation Expense	17	5,661	5,063	5,054
18	657.0	Prop& Gen Liab. Insurance	18	2,796	1,207	(62)
19	658.0	Worker Compensation	19	337	134	108
20	660.0	Advertising	20	-	-	-
21	666.0	Rate Case Expense - Amort	21	-	-	-
22	666.0	Regulatory Commission Expense	22	10,530	10,594	10,586
23	667.0	Amortization of Tax Reform Liability	22.1	-	-	-
24	670.0	Bad Debt Expense	23	0	-	98
25	675.0	Fringe Benefit Expense Transfer	24	0	-	0
26	675.6	Office Expense and Utilities	25	796	1,141	1,082
27	675.9	Postage and Air Freight Expense	26	-	-	-
28	Various	Other O&M	27	26	-	-
29		Customer Assistance Program	28	-	-	-
30		Adjustments for Acquisitions	29	-	-	-
31		Total Operation and Maintenance Expenses		\$ 1,063,815	\$ 1,067,869	\$ 1,150,000
32						
33		Inflation Rate Calculator	30			
34						
35		Taxes Other Than Income				
36		Real Estate Tax	31	\$ -	\$ -	-
37		Payroll	32	137	47	42
38						
39		Total Taxes Other Than Income		\$ 137	\$ 47	\$ 42
40						
41		Depreciation Expense	33	\$ -	\$ 5,908	\$ 11,905
42		Amortization of Acquisition Adjustment		-	-	-
43		Amortization of Regulatory Liability				
44						
45		Income Taxes	34	\$ -	\$ -	\$ -
46						
47		Total		\$ 1,063,951	\$ 1,073,824	\$ 1,161,946

Lab Testing Fees

Compiled by I&E from VWPA Attachment in Response to I&E-RE-4-D

	2021	2022	2023	Average
Water Total	166,237	158,583	247,303	190,708
Wastewater Total	100,291	90,200	123,965	104,819

	Average	FTY Infl 2.375%	FPFTY Infl 2.20%
Main Division Water (100%)	190,708	195,237	199,532
Mahoning Water (0%)	-	-	-
Total Water	190,708	195,237	199,532
Columbia Wastewater (3.725%)	3,433	3,514	3,592
Mahoning Wastewater (96.725%)	101,386	103,794	106,077
Total Wastewater	104,819	107,308	109,669
Total Water and Wastewater	295,526	302,545	309,201

Outside Contractors

	2021	2022	2023	Average
Water Total	1,375,294	1,538,771	1,723,551	1,545,872
Wastewater Total	829,716	875,235	863,954	856,302

	Average	FTY Infl 2.375%	FPFTY Infl 2.20%
Main Division Water (100%)	1,545,872	1,582,586	1,617,403
Mahoning Water (0%)	-	-	-
Total Water	1,545,872	1,582,586	1,617,403
Columbia Wastewater (3.725%)	28,044	28,710	29,342
Mahoning Wastewater (96.725%)	828,258	847,929	866,583
Total Wastewater	856,302	876,639	895,925
Total Water and Wastewater	2,402,173	2,459,225	2,513,328

Other O&M Expense

	2021	2022	2023	Average
Water Total	131,469	169,463	146,049	148,994

	Average	FTY Infl 2.375%	FPFTY Infl 2.20%
Main Division Water (99.458%)	148,186	151,705	155,043
Mahoning Water (0.542%)	808	827	845
Total Water	148,994	152,532	155,888

BUREAU OF INVESTIGATION AND ENFORCEMENT DATA REQUESTS

VEOLIA WATER PENNSYLVANIA INC.

Docket Nos. R-2024-3045192 and R-2024-3045193

I&E-RE-19-D Reference VWPA Exhibit No. GRH-3, Schedule-13 and VWPA Exhibit No. GRH-5, Schedule-9, concerning lab testing fees expense:

- A. Provide lab testing fees expense amounts by the four operating units for the years ended 9/30/2021 and 9/30/2022.
- B. Explain why a two-year average is appropriate for the FTY calculation.

Answer:

- A. Please reference the response to I&E-RE-4-D and I&E-RE-5-D.
- B. The two year average is more representative of future lab testing costs than a three year average, as there have been increases in PFAS monitoring and UCMR5 testing that occurred in 2023.

Answer provided by: Greg Herbert
Title: Assistant Project Manager, Rate Studies
Address: 207 Senate Ave., Camp Hill, PA 17011
Date: March 19, 2024

BUREAU OF INVESTIGATION AND ENFORCEMENT DATA REQUESTS

VEOLIA WATER PENNSYLVANIA INC.

Docket Nos. R-2024-3045192 and R-2024-3045193

I&E-RE-20-D Reference VWPA Exhibit No. GRH-3, Schedule-14 and VWPA Exhibit No. GRH-5, Schedule-10, concerning outside contractors' expense:

- A. Provide a detailed breakdown by business unit including the individual contractors and the types of service performed along with supporting documentation such as invoices, workpapers, contractor estimates, contractor agreements, etc. for the HTY.
- B. Explain why a two-year average is appropriate for the FTY calculation.
- C. Provide outside contractors expense amounts by the four operating units for the years ended 9/30/2021 and 9/30/2022.

Answer:

- A. Please reference I&E-RE-20 Attachment 1.
- B. The Company views a two-year average with inflation to be closer to the estimated FTY costs than the FTY claim based on a three-year average of costs with inflation or based on the HTY costs with inflation.
- C. Please see MFR III-11, the response to I&E-RE-3-D through RE-5-D, and I&E-RE-20-D Attachment 2.

Answer provided by: Greg Herbert
Title: Assistant Project Manager, Rate Studies
Address: 207 Senate Ave. Camp Hill, PA 17011
Date: March 21, 2024

BUREAU OF INVESTIGATION AND ENFORCEMENT DATA REQUESTS

VEOLIA WATER PENNSYLVANIA INC.

Docket Nos. R-2024-3045192 and R-2024-3045193

I&E-RE-31-D Reference VWPA Exhibit No. GRH-3, Schedule-28, concerning other O&M expenses:

- A. Provide a detailed breakdown of actual other O&M expenses in the HTY.
- B. Explain why a two-year average is appropriate to compute the FTY other O&M expenses.
- C. Provide other O&M expense amounts by the four operating units for the years ended 9/30/2021 and 9/30/2022.

Answer:

- A. See I&E-RE-31-D Attachment for the breakdown of Other O&M Expenses in the HTY.
- B. A two year average was closer to the anticipated FTY and FPFTY costs with inflation than a three year average.
- C. Please reference the response to I&E-RE-4-D and I&E-RE-5-D.

Answer provided by: Greg Herbert

Title: Assistant Project Manager, Rate Studies

Address: 207 Senate Ave. Camp Hill, PA 17011

Date: March 21, 2024

BUREAU OF INVESTIGATION AND ENFORCEMENT DATA REQUESTS

VEOLIA WATER PENNSYLVANIA INC.

Docket Nos. R-2024-3045192 and R-2024-3045193

I&E-RE-26-D Reference VWPA Exhibit No. GRH-3, Schedule-22, concerning rate case expense amortization. Provide the following details for the last three base rate proceedings filed with the Commission:

- A. The docket number and date of filing.
- B. Indicate whether it was fully litigated or settled.
- C. Rate case expense claim and actual rate case expense.
- D. Justification for the Company’s proposed three-year “amortization” period for the current rate case.
- E. Explain why it is deemed appropriate to amortize rather than normalize rate case expense in this proceeding and why these terms are used interchangeably (VWPA Statement No. 2, p. 14).

Answer: A. through C. – please see table below

Year	Docket No	Litigated/ Settled	Expense claimed	Actual expense
2018	R-2018-3000834	Settled	567,000	440,887
2015	R-2015-2462723	Settled	492,000	415,795
2011	R-2011-2232985	Settled	495,000	418,093

- D. Rate case expense has been amortized over three years for at least three past rate cases and is generally in sync with the Company’s filing history.
- E. Please see D. above. In VWPA Statement No. 2, page 14 the proper term on line 13 should be amortization, not normalization.

Answer provided by: James Cagle

Title: Vice President – Rates & Regulatory Affairs

Address: 461 From Road, Harrington Park, NJ 07652

Date: 3/15/2024

BUREAU OF INVESTIGATION AND ENFORCEMENT DATA REQUESTS

VEOLIA WATER PENNSYLVANIA INC.

Docket Nos. R-2024-3045192 and R-2024-3045193

I&E-RE-40 Reference VWPA Statement No. 7, p. 5 concerning the Veolia Cares program:

- A. Provide budgeted spending versus actual spending for the HTY and the years preceding the HTY.
- B. Indicate cash contributions and any rollover amounts each year.
- C. Indicate the number of accounts receiving grants in each year.
- D. Confirm whether the funding for this program will remain separate from the funding for the proposed Customer Assistance Program (CAP).

Answer:

A, B, C:

Years	Budgeted Spending	Actual Spending	# of accounts	Rollover Amount
10/1/2019 to 9/30/2020	Unbudgeted	\$5,378	43	
10/1/2020 to 9/30/2021	Unbudgeted	\$15,245	110	
10/1/2021 to 9/30/2022	\$50,000	\$6,277	35	\$43,723
10/1/22 to 9/30/23 HTY	\$50,000	\$40,465	181	\$53,258

- D. The Funding for this program will remain separate from the funding for the proposed Customer Assistance Program (CAP).

Answer provided by: Judith Jordan

Title: Director of Programs

Address: 6310 Allentown Blvd. Harrisburg, PA 17112

Date: 4/2/2024

I&E Modified**VEOLIA WATER PENNSYLVANIA, INC. - MAIN DIVISION WATER**

SUMMARY OF CASH WORKING CAPITAL REQUIREMENTS

BASED ON LEAD-LAG STUDY FOR THE TWELVE MONTHS ENDING SEPTEMBER 30, 2023

Utility Operating Expenses	Revenue Days	Expense Days	Net (Lead) Lag Days	Expense Claim Fully Projected Year Under Present Rates 10/31/2025	Fully Projected Year Under Present Rates 10/31/2025 CWC	Expense Claim Fully Projected Future Test Year Under Proposed Rates 10/31/2025	Fully Projected Future Test Year Under Proposed Rates 10/31/2025 CWC
Labor Expense	34.5	11.4	23.1	\$ 7,418,529	\$ 469,501	\$ 7,101,016	\$ 449,407
Employee Group Health & Life	34.5	10.1	24.4	1,596,912	106,752	1,039,945	69,520
Employee Pension Benefits	34.5	29.3	5.2	632,288	9,008	632,288	9,008
Other Employee Benefits	34.5	276.0	(241.5)	444,895	(294,362)	431,856	(285,735)
Purchased Water	34.5	26.6	7.9	1,838,244	39,787	1,838,244	39,787
Purchased Power	34.5	57.1	(22.6)	2,886,605	(178,732)	2,886,605	(178,732)
Fuel for Power Production	34.5	38.8	(4.3)	2,093	(25)	2,093	(25)
Chemicals	34.5	27.9	6.6	1,344,558	24,313	1,344,558	24,313
Materials and Supplies	34.5	29.1	5.4	407,435	6,028	407,435	6,028
Management and Service Fees	34.5	14.7	19.8	4,611,336	250,149	4,202,062	227,947
Lab Testing Fees	34.5	26.2	8.3	212,334	4,828	199,532	4,537
Outside Contractors	34.5	30.9	3.6	1,711,389	16,879	1,617,403	15,952
Outside Professional Services	34.5	45.0	(10.5)	88,583	(2,548)	88,583	(2,548)
Rental - Building/Real Property	34.5	(13.2)	47.7	-	-	-	-
Rental of Equipment	34.5	7.9	26.6	124,900	9,102	124,900	9,102
Transportation Expense	34.5	38.1	(3.6)	748,343	(7,381)	748,343	(7,381)
Prop& Gen Liab. Insurance	34.5	(130.5)	165.0	-	-	-	-
Worker Compensation	34.5	(130.5)	165.0	48,098	21,743	48,098	21,743
Regulatory Commission Expense	34.5	(101.5)	136.0	355,109	132,315	448,734	167,200
Office Expense and Utilities	34.5	8.9	25.6	861,668	60,435	861,668	60,435
Postage and Air Freight Expense	34.5	40.3	(5.8)	383,875	(6,100)	383,875	(6,100)
Other O&M	34.5	30.3	4.2	164,161	1,889	155,043	1,784
Real Estate Tax	34.5	(26.9)	61.4	343,022	57,703	343,022	57,703
Payroll	34.5	18.5	16.0	918,219	40,251	878,919	38,528
Federal Income Taxes	34.5	37.0	(2.5)	1,525,244	(10,447)	3,580,222	(24,522)
State Income Taxes	34.5	28.8	5.8	619,541	9,760	1,483,195	23,365
Total					\$ 760,848		\$ 721,316

I&E Modified**VEOLIA WATER PENNSYLVANIA, INC. - MAHONING WATER**

SUMMARY OF CASH WORKING CAPITAL REQUIREMENTS

BASED ON LEAD-LAG STUDY FOR THE TWELVE MONTHS ENDING SEPTEMBER 30, 2023

Utility Operating Expenses	Revenue Days	Expense Days	Net (Lead) Lag Days	Expense Claim Fully Projected Year Under Present Rates 10/31/2025	Fully Projected Year Under Present Rates 10/31/2025 CWC	Expense Claim Fully Projected Future Test Year Under Proposed Rates 10/31/2025	Fully Projected Future Test Year Under Proposed Rates 10/31/2025 CWC
Labor Expense	34.5	11.4	23.1	\$ 4,076	\$ 258	\$ 4,076	\$ 258
Employee Group Health & Life	34.5	10.1	24.4	1,061	71	640	43
Employee Pension Benefits	34.5	29.3	5.2	420	6	420	6
Other Employee Benefits	34.5	276.0	(241.5)	288	(190)	288	(190)
Purchased Water	34.5	26.6	7.9	157,785	3,415	157,785	3,415
Purchased Power	34.5	57.1	(22.6)	102,218	(6,329)	102,218	(6,329)
Fuel for Power Production	34.5	38.8	(4.3)	-	-	-	-
Chemicals	34.5	27.9	6.6	10,178	184	10,178	184
Materials and Supplies	34.5	29.1	5.4	6,179	91	6,179	91
Management and Service Fees	34.5	14.7	19.8	68,840	3,734	62,730	3,403
Lab Testing Fees	34.5	26.2	8.3	-	-	-	-
Outside Contractors	34.5	30.9	3.6	-	-	-	-
Outside Professional Services	34.5	45.0	(10.5)	-	-	-	-
Rental - Building/Real Property	34.5	(13.2)	47.7	-	-	-	-
Rental of Equipment	34.5	7.9	26.6	142	10	142	10
Transportation Expense	34.5	38.1	(3.6)	372	(4)	372	(4)
Prop& Gen Liab. Insurance	34.5	(130.5)	165.0	-	-	-	-
Worker Compensation	34.5	(130.5)	165.0	13	6	13	6
Regulatory Commission Expense	34.5	(101.5)	136.0	5,283	1,968	6,676	2,487
Office Expense and Utilities	34.5	8.9	25.6	12,748	894	12,748	894
Postage and Air Freight Expense	34.5	40.3	(5.8)	37,471	(595)	37,471	(595)
Other O&M	34.5	30.3	4.2	894	10	845	10
Real Estate Tax	34.5	(26.9)	61.4	7,001	1,178	7,001	1,178
Payroll	34.5	18.5	16.0	468	21	468	21
Federal Income Taxes	34.5	37.0	(2.5)	(87,671)	600	61,982	(425)
State Income Taxes	34.5	28.8	5.8	(37,230)	(587)	26,050	410
Total					\$ 4,741		\$ 4,873

I&E Modified**VEOLIA WATER PENNSYLVANIA, INC. - COLUMBIA WASTEWATER**

SUMMARY OF CASH WORKING CAPITAL REQUIREMENTS

BASED ON LEAD-LAG STUDY FOR THE TWELVE MONTHS ENDING SEPTEMBER 30, 2023

Utility Operating Expenses	Revenue Days	Expense Days	Net (Lead) Lag Days	Expense Claim Fully Projected Year Under Present Rates 10/31/2025	Fully Projected Year Under Present Rates 10/31/2025 CWC	Expense Claim Fully Projected Future Test Year Under Proposed Rates 10/31/2025	Fully Projected Future Test Year Under Proposed Rates 10/31/2025 CWC
Labor Expense	34.5	11.4	23.1	\$ 47,282	\$ 2,992	\$ 47,282	\$ 2,992
Employee Group Health & Life	34.5	10.1	24.4	6,915	462	6,915	462
Employee Pension Benefits	34.5	29.3	5.2	1,979	28	1,979	28
Other Employee Benefits	34.5	276.0	(241.5)	823	(544)	823	(544)
Purchased Water	34.5	26.6	7.9	-	-	-	-
Purchased Power	34.5	57.1	(22.6)	-	-	-	-
Fuel for Power Production	34.5	38.8	(4.3)	-	-	-	-
Chemicals	34.5	27.9	6.6	1,159	21	1,159	21
Materials and Supplies	34.5	29.1	5.4	145	2	145	2
Management and Service Fees	34.5	14.7	19.8	-	-	-	-
Lab Testing Fees	34.5	26.2	8.3	3,669	83	3,592	82
Outside Contractors	34.5	30.9	3.6	29,795	294	29,342	289
Outside Professional Services	34.5	45.0	(10.5)	1,562	(45)	1,562	(45)
Rental - Building/Real Property	34.5	(13.2)	47.7	-	-	-	-
Rental of Equipment	34.5	7.9	26.6	-	-	-	-
Transportation Expense	34.5	38.1	(3.6)	4,868	(48)	4,868	(48)
Prop& Gen Liab. Insurance	34.5	(130.5)	165.0	-	-	-	-
Worker Compensation	34.5	(130.5)	165.0	96	43	96	43
Regulatory Commission Expense	34.5	(101.5)	136.0	294	109	396	148
Office Expense and Utilities	34.5	8.9	25.6	30	2	30	2
Postage and Air Freight Expense	34.5	40.3	(5.8)	-	-	-	-
Other O&M	34.5	30.3	4.2	-	-	-	-
Real Estate Tax	34.5	(26.9)	61.4	-	-	-	-
Payroll	34.5	18.5	16.0	44	2	44	2
Federal Income Taxes	34.5	37.0	(2.5)	(23,919)	164	(4,227)	29
State Income Taxes	34.5	28.8	5.8	(10,225)	(161)	(1,776)	(28)
Total					\$ 3,404		\$ 3,435

I&E Modified**VEOLIA WATER PENNSYLVANIA, INC. - MAHONING WASTEWATER**

SUMMARY OF CASH WORKING CAPITAL REQUIREMENTS

BASED ON LEAD-LAG STUDY FOR THE TWELVE MONTHS ENDING SEPTEMBER 30, 2023

Utility Operating Expenses	Revenue Days	Expense Days	Net (Lead) Lag Days	Expense Claim Fully Projected Year Under Present Rates 10/31/2025	Fully Projected Year Under Present Rates 10/31/2025 CWC	Expense Claim Fully Projected Future Test Year Under Proposed Rates 10/31/2025	Fully Projected Future Test Year Under Proposed Rates 10/31/2025 CWC
Labor Expense	34.5	11.4	23.1	\$ 4,076	\$ 258	\$ 4,076	\$ 258
Employee Group Health & Life	34.5	10.1	24.4	596	40	596	40
Employee Pension Benefits	34.5	29.3	5.2	171	2	171	2
Other Employee Benefits	34.5	276.0	(241.5)	67	(44)	67	(44)
Purchased Water	34.5	26.6	7.9	-	-	-	-
Purchased Power	34.5	57.1	(22.6)	-	-	-	-
Fuel for Power Production	34.5	38.8	(4.3)	-	-	-	-
Chemicals	34.5	27.9	6.6	-	-	-	-
Materials and Supplies	34.5	29.1	5.4	5,015	74	5,015	74
Management and Service Fees	34.5	14.7	19.8	-	-	-	-
Lab Testing Fees	34.5	26.2	8.3	108,368	2,464	106,077	2,412
Outside Contractors	34.5	30.9	3.6	880,038	8,680	866,583	8,547
Outside Professional Services	34.5	45.0	(10.5)	46,127	(1,327)	46,127	(1,327)
Rental - Building/Real Property	34.5	(13.2)	47.7	-	-	-	-
Rental of Equipment	34.5	7.9	26.6	-	-	-	-
Transportation Expense	34.5	38.1	(3.6)	420	(4)	420	(4)
Prop& Gen Liab. Insurance	34.5	(130.5)	165.0	-	-	-	-
Worker Compensation	34.5	(130.5)	165.0	1	-	1	-
Regulatory Commission Expense	34.5	(101.5)	136.0	10,153	3,783	13,682	5,098
Office Expense and Utilities	34.5	8.9	25.6	1,027	72	1,027	72
Postage and Air Freight Expense	34.5	40.3	(5.8)	-	-	-	-
Other O&M	34.5	30.3	4.2	-	-	-	-
Real Estate Tax	34.5	(26.9)	61.4	-	-	-	-
Payroll	34.5	18.5	16.0	4	-	4	-
Federal Income Taxes	34.5	37.0	(2.5)	(30,418)	208	46,417	(318)
State Income Taxes	34.5	28.8	5.8	(13,232)	(208)	19,060	300
Total					\$ 13,998		\$ 15,110

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

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

VEOLIA WATER PENNSYLVANIA, INC.

Docket No. R-2024-3045192 (Water)
&
Docket No. R-2024-3045193 (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 this proceeding 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 recommend the
4 overall fair rate of return for the water and wastewater operations of Veolia Water
5 Pennsylvania, Inc. (VWPA or Company) for the fully projected future test year
6 (FPFTY) ending October 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 *Federal Power*
21 *Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) cases set forth
22 the principles that are generally accepted by regulators throughout the country as

1 the appropriate criteria for measuring a fair rate of return:

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

11
12 **Q. EXPLAIN HOW THE OVERALL RATE OF RETURN IS**

13 **TRADITIONALLY CALCULATED IN BASE RATE PROCEEDINGS.**

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

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

9 **COMPANY’S RATE OF RETURN CLAIM**

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

11 A. VWPA witness Harold Walker, III is the primary witness addressing the rate of
12 return (VWPA Statement No. 4). Throughout his direct testimony, Mr. Walker
13 provides his analysis for the claimed capital structure, long-term debt cost, cost of
14 common equity, and overall rate of return for the Company’s water and
15 wastewater operations.
16

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

19 A. Mr. Walker recommends the following rate of return for the Company’s water and
20 wastewater operations based on its FPFTY ending October 31, 2025 (VWPA
21 Exhibit HW-1, Schedule 1):

VEOLIA WATER PENNSYLVANIA, INC.			
Water and Wastewater Operations			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	46.00%	4.60%	2.12%
Common Equity	<u>54.00%</u>	10.80%	<u>5.83%</u>
Total	<u>100.00%</u>		<u>7.95%</u>

1

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 1):

I & E			
Veolia Water Pennsylvania, Inc. - Water and Wastewater Operations			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	46.00%	4.60%	2.12%
Common Equity	<u>54.00%</u>	9.34%	<u>5.04%</u>
Total	<u>100.00%</u>		<u>7.16%</u>

8

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 VWPA. 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. WALKER USE IN SELECTING THE**
2 **COMPANIES THAT FORMULATE HIS PROXY GROUP?**

3 A. Mr. Walker determined his proxy group of water companies by using the
4 following criteria (VWPA Statement No. 4, p. 13, lines 1-13), which includes all
5 water utilities that:

- 6 1. Are covered by security analysts as measured by the existence of
7 sources of published projected five-year growth rates in earnings per
8 share (EPS).
- 9 2. Have Standard Industrial Classification (SIC) code of 4941 (i.e.,
10 Water Supply Facilities and Infrastructure).
- 11 3. Have North American Industry Classification System (NAICS) of
12 221310 (i.e., Water Supply and Irrigation Systems).
- 13 4. Are not subject to an announced acquisition.
- 14 5. Are currently paying a common dividend and has not reduced their
15 common dividend within the past four years.
- 16 6. Have a market capitalization of common stock outstanding greater
17 than \$500 million.
- 18 7. Have a total enterprise value, the sum of equity market value,
19 preferred stock, and total debt greater than \$700 million.

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

22 A. I included the following six companies in my proxy group:

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

1

2

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

4 A. Mr. Walker included the following seven companies in his Water Group (VWPA
5 Statement No. 4, p. 14, line 1):

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

6

7

8 **Q. DO YOU AGREE WITH MR. WALKER'S PROXY GROUP?**

9 A. Not entirely. Mr. Walker includes all six water utility companies of my proxy
10 group and additionally, includes York Water Company, which I excluded from my

1 proxy group because this company was not included in Value Line’s “Water
2 Utility” company group, which is required for my proxy group selection criterion
3 as described above.

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 (VWPA Statement No. 4, p. 16, lines
15 3-6 and Exhibit HW-1, Schedule 1):

VEOLIA WATER PENNSYLVANIA, INC.	
Water and Wastewater Operations	
Projected Capital Structure as on October 31, 2025	
Type of Capital	Capitalization Ratio
Long-Term Debt	46.00%
Common Equity	<u>54.00%</u>
Total	<u>100.00%</u>

16

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

3 A. Mr. Walker states that consistent with the settled rate setting principles, he
4 believes it is necessary to evaluate VWPA’s current cost of capital based on
5 Veolia Utility Resources Inc.’s (VUR - the parent company) projected capital
6 structure as of October 31, 2025, which includes 46% long-term debt and 54%
7 common equity (VWPA Statement No. 4, p. 16, lines 3-6). Based on Mr.
8 Walker’s discussion, VWPA does not obtain its own financing, and therefore,
9 relies on the parent company’s support for the required capital financing. He then
10 opines that his recommended capital structure is reasonable and consistent with
11 the range of common equity ratios maintained by the other investor-owned water
12 companies in his water proxy group (VWPA Statement No. 4, p. 19, lines 7-15
13 and VWPA Exhibit HW-1, Schedule 2, pp. 1-2).

14
15 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY’S**
16 **CAPITAL STRUCTURE?**

17 A. I recommend using the Company’s claimed capital structure of 46% long-term
18 debt and 54% common equity as presented in the table above.

19
20 **Q. WHAT IS THE BASIS FOR YOUR CAPITAL STRUCTURE**
21 **RECOMMENDATION?**

22 A. I accept the Company’s claimed capital structure as it falls within the range of my

1 proxy group's capital structures. The most recent five-year (2019-2023) average
2 range contains individual company capital structure ratios from 44.06% to 58.08%
3 long-term debt and 41.92% to 55.63% common equity, with an overall five-year
4 average of 50.76% long-term debt and 49.19% common equity (I&E Exhibit
5 No. 2, Schedule 2).

6
7 **COST OF LONG-TERM DEBT**

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

10 A. Mr. Walker recommends a 4.60% weighted cost rate of long-term debt for water
11 and wastewater operations, which is based on VUR's projected long-term debt
12 cost rate as of October 31, 2025 (VWPA Statement No. 4, p. 20, lines 4-11 and
13 VWPA Exhibit No. GRH-2, Schedule 1.2).

14
15 **Q. WHAT IS YOUR RECOMMENDATION FOR THE COMPANY'S COST**
16 **RATE OF LONG-TERM DEBT?**

17 A. I accept the Company's FPPTY claimed long-term debt cost rate of 4.60% for
18 water and wastewater operations.

19
20 **Q. WHAT IS THE BASIS FOR YOUR ACCEPTANCE OF THE COMPANY'S**
21 **COST RATE OF LONG-TERM DEBT?**

22 A. The Company's claimed cost rate of long-term debt appears reasonable because it

1 is based on VUR’s actual long-term debt cost rate and the 2024 debt issuance,
2 which is representative of the water industry. The 4.60% long-term debt cost falls
3 within my proxy group’s 2023 implied long-term debt cost range of 3.64% to
4 4.96%. Additionally, the Mergent Bond Record shows an average yield of 5.61%
5 (April 2023 through April 2024) for A-rated public utility bonds (I&E Exhibit
6 No. 2, Schedule 3). Therefore, I accept the Company’s claimed long-term debt
7 cost rate of 4.60% to be used in determining the weighted cost of long-term debt
8 for water and wastewater operations.

10 **COST OF COMMON EQUITY**

11 **COMMON METHODS**

12 **Q. WHAT METHODS ARE COMMONLY PRESENTED BY UTILITIES IN** 13 **DETERMINING THE COST OF COMMON EQUITY?**

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

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

19 A. The DCF method is the “dividend discount model” of financial theory, which
20 maintains that the value (price) of any security or commodity is the discounted
21 present value of all future cash flows. The DCF method assumes that investors
22 value of a financial asset is determined by its earning power, or its ability to

1 generate future cash flows. The DCF method is also considered as a forward-
2 looking model to estimate the cost of common equity.

3
4 **Q. WHAT IS THE THEORETICAL BASIS FOR THE CAPM?**

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

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

17 A. The theoretical basis for the RP method is a simplified version of the CAPM. The
18 RP method's theory is that common stock is riskier than debt, and thus, investors
19 require a higher expected return on stocks than bonds. In the RP approach, the
20 cost of equity is made up of the cost of debt and a risk premium. While the
21 CAPM uses the market risk premium, it also directly measures the systematic risk

1 of a company group through the use of beta. The RP method does not measure the
2 specific risk of a company.

3
4 **Q. WHAT IS THE THEORETICAL BASIS FOR THE CE METHOD?**

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

12
13 **I&E RECOMMENDED METHOD TO EMPLOY**

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

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

1 2017, 2018, 2020, and 2021.¹

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

5 A. I recommend using the DCF for a variety of reasons. The DCF is appealing to
6 investors since it is based upon the common notion that the receipt of dividends in
7 addition to expected appreciation is the total return requirement determined by the
8 market.² The use of a growth rate and expected dividend yield are also strengths
9 of the DCF, as this recognizes the time value of money and is forward-looking.
10 The use of the utility's own, or in this case the proxy group's, stock prices and
11 growth rates directly in the calculation also causes the DCF to be industry and
12 company specific. Finally, the current financial, inflationary, and economic trends
13 are most certainly reflected in a stock's price, which is used in determining the
14 dividend yield, and forecasted earnings growth rates by stock market analysts.
15 Therefore, the DCF contains the most up-to-date projected information of any
16 model and is the superior method for determining the rate of return for the current

¹ *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.

² David C. Parcell, “The Cost of Capital – A Practitioner’s Guide,” 2020 Edition, p. 153.

1 economic and capital market conditions because it measures the cost of equity
2 directly.

3
4 **Q. PLEASE EXPLAIN WHY YOU CHOSE TO USE THE CAPM AS A**
5 **COMPARISON TO THE DCF IN YOUR ANALYSIS.**

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

1 **Q. EXPLAIN THE DISADVANTAGES OF THE CAPM.**

2 A. The CAPM, and the RP method by virtue of its similarities to the CAPM, give
3 results that indicate to an investor what the equity cost rate should be if current
4 economic and regulatory conditions are the same as those present during the
5 historical period in which the risk premiums were determined. This is because
6 beta, which is the only company-specific variable in the CAPM model, measures
7 the *historical* volatility of a stock compared to the *historical* overall market return.
8 Reliance on historical values is especially problematic now given the recent
9 impact of the COVID-19 pandemic on economic conditions. Although the CAPM
10 and RP results can be useful to investors in making rational buy and sell decisions
11 within their portfolios, the DCF method is the superior method for determining the
12 rate of return for the *current economic market conditions* and measuring the cost
13 of equity directly. The CAPM and similarly the RP method, are less reliable
14 indicators because they measure the cost of equity indirectly and risk premiums
15 vary depending on the debt and equity being compared. In addition, the period of
16 time chosen to measure the risk premium in relation to risk free rate and overall
17 market return is subjective. Also, regulators can never be certain that economic
18 and regulatory conditions underlying the historic period market returns used in
19 determining the risk premiums are the same today or will be the same in the
20 future.

1 **Q. IS THERE ANY ACADEMIC EVIDENCE THAT QUESTIONS THE**
2 **CREDIBILITY OF THE CAPM MODEL?**

3 A. Yes. An article, “Market Place; A Study Shakes Confidence in the Volatile-Stock
4 Theory,” which appeared in the *New York Times* on February 18, 1992,
5 summarized a CAPM study conducted by professors Eugene F. Fama and
6 Kenneth R. French.³ Their study examined the importance of beta, CAPM’s risk
7 factor, in explaining returns on common stock. In CAPM theory a stock with a
8 higher beta should have a higher expected return. However, they found that the
9 model did not do well in predicting actual returns and suggested the use of more
10 elaborate multi-factor models.

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

³ Berg, Eric N. “Market Place; A Study Shakes Confidence in the Volatile-Stock Theory,” *The New York Times*, February 18, 1992, *nytimes.com*, March 23, 2016.

⁴ 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. PLEASE EXPLAIN WHY YOU HAVE CHOSEN TO EXCLUDE THE RP**
2 **METHOD FROM YOUR ANALYSIS.**

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

6
7 **Q. EXPLAIN WHY YOU HAVE CHOSEN TO EXCLUDE THE CE METHOD**
8 **FROM YOUR ANALYSIS.**

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

13
14 **Q. ARE THERE ANY RECENT COMMISSION ORDERS THAT DEVIATE**
15 **FROM THE USE OF THE DCF AS THE PRIMARY METHOD IN**
16 **DETERMINING A COMPANY’S RETURN ON EQUITY?**

17 A. Yes. The Commission indicated in the 2021 Aqua Pennsylvania, Inc. (Aqua) base
18 rate case order that its method “for determining Aqua’s ROE shall utilize both
19 I&E’s DCF and CAPM methodologies”⁵ and that “I&E’s DCF and CAPM
20 produce a range of reasonableness for the ROE,”⁶ which deviates from prior

⁵ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 154 (Order Entered May 16, 2022).

⁶ *Id.* at p. 178

1 Commission practice of primarily relying on the DCF model. Most recently, the
2 Commission's Columbia Water Company (Columbia Water) base rate case order
3 relied on the results of I&E's DCF and CAPM analyses for determining Columbia
4 Water's ROE.⁷

5
6 **Q. SHOULD THE COMMISSION'S USE OF THE CAPM AS A CEILING**
7 **FOR A "RANGE OF REASONABLENESS" APPLY IN THIS**
8 **PROCEEDING?**

9 A. No. In a report issued by Regulatory Research Associates, a group within S&P
10 Global Market Intelligence,⁸ Aqua's ROE of 10.00% was stated as being above
11 the national average for water utility base rate cases and above the Distribution
12 System Improvement Charge (DSIC) rate authorized by the Commission of
13 9.80%⁹ for water and wastewater utilities for the year ended December 31, 2021.
14 This DSIC rate for water and wastewater utilities has since dropped 5 basis points
15 to 9.75% for the year ended March 31, 2023¹⁰ and further dropped 10 basis points
16 to 9.65% for the year ended June 30, 2023,¹¹ remaining at the same level of 9.65%

⁷ *Pa. PUC v. Columbia Water Company*, Docket Nos. R-2023-3040258, p. 105 (Order Entered January 18, 2024).

⁸ 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 April 25, 2024).

⁹ 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.

¹⁰ 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.

¹¹ 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.

1 for the year ended December 31, 2023.¹² The above referenced S&P report, which
2 directly reviews Aqua's ROE of 10.00% on the very date the Commission entered
3 its related order demonstrated that the ROE awarded to Aqua was higher than
4 average. Specifically, the S&P report determined that the average ROE for water
5 utility base rate cases completed during the first four months of 2022 was 9.63%
6 and for the twelve months ended April 30, 2022 was 9.53%, each of which were
7 well below the 10.00% ROE authorized by the Commission for Aqua. This
8 demonstrates the unreasonable skewing of results associated with using the CAPM
9 as a ceiling for determining a utility's ROE.

10 In the Columbia Water Order, the Commission noted that I&E's DCF and
11 CAPM produced a range of reasonableness for the ROE from 7.84% to 11.09%
12 and approved an ROE of 9.75% as reasonable and appropriate for that company,
13 which is based upon consideration of a variety of factors such as increasing
14 inflation leading to increases in interest rates and capital costs.¹³ I respectfully
15 disagree with the Commission's basis (current inflation and interest rates) for
16 determining Columbia Water's ROE of 9.75%. I have presented and discussed the
17 forecasted lower-level inflation rates, and the Federal Reserve's intention to cut
18 interest rates in 2024-2025, which would have the effect of reducing potential

¹² PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended December 31, 2023, approved at Public Meeting on May 9, 2024, at Docket No. M-2024-3048688.

¹³ *Pa. PUC v. Columbia Water Company*, Docket Nos. R-2023-3040258, pp.108-109 (Order Entered January 18, 2024).

1 inflation and interest rate risks in the capital costs during 2024-2025, when the
2 Company's new rates will be in effect.

3 Additionally, as explained above, the CAPM should not be used as a
4 primary method, and it should only be used as a comparison to and not as a check
5 of the DCF. Also, as demonstrated below, the use of the CAPM in this proceeding
6 would result in a significant burden to ratepayers. Therefore, I disagree with
7 providing the CAPM comparable weight to the DCF method.

8
9 **Q. PLEASE COMMENT ON CURRENT INFLATION AND INTEREST RATE**
10 **CONCERNS.**

11 A. First, I cannot dispute the current economic conditions with respect to increased
12 interest rates and government bond yields, however, it is important to note that all
13 companies, including regulated utilities, are impacted by high interest rates.
14 Recently on March 6, 2024, Federal Reserve Chairman Powell indicated to the
15 House Financial Services Committee that interest rate cuts are likely “at some
16 point” in 2024. He asserted that he expects rate cuts likely “at some point this
17 year” even after some hot readings on inflation and that the Federal Reserve wants
18 to see a little bit more data.¹⁴ Considering Chairman Powell's latest indication, it
19 is my understanding that most likely the Federal Reserve will consider a series of

¹⁴ “Rate cuts likely at 'some point' this year: Fed's Powell,” Yahoo! Finance, March 6, 2024. [Rate cuts likely at 'some point' this year: Fed's Powell \(yahoo.com\)](#) (Accessed on April 25, 2024).

1 interest rate cuts in 2024-2025, which covers VWPA’s FPFTY when the new rates
2 will be in effect.

3 Per the monthly Blue Chip Financial Forecasts (April 2024),¹⁵ the 2024-
4 2025 inflation rates by two measures are forecasted to be slightly over 2% as
5 shown in the table below:

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

6
7 The Federal Reserve’s commitment to an interest rate reduction would have
8 the effect of reducing potential inflation and interest rate risks in the 2025 capital
9 costs, when VWPA’s rates will be in effect. Lastly, it is important to note that
10 unlike unregulated companies, public utilities may file rate cases to address
11 unforeseen or increased expenses and/or revenue shortfalls due to changes in
12 market conditions.

13
14 **SUMMARY OF THE COMPANY’S RESULTS**

15 **Q. WHAT ARE THE RESULTS OF THE COMPANY’S COST OF EQUITY**
16 **ANALYSES?**

17 A. Mr. Walker employed the DCF, CAPM, and the RP methods in analyzing the
18 Company’s cost of equity (VWPA Statement No. 4, p. 3, lines 2-4) and his

¹⁵ Blue Chip Financial Forecasts, Vol. 43, No. 4, April 1, 2024, p. 2.

1 calculated common equity cost rates are 9.45% (DCF), 11.75% (CAPM), and
2 11.35% (RP) (VWPA Statement No. 4, p. 4, lines 1-2). Based on the application
3 of multiple models to the market data of the Utility Proxy Group results, Mr.
4 Walker opines that 10.80% is a reasonable cost of equity for VWPA. He also
5 relied on Value Line's projected earned returns on common equity for his
6 comparable utilities group average result of 10.70% and the median result of
7 10.30% (VWPA Statement No. 4, p. 4, lines 7-10).

8 9 **I&E RECOMMENDATION**

10 **Q. WHAT IS YOUR RECOMMENDED COST OF COMMON EQUITY FOR**
11 **VWPA?**

12 A. Based upon my analysis, I recommend a cost of common equity of 9.34% for
13 VWPA's water and wastewater operations (I&E Exhibit No. 2, Schedule 1).

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

16 A. My recommendation is based on the use of the DCF method. As explained below,
17 I used my CAPM result only to present to the Commission a comparison to my
18 DCF results. My DCF analysis uses the proxy group companies' spot dividend
19 yield, a 52-week dividend yield, and earnings growth forecasts.

1 **DISCOUNTED CASH FLOW**

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

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

5
$$K = D_1/P_0 + g$$

6 Where:

7 K = Cost of equity

8 D₁ = Dividend expected during the year

9 P₀ = Current price of the stock

10 g = Expected growth rate

11 When a forecast of D₁ is not available, D₀ (the current dividend) must be adjusted
12 by one half of the expected growth rate to account for changes in the dividend paid
13 in period one. As forecasts for each company in my proxy group are available
14 from Value Line, no dividends are adjusted for the purpose of my analysis.

15

16 **Q. PLEASE EXPLAIN HOW YOU DEVELOPED THE DIVIDEND YIELDS
17 USED IN YOUR DCF ANALYSIS.**

18 A. A representative dividend yield must be calculated over a time frame that avoids
19 the problems of both short-term anomalies and stale data series. For my DCF
20 analysis, the dividend yield calculation places equal emphasis on the most recent
21 spot and the 52-week average dividend yields. The following table summarizes

1 my dividend yield computations for the proxy group (I&E Exhibit No. 2,
2 Schedule 4):

Proxy Group - Average Dividend Yields	
(a) Spot Dividend Yield	2.94%
(b) 52-week Average Dividend Yield	2.52%
(c) Average $((a + b) \div 2)$	2.73%

3
4
5 **Q. WHAT INFORMATION DID YOU RELY UPON TO DETERMINE YOUR**
6 **EXPECTED GROWTH RATE?**

7 A. I have used five-year projected growth rate estimates from Yahoo! Finance, Zacks,
8 and Value Line.

9
10 **Q. WHAT WERE THE RESULTS OF YOUR FORECASTED EARNINGS**
11 **GROWTH RATES?**

12 A. The expected average growth rates for my proxy group ranged from 4.60% to
13 10.40% with an overall average of 6.61% (I&E Exhibit No. 2, Schedule 5).

14
15 **Q. WHAT ARE THE RESULTS OF YOUR DCF ANALYSIS BASED ON**
16 **YOUR RECOMMENDED DIVIDEND YIELD AND GROWTH RATE?**

17 A. The results of my DCF analysis are calculated as follows (I&E Exhibit No. 2,
18 Schedule 6):

K	=	D₁/P₀	+	g
9.34%	=	2.73%	+	6.61%

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CAPITAL ASSET PRICING MODEL

Q. PLEASE EXPLAIN YOUR CAPM ANALYSIS.

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

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

Where:

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

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

A. Beta is a measure of the systematic risk of a stock in relation to the rest of the stock market. A stock's beta is estimated by calculating the linear regression of a stock's return against the return on the overall stock market. The beta of a stock with a price pattern identical to that of the overall stock market will equal one. A stock with a price movement that is greater than the overall stock market will have a beta that is greater than one and would be described as having more investment

1 risk than the market. Conversely, a stock with a price movement that is less than
2 the overall stock market will have a beta of less than one and would be described
3 as having less investment risk than the overall stock market.

4
5 **Q. HOW DID YOU DETERMINE YOUR BETA FOR YOUR CAPM**
6 **ANALYSIS?**

7 A. In estimating an equity cost rate for my proxy group of six water companies, I
8 used the average of the betas for the proxy group companies as provided in the
9 Value Line Investment Survey. The average beta for my proxy group is 0.83 (I&E
10 Exhibit No. 2, Schedule 7).

11
12 **Q. WHAT RISK-FREE RATE OF RETURN HAVE YOU USED FOR YOUR**
13 **FORECASTED CAPM ANALYSIS?**

14 A. I have chosen to use the risk-free rate of return (R_f) from the projected yield on 10-
15 year Treasury Notes. The yield on the short-term T-Bill is a more theoretically
16 correct parameter to represent a risk-free rate of return, however, it can be
17 extremely volatile. The volatility of short-term T-Bills is directly influenced by
18 Federal Reserve policy. At the other extreme, the 30-year Treasury Bond exhibits
19 more stability but is not risk-free. Long-term Treasury Bonds have substantial
20 maturity risk associated with market risk and the risk of unexpected inflation.
21 Long-term treasuries normally offer higher yields to compensate investors for
22 these risks. As a result, I chose to use the yield on the 10-year Treasury Note

1 because it mitigates the shortcomings of the other two alternatives. Additionally,
2 the Commission has historically agreed with I&E and recognized the 10-year
3 Treasury Note as the superior measure of the risk-free rate of return.¹⁶

4 The forecasted yield on the 10-year Treasury Note, as seen in Blue Chip
5 Financial Forecasts, is expected to range between 3.80% and 4.00% from the third
6 quarter of 2024 through the third quarter of 2025, and it is forecasted to be 3.90%
7 from 2025-2029. For my forecasted CAPM analysis, I used 3.88%, which is the
8 average of all the yield forecasts I observed (I&E Exhibit No. 2, Schedule 8).

9
10 **Q. HOW DID YOU DETERMINE THE RETURN ON THE OVERALL**
11 **STOCK MARKET EMPLOYED IN YOUR FORECASTED CAPM**
12 **ANALYSIS?**

13 A. To arrive at a representative expected return on the overall stock market, I
14 observed Value Line's 1700 stocks and the historical S&P 500 returns. Value
15 Line expects its universe of 1700 stocks to have an average yearly return of
16 11.83% over the next three to five years based on a forecasted dividend yield of
17 2.10% and a yearly index appreciation of 45%. The S&P 500 index has an
18 average yearly return of 12.16% over the past 98 years (1926-2023) and the
19 trendline for the returns over the past 98 years has been relatively flat. Therefore,

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); *Pa. PUC v. Columbia Water Company*, Docket No. R-2023-3040258 (Order Entered January 18, 2024). *See generally* Disposition of Cost of Common Equity, pp. 107-108.

1 I believe it is reasonable to utilize this data in my calculation of the expected
2 overall market return. I have averaged these two figures, which results in an
3 estimated or expected market return of 12.00% [(11.83% + 12.16%) ÷ 2] (I&E
4 Exhibit No. 2, Schedule 9, pp. 1-3).

5
6 **Q. WHAT IS THE COST OF EQUITY RESULT FROM YOUR CAPM**
7 **ANALYSIS?**

8 A. The result of my CAPM analysis is as follows (I&E Exhibit No. 2, Schedule 10):

K	=	R_f	+	$\beta(R_m - R_f)$
10.62%	=	3.88%	+	0.83 (12.00% - 3.88%)

9
10
11 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING YOUR**
12 **CAPM ANALYSIS?**

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

1 **Q. IS IT NECESSARY TO APPLY THE CAPM WITH SIMILAR WEIGHT**
2 **TO THE DCF WHEN DETERMINING A SPECIFIC RETURN ON**
3 **EQUITY DUE TO RECENT INFLATIONARY TRENDS AND HIGHER**
4 **INTEREST RATES?**

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

14
15 **Q. HAVE YOU QUANTIFIED THE NUMBER OF BASIS POINTS BETWEEN**
16 **YOUR DCF AND CAPM RESULTS TO ILLUSTRATE THE FINANCIAL**
17 **IMPACT BETWEEN USING EACH MODEL?**

18 A. Yes. The difference between my DCF and CAPM analysis is 128 basis points
19 (CAPM result of 10.62% - DCF result of 9.34% = 1.28% difference). As
20 demonstrated below, relying on the results of the CAPM is unnecessary and places
21 undue hardship on VWPA's ratepayers.

1 **Q. BASED ON THE COMPANY’S CLAIMED RATE BASE AND CAPITAL**
 2 **STRUCTURE, WHAT IS THE VALUE OF AN ADDITIONAL 128 BASIS**
 3 **POINTS TO THE COST OF EQUITY BASED ON THE DIFFERENCE IN**
 4 **RESULTS BETWEEN YOUR CAPM ANALYSIS (10.62%) AND YOUR**
 5 **DCF ANALYSIS (9.34%)?**

6 A. The example below illustrates the impact of 128 additional basis points to the
 7 Company’s cost of equity if the results of my CAPM analysis, rather than my DCF
 8 results were applied to the Company’s claimed FPPTY rate base and capital
 9 structure for the water and wastewater operations:

10 **Water Operations:**

VWPA’s Claimed Equity Percentage of Capital Structure*	54.00%
Difference in Return on Equity between I&E’s CAPM and DCF Analysis (10.62 – 9.34% = 1.28%)	1.28%
Claimed Rate Base **	\$356,215,489
Impact Prior to Gross Up (0.54 x 0.0128 x \$356,215,489)	\$2,462,161
VWPA Claimed Gross Revenue Conversion Factor***	1.42304
Total Impact to Ratepayers (\$2,462,161 x 1.42304)	<u>\$3,503,754</u>

11 * VWPA Exhibit HW-1, Schedule 1.
 12 ** VWPA Exhibit GRH-2, Schedule 1, pp. 2-3.
 13 *** I&E Exhibit No. 2, Schedule 11, pp. 1-2.

1 **Wastewater Operations:**

VWPA’s Claimed Equity Percentage of Capital Structure*	54.00%
Difference in Return on Equity between I&E’s CAPM and DCF Analysis (10.62 – 9.34% = 1.28%)	1.28%
Claimed Rate Base **	\$5,726,940
Impact Prior to Gross Up (0.54 x 0.0128 x \$5,726,940)	\$39,585
VWPA Claimed Gross Revenue Conversion Factor***	1.41536
Total Impact to Ratepayers (\$39,585 x 1.41536)	<u>\$56,027</u>

2 * VWPA Exhibit HW-1, Schedule 1.
 3 ** VWPA Exhibit GRH-4, Schedule 1.1.
 4 *** I&E Exhibit No. 2, Schedule 11, pp. 1-2.

5 In this example, an addition of 128 basis points (1.28%) to the cost of equity would
 6 burden water and wastewater ratepayers to fund additional annual amounts of
 7 \$3,503,754 and \$56,027 respectively to cover the increase of the inflated rate of
 8 return along with the associated impact resulting from increases to income taxes.

9
 10 **Q. DOES THE FINANCIAL IMPACT THAT RATEPAYERS WOULD BEAR**
 11 **TO FUND THIS ADDITIONAL AMOUNT OF \$3,559,781 (\$3,503,754 +**
 12 **\$56,027) ANNUALLY DEMONSTRATE THAT IT IS INAPPROPRIATE TO**
 13 **USE THE CAPM TO ESTABLISH A “ZONE OF REASONABLENESS” IN**
 14 **THIS PROCEEDING?**

15 A. Yes. In this proceeding, a 128-basis-point impact of CAPM results would be
 16 unwarranted and inappropriate. In my opinion, and as demonstrated by my
 17 analysis, any amount granted above the DCF results (9.34% based on my
 18 recommendation) is not justified because it places an inappropriate burden on water

1 and wastewater ratepayers for the additional revenue impact of \$3,559,781.

2 Therefore, I continue assert that it is inappropriate to use the CAPM as the top end
3 of a range in this proceeding.

4
5 **CRITIQUE OF MR. WALKER'S PROPOSED COST OF EQUITY**

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

8 A. No. I disagree with Mr. Walker's proposed cost of equity analysis for several
9 reasons. First, I disagree with weights given to the results of his DCF, CAPM, and
10 RP analyses in his recommendation. Second, I disagree with his reliance on the
11 30-year Treasury Bond for his risk-free rate. Third, I disagree with Mr. Walker's
12 applying a leverage adjustment of 0.75% to account for difference between the
13 market value derived cost rates and book value cost rates due to difference in
14 Market to Book (M/B) Capitalization Ratio to his market determined DCF,
15 CAPM, and RP analysis results. The following table summarizes Mr. Walker's
16 ROE results relative to his proxy group results (VWPA Statement No. 4, p. 58,
17 lines 20-22, p. 63, lines 3-8, and p. 69, line 20 through p. 70, line 3 and VWPA
18 Exhibit HW-1, Schedule 19):

	Analysis Results	M/B Ratio Leverage Adjustment	Adjusted Results
DCF	8.70%	0.75%	9.45%
CAPM	11.00%	0.75%	11.75%
RP	10.60%	0.75%	11.35%
Recommended ROE based on the adjusted results: 10.80%			

1

2

3

DISCOUNTED CASH FLOW

4

Q. PLEASE SUMMARIZE MR. WALKER'S DCF ANALYSIS.

5

A. Mr. Walker uses an average of historic dividend yields of 2.40% after adjusting

6

for growth in dividend and average of growth rate of 6.30% of his proxy group

7

companies, which results in DCF of 8.70% (VWPA Exhibit HW-1, Schedule 12

8

and 13). He then applies the M/B ratio leverage adjustment of 0.75% to the DCF

9

result of 8.70% that results in adjusted DCF result of 9.45%.

10

11

Q. DO YOU AGREE WITH MR. WALKER'S ADJUSTED DCF ANALYSIS?

12

A. No. It is inappropriate to inflate DCF results by applying the M/B ratio leverage

13

adjustment of 0.75% to the DCF result of 8.70%. I will discuss the M/B

14

Capitalization Ratio and leverage adjustment impact in the cost of equity analysis

15

in a subsequent section below.

1 **WEIGHTS GIVEN TO THE CAPM AND RP MODELS**

2 **Q. DO YOU AGREE WITH MR. WALKER’S RELIANCE ON THE CAPM**
3 **AND RP MODELS?**

4 A. No. While I am not opposed to providing the Commission the results of the
5 CAPM for a point of comparison to the results of the DCF calculation, I am
6 opposed to giving the CAPM and RP results considerable weight. For the reasons
7 discussed above, including my reference to recent Commission orders, it is not
8 appropriate to give the CAPM and RP models similar weight to the DCF as Mr.
9 Walker has done in creating his recommended cost of equity of 10.80% (VWPA
10 Statement No. 4, p. 70, lines 7-10 and VWPA Exhibit HW-1, Schedule 19). As
11 discussed above, the CAPM measures the cost of equity indirectly and can be
12 manipulated by the time period chosen. Since the RP is a simplified version of the
13 CAPM, it suffers these same flaws. In effect, Mr. Walker blends the RP approach
14 into the DCF and CAPM models to calculate the risk premium estimates using the
15 Value Line, S&P Public Utilities, and S&P 500 market return data (VWPA
16 Exhibit HW-1, Schedules 17 and 18).

17 In response to I&E-RR-12-D, Mr. Walker states that he has not conducted
18 an exhaustive study of the Commission’s orders where the Commission relied
19 upon an RP analysis to determine an appropriate cost of equity in a base rate
20 proceeding (I&E Exhibit No. 2, Schedule 12).

1 **Q. DO YOU AGREE WITH MR. WALKER'S CAPM AND RP ANALYSIS**
2 **RESULTS?**

3 A. No. As discussed above, I disagree with Mr. Walker's reliance on CAPM results
4 of 11.75% and RP results of 11.35% in recommending 10.80% ROE for VWPA,
5 which includes an M/B ratio leverage adjustment of 0.75%. I discuss the M/B
6 ratio and leverage adjustment impact in the cost of equity analysis below.

7

8 **RISK-FREE RATE**

9 **Q. WHAT RISK-FREE RATE DOES MR. WALKER USE IN HIS CAPM AND**
10 **RP MODELS?**

11 A. Mr. Walker calculates his risk-free rate of 4.10% based on the average of treasury
12 bonds future contract rates (December 2023 - 4.14%, March 2024 - 4.11%, and
13 June 2024 - 4.06%) traded on the Chicago Boards of Trade (CBOT) at the close of
14 December 18, 2023 (VWPA Exhibit HW-1, Schedule 11, p. 7). He did not specify
15 the long-term treasury bond maturity period; however, it appears he used the 30-
16 year treasury bonds yield in his risk-free rate calculation.

17

18 **Q. DO YOU AGREE WITH MR. WALKER'S USE OF THE LONG-TERM**
19 **TREASURY BONDS (30-YEAR) YIELDS TO DETERMINE THE RISK-**
20 **FREE RATE?**

21 A. No. As discussed above, long-term Treasury Bonds have substantial maturity risk
22 associated with the market risk, the risk of unexpected inflation, and normally

1 offer higher yields to compensate investors for these risks. Using the 10-year
2 Treasury Note is more appropriate to balance the short-term volatility risk and the
3 long-term inflation risk.

4
5 **MARKET TO BOOK RATIO**

6 **Q. WHAT DOES MR. WALKER CLAIM REGARDING IMPACT OF**
7 **MARKET-TO-BOOK RATIOS IN THIS PROCEEDING?**

8 A. Mr. Walker states that the traditional DCF derived cost rate for common equity
9 will continuously understate or overstate investors' return requirements as long as
10 stock prices continually sell above book value ($M/B > 1$) or below book value
11 ($M/B < 1$) (VWPA Statement No. 4, p. 48, lines 14-16). Therefore, he
12 recommends that less weight be given to the market value DCF cost rate unless the
13 increased financial risk, resulting from applying a market value cost rate to a book
14 value capitalization is accounted for (VWPA Statement No. 4, p. 52, lines 13-16).

15 He uses two Hamada models including the original Hamada formula and
16 the Harris-Pringle formula to account for the change in common equity ratio that
17 results from the difference in market value capitalization to book value
18 capitalization (VWPA Statement No. 4, p. 55, lines 17-21 and VWPA Exhibit
19 HW-1, Schedule 16).

20 He then states that, hypothetically, if the Comparable Group's debt were
21 rated based on market value debt ratios, they would command an "Aaa" rating.
22 The Comparison Group currently has bonds rated "A" based upon their book value

1 debt ratios. The yield spread on a bond rated “Aaa” versus “A” rated bonds
2 averages about 54 basis points or 0.54% as shown on Schedule 16, p. 3 (VWPA
3 Statement No. 4, p. 58, lines 9-14).

4
5 **Q. WHAT DOES MR. WALKER RECOMMEND FOR A FINANCIAL RISK**
6 **LEVERAGE ADJUSTMENT TO HIS DCF AND CAPM RESULTS TO**
7 **ACCOUNT FOR THE IMPACT OF AN M/B RATIO ABOVE 1.0?**

8 A. Based on the average of end results (0.94%) of the application of the Hamada
9 Model (1.15%) and Harris Pringle Model (0.73%) and the bond yield spread of
10 0.54%, Mr. Walker recommends that the Water Group common equity cost rates
11 should be adjusted for the financial risk leverage upward by at least 0.75% (0.94%
12 Hamada estimate + 0.54% bond yield spread = 1.48% ÷ 2 = 0.74%) to account for
13 the difference in the M/B ratio (VWPA Statement No. 4, p. 58, lines 15-19).

14 Accordingly, he adjusts his Water Group cost of equity analysis results as
15 follows: (a) DCF results of 8.70% to 9.45% (8.70% + 0.75%) (VWPA Statement
16 No. 4, p. 58, line 22); (b) CAPM results of 11.00% to 11.75% (11.00% + 0.75%)
17 (VWPA Statement No. 4, p. 63, lines 3-8); and (c) RP results of 10.60% to
18 11.35% (10.60% + 0.75%) (VWPA Statement No. 4, p. 69, line 20 through p. 70,
19 line 3).

1 **Q. DOES AN M/B RATIO ABOVE ONE (1.0) CAUSE THE COST OF**
2 **EQUITY RESULTS TO INCORRECTLY ESTIMATE THE INVESTOR-**
3 **REQUIRED RETURN ON EQUITY?**

4 A. No. Although there are differences between the book value and market value
5 capitalizations of water utilities, there is no need to consider any leverage
6 adjustments or adder to the market determined DCF, CAPM, and RP results in this
7 proceeding for the reasons discussed below. First, the forecasted growth rates
8 used in the DCF analysis are set by analysts based on current conditions and what
9 they expect the future could be for the stock. Second, Mr. Walker points out that
10 historically (for a 24-year period) the market-to-book ratios for the S&P 500
11 stocks have ranged from 192% to 490% and utility stocks have also followed the
12 same direction (VWPA Statement No. 4, p. 51). In this scenario, no rational
13 investor would invest in a utility stock that has been trading above book value for
14 several years knowing that the utility's market determined equity return rate is
15 applied on the book value capital structure or capitalization ratio. Third, in
16 traditional ratemaking, utilities' rates are set by applying the market determined
17 cost of capital to the book value capital structure and the financial research
18 analysts and credit rating agencies consider this factor when performing their
19 financial analyses and projections. Fourth, an M/B ratio of above 1.0 for utility
20 stocks reflects their value in the market and implies that investors expect future
21 cash flows to be more valuable than the historical accounting value of the
22 company. Since the stock market is impacted by regulatory policies and economic

1 and financial conditions, an M/B ratio could be less than 1.0 when the stock
2 market is in a depression, or a company is experiencing financial under-
3 performance.

4 Therefore, I reiterate that it is inappropriate to evaluate market determined
5 cost of equity results with the M/B ratio and apply a financial risk leverage
6 adjustment as an adder to the market determined DCF, CAPM, and RP results in
7 this proceeding.

8
9 **Q. PLEASE CONTINUE.**

10 A. First, Mr. Walker acknowledges that the end result of a financial risk leverage
11 adjustment for an M/B ratio difference is very subjective, and its specific
12 quantification is very difficult, and therefore, he relies on the general direction of a
13 financial risk adjustment on the common equity cost rate (VWPA Statement No. 4,
14 p. 58, lines 4-8). Second, in response to I&E-RR-8-D and 9-D, Mr. Walker
15 acknowledges that he has not conducted an exhaustive study or is unaware of the
16 Commission's orders that specifically relied on the impact that the difference in a
17 M/B ratio has on the DCF results and gave less weight to the DCF results in
18 recommending an ROE for any utilities for this specific reason (I&E Exhibit
19 No. 2, Schedule 13, p. 1). He also acknowledges that he has not conducted an
20 exhaustive study or is unaware of the Commission's orders where the Commission
21 has specifically awarded a financial risk leverage adjustment to the DCF results or
22 in the ROE to recognize difference in M/B ratio impact (I&E Exhibit No. 2,

Schedule 13, p. 2). Lastly, in response to I&E-RR-11-D, Mr. Walker acknowledges that he has not conducted an exhaustive study or is unaware of the Commission's orders that specifically approved a financial risk leverage adjustment to the CAPM results or in the ROE to recognize an M/B ratio impact (I&E Exhibit No. 2, Schedule 13, p. 3).

Q. BASED ON THE COMPANY'S CLAIMED RATE BASE AND CAPITAL STRUCTURE, WHAT IS THE VALUE OR IMPACT OF AN ADDITIONAL 75 BASIS POINTS (0.75%) TO THE COST OF EQUITY BASED ON A FINANCIAL RISK LEVERAGE ADJUSTMENT FOR THE DIFFERENCE IN M/B RATIO?

A. The example below illustrates the impact of 75 additional basis points to the Company's cost of equity if applied to the Company's claimed FPPTY rate base and capital structure for water and wastewater operations:

Water Operations:

VWPA's Claimed Equity Percentage of Capital Structure*	54.00%
M/B Ratio Financial Risk Leverage Adjustment/Adder in the Cost of Equity	0.75%
Claimed Rate Base **	\$356,215,489
Impact Prior to Gross Up (0.54 x 0.0075 x \$356,215,489)	\$1,442,673
VWPA Claimed Gross Revenue Conversion Factor***	1.42307
Total Impact to Ratepayers (\$1,442,673 x 1.42307)	<u>\$2,053,025</u>

* VWPA Exhibit HW-1, Schedule 1.

** VWPA Exhibit GRH-2, Schedule 1, pp. 2-3.

*** I&E Exhibit No. 2, Schedule 11, pp. 1-2.

1 **Wastewater Operations:**

VWPA’s Claimed Equity Percentage of Capital Structure*	54.00%
M/B Ratio Financial Risk Leverage Adjustment/Adder in the Cost of Equity	0.75%
Claimed Rate Base **	\$5,726,940
Impact Prior to Gross Up (0.54 x 0.0075 x \$5,726,940)	\$23,194
VWPA Claimed Gross Revenue Conversion Factor***	1.41536
Total Impact to Ratepayers (\$23,194 x 1.41536)	<u>\$32,828</u>

2 * VWPA Exhibit HW-1, Schedule 1.
 3 ** VWPA Exhibit GRH-4, Schedule 1.1.
 4 *** I&E Exhibit No. 2, Schedule 11, pp. 1-2.

5 In this example, an addition of 75 basis points (0.75%) to the cost of equity would
 6 burden water and wastewater ratepayers to fund additional annual amounts of
 7 \$2,053,025 and \$32,828 respectively to cover the increase of the inflated rate of
 8 return along with the associated impact resulting from increases to income taxes.

9
 10 **BUSINESS RISK ANALYSIS**

11 **Q. SUMMARIZE MR. WALKER’S DISCUSSION REGARDING BUSINESS**
 12 **RISK ANALYSIS.**

13 A. First, Mr. Walker states that VWPA and the comparable companies (in the water
 14 proxy group) have similar risks and are indistinguishable. Both are required to
 15 meet the Clean Water Act and Safe Drinking Water Act requirements and are also
 16 required to provide safe and reliable service to customers and comply with the
 17 Commission’s regulations (VWPA Statement No. 4, p. 29, lines 11-15). Second,
 18 he states that the Comparable Group has an “A” credit profile and VWPA does not

1 have bonds rated. However, VUR (the parent company) has an “A” credit profile
2 (VWPA Statement No. 4, p. 30, lines 11-13). He concludes that overall, the
3 information summarized in Table 5 indicates that VWPA has similar investment
4 risk to the Water Group (VWPA Statement No. 4, p. 34, line 20 through p. 35, line
5 2).

6
7 **Q. WHAT IS YOUR RESPONSE TO MR. WALKER’S BUSINESS RISK**
8 **ANALYSIS?**

9 A. I agree with Mr. Walker’s conclusion that VWPA has similar regulatory risk,
10 credit rating risk, and investment risk to his comparable water group companies.
11 This signifies that though VWPA is smaller in size, the business risk profile
12 remains similar to the large size companies of his Water Group.

13
14 **FINANCIAL RISKS**

15 **Q. SUMMARIZE MR. WALKER’S DISCUSSION REGARDING FINANCIAL**
16 **RISK ANALYSIS.**

17 A. First Mr. Walker states that reviewing VWPA’s various cash flow coverages
18 reveals that VWPA has had higher levels of coverage than the comparable Water
19 Group companies (VWPA Statement No. 4, p. 21, lines 8-9). Moreover, the
20 evidence from the various financial ratios shows that VWPA’s risks are similar to
21 the comparable Water Group companies, but less than the larger S&P Utilities
22 Group (VWPA Statement No. 4, p. 21, lines 17-19). Second, he states that the

1 Water Group's average issuer credit ratings and common stock rankings are higher
2 than the S&P Utilities Group (VWPA Statement No. 4, p. 22, lines 11-12).

3
4 **Q. WHAT IS YOUR RESPONSE TO MR. WALKER'S FINANCIAL RISK**
5 **ANALYSIS?**

6 A. I agree with Mr. Walker's conclusion that VWPA's financial risks are
7 less and/or similar to the risks of the comparable Water Group companies.

8
9 **SMALL SIZE RISK**

10 **Q. SUMMARIZE MR. WALKER'S DISCUSSION REGARDING SMALL**
11 **SIZE RISK ANALYSIS.**

12 A. First, Mr. Walker states that the size difference between VWPA and the
13 Comparable Group companies is an indicator of investment risk. Therefore, he
14 opines, a smaller company requires employment of proportionately less financial
15 leverage (i.e., debt and preferred capital) than a larger company to balance out
16 investment risk (VWPA Statement No. 4, p. 25, lines 2-4). Second, he states that
17 the loss of a large customer will impact a small company much more than a large
18 company because a large customer of a small company usually accounts for a
19 larger percentage of the small company's sales (VWPA Statement No. 4, p. 25,
20 lines 11-13). Thus, he asserts that a larger company with a more diverse customer
21 base is less susceptible to downturns associated with regional economic conditions
22 than a small company (VWPA Statement No. 4, p. 26, lines 3-5).

1 **Q. WHAT IS YOUR RESPONSE TO MR. WALKER'S SMALL SIZE RISK**
2 **ANALYSIS?**

3 A. First, Mr. Walker's claim regarding the need for a higher equity capitalization
4 ratio to balance out investment risk is unsupported. It is important to note that
5 VWPA's claimed equity ratio of 54% is higher than the average equity
6 capitalization ratio of my proxy group (I&E Exhibit No. 2, Schedule 2). Second,
7 the opinion that the loss of a large customer will impact a small company much
8 more than a large company is unsupported because there is no evidence that
9 VWPA has lost a large customer recently to demonstrate its impact on financial
10 results. Third, as discussed in the Business Risk Analysis section above, Mr.
11 Walker acknowledges that VWPA has similar regulatory risk, credit rating risk,
12 and investment risk as compared to his comparable Water Group companies.
13 Additionally, as stated above, Mr. Walker acknowledges that VWPA's financial
14 risks are less and/or similar to the risks of the comparable Water Group
15 companies. Regarding the credit ratings, the comparable Water Group has an "A"
16 credit profile and VUR (the parent company) has a similar "A" rated credit profile
17 and VWPA relies on VUR for all capital requirements. Considering all these
18 facts, Mr. Walker's claim for VWPA's smaller size risk concern is invalidated and
19 unsupported because VWPA's business and financial risk profile is similar to the
20 large size companies of his Water Group.

21 Finally, Mr. Walker acknowledges that he has not conducted an exhaustive
22 study or is unaware of the Commission's orders where the Commission has

1 specifically approved a small size premium adjustment to the CAPM results or to
2 the ROE to recognize a small size impact (I&E Exhibit No. 2, Schedule 14).

3
4 **Q. DO YOU AGREE WITH MR. WALKER'S SMALL SIZE RISK**
5 **ADJUSTMENT OF 0.70% REFLECTED IN THE CAPM RESULTS?**

6 A. No. I disagree with Mr. walker's inappropriate and unwarranted adjustment of
7 0.70% for a small size risk adjustment in the CAPM analysis (VWPA Exhibit
8 HW-1, Schedule 17, p. 1) for the reasons discussed above. Mr. Walker's CAPM
9 analysis result is summarized below:

$$K = R_f + \beta (R_m - R_f) + \text{Small Size Adjustment}$$

$$11.00\% = 4.1\% + 0.82 (7.5\%) + 0.70\%$$

12
13 **Q. WHAT WOULD MR. WALKER'S CAPM RESULT BE WITHOUT**
14 **SMALL SIZE RISK ADJUSTMENT?**

15 A. Mr. Walker's CAPM result would be 10.25%. This is lower than my CAPM
16 result of 10.62% (37 basis points lower). The calculation is repeated below
17 without Mr. Walker's inappropriate and unsupported size adjustment in the CAPM
18 results:

$$K = R_f + \beta (R_m - R_f) + \text{Small Size Adjustment}$$

$$10.25\% = 4.10\% + 0.82 (7.50\%) + 0.00\%$$

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.¹⁷

13 VWPA presents no evidence to support application of a size adjustment for risk to
14 a utility setting. Absent any credible article to refute Dr. Wong’s findings, Mr.
15 Walker’s size adjustment to his CAPM results should be rejected. The size
16 premium data based on market capitalization is not reliable because for certain
17 periods, large-capitalization stocks outperform mid-capitalization stocks and vice-
18 versa, and it is difficult to establish a sufficient correlation to prove that size is a
19 specific risk for utilities.

20 Additionally, the Commission has recently rejected the application of a size
21 adjustment to the CAPM cost of equity calculation where it agreed that the same
22 literature the Company cites is not specific to the utility industry.¹⁸

¹⁷ Dr. Annie Wong, “Utility Stocks and the Size Effect: An Empirical Analysis,” *Journal of Midwest Finance Association* (1993), pp. 95-101.

¹⁸ *Pa. PUC v. UGI Utilities, Inc. - Electric Division*, Docket No. R-2017-2640058 (Order entered October 25, 2018), p. 100 (Disposition of Cost of Common Equity).

1 **OVERALL RATE OF RETURN RECOMMENDATION**

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

4 A. The Company recommends a cost of equity of 10.80% and an overall rate of
5 return of 7.95% for both water and wastewater operations.

6
7 **Q. WHAT IS I&E’S RECOMMENDED COST OF EQUITY AND OVERALL**
8 **RATE OF RETURN FOR VWPA?**

9 A. I&E Exhibit No. 2, Schedule 1, shows the calculation of an appropriate cost of
10 equity for VWPA to be 9.34% and overall rate of return of 7.16% for its water and
11 wastewater operations.

12
13 **FINAL COMMENTS**

14 **Q. DO YOU HAVE ANY FINAL COMMENTS REGARDING THE**
15 **COMPANY’S PROPOSED RETURN ON EQUITY?**

16 A. Yes. First, the Company’s requested 10.80% return on common equity is 115
17 basis points (1.15%) higher than the Commission’s latest approved DSIC
18 incentive ROE of 9.65% (Q4 2023 Quarterly Earnings Summary Report)¹⁹ for
19 water utility companies. The DSIC rate is designed to encourage its use and to
20 incentivize accelerated pipeline replacement and infrastructure upgrades to bring

19 PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended December 31, 2023, approved at Public Meeting on May 9, 2024, at Docket No. M-2024-3048688.

1 the existing aging infrastructure closer to meeting safety and reliability
2 requirements in-between base rate filings. Additionally, it is my understanding
3 that the DSIC rate establishes a benchmark above which a utility company is
4 considered “overearning.” As such, the DSIC rate does not serve as a proper
5 measurement or proxy of a subject utility’s cost of equity in a rate case
6 proceeding.

7 Finally, considering the impact PAWC’s claimed ROE of 10.80% would
8 have on rates, I believe it is important not to overburden ratepayers. As illustrated
9 in various charts above, any additional basis points beyond the I&E recommended
10 ROE of 9.34% based on a DCF (a market-determined) result are unnecessary and
11 will put an enormous burden on ratepayers.

12 Finally, while I am aware of the rising costs of capital due to the
13 aftereffects of the pandemic and inflation, I believe it is equally important not to
14 overburden ratepayers. As detailed in various charts above, the effect of Mr.
15 Walker’s adjustments to the market-determined cost of common equity are an
16 enormous burden to ratepayers and are completely unwarranted and unnecessary.

17 Without the adjustments disputed above, Mr. Walker’s market determined
18 cost of equity results are 8.70% and 10.25% for the DCF and CAPM, which are
19 lower than my analysis results of 9.34% and 10.62% for the DCF and CAPM.
20

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

22 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-2023-3042804 et al. Community Utilities of Pennsylvania , Inc.
- R-2023-3043189 et al. PA American Water Co.
- 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-2020-3018929 - 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.

VEOLIA WATER PENNSYLVANIA, INC.

Docket No. R-2024-3045192 (Water)
&
Docket No. R-2024-3045193 (Wastewater)

Exhibit to Accompany

the

Direct Testimony

of

D. C. Patel

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

I&E Summary of Cost of Capital - Water and Wastewater Operations Veolia Water Pennsylvania, Inc.			
Type of Capital	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	46.00%	4.60%	2.12%
Common Equity	54.00%	9.34%	5.04%
Total	<u>100.00%</u>		<u>7.16%</u>

	Proxy Group Capital Structure					Average
	2023	2022	2021	2020	2019	
American States Water Company						
Long-term Debt	873,674	476,637	595,596	584,184	492,735	46.46%
Preferred Stock	-	-	-	-	-	0.00%
Common Equity	776,109	709,549	685,947	641,673	601,530	53.54%
	\$ 1,649,783	\$ 1,186,186	\$ 1,281,543	\$ 1,225,857	\$ 1,094,265	100.00%
American Water Works Company, Inc.						
Long-term Debt	11,791,000	10,999,000	10,424,000	9,414,000	8,733,000	58.08%
Preferred Stock	-	-	-	-	-	0.00%
Common Equity	9,797,000	7,693,000	7,298,000	6,454,000	6,121,000	41.92%
	21,588,000	18,692,000	17,722,000	15,868,000	14,854,000	100.00%
California Water Service Group						
Long-term Debt	1,065,373	1,066,325	1,069,395	794,968	799,682	46.40%
Preferred Stock	-	-	-	-	-	0.00%
Common Equity	1,426,733	1,317,590	1,177,594	921,344	779,906	53.60%
	2,492,106	2,383,915	2,246,989	1,716,312	1,579,588	100.00%
Essential Utilities, Inc.						
Long-term Debt	6,860,510	6,408,723	5,827,734	5,563,386	2,954,972	51.72%
Preferred Stock	-	-	-	-	-	0.00%
Common Equity	5,896,183	5,377,386	5,184,450	4,683,877	3,880,860	48.28%
	12,756,693	11,786,109	11,012,184	10,247,263	6,835,832	100.00%
Middlesex Water Company						
Long-term Debt	361,216	293,986	310,887	278,286	236,509	44.06%
Preferred Stock	2,084	2,084	2,084	2,084	2,084	0.31%
Common Equity	422,991	400,328	367,726	346,208	323,792	55.63%
	786,291	696,398	680,697	626,578	562,385	100.00%
SJW Group						
Long-term Debt	1,526,699	1,491,965	1,492,935	1,287,580	1,283,597	57.83%
Preferred Stock	-	-	-	-	-	0.00%
Common Equity	1,233,397	1,110,868	1,034,519	917,160	889,984	42.17%
	2,760,096	2,602,833	2,527,454	2,204,740	2,173,581	100.00%
Five-Year Average Capital Structure						
Long-term Debt	50.76%	Maximum	Minimum	44.06%		
Preferred Stock	0.05%					
Common Equity	49.19%	Minimum	Maximum	55.63%		
	100.00%					

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

Proxy Group Debt Cost			
Company	Interest Charges	2023	
		Long-Term Debt	Debt Cost
American States Water Company	\$ 42.76	\$ 873.67	4.89%
American Water Works Company, Inc.	484.00	11,791.00	4.10%
California Water Service Group	52.81	1,065.37	4.96%
Essential Utilities, Inc.	283.36	6,860.51	4.13%
Middlesex Water Company	13.14	361.22	3.64%
SJW Group	69.04	1,526.70	4.52%
	Range:	Low	3.64%
		High	4.96%
		Average	4.37%

Source:

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

Yearly data updates typically provided late April or May of each year.

Dollar amount in millions.

Mergent Bond Record
A-Rated Public Utility Bond Yields

Month	Yield
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%
12/1/2023	5.42%
1/1/2024	5.48%
2/1/2024	5.56%
3/1/2024	5.55%
4/1/2024	5.79%
Average	5.61%

Source: Mergent Bond Record - Public Utility Bonds, p. 22 - 5/1/2024.

I&E Exhibit No. 2
Schedule 4

Dividend Yields of the Proxy Group							
Company	American States Water Company	American Water Works Company, Inc.	California Water Service Group	Essential Utilities, Inc.	Middlesex Water Company	SJW Group	
<i>Symbol</i>	<i>AWR</i>	<i>AWK</i>	<i>CWT</i>		<i>MSEX</i>	<i>SJW</i>	
Dividend	1.95	3.20	1.20	1.35	1.40	1.68	
52-wk low	68.80	114.25	44.76	32.07	48.05	53.95	
52-wk high	95.08	153.43	61.59	45.29	84.38	81.86	
Spot Price	70.33	120.02	46.51	36.28	48.93	54.89	
Spot Div Yield	2.77%	2.67%	2.58%	3.72%	2.86%	3.06%	
52-wk Div Yield	2.38%	2.39%	2.26%	3.49%	2.11%	2.47%	
Average	2.58%	2.53%	2.42%	3.61%	2.49%	2.77%	
	Average						
Spot Div Yield	2.94%						
52-wk Div Yield	2.52%						
Average	2.73%						
<i>Sources:</i>	Barrons	4/8/2024					
	Value Line	4/8/2024					

Five-Year Growth Estimate Forecast for Proxy Group (Actual)					
Company	Symbol	Yahoo!	Zacks	Value Line	Average
		Source			
American States Water Company	AWR	4.40%	6.30%	6.50%	5.73%
American Water Works Company, Inc.	AWK	7.50%	8.00%	3.00%	6.17%
California Water Service Group	CWT	10.80%	NA	10.00%	10.40%
Essential Utilities, Inc.	WTRG	5.20%	5.80%	7.00%	6.00%
Middlesex Water Company	MSEX	2.70%	NA	6.50%	4.60%
SJW Group	SJW	7.50%	7.50%	6.50%	7.17%
Average		6.35%	6.90%	6.58%	6.61%
Sources date: 4/8/2024					

Expected Market Cost Rate of Equity for the Proxy Group
5-Year Forecasted Growth Rates

<u>Time Period</u>	<u>Adjusted Dividend Yield</u> (1)	<u>Growth Rate</u> (2)	<u>Expected Return on Equity</u> (3=1+2)
(1) 52-Week Average Ending: April 8, 2024	2.52%	6.61%	9.13%
(2) Spot Price Ending: April 8, 2024	<u>2.94%</u>	<u>6.61%</u>	<u>9.55%</u>
(3) Average:	<u>2.73%</u>	<u>6.61%</u>	<u>9.34%</u>

Sources: Value Line 4/8/2024
 Barrons 4/8/2024

<u>Company</u>	<u>Beta</u>
American States Water Company	0.70
American Water Works Company, Inc.	0.95
California Water Service Group	0.75
Essential Utilities, Inc.	1.00
Middlesex Water Company	0.75
SJW Group	0.85
Average beta for CAPM	0.83
Source: Value Line 04/08/24	

<u>Risk-Free Rate</u>	
10-Year Treasury Note	Yield
3Q 2024	4.00
4Q 2024	3.90
1Q 2025	3.90
2Q 2025	3.80
3Q 2025	3.80
2025-2029	3.90
Average	3.88

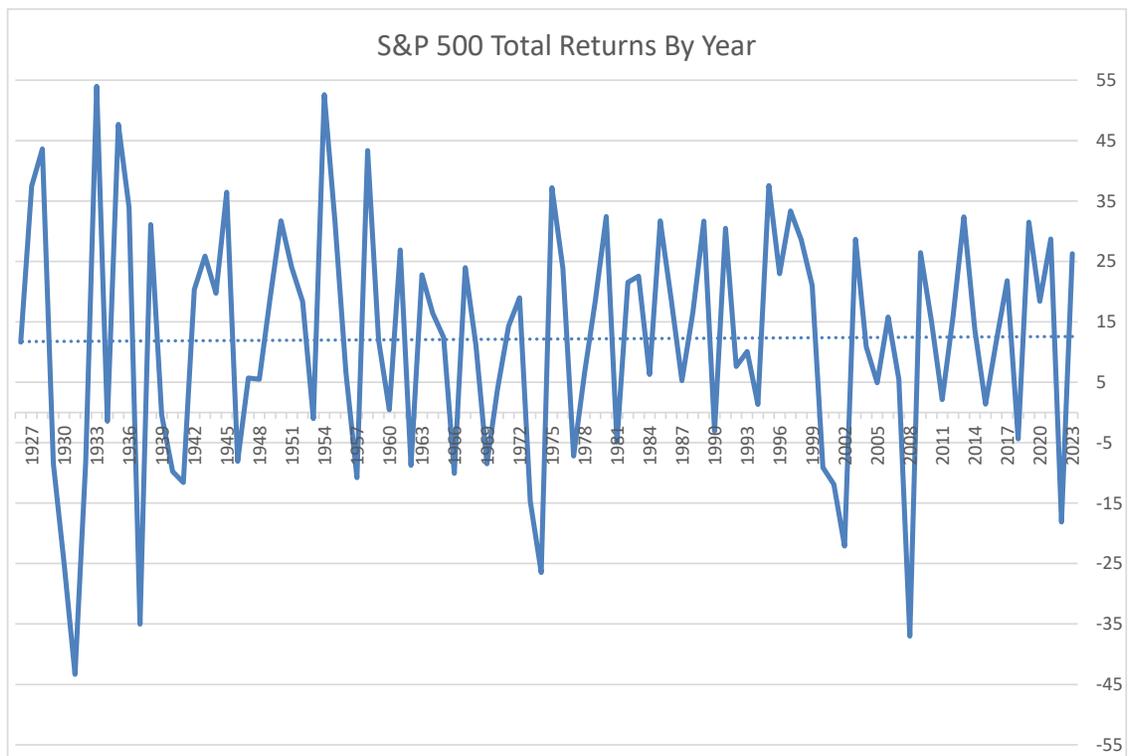
Source: Blue Chip Financial Forecasts
12/1/2023 & 4/1/2024

Required Rate of Return on Market as a Whole Forecasted				
	<u>Dividend</u>		<u>Growth</u>	<u>Expected</u>
	<u>Yield</u>	+	<u>Rate</u>	<u>Market</u>
			=	<u>Return</u>
Value Line Estimate	2.10%		9.73%	(a) 11.83%
S&P 500 Historical Return				12.16%
Average Expected Market Return				= 12.00%
 (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			4/5/2024	2.10%
Value Line Appreciation Potential			4/5/2024	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>
 (accessed on 4/8/2024)

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

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

$$\mathbf{Rf} = 3.88$$

$$\mathbf{Rm} = 12.00$$

$$\mathbf{Be} = 0.83$$

$$\mathbf{Re} = \underline{\underline{10.62}}$$

Sources: Blue Chip Financial Forecasts
Value Line

12/1/2023 & 4/1/2024
4/8/2024

BUREAU OF INVESTIGATION AND ENFORCEMENT DATA REQUESTS

VEOLIA WATER PENNSYLVANIA, INC.

Docket Nos. R-2024-3045192 (Water) and R-2024-3045193 (Wastewater)

I&E-RR-18-D Reference VWPA Exhibit GRH-1-5 concerning the revenue requirement calculation for the water and wastewater divisions. Provide the calculation for the gross revenue conversion factor separately for water, wastewater, and total Company for the HTY, FTY, and FPFTY to account for the need to gross-up revenue for taxes, uncollectibles, assessments (utility tax), etc.

Answer: Please see the attachment for the Gross Revenue Conversion Factor (GRCF) for water and wastewater divisions. For the combined revenue requirement calculation, the Company used the GRCF for the water division.

Answer provided by: Greg Herbert

Title: Assistant Project Manager, Rate Studies

Address: 207 Senate Ave, Camp Hill, PA 17011

Date: 03-11-2024

Veolia Water Pennsylvania - Water Operations		
Docket No. R-2024-3045192		
Taxes and Gross revenue Conversion Factor:		
Line No.	Description	Tax Rates
1	Pennsylvania State Corporate Tax Rate	7.990%
2	Federal Corporate Tax Rate	21.000%
3	Rate Applicable to O&M Expenses:	
4	Uncollectible Accounts Ratio	0.539%
5	PSC Assessment Ratio	0.500%
6	Rate for O&M Expense	1.039%
7	Composite Tax Rate - State	7.907%
8	(1-Line 6) X Line 2	
9	Composite Tax Rate - Federal (1-Line 5) X Line 2	20.782%
10	Revenue Conversion Factor 1/((1-Line 6) - Line 8- Line 9)	1.42304
Veolia Water Pennsylvania- Wastewater Operations		
Docket No. R-2024-3045193		
Taxes and Gross revenue Conversion Factor:		
Line No.	Description	Tax Rates
1	Pennsylvania State Corporate Tax Rate	7.990%
2	Federal Corporate Tax Rate	21.000%
3	Rate Applicable to O&M Expenses:	
4	Uncollectible Accounts Ratio	0.002%
5	PSC Assessment Ratio	0.500%
6	Rate for O&M Expense	0.502%
7	Composite Tax Rate - State	7.950%
8	(1-Line 6) X Line 2	
9	Composite Tax Rate - Federal (1-Line 5) X Line 2	20.895%
10	Revenue Conversion Factor 1/((1-Line 6) - Line 8- Line 9)	1.41536

BUREAU OF INVESTIGATION AND ENFORCEMENT DATA REQUESTS

VEOLIA WATER PENNSYLVANIA, INC.

Docket Nos. R-2024-3045192 (Water) and R-2024-3045193 (Wastewater)

I&E-RR-12-D Reference VWPA Statement No. 4, p. 63, lines 3-8 concerning the Risk Premium (RP) results. State whether Mr. Walker 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 applicable cases, including the docket numbers.

Answer: Mr. Walker does not discuss the requested information in his testimony. Further, Mr. Walker has not conducted an exhaustive study of all Commission orders. Mr. Walker believes the Commission considers many factors, including interest rate levels in reaching their conclusion but cannot accurately cite each occurrence.

Answer provided by: Harold Walker

Title: Manager, Gannett Fleming Valuation Rate Consultants, LLC

Address: 1010 Adams Avenue, Audubon, PA 19403-2402

Date: 03-11-2024

BUREAU OF INVESTIGATION AND ENFORCEMENT DATA REQUESTS

VEOLIA WATER PENNSYLVANIA, INC.

Docket Nos. R-2024-3045192 (Water) and R-2024-3045193 (Wastewater)

I&E-RR-8-D Reference VWPA Statement No. 4, p. 48, lines 4-7 and p. 52, lines 13-16 concerning Mr. Walker’s recommendation to give less weight to the resultant market value DCF cost rate due to the market’s current market capitalization ratios and the impact that the market-to-book ratio has on the DCF results. State whether Mr. Walker is aware of any instances where the Pennsylvania Public Utility Commission (“Commission”) has specifically relied on the impact that the market-to-book ratio has on the DCF results and gave less weight to the DCF results in recommending an ROE for any utilities for this specific reason. If so, identify the applicable cases, including the docket numbers.

Answer: Mr. Walker does not discuss the requested information in his testimony. Further, Mr. Walker has not conducted an exhaustive study of all Commission orders. Mr. Walker believes the Commission has authorized ROE’s that have been different than underlying DCF results but cannot accurately depict the reasons for their differences nor cite each occurrence.

Answer provided by: Harold Walker

Title: Manager, Gannett Fleming Valuation Rate Consultants, LLC

Address: 1010 Adams Avenue, Audubon, PA 19403-2402

Date: 03-11-2024

BUREAU OF INVESTIGATION AND ENFORCEMENT DATA REQUESTS

VEOLIA WATER PENNSYLVANIA, INC.

Docket Nos. R-2024-3045192 (Water) and R-2024-3045193 (Wastewater)

I&E-RR-9-D Reference VWPA Statement No. 4, pp. 53-58 concerning the discussion on financial risk difference that exists as a result of market capitalization ratios being different from book value capitalization ratios and recommending a financial risk leverage adjustment of 0.75% to the DCF result of 8.70% ($8.70\% + 0.75\% = 9.45\%$). State whether Mr. Walker is aware of any instances where the Commission has specifically awarded a financial risk leverage adjustment to the DCF results or in the ROE to recognize market to book ratio impact. If so, identify the applicable cases, including the docket numbers.

Answer: Mr. Walker does not discuss the requested information in his testimony. Further, Mr. Walker has not conducted an exhaustive study of all Commission orders. Mr. Walker believes the Commission has authorized ROE's that have been different than underlying market value DCF results but cannot accurately depict the reasons for their differences nor cite each occurrence.

Answer provided by: Harold Walker

Title: Manager, Gannett Fleming Valuation Rate Consultants, LLC

Address: 1010 Adams Avenue, Audubon, PA 19403-2402

Date: 03-11-2024

BUREAU OF INVESTIGATION AND ENFORCEMENT DATA REQUESTS

VEOLIA WATER PENNSYLVANIA, INC.

Docket Nos. R-2024-3045192 (Water) and R-2024-3045193 (Wastewater)

I&E-RR-11-D Reference VWPA Statement No. 4, p. 63, lines 3-8 concerning the financial risk leverage adjustment of 0.75% to the CAPM result of 11.00% ($11.00\% + 0.75\% = 11.75\%$). State whether Mr. Walker is aware of any instances where the Commission has specifically approved a financial risk leverage adjustment to the CAPM results or in the ROE to recognize market to book ratio impact. If so, identify the applicable cases, including the docket numbers.

Answer: Mr. Walker does not discuss the requested information in his testimony. Further, Mr. Walker has not conducted an exhaustive study of all Commission orders. Mr. Walker believes the Commission considers many factors including market to book ratio in reaching their conclusion but cannot accurately cite each occurrence.

Answer provided by: Harold Walker

Title: Manager, Gannett Fleming Valuation Rate Consultants, LLC

Address: 1010 Adams Avenue, Audubon, PA 19403-2402

Date: 03-11-2024

BUREAU OF INVESTIGATION AND ENFORCEMENT DATA REQUESTS

VEOLIA WATER PENNSYLVANIA, INC.

Docket Nos. R-2024-3045192 (Water) and R-2024-3045193 (Wastewater)

I&E-RR-10-D Reference VWPA Statement No. 4, p. 62 and Schedule 17, pp. 1 and 4 concerning the application of a size adjustment premium of 0.70% to the CAPM calculation. State whether Mr. Walker is aware of any instances where the Commission has specifically approved a small size premium adjustment to the CAPM results or to the ROE to recognize a small size impact. If so, identify the applicable cases, including the docket numbers.

Answer: Mr. Walker does not discuss the requested information in his testimony. Further, Mr. Walker has not conducted an exhaustive study of all Commission orders. Mr. Walker believes the Commission has cited size as one of the determinants/consideration of their authorized ROE but cannot accurately cite each occurrence.

Answer provided by: Harold Walker

Title: Manager, Gannett Fleming Valuation Rate Consultants, LLC

Address: 1010 Adams Avenue, Audubon, PA 19403-2402

Date: 03-11-2024

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

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

VEOLIA WATER PENNSYLVANIA, INC.

Docket No. R-2024-3045192 (Water)
&
Docket No. R-2024-3045193 (Wastewater)

Direct Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

Rate Base
Annual Amortization Expense
FTY and FPFTY Reporting
Other Operating Revenue – Late Payment Fees
Revenue Contribution to Mahoning Water
Scale Back of Rates
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. I&E’s analysis in this 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. My direct testimony addresses Veolia Water Pennsylvania, Inc.’s (“Veolia” or
3 “Company”) request for a \$15,494,620 increase in water revenue along with a
4 \$568,719 increase in wastewater revenue (Veolia St. No. 2, pp. 5 and 22).

5

6 **Q. DOES YOUR DIRECT TESTIMONY INCLUDE AN EXHIBIT?**

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

8

9 **Q. WHAT TEST YEARS HAS THE COMPANY USED IN THIS**
10 **PROCEEDING?**

11 A. The Company used the twelve months ended September 30, 2023 as the historic
12 test year, the twelve months ending September 30, 2024 as the future test year
13 (“FTY”), and the twelve months ending October 31, 2025 as the fully projected
14 future test year (“FPFTY”) (Veolia St. No. 2, p. 4).

15

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

18 A. Veolia based its requested revenue requirement on the FPFTY ending October 31,
19 2025 (Veolia St. No. 2, pp. 4-5).

20

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

22 A. Yes. As part of this filing, the Company submitted four separate cost of service

1 studies (“COSS”) that allocated and assigned the various costs of providing service
2 to various functions. The two COSS’ for water were Veolia exhibits CEH-1 and
3 CEH-2. The two COSS’ for wastewater were Veolia exhibits CEH-3 and CEH-4.
4

5 **Q. WHY DID THE COMPANY PROVIDE MULTIPLE COST OF SERVICE**
6 **STUDIES?**

7 A. To satisfy the terms of a prior Commission Order under Section 1329 of the Public
8 Utility Code, Veolia was required to submit a separate COSS that removed all costs
9 and revenues associated with the Section 1329 acquired water and wastewater
10 system of Mahoning (Veolia St. No. 1, p. 16 and Veolia St. No. 4, p .12).
11

12 **Q. BRIEFLY DESCRIBE THE WATER AND WASTEWATER SERVICE**
13 **TERRITORY OF VEOLIA.**

14 A. Veolia provides water service to approximately 69,800 customers in 11 counties
15 and 49 municipalities throughout Pennsylvania. It operates five surface water
16 treatment plants ranging in size from three quarters to twelve million gallons per
17 day. It also operates 36 wells with varying degrees of treatment, 30 booster
18 stations, and 42 storage facilities. The distribution system consists of over 900
19 miles of main, 14,000 valves, and 4,400 hydrants. For wastewater service, Veolia
20 serves approximately 1,600 customers in two counties. It operates one wastewater
21 treatment plant along with a collection system of over two miles (Veolia Statement
22 of Reasons, p. 1).

1 **RATE BASE**

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

3 A. Rate base is the depreciated original cost of a utility's investment in plant to serve
4 customers plus additions and deductions that are determined to be necessary to
5 keep the utility operating and providing safe and reliable service to its customers.

6
7 **Q. HOW IS RATE BASE USED WITHIN THE RATEMAKING FORMULA?**

8 A. Rate base is one part of the financial equation used by the Commission to
9 determine the appropriate revenue that a utility is granted in a rate proceeding.
10 The revenue determination allows the utility to meet its expense obligations and
11 gives it the opportunity to earn the rate of return established by the Commission in
12 a rate proceeding. The equation used to determine the proper revenue requirement
13 level is as follows: $\text{Revenue Requirement} = (\text{Rate Base} \times \text{Rate of Return}) +$
14 $\text{Operating Expenses} + \text{Depreciation Expense} + \text{Taxes}.$

15
16 **Q. HOW IS THE DEPRECIATED ORIGINAL COST OF PLANT IN
17 SERVICE AT THE END OF THE TEST YEAR DETERMINED?**

18 A. The depreciated original cost is equal to the original cost of the plant in service
19 that is used and useful in the provision of utility service to the customers less the
20 depreciation reserve as adjusted by other items such as salvage value and removal
21 costs. By using an FPFTY, the depreciated original cost of the plant in service is

1 computed by taking a “snapshot” look at the depreciated original cost value of
2 used and useful utility plant estimated to be in service at the end of the FPFTY.

3
4 **Q. WHAT ARE THE COMPANY’S UTILITY PLANT IN SERVICE CLAIMS**
5 **AND WHAT DEDUCTIONS DID THE COMPANY REFLECT?**

6 A. For the Water Division, the FTY utility plant in service claim for water totaled
7 \$529,786,508, and the FPFTY claim totaled \$567,878,727 (Veolia Ex. No. LKF-1,
8 p. 1). The subsequent deductions to utility plant are accumulated depreciation,
9 contributions in aid of construction and contributions, deferred income taxes, and
10 the regulatory liabilities (Veolia Ex. No. GRH-2, Sch. 1.1). For Wastewater, the
11 FTY utility plant claim totaled \$7,540,754, and the FPFTY claim totaled
12 \$7,594,754 (Veolia Ex. No. LKF-1, p. 2). The originally claimed addition to the
13 Company’s Wastewater Division utility plant was cash working capital. Veolia’s
14 wastewater plant had no deductions to the depreciated original cost (Veolia Ex.
15 No. GRH-4, Sch. 1.1).

16
17 **Q. WHAT RATE BASE TOTAL IS THE COMPANY CLAIMING FOR ITS**
18 **WATER AND WASTEWATER OPERATIONS?**

19 A. For Water, Veolia is claiming \$356,215,489 in FPFTY rate base (Veolia St. No. 2,
20 p. 6 and Veolia Ex. No. GRH-2, Sch. 1-1). Additions to the Company’s Water
21 Division net utility plant are acquisition adjustments, materials and supplies, and
22 cash working capital.

1 The deductions to the net utility plant are contributions in aid of
2 construction and contributions, deferred income taxes, and the regulatory
3 liabilities.

4 For Wastewater, Veolia is claiming \$5,726,939 in FPFTY rate base (Veolia
5 St. No. 2, p. 23 and Veolia Ex. No. GRH-4, Sch. 1-1). Additions to the
6 Company’s Wastewater Division net utility plant are acquisition adjustments and
7 cash working capital. There are no deductions to the Wastewater net utility plant.
8

9 **Q. ARE UTILITIES PERMITTED TO INCLUDE ACQUISITION**
10 **ADJUSTMENTS IN RATE BASE?**

11 A. Yes. However, for an acquisition adjustment to be included in rate base, the
12 acquisition must meet certain requirements. These requirements are generally
13 described on Veolia St. No. 1, pp. 11-16. However, as described below, some of
14 the acquisition adjustments do not meet the necessary requirements.
15

16 **Q. WHAT ACQUISITION ADJUSTMENTS DID VEOLIA CLAIM IN ITS**
17 **RATE BASE?**

18 A. Veolia is requesting the following acquisition adjustments in rate base: Kensington
19 Water Company (“Kensington”), Overbrook Water Company (“Overbrook”), and
20 both Water and Wastewater for the Township of Mahoning (“Mahoning”) (Veolia
21 St. No. 1, p. 9, Veolia Ex. No. GRH-2, Sch. 1.1, and Veolia Ex. No. GRH-4, Sch.
22 1.1).

1 **Q. WHAT DO YOU RECOMMEND REGARDING THESE ACQUISITIONS**
2 **BEING ADDED TO THE COMPANY’S RATE BASE CLAIM?**

3 A. I recommend that the acquisition adjustments for Kensington and Overbrook
4 acquisition claims be accepted, while the acquisition adjustments claimed for the
5 Mahoning Water and Wastewater acquisitions be denied.

6
7 **Q. WHY DO YOU RECOMMEND THE ACCEPTANCE OF THE**
8 **ACQUISITION ADJUSTMENTS RELATED TO THE KENSINGTON AND**
9 **OVERBROOK SYSTEMS?**

10 A. Kensington was acquired by Veolia on October 24, 2019, for an original cost of
11 \$265,000. The Company admits that this plant was fully depreciated as of 2011,
12 however, the Kensington facility at the time of purchase had operational and service
13 reliability issues which clearly established that the system was distressed. Based on
14 Company testimony, I accept the FPPTY plant claim of \$202,500 (Veolia St. No. 1,
15 pp. 10-16 and Veolia Ex. No. GRH-2, Sch. 1.1).

16 Overbrook was acquired by Veolia on October 24, 2019, for an original
17 cost of \$324,000. The Overbrook facility at the time of purchase had operational
18 and service reliability issues and was viewed by the Pennsylvania Department of
19 Environmental Protection (“PA DEP”) as a troubled water system. Based on
20 Company testimony, I accept the FPPTY plant claim of \$245,970 (Veolia St. No.
21 1, pp. 10-16 and Veolia Ex. No. GRH-2, Sch. 1.1).

1 **Q. WHY DO YOU RECOMMEND THE REJECTION OF THE MAHONING**
2 **ACQUISITION ADJUSTMENTS?**

3 A. Mahoning’s water and wastewater facilities were acquired by Veolia on December
4 20, 2018 under Section 1329 of the Pennsylvania Public Utility Code for an
5 original cost of \$9,500,000. The Company is proposing to allocate \$4,734,800 to
6 the water rate base and \$4,765,200 to the wastewater rate base. Since the systems
7 were acquired under Section 1329, there is no reason to reflect an acquisition
8 adjustment in rate base since the original cost should have been adjusted to reflect
9 the purchase price within specific asset categories per the original fair market
10 valuation with that rate base subject to depreciation over the life of each asset
11 category. It is inappropriate to request recovery of the difference between the
12 Section 1329 established rate base and the system original cost over an
13 amortization period of ten years. Therefore, I recommend that the Commission
14 reject the Company’s FPPTY acquisition adjustment claims of \$1,104,896 for
15 Water and \$1,377,307 for Wastewater (Veolia St. No. 1, pp. 9-10, Veolia Ex. No.
16 GRH-2, Sch. 1.1, and Veolia Ex. No. GRH-4, Sch. 1.1).

17
18 **Q. WHAT RATE BASE TOTAL DO YOU RECOMMEND AS A RESULT OF**
19 **EXCLUDING THE MAHONING ACQUISITIONS FROM THE**
20 **COMPANY’S WATER AND WASTEWATER RATE BASE CLAIMS?**

21 A. For Water, I recommend a rate base of \$355,110,593 rather than the Company’s
22 claim of \$356,215,489, which represents a \$1,104,893 reduction to the initial

1 claim (I&E Ex. No. 3, Sch. 1, p. 1). For Wastewater, I recommend a rate base of
2 \$4,369,632 rather than the Company claim of \$5,726,939, which represents a
3 \$1,377,307 reduction to the Company claim (I&E Ex. No. 3, Sch. 2, p. 1).
4

5 **AMORTIZATION EXPENSE**

6 **Q. WHAT IS AMORTIZATION EXPENSE?**

7 A. Amortization expense represents the annual amount of the acquisition adjustment
8 claimed by the Company that is charged to an expense that reduces the acquisition
9 balance over time.
10

11 **Q. WHAT AMORTIZATION EXPENSE AMOUNTS ARE THE COMPANY**
12 **CLAIMING?**

13 A. Veolia is claiming \$230,340 in FPFTY amortization expense for Water. The
14 \$230,340 claim includes \$122,766 related to the Mahoning Water system. For
15 Wastewater, Veolia is claiming \$153,034 in FPFTY amortization expense. The
16 entire \$153,034 is related to the Mahoning Wastewater system (Veolia Ex. No.
17 GRH-3, Schedule 34 and Veolia Ex. No. GRH-5, Schedule 20).
18

19 **Q. WHAT ADJUSTMENTS TO THE COMPANY'S AMORTIZATION**
20 **EXPENSE CLAIMS DO YOU RECOMMEND?**

21 A. I recommend that the water amortization expense be reduced by \$122,766 and the
22 total wastewater amortization expense of \$153,034 be eliminated (I&E Ex. No. 3.

Sch. 3, p. 2 and Sch. 4, p. 2).

Q. WHY DO YOU RECOMMEND THE AMORTIZATION EXPENSE BE REDUCED BY \$122,766 AND THE AMORTIZATION EXPENSE FOR THE WASTEWATER SYSTEM BE ENTIRELY DISALLOWED?

A. As described above, I recommend that the Commission reject the Company's acquisition adjustments related to the Mahoning Water and Mahoning Wastewater systems. Therefore, these annual amounts represent the amortization expense related to the Mahoning systems should be disallowed.

PLANT AND REPORTING REQUIREMENTS

Q. WHAT IS PLANT IN SERVICE?

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

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

A. Yes. I recommend that the Company provide the Commission's Bureau of Investigation and Enforcement and the Office of Consumer Advocate with separate reports for Water and Wastewater updating pages 1 and 2 of Veolia Exhibit LKF-1 no later than January 1, 2025, which should include actual capital

1 expenditures, plant additions, and retirements by month from October 1, 2023
2 through September 30, 2024, and an additional update for actuals from October 1,
3 2024 through September 30, 2025, no later than January 1, 2026.

4
5 **Q. WHY DO YOU RECOMMEND THAT VEOLIA PROVIDE THESE**
6 **UPDATES?**

7 A. I&E believes there is value in determining how closely Veolia's projected
8 investments in future plant compare with the actual investments that are made by
9 the end of the FTY and FPFTY. Determining the correlation between Veolia's
10 projected and actual results will help inform the Commission and the parties in
11 Veolia's future rate cases.

12 The updates are important because, as previously explained, by using an
13 FPFTY, Veolia is essentially requiring ratepayers to pre-pay a return on its
14 projected investment in future plant that is not in place and providing service at the
15 time the new rates take effect, but that also is not subject to any guarantee of being
16 completed and placed into service. While the FPFTY provides for such
17 projections, there should be verification of the accuracy of the projections.
18 Therefore, requiring the Company to provide updates demonstrating that actual
19 investments comport with projections used in setting rates using the FPFTY
20 provides the Commission with actual data to gauge the accuracy of Veolia's
21 forecasts.

1 **OTHER OPERATING REVENUE – LATE PAYMENT FEES**

2 **Q. HOW MUCH LATE PAYMENT REVENUE DOES THE COMPANY**
3 **PROJECT RECEIVING UNDER PRESENT AND PROPOSED RATES**
4 **FOR THE FPFTY FOR THE MAIN WATER DIVISION (“VEOLIA AND**
5 **BETHEL WATER OPERATIONS” AS LABELED BY THE COMPANY)?**

6 A. In this filing, the Company reflected approximately \$325,208 of present rate Other
7 Revenue for the Main Water Division which includes late payment revenue under
8 both present and proposed rates for the FPFTY ending December 31, 2025 (Veolia
9 Ex. No. CEH-1, Sch. A).

10

11 **Q. WHAT DO YOU RECOMMEND CONCERNING THE \$325,208 IN OTHER**
12 **REVENUE UNDER PROPOSED RATES FOR THE MAIN WATER**
13 **DIVISION?**

14 A. I recommended that Other Revenue be increased by \$81,922 from \$325,208 to
15 \$407,130¹ under proposed rates for the FPFTY to reflect higher late payment
16 revenue.

17

18 **Q. HOW DID YOU DETERMINE THE \$81,922 INCREASE IN LATE**
19 **PAYMENT REVENUE UNDER PROPOSED RATES?**

20 A. The Company is requesting an increase in tariff rates for the Main Water Division

¹ I&E modified proposed increase to Other Revenue (Main Division): $\$325,208 * (1+.25191) = \$407,130$.

1 of approximately 25.191% (I&E Ex. No. 3, Sch. 3, p. 1, col. I, line 9). The
2 \$81,922 ($\$325,208 \times 0.25191$) equates to a corresponding increase in late payment
3 revenue.

4
5 **Q. WHY DO YOU RECOMMEND THE REVENUE FROM LATE PAYMENTS**
6 **BE INCREASED?**

7 A. It is reasonable to expect that late payment revenue will increase when a utility's
8 base rates are increased as a result of a base rate proceeding. Since late payment
9 revenues are generally estimated as a percentage of a customer's bill, increasing
10 water service revenue through a rate increase will cause revenues from late
11 payments to increase over time.

12
13 **Q. DO YOU HAVE A CORRESPONDING ADJUSTMENT FOR THE**
14 **MAHONING WATER DIVISION?**

15 A. Yes. This portion of my late payment revenue recommendation is explained
16 below.

17
18 **MAHONING WATER ADJUSTMENTS**

19 **Q. DID THE COMPANY PROVIDE A SUMMARY OF THE PRESENT AND**
20 **PROPOSED REVENUE FOR MAHONING WATER?**

21 A. Yes. The Company provided Veolia Ex. No. CEH-2, Sch. A showing present and
22 proposed rate revenue for Mahoning Water.

1 **Q. DID YOU PREPARE A SIMILAR SCHEDULE THAT SHOWS THE**
2 **PRESENT AND PROPOSED RATE REVENUE YOU RECOMMEND FOR**
3 **MAHONING WATER?**

4 A. Yes. I&E Ex. No. 3, Sch. 4 incorporates my three recommendations. My first
5 recommendation is to increase proposed rate other revenue of \$6,984 by \$9,179²
6 to \$16,073³ for the late payment revenue as discussed above, which equates to an
7 increase of 133.13% (I&E Ex. No. 3, Sch. 4). My second recommendation is to
8 remove the \$4,680 increase to Public Fire. My third and final recommendation is
9 that the allocation of the \$237,000 under column J between the Main Water
10 Division and Mahoning Water be disallowed.

11

12 **Q. WHY DID YOU INCREASE OTHER REVENUE BY 133.13%?**

13 A. As described above for the Veolia system, it is reasonable to expect that other
14 revenue will increase if present rates are increased. The \$9,179 or 133.13%
15 increase in other revenue is the same percentage increase I proposed for Mahoning
16 Water base rates.

17

18 **Q. WHY DID YOU REMOVE THE \$4,680 INCREASE TO PUBLIC FIRE**
19 **SERVICE?**

20 A. According to the Company, the cost incurred to provide Public Fire Service is

² I&E modified proposed increase to Other Revenue (Mahoning): \$16,073 - \$6,894 = \$9,179.

³ I&E modified proposed rates to Other Revenue (Mahoning): \$6,894 * (1+1.3313) = \$16,073.

1 \$68,238, and the present rate revenue from Public Fire Service is \$46,804 (Veolia
2 Ex. No. CEH-2, Sch. A). Calculating 25% of the cost to provide Public Fire
3 Service in accordance with Section 1328(b) of the Public Utility Code indicates
4 that if present rate revenue received from Public Fire is above \$17,060 (\$68,238 x
5 25%), present rates cannot be increased. Since present rates produce \$46,804 and
6 \$46,804 is more than \$17,060, I am advised by counsel that Public Fire Service
7 rates cannot be increased.

8
9 **Q. WHY DID YOU REALLOCATE THE \$237,000 OF REVENUE BACK TO**
10 **THE MAHONING SYSTEM CLASSES?**

11 A. Similar to the removal of \$237,000 of revenue requirement from the Veolia water
12 system rates, I reallocated the \$237,000 of additional revenue proportionally to the
13 revenue the Company originally proposed for the Residential, Commercial, and
14 Private Fire classes. The allocation of the \$237,000 is shown under Column J
15 including the \$9,179 of additional late payment revenue described above.

16 This revenue contribution between the Main Water Division and Mahoning
17 Water is inappropriate and should be disallowed.

18
19 **Q. WHAT DO YOU RECOMMEND CONCERNING THE NEGATIVE**
20 **\$237,000 IN REVENUE ALLOCATED TO MAHONING TOWNSHIP**
21 **WATER CUSTOMERS?**

22 A. I recommended that this \$237,000 subsidy to the Mahoning Township water

1 system be rejected.

2
3 **Q. WHY DO YOU RECOMMEND THAT THE \$237,000 SUBSIDY TO**
4 **MAHONING TOWNSHIP WATER CUSTOMERS BE REJECTED?**

5 A. First, there is no reason that the rates should be consolidated in this proceeding,
6 and disallowing the subsidy lowers the rates for Main Division customers.
7 Second, the Mahoning customers are benefitting from being acquired by Veolia
8 through the Section 1329 acquisition. Therefore, Mahoning customers should pay
9 rates that recover the cost of operating the Mahoning system. This is important
10 because in that acquisition case, the Company claimed being acquired would be
11 beneficial to all customers. The benefits accruing to Mahoning customers include
12 better customer service, better access to capital, better construction management,
13 better overall expertise in operating water systems. Also, being under the
14 jurisdiction of the Commission prevents unjust and unreasonable rates, and
15 customers will have access to the Commission complaint procedures among other
16 things (Suez St. No. 1, pp. 14-17 at Docket No. A-2018-3003519). Finally, while
17 Act 11 of 2012 provided for the allocation of wastewater system revenue
18 requirements to a Company's owned water utility, I am unaware of any provision
19 that allows a similar transfer of system costs between water rate zones.

20 If Veolia believes that water system rates should be consolidated in this
21 proceeding, it should have proposed rate increases at the actual necessary
22 percentage to do so without inappropriately shifting the Mahoning Water revenue

1 requirement to the customers of the Main Water division. My exhibit reflects the
2 appropriate increases to the two rate zones with the adjustments I have
3 recommended, including removal of the \$237,000 subsidy.
4

5 **SCALEBACK OF RATES - WATER**

6 **Q. WHAT RATES SHOULD BE SCALED BACK IF THE COMMISSION**
7 **GRANTS LESS THAN THE FULL INCREASE FOR VEOLA WATER?**

8 A. I recommend that the rates be scaled back proportional to the percentage
9 increase(s) shown on I&E Ex. No. 3, Sch. 3, p. 1, column I for Residential,
10 Commercial, Industrial and Public rate classes. I also recommend that the
11 customer charges for the Residential and Commercial classes in the above-
12 mentioned divisions, along with the Industrial and Public class customer charges
13 in the Main Division, be scaled back.
14

15 **Q. WHAT RATES SHOULD NOT BE SCALED BACK IF THE**
16 **COMMISSION GRANTS LESS THAN THE FULL INCREASE?**

17 A. I recommend no scale back to the Bethel system usage rates, the customer charges
18 related to Large Industrial, Sales for Resale, Private, and Public Fire rates.

1 **Q. WHY DO YOU RECOMMEND THAT THE PROPOSED USAGE RATES**
2 **FOR THE BETHEL SYSTEM NOT BE INCLUDED IN THE SCALE**
3 **BACK?**

4 A. The proposed Bethel system usage rates are below the other present usage rates
5 and in order to help consolidate rates in the future, these rates should not be scaled
6 back.

7

8 **Q. WHY DO YOU RECOMMEND THAT THE PROPOSED MONTHLY**
9 **CUSTOMER CHARGES FOR THE RESIDENTIAL, COMMERCIAL,**
10 **INDUSTRIAL AND PUBLIC CUSTOMERS BE INCLUDED IN THE**
11 **SCALE BACK?**

12 A. The Company's proposed monthly customer charges are based upon a customer
13 cost analysis that reflects the full cost of service. Since the Commission is likely
14 to reduce some of the Company's ratemaking components contained in the
15 customer cost analysis, it is necessary to reduce the proposed customer charge if
16 the Commission reduces the requested increase. Also, the Company proposed a
17 higher percentage increase for the customer charges than the usage rates, thus
18 scaling back the usage rates will reduce the increase for low usage customers
19 compared to higher usage customers. Finally, in a past UGI Electric case, the
20 Commission determined that despite the higher customer cost determination in the
21 COSS, the customer charges should be reduced for all customers (*PA Public*

1 *Utility Commission et al. v. UGI Utilities, Inc. – Electric Division*, Docket No. R-
2 2017-2640058 et al., p. 175 (Order Entered October 25, 2018)).

3
4 **Q. WHY DO YOU RECOMMEND NO SCALE BACK IN THE LARGE**
5 **INDUSTRIAL, SALES FOR RESALE, PUBLIC AND PRIVATE FIRE**
6 **SERVICE RATES?**

7 A. Under proposed rates, the relative rates of return for these classes are below 1.00.
8 Therefore, there is no justification for reducing the proposed rates in these classes.

9
10 **Q. WHY DO YOU RECOMMEND A PROPORTIONAL SCALE BACK TO**
11 **THE RESIDENTIAL, COMMERCIAL, INDUSTRIAL, AND PUBLIC**
12 **USAGE RATES IF THE COMMISSION GRANTS LESS THAN THE FULL**
13 **INCREASE?**

14 A. A proportional scale back will still satisfy the goal of moving the relative rate of
15 return towards 1.00 as proposed under the full increase.

16
17 **Q. WHAT RATES SHOULD BE SCALED BACK IF THE COMMISSION**
18 **GRANTS LESS THAN THE FULL INCREASE FOR MAHONING**
19 **WATER?**

20 A. I recommend that the rates be scaled back proportional to the percentage
21 increase(s) shown on I&E Ex. No. 3, Sch. 4, column I. This proportional scale

1 back will also move the revenue received from the Mahoning classes towards the
2 cost of providing service to each Mahoning class.

3
4 **SCALEBACK OF RATES - WASTEWATER**

5 **Q. WHAT INCREASES DID VEOLA PROPOSE FOR THE MAHONING**
6 **WASTEWATER OPERATIONS?**

7 A. Veolia's COSS comparison is shown on Veolia Exhibit No. CEH-2, Schedule A-1,
8 which shows the increases by class under column 8. The proposed increases for
9 Mahoning are \$338,238 for residential customers and \$230,482 for non-residential
10 customers. The percentage increases of 38.0% and 17.3% respectively are shown
11 under column 9.

12
13 **Q. HOW SHOULD THESE INCREASES BE SCALED BACK IF THE**
14 **COMMISSION GRANTS LESS THAN THE FULL INCREASE?**

15 A. I recommend that the customer charges and usage rates be scaled back so that the
16 percentage increase is proportional to the percentage increases originally proposed
17 on Veolia Exhibit No. CEH-2, Schedule A-1, column 9.

18
19 **Q. WHY DO YOU RECOMMEND A PROPORTIONAL SCALE BACK BE**
20 **APPLIED TO MAHONING WASTEWATER RATES?**

21 A. Veolia's Mahoning wastewater COSS comparison shown on Exhibit No. CEH-3,
22 Schedule A shows the cost to serve the Residential class is more than revenue

1 received from present rates, and the cost to serve the Non-Residential class is less
2 than the revenue received from the Non-Residential customers. Given this
3 disparity, the Company proposed a higher percentage increase for the Residential
4 class. Therefore, a proportional scaleback is reasonable to generate revenue and
5 limit the increase to the Residential class to 38.0%.

6
7 **Q. WHAT INCREASES DID VEOLA PROPOSE FOR THE COLUMBIA**
8 **WASTEWATER OPERATIONS?**

9 A. Veolia's Columbia County COSS comparison shown on Veolia Exhibit No. CEH-
10 4, Schedule A-1 shows the increases for the one Non-Residential class under
11 column 8. The proposed increase for Columbia County is \$109,625 for non-
12 residential customers. The Company proposed a 235.1% increase in the customer
13 charge and approximately a 236% increase in the usage rates (Veola Ex. GRH-4,
14 Sch. 9).

15
16 **Q. HOW SHOULD THESE INCREASES BE SCALED BACK IF THE**
17 **COMMISSION GRANTS LESS THAN THE FULL INCREASE?**

18 A. I recommend that the customer charges and usage rates be scaled back
19 proportionally.

1 **Q. WHY DO YOU RECOMMEND A PROPORTIONAL SCALE BACK BE**
2 **APPLIED TO COLUMBIA WASTEWATER RATES?**

3 A. Veolia proposed approximately the same percentage increase in the Columbia
4 wastewater customer charge and usage rates. Therefore, it's reasonable to scale
5 back both rates proportionally.

6

7 **PUBLIC INPUT HEARINGS**

8 **Q. WERE PUBLIC-INPUT HEARINGS HELD FOR THIS PROCEEDING?**

9 A. Yes. One in-person hearing was held on April 29, 2024, in Bloomsburg,
10 Columbia County, Pennsylvania; two combined in-person and telephonic hearings
11 were held on April 30, 2024, in the Commonwealth Keystone Building in
12 Harrisburg, Pennsylvania.

13

14 **Q. DID YOU ADDRESS THE PUBLIC INPUT HEARINGS TESTIMONY IN**
15 **THIS DIRECT TESTIMONY?**

16 A. No. I was not able to review all the public input testimony prior to the due date
17 for this direct testimony, but I reserve the right to address the public input
18 testimony in my rebuttal and/or surrebuttal testimony.

19

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

21 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 August 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 & R-2019-3007636 |
| 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 PA, Docket Nos. R-2020-3018993 & R-2020-3018835 |
| 16. | Duquesne Light Company, Docket No. P-2020-3019522 |

17. PA American Water Co., Docket Nos. R-2020-3019369 & R-2020-3010937
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 & R-2021-3027386
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
42. CAN DO, Inc., Docket R-2023-3040153 & R-2023-3040151

I&E Exhibit No. 3
Witness: Esyan A. Sakaya

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

VEOLIA WATER PENNSYLVANIA, INC.

Docket No. R-2024-3045192 (Water)
&
Docket No. R-2024-3045193 (Wastewater)

Exhibits to Accompany

The

Direct Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

Rate Base
Annual Amortization Expense
FTY and FPFTY Reporting
Other Operating Revenue – Late Payment Fees
Revenue Contribution to Mahoning Water
Scale Back of Rates
Public Input Hearing

VEOLIA WATER PENNSYLVANIA INC.
WATER OPERATIONS
ORIGINAL COST MEASURE OF VALUE AS OF
SEPTEMBER 30, 2024 AND OCTOBER 31, 2025

Line	VWPA, Kensington and Overbrook (A)	As of 10/31/2025 (B)	I&E Adjustment (C)	I&E Recommended (D)
1	Original Cost of Utility Plant In Service (a)	\$550,992,912	\$0	\$550,992,912
2	Pro Forma UPIS - Brown Manor	\$83,674	\$0	\$83,674
3	Pro Forma UPIS - Kensington	\$202,501	\$0	\$202,501
4	Pro Forma UPIS - Overbrook	\$245,970	\$0	\$245,970
5	Plant Held for Future Use	\$52,964	\$0	\$52,964
6	Less: Accumulated Depreciation (a)	-\$96,999,406	\$0	-\$96,999,406
7				
8	Net Utility Plant	\$454,578,614	\$0	\$454,578,614
9				
10	CIAC and Contributions	-\$84,960,608	\$0 (b)	-\$84,960,608
11				
12	Add:			
13	Deferred Taxes	-\$14,747,777	\$0	-\$14,747,777
14	Regulatory Liability - New Fed Rate	-\$8,301,533	\$0	-\$8,301,533
15	Regulatory Liability - 2018 Portion	-\$756,507	\$0	-\$756,507
16	Materials and Supplies	\$1,656,030	\$0	\$1,656,030
17	Cash Working Capital	\$749,697	\$0	\$749,697
18				
19	Total Original Cost Measure of Value	\$348,217,916	\$0	\$348,217,916

(a) Source: Data provided by Company.

(b) 2024 and 2025 CIAC and Advances included in total Net Utility Plant.

Line	Bethel Water	As of 10/31/2025	I&E Adjustment	I&E Recommended
25				
26	Original Cost of Utility Plant In Service (a)	\$8,717,347	\$0	\$8,717,347
27	Less: Accumulated Depreciation (a)	-\$604,497	\$0	-\$604,497
28				
29	Net Utility Plant	\$8,112,850	\$0	\$8,112,850
30				
31	CIAC and Contributions	-\$6,237,519	\$0 (b)	-\$6,237,519
32				
33	Add:			
34	Deferred Taxes	-\$50,864	\$0	-\$50,864
35	Regulatory Liability - New Fed Rate	-\$134,430	\$0	-\$134,430
36	Regulatory Liability - 2018 Portion	-\$75,988	\$0	-\$75,988
37	Materials and Supplies	\$0	\$0	\$0
38	Cash Working Capital	\$45,385	\$0	\$45,385
39				
40				
41	Total Original Cost Measure of Value	\$1,659,435	\$0	\$1,659,435

(a) Source: Data provided by Company.

(b) 2024 and 2025 CIAC and Advances included in total Net Utility Plant.

Line	Mahoning Township	As of 10/31/2025	I&E Adjustment	I&E Recommended
47				
48	Original Cost of Utility Plant In Service (a)	\$8,168,467	\$0	\$8,168,467
49	Mahoning Acquisition Adj	\$1,104,896	\$(1,104,896)	\$0
50	Less: Accumulated Depreciation (a)	-\$2,894,392	\$(217,967)	-\$3,112,359
51				
52	Net Utility Plant	\$6,378,971	\$(1,322,863)	\$5,056,108
53				
54	Add:			
55	Deferred Taxes	-\$46,056	\$0	-\$46,056
56	Regulatory Liability	\$0	\$0	\$0
57	Materials and Supplies	\$0	\$0	\$0
58	Cash Working Capital	\$5,223	\$0	\$5,223
59				
60	Total Original Cost Measure of Value	\$6,338,138	\$(1,322,863)	\$5,015,275
61				
62	Total Water Original Cost Measure of Value	\$356,215,489	\$(1,322,863)	\$354,892,626

(a) Source: Data provided by Company.

VEOLIA WATER PENNSYLVANIA, INC.
ANNUAL DEPRECIATION EXPENSE
R-2024-3045192

Line No.	Description	31-Oct-25	I&E Adjustment	I&E Adjusted	SOURCES
	(A)	(B)	(C)	(D)	
1	VWPA Water	12,561,109	\$0	\$12,561,109	Exh GRH-3-Sch 1, pages 2-4 Exh GRH-3-Sch 34,ADJ 33
	Depreciation on CIAC/Advances	(1,245,535)		(\$1,245,535)	
2	Bethel Water	150,495	\$0	\$150,495	
	Depreciation on CIAC/Advances	(92,911)		(\$92,911)	
3	Mahoning Water *	217,967	* -\$217,967	(\$0)	
	Depreciation on CIAC/Advances	-		\$0	
4	Total Annual Depreciation Expense	<u>11,591,125</u>	<u>(217,967)</u>	<u>\$11,373,158</u>	
Depreciation Expense Adjustment					
5	VW Pennsylvania Adjustment	\$1,894,472	\$0	\$1,894,472	Exh GRH-2-Sch 1, pages 2-3
6	Mahoning Township Adjustment	\$9,436	-\$9,436	(\$0)	Exh GRH-3-Sch 1, pages 2-4
7	Bethel Water Adjustment	\$16,312	\$0	\$16,312	Exh GRH-3-Sch 34
8	Total Adjustments	<u>\$1,920,219</u>	<u>-\$9,436</u>	<u>\$1,910,783</u>	
Amortization of Acquisition Adjustments					
9	Brown Manor	\$57,744	\$0	\$57,744	Exh GRH-2-Sch 1, page 2-3
10	Kensington	\$22,500	\$0	\$22,500	Exh GRH-3-Sch 1, pages 2-4
11	Overbrook	\$27,330	\$0	\$27,330	Exh GRH-3-Sch 34
12	Mahoning Township	\$122,766	-\$122,766	\$0	
13	Total AA Adjustments	<u>\$230,340</u>	<u>-\$122,766</u>	<u>\$107,574</u>	
14	TOTAL Depreciation and Amortizations	<u>\$13,741,684</u>	<u>-\$350,169</u>	<u>\$13,391,515</u>	

VEOLIA WASTEWATER PENNSYLVANIA INC.
WASTEWATER OPERATIONS
ORIGINAL COST MEASURE OF VALUE AS OF
31-Oct-25

	As of 10/31/2025	I&E Adjustment	I&E Recommended
<u>Mahoning Township</u> (A)	(B)	(C)	(D)
1 Original Cost of Utility Plant In Service	\$7,157,751	\$0	\$7,157,751
2 Mahoning Acquisition Adj	\$1,377,307	-\$1,377,307	\$0
3 Less: Accumulated Depreciation	-\$3,260,894	-\$309,939	-\$3,570,833
4			
5 Net Utility Plant	<u>\$5,274,164</u>	<u>-\$1,687,246</u>	<u>\$3,586,918</u>
6			
7 CIAC and Contributions	\$0	\$0	\$0
8			
9 Add:			
10 Deferred Taxes	\$0	\$0 (b)	\$0
11 Regulatory Liability	\$0	\$0	\$0
12 Materials and Supplies	\$0	\$0	\$0
13 Cash Working Capital	<u>\$15,292</u>	<u>\$0</u>	<u>\$15,292</u>
14			
15 Total Original Cost Measure of Value	<u><u>\$5,289,456</u></u>	<u><u>-\$1,687,246</u></u>	<u><u>\$3,602,210</u></u>
16			
17			
18	As of	I&E	I&E
19 <u>Columbia County</u>	10/31/2025	Adjustment	Recommended
20			
21 Original Cost of Utility Plant In Service	\$437,003	\$0	\$437,003
22 Less: Accumulated Depreciation	-\$2,957	\$0	-\$2,957
23			
24 Net Utility Plant	<u>\$434,046</u>	<u>\$0</u>	<u>\$434,046</u>
25			
26 CIAC and Contributions	\$0	\$0	\$0
27			
28 Add:			
29 Deferred Taxes	\$0	\$0	\$0
30 Regulatory Liability	\$0	\$0	\$0
31 Materials and Supplies	\$0	\$0	\$0
32 Cash Working Capital	<u>\$3,438</u>	<u>\$0 (b)</u>	<u>\$3,438</u>
33			
34 Total Original Cost Measure of Value	<u><u>\$437,484</u></u>	<u><u>\$0</u></u>	<u><u>\$437,484</u></u>
35			
36 Total WasteWater Original Cost Measure of Value	\$5,726,939	-\$1,687,246	\$4,039,693

(a) Source: Data provided by Company.

VEOLIA WASTEWATER PENNSYLVANIA, INC.
ANNUAL DEPRECIATION EXPENSE
R-2024-3045193

Line No.	Description	Company As Filed	I&E	I&E
		31-Oct-25	Adjustments	Recommended
	(A)	(B)	(C)	(D)
1	Mahoning Sewer	\$309,939	\$ (309,939)	\$0
2	Columbia Sewer	\$16,891	\$ -	\$16,891
3	Total Annual Depreciation Expense	\$326,830	\$ (309,939)	\$16,891
4	Amortization of Mahoning Acquisition Adjustment	\$153,034	\$ (153,034)	\$0
5	Total Annual Depreciation and Acquisition Adjustments	\$479,864	\$ (462,973)	\$16,891

VEOLIA WATER PENNSYLVANIA INC.
 VEOLIA AND BETHEL WATER OPERATIONS

COMPARISON OF COST OF SERVICE WITH REVENUES UNDER PRESENT AND PROPOSED RATES
 FOR THE TEST YEAR ENDED SEPTEMBER 30, 2025

Customer Classification (A)	Cost of Service		Revenues, Present Rates*		Revenues, Proposed Rates		Proposed Increase		I&E Remove \$237,000 (K)	
	Amount (B)	Percent (C)	Amount (D)	Percent (E)	Amount (F)	Percent (G)	Amount (H)	Percent Increase (I)		I&E CHANGE (J)
1 Residential	\$ 42,113,147	58.2%	\$ 35,257,068	61.0%	\$ 43,311,095	59.9%	\$ 8,054,027	22.8%	-\$538,000	-\$141,861
2 Commercial	19,235,827	26.6%	15,759,765	27.3%	19,731,947	27.3%	3,972,183	25.2%	\$369,300	-\$64,630
3 Industrial	1,249,625	1.7%	1,006,656	1.7%	1,248,028	1.7%	241,372	24.0%	-\$1,800	-\$4,094
4 Large Industrial	856,356	1.2%	398,177	0.7%	559,454	0.8%	161,277	40.5%	\$0	-\$1,832
5 Public Authority	2,206,168	3.0%	1,716,898	3.0%	2,300,514	3.2%	583,616	34.0%	\$88,578	-\$7,531
6 Sales for Resale	2,050,183	2.8%	721,446	1.2%	1,297,740	1.8%	576,294	79.9%	\$0	-\$4,251
7 Private Fire Service	3,110,987	4.3%	1,852,501	3.2%	2,718,967	3.8%	866,466	46.8%	\$0	-\$8,906
8 Public Fire Service	1,538,137	2.1%	1,085,138	1.9%	1,189,430	1.6%	104,291	9.6%	\$0	-\$3,896
9 Total Sales	72,360,430	100.0%	57,797,649	100.0%	72,357,175	100.0%	14,559,526	25.191%	-\$81,922	-\$237,000
10 Other Revenues	325,208		325,208		407,130		81,922	25.2%	\$81,922	\$0
11 Revenue to Mahoning Twp. Water					-		-			
12 Total	<u>\$ 72,685,638</u>		<u>\$ 58,122,857</u>		<u>\$ 72,764,304</u>		<u>\$ 14,641,447</u>	25.2%	\$0	-\$237,000

* Includes DSIC Revenue.

**I&E Exhibit No. 3
Schedule No. 4**

VEOLIA WATER PENNSYLVANIA INC.
MAHONING WATER OPERATIONS

COMPARISON OF COST OF SERVICE WITH REVENUES UNDER PRESENT AND PROPOSED RATES
FOR THE TEST YEAR ENDED OCTOBER 31, 2025

	Customer Classification (A)	Cost of Service		Revenues, Present Rates*		Revenues, Proposed Rates		Proposed Increase		I&E Add \$237,000 (J)
		Amount (B)	Percent (C)	Amount (D)	Percent (E)	Amount (F)	Percent (G)	Amount (H)	Percent Increase (I)	
1	Residential	\$828,028	55.7%	\$405,710	64.0%	\$919,869	62.2%	\$514,159	126.7%	\$149,442
2	Commercial	\$582,026	39.1%	\$178,989	28.2%	\$506,973	34.3%	\$327,984	183.2%	\$82,362
3	Private Fire Service	\$8,825	0.6%	\$2,441	0.4%	\$4,291	0.3%	\$1,851	75.8%	\$697
4	Public Fire Service	\$68,238	4.6%	\$46,804	7.4%	\$46,804	3.2%	\$0	0.0%	-\$4,680
5	Total Sales	\$1,487,117	100.0%	\$633,944	100.0%	\$1,477,937	100.0%	\$843,993	133.13%	\$227,821
6	Other Revenues	\$6,894		\$6,894		\$16,073		\$9,179	133.1%	\$9,179
7	Revenue from Veolia Water					\$0		\$0		\$0
8	Total	\$1,494,011		\$640,838		\$1,494,010		\$853,172	133.1%	\$237,000

* Includes DSIC Revenue.

I&E Exhibit No. 3
Witness: Esyan A. Sakaya

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

VEOLIA WATER PENNSYLVANIA, INC.

Docket No. R-2024-3045192 (Water)
&
Docket No. R-2024-3045193 (Wastewater)

Exhibits to Accompany

The

Direct Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

Rate Base
Annual Amortization Expense
FTY and FPFTY Reporting
Other Operating Revenue – Late Payment Fees
Revenue Contribution to Mahoning Water
Scale Back of Rates
Public Input Hearing

VEOLIA WATER PENNSYLVANIA INC.
WATER OPERATIONS
ORIGINAL COST MEASURE OF VALUE AS OF
31-Oct-25

Line	VWPA, Kensington and Overbrook (A)	As of 10/31/2025 (B)	I&E Adjustment (C)	I&E Recommended (D)
1	Original Cost of Utility Plant In Service (a)	\$550,992,912	\$0	\$550,992,912
2	Pro Forma UPIS - Brown Manor	\$83,674	\$0	\$83,674
3	Pro Forma UPIS - Kensington	\$202,501	\$0	\$202,501
4	Pro Forma UPIS - Overbrook	\$245,970	\$0	\$245,970
5	Plant Held for Future Use	\$52,964	\$0	\$52,964
6	Less: Accumulated Depreciation (a)	-\$96,999,406	\$0	-\$96,999,406
7				
8	Net Utility Plant	\$454,578,614	\$0	\$454,578,614
9				
10	CIAC and Contributions	-\$84,960,608	\$0 (b)	-\$84,960,608
11				
12	Add:			
13	Deferred Taxes	-\$14,747,777	\$0	-\$14,747,777
14	Regulatory Liability - New Fed Rate	-\$8,301,533	\$0	-\$8,301,533
15	Regulatory Liability - 2018 Portion	-\$756,507	\$0	-\$756,507
16	Materials and Supplies	\$1,656,030	\$0	\$1,656,030
17	Cash Working Capital	\$749,697	\$0	\$749,697
18				
19	Total Original Cost Measure of Value	\$348,217,916	\$0	\$348,217,916
20				
21	(a) Source: Data provided by Company.			
22	(b) 2024 and 2025 CIAC and Advances included in total Net Utility Plant.			
23				
24				
25	Bethel Water	As of	I&E	I&E
26		10/31/2025	Adjustment	Recommended
27	Original Cost of Utility Plant In Service (a)	\$8,717,347	\$0	\$8,717,347
28	Less: Accumulated Depreciation (a)	-\$604,497	\$0	-\$604,497
29				
30	Net Utility Plant	\$8,112,850	\$0	\$8,112,850
31				
32	CIAC and Contributions	-\$6,237,519	\$0 (b)	-\$6,237,519
33				
34	Add:			
35	Deferred Taxes	-\$50,864	\$0	-\$50,864
36	Regulatory Liability - New Fed Rate	-\$134,430	\$0	-\$134,430
37	Regulatory Liability - 2018 Portion	-\$75,988	\$0	-\$75,988
38	Materials and Supplies	\$0	\$0	\$0
39	Cash Working Capital	\$45,385	\$0	\$45,385
40				
41	Total Original Cost Measure of Value	\$1,659,435	\$0	\$1,659,435
42				
43	(a) Source: Data provided by Company.			
44	(b) 2024 and 2025 CIAC and Advances included in total Net Utility Plant.			
45				
46				
47	Mahoning Township	As of	I&E	I&E
48		10/31/2025	Adjustment	Recommended
49	Original Cost of Utility Plant In Service (a)	\$8,168,467	\$0	\$8,168,467
50	Mahoning Acquisition Adj	\$1,104,896	-\$1,104,896	\$0
51	Less: Accumulated Depreciation (a)	-\$2,894,392	\$0	-\$2,894,392
52				
53	Net Utility Plant	\$6,378,971	-\$1,104,896	\$5,274,075
54				
55	Add:			
56	Deferred Taxes	-\$46,056	\$0	-\$46,056
57	Regulatory Liability	\$0	\$0	\$0
58	Materials and Supplies	\$0	\$0	\$0
59	Cash Working Capital	\$5,223	\$0	\$5,223
60				
61	Total Original Cost Measure of Value	\$6,338,138	-\$1,104,896	\$5,233,242
62				
63	Total Water Original Cost Measure of Value	\$356,215,489	-\$1,104,896	\$355,110,593

I&E Exhibit No. 3
Schedule No. 1 - Corrected
Page 2 of 2

VEOLIA WASTEWATER PENNSYLVANIA, INC.
ANNUAL DEPRECIATION AND AMORTIZATION EXPENSE
R-2024-3045192
31-Oct-25

Line No.	Description	31-Oct-25	I&E Adjustment	I&E Adjusted	SOURCES
	(A)	(B)	(C)	(D)	
1	VWPA Water *	\$11,315,574	\$0	\$11,315,574	Exh GRH-3-Sch 1, pages 2-4 Exh GRH-3-Sch 34
2	Bethel Water *	\$57,584	\$0	\$57,584	
3	Mahoning Water *	\$219,967	\$0	\$219,967	
4	Total Annual Depreciation Expense	\$11,593,125	\$0	\$11,593,125	
Depreciation Expense Adjustment					
5	VW Pennsylvania Adjustment	\$1,894,472	\$0	\$1,894,472	Exh GRH-2-Sch 1, pages 2-3 Exh GRH-3-Sch 1, pages 2-4 Exh GRH-3-Sch 34
6	Mahoning Township Adjustment	\$9,436	\$0	\$9,436	
7	Bethel Water Adjustment	\$16,312	\$0	\$16,312	
8	total Adjustments	\$1,920,220	\$0	\$1,920,220	
Amortization of Acquisition Adjustments					
9	Brown Manor	\$57,744	\$0	\$57,744	Exh GRH-2-Sch 1, page 2-3 Exh GRH-3-Sch 1, pages 2-4 Exh GRH-3-Sch 34
10	Kensington	\$22,500	\$0	\$22,500	
11	Overbrook	\$27,330	\$0	\$27,330	
12	Mahoning Township	\$122,766	-\$122,766	\$0	
13	Total AA Adjustments	\$230,340	-\$122,766	\$107,574	
14	TOTAL Depreciation and Amortizations	\$13,743,685	-\$122,766	\$13,620,919	

I&E Exhibit No. 3
Schedule No. 2 - Corrected
Page 1 of 2

VEOLIA WASTEWATER PENNSYLVANIA INC.
WASTEWATER OPERATIONS
ORIGINAL COST MEASURE OF VALUE AS OF
31-Oct-25

		As of 10/31/2025 (B)	I&E Adjustment (C)	I&E Recommended (D)
	<u>Mahoning Township</u>			
	(A)			
1	Original Cost of Utility Plant In Service	\$7,157,751	\$0	\$7,157,751
2	Mahoning Acquisition Adj	\$1,377,307	-\$1,377,307	\$0
3	Less: Accumulated Depreciation	-\$3,260,894	\$0	-\$3,260,894
4				
5	Net Utility Plant	<u>\$5,274,164</u>	<u>-\$1,377,307</u>	<u>\$3,896,857</u>
6				
7	CIAC and Contributions	\$0	\$0	\$0
8				
9	Add:			
10	Deferred Taxes	\$0	\$0 (b)	\$0
11	Regulatory Liability	\$0	\$0	\$0
12	Materials and Supplies	\$0	\$0	\$0
13	Cash Working Capital	<u>\$15,292</u>	<u>\$0</u>	<u>\$15,292</u>
14				
15	Total Original Cost Measure of Value	<u><u>\$5,289,456</u></u>	<u><u>-\$1,377,307</u></u>	<u><u>\$3,912,149</u></u>
16				
17				
18		As of	I&E	I&E
19	<u>Columbia County</u>	10/31/2025	Adjustment	Recommended
20				
21	Original Cost of Utility Plant In Service	\$437,003	\$0	\$437,003
22	Less: Accumulated Depreciation	-\$2,957	\$0	-\$2,957
23				
24	Net Utility Plant	<u>\$434,046</u>	<u>\$0</u>	<u>\$434,046</u>
25				
26	CIAC and Contributions	\$0	\$0	\$0
27				
28	Add:			
29	Deferred Taxes	\$0	\$0	\$0
30	Regulatory Liability	\$0	\$0	\$0
31	Materials and Supplies	\$0	\$0	\$0
32	Cash Working Capital	<u>\$3,438</u>	<u>\$0 (b)</u>	<u>\$3,438</u>
33				
34	Total Original Cost Measure of Value	<u><u>\$437,484</u></u>	<u><u>\$0</u></u>	<u><u>\$437,484</u></u>
35				
36	Total Wastewater Original Cost Measure of Value	\$5,726,939	-\$1,377,307	\$4,349,632

(a) Source: Data provided by Company.

VEOLIA WASTEWATER PENNSYLVANIA, INC.
ANNUAL DEPRECIATION AND AMORTIZATION EXPENSE
R-2024-3045193
31-Oct-25

Line No.	Description	Company As Filed 31-Oct-25	I&E Adjustments	I&E Recommended
	(A)	(B)	(C)	(D)
1	Mahoning Sewer	\$309,939	\$0	\$309,939
2	Columbia Sewer	\$16,891	\$0	\$16,891
3	Total Annual Depreciation Expense	\$326,830	\$0	\$326,830
4	Amortization of Mahoning Acquisition Adjustment	\$153,034	-\$153,034	\$0
5	Total Annual Depreciation and Acquisition Adjustments	\$479,864	-\$153,034	\$326,830

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

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

VEOLIA WATER PENNSYLVANIA, INC.

Docket No. R-2024-3045192 (Water)
&
Docket No. R-2024-3045193 (Wastewater)

Rebuttal Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

Plant Held for Future Use

Private Fire

Mahoning Wastewater Revenue Allocation

TABLE OF CONTENTS

INTRODUCTION 1

PLANT HELD FOR FUTURE USE..... 2

PUBLIC FIRE..... 4

MAHONING WASTEWATER REVENUE ALLOCATION 5

1 **INTRODUCTION**

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

3 A. My name is Eryan 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. ARE YOU THE SAME ERYAN A. SAKAYA THAT SUBMITTED DIRECT
13 TESTIMONY IN I&E STATEMENT NO. 3 IN THIS PROCEEDING?**

14 A. Yes.

15
16 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

17 A. The purpose of my rebuttal testimony is to respond to the direct testimony of the
18 Pennsylvania Office of Consumer Advocate (“OCA”) witnesses Lafayette K.
19 Morgan, Jr. (OCA Statement No. 2) and Jerome D. Mierzwa (OCA Statement No.
20 4) and Pennsylvania Office of Small Business Advocate (“OSBA”) witness Neal
21 Townsend (OSBA Statement No. 1).

1 I will describe the Bureau of Investigation and Enforcement's ("I&E")
2 positions concerning plant held for future use, the rate increase being proposed for
3 public fire, and the wastewater revenue allocation being proposed.
4

5 **Q. DOES YOUR REBUTTAL TESTIMONY INCLUDE AN**
6 **ACCOMPANYING EXHIBIT?**

7 A. No.
8

9 **PLANT HELD FOR FUTURE USE**

10 **Q. WHAT IS PLANT HELD FOR FUTURE USE?**

11 A. Plant held for future use generally refers to land and rights of way the Company
12 purchased in the past for projects that it intends to build and place into service in
13 the future. Since the plant is not "used and useful" in the provision of utility
14 service, it is not included in water plant in service.
15

16 **Q. FOR WATER, DID THE TOTAL RATE BASE CLAIMED BY THE**
17 **COMPANY FOR THE FPFTY ENDING OCTOBER 31, 2025 INCLUDE**
18 **ANY PLANT HELD FOR FUTURE USE?**

19 A. Yes. The Company's \$356,215,489 rate base claim for its FPFTY included \$52,964
20 of plant held for future use (Veolia Exhibit No. GRH-2, Sch 1.1).

1 **Q. WHAT DID THIS \$52,964 OF PLANT HELD FOR FUTURE USE**
2 **REPRESENT?**

3 A. The \$52,964 plant held for future use is a property that previously held a Park Supply
4 Treatment Plant. The Company reported that this plant was demolished and there
5 were no current plans for its use. In addition to this, Veolia stated that it will exclude
6 the \$52,964 initial claim in rebuttal testimony (OCA St. No. 2, p. 8 and OCA Schedule
7 LKM W-6).

8
9 **Q. WHAT DID OCA WITNESS MORGAN PROPOSE REGARDING PLANT**
10 **HELD FOR FUTURE USE?**

11 A. OCA proposed removing the \$52,964 from the Company claim regarding plant
12 held for future use (OCA St. No. 2, p. 8).

13
14 **Q. DO YOU AGREE WITH THIS OCA ADJUSTMENT FOR PLANT HELD**
15 **FOR FUTURE USE?**

16 A. Yes. I concur with OCA's removal of \$52,964 of plant held for future use, which
17 I overlooked in my direct testimony as it is not "used and useful" and should not
18 be included in rate base.

19
20 **Q. WHY DO YOU RECOMMEND THAT THE PLANT HELD FOR**
21 **UNDETERMINED FUTURE USE BE REMOVED FROM RATE BASE?**

22 A. It is a long held regulatory requirement that utilities can only earn a return of and a

1 return on plant that is “used and useful” in the provision of utility service. The
2 \$52,964 plant held for future use is not providing service to customers, and
3 therefore, does not meet the criteria of a “used and useful” asset in this proceeding.
4 Ratepayers should only be expected to pay for plant investments that provide
5 service, not for demolished plant not in use.

6
7 **PUBLIC FIRE**

8 **Q. WHAT DID OCA WITNESS MIERZWA PROPOSE REGARDING**
9 **PUBLIC FIRE?**

10 A. OCA witness Mierzwa proposed increasing the Public Fire charges to a level that
11 would constitute 25% of the cost of service, subject to a maximum increase of 2.0
12 times the system average authorized by the Commission in this proceeding (OCA
13 St. No. 4, p. 4).

14
15 **Q. DO YOU AGREE WITH OCA’S PUBLIC FIRE PROPOSAL?**

16 A. No. OCA based its Public Fire service proposal under Section 1328 of the Public
17 Utility Code that indicates that rates for Public Fire service are limited to 25% of
18 the cost of service (OCA St. No. 4, p. 13).

19
20 **Q. WHAT WAS YOUR POSITION IN DIRECT TESTIMONY REGARDING**
21 **PUBLIC FIRE RATES?**

22 A. My position regarding Public Fire was based upon the Company’s Cost of Service

1 Study shown in Veolia Ex. No. CEH-2, Sch. A. According to Veolia, the cost
2 incurred to provide Public Fire Service is \$68,238, and the present rate revenue
3 from Public Fire Service is \$46,804. Calculating 25% of the cost to provide
4 Public Fire Service in accordance with Section 1328(b) of the Public Utility Code
5 indicates that if present rate revenue received from Public Fire is above \$17,060 or
6 (\$68,238 x 25%), present rates cannot be increased. Since present rates produce
7 \$46,804 and \$46,804 is greater than \$17,060, I am advised by counsel that Public
8 Fire Service rates cannot be increased. Therefore, I proposed no increase for
9 Public Fire rates for the Main or Mahoning divisions as shown in I&E Exhibit No.
10 3, Sch. No. 3, p. 1, col. J, line 7.

11
12 **MAHONING WASTEWATER REVENUE ALLOCATION**

13 **Q. WHAT WERE OSBA'S OBSERVATIONS REGARDING INCREASES**
14 **FOR THE MAHONING WASTEWATER CUSTOMERS?**

15 A. OSBA recommended that Mahoning non-residential wastewater customers not
16 have their rates increased, while Mahoning residential customers should have their
17 rates increased (OSBA St. No. 1, p. 5).

18
19 **Q. WHAT WAS OSBA'S REASONING FOR THEIR WASTEWATER**
20 **REVENUE ALLOCATION PROPOSAL?**

21 A. OSBA opines that the Mahoning residential wastewater revenue allocation should
22 be higher than non-residential as it would supposedly bring the residential

1 wastewater revenue closer to its cost to serve (OSBA St. No. 1, p. 5).

2

3 **Q. DO YOU AGREE WITH THIS PROPOSAL?**

4 A. No. I proposed the Mahoning Wastewater revenue be proportionally scaled back
5 (I&E St. No. 3, pp. 20-21) from the Company's as filed rate request.

6

7 **Q. WHY DID YOU RECOMMEND A PROPORTIONAL SCALE BACK BE**
8 **APPLIED TO MAHONING WASTEWATER RATES?**

9 A. Veolia's Mahoning wastewater COSS comparison shown on Exhibit No. CEH-3,
10 Schedule A shows the cost to serve the Residential class is more than revenue
11 received from present rates, and the cost to serve the Non-Residential class is less
12 than the revenue received from the Non-Residential customers. Given this
13 disparity, the Company proposed a higher percentage increase for the Residential
14 class. Therefore, a proportional scale back is reasonable to generate revenue and
15 limit the increase to the Residential class to 38.0%.

16

17 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

18 A. Yes.

**I&E Statement No. 1-SR
Witness: Vanessa Okum**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

VEOLIA WATER PENNSYLVANIA, INC.

Docket No. R-2024-3045192 (Water)

and

Docket No. R-2024-3045193 (Wastewater)

Surrebuttal Testimony

of

Vanessa Okum

Bureau of Investigation and Enforcement

Concerning:

**OPERATING AND MAINTENANCE EXPENSES, CAP TRACKER
CASH WORKING CAPITAL**

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1 **INTRODUCTION**

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

3 A. My name is Vanessa Okum. 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 as a Fixed Utility Financial Analyst in the Pennsylvania Public Utility
9 Commission's (Commission) Bureau of Investigation and Enforcement (I&E).

10

11 **Q. ARE YOU THE SAME VANESSA OKUM WHO SUBMITTED DIRECT**
12 **TESTIMONY IN THIS PROCEEDING?**

13 A. Yes. I submitted I&E Statement No. 1 Proprietary, I&E Statement No. 1 Non-
14 Proprietary, and I&E Exhibit No. 1. For purposes of clarity, when I reference my
15 prior testimony, I will be referencing the Non-Proprietary version unless otherwise
16 indicated.

17

18 **Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN**
19 **ACCOMPANYING EXHIBIT?**

20 A. Yes. I&E Exhibit No. 1-SR contains schedules relating to my surrebuttal
21 testimony.

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

2 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of
3 the following witnesses for Veolia Water Pennsylvania, Inc. (VWPA or Company)
4 regarding VWPA's operating and maintenance (O&M) expenses and the
5 Company's proposed Customer Assistance Program (CAP) and tracker:

- 6 • Gregory Herbert – VWPA Statement No. 2-R
- 7 • Harold Walker, III – VWPA Statement No. 4-R
- 8 • James Cagle – VWPA Statement No. 6-R
- 9 • Anupa Jacob – VWPA Statement No. 8-R

10 Note that I do not intend for my surrebuttal testimony to address every
11 issue raised or otherwise discussed by the witnesses in this proceeding. My lack
12 of response to any recommendation, position, or assertion of any witness does not
13 necessarily indicate agreement with their rebuttal testimony.

14

15 **Q. HAS VWPA UPDATED ITS OVERALL REVENUE REQUIREMENT CLAIM**
16 **IN REBUTTAL TESTIMONY?**

17 A. Yes. The Company updated its overall revenue requirement claim from
18 \$76,463,031 to \$76,356,113 based upon the revised fully projected future test year
19 (FPFTY) pro forma revenue requirement calculation that reflects a total revenue
20 increase of \$15,952,655 for the combined water and wastewater operations,
21 compared to the original increase of \$16,063,339. A revised breakdown of

1 VWPA's requested revenue increase by operation is as follows:

2

	Revenue Increase	Reference
Main Water Division	\$14,840,896	VWPA Exhibit No. GRH-2-R, Schedule-1, p. 2
Mahoning Water	\$624,053	VWPA Exhibit No. GRH-2-R, Schedule-1, p. 3
Columbia Wastewater	\$109,625	VWPA Exhibit No. GRH-4-R, Schedule-1, p. 3
Mahoning Wastewater	<u>\$378,081</u>	VWPA Exhibit No. GRH-4-R, Schedule-1, p. 2
Total Company	<u>\$15,952,655</u>	

3

4 **Q. DOES VWPA EXPLAIN THE REVISIONS TO ITS ORIGINAL FILING?**

5 A. Yes. The revisions to the filing are explained by VWPA witness Gregory Herbert.¹

6

7 **Q. ARE ANY OF THESE CHANGES ESPECIALLY RELEVANT TO YOUR**

8 **SURREBUTTAL TESTIMONY?**

9 A. Yes. The Company states four of the eleven new hires projected for the FTY have

10 been hired and the remaining seven have been moved to the FPFTY forecast. The

11 Company has also increased its vacancy count from three to five vacancies but

12 expects these positions to be filled in the FPFTY. The updated labor expense

13 projections reduce the as-filed claim by \$134,009 in the FPFTY. As a result of

14 this change to labor expense, the FPFTY claim for employee group health and life

15 insurance is reduced by \$94,067, the FPFTY claim for 401k matching and other

16 benefits is reduced by \$8,045, and the FPFTY claim for payroll tax is reduced by

17 \$19,539. All of these changes affect water operations only.

¹ VWPA Statement No. 2, pp. 3-6 and VWPA Exhibit GRH-3-R.

1 **I&E OPERATING AND MAINTENANCE EXPENSE ADJUSTMENTS**

2 **Q. PLEASE SUMMARIZE YOUR RECOMMENDED ADJUSTMENTS AS**
3 **UPDATED IN THIS SURREBUTTAL TESTIMONY.**

4 **A.** The following tables summarize my updated recommendations as discussed
5 further in this surrebuttal testimony:

6 **Main Water Division:**

7

	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&E Adjustment</u>
O&M Expenses:			
Labor Expense	\$7,284,520	\$6,972,743	(\$311,777)
Employee Group Health and Life Insurance	\$1,502,907	\$1,037,703	(\$465,204)
401k Matching and Other Benefits	\$436,856	\$418,161	(\$18,695)
Payroll Tax Expense	\$898,680	\$860,216	(\$38,464)
Lab Testing Fees	\$212,334	\$199,532	(\$12,802)
Outside Contractors	\$1,711,389	\$1,617,403	(\$93,986)
Other O&M Expense	\$164,161	\$155,043	(\$9,118)
Rate Case Expense	\$236,460	\$166,913	(\$69,547)
Customer Assistance Program	\$1,000,000	\$929,412	<u>\$70,588</u>
Total O&M Expense Adjustments			<u>(\$1,090,181)</u>
Rate Base:			
Cash Working Capital	\$791,165	\$749,874	<u>(\$41,291)</u>
Total Rate Base Adjustments			<u>(\$41,291)</u>

1

Mahoning Water:

2

	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&E Adjustment</u>
O&M Expenses:			
Employee Group Health and Life Insurance	\$999	\$613	(\$386)
Other O&M Expense	\$894	\$845	(\$49)
Total O&M Expense Adjustments			<u>(\$435)</u>
Rate Base:			
Cash Working Capital	\$5,230	\$5,217	(\$13)
Total Rate Base Adjustments			<u>(\$13)</u>

3

Columbia Wastewater:

4

	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&E Adjustment</u>
O&M Expenses:			
Lab Testing Fees	\$3,669	\$3,592	(\$77)
Outside Contractors	\$29,795	\$29,342	(\$453)
Total O&M Expense Adjustments			<u>(\$530)</u>
Rate Base:			
Cash Working Capital	\$3,438	\$3,435	(\$3)
Total Rate Base Adjustments			<u>(\$3)</u>

1 **Mahoning Wastewater:**

2

	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&E Adjustment</u>
O&M Expenses:			
Lab Testing Fees	\$108,368	\$106,077	(\$2,291)
Outside Contractors	\$880,038	\$866,583	(\$13,455)
Total O&M Expense Adjustments			<u>(\$15,746)</u>
Rate Base:			
Cash Working Capital	\$15,292	\$15,117	(\$175)
Total Rate Base Adjustments			<u>(\$175)</u>

3

4 **OVERALL I&E RECOMMENDED POSITION**

5 **Q. WHAT IS I&E'S TOTAL UPDATED RECOMMENDED REVENUE**
6 **REQUIREMENT FOR THE MAIN WATER DIVISION?**

7 A. I&E's total updated recommended revenue requirement for the Main Water
8 Division is \$67,884,425. This recommended revenue requirement represents an
9 increase of \$9,756,262 to the Company's updated present rate revenues of
10 \$58,128,163. This total recommended allowance incorporates my adjustments
11 made in this testimony to O&M expenses and cash working capital, as well as the
12 recommended adjustments made in the testimony of I&E witnesses D.C. Patel²
13 and Esyan Sakaya.³ A calculation of the I&E recommended revenue requirement
14 is shown in Table I(a) below:

² I&E Statement No. 2-SR.

³ I&E Statement No. 3-SR.

Veolia Main Water Division R-2024-3045192	TABLE I(a)				
	INCOME		SUMMARY		
	10/31/25	INVESTIGATION & ENFORCEMENT			
	Proforma	[-----]			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	58,128,163	0	58,128,163	9,756,262	67,884,425
Deductions:					
O&M Expenses	24,907,225	-1,090,181	23,817,044	52,586	23,869,630
Depreciation	11,480,732	0	11,480,732		11,480,732
Taxes, Other	1,241,702	0	1,241,702	61,399	1,303,101
Income Taxes:					
Current State	614,519	88,412	702,931	781,989	1,484,920
Current Federal	1,513,288	210,370	1,723,658	1,860,660	3,584,318
Deferred Taxes	1,107,248	0	1,107,248		1,107,248
ITC	0	0	0		0
Total Deductions	40,864,714	-791,399	40,073,315	2,756,634	42,829,949
Income Available	17,263,449	791,399	18,054,848	6,999,628	25,054,476
Measure of Value	349,964,134	-41,291	349,922,843	0	349,922,843
Rate of Return	4.93%		5.16%		7.16%

1

2

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

5 A. I&E’s total updated recommended revenue requirement for Mahoning Water is
6 \$1,337,457. This recommended revenue requirement represents an increase of
7 \$698,211 to the Company’s updated present rate revenues of \$639,246. This total
8 recommended allowance incorporates my adjustments made in this testimony to
9 O&M expenses and cash working capital, as well as the recommended
10 adjustments made in the testimony of I&E witnesses D.C. Patel and Esyan Sakaya.
11 A calculation of the I&E recommended revenue requirement is shown in Table
12 I(b) below:

Mahoning Water R-2024-3045192	TABLE I(b)				
	INCOME		SUMMARY		
	10/31/25	INVESTIGATION & ENFORCEMENT			
	Proforma	[-----]			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	639,246	0	639,246	698,211	1,337,457
Deductions:					
O&M Expenses	510,133	-432	509,701	3,763	513,464
Depreciation	251,303	0	251,303		251,303
Taxes, Other	7,469	0	7,469	1,578	9,047
Income Taxes:					
Current State	-30,132	35	-30,097	56,175	26,078
Current Federal	-70,770	83	-70,687	132,737	62,050
Deferred Taxes	21,705	0	21,705		21,705
ITC	0	0	0		0
Total Deductions	689,708	-314	689,394	194,253	883,647
Income Available	-50,462	314	-50,148	503,958	453,810
Measure of Value	6,338,145	-13	6,338,132	0	6,338,132
Rate of Return	-0.80%		-0.79%		7.16%

1

2

3 **Q. WHAT IS I&E'S TOTAL RECOMMENDED REVENUE REQUIREMENT**
4 **FOR COLUMBIA WASTEWATER?**

5 A. I&E's total updated recommended revenue requirement for Columbia Wastewater
6 is \$150,382. This recommended revenue requirement represents an increase of
7 \$103,753 to present rate revenues of \$46,629. This total recommended allowance
8 incorporates my adjustments made in this testimony to O&M expenses and cash
9 working capital, as well as the recommended adjustments made in the testimony
10 of I&E witnesses D.C. Patel and Esyan Sakaya. A calculation of the I&E
11 recommended revenue requirement is shown in Table I(c) below:

Columbia Wastewater R-2024-3045193	TABLE I(c)				
	INCOME		SUMMARY		
	10/31/25	INVESTIGATION & ENFORCEMENT			
	Proforma	[-----]			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	46,629	0	46,629	103,753	150,382
Deductions:					
O&M Expenses	99,017	-525	98,492	2	98,494
Depreciation	16,891	0	16,891		16,891
Taxes, Other	48	0	48	97	145
Income Taxes:					
Current State	-10,225	43	-10,182	8,401	-1,781
Current Federal	-23,918	101	-23,817	19,578	-4,239
Deferred Taxes	9,548	0	9,548		9,548
ITC	0	0	0		0
Total Deductions	91,361	-381	90,980	28,078	119,058
Income Available	-44,732	381	-44,351	75,675	31,324
Measure of Value	437,484	-3	437,481	0	437,481
Rate of Return	-10.22%		-10.14%		7.16%

1

2

3 **Q. WHAT IS I&E'S TOTAL RECOMMENDED REVENUE REQUIREMENT**
4 **FOR MAHONING WASTEWATER?**

5 A. I&E's total updated recommended revenue requirement for Mahoning Wastewater
6 is \$1,893,567. This recommended revenue requirement represents an increase of
7 \$304,147 to present rate revenues of \$1,589,420. This total recommended
8 allowance incorporates my adjustments made in this testimony to O&M expenses
9 and cash working capital, as well as the recommended adjustments made in the
10 testimony of I&E witnesses D.C. Patel and Esyan Sakaya. A calculation of the
11 I&E recommended revenue requirement is shown in Table I(d) below:

Mahoning Wastewater R-2024-3045193	TABLE I				
	INCOME		SUMMARY		
	10/31/25 Proforma	INVESTIGATION & ENFORCEMENT			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	1,589,420	0	1,589,420	304,147	1,893,567
Deductions:					
O&M Expenses	1,055,918	-15,746	1,040,172	6	1,040,178
Depreciation	382,566	0	382,566		382,566
Taxes, Other	4	0	4	2,338	2,342
Income Taxes:					
Current State	-6,698	1,277	-5,421	24,476	19,055
Current Federal	-14,862	3,038	-11,824	58,239	46,415
Deferred Taxes	24,298	0	24,298		24,298
ITC	0	0	0		0
Total Deductions	1,441,226	-11,431	1,429,795	85,059	1,514,854
Income Available	148,194	11,431	159,625	219,088	378,713
Measure of Value	5,289,456	-175	5,289,281	0	5,289,281
Rate of Return	2.80%		3.02%		7.16%

1

2

3 **Q. SUMMARIZE I&E’S UPDATED COMBINED RECOMMENDED**
4 **REVENUE REQUIREMENT.**

5 A. I&E’s total updated recommended revenue requirement for all VWPA operations
6 combined is \$71,265,831 as shown in Table II below. This recommended revenue
7 requirement represents an increase of \$10,862,373 to the Company’s updated total
8 present rate revenues of \$60,403,458 for the Main Water Division, Mahoning
9 Water, Columbia Wastewater, and Mahoning Wastewater. As mentioned above,
10 this total recommended allowance incorporates my adjustments made in this
11 testimony to O&M expenses and cash working capital, as well as the

recommended adjustments made in the testimony of I&E witnesses D.C. Patel and Esyan Sakaya.⁴

Q. WHAT IS I&E’S RESPONSE TO THE COMPANY’S ATTEMPT TO MITIGATE THE IMPACT OF THE REVENUE INCREASE TO MAHONING WATER VIA A REVENUE CONTRIBUTION?

A. As further discussed in his testimony,⁵ I&E witness Esyan Sakaya does not support this arbitrary allocation in the instant proceeding as shown in the table below:

Table II						
Veolia Water Pennsylvania, Inc						
I&E Recommended - Combined Water and Wastewater Revenue Requirement Summary						
		Total Company	Veolia, Bethel, Kensington & Overbrook Water	Mahoning Twp. Water	Columbia Wastewater	Mahoning Wastewater
Present Rate Revenue	(1)	\$ 60,403,458	\$ 58,128,163	\$ 639,246	\$ 46,629	\$ 1,589,420
I&E Recommended:						
Additional Revenue Requirement	(2)	\$ 10,862,373	\$ 9,756,262	\$ 698,211	\$ 103,753	\$ 304,147
Proposed Contribution from Main Division	(3)	\$ -	\$ -	\$ -	\$ -	\$ -
Proposed Revenues	(4)	\$ 71,265,831	\$ 67,884,425	\$ 1,337,457	\$ 150,382	\$ 1,893,567
Rate Increase/(Decrease)	(5)	\$ 10,862,373 18.0%	\$ 9,756,262 16.8%	\$ 698,211 109.2%	\$ 103,753 222.5%	\$ 304,147 19.1%

LABOR EXPENSE

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR LABOR EXPENSE.

A. I recommended an allowance of \$7,101,016 for Main Water Division labor expense, or a reduction of \$317,513 (\$7,418,529 - \$7,101,016) to the Company’s

⁴ I&E Statement Nos. 2-SR and 3-SR.

⁵ I&E Statement No. 3 and I&E Statement No. 3-SR.

1 expense claim. This recommendation was based on adjusting the expense using a
2 calculated vacancy rate.⁶

3
4 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

5 A. Yes. VWPA witness Gregory Herbert disagrees with my recommendation.

6
7 **Q. PLEASE SUMMARIZE MR. HERBERT'S RESPONSE.**

8 A. Mr. Herbert reiterates the Company's changes to the labor expense claim which
9 result in a reduction of \$134,009 or an updated claim of \$7,284,520 for the Main
10 Water Division due to four of the eleven new hires projected for the FTY having
11 been hired and the remaining seven having been moved to the FPFTY forecast.
12 As mentioned above, the Company has also increased from three to five vacancies
13 but expects these positions to be filled in the FPFTY. However, he disagrees with
14 removing the Company's vacant positions from the FPFTY claim. He states that
15 the Company fully expects to fill these positions in the FPFTY and will be paying
16 these salaries and benefits. He further asserts that it would be unreasonable
17 ratemaking policy to wait until the next rate base rate proceeding for the Company
18 to fully recover these salaries.⁷

⁶ I&E Statement No. 1, pp. 12-14.

⁷ VWPA Statement No. 2-R, pp. 11-12.

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

2 A. No. As stated in my direct testimony, it is unreasonable to assume that the
3 Company will be able to achieve and maintain 100% staffing in the FPPTY.
4 There will always be a normal level of vacancies due to retirements, resignations,
5 promotions, etc., as well as a hiring lag to re-fill these positions. Such vacancies
6 will yield an annual savings in payroll costs which need to be reflected to
7 eliminate an unreasonable impact on rates. My recommended adjustment does not
8 address specific vacant positions but addressed the fact that the Company will
9 always have a certain level of vacancies in a year, and ratepayers should not be
10 subject to the associated expense.

11

12 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION**
13 **REGARDING LABOR EXPENSE?**

14 A. Yes. Although I continue to recommend an adjustment based on my calculated
15 vacancy rate, which was not affected by the Company’s changes, due to the
16 Company’s updated claim, I am updating my recommended allowance for labor
17 expense to \$6,972,743, or a reduction of \$311,777 (\$7,284,520 - \$6,972,743) to
18 the Company’s updated FPPTY claim.

19

1. VWPA FPPTY updated claim	\$7,284,520
2. I&E Calculated Vacancy Rate ⁸	4.28%
3. I&E Vacancy Rate Adjustment (1 x 0.0428)	<u>\$311,777</u>
4. I&E Allowance (1 - 3)	<u>\$6,972,743</u>

⁸ I&E Exhibit No. 1, Schedule 4.

1 **EMPLOYEE GROUP HEALTH AND LIFE INSURANCE**

2 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR**
3 **EMPLOYEE GROUP HEALTH AND LIFE INSURANCE.**

4 A. I recommended an allowance of \$1,039,945 for Main Water Division employee
5 group health and life insurance expense, or a reduction of \$556,967 (\$1,596,912 -
6 \$1,039,945) to the Company's claim and an allowance of \$640 for Mahoning
7 Water, or a reduction of \$421 (\$1,061 - \$640) to the Company's claim. My
8 recommendation was based on the data inputs provided by the Company to
9 develop the budget for this expense as well as application of the calculated 4.28%
10 vacancy rate to correspond with the labor adjustment.⁹

11
12 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

13 A. Yes. VWPA witness Gregory Herbert disagrees with my recommendation.
14

15 **Q. PLEASE SUMMARIZE MR. HERBERT'S RESPONSE.**

16 A. Mr. Herbert states that because he does not agree with my vacancy adjustment
17 related to labor expense, he does not agree with this adjustment which is also
18 based on the vacancy rate.¹⁰ Additionally, he reiterates the Company's rebuttal
19 position for employee group health and life insurance is reduced by \$94,067

⁹ I&E Statement No. 1, pp. 15-18.

¹⁰ VWPA Statement No. 2-R, p. 12.

1 producing an updated claim¹¹ of \$1,502,907 for the Main Water Division and \$999
2 for Mahoning Water due to shifting seven employees from the FTY to the FPFTY.

3
4 **Q. DO YOU AGREE WITH THE COMPANY'S UPDATED CLAIM?**

5 A. No. I continue to recommend that a vacancy rate is appropriate to adjust labor
6 expense, and by extension, employee group health and life insurance.

7
8 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
9 **EMPLOYEE GROUP HEALTH AND LIFE INSURANCE?**

10 A. Yes. Since the Company has updated its FPFTY claim in rebuttal testimony, my
11 recommended allowance has also changed, as I have recalculated to adjust for the
12 Company shifting seven employees from the FTY to the FPFTY. Once again, I
13 have used the Company's data but my calculation yields a different outcome.¹² As
14 a result, I recommend an FPFTY allowance for employee group health and life
15 insurance of \$1,037,703 or a reduction of \$465,204 (\$1,502,907 – \$1,037,703) to
16 the Company's updated claim for Main Water Division and \$613, or a reduction of
17 \$386 (\$999 - \$613) to the Company's updated claim for Mahoning Water, as
18 shown below:

¹¹ VWPA Exhibit No. GRH-3-R, Schedule-3.

¹² I&E Exhibit No. 1-SR, Schedule 1.

1

	Main Water Division	Mahoning Water
HTY Actual Cost	\$920,056	\$611
Add 4 Employees	<u>\$51,167</u>	
Add FTY Inflation (2.375%)		<u>\$15</u>
FTY Forecast	\$971,223	\$626
Add 7 Employees	\$89,543	
Add FPFTY Inflation (2.20%)	\$23,337	\$14
Less Vacancy Adjustment	<u>(\$46,400)</u>	<u>(\$27)</u>
FPFTY Allowance	<u>\$1,037,703</u>	<u>\$613</u>

2

3 **401K MATCHING AND OTHER BENEFITS**

4 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
5 **FOR 401K MATCHING AND OTHER BENEFITS.**

6 A. I recommended an allowance of \$425,857 for the Main Water Division 401k
7 matching and other benefits expense, or a reduction of \$19,039 (\$444,896 -
8 \$425,857) to the Company’s claim. This recommendation corresponds to the
9 vacancy adjustment made to labor expense above.¹³

10

11 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

12 A. Yes. VWPA witness Gregory Herbert disagrees with my recommendation.

13

14 **Q. PLEASE SUMMARIZE MR. HERBERT’S RESPONSE.**

15 A. Mr. Herbert states that he disagrees with my adjustment to 401k matching and

¹³ I&E Statement No. 1, pp. 19-20.

1 other benefits for the same reasons that he disagrees with my adjustments to labor
2 expense and employee group health and life insurance.¹⁴ He reiterates that the
3 Company's change to its FPFTY labor expense claim in rebuttal testimony also
4 causes a reduction of \$8,045 to the Company's claim producing an updated claim
5 of \$436,856 for 401k matching and other benefits.¹⁵

6
7 **Q. DO YOU AGREE WITH THE COMPANY'S UPDATED CLAIM?**

8 A. No. I continue to recommend that a vacancy rate is appropriate to adjust labor
9 expense, and by extension, 401k matching and other benefits.

10
11 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
12 **401K MATCHING AND OTHER BENEFITS?**

13 A. Yes. Since the Company has updated its FPFTY claim in rebuttal testimony, I
14 have recalculated my adjustment which produces a recommended allowance of
15 \$418,161 or an adjustment of \$18,695 (\$436,856 - \$418,161) to the Company's
16 updated Main Water Division claim as calculated below:

17

Main Water Division	
FPFTY 401k Matching Claim	\$436,788
Vacancy Adjustment (4.28%)	(\$18,695)
Add Other Benefits	<u>\$68</u>
I&E FPFTY Allowance	<u>\$418,161</u>

¹⁴ VWPA Statement No. 2-R, p. 13.

¹⁵ VWPA Exhibit No. GRH-3-R, Schedule-6.

1 **PAYROLL TAX EXPENSE**

2 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
3 **FOR PAYROLL TAX EXPENSE.**

4 A. I recommended an allowance of \$878,919 for Main Water Division payroll tax
5 expense, or a reduction of \$39,300 (\$918,219 - \$878,919) to the Company's
6 FPPTY Main Water Division claim. This recommendation corresponds to the
7 vacancy adjustment made to labor expense above.¹⁶

8
9 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

10 A. Yes. VWPA witness Gregory Herbert disagrees with my recommendation.
11

12 **Q. PLEASE SUMMARIZE MR. HERBERT'S RESPONSE.**

13 A. Mr. Herbert states that payroll taxes should be adjusted for the changes the
14 Company made to its labor expense claim. He further states that he supports this
15 correction, which results in a reduction of \$19,539 to the payroll tax claim for an
16 updated claim of \$898,680 for the Main Water Division.¹⁷

17
18 **Q. DO YOU AGREE WITH THE COMPANY'S UPDATED CLAIM?**

19 A. No. I continue to recommend that a vacancy rate is appropriate to adjust labor
20 expense, and by extension, payroll tax expense.

¹⁶ I&E Statement No. 1, pp. 21-22.

¹⁷ VWPA Statement No. 2-R, p. 20.

1 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
2 **PAYROLL TAX EXPENSE?**

3 A. Yes. Since the Company has updated its claim, I have recalculated my adjustment
4 which produces an updated recommended allowance of \$860,216 or a reduction of
5 \$38,464 (\$898,680 - \$860,216) to the Company's Main Water Division claim
6 calculated as follows based on a 4.28% vacancy rate:

7

Main Water Division	
FPFTY Claim	\$898,680
x Vacancy Adjustment (4.28%)	4.28%
I&E Recommended Adjustment	<u>\$38,464</u>

8

9 **MANAGEMENT AND SERVICE (M&S) FEES**

10 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
11 **FOR M&S FEES.**

12 A. I recommended an FPFTY allowance of \$4,202,062, or a reduction of \$409,274
13 (\$4,611,336 - \$4,202,062) for the Main Water Division and \$62,730, or a
14 reduction of \$6,110 (\$68,840 - \$62,730) for Mahoning Water. This
15 recommendation was based on the Company's calculated inflation factors of
16 2.375% in the FTY and 2.20% in the FPFTY.¹⁸

17

18 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

19 A. Yes. VWPA witness Anupa Jacob disagrees with my recommendation.

¹⁸ I&E Statement No. 1, pp. 23-24.

1 **Q. PLEASE SUMMARIZE MS. JACOB’S RESPONSE.**

2 A. Ms. Jacob states that the FTY forecast for M&S fees was based on a 3% inflation
3 rate with the exception of fees related to insurance, customer experience, and an
4 allocated portion of depreciation expense for shared assets. She then further
5 explains the forecasts for each of these areas. Ms. Jacob also points out that the
6 majority of the remaining expenses are related to personnel costs, which have
7 recently been increasing by approximately 3.5% year-over-year. For this reason,
8 VWPA asserts that a 3% inflation rate is more accurate for these expenses than the
9 2.2% calculated inflation rate used for most other expenses.¹⁹

10

11 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION**
12 **BASED ON MS. ANUPA’S RESPONSE?**

13 A. Yes. I accept Ms. Jacob’s explanation regarding M&S fees based on a large
14 portion of the claim being labor related and withdraw my recommended
15 adjustment to M&S fees.

16

17 **LAB TESTING FEES**

18 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
19 **FOR LAB TESTING FEES.**

20 A. I recommended a total FPFTY allowance of \$309,201 for lab testing fees broken
21 down as follows:

¹⁹ VWPA Statement No. 8, pp. 3-4.

1

	VWPA Claim	I&E Recommended Allowance	Recommended Adjustment
Main Water Division	\$212,334	\$199,532	(\$12,802)
Columbia Wastewater	\$3,669	\$3,592	(\$77)
Mahoning Wastewater	<u>\$108,368</u>	<u>\$106,077</u>	<u>(\$2,291)</u>
Total	<u>\$324,371</u>	<u>\$309,201</u>	<u>(\$15,170)</u>

2

I based my recommendation on a three-year historic average and applied the

3

Company's calculated inflation factors.²⁰

4

5 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

6 A. Yes. VWPA witness Gregory Herbert disagrees with my recommendation.

7

8 **Q. PLEASE SUMMARIZE MR. HERBERT'S RESPONSE.**

9 A. Mr. Herbert argues that using a three-year average of expenses in this inflationary
10 era is not appropriate. He provides an example of an expense which starts at
11 \$1,000 in year one and grows to \$1,044.48 in year three with a consistent inflation
12 rate of 2.2%. He states that a three-year average of these costs would only allow
13 the Company to recover \$1,022.16, while a two-year average produces \$1,033.24
14 which would be closer to the true expense.²¹

15

Mr. Herbert also points out that the Company has already decreased its

16

FPPTY claim by \$34,969 from HTY costs, which acknowledges that HTY costs

²⁰ I&E Statement No. 1, pp. 25-27.

²¹ VWPA Statement No. 2, p. 10.

1 were an outlier compared to FY 2021 and FY 2022.²²

2
3 **Q. DO YOU FIND MR. HERBERT'S RESPONSE CONVINCING?**

4 A. No. Mr. Herbert argues that we are currently in an inflationary era, however, in
5 his example, he fails to mention that my recommended adjustment accepts the
6 Company's calculated inflation rates for the FTY and FPFTY. Additionally, the
7 Company's forecasted 2.2% inflation is relatively low compared to much higher
8 inflation experienced over the past three years of historic data with inflation
9 reaching as high as 9.7% during the second quarter of 2022,²³ so to say that we are
10 in an inflationary era I believe is misleading.

11 Finally, the Company has chosen to use a three-year average for other
12 expenses addressed in this proceeding, such as outside professional services²⁴ and
13 postage and air freight expense.²⁵ I recommend that the Company should be
14 consistent in its approach to forecasting. By using a three-year average to forecast
15 some items and a two-year average for others without a convincing basis, the
16 Company is inconsistent. I also believe that a three-year average is more
17 appropriate because it helps to smooth out outliers like the one mentioned above
18 by Mr. Herbert regarding HTY lab testing fees.

²² VWPA Statement No. 2, p. 17.

²³ Blue Chip Financial Forecasts, Vol. 42, No. 12, December 2023.

²⁴ VWPA Exhibit GRH-3-R, Schedule 15.

²⁵ VWPA Exhibit GRH-3-R, Schedule 27.

1 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
2 **LAB TESTING FEES?**

3 A. No. I continue to recommend a total allowance of \$309,201 for lab testing fees
4 broken down by business unit as shown in the table above.

5

6 **OUTSIDE CONTRACTORS**

7 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
8 **FOR OUTSIDE CONTRACTORS?**

9 A. I recommended a total FPFTY allowance of \$2,513,328 for outside contractors
10 expense broken down as follows:

11

FPFTY	Company Claim	I&E Allowance	Adjustment
Main Water Division	\$1,711,389	\$1,617,403	(\$93,986)
Columbia Wastewater	\$29,795	\$29,342	(\$453)
Mahoning Wastewater	<u>\$880,038</u>	<u>\$866,583</u>	<u>(\$13,455)</u>
Total	<u>\$2,621,222</u>	<u>\$2,513,328</u>	<u>(\$107,894)</u>

12 I based my recommendation on a three-year historic average and applied the
13 Company's calculated inflation factors.²⁶

14

15 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

16 A. Yes. VWPA witness Gregory Herbert disagrees with my recommendation.

²⁶ I&E Statement No. 1, pp. 28-30.

1 **Q. PLEASE SUMMARIZE MR. HERBERT'S RESPONSE.**

2 A. Again, Mr. Herbert argues that using a three-year average of expenses in this
3 inflationary era is not appropriate. He provides an example of an expense which
4 starts at \$1,000 in year one and grows to \$1,044.48 in year three with a consistent
5 inflation rate of 2.2%. He states that a three-year average of these costs only
6 allows the company to recover \$1,022.16, while a two-year average produces
7 \$1,033.24 which would be closer to the true expense.²⁷ Mr. Herbert maintains that
8 a two-year average with inflation is more indicative of future costs for outside
9 contractors expense.²⁸

10

11 **Q. DO YOU FIND MR. HERBERT'S RESPONSE CONVINCING?**

12 A. No. As I mentioned above, Mr. Herbert argues that we are currently in an
13 inflationary era, however, in his example, he fails to mention that my adjustment
14 accepts the Company's calculated inflation rates for the FTY and FPFTY.
15 Additionally, the Company's forecasted 2.2% inflation is relatively low compared
16 to much higher inflation experienced over the past three years of historic data,²⁹ so
17 to say that we are in an inflationary era I believe is misleading.

18 Finally, the Company has chosen to use a three-year average for other
19 expenses addressed in this case, such as outside professional services³⁰ and
20 postage and air freight expense.³¹ I recommend that the Company should be

²⁷ VWPA Statement No. 2, p. 10.

²⁸ VWPA Statement No. 2, p. 18.

²⁹ Blue Chip Financial Forecasts, Vol. 42, No. 12, December 2023.

³⁰ VWPA Exhibit GRH-3-R, Schedule 15.

³¹ VWPA Exhibit GRH-3-R, Schedule 27.

1 consistent in its approach to forecasting, unless a more specific basis can be
2 supported by documentation. By using a three-year average to forecast some
3 items and a two-year average for others, the Company is inconsistent. I also
4 believe that a three-year average is more appropriate because it helps to smooth
5 out outliers like the one mentioned above by Mr. Herbert regarding HTY lab
6 testing fees.

7
8 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
9 **OUTSIDE CONTRACTORS?**

10 A. No. I continue to recommend a total FPFTY allowance of \$2,513,328 for outside
11 contractors expense broken down by business unit as shown in the table above.

12
13 **OTHER O&M EXPENSE**

14 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
15 **FOR OTHER O&M EXPENSE.**

16 A. I recommended an FPFTY allowance of \$155,043, or a reduction of \$9,118
17 (\$164,161 - \$155,043) to the Company's claim for the Main Water Division, and
18 \$845, or a reduction of \$49 (\$894 - \$845) to the Company's claim for Mahoning
19 Water. I based my recommendation on a three-year historic average and applied
20 the Company's calculated inflation factors.³²

³² I&E Statement No. 1, pp. 31-32.

1 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

2 A. Yes. VWPA witness Gregory Herbert disagrees with my recommendation.

3

4 **Q. PLEASE SUMMARIZE MR. HERBERT'S RESPONSE.**

5 A. Again, Mr. Herbert argues that using a three-year average of expenses in this
6 inflationary era is not appropriate. He provides an example referenced twice
7 above related to \$1,000 and how a two-year historic average adjusted for inflation
8 allows for a larger claim.³³ Mr. Herbert maintains that a two-year average with
9 inflation is more indicative of future costs for other O&M expense.³⁴

10

11 **Q. ARE YOU PERSUADED BY MR. HERBERT'S RESPONSE?**

12 A. No. As I mentioned above with regard to lab testing fees and outside contractors
13 expense, Mr. Herbert argues that we are currently in an inflationary era, however,
14 in his example, he fails to mention that my adjustment accepts the Company's
15 calculated inflation rates for the FTY and FPFTY. Additionally, the Company's
16 forecasted 2.2% inflation is relatively low compared to much higher inflation
17 experienced over the past three years of historic data,³⁵ so to say that we are in an
18 inflationary era I believe is misleading.

19 Finally, the Company has chosen to use a three-year average for other
20 expenses addressed in this case, such as outside professional services³⁶ and

³³ VWPA Statement No. 2, p. 10.

³⁴ VWPA Statement No. 2, p. 19.

³⁵ Blue Chip Financial Forecasts, Vol. 42, No. 12, December 2023.

³⁶ VWPA Exhibit GRH-3-R, Schedule 15.

1 postage and air freight expense.³⁷ I recommend that the Company should be
2 consistent in its approach to forecasting, unless a more specific basis can be
3 supported by documentation. By using a three-year average to forecast some
4 items and a two-year average for others, the Company is inconsistent. I also
5 believe that a three-year average is more appropriate because it helps to smooth
6 out outliers like the one mentioned above by Mr. Herbert regarding HTY lab
7 testing fees.

8
9 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
10 **OTHER O&M EXPENSE?**

11 A. No. I continue to recommend an allowance of \$155,043, or a reduction of \$9,118
12 (\$164,161 - \$155,043) to the Company's claim for the Main Water Division, and
13 \$845, or a reduction of \$49 (\$894 - \$845) to the Company's claim for Mahoning
14 Water.

15
16 **RATE CASE EXPENSE**

17 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
18 **FOR RATE CASE EXPENSE.**

19 A. I recommended normalizing the expense over a 51-month period, resulting in an
20 allowance of \$166,913 for rate case expense, or a reduction of \$69,547 (\$236,640
21 - \$166,913) to the Company's FPFTY claim. I based my recommendation on

³⁷ VWPA Exhibit GRH-3-R, Schedule 27.

1 VWPA's historic filing frequency as well as the Commission's traditional
2 treatment of rate case expense as a normalized expense rather than amortized.

3 In addition, I recommended that the Commission require the Company to
4 properly allocate this and other shared expenses across all rate divisions in future
5 proceedings.³⁸

6
7 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

8 A. Yes. VWPA witness Gregory Herbert disagrees with my recommendation.

9
10 **Q. PLEASE SUMMARIZE MR. HERBERT'S RESPONSE.**

11 A. Mr. Herbert states that a three-year normalization period is reasonable as it
12 acknowledges that rate case expense should be spread over a period of years, but it
13 also does not penalize the Company for delaying a subsequent rate case for any
14 number of reasons. He also adds that the recent acquisition of SUEZ Water
15 Pennsylvania, Inc. by VWPA has influenced the extended period between the
16 current base rate case and the prior case.³⁹

17
18 **Q. ARE YOU PERSUADED BY MR. HERBERT'S RESPONSE?**

19 A. No. I disagree that a three-year normalization period is reasonable because it does
20 not reflect the Company's most recent historic filing frequency, which the
21 Commission has cited as an essential element in determining the normalized level

³⁸ I&E Statement No. 1, pp. 33-40.

³⁹ VWPA Statement No. 2-R, pp. 8-9.

1 of rate case expense for ratemaking purposes. While I understand that VWPA had
2 a stay-out clause related to its recent acquisition which kept the Company from
3 filing sooner, by using the three most recent filing intervals we can smooth out
4 that extra length of time by averaging it with the Company's other recent filing
5 interval history.

6 A three-year normalization period will likely result in the Company over-
7 collecting on rate case expense since historic filing frequency shows that the
8 Company will not likely file another rate case within a three-year period. A
9 51-month normalization period reflects recent filing history while also giving the
10 Company the opportunity to recover all of its rate case related expenses.

11
12 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
13 **RATE CASE EXPENSE?**

14 A. No. I continue to recommend normalizing the expense over a 51-month period,
15 resulting in an allowance of \$166,913 for rate case expense, or a reduction of
16 \$69,547 (\$236,640 - \$166,913) to the Company's FPFTY claim.

17
18 **CUSTOMER ASSISTANCE PROGRAM AND TRACKER**

19 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
20 **REGARDING THE CUSTOMER ASSISTANCE PROGRAM.**

21 A. I recommended an FPFTY allowance of \$700,000, or a reduction of \$300,000
22 (\$1,000,000 - \$700,000) for the proposed CAP, as well as disallowance of the
23 tracker and deferred accounting treatment in its entirety. I based my

1 recommendation on the Company's estimation of expenses at \$1,000,000 as well
2 as the Company's shareholders contributing \$300,000 annually to the CAP.

3 Additionally, I recommended that the Commission deny the Company's
4 request to establish a regulatory asset/liability to track CAP expenses.⁴⁰

5
6 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

7 A. Yes. VWPA witness James Cagle disagrees with my recommendation.

8
9 **Q. PLEASE SUMMARIZE MR. CAGLE'S RESPONSE.**

10 A. Mr. Cagle states that my adjustment assumes the \$300,000 contribution from
11 shareholders will be made on an annual basis, but it is, in fact, a one-time
12 contribution. He asserts that reducing the Company's proposal by the full
13 \$300,000 is not appropriate and that he believes the most effective way to make
14 sure the full \$300,000 amount is utilized by the CAP is via the proposed
15 reconciliation mechanism.

16 Mr. Herbert also addresses my concerns regarding deferred accounting
17 treatment. He asserts that CAP expenses meet the Commission's criteria for
18 deferred accounting treatment and should be allowed on these bases. He states
19 that the costs are extraordinary because this is a new expense for the Company not
20 previously incurred. He claims that the costs are unanticipated because the level

⁴⁰ I&E Statement No. 1, pp. 42-45.

1 of expense is yet unknown. Finally, he argues that the costs will be recurring but
2 that the level of costs will be changing until the program is fully established.

3
4 **Q. WHAT IS YOUR RESPONSE TO MR. CAGLE'S ARGUMENTS?**

5 A. I accept the Company's clarification that the \$300,000 is meant to be a one-time
6 contribution and agree that reducing the Company's claim by the full amount
7 would be inappropriate. However, I disagree that deferred accounting treatment is
8 appropriate for this expense. I maintain the arguments from my direct testimony
9 that CAP expenses do not meet the criteria for deferred accounting treatment.

10 While the exact level of expense is unknown at this time, the Company has
11 forecasted an expected amount as it would do for any other new expense. Over
12 time, the expense will normalize, and a tracking mechanism is thus unnecessary.
13 It is inappropriate for the Company to receive a virtually guaranteed dollar for
14 dollar recovery on this new but normal, expected, and recurring expense.

15
16 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
17 **CAP EXPENSES?**

18 A. Yes. Given that the \$300,000 shareholder contribution is meant to be a one-time
19 rather than an ongoing annual contribution, I recommend normalizing the
20 adjustment over a 51-month period to correspond with the Company's recent rate
21 case filing history as mentioned above with regard to rate case expense.

22 Therefore, I recommend a reduction of \$70,588 ($\$300,000 / 51 \text{ months} \times 12$
23 months) to the Company's FPFTY claim for CAP expenses, or an allowance of

1 \$929,412.

2 Additionally, I recommend that in its next base rate filing the Company
3 should be required to submit annual breakdowns from the program’s inception of
4 actual costs as compared to the budgeted amounts for each component of the
5 program including administrative costs, by year, starting with 2025 and beyond.
6 Furthermore, in subsequent rate filings, the Company should be required to
7 continue submitting similar annual breakdowns to allow for proper analysis of the
8 program. Since this expense will be included in base rates, it is important for the
9 Company to be held accountable to show how the program is working so that in
10 subsequently filed rate cases, the involved parties can make informed
11 recommendations.

12 Finally, as mentioned above, I recommend the Commission disallow
13 deferred accounting treatment for the Company’s CAP expenses as they do not
14 meet the Commission’s criteria for establishing such treatment. While this is a
15 new expense, it will be a routine, ongoing expense and should not qualify for
16 deferred accounting treatment.

17

18 **CASH WORKING CAPITAL**

19 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
20 **FOR CASH WORKING CAPITAL (CWC).**

21 A. I recommended an adjustment to the Company’s FPFTY claim broken down by
22 business operation as shown in the table below:

1

	FPFTY Claim	I&E Allowance	Adjustment
Main Water Division	\$795,083	\$721,316	(\$73,767)
Mahoning Water	\$5,223	\$4,873	(\$350)
Columbia Wastewater	\$3,438	\$3,435	(\$3)
Mahoning Wastewater	<u>\$15,292</u>	<u>\$15,110</u>	<u>(\$182)</u>
Total	<u>\$819,036</u>	<u>\$744,734</u>	<u>(\$74,302)</u>

2

3 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

4 A. Yes. VWPA witness Gregory Herbert disagrees with my CWC adjustments in as
5 much as he disagrees with my O&M adjustments.⁴¹

6

7 **Q. DID VWPA UPDATE ITS CWC CLAIM?**

8 A. Yes. Since the Company updated several of its O&M expense claims, the FPFTY
9 CWC claims have been updated for each operating unit, as discussed by VWPA
10 witnesses Gregory Herbert⁴² and Harold Walker.⁴³

11

12 **Q. WHAT IS THE COMPANY'S UPDATED CLAIM?**

13 A. The updated FPFTY CWC claim by business operation are shown below:

14

	Updated FPFTY Claim
Main Water Division	\$791,165
Mahoning Water	\$5,230
Columbia Wastewater	\$3,438
Mahoning Wastewater	<u>\$15,292</u>
Total (with rounding error)	<u>\$815,192</u>

⁴¹ VWPA Statement No. 2, p. 22.

⁴² VWPA Statement No. 2, p. 23.

⁴³ VWPA Statement No. 4, pp. 46-47.

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

2 A. No. However, I have an update to my recommendation for CWC. As stated in
3 direct testimony, all O&M expense adjustments that are cash-based expense claims
4 are included when determining the Company’s overall CWC requirement.
5 Therefore, I modified my CWC recommendation to reflect the updated O&M
6 expense adjustments as discussed above.⁴⁴

7
8 **Q. BASED ON THE ABOVE SURREBUTTAL TESTIMONY, WHAT IS**
9 **YOUR UPDATED RECOMMENDED ALLOWANCE FOR CWC?**

10 A. Reflecting all of my recommended adjustments as discussed above, my updated
11 recommendation for CWC broken down by business operation unit is as shown
12 below:

13

	Updated FPFTY Claim	Updated I&E Allowance	Adjustment
Main Water Division	\$791,165	\$749,874	(\$41,291)
Mahoning Water	\$5,230	\$5,217	(\$13)
Columbia Wastewater	\$3,438	\$3,435	(\$3)
Mahoning Wastewater	<u>\$15,292</u>	<u>\$15,117</u>	<u>(\$175)</u>
Total	<u>\$815,125</u>	<u>\$773,643</u>	<u>(\$41,482)</u>

14

15 **Q. ARE YOUR ABOVE-RECOMMENDED CWC ALLOWANCES FINAL**
16 **RECOMMENDATIONS?**

17 A. No. All adjustments to the Company’s claims for revenues, expenses, taxes, and

⁴⁴ I&E Exhibit No. 1-SR, Schedule 2.

1 rate base must be continually brought together for each operating unit in the
2 Administrative Law Judge's Recommended Decision and again in the
3 Commission's Final Order. This process, known as iteration, effectively prevents
4 the determination of a precise calculation until all adjustments have been made to
5 the Company's claims.

6

7 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

8 A. Yes.

**I&E Exhibit No. 1-SR
Witness: Vanessa Okum**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

VEOLIA WATER PENNSYLVANIA, INC.

Docket No. R-2024-3045192 (Water)

and

Docket No. R-2024-3045193 (Wastewater)

Exhibit to Accompany

the

Surrebuttal Testimony

of

Vanessa Okum

Bureau of Investigation and Enforcement

Concerning:

**OPERATING AND MAINTENANCE EXPENSES, CAP TRACKER,
CASH WORKING CAPITAL**

Veolia Water Pennsylvania
 Docket No. R-2024-3045192
 Employee Group Health and Life Insurance

Exhibit No. GRH -3-R
 Schedule-3
 Adjustment No. 2-R
 Page 1 of 1

Line No.		12-Months Ending 9/30/2023	Future Test Year	Fully Projected Future Test Year	
1	VW Pennsylvania	\$ 920,056	\$ 1,461,763	\$ 1,502,907	
2	Bethel Water	-	-	-	
3	Mahoning Township	611	971	999	
5	Total Employee Group Health and Life Insurance	\$ 920,667	\$ 1,462,734	\$ 1,503,906	
7	Adjustment		\$ 542,067	\$ 41,171	
10	Description		Future Test Year	Fully Projected Future Test Year	
12	Medical Insurance - VW PA		\$ 1,345,830 (a)	\$ 1,377,256 (b)	
15	Dental		69,087 (a)	74,849 (b)	
18	Group Life Insurance		47,817 (a)	51,800 (b)	
22	Total Employee Pensions & Benefits		\$ 1,462,734	\$ 1,503,906	
25	New Employees Adjustment	Number of FTY New Employees	Number of FPFTY New Employees	Average HTY Cost of Coverage	Total Employees with Coverage (%)
26	2023 Medical	4	7	\$ 15,278	77%
27	2023 Dental	4	7	813	75%
28	2023 Group Life				
29	Basic STD	4	7	32	100%
30	Basic LTD	4	7	335	100%
31	Basic Life 1X annual	4	7	28	62%
32	Basic Life 3 X annual	4	7	106	31%
33	Basic Life 20K and 37K	4	7	21	4%
35	Inflation Rate:				
36	Fully Projected Future Test Year		2.200%		
38	Reference Notes:				
39	(a) The company provided Future Test Year Employee Group Health and Life Insurance expenses are				
40	adjusted for the eleven new employees in 2024. The new employee adjustment takes the number				
41	of new hires, multiplied by the average Cost of Coverage of existing employees and the				
42	percentage of existing employees with coverage, and added to the				
43	Future Test Year Insurance expenses.				
44	(b) Based upon Future Test Year cost with Fully Projected Future Test Year inflation rate				

I&E Modified Section						
New Employees Adjustment	FTY New Emp	FPFTY New Emp	Avg HTY Cost	% Emp Covered	FTY Cost	FPFTY Cost
2023 Medical	4	7	15,278	77%	47,056	82,348
2023 Dental	4	7	813	75%	2,439	4,268
2023 Group Life						-
Basic STD	4	7	32	100%	128	224
Basic LTD	4	7	335	100%	1,340	2,345
1x Annual	4	7	28	62%	69	122
3x Annual	4	7	106	31%	131	230
20k and 37k	4	7	21	4%	3	6
					\$ 51,167	\$ 89,543

I&E Modified

VEOLIA WATER PENNSYLVANIA, INC. - MAIN DIVISION WATER

SUMMARY OF CASH WORKING CAPITAL REQUIREMENTS

BASED ON LEAD-LAG STUDY FOR THE TWELVE MONTHS ENDING SEPTEMBER 30, 2023

Utility Operating Expenses	Revenue Days	Expense Days	Net (Lead) Lag Days	Expense Claim Fully Projected Year Under Present Rates 10/31/2025	Fully Projected Year Under Present Rates 10/31/2025 CWC	Expense Claim Fully Projected Future Test Year Under Proposed Rates 10/31/2025	Fully Projected Future Test Year Under Proposed Rates 10/31/2025 CWC
Labor Expense	34.5	11.4	23.1	\$ 7,284,520	\$ 461,020	\$ 6,972,743	\$ 441,289
Employee Group Health & Life	34.5	10.1	24.4	1,502,907	100,468	1,037,703	69,370
Employee Pension Benefits	34.5	29.3	5.2	1,071,456	15,265	1,071,456	15,265
Other Employee Benefits	34.5	276.0	(241.5)	436,856	(289,043)	418,161	(276,674)
Purchased Water	34.5	26.6	7.9	1,838,244	39,787	1,838,244	39,787
Purchased Power	34.5	57.1	(22.6)	2,886,605	(178,732)	2,886,605	(178,732)
Fuel for Power Production	34.5	38.8	(4.3)	2,093	(25)	2,093	(25)
Chemicals	34.5	27.9	6.6	1,344,558	24,313	1,344,558	24,313
Materials and Supplies	34.5	29.1	5.4	407,435	6,028	407,435	6,028
Management and Service Fees	34.5	14.7	19.8	4,611,336	250,149	4,611,336	250,149
Lab Testing Fees	34.5	26.2	8.3	212,334	4,828	199,532	4,537
Outside Contractors	34.5	30.9	3.6	1,711,389	16,879	1,617,403	15,952
Outside Professional Services	34.5	45.0	(10.5)	88,583	(2,548)	88,583	(2,548)
Rental - Building/Real Property	34.5	(13.2)	47.7	-	-	-	-
Rental of Equipment	34.5	7.9	26.6	124,900	9,102	124,900	9,102
Transportation Expense	34.5	38.1	(3.6)	748,343	(7,381)	748,343	(7,381)
Prop& Gen Liab. Insurance	34.5	(130.5)	165.0	-	-	-	-
Worker Compensation	34.5	(130.5)	165.0	48,098	21,743	48,098	21,743
Regulatory Commission Expense	34.5	(101.5)	136.0	355,107	132,314	449,026	167,308
Office Expense and Utilities	34.5	8.9	25.6	861,947	60,454	861,947	60,454
Postage and Air Freight Expense	34.5	40.3	(5.8)	383,875	(6,100)	383,875	(6,100)
Other O&M	34.5	30.3	4.2	164,161	1,889	155,043	1,784
Real Estate Tax	34.5	(26.9)	61.4	343,022	57,703	343,022	57,703
Payroll	34.5	18.5	16.0	898,680	39,394	860,216	37,708
Federal Income Taxes	34.5	37.0	(2.5)	1,513,684	(10,368)	3,585,104	(24,556)
State Income Taxes	34.5	28.8	5.8	614,686	9,683	1,485,250	23,398
Total					\$ 756,822		\$ 749,874

I&E Modified

VEOLIA WATER PENNSYLVANIA, INC. - MAHONING WATER

SUMMARY OF CASH WORKING CAPITAL REQUIREMENTS

BASED ON LEAD-LAG STUDY FOR THE TWELVE MONTHS ENDING SEPTEMBER 30, 2023

Utility Operating Expenses	Revenue Days	Expense Days	Net (Lead) Lag Days	Expense Claim Fully Projected Year Under Present Rates 10/31/2025	Fully Projected Year Under Present Rates 10/31/2025 CWC	Expense Claim Fully Projected Future Test Year Under Proposed Rates 10/31/2025	Fully Projected Future Test Year Under Proposed Rates 10/31/2025 CWC
Labor Expense	34.5	11.4	23.1	\$ 4,076	\$ 258	\$ 4,076	\$ 258
Employee Group Health & Life	34.5	10.1	24.4	999	67	613	41
Employee Pension Benefits	34.5	29.3	5.2	712	10	712	10
Other Employee Benefits	34.5	276.0	(241.5)	282	(187)	282	(187)
Purchased Water	34.5	26.6	7.9	157,785	3,415	157,785	3,415
Purchased Power	34.5	57.1	(22.6)	102,218	(6,329)	102,218	(6,329)
Fuel for Power Production	34.5	38.8	(4.3)	-	-	-	-
Chemicals	34.5	27.9	6.6	10,178	184	10,178	184
Materials and Supplies	34.5	29.1	5.4	6,179	91	6,179	91
Management and Service Fees	34.5	14.7	19.8	68,840	3,734	68,840	3,734
Lab Testing Fees	34.5	26.2	8.3	-	-	-	-
Outside Contractors	34.5	30.9	3.6	-	-	-	-
Outside Professional Services	34.5	45.0	(10.5)	-	-	-	-
Rental - Building/Real Property	34.5	(13.2)	47.7	-	-	-	-
Rental of Equipment	34.5	7.9	26.6	142	10	142	10
Transportation Expense	34.5	38.1	(3.6)	372	(4)	372	(4)
Prop& Gen Liab. Insurance	34.5	(130.5)	165.0	-	-	-	-
Worker Compensation	34.5	(130.5)	165.0	13	6	13	6
Regulatory Commission Expense	34.5	(101.5)	136.0	5,283	1,968	6,676	2,487
Office Expense and Utilities	34.5	8.9	25.6	12,777	896	12,777	896
Postage and Air Freight Expense	34.5	40.3	(5.8)	37,471	(595)	37,471	(595)
Other O&M	34.5	30.3	4.2	894	10	845	10
Real Estate Tax	34.5	(26.9)	61.4	7,001	1,178	7,001	1,178
Payroll	34.5	18.5	16.0	468	21	468	21
Federal Income Taxes	34.5	37.0	(2.5)	(88,029)	603	41,021	(281)
State Income Taxes	34.5	28.8	5.8	(37,380)	(589)	17,239	272
Total					\$ 4,747		\$ 5,217

I&E Modified

VEOLIA WATER PENNSYLVANIA, INC. - COLUMBIA WASTEWATER

SUMMARY OF CASH WORKING CAPITAL REQUIREMENTS

BASED ON LEAD-LAG STUDY FOR THE TWELVE MONTHS ENDING SEPTEMBER 30, 2023

Utility Operating Expenses	Revenue Days	Expense Days	Net (Lead) Lag Days	Expense Claim Fully Projected Year Under Present Rates 10/31/2025	Fully Projected Year Under Present Rates 10/31/2025 CWC	Expense Claim Fully Projected Future Test Year Under Proposed Rates 10/31/2025	Fully Projected Future Test Year Under Proposed Rates 10/31/2025 CWC
Labor Expense	34.5	11.4	23.1	\$ 47,282	\$ 2,992	\$ 47,282	\$ 2,992
Employee Group Health & Life	34.5	10.1	24.4	6,915	462	6,915	462
Employee Pension Benefits	34.5	29.3	5.2	1,979	28	1,979	28
Other Employee Benefits	34.5	276.0	(241.5)	823	(544)	823	(544)
Purchased Water	34.5	26.6	7.9	-	-	-	-
Purchased Power	34.5	57.1	(22.6)	-	-	-	-
Fuel for Power Production	34.5	38.8	(4.3)	-	-	-	-
Chemicals	34.5	27.9	6.6	1,159	21	1,159	21
Materials and Supplies	34.5	29.1	5.4	145	2	145	2
Management and Service Fees	34.5	14.7	19.8	-	-	-	-
Lab Testing Fees	34.5	26.2	8.3	3,669	83	3,592	82
Outside Contractors	34.5	30.9	3.6	29,795	294	29,342	289
Outside Professional Services	34.5	45.0	(10.5)	1,562	(45)	1,562	(45)
Rental - Building/Real Property	34.5	(13.2)	47.7	-	-	-	-
Rental of Equipment	34.5	7.9	26.6	-	-	-	-
Transportation Expense	34.5	38.1	(3.6)	4,868	(48)	4,868	(48)
Prop& Gen Liab. Insurance	34.5	(130.5)	165.0	-	-	-	-
Worker Compensation	34.5	(130.5)	165.0	96	43	96	43
Regulatory Commission Expense	34.5	(101.5)	136.0	294	109	396	148
Office Expense and Utilities	34.5	8.9	25.6	30	2	30	2
Postage and Air Freight Expense	34.5	40.3	(5.8)	-	-	-	-
Other O&M	34.5	30.3	4.2	-	-	-	-
Real Estate Tax	34.5	(26.9)	61.4	-	-	-	-
Payroll	34.5	18.5	16.0	44	2	44	2
Federal Income Taxes	34.5	37.0	(2.5)	(23,919)	164	(4,227)	29
State Income Taxes	34.5	28.8	5.8	(10,225)	(161)	(1,776)	(28)
Total					\$ 3,404		\$ 3,435

I&E Modified

VEOLIA WATER PENNSYLVANIA, INC. - MAHONING WASTEWATER

SUMMARY OF CASH WORKING CAPITAL REQUIREMENTS

BASED ON LEAD-LAG STUDY FOR THE TWELVE MONTHS ENDING SEPTEMBER 30, 2023

Utility Operating Expenses	Revenue Days	Expense Days	Net (Lead) Lag Days	Expense Claim Fully Projected Year Under Present Rates 10/31/2025	Fully Projected Year Under Present Rates 10/31/2025 CWC	Expense Claim Fully Projected Future Test Year Under Proposed Rates 10/31/2025	Fully Projected Future Test Year Under Proposed Rates 10/31/2025 CWC
Labor Expense	34.5	11.4	23.1	\$ 4,076	\$ 258	\$ 4,076	\$ 258
Employee Group Health & Life	34.5	10.1	24.4	596	40	596	40
Employee Pension Benefits	34.5	29.3	5.2	171	2	171	2
Other Employee Benefits	34.5	276.0	(241.5)	67	(44)	67	(44)
Purchased Water	34.5	26.6	7.9	-	-	-	-
Purchased Power	34.5	57.1	(22.6)	-	-	-	-
Fuel for Power Production	34.5	38.8	(4.3)	-	-	-	-
Chemicals	34.5	27.9	6.6	-	-	-	-
Materials and Supplies	34.5	29.1	5.4	5,015	74	5,015	74
Management and Service Fees	34.5	14.7	19.8	-	-	-	-
Lab Testing Fees	34.5	26.2	8.3	108,368	2,464	106,077	2,412
Outside Contractors	34.5	30.9	3.6	880,038	8,680	866,583	8,547
Outside Professional Services	34.5	45.0	(10.5)	46,127	(1,327)	46,127	(1,327)
Rental - Building/Real Property	34.5	(13.2)	47.7	-	-	-	-
Rental of Equipment	34.5	7.9	26.6	-	-	-	-
Transportation Expense	34.5	38.1	(3.6)	420	(4)	420	(4)
Prop& Gen Liab. Insurance	34.5	(130.5)	165.0	-	-	-	-
Worker Compensation	34.5	(130.5)	165.0	1	-	1	-
Regulatory Commission Expense	34.5	(101.5)	136.0	10,153	3,783	13,682	5,098
Office Expense and Utilities	34.5	8.9	25.6	1,027	72	1,027	72
Postage and Air Freight Expense	34.5	40.3	(5.8)	-	-	-	-
Other O&M	34.5	30.3	4.2	-	-	-	-
Real Estate Tax	34.5	(26.9)	61.4	-	-	-	-
Payroll	34.5	18.5	16.0	4	-	4	-
Federal Income Taxes	34.5	37.0	(2.5)	(30,418)	208	20,204	(138)
State Income Taxes	34.5	28.8	5.8	(13,232)	(208)	8,039	127
Total					\$ 13,998		\$ 15,117

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

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

VEOLIA WATER PENNSYLVANIA, INC.

**Docket No. R-2024-3045192 (Water)
&
Docket No. R-2024-3045193 (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?**

15 A. Yes.

16
17 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

18 A. The purpose of my surrebuttal testimony is to address statements made by Veolia
19 Water Pennsylvania, Inc. (VWPA or Company) witness Harold Walker, III
20 (VWPA Statement No. 4-R) in his rebuttal testimony regarding rate of return
21 topics including the proxy group, cost of common equity, size adjustment

1 premium, leverage adjustment for market-to-book ratio difference, and the overall
2 fair rate of return to be applied to VWPA's rate base.

3 The absence of any comments or responses to particular statements
4 or topics addressed in VWPA's rebuttal testimony and that of other parties'
5 witnesses concerning the return on equity does not signify my acceptance
6 or support of the Company's or other parties' positions in this proceeding.

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

9 A. No. I refer to my direct testimony (I&E Statement No. 2) and schedules contained
10 in my exhibit (I&E Exhibit No. 2) where necessary.

11
12 **Q. WHAT WAS YOUR ORIGINAL OVERALL RECOMMENDATION IN**
13 **DIRECT TESTIMONY?**

14 A. I recommended the following rate of return for the Company's water and
15 wastewater operations (I&E Statement No. 2, p. 6):

16

I & E Recommendation			
Veolia Water Pennsylvania, Inc. - Water and Wastewater Operations			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	46.00%	4.60%	2.12%
Common Equity	<u>54.00%</u>	9.34%	<u>5.04%</u>
Total	<u>100.00%</u>		<u>7.16%</u>

1 **Q. DID THE COMPANY PROVIDE AN UPDATE TO ITS RATE OF**
2 **RETURN CLAIM?**

3 A. No. The Company witness Mr. Walker does not change his recommendation and
4 continues to recommend a return on equity (ROE) of 10.80% inclusive of his
5 leverage adjustment of 0.75% for a Market to Book (M/B) ratio difference. The
6 Company's rate of return claim is as follows (VWPA Statement No. 4-R, p. 2 and
7 VWPA Exhibit HW-1, Schedule 1):
8

VEOLIA WATER PENNSYLVANIA, INC.			
Water and Wastewater Operations			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	46.00%	4.60%	2.12%
Common Equity	<u>54.00%</u>	10.80%	<u>5.83%</u>
Total	<u>100.00%</u>		<u>7.95%</u>

9

10 **SUMMARY OF MR. WALKER'S REBUTTAL TESTIMONY**

11 **Q. SUMMARIZE MR. WALKER'S RESPONSE TO YOUR COST OF**
12 **EQUITY RECOMMENDATIONS.**

13 A. Mr. Walker disputes my ROE recommendation's exclusive reliance on the
14 Discounted Cash Flow (DCF) model and states that it is necessary to estimate
15 common equity cost rates using multiple analytical models considering the current
16 unusual and high inflation rate that has resulted in increases in interest rates and
17 capital cost rates (VWPA Statement No. 4-R, pp. 5-6). He avers that my

1 recommended return on equity is not consistent with the current and recently
2 authorized return rates on common equity by the Commission (VWPA Statement
3 No. 4-R, p. 3).

4
5 **INFLATION AND CAPITAL COSTS**

6 **Q. SUMMARIZE MR. WALKER’S COMMENTS ON INCREASED CAPITAL**
7 **COSTS DUE TO THE CURRENT INFLATION RATE.**

8 A. Mr. Walker compares the current yields of 4.47% on 10-year treasury notes and
9 5.72% on “A” rated public utility bonds as of May 23, 2024 with the rolling
10 average yield on 10-year treasury notes and “A” rated public utility bonds from
11 March 2017 through April 2024. He then states that this has similarly resulted in
12 higher common equity cost rates today than have existed over the last several
13 years (VWPA Statement No. 4-R, pp. 6-7). Additionally, he refers to the
14 Associated Press, May 1, 2024 news article that highlights the Federal Reserve
15 Chair Powell’s statement, “inflation has shown a lack of further progress toward
16 our 2% objective,” and he presents bonds yield changes between March 6, 2024
17 and May 23, 2024 (VWPA Statement No. 4-R, pp. 8-9). Briefly, he tries to prove
18 that investors’ expectations have not been influenced by the inflation rates shown
19 in the Blue Chip Financial Forecasts’ April 1, 2024 publication as is evidenced by
20 the increase in yields along the yield curve, which he provides in his Table 2 for
21 the April 1, 2024 through May 23, 2024 change (VWPA Statement No. 4-R, p. 9).
22 Lastly, Mr. Walker alleges that I did not provide evidence that the Federal Reserve

1 considers the Blue Chip Financial Forecasts in making any of its decisions
2 (VWPA Statement No. 4-R, pp. 8-10).

3
4 **Q. WHAT IS YOUR RESPONSE TO MR. WALKER'S REBUTTAL**
5 **TESTIMONY REGARDING INFLATION AND CAPITAL COSTS?**

6 A. Mr. Walker provides a comparison of bond yield changes between (a) March 6,
7 2024 and May 23, 2024 for 10-year treasury notes and 30-year treasury bonds that
8 were 0.36% and 0.34% respectively (VWPA Statement No. 4-R, p. 9); and
9 (b) April 1, 2024 and May 23, 2024 for 10-year treasury notes and 30-year
10 treasury bonds that were 0.14% and 0.11% respectively (VWPA Statement No. 4-
11 R, p. 10). However, this comparison does not suggest any meaningful conclusion
12 because the changes in bond yields are continuous and volatile, and always driven
13 by capital market conditions, which are influenced by various economic and
14 financial market conditions. Regarding the Federal Reserve commitment to
15 interest rate cuts, it is important to note that the Federal Reserve did not state that
16 there will be no possibility of a rate cut in 2024-2025; it wants to see the target
17 inflation level of 2%. Per the latest news,¹ Federal Reserve officials are now
18 expected to lower the interest rates more rapidly next year, to make four rate cuts
19 in 2025, up from three previously, and indicating one cut in 2024.

¹ [Fed Meeting Live Updates: Powell Speaks on Rates and Inflation Report - The New York Times \(nytimes.com\)](https://www.nytimes.com/live/2024/06/12/economy/fed-meeting-live-updates-powell-speaks-on-rates-and-inflation-report)
(accessed on June 12, 2024).

1 I disagree with Mr. Walker’s unsupported conclusion that I stated that the
2 Federal Reserve considers the Blue Chip Financial Forecasts data in making any
3 of its decisions. In fact, I presented Blue Chip Financial Forecasts (April 2024)
4 data for the Consumer Price Index (CPI) and Personal Consumption Expenditures
5 Price Index (PCE) for quarterly periods (Q2-2024 through Q3-2025) to show the
6 forecasted inflation levels as compared to the Federal Reserve target inflation level
7 of 2% (I&E Statement No. 2, p. 25, lines 3-6). It is pertinent to note that the
8 Federal Reserve considers PCE and CPI data as key measures to judge the
9 inflation levels:

10 The Federal Open Market Committee (FOMC) judges that an
11 annual increase in inflation of 2 percent in the price index for
12 personal consumption expenditures (PCE), produced by the
13 Department of Commerce, is most consistent over the longer
14 run with the Federal Reserve’s mandate for maximum
15 employment and price stability. The FOMC uses the PCE price
16 index largely because it covers a wide range of household
17 spending. However, the Fed closely tracks other inflation
18 measures as well, including the consumer price indexes and
19 producer price indexes issued by the Department of Labor.²

20 As discussed in my direct testimony, I reiterate that the Federal Reserve’s
21 commitment to interest rate reductions would have the effect of reducing potential
22 inflation and interest rate risks for 2025 capital costs, when VWPA’s rates will be
23 in effect (I&E Statement No. 2, p. 25, lines 7-9). Additionally, it is important to
24 note that unlike unregulated companies, public utilities may file rate cases to

² [The Fed - What is inflation and how does the Federal Reserve evaluate changes in the rate of inflation?](#) (accessed on June 10, 2024).

1 address unforeseen or increased expenses and/or revenue shortfalls due to changes
2 in market conditions.

3
4 **DCF ANALYSIS RESULTS COMPARISION**

5 **Q. SUMMARIZE MR. WALKER’S RESPONSE TO YOUR RELIANCE ON**
6 **THE DCF MODEL IN DETERMINING THE COST OF EQUITY.**

7 A. First, Mr. Walker presents a table showing that the Commission authorized
8 average return on equity (ROE) of 9.73% in eight historic base rate cases (March
9 2017 through January 2024) and compared it to my recommended ROE of 9.34%
10 for VWPA (VWPA Statement No. 4-R, p. 11). He then states that the
11 Commission’s authorized ROE in these bases rate cases (I&E Statement No. 2, pp.
12 17, 21, and 22) are higher by 0.39% (9.73% - 9.34%) (VWPA Statement No. 4-R,
13 p. 11). He also presents statistics for the average 10-year treasury notes yield of
14 1.98% and an “A” rated public utility bond yield of 3.75% that prevailed in the
15 month of the Commission’s orders in the respective base rate cases and compared
16 these with the current average 10-year treasury note yield of 4.18% and the “A”
17 rated public utility bond yield of 5.66% (VWPA Statement No. 4-R, p. 13). He
18 then concludes that his comparison shows that measurable capital cost rates have
19 increased substantially since the Commission’s orders were entered due to
20 increased inflation and interest rates (VWPA Statement No. 4-R, p. 15).

21 Second, Mr. Walker asserts that the DCF model results are less reliable
22 when there are larger differences between market value and book value

1 capitalization ratios because the cost of common equity model is based on a
2 market value capitalization ratio and its results are applied to the book value
3 capitalization ratio. Considering the increased amount of leverage between market
4 value derived DCF cost rates and book value cost rates, he indicates a book value
5 DCF cost rate of 10.07% for VWPA rather than my recommended DCF cost rate
6 of 9.34% (VWPA Statement No. 4-R, pp. 15-18).

7
8 **Q. WHAT IS YOUR RESPONSE TO MR. WALKER'S REBUTTAL**
9 **TESTIMONY REGARDING RELIANCE ON DCF RESULTS IN**
10 **DETERMINING THE COST OF EQUITY?**

11 A. First, I disagree with Mr. Walker's comparison of the Commission authorized
12 average ROE of 9.73% in eight historic base rate cases with my recommended
13 ROE of 9.34% for VWPA. It is important to note that I have cited the
14 Commission's orders in base rate cases that specifically acknowledged and relied
15 on DCF results in determining the utility's cost of common equity in base rate
16 proceedings (I&E Statement No. 2, p. 16, line 16 through p. 17, line 1). Mr.
17 Walker's comparison of the Commission's authorized ROE in historic base rate
18 case orders (issued from March 2017 through January 2024) with my
19 recommended ROE for VWPA in this proceeding is irrelevant and inappropriate
20 because all the cited utilities' base rate cases had different risk characteristics,
21 merits of the rate case, utility operations (electric/water/natural gas), and economic
22 and financial market conditions at the time of base rate case filings and the

1 Commission's orders. The Commission authorized return on equity in those cases
2 considered these differences and the merits of each case, so the outcome of these
3 cases has no bearing on an appropriate return on equity for VWPA. Therefore,
4 Mr. Walker's reliance on historic authorized ROEs to invalidate my recommended
5 ROE for VWPA and to support his claimed ROE is not proper or relevant in this
6 base rate proceeding. Similarly, Mr. Walker's comparison of the trailing 12-
7 month average 10-year treasury note yields and "A" rated public utility bond
8 yields that prevailed in the month of the Commission's orders in respective
9 historic base rate cases with the current average 10-year treasury notes yields and
10 "A" rated public utility bonds yield does not produce any additional support for
11 the Company's claimed ROE.

12 Second, I disagree with Mr. Walker's assertion that the DCF model results
13 are less reliable when the cost of common equity model is based on a market value
14 capitalization ratio and its results are applied to the book value capitalization ratio,
15 and I reject his leverage adjusted DCF result of 10.07% (VWPA Statement No.
16 4--R, p. 18) for my recommended DCF rate of 9.34%. As discussed in my direct
17 testimony, I reiterate that in traditional ratemaking, utilities' rates are set by
18 applying the market determined cost of capital to the book value capital structure,
19 and the financial research analysts and credit rating agencies consider this factor
20 when performing their financial analyses and projections. Additionally, investors
21 investing in a utility stock are aware that the utility's market determined equity
22 return rate is applied to the book value capital structure or capitalization ratio (I&E

1 Statement No. 2, p. 42, line 4 through p. 44, line 5). Therefore, it is inappropriate
2 to evaluate market determined cost of equity results with the market to book
3 capitalization ratio difference and apply a financial leverage adjustment in the cost
4 of equity results. I have discussed in more detail the market and book
5 capitalization ratio difference and leverage adjustment in the market to book
6 (M/B) ratio section below.

7
8 **CAPM THEORY**

9 **Q. SUMMARIZE MR. WALKER'S RESPONSE REGARDING THE**
10 **SYSTEMATIC RISK AND UNSYSTEMATIC RISK CONSIDERATIONS**
11 **IN THE CAPM THEORY.**

12 A. First, Mr. Walker states that the systematic risk (non-diversifiable) and
13 unsystematic risk (company-specific risk/diversifiable) assumptions of the CAPM
14 theory are relevant under the DCF, Risk Premium (RP), and Comparable Earnings
15 (CE) analyses (VWPA Statement No. 4-R, p. 19). He then gives an example of
16 Enron Corporation's accounting and corporate fraud resulting in bankruptcy and
17 tries to prove that the company-specific risk is pertinent in other cost of equity
18 models (VWPA Statement No. 4-R, p. 20).

1 **Q. WHAT IS YOUR RESPONSE TO MR. WALKER'S COMMENTS**
2 **REGARDING SYSTEMATIC RISK AND UNSYSTEMATIC RISK**
3 **CONSIDERATIONS?**

4 A. Mr. Walker tries to relate and blend the fundamental basis of systematic risk (non-
5 diversifiable) and unsystematic risk (diversifiable) of CAPM theory with other
6 cost of equity models, more particularly the unsystematic risk (company-specific
7 risk), which is diversifiable. In fact, the DCF, RP, and CE methods are
8 independent and stand-alone, and based on different fundamental theory and
9 assumptions. Therefore, it is improper to imply that company-specific risk is
10 considered in other cost of equity methods.

11

12 **PROXY GROUP**

13 **Q. SUMMARIZE MR. WALKER'S RESPONSE TO YOUR EXCLUSION OF**
14 **THE YORK WATER COMPANY AND PROXY GROUP RISK ANALYSIS.**

15 A. Mr. Walker states that I included six of the seven water utility companies in his
16 proxy group and did not include The York Water Company (VWPA Statement
17 No. 4-R, p. 22). He then states that financial information is available for The York
18 Water Company via a default stock ticker screener that is provided by internet
19 financial resource services (VWPA Statement No. 4-R, p. 22). He states that I did
20 not provide an analysis of similarity or dissimilarity of risk between the proxy
21 group companies and VWPA (VWPA Statement No. 4-R, pp. 22-23).

1 **Q. WHAT IS YOUR RESPONSE TO MR. WALKER’S REBUTTAL**
2 **TESTIMONY REGARDING YOUR EXCLUSION OF THE YORK**
3 **WATER COMPANY FROM YOUR PROXY GROUP?**

4 A. I relied on I&E’s consistently followed proxy group selection criterion that the
5 investment information for the company must be available from more than one
6 source, which includes Value Line (I&E Statement No. 2, p. 8, lines 14-15). Since
7 Value Line does not provide detailed investment/financial information for The
8 York Water Company under the “Water Utility” company group, I did not include
9 it in my proxy group. Regarding the similarity or dissimilarity of risk between the
10 proxy group companies and VWPA, it is important to note that Value Line has
11 identified all companies in my proxy group as water utilities and all six companies
12 in my proxy group are also included in Mr. Walker’s proxy group. Regarding Mr.
13 Walker’s business risk analysis, I agreed with Mr. Walker’s conclusion that
14 VWPA has similar regulatory risk, credit rating risk, and investment risk to his
15 comparable water group companies (I&E Statement No. 2, p. 46, line 9-12).
16 Similarly, I agreed with Mr. Walker’s conclusion that VWPA’s financial risks are
17 less and/or similar to the risks of the comparable Water Group companies (I&E
18 Statement No. 2, p. 47, line 6-7). This signifies that although VWPA is smaller in
19 size, the business and financial risk profile remains similar to the larger size
20 companies in his Water Group.

21 Therefore, there is no need to further examine or evaluate similarity or
22 dissimilarity of risks between the proxy group companies and VWPA. All the

1 companies in my proxy group are comparable to the subject utility as they provide
2 a similar level of regulated water services.

3
4 **Q. DO YOU HAVE ANY CHANGES TO YOUR PROXY GROUP**
5 **COMPANIES?**

6 A. No. I continue to recommend the same proxy group consisting of six water utility
7 companies (I&E Statement No. 2, p. 10, line 1).

8
9 **CRITIQUE OF I&E's DCF ANALYSIS**

10 **Q. SUMMARIZE MR. WALKER'S CONCERN WITH YOUR DCF**
11 **ANALYSIS AND RESULTS.**

12 A. First, Mr. Walker disputes my mathematical average growth rate calculation of my
13 proxy group companies and states that the mathematical average of my growth
14 rate should be 6.68% rather than 6.61% (I&E Exhibit No. 2 Schedule 5). He then
15 asserts that my DCF results would be 9.41% and not 9.34% (VWPA Statement
16 No. 4-R, pp. 26-27). Second, he disputes Middlesex Water Company's low-end
17 DCF result of 7.09% in the proxy group companies and states that this heavily
18 impacts the average of proxy group companies' DCF results. He suggests that if
19 Middlesex Water's DCF results were excluded, the average of proxy group DCF
20 results would be 9.87% (VWPA Statement No. 4-R, pp. 27-28).

1 **Q. WHAT IS YOUR RESPONSE TO MR. WALKER’S CONCERN ABOUT**
 2 **YOUR MATHEMATICAL AVERAGE GROWTH RATE CALCULATION**
 3 **FOR YOUR PROXY GROUP COMPANIES?**

4 A. I disagree with Mr. Walker’s suggestion to use the mathematical average growth
 5 rate of 6.68% rather than 6.61%. He suggests using the average of each
 6 company’s growth rates forecasted by Yahoo!, Zacks, and Value Line as shown in
 7 the “average” column (d) in my table rather than my use average growth rates of
 8 Yahoo!, Zacks, and Value Line for the proxy group as a whole as shown in the
 9 horizontal “average” of columns (a), (b), and (c) in my table, which is reproduced
 10 below (I&E Exhibit No. 2, Schedule 5):

Five-Year Growth Estimate Forecast for Proxy Group (Actual)					
		Yahoo!	Zacks	Value Line	Average
Company	Symbol	Source			
		(a)	(b)	(c)	(d)
American States Water Company	AWR	4.40%	6.30%	6.50%	5.73%
American Water Works Company, Inc.	AWK	7.50%	8.00%	3.00%	6.17%
California Water Service Group	CWT	10.80%	NA	10.00%	10.40%
Essential Utilities, Inc.	WTRG	5.20%	5.80%	7.00%	6.00%
Middlesex Water Company	MSEX	2.70%	NA	6.50%	4.60%
SJW Group	SJW	7.50%	7.50%	6.50%	7.17%
Average		6.35%	6.90%	6.58%	6.61%
		6.61% = [(6.35%+6.90%+6.58%)÷3]			
				Average of Column (d)	6.68%
<i>Sources date:</i>					
4/8/2024					

11
 12 It is pertinent to note that I&E has consistently used the average of all average
 13 growth rates from Yahoo!, Zacks, and Value Line for the proxy group companies

1 in calculating the DCF results, and this method has been undisputed in base rate
2 proceedings.

3
4 **Q. WHAT IS YOUR RESPONSE TO MR. WALKER'S SUGGESTION TO**
5 **EXCLUDE MIDDLESEX WATER'S LOW END DCF RESULTS IN YOUR**
6 **CALCULATION OF THE PROXY GROUP AVERAGE DCF RESULTS?**

7 A. I disagree with Mr. Walker's suggestion to exclude Middlesex Water Company's
8 DCF result of 7.09% and use his modified average DCF result of 9.87% for the
9 proxy group. Mr. Walker misses the important point that the purpose of using a
10 proxy group is to smooth out any anomalous data in the cost of equity analysis. In
11 my view, any attempt to eliminate or disregard low-end Middlesex Water DCF
12 results, or one side of a range of results, is inconsistent with the purpose of a proxy
13 group and only serves to subjectively influence the results of an otherwise
14 unbiased analysis. Relying on Mr. Walker's logic that the low-end Middlesex
15 Water DCF result heavily impacts my average DCF results, California Water
16 Service Group's high-end DCF result of 12.82% also heavily impacts the average
17 DCF results, and therefore, the same should also be eliminated. It is important to
18 note that excluding California Water Service Group's high-end DCF result of
19 12.82% and Middlesex Water's DCF result of 7.09% would produce an average
20 DCF result of 9.14% (rather than my 9.34%) as shown in the I&E modified table

1 below:

Expected Market Cost Rate of Equity for the Proxy Group				
	Adjusted Dividend Yield	Growth Rate	Expected Return on Equity	I&E Modified Expected Return on Equity
	(1)	(2)	(3=1+2)	
American States Water Company	2.58%	5.73%	8.31%	8.31%
American Water Works Company, Inc.	2.53%	6.17%	8.70%	8.70%
California Water Service Group	2.42%	10.40%	12.82%	-
Essential Utilities, Inc.	3.61%	6.00%	9.61%	9.61%
Middlesex Water Company	2.49%	4.60%	7.09%	-
SJW Group	2.77%	7.17%	9.93%	9.93%
Average	2.73%	6.68%	9.41%	9.14%

2

3

4 **Q. DO YOU AGREE WITH MR. WALKER'S MODIFIED I&E DCF**

5 **RESULTS?**

6 A. No. Considering the above discussion, I disagree with Mr. Walker's modified mean
7 DCF results of 9.87% excluding Middlesex Water's low-end DCF results.

8

9 **CRITIQUE OF I&E's CAPM ANALYSIS**

10 **Q. SUMMARIZE MR. WALKER'S RESPONSE TO YOUR CAPM**

11 **ANALYSIS.**

12 A. Mr. Walker disputes my use of the 10-year U.S. Treasury Note as a proxy to
13 measure the risk-free rate and market risk premium used in my CAPM analysis as
14 well as the inputs I chose from Blue Chip Financial Forecasts and concludes that
15 my CAPM results understate the cost of equity (VWPA Statement No. 4-R, p. 28).

1 He also disagrees with me for rejecting his size premium adjustment to the CAPM
2 results (VWPA Exhibit 7 HW-1, Schedule 17, p. 1).

3
4 **RISK-FREE RATE**

5 **Q. WHAT IS MR. WALKER'S RESPONSE TO YOUR USE OF THE 10-**
6 **YEAR U.S. TREASURY NOTE YIELD AS A RISK-FREE RATE?**

7 A. First, Mr. Walker claims that his use of the 30-year U.S. Treasury Bond yield as a
8 risk-free rate is more appropriate than the 10-year Treasury Note yield because it
9 better reflects financial theory that indicates the term matching of the risk-free rate
10 should be based on the life of the asset, and not the time horizon of the investor
11 (VWPA statement No 4-R, p. 28). Second, he disagrees with my calculation of
12 the risk-free rate because my CAPM results reflect a forecasted average yield of
13 3.88% on 10-year Treasury Notes while the actual yield on 10-year Treasury
14 Notes was 4.47% as of May 24, 2024. He then states that using the current risk-
15 free rate of 4.47% my CAPM result would be 10.72% rather than 10.62% (VWPA
16 Statement No 4-R, p. 29).

17
18 **Q. IS THE LIFE OF THE INVESTMENT THE ONLY FACTOR THAT**
19 **SHOULD BE CONSIDERED IN THE CHOICE OF A RISK-FREE RATE?**

20 A. No. The risk-free rate is the return that can be earned without accepting any risk.
21 The life of the investment can be considered in the choice of risk-free rates;
22 however, the most important consideration is that the rate be as risk-free as

1 possible. As explained in my direct testimony, I chose the 10-year Treasury Note
2 as it mitigates the short-comings of the short-term Treasury Bill and the 30-year
3 Treasury Bond (I&E Statement No. 2, pp. 30-31). Although long-term Treasury
4 Bonds have less risk of being influenced by federal policies, they have substantial
5 maturity risk associated with economic and market condition risks.

6 While rate base assets are long-lived, the utility company has the
7 opportunity to refinance its debt at any point to capture favorable interest rates,
8 which would reduce the financial risk associated with the corresponding assets.
9 Thus, it is more appropriate to utilize a risk-free rate that will be in effect during
10 the investment period being considered, which, in this case, is the FPFTY or
11 possibly the normalization period between base rate cases. Although the short-
12 term Treasury Bills may align closer with the investment timeframe, they are very
13 volatile. Therefore, my choice of a 10-year Treasury Note is appropriate and, as
14 pointed out in my direct testimony, the Commission has agreed with I&E that the
15 10-year Treasury Note is the superior measure of the risk-free rate of return.³

16
17 **Q. IS THE USE OF A CURRENT RISK-FREE RATE APPROPRIATE IN**
18 **CAPM ANALYSIS AS MR. WALKER ASSERTS?**

19 **A.** No. The time period reflected in the forecasted risk-free rate should include the
20 period in which new rates will be in effect. VWPA is setting new rates to be

³ *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 or effective in the fully projected future test year ending October 31,
2 2025, and not in the current year (future test year) ending October 31, 2024.
3 Therefore, it is irrelevant and improper to use the actual yield of 4.47% on 10-year
4 Treasury Notes of May 24, 2024 rather than applying an average of forecasted
5 yield on 10-year Treasury Notes (3.88%) as the risk-free rate in my CAPM
6 analysis for calculating the forecasted CAPM results (I&E Exhibit No. 2,
7 Schedules 8 and 10).

8 Considering the above, Mr. Walker's assertion is misplaced because I
9 considered the projected yields for the five quarters (Q3-2024 through Q3-2025)
10 and for the 2025-2029 period available from Blue Chip Financial Forecasts of
11 April 1, 2024 and December 1, 2023 respectively. Lastly, I believe applying the
12 current yield on 10-year Treasury Notes in the CAPM analysis is less reliable and
13 creates more speculative estimates for the future period. My calculation provides
14 a balance of future estimates for the FPFTY and the future period when VWPA's
15 new rates will be in effect.

16
17 **SIZE PREMIUM ADJUSTMENT**

18 **Q. SUMMARIZE MR. WALKER'S ASSERTION THAT IT IS NECESSARY**
19 **TO APPLY A SIZE PREMIUM ADJUSTMENT TO THE CAPM RESULT.**

20 A. Mr. Walker states that my CAPM result does not reflect a size premium as he
21 applied a 0.70% adjustment to his CAPM results (VWPA Statement No. 4-R, p.
22 29). He claims that a size premium reflects the risks associated with my proxy

1 group's small size and its impact on the determination of its beta (VWPA
2 Statement No. 4-R, p. 29). He asserts that this adjustment is necessary because
3 beta (systematic risk) does not capture or reflect the proxy group's small size
4 (VWPA Statement No. 4-R, p. 29).

5
6 **Q. WHAT IS YOUR RESPONSE TO MR. WALKER'S ASSERTION**
7 **CONCERNING THE NECESSITY OF APPLYING A SIZE PREMIUM**
8 **ADJUSTMENT TO THE CAPM RESULTS?**

9 A. I disagree with Mr. Walker's rationale to apply a size premium adjustment of
10 0.70% to the CAPM results. Mr. Walker claims that beta (systematic risk) does
11 not capture or reflect the proxy group's small size. Beta reflects a stock's volatility
12 relative to the overall market, thereby incorporating an industry-specific aspect to
13 the CAPM. A proxy group is typically utilized since the use of data exclusively
14 from one company is less reliable. The rate of return on common equity for a
15 single company could become distorted in these circumstances and would
16 therefore not be representative of similarly situated utility companies. A proxy
17 group has the effect of smoothing out anomalies associated with a single company
18 and reflects risks and uncertainties of similarly situated utility companies included
19 in the proxy group comparable with the subject utility. Investors are aware that
20 the utilities' stocks have low market risks and low beta measures as compared to
21 the overall stock market, and therefore, their expectation for equity returns is
22 moderate as compared to high-risk, high reward non-utility stocks with high betas.

1 Therefore, there is no need to make any adjustments for the utility proxy group's
2 small size relative to the large size of non-utility companies or S&P 500
3 companies and to their betas. I have discussed in more detail the size adjustment
4 concept later in a separate section.

5
6 **Q. DO YOU AGREE WITH MR. WALKER'S MODIFIED I&E CAPM**
7 **RESULTS OF 10.72% AFTER APPLYING THE CURRENT RISK-FREE**
8 **RATE OF 4.47%?**

9 A. No. I do not agree with Mr. Walker's modified CAPM result of 10.72% for the
10 cost of equity estimation (VWPA Statement No. 4-R, p, 29).

11
12 **Q. HAVE YOU CHANGED YOUR CAPM RESULTS AS A RESULT OF MR.**
13 **WALKER'S REBUTTAL TESTIMONY?**

14 A. No. I continue to recommend observing my CAPM result of 10.62% (I&E Exhibit
15 No. 2, Schedule 10) as simply a comparison to my DCF result of 9.34% (I&E
16 Exhibit No. 2, Schedule 6) and not as a reason to recommend an ROE above my
17 DCF result.

1 **SIZE ADJUSTMENT**

2 **Q. SUMMARIZE YOUR DIRECT TESTIMONY REGARDING MR.**
3 **WALKER'S PROPOSED SIZE ADJUSTMENT TO THE COST OF**
4 **EQUITY.**

5 A. In my direct testimony (I&E Statement No. 2, p. 48, line 3 through p. 49, line 2), I
6 stated that Mr. Walker's 70-basis point adjustment to the CAPM results is
7 unnecessary because none of the technical literatures cited in his direct testimony
8 supports an adjustment related to the size of a company that is *specific to the*
9 *utility industry*. Additionally, the size premium data based on market
10 capitalization is not reliable because for certain periods, large-capitalization stocks
11 outperform small-capitalization stocks, and it is difficult to establish a sufficient
12 correlation to prove that size is a specific risk for utilities. VWPA's smaller size
13 risk concern is invalidated and unsupported because VWPA's business and
14 financial risk profile is similar to the large size companies of his Water Group. In
15 direct testimony, I presented an article by Dr. Annie Wong that demonstrated that
16 there is no need to make an adjustment for the small size of a company in utility
17 rate regulation (I&E Statement No. 2, p. 50, line 4-19). Finally, the Commission
18 has recently rejected the application of a size adjustment to the cost of equity
19 calculation (I&E Statement No. 2, p. 50, lines 20-22).

1 **Q. SUMMARIZE MR. WALKER’S RESPONSE IN REBUTTAL TESTIMONY**
2 **REGARDING A SIZE RISK FACTOR ADJUSTMENT.**

3 A. Mr. Walker opines that size is a recognized and meaningful element of risk, that it
4 is appropriate to reflect that risk in a company’s cost of equity, and credit rating
5 agencies recognize that size impacts the credit rating (VWPA Statement No. 4-R,
6 p. 43). He attempts to support this assertion by pointing to two studies (VWPA
7 Statement No. 4-R, p. 43). Mr. Walker also attempts to discredit a study
8 performed by Dr. Wong that I relied upon in rejecting his size adjustment, by
9 citing a review of Dr. Wong’s study written by Thomas M. Zepp (VWPA
10 Statement No. 4-R, pp. 43-44).

11

12 **Q. ARE MR. WALKER’S ASSERTIONS REGARDING FIRMS OF**
13 **SMALLER SIZE RELEVANT TO THE REGULATED UTILITY**
14 **INDUSTRY?**

15 A. No. The study performed by Dr. Wong provides empirical evidence that refutes
16 Mr. Walker’s assertion as explained below.

17

18 **Q. WHAT IS YOUR RESPONSE REGARDING THE STUDIES MR.**
19 **WALKER RELIES ON TO SUPPORT THE REQUESTED SIZE**
20 **ADJUSTMENT?**

21 A. First, Mr. Walker’s reference to studies/articles performed by James C. Van Horne
22 and John M. Wachowicz, “Fundamentals of Financial Management” and Shannon

1 P. Pratt, "Cost of Capital: Estimation and Applications" are not specific to the
2 utility industry (VWPA Statement No. 4-R, pp. 43-44). Second, the article Mr.
3 Walker references from Dr. Thomas Zepp does not recreate Dr. Wong's study; he
4 simply comments on the possibility of a small firm effect for utilities. Dr. Zepp
5 refers to the study completed by the California Public Utilities Commission Staff,
6 which in my opinion has not received wide regulatory support and acceptance, and
7 therefore, Dr. Zepp's opinion cannot be properly evaluated. Dr. Zepp also draws
8 his conclusions about the water industry based on the second study, which
9 examines the effects of size for only two small water utility companies and two
10 large water utility companies for the period of 1987-1997. This study does not
11 contain enough credible evidence to refute Dr. Wong's findings. Third, Mr.
12 Walker's reference to the credit rating agency Standard & Poor's document
13 highlights the relationship between size and credit rating (VWPA Statement No. 4-
14 R, p. 44); however, it is not specific to regulated utilities and does not materially
15 support the size adjustment in the cost of equity estimation.

16 In my opinion, it is not appropriate to link the small size effect of non-
17 regulated companies with the regulated utility industry because regulated utilities,
18 small or large, have a market monopoly in the certificated service jurisdiction and
19 are permitted to seek recovery of the full cost of service and a fair and reasonable
20 rate of return on the rate base. The regulatory ratemaking mechanism enables
21 utilities to reduce risk as opposed to unregulated companies that face sales revenue
22 and net income pressures due to a highly competitive market structure.

1 **Q. PLEASE CONTINUE.**

2 A. It is also important to note the assertion that as a company's size decreases, risk
3 increases, is speculative and not reliable because it is based on stock price
4 volatility (risk) and market capitalization (size) relationship. Stock price volatility
5 is not an appropriate risk measure as the stock prices are influenced by various
6 factors such as economic conditions, financial and capital markets condition,
7 regulatory changes, company-specific operational and financial risks and
8 uncertainties, a company's quarterly and annual financial result updates, etc.

9
10 **Q. HAVE YOU FOUND FURTHER EVIDENCE TO SUPPORT YOUR**
11 **RECOMMENDATION TO REJECT THE PROPOSED SIZE**
12 **ADJUSTMENT?**

13 A. Yes. The difficulty in predicting the risk effect of a company's size is
14 demonstrated in the variance from year to year of the measurement of difference
15 between the annual returns on the large and small-capitalization stocks of the
16 NYSE/AMEX/NASDAQ in the Ibbotson *Stocks, Bonds, Bills & Inflation: 2015*
17 *Yearbook*. As stated on page 100:

18 While the largest stocks actually declined in 2001, the smallest
19 stocks rose more than 30%. A more extreme case occurred in
20 the depression-recovery year of 1933, when the difference
21 between the first and 10th decile returns was far more
22 substantial. The divergence in the performance of small- and
23 large- cap stocks is evident. In 30 of the 89 years since 1926,
24 the difference between the total returns of the largest stocks
25 (decile 1) and the smallest stocks (decile 10) has been greater
26 than 25 percentage points.

1 Page 109 states:

2 In four of the last 10 years, large-capitalization stocks (deciles
3 1-2 of NYSE/AMEX/NASDAQ) have outperformed small-
4 capitalization stocks (deciles 9-10). This has led some market
5 observers to speculate that there is no size premium. But
6 statistical evidence suggests that periods of underperformance
7 should be expected.

8 Page 112 states:

9 Because investors cannot predict when small-cap returns will
10 be higher than large-cap returns, it has been argued that they
11 do not expect higher rates of return for small stocks.

12 Aswath Damodaran notes in his study “Equity Risk Premiums (ERP):
13 Determinants, Estimation, and Implications” – The 2022 Edition on page 50
14 states:

15 In the four decades since 1980, the small cap premium has
16 been non-existent, raising questions about whether it still
17 persists or whether it was an artifact of the twentieth century.

18 Page 51 states:

19 Finally, a series of studies have argued that market
20 capitalization, by itself, is not the reason for excess returns but
21 that it is a proxy for other ignored risks such as illiquidity and
22 poor information. The argument that there is, in fact, no small
23 cap premium and that we have observed over time is just an
24 artifact of history should be given credence.

25 Page 53-54 states:

26 Even if you believe that small cap companies are more exposed
27 to market risk than large cap ones, this is a sloppy and lazy way
28 of dealing with that risk, since risk ultimately has to come from
29 something fundamental (and size is not a fundamental factor).

1 **Q. DO YOU HAVE AN ADDITIONAL RESPONSE TO MR. WALKER'S**
2 **REBUTTAL TESTIMONY REGARDING THE SIZE ADJUSTMENT?**

3 A. Yes. As discussed in my direct testimony, I reiterate that the Commission has
4 rejected the application of a size adjustment to the cost of equity calculation in
5 base rate case proceedings⁴ (I&E Statement No. 2, p. 50, lines 20-22).

6
7 **Q. HAS YOUR RECOMMENDATION TO REJECT MR. WALKER'S**
8 **PROPOSED SIZE ADJUSTMENT CHANGED SINCE YOUR DIRECT**
9 **TESTIMONY?**

10 A. No. I continue to recommend that any adjustments in consideration of the
11 Company's small size be disallowed.

12

13 **MARKET TO BOOK (M/B) RATIO ADJUSTMENT**

14 **Q. SUMMARIZE MR. WALKER'S RESPONSE IN REBUTTAL TESTIMONY**
15 **REGARDING AN M/B RATIO ADJUSTMENT.**

16 A. Mr. Walker alleges that my direct testimony and OCA witness Mr. Garrett's direct
17 testimony are false and misleading because an M/B ratio is a stock price metric
18 and is not part of his leverage adjustment (VWPA Statement No. 4-R, p. 45). He
19 then briefly states that he has explained in his direct testimony the foundation for
20 the required leverage adjustment to account for the risk difference between the

⁴ *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.

1 35%/65% (debt/equity) market value ratio used to calculate the return, which will
2 be applied to 46%/54% (debt/equity) book value ratio of VWPA (VWPA
3 Statement No. 4-R, p. 45). Therefore, he concludes that no further discussion or
4 explanation is required on this topic (VWPA Statement No. 4-R, p. 45).

5
6 **Q. WHAT IS YOUR RESPONSE TO MR. WALKER'S**
7 **MISCHARACTERIZATION OF YOUR DIRECT TESTIMONY**
8 **REGARDING THE M/B RATIO AND LEVERAGE ADJUSTMENT?**

9 A. I disagree with Mr. Walker's characterization of my direct testimony as false and
10 misleading. Mr. Walker in his direct testimony discussed the concept of an M/B
11 ratio and its impact due to the difference in the M/B ratio. Briefly, he made the
12 following assertions with reference to the M/B ratio difference and a need for
13 leverage adjustment to the market determined cost of capital:

14 (1) He recommends that less weight be given to the resultant market value
15 DCF cost rate due to the current market capitalization ratios and the impact that
16 the M/B ratio has on the DCF results (VWPA Statement No. 4, p. 48).

17 (2) He summarizes recent M/B ratios for stock indexes reported by Barron's and
18 the Water Group's average M/B ratio (VWPA Statement No. 4, p. 49).

19 (3) He explains $M/B = 1.0$, $M/B \text{ ratio} > 1.0$, and $M/B \text{ ratio} < 1.0$ and suggests that
20 companies with M/B ratios greater than 1.0 earn more than their cost of capital
21 (VWPA Statement No. 4, p. 50).

1 (4) He asserts that a DCF will overstate a common equity cost rate when M/B
2 ratios are below 100% and understate when they are above 100%. Since the
3 Comparable Group's current M/B ratio average 287%, the DCF understates their
4 common equity cost rate (VWPA Statement No. 4, p. 50).

5 (5) He states that an adjustment is required when the cost of common equity model
6 is based on market value capitalization and if its results are applied to book value
7 capitalization. Therefore, he applied the Hamada and Harris Pringle formulas to
8 calculate the leverage adjustment to account for the difference between market and
9 book value capitalizations (VWPA Statement No. 4, pp. 55-57).

10 (6) Lastly, he concludes that the Water Group market value common equity cost
11 rate should be adjusted upward by at least 0.75% (0.94% Hamada est. + 0.54%
12 Yield spread = $1.48\% \div 2 = 0.74\%$) because it will be applied to book value
13 capitalization (VWPA Statement No. 4, pp. 55-57).

14
15 **Q. DOES AN M/B RATIO ABOVE ONE (1.00) CAUSE THE COST OF**
16 **EQUITY TO INCORRECTLY ESTIMATE THE INVESTOR-REQUIRED**
17 **RETURN ON EQUITY?**

18 A. No. Although there are differences between the book value and market value of
19 water utilities in the proxy group, there is no need to consider any leverage
20 adjustment or adder to the market determined DCF, CAPM, and RP results. As
21 discussed in my direct testimony (I&E Statement no. 2, p. 42, line 2 through p. 45,
22 line 8), I disagree with Mr. Walker's assertion that the difference causes the DCF

1 to understate the rate of return because the forecasted growth rates used in the
2 DCF model are set by independent analysts based on current conditions and what
3 they expect the future could be for the stock. Mr. Walker points out the
4 Comparable Group's current M/B ratio average of 287% and asserts that the DCF
5 understates the common equity cost rate. In this scenario, no rational investor
6 would invest in a utility stock that has been trading above book value for several
7 years and be surprised that the utility's rates continue to be set based on the book
8 value capital structure. I reiterate that an M/B ratio of above 1.00 for utility stocks
9 reflects their value in the market and implies that investors expect future cash
10 flows to be more valuable than the historical accounting value of the company.
11 Since the stock market is impacted by regulatory policies, and the economic and
12 financial factors, an M/B ratio could be less than 1.00 when the stock market is in
13 a depression, or a company is experiencing under-performance, so it is
14 inappropriate to evaluate DCF results or other cost of equity models with the M/B
15 ratio. It is also important to note that in the traditional regulatory framework, the
16 market-determined cost of equity is consistently applied to the book value of the
17 utility's claimed rate base in the revenue requirement computation. Therefore, I
18 disagree with Mr. Walker's assertion that the M/B ratio above (1.0) causes the
19 DCF to incorrectly estimate or underestimate the investor-required return on
20 equity.

1 **Q. DO YOU AGREE WITH MR. WALKER’S FINANCIAL LEVERAGE**
2 **ADJUSTMENT APPLIED TO ACCOUNT FOR THE M/B RATIO**
3 **DIFFERENCE?**

4 A. No. I continue to recommend that the Commission reject Mr. Walker’s 0.75%
5 leverage adjustment for M/B ratio difference applied to the cost equity model
6 results as an adder, which is summarized for reference in the table below:

7

	Analysis Results	M/B Ratio Leverage Adjustment	Adjusted Results
DCF	8.70%	0.75%	9.45%
CAPM	11.00%	0.75%	11.75%
RP	10.60%	0.75%	11.35%
Mr. Walker’s Recommended ROE based on the adjusted results: 10.80%			

8

9 **Q. WHAT ARE THE MOST RECENT COMMISSION DECISIONS**
10 **REGARDING A LEVERAGE ADJUSTMENT?**

11 A. The following cases are recent instances where the Commission has addressed the
12 use of a “leverage adjustment.” In these cases, the leverage adjustment has been
13 rejected.

14 First, in *Pennsylvania Public Utility Commission v. Aqua Pennsylvania,*
15 *Inc.*, at Docket No. R-00072711 (Order Entered July 31, 2008), pp. 38-39, the
16 Commission rejected the ALJ’s recommendation for a leverage adjustment stating,
17 “[t]he fact that we have granted leverage adjustments in the past does not mean
18 that such adjustments are indicated in all cases.” In this proceeding, the

1 Commission determined that there was no viable support for an upwards
2 adjustment to compensate for any perceived risk.

3 Second, in *Pennsylvania Public Utility Commission, et al v. City of*
4 *Lancaster – Bureau of Water*, at Docket No. R-2010-2179103 (Order Entered
5 July 14, 2011), p. 101, the Commission agreed with the I&E position and stated,
6 “any adjustment to the results of the market based DCF are unnecessary and will
7 harm ratepayers. Consistent with our determination in *Aqua 2008*, there is no
8 need to add a leverage adjustment”

9 Third, in *Pennsylvania Public Utility Commission, et al v. UGI Utilities,*
10 *Inc. – Electric Division*, at Docket No. R-2017-2640058 (Order Entered
11 October 25, 2018), pp. 93-94, the Commission agreed with the I&E position and
12 stated, “we conclude that an artificial adjustment in this proceeding is unnecessary
13 and contrary to the public interest. Accordingly, we decline to include a leverage
14 adjustment in our calculation of the DCF cost of equity.”

15 Fourth, in *Pennsylvania Public Utility Commission, et. al v. Columbia Gas*
16 *of Pennsylvania, Inc.*, at Docket No. R-2020-3018835 (Order Entered
17 February 19, 2021), pp. 137-141, the Commission adopted the ALJ’s
18 recommendation to use I&E’s DCF methodology, which excluded Columbia’s
19 application of a leverage adjustment.

20 Fifth, in *Pennsylvania Public Utility Commission, et. al v. PECO Energy*
21 *Company – Gas Division*, at Docket No. R-2020-3018929 (Order Entered June 22,
22 2021, Public Version), pp. 172-173, the Commission adopted the ALJ’s

1 recommendation to use I&E’s DCF methodology, which excluded PECO’s
2 application of a leverage adjustment.

3 Finally, in the most recent case of *Pennsylvania Public Utility Commission,*
4 *et. al v. Aqua Pennsylvania, Inc.*, at Docket No. R-2021-3027385 (Order Entered
5 June 22, 2021), pp. 154-155, the Commission adopted the ALJ’s recommendation
6 to use I&E’s DCF methodology, which excluded Aqua’s application of a leverage
7 adjustment.

8
9 **USE OF MULTIPLE MODELS**

10 **Q. SUMMARIZE MR. WALKER’S RESPONSE IN REBUTTAL TESTIMONY**
11 **REGARDING CONSIDERATION OF THE CAPM RESULTS WITH THE**
12 **DCF RESULTS IN DETERMINING THE COST OF EQUITY.**

13 A. Mr. Walker states that the CAPM is more responsive to changes in interest rates
14 than the DCF, therefore, it is imperative, given today’s high interest rate
15 environment, that the Commission should consider models that directly measure
16 interest rate levels (e.g., CAPM and RP) when determining VWPA cost of equity
17 (VWPA Statement No, 4-R, 35). He cites the recent Aqua and Columbia Water
18 rate case orders where the Commission relied on CAPM results with the DCF
19 results in determining the appropriate cost of equity (VWPA Statement No. 4-R,
20 pp. 31-32). Additionally, he cites academic and financial literature survey results
21 to support his assertion for relevance of the CAPM method (VWPA Statement No.
22 4-R, pp. 32-34).

1 **Q. PLEASE RESPOND TO MR. WALKER’S EMPHASIS ON THE**
2 **COMMISSION ORDERS IN THE AQUA AND COLUMBIA WATER**
3 **PROCEEDINGS THAT CONSIDERED THE RESULTS OF THE DCF AND**
4 **CAPM MODELS.**

5 A. First, I disagree with Mr. Walker’s assumption that the DCF does not provide a
6 more accurate indication of the required return during periods of interest rate
7 uncertainty. The Commission’s orders note that the DCF-only results may
8 understate the utility’s ROE given increased inflation and interest rates. However,
9 it is important to note that the Commission order in the Aqua Pennsylvania base
10 rate proceeding states:

11 Based upon our informed judgment, which includes
12 consideration of *a variety of factors* (“emphasis added”) *including increasing inflation leading to increases in interest*
13 *rates and capital costs since the rate filing, we determine that a*
14 *base ROE of 9.75% is reasonable and appropriate for Aqua.*
15 *When combined with our upward adjustment of 25 basis points*
16 *to the Company’s ROE for management effectiveness, this will*
17 *produce a final authorized ROE for Aqua of 10.00% (i.e.,*
18 *9.75% + 0.25% = 10.00%).*⁵
19

20 The Commission relied on *various other factors* besides inflation leading to
21 increases in interest rates and capital costs for determining a range of
22 reasonableness for the ROE based on I&E’s DCF and CAPM results. Similarly, in
23 the Columbia Water rate case order, the Commission states:

24 Based upon our informed judgment, which includes
25 consideration of *a variety of factors* (“emphasis added”) such

⁵ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 178 (Order entered May 16, 2022).

1 as increasing inflation leading to increases in interest rates and
2 capital costs, we determine that an ROE of 9.75% is reasonable
3 and appropriate for Columbia.⁶

4 Also, in the Columbia Water proceeding, the Commission relied on *various other*
5 *factors* besides inflation leading to increases in interest rates and capital costs for
6 determining a range of reasonableness for the ROE based on I&E's DCF and
7 CAPM results. In both of these cases, the Commission concluded its decision to
8 rely on the DCF and CAPM results in determining a reasonable ROE was based
9 on various factors, evidence, and informed judgment specific to each case.

10 Second, I agree that current market conditions are still characterized by
11 higher interest rates and capital costs, however, as discussed above in the inflation
12 and capital cost section, it is speculative to assume that the current interest rate
13 scenario will continue in the longer term. It is also important to note that the
14 Company's new rates will be effective during the FPFTY ending October 31,
15 2025, and will continue thereafter when the capital market conditions would be
16 different.

17 Again, as stated above and in my direct testimony, I did in fact employ the
18 CAPM as a comparison to my DCF result and my recommendation based on DCF
19 result is consistent with the methodology historically relied on by the Commission
20 in base rate proceedings.

⁶ *Pa. PUC v. Columbia Water Company*, Docket No. R-2023-3040258, p. 108 (Order Entered January 18, 2024).

1 **Q. DO YOU AGREE WITH MR. WALKER’S ASSERTION THAT**
2 **ACADEMIC AND FINANCIAL LITERATURE SUPPORTS THE USE OF**
3 **MULTIPLE MODELS, SUCH AS THE DCF, CAPM, AND RP ALONG**
4 **WITH THE COMMISSION’S RECENT ORDERS NOTED ABOVE?**

5 A. No. I disagree with Mr. Walker’s recommendation that the Commission should
6 rely on multiple cost of equity models for VWPA’s ROE determination because
7 academic and financial literature supports the use of multiple models such as the
8 DCF and CAPM models in determining a cost of equity. Based on the academic
9 and financial literature excerpts provided in Mr. Walker’s rebuttal testimony, he
10 concludes that CAPM is more responsive to changes in interest rates than the DCF
11 model. In this context, I have adequately discussed why I chose to employ the
12 DCF model as the primary method and the CAPM model for comparison
13 purposes, and not as a check (I&E Statement No. 2, pp. 16-20). As discussed
14 above, the Commission’s recent orders in the Aqua and Columbia Water
15 proceedings should not be applied as precedent in this case because in my opinion
16 each rate case is decided based on a variety of utility specific factors and
17 individual merits. Additionally, it is worth noting that in the “Cost of Equity - A
18 Practitioner’s Guide” by David Parcell (2020 edition, p. 90), a summary chart
19 showing regulatory Commissions’ preferences to apply various models is
20 presented as follows:

1

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

2

Mr. Parcell emphasizes the importance of the DCF model and its dependence on

3

stock prices directly utilized in this model and states on pp. 90-91:

4

The market price of a firm's stock represents the collective judgment of all stock market participants as to the value of the firm at a particular point in time. The stock price takes into consideration the participants' interpretation of all relevant factors, such as past, present, and future earnings, the risk of these earnings, dividend policy and other factors. Thus, the market price of a firm's stock embodies both expected return and risk and, therefore, reflects the markets' trade-off between risk and return.

5

6

7

8

9

10

11

12

13

Lastly, I reiterate that the DCF model captures the economic and financial market

14

conditions including the current inflation and interest rates affecting the financial

15

performance of the companies because the analysts consider (appropriately

16

discounts) the current economic and financial environment besides other factors in

17

forecasting the growth rates for utilities.

1 **OVERALL RATE OF RETURN**

2 **Q. HAS YOUR OVERALL RATE OF RETURN RECOMMENDATION**
3 **CHANGED FROM YOUR DIRECT TESTIMONY?**

4 A. No. I continue to support each recommendation made in I&E Statement No. 2 for
5 a recommended overall rate of return of 7.16% for VWPA’s water and wastewater
6 operations.

7
8 **Q. PLEASE RESTATE YOUR OVERALL RATE OF RETURN**
9 **RECOMMENDATION FOR VWPA.**

10 A. I continue to recommend the following rate of return for VWPA’s water and
11 wastewater operations:

12

I & E			
Veolia Water Pennsylvania, Inc. - Water and Wastewater Operations			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	46.00%	4.60%	2.12%
Common Equity	<u>54.00%</u>	9.34%	<u>5.04%</u>
Total	<u>100.00%</u>		<u>7.16%</u>

13

14 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

15 A. Yes.

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

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

VEOLIA WATER PENNSYLVANIA, INC.

**Docket No. R-2024-3045192 (Water)
&
Docket No. R-2024-3045193 (Wastewater)**

Surrebuttal Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

**Water and Wastewater System Acquisitions
Amortization and Depreciation Expense
FTY and FPFTY Reporting
Proposed Rate Revenues
Scale Back of Rates**

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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 Pennsylvania Public Utility
4 Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg,
5 Pennsylvania 17120.

6

7 **Q. ARE YOU THE SAME ERYAN A. SAKAYA WHO SUBMITTED I&E**
8 **STATEMENT NO. 3 AND I&E EXHIBIT NO. 3?**

9 A. Yes.

10

11 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

12 A. The purpose of my surrebuttal testimony is to respond to rebuttal testimony of Veolia
13 Water Pennsylvania, Inc. (“VWPA,” “Veolia,” or “Company”) witnesses Larry
14 Finnicum (VWPA St. No. 1-R) and Gregory R. Herbert (VWPA St. No. 2-R). In
15 this surrebuttal testimony I also respond to OSBA witness Neal Townsend (OSBA
16 Statement No. 1-R) and Office of Consumer Advocate (“OCA”) witness Jerome
17 Mierzwa (OCA Statement No. 4-R).

18

19 **Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN EXHIBIT?**

20 A. Yes. I&E Exhibit No. 3-SR contains schedules relating to my surrebuttal
21 testimony.

1 **WATER AND WASTEWATER SYSTEM ACQUISITIONS**

2 **Q. PLEASE DESCRIBE THE VEOLIA WATER AND WASTEWATER**
3 **ACQUISITIONS AND THE RELATED BASE RATE CLAIMS.**

4 A. Veolia made acquisition adjustment claims for the water and wastewater systems
5 of Mahoning, the Kensington Water Company, and the Overbrook Water
6 Company. The rate base claims made by the Company are described in Veolia
7 St. No. 1, pp. 10-16 and are as follows:

8

Facility	Rate Base Claims
Mahoning Water	\$4,734,800
Mahoning Wastewater	\$4,765,200
Kensington Water	\$265,000
Overbrook Water	\$324,000

9

10 **Q. DID YOU AGREE WITH THE COMPANY RECOVERING ALL THE**
11 **COSTS ASSOCIATED WITH THESE CLAIMED ACQUISITION**
12 **ADJUSTMENTS?**

13 A. No. I recommended that the acquisition adjustments for Kensington and
14 Overbrook acquisition claims be accepted and that the acquisition adjustments
15 claimed for the Mahoning Water and Wastewater acquisitions be denied (I&E St.
16 No. 3, pp. 7-8).

1 **Q. WHY DID YOU DISAGREE WITH THE COMPANY RECOVERING ALL**
2 **THE COSTS ASSOCIATED WITH ITS CLAIMED ACQUISITION**
3 **ADJUSTMENTS?**

4 A. In summary, the Company provided testimony that established that the Kensington
5 and Overbrook acquisitions were based upon both systems being in disrepair,
6 while the Mahoning acquisitions were acquired based on Section 1329
7 acquisitions and there was insufficient reason to reflect an acquisition adjustment
8 in rate base since the original cost should have been adjusted to reflect the
9 purchase price (I&E St. No. 3, p. 8).

10

11 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATIONS FOR**
12 **THESE ACQUISITION ADJUSTMENTS?**

13 A. Yes. The Company agreed with my recommendation to include the Kensington
14 and Overbrook acquisition related rate base claims, but they disagreed with my
15 recommendation to reject the rate base claims for the Mahoning Water and
16 Wastewater acquisitions (Veolia St. No. 1-R, pp. 15-17).

17

18 **Q. WHAT WAS THE REASON THE COMPANY DISAGREED WITH YOUR**
19 **RECOMMENDATION RELATED TO MAHONING WATER AND**
20 **WASTEWATER?**

21 A. Mr. Finnicum opines that since the Company has satisfied the requirements of
22 Section 1327 the Mahoning acquisition adjustments should be approved as

1 proposed (VWPA Statement No. 1-R, p. 16).

2
3 **Q. DID THE COMPANY MAKE ANY CORRESPONDING UPDATES**
4 **RELATED TO THE MAHONING ACQUISITION ADJUSTMENTS?**

5 A. Yes. The Company proposes reclassifying both Mahoning Water and
6 Wastewater acquisitions as additions to the water and wastewater plant
7 which would eliminate the acquisition adjustment claims (Veolia St. No. 8-
8 R, p. 5 and Veolia Ex. GRH-4-R, Sch. 1.1-R).

9
10 **Q. DO YOU ACCEPT THE CHANGES MADE BY THE COMPANY IN THIS**
11 **REGARD?**

12 A. Yes. Based on the fact that these were Section 1329 acquisitions, the fair
13 market value plant values should be reflected the way the Company
14 proposes in rebuttal testimony and summarized above.

15
16 **AMORTIZATION AND DEPRECIATION EXPENSE**

17 **Q. WHAT WAS THE COMPANY'S ORIGINAL AMORTIZATION EXPENSE**
18 **CLAIM?**

19 A. Veolia claimed \$230,340 in FPFTY amortization expense for Water. The \$230,340
20 claim included \$122,766 related to the Mahoning Water system. For Wastewater,
21 Veolia is claimed \$153,034 in FPFTY amortization expense. The entire \$153,034

1 was related to the Mahoning Wastewater system (Veolia Ex. No. GRH-3, Schedule
2 34 and Veolia Ex. No. GRH-5, Schedule 20).

3
4 **Q. WHAT ADJUSTMENTS TO THE COMPANY'S INITIAL**
5 **AMORTIZATION EXPENSE CLAIMS DID YOU RECOMMEND?**

6 A. I recommended that the Water amortization expense be reduced by \$122,766 and
7 the total Wastewater amortization expense of \$153,034 be eliminated due to the
8 initial Mahoning amortization expenses being invalid (I&E St. No. 3, p. 10 and
9 I&E Ex. No. 3. Sch. 3, p. 2 and Sch. 4, p. 2).

10
11 **Q. HAS THE COMPANY REVISED ITS AMORTIZATION EXPENSE**
12 **CLAIM?**

13 A. Yes. Veolia, through informal discussions with OCA, proposes removing its initial
14 \$122,766 amortization amount for Mahoning Water and increasing depreciation
15 expense by \$33,336 in the FTY and FPFTY as shown in Veolia Ex. GRH-4-R
16 (Veolia St. No. 2-R, p. 21). For Mahoning Wastewater, Veolia proposes removing
17 its initial \$153,034 amortization amount and increasing depreciation expense by
18 \$72,627 in the FTY and FPFTY as shown in Veolia Ex. GRH-5-R (Veolia St. No.
19 2-R, p. 33).

1 **Q. DO YOU ACCEPT THESE UPDATED DEPRECIATION AND**
2 **AMORTIZATION EXPENSE CLAIMS?**

3 A. Yes. Based on the explanation concerning reclassification of the Mahoning Water
4 and Wastewater acquisition adjustments, I accept the Company's updated
5 depreciation and amortization expense.

6

7 **PLANT AND REPORTING REQUIREMENTS**

8 **Q. WHAT DID YOU RECOMMEND IN DIRECT TESTIMONY REGARDING**
9 **REPORTING FTY AND FPFTY PLANT ADDITIONS?**

10 A. I recommended that the Company provide the Commission's Bureau of
11 Investigation and Enforcement and the OCA with separate reports for Water and
12 Wastewater updating pages 1 and 2 of Veolia Exhibit LKF-1 no later than January
13 1, 2025, which should include actual capital expenditures, plant additions, and
14 retirements by month from October 1, 2023 through September 30, 2024, and an
15 additional update for actuals from October 1, 2024 through September 30, 2025,
16 no later than January 1, 2026 (I&E St. No. 3, pp. 10-11).

17

18 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION?**

19 A. No. Therefore, I assume the Company has accepted my recommendation
20 regarding reporting for FTY and FPFTY plant additions.

1 **VEOLIA WATER PROPOSED RATE REVENUES**

2 **Q. DID YOU PREPARE A SIMILAR SCHEDULE THAT SHOWS THE**
3 **PRESENT AND PROPOSED RATE REVENUE YOU RECOMMEND FOR**
4 **VEOLIA WATER?**

5 A. Yes. As described in my direct testimony; I&E Ex. No. 3, Sch. 3 incorporates my
6 two recommendations. My first recommendation was to increase other revenue of
7 \$81,922 for the late payment revenue, which equates to an increase of 25.2% (I&E
8 Ex. No. 3, Sch. 3, line 10). My second recommendation was to remove the
9 \$237,000 subsidy being provided to the Mahoning system to various classes.
10 Subsumed in this recommendation was the \$81,922 of additional late payment
11 revenue and a reallocation of the increase to the various classes (I&E St. No. 3, pp.
12 12-13).

13
14 **Q. DID THE COMPANY ADDRESS YOUR INCREASE TO OTHER**
15 **REVENUE?**

16 A. Yes. As described above, the Company does agree with the concept that other
17 revenue will increase under proposed rates. The Company disagreed with my
18 methodology of calculating the additional revenue. The Company states that other
19 revenue should increase by be \$46,225 rather than the \$81,922 that I
20 recommended (Veolia St. No. 2-R, p. 23).

1 **Q. DO YOU ACCEPT THE COMPANY’S REVISED LATE PAYMENT**
2 **RECOMMENDATION?**

3 A. Yes. Therefore, I will accept the Company’s increase in late payment revenue of
4 \$46,225 in the Veolia Main Division.

5
6 **Q. DID VEOLIA AGREE WITH YOUR RECOMMENDED DISALLOWANCE**
7 **OF THE \$237,000 SUBSIDY TO MAHONING WATER CUSTOMERS?**

8 A. No. First, Veolia reduced the \$237,000 reclassification by \$95,550 due to other
9 changes and corrections made to the filing which results in a revenue shift of
10 \$141,450 (\$237,000 - \$95,550) (Veolia St. No. 2-R, p. 30). Then, the Company
11 disagreed with my recommendation by stating that its goal is to consolidate the
12 Mahoning Division rates with the Main Division. Additionally, in the next rate
13 case, the Mahoning costs of service will be incorporated into the Main Division
14 costs, as the Company was only required to submit a separate cost of service study
15 (“COSS”) for Mahoning Water in this proceeding. Thus, Veolia asserts that this is
16 not a true subsidy (Veolia St. No. 2-R, pp. 29-30).

17
18 **Q. DO YOU WISH TO REVISE YOUR ORIGINAL RECOMMENDATION**
19 **CONCERNING THE SUBSIDY BEING PROVIDING TO MAHONING**
20 **WATER?**

21 A. Yes. As a result of the lower late payment revenue and the lower subsidy
22 described by the Company, I revised my recommendation to allocate revenue in

1 the Veolia District. This recommendation is shown on I&E Ex. No. 3-SR, Sch.1,
2 p. 1.

3
4 **Q. WHAT DOES I&E EXHIBIT NO. 3-SR, SCHEDULE 1, PAGE 2 SHOW?**

5 A. This schedule shows the cost of service summary after the revenue allocation
6 shown on I&E Ex. No. 3- SR, Sch. 1, p. 1, column J. Specifically, the reallocation
7 was necessary to make the relative rates of return for the Residential and
8 Commercial classes the same 1.06 (I&E Ex. No. 3-SR, Sch.1, p. 2, columns 3 and
9 4).

10
11 **Q. DO YOU CONTINUE TO REJECT THE COMPANY'S PROPOSAL TO**
12 **SHIFT \$141,450 OF COST TO VEOLIA CUSTOMERS?**

13 A. Yes.

14
15 **Q. WHY DO YOU RECOMMEND THAT THE REVENUE SHIFT IN ANY**
16 **DOLLAR AMOUNT TO VEOLIA WATER CUSTOMERS BE REJECTED?**

17 A. First, there is no reason that the rates should be consolidated in this proceeding,
18 and disallowing the subsidy lowers the rates for Main Division customers.

19 Second, the Mahoning Water customers are benefitting from being
20 acquired by Veolia through the Section 1329 acquisition. Therefore, Mahoning
21 Water customers should pay rates that recover the cost of operating the
22 Mahoning Water system. As stated in my direct testimony, this is important

1 because in that acquisition proceeding, the Company claimed being acquired
2 would be beneficial to all customers. The benefits accruing to Mahoning Water
3 customers include better customer service, better access to capital, better
4 construction management, and better overall expertise in operating water
5 systems. Also, being under the jurisdiction of the Commission prevents unjust
6 and unreasonable rates, and customers will have access to the Commission
7 complaint procedures among other things (Suez St. No. 1, pp. 14-17 at Docket
8 No. A-2018-3003519). Finally, while Act 11 of 2012 provided for the allocation
9 of wastewater system revenue requirements to a Company's owned water utility,
10 I am unaware of any provision that allows a similar transfer of system costs
11 between water rate zones.

12 If Veolia believes that water system rates should be consolidated in this
13 proceeding, it should have proposed rate increases at the actual necessary
14 percentage to do so without inappropriately shifting the Mahoning Water revenue
15 requirement to the customers of the Main Water division. My exhibit reflects the
16 appropriate increases to the two rate zones with the adjustments I have
17 recommended, including removal of the revenue shift for Mahoning Water
18 customers.

1 **MAHONING WATER PROPOSED RATE REVENUES**

2 **Q. DID YOU PREPARE A SIMILAR SCHEDULE THAT SHOWS THE**
3 **PRESENT AND PROPOSED RATE REVENUE YOU RECOMMEND FOR**
4 **MAHONING WATER?**

5 A. Yes. As described in my direct testimony; I&E Ex. No. 3, Sch. 4 incorporates my
6 three recommendations. My first recommendation was to increase proposed rate
7 other revenue of \$6,984 by \$9,179¹ to \$16,073² for the late payment revenue,
8 which equates to an increase of 133.13% (I&E Ex. No. 3, Sch. 4). My second
9 recommendation is to remove the \$4,680 increase to Public Fire. My third and
10 final recommendation is that the allocation of the \$237,000 under column J
11 between the Main Water Division and Mahoning Water be disallowed (I&E St.
12 No. 3, pp. 14).

13

14 **Q. WHY DID YOU INCREASE OTHER REVENUE BY 133.13%?**

15 A. It is reasonable to expect that other late payment revenue will increase if present
16 rates are increased. The \$9,179 or 133.13% increase in other revenue is the same
17 percentage increase I proposed for Mahoning Water base rates.

¹ I&E modified proposed increase to Other Revenue (Mahoning): \$16,073 - \$6,894 = \$9,179.

² I&E modified proposed rates to Other Revenue (Mahoning): \$6,894 * (1+1.3313) = \$16,073.

1 **Q. WHY DID YOU REMOVE THE \$4,680 INCREASE TO PUBLIC FIRE**
2 **SERVICE?**

3 A. According to the Company, the cost incurred to provide Public Fire Service is
4 \$68,238, and the present rate revenue from Public Fire Service is \$46,804 (Veolia
5 Ex. No. CEH-2, Sch. A). Calculating 25% of the cost to provide Public Fire
6 Service in accordance with Section 1328(b) of the Public Utility Code indicates
7 that if present rate revenue received from Public Fire is above \$17,060 (\$68,238 x
8 25%), present rates cannot be increased. Since present rates produce \$46,804 and
9 \$46,804 is more than \$17,060, I am advised by counsel that Public Fire Service
10 rates cannot be increased.

11
12 **Q. DID THE COMPANY ADDRESS YOUR INCREASE TO OTHER**
13 **REVENUE?**

14 A. Yes. The Company does agree with the concept that other revenue will increase
15 under proposed rates. The Company states that other revenue includes revenue
16 other than late payment revenue and if only late payment revenue is increased, the
17 increase in the Mahoning district late payment revenue should be \$1,920 rather
18 than the \$9,179 that I recommended (Veolia St. No. 2-R, p. 23).

19
20 **Q. DO YOU ACCEPT THE COMPANY'S REVISED LATE PAYMENT**
21 **RECOMMENDATION?**

22 A. Yes. Therefore, I will accept the Company's increase in late payment revenue of

1 \$1,920.

2

3 **Q. DID THE COMPANY ADDRESS YOUR PUBLIC FIRE**
4 **RECOMMENDATION?**

5 A. Yes. The Company disagrees with my recommendation not to increase Public
6 Fire by \$4,680. The Company stated that my calculation of 25% of the cost was
7 based upon the \$68,238 which already reflected the 25% allowable cost via a
8 reduction in the COSS (Veolia St. No. 2-R, pp. 30-31).

9

10 **Q. DO YOU ACCEPT THE COMPANY'S EXPLANATION OF ITS PUBLIC**
11 **FIRE SERVICE COSTS?**

12 A. Yes. Therefore, I will withdraw my recommendation concerning Public Fire and
13 accept the Company's proposal to increase Public Fire rates by \$4,680.

14

15 **Q. DID YOU COMPILE A SCHEDULE THAT SHOWS THE REVENUE YOU**
16 **PROPOSE IN THE MAHONING DISTRICT?**

17 A. Yes. I&E Ex. No. 3-SR, Sch. 2 shows the present and the additional revenue that I
18 proposed for the Mahoning District. The additional revenue by class is shown
19 under column J.

1 **OSBA WITNESS NEAL TOWNSEND**

2 **Q. DID THE OSBA ADDRESS YOUR DIRECT TESTIMONY?**

3 A. Yes. The OSBA generally agrees with my recommendation to increase late
4 payment revenue but disagrees with what it believes to be my reallocation of this
5 late payment revenue (OSBA St. 1-R, p. 3-5).

6

7 **Q. DID THE OSBA PROPERLY UNDERSTAND YOUR**
8 **RECOMMENDATION CONCERNING THE ALLOCATION OF THE**
9 **LATE PAYMENT REVENUE?**

10 A. No. The allocation of the late payment revenue was subsumed in my
11 recommendation to reallocation proposed revenue so that the relative rate of return
12 for the Residential, Commercial and Public classes are 1.05, 1.06 and 1.10
13 respectively (I&E Ex. No. 3, Sch. 3, p. 2 columns 3, 4 and 7). Therefore, the
14 criticism of the OSBA is misplaced.

15

16 **Q. DID YOU REVISE THIS SCHEDULE IN SURREBUTTAL TESTIMONY?**

17 A. Yes. Largely as a result of my acceptance of less late payment revenue, I revised
18 my revenue allocation so the relative rates of return for the Residential and
19 Commercial classes are both 1.06 (I&E Ex. No. 3-SR, Sch. 1, p. 2 columns 3-4).

1 **OCA WITNESS JEROME MIERZWA**

2 **Q. DID THE OCA ADDRESS YOUR DIRECT TESTIMONY?**

3 A. Yes. The OCA disagrees with my proposal to not subsidize the Mahoning system.
4 The OCA believes that my recommendation will result in “rate shock” to the
5 Mahoning customers and would result in higher rates for Mahoning customers,
6 which does not support the Company’s goals that rates should be consolidated
7 (OCA St. No. 4-R, pp. 3-4).

8
9 **Q. IS THE OCA CORRECT THAT THE COMMISSION SHOULD BE**
10 **CONCERNED ABOUT “RATE SHOCK” FOR MAHONING CUSTOMERS**
11 **IF THE COMPANY IS PERMITTED TO SHIFT THIS \$141,450 TO**
12 **VEOLIA CUSTOMERS?**

13 A. No. The OCA failed to define what “rate shock” is or detail any parameters other
14 than saying it is only a few cents per month. I believe the “cents per month”
15 argument fails to consider the customers that are paying more each month to
16 subsidize these customers. Second, as described above and in my direct
17 testimony, the Mahoning system was acquired under Section 1329, which means
18 the municipality and therefore the customers benefited in other ways from being
19 purchased by Veolia. Therefore, any increase will be offset by the local
20 municipality benefits accrued, and the OCA concerns should be rejected.

1 **SCALEBACK OF RATES - WATER**

2 **Q. WHAT RATES SHOULD BE SCALED BACK IF THE COMMISSION**
3 **GRANTS LESS THAN THE FULL INCREASE FOR VEOLIA WATER?**

4 A. I recommend that the rates be scaled back proportionally to the percentage
5 increase(s) shown on I&E Ex. No. 3, Sch. 3-SR, p. 1, column I for Residential,
6 Commercial, Industrial and Public rate classes. I also recommend that the
7 customer charges for the Residential and Commercial classes in the
8 abovementioned divisions, along with the Industrial and Public class customer
9 charges in the Main Division, be scaled back.

10

11 **Q. WHAT RATES SHOULD NOT BE SCALED BACK IF THE COMMISSION**
12 **GRANTS LESS THAN THE FULL INCREASE?**

13 A. I recommend no scale back to the Bethel system usage rates and the customer
14 charges related to Large Industrial, Sales for Resale, Private, and Public Fire
15 rates.

16

17 **Q. WHY DO YOU RECOMMEND THAT THE PROPOSED USAGE RATES**
18 **FOR THE BETHEL SYSTEM NOT BE INCLUDED IN THE SCALE**
19 **BACK?**

20 A. The proposed Bethel system usage rates are below the other present usage rates
21 and in order to help consolidate rates in the future, these rates should not be scaled
22 back.

1 **Q. WHY DO YOU RECOMMEND THAT THE PROPOSED MONTHLY**
2 **CUSTOMER CHARGES FOR THE RESIDENTIAL, COMMERCIAL,**
3 **INDUSTRIAL, AND PUBLIC CUSTOMERS BE INCLUDED IN THE**
4 **SCALE BACK?**

5 A. The Company's proposed monthly customer charges are based upon a customer
6 cost analysis that reflects the full cost of service. Since the Commission is likely
7 to reduce some of the Company's ratemaking components contained in the
8 customer cost analysis, it is necessary to reduce the proposed customer charge if
9 the Commission reduces the requested increase. Also, the Company proposed a
10 higher percentage increase for the customer charges than the usage rates, thus
11 scaling back the usage rates will reduce the increase for low usage customers
12 compared to higher usage customers. Finally, in a past UGI Electric case, the
13 Commission determined that despite the higher customer cost determination in
14 the COSS, the customer charges should be reduced for all customers (*PA Public*
15 *Utility Commission et al. v. UGI Utilities, Inc. — Electric Division*, Opinion and
16 Order at Docket No. R-2017-2640058 et al., p. 175 (Order Entered October 25,
17 2018)).

18
19 **Q. WHY DO YOU RECOMMEND NO SCALE BACK IN THE LARGE**
20 **INDUSTRIAL, SALES FOR RESALE, PUBLIC, AND PRIVATE FIRE**
21 **SERVICE RATES?**

22 A. Under proposed rates, the relative rates of return for these classes are below 1.00.

1 Therefore, there is no justification for reducing the proposed rates in these classes.

2

3 **Q. WHY DO YOU RECOMMEND A PROPORTIONAL SCALE BACK TO**
4 **THE RESIDENTIAL, COMMERCIAL, INDUSTRIAL, AND PUBLIC**
5 **USAGE RATES IF THE COMMISSION GRANTS LESS THAN THE FULL**
6 **INCREASE?**

7 A. A proportional scale back will still satisfy the goal of moving the relative rate of
8 return towards 1.00 as proposed under the full increase.

9

10 **Q. WHAT RATES SHOULD BE SCALED BACK IF THE COMMISSION**
11 **GRANTS LESS THAN THE FULL INCREASE FOR MAHONING**
12 **WATER?**

13 A. I recommend that the rates be scaled back proportionally to the percentage
14 increase(s) shown on I&E Ex. No. 3, Sch. 4-SR, column I. This proportional
15 scale back will also move the revenue received from the Mahoning classes
16 towards the cost of providing service to each Mahoning class.

17

18 **SCALEBACK OF RATES - WASTEWATER**

19 **Q. WHAT INCREASES DID VEOLIA PROPOSE FOR MAHONING**
20 **WASTEWATER OPERATIONS?**

21 A. Veolia's COSS comparison is shown on Veolia Exhibit No. CEH-2, Schedule A-I,
22 which shows the increases by class under column 8. The proposed increases for

1 Mahoning are \$338,238 for residential customers and \$230,482 for non-
2 residential customers. The percentage increases of 38.0% and 17.3%
3 respectively are shown under column 9.

4
5 **Q. HOW SHOULD THESE INCREASES BE SCALED BACK IF THE**
6 **COMMISSION GRANTS LESS THAN THE FULL INCREASE?**

7 A. I recommend that the customer charges and usage rates be scaled back so that the
8 percentage increase is proportional to the percentage increases originally proposed
9 on Veolia Exhibit No. CEH-2, Schedule A-I, column 9.

10
11 **Q. WHY DO YOU RECOMMEND A PROPORTIONAL SCALE BACK BE**
12 **APPLIED TO MAHONING WASTEWATER RATES?**

13 A. Veolia's Mahoning wastewater COSS comparison shown on Exhibit No. CEH-3,
14 Schedule A shows the cost to serve the Residential class is more than revenue
15 received from present rates, and the cost to serve the Non-Residential class is less
16 than the revenue received from the Non-Residential customers. Given this
17 disparity, the Company proposed a higher percentage increase for the Residential
18 class. Therefore, a proportional scaleback is reasonable to generate revenue and
19 limit the increase to the Residential class to 38.0%.

1 **Q. WHAT INCREASES DID VEOLIA PROPOSE FOR COLUMBIA**
2 **WASTEWATER OPERATIONS?**

3 A. Veolia's Columbia Wastewater COSS comparison shown on Veolia Exhibit No.
4 CEH4, Schedule A-I shows the increases for the one Non-Residential class under
5 column 8. The proposed increase for Columbia Wastewater is \$109,625 for
6 nonresidential customers. The Company proposed a 235.1% increase in the
7 customer charge and approximately a 236% increase in the usage rates (Veolia
8 Ex. GRH-4, Sch. 9).

9
10 **Q. HOW SHOULD THESE INCREASES BE SCALED BACK IF THE**
11 **COMMISSION GRANTS LESS THAN THE FULL INCREASE?**

12 A. I recommend that the customer charges and usage rates be scaled back
13 proportionally.

14
15 **Q. WHY DO YOU RECOMMEND A PROPORTIONAL SCALE BACK BE**
16 **APPLIED TO COLUMBIA WASTEWATER RATES?**

17 A. Veolia proposed approximately the same percentage increase in the Columbia
18 Wastewater customer charge and usage rates. Therefore, it is reasonable to
19 scale back both rates proportionally.

20
21 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

22 A. Yes.

**I&E Exhibit No. 3-SR
Witness: Esyan A. Sakaya**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

VEOLIA WATER PENNSYLVANIA, INC.

**Docket No. R-2024-3045192 (Water)
&
Docket No. R-2024-3045193 (Wastewater)**

Exhibit to Accompany

The

Surrebuttal Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

**Water and Wastewater System Acquisitions
Amortization and Depreciation Expense
FTY and FPFTY Reporting
Proposed Rate Revenues
Scale Back of Rates**

VEOLIA WATER PENNSYLVANIA INC.
VEOLIA AND BETHEL WATER OPERATIONS

COMPARISON OF COST OF SERVICE WITH REVENUES UNDER PRESENT AND PROPOSED RATES
FOR THE TEST YEAR ENDED SEPTEMBER 30, 2025

	Customer Classification (A)	Cost of Service		Revenues, Present Rates*		Revenues, Proposed Rates		Proposed Increase		I&E Remove \$237,000 (K)	
		Amount (B)	Percent (C)	Amount (D)	Percent (E)	Amount (F)	Percent (G)	Amount (H)	Percent Increase (I)		I&E CHANGE (J)
1	Residential	\$ 42,133,943	58.2%	\$ 35,257,068	61.0%	\$ 43,341,673	59.8%	\$ 8,084,605	22.9%	-\$538,000	-\$111,283
2	Commercial	19,245,313	26.6%	15,759,765	27.3%	19,796,774	27.3%	4,037,010	25.6%	\$397,997	-\$28,500
3	Industrial	1,250,240	1.7%	1,006,656	1.7%	1,251,747	1.7%	245,092	24.3%	-\$1,800	-\$374
4	Large Industrial	856,777	1.2%	398,177	0.7%	559,994	0.8%	161,817	40.6%	\$0	-\$1,293
5	Public Authority	2,207,254	3.0%	1,716,898	3.0%	2,315,045	3.2%	598,146	34.8%	\$95,578	\$0
6	Sales for Resale	2,051,193	2.8%	721,446	1.2%	1,301,990	1.8%	580,545	80.5%	\$0	\$0
7	Private Fire Service	3,112,512	4.3%	1,852,501	3.2%	2,727,873	3.8%	875,371	47.3%	\$0	\$0
8	Public Fire Service	1,538,892	2.1%	1,085,138	1.9%	1,193,325	1.6%	108,187	10.0%	\$0	\$0
9	Total Sales	72,396,123	100.0%	57,797,649	100.0%	72,488,422	100.0%	14,690,773	25.418%	-\$46,225	-\$141,450
10	Other Revenues	325,208		325,208		371,433		46,225	14.2%	\$46,225	\$0
11	Revenue to Mahoning Twp. Water					-		-			
12	Total	\$ 72,721,331		\$ 58,122,857		\$ 72,859,855		\$ 14,736,998	25.4%	\$0	-\$141,450

* Includes DSIC Revenue.

VEOLIA WATER PENNSYLVANIA INC.
MAHONING WATER OPERATIONS

COMPARISON OF COST OF SERVICE WITH REVENUES UNDER PRESENT AND PROPOSED RATES
FOR THE TEST YEAR ENDED OCTOBER 31, 2025

	Customer Classification (A)	Cost of Service		Revenues, Present Rates*		Revenues, Proposed Rates		Proposed Increase		I&E Add \$141,450 (J)
		Amount (B)	Percent (C)	Amount (D)	Percent (E)	Amount (F)	Percent (G)	Amount (H)	Percent Increase (I)	
1	Residential	\$ 828,029	55.4%	\$ 405,710	64.0%	\$ 868,168	62.4%	\$ 462,458	114.0%	\$97,741
2	Commercial	582,026	39.0%	178,989	28.2%	467,732	33.6%	288,743	161.3%	\$43,121
3	Private Fire Service	82,825	5.5%	2,441	0.4%	4,182	0.3%	1,741	71.3%	\$588
4	Public Fire Service	683	0.0%	46,804	7.4%	51,484	3.7%	4,680	10.0%	\$0
5	Total Sales	1,493,563	100.0%	633,944	100.0%	1,391,566	100.0%	757,622	119.51%	\$141,450
6	Other Revenues	6,894		6,894		8,814		1,920	27.8%	\$0
7	Revenue from Veolia Water					-		-		\$0
8	Total	\$ 1,500,457		\$ 640,838		\$ 1,400,381		\$ 759,542	118.5%	\$141,450

* Includes DSIC Revenue.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket Nos. R-2024-3045192
	:	R-2024-3045193
Veolia Water Pennsylvania, Inc.	:	

**VERIFICATION OF
VANESSA OKUM**

I, Vanessa Okum, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the documents identified as:

- I&E Statement No. 1 – Direct Testimony of Vanessa Okum in both Proprietary and Non-Proprietary format
- I&E Exhibit No. 1
- I&E Statement No. 1-SR – Surrebuttal Testimony of Vanessa Okum
- 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/ Vanessa Okum
Vanessa Okum
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement

Dated: June 25, 2024

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket Nos. R-2024-3045192
	:	R-2024-3045193
Veolia Water Pennsylvania, Inc.	:	

**VERIFICATION OF
D. C. PATEL**

I, D. C. Patel, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the documents identified as:

- I&E Statement No. 2 – Direct Testimony of D. C. Patel
- I&E Exhibit No. 2
- I&E Statement No. 2-SR – Surrebuttal Testimony of D. C. Patel

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: June 25, 2024

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket Nos. R-2024-3045192
	:	R-2024-3045193
Veolia Water Pennsylvania, Inc.	:	

**VERIFICATION OF
ESYAN SAKAYA**

I, Esysan Sakaya, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the documents identified as:

- I&E Statement No. 3 – Direct Testimony of Esysan Sakaya
- I&E Exhibit No. 3
- I&E Exhibit No. 3, Schedule 1 and Schedule 2 – Sakaya – Corrected 5-24-24
- I&E Statement No. 3-R – Rebuttal Testimony of Esysan Sakaya
- I&E Statement No. 3-SR – Surrebuttal Testimony of Esysan Sakaya
- I&E Exhibit No. 3-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/ Esysan Sakaya
Esysan Sakaya
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement

Dated: 6/25/2024