PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17120

Public Meeting held July 11, 2024

Commissioners Present:

Stephen M. DeFrank, Chairman
Kimberly Barrow, Vice Chair, Dissenting
Ralph V. Yanora
Kathryn L. Zerfuss, Statement
John F. Coleman, Jr.

Pennsylvania Public Utility Commission	R-2023-3043189 (Water)
Office of Consumer Advocate	C-2023-3044289
Office of Small Business Advocate	C-2023-3044375
Mark Henderson	C-2023-3044156
Kathleen Schwartz	C-2023-3044190
Amanda Johnsen	C-2023-3044185
Adam Nemchick	C-2023-3044191
Kirk Spencer	C-2023-3044189
Keith Sauer	C-2023-3044218
Andrew Kulp	C-2023-3044225
Jim Davidson	C-2023-3044223
Robert K. Ralls	C-2023-3044220
Richard Tawadros	C-2023-3044244
Natalie Rarick	C-2023-3044234
Tracy M. Rutherford	C-2023-3044293
David Ross	C-2023-3044348
Phyllis Connelly	C-2023-3044352
Thomas J. Hollenbach	C-2023-3044389
Alecia M. Lilley	C-2023-3044359
Lynn Mugno	C-2023-3044365
Michelle White	C-2023-3044369
Dr. Mostafa Easa	C-2023-3044567
Lynn DeAcosta	C-2023-3044380
Jeff Henry	C-2023-3044406
Anh Duong	C-2023-3044354

William Cameron & Linda Long	C-2023-3044355
Nicole Glimp	C-2023-3044565
Anthony McCann	C-2023-3044578
Shanna Weagle	C-2023-3044399
Brian Dugas	C-2023-3044563
Todd Blum	C-2023-3044583
Jennifer Dianna	C-2023-3044394
Mallory & Glenn Kercher	C-2023-3044686
Danielle Gabriel	C-2023-3044683
Devon Landis	C-2023-3044442
Morgan Wengert	C-2023-3044426
Angelica Alvarez	C-2023-3044405
John P. Dolekary	C-2023-3044580
John Miller	C-2023-3044416
Carl & Sharon Winter	C-2023-3044607
Paul & Catherine Brown	C-2023-3044611
Raymond Volsario	C-2023-3044614
Matthew J. Miller	C-2023-3044429
William R. Thomas	C-2023-3044601
Horace R. Battle	C-2023-3044600
Chirstopher Blake	C-2023-3044443
Laura Semel	C-2023-3044461
Robert M. Nowotarski	C-2023-3044676
Matthew & Melissa Mengel	C-2023-3044673
Tracy Cosgrove	C-2023-3044672
Richard Peal	C-2023-3044622
Patricia A. Finley	C-2023-3044504
Joseph Donahue	C-2023-3044524
Robert Bifano	C-2023-3044534
Gary Sirois	C-2023-3044830
Michelle Zebrowski	C-2023-3044868
Mary Ann Maro	C-2023-3044869
Joel Hernandez	C-2023-3044872
Dan Nebeker o/b/o Coldwater Lemoyne Carwash	C-2023-3044874
Mary Chibatar	C-2023-3044876
Mary Tanealian	C-2023-3044576
Tao Lu	C-2023-3044585
Jennifer Cohen	C-2023-3044682
Carla Seidel	C-2023-3044679
Amy E. Dalton	C-2023-3044677
Nicholas Orman	C-2023-3044642
Jay Phillips	C-2023-3044707
Carl W. Tunall, Jr.	C-2023-3044725

Steven Solomon	C-2023-3044733
Debora A. Sokol	C-2023-3044768
Shaun Keperling	C-2023-3044801
Audrey Gerold	C-2023-3044785
Robert Anderson	C-2023-3044799
Carl Kupchunas	C-2023-3044826
Matthew Jordan	C-2023-3044813
Cindy Cabrera	C-2023-3044816
Marie Sweeney	C-2023-3044918
Pennsylvania-American Water Large Users Group	C-2023-3044871
West Norriton Township	C-2023-3044965
John J. Heilenman	C-2023-3044908
Thalia Karalis	C-2023-3044929
Daniel Bergey	C-2023-3044984
Richard Matijasich	C-2023-3044981
Nicholas Collette	C-2023-3045023
Angela P. Kern	C-2023-3045039
Dennis McConnell	C-2023-3045053
James & Peggy Lingwall	C-2023-3045054
Wolfram Milz	C-2023-3045055
Donald Jones	C-2023-3045059
Marie Dougherty	C-2023-3045061
Michael & Mary Weishner	C-2023-3045062
Michelle R. Miller	C-2023-3045063
Carol Patterson	C-2023-3045064
Zachary Sprowls	C-2023-3045072
Elizabeth Sprowls	C-2023-3045073
Catharine Anderson	C-2023-3045082
Kathleen Donell	C-2023-3045083
Paul & Eileen Miller	C-2023-3045084
Norman T. Carpenter	C-2023-3045085
David Duquette	C-2023-3045087
Wesley Hartman	C-2023-3045088
Don Anderson	C-2023-3045089
Melissa Harper	C-2023-3045090
Charles E. Schwering	C-2023-3045093
Beth A. Gandelman	C-2023-3045094
Catherine & Kenneth Green	C-2023-3045095
Violet B. Kern	C-2023-3045105
Paul J. Walaski	C-2023-3045113
Cindy Murphy	C-2023-3045123
Gino Purchiaroni	C-2023-3045124
Christopher Nicholson	C-2023-3045134

Richard Small	C-2023-3045121
Nancy and Charles Wilson	C-2023-3045138
Harry Haas	C-2023-3045137
Jean Ustaszewski	C-2023-3045146
Kathryn Wilson	C-2023-3045152
Thomas McAuliffe	C-2023-3045156
Keith Pinkerton	C-2023-3045159
Kelly Knapp	C-2023-3045185
Alicia W. Shussett	C-2024-3045187
Patrick F. Boyle	C-2024-3045190
Jefferson Township Municipal Authority, c/o Patricia Lawrence, Secretary	C-2024-3045202
Juan F. Ramos	C-2024-3045208
Kyle Donahue	C-2024-3045210
John Erbicella	C-2024-3045209
Angela Gilmore	C-2024-3045212
Tracy L. Duff	C-2024-3045220
Timothy J. Creelman	C-2024-3045249
Frank Cerra	C-2024-3045257
Thomas F. Miller	C-2024-3045261
Mark Schuette	C-2024-3045263
Andrea Devlin	C-2024-3045285
Alena Trently	C-2024-3045258
Vicki DiArchangelo	C-2024-3045278
Thomas C. Kidwell	C-2024-3045315
Barry S. & Ethel Wagner	C-2024-3045320
Priscilla T. Gentry	C-2024-3045341
Matthew & Heather Heliger	C-2024-3045343
Barbara Stettenbauer	C-2024-3045360
Elizabeth Clark	C-2024-3045366
East Norriton Township	C-2024-3045399
Beth A. Gandelman	C-2024-3045422
Naomi Conte	C-2024-3045457
Ryan Gandelman	C-2024-3045467
Priscilla Jovais & Walter Baginski	C-2024-3045871
George M. Kamage, Jr.	C-2024-3045968
Julia Wright	C-2024-3045983
Anita Sakevich	C-2024-3045907
Michael W. Knoll	C-2024-3045985
Joseph Koza	C-2024-3045992
Randy McDaniels	C-2024-3045701
Christine Janiga	C-2024-3045987
Nereida Colon-Gonzalez	C-2024-3045788

Ruth McMullan	C-2024-3045997
Miranda Connors	C-2024-3046001
Deborah Nystrom	C-2024-3046000
Lora Gibb	C-2024-3045999
Ernest & Kathy Mayer	C-2024-3046292
Kathleen & William Nole	C-2024-3046296
Frances S. Kearney	C-2024-3046246
William Stevens	C-2024-3046071
Joe Dominick	C-2024-3046262
Andrea O’Neill-Hoffman	C-2024-3046195
Leslie Spindler	C-2024-3046230
Richard Brill	C-2024-3046111
Josephine Roman	C-2024-3046059
Mildred Decelles	C-2024-3046085
Gerald Smurl	C-2024-3046220
William Roman	C-2024-3046082
Harold Kiefer	C-2024-3046263
James G. Haggerty	C-2024-3046164
Ronald Benke	C-2024-3046112
Jodi Mayer	C-2024-3046291
James Wynder	C-2024-3046294
Billydon Hickson	C-2024-3046079
Elaine F. Campbell	C-2024-3046261
John Borer	C-2024-3046172
Thomas Tomeo	C-2024-3046047
Mary McKenna	C-2024-3046218
Bill Gaughan	C-2024-3046094
Jimmy Allen	C-2024-3046080
Mark Mecca	C-2024-3046055
Chris Casciano	C-2024-3046114
John Laskowski	C-2024-3045814
Colleen M. Gaughan	C-2024-3046044
Sean McAndrew	C-2024-3046252
Brian Cadugan	C-2024-3046169
Timothy Brier	C-2024-3046254
Joseph Baronski	C-2024-3046170
Michael Bussacco	C-2024-3046240
Robert Meyers	C-2024-3046219
Arthur F. Werner, Jr.	C-2024-3045244
Marianne Vergnetti	C-2024-3046108
Edmund Moroney	C-2024-3046061
Alice Lord	C-2024-3046043
Giselle Rutchford	C-2024-3046095

Ann McDermott	C-2024-3046046
Patricia Shultz	C-2024-3046050
Frank S. Sislo	C-2024-3046087
Linda Kiefer	C-2024-3046265
Dominic Cuchara	C-2024-3046109
Anthony Palmere, Jr.	C-2024-3046243
Debbie Wilson	C-2024-3046276
Gerard Dombroski	C-2024-3046259
Roberta Brentano	C-2024-3046098
William Seeger	C-2024-3046057
Elizabeth Zangardi	C-2024-3046226
Paul DelRossso	C-2024-3046217
Joseph Guerra	C-2024-3046168
Michael Shafer	C-2024-3046215
Marty Flynn	C-2024-3046257
Patrick H. Brentano	C-2024-3046099
Gary Shiner	C-2024-3046166
David F. Sevensky	C-2024-3046267
Susan Gilday	C-2024-3046238
Bernadette Bussacco	C-2024-3046221
Theodore Parchinski	C-2024-3046053
John Blackledge	C-2024-3046274
John Kulick	C-2024-3046353
Richard & Carmella Zaleski	C-2024-3046482
Nadine Simms	C-2024-3046351
James P. McDermott	C-2024-3046301
Lucy Jason	C-2024-3046302
Lynn King	C-2024-3046249
John McAuliffe	C-2024-3046392
Laura Virtue-Delayo	C-2024-3046397
Jessica Libassi	C-2024-3045805
David A. Grecco	C-2024-3046096
Leroy James Watters	C-2024-3046404
James Metzer	C-2024-3046411
Lorraine Perry	C-2024-3046408
Stephen Marr	C-2024-3046410
Brian A. McDonald	C-2024-3046741
Patricia A. Perri	C-2024-3046970
Patricia Barbuti	C-2024-3046810
Ryan & Leslie Ferguson	C-2024-3046467
Natalie Davis	C-2024-3046744
Patricia A. Perri	C-2024-3046745
Gary Graziano	C-2024-3046736

Joseph & Erin Kreis	C-2024-3046470
Caesar Bordo	C-2024-3046870
Ann McDonald	C-2024-3046746
Janice M. Mcdonald	C-2024-3046874
Jennifer Comparetta	C-2024-3046471
Sharon Cuff	C-2024-3046477
Karen Schuster	C-2024-3046742
Valerie Mendicino	C-2024-3046737
William J. O’Malley, III	C-2024-3046734
Louis Guzzi, Jr.	C-2024-3046406
Francis Kranick, Jr.	C-2024-3046811
Tara & Tom Schuster	C-2024-3046738
Colleen Demuro	C-2024-3046867
Charlotte DeRosier	C-2024-3046466
Albert Denunzio	C-2024-3046871
Mary C. Jennings	C-2024-3046743
James F. McCormick	C-2024-3046873
Laura A. O’Malley	C-2024-3046405
Mary & David Dobrzyn	C-2024-3046875
Gene Stanavitch	C-2024-3046403
Pat Stanavitch	C-2024-3046402
Robert Barry	C-2024-3046399
John Borgia	C-2024-3047073
Domenic P. Cafarella	C-2024-3046878
Michael D. Brooks	C-2024-3046880
Daniel E. Skvarla	C-2024-3046881
Donna Antonelli	C-2024-3046882
Michael Dempsey	C-2024-3046884
Marianne Brown	C-2024-3046886
Sharon Soudas	C-2024-3046885
Gina McCarthy	C-2024-3047515
Gerald Fabricatore	C-2024-3047312
Gerald R. Fabricatore	C-2024-3047375
Laura Wisniewski	C-2024-3047521
Julie Janosy	C-2024-3047695
Lackawanna County	C-2024-3048333
Vincent Ennis	C-2024-3048341
Clyde H. Morgan	C-2024-3045569
Colleen Adams	C-2024-3045573
Mark J. Mazurkiewicz	C-2024-3045579
Linda Culbertson	C-2024-3045650
Larry Wise	C-2024-3045668
James Lyband Jackson	C-2024-3045674

Gail Y. Gayeski	C-2024-3045666
Veronica A. Hannevig	C-2024-3045667
Theresa Skobel	C-2024-3045670
Jordan Henning	C-2024-3045678
Kyle & Lori Rompella	C-2024-3045681
Stefanie Adams	C-2024-3045685
Deborah & Robert May	C-2024-3045687
David & Lynn Griffith	C-2024-3045686
Paul Krammes	C-2024-3045690
Thomas Campisano	C-2024-3045691
Nelson Moeller	C-2024-3045703
Paulette Knott	C-2024-3045741
Gene & Patricia Malaspina	C-2024-3045750
Stephanie Sienkel	C-2024-3045767
Robert Boni	C-2024-3045765
Janice M. Reynolds	C-2024-3045768
Bilal Salaam	C-2024-3045812
Michael Troutman	C-2024-3045835
Kendra Robinson	C-2024-3045838
Gertrude Terrell	C-2024-3045842

v.

Pennsylvania-American Water Company

Pennsylvania Public Utility Commission	R-2023-3043190 (Wastewater)
Office of Consumer Advocate	C-2023-3044292
Office of Small Business Advocate	C-2023-3044377
Mark Henderson	C-2023-3044159
Brian Gottschall	C-2023-3044170
Leroy Bumbarger	C-2023-3044169
Kathleen Schwartz	C-2023-3044193
Amanda Johnsen	C-2023-3044187
Adam Nemchick	C-2023-3044192
Anne Lockwood & Michael Haehnel	C-2023-3044168
Keith Sauer	C-2023-3044219
Natalie Rarick	C-2023-3044239
Darlene Hamilton	C-2023-3044170
Tracy M. Rutherford	C-2023-3044333
David Ross	C-2023-3044349
Alecia M. Lilley	C-2023-3044367

Lynn DeAcosta	C-2023-3044401
Nicole Glimp	C-2023-3044564
William H. Rissmiller	C-2023-3044569
Michelle White	C-2023-3044371
Jennifer Dianna	C-2023-3044395
Thomas J. Hollenbach	C-2023-3044685
Mallory Kercher	C-2023-3044681
Devon Landis	C-2023-3044448
Morgan Wengert	C-2023-3044427
Jeff Henry	C-2023-3044407
John Miller	C-2023-3044413
Angelica Alvarez	C-2023-3044566
Andrew Kulp	C-2023-3044468
Sharon Winter	C-2023-3044615
Paul Brown	C-2023-3044616
Charles L. Heydt	C-2023-3044618
William R. Thomas	C-2023-3044604
Linda Allison	C-2023-3044595
Chirstopher Blake	C-2023-3044444
Richard Peal	C-2023-3044620
Tracy Cosgrove	C-2023-3044667
Donald D. Dickerson	C-2023-3044662
Patricia A. Finley	C-2023-3044505
Jennifer Cohen	C-2023-3044671
Michael D. Fletcher	C-2023-3044688
Mary Tanealian	C-2023-3044577
Tao Lu	C-2023-3044573
Amy E. Dalton	C-2023-3044678
Mark Coogan	C-2023-3044704
Carla Seidel	C-2023-3044732
Anh Duong	C-2023-3044353
Borough of St. Lawrence	C-2023-3044757
Debora A. Sokol	C-2023-3044767
Audrey Gerold	C-2023-3044786
Matthew Jordan	C-2023-3044814
Laura Semel	C-2023-3044821
Lynn Mugno	C-2023-3044366
Pennsylvania-American Water Large Users Group	C-2023-3044873
Joel Hernandez	C-2023-3044877
Mary Chibatar	C-2023-3044879
Dennis McConnell	C-2023-3044880
Marie T. Ratchford-Demkosky	C-2023-3044881
Cindy Cabrera	C-2023-3044916

Thalia Karalis	C-2023-3044915
Richard Matijasich	C-2023-3044982
Daniel B. Fletcher	C-2023-3045056
James Lingwall	C-2023-3045065
Donald Jones	C-2023-3045066
Marie Dougherty	C-2023-3045067
Jay Phillips	C-2023-3045069
Carl W. Tunall, Jr.	C-2023-3045070
Catharine Anderson	C-2023-3045074
Kathleen Donell	C-2023-3045075
Paul & Eileen Miller	C-2023-3045077
Norman T. Carpenter	C-2023-3045079
David Duquette	C-2023-3045091
Wesley Hartman	C-2023-3045092
Shaun Keperling	C-2023-3044802
Cindy Murphy	C-2023-3045125
Patrick O'Donnell	C-2023-3045140
Kathryn Wilson	C-2023-3045153
Keith Pinkerton	C-2023-3045164
Nancy and Charles Wilson	C-2023-3045160
Dayna Gardecki	C-2023-3045167
Kelly Knapp	C-2023-3045186
Alicia W. Shussett	C-2024-3045188
Patrick F. Boyle	C-2024-3045191
Juan F. Ramos	C-2024-3045206
Kyle Donahue	C-2024-3045211
Angela Gilmore	C-2024-3045213
John Erbicella	C-2024-3045255
Vicki DiArchangelo	C-2024-3045279
Alena Trently	C-2024-3045259
Andrea Devlin	C-2024-3045296
Thomas C. Kidwell	C-2024-3045316
Lloyd Simmers	C-2024-3045332
Anne-Marie Trace	C-2024-3045331
Borough of Port Vue	C-2024-3045334
Christopher Nicholson	C-2024-3045337
Priscilla T. Gentry	C-2024-3045342
Ruth & Craig Benderoth	C-2024-3045346
Matthew & Heather Heliger	C-2024-3045344
Barbara Stettenbauer	C-2024-3045362
Elizabeth Clark	C-2024-3045367
Catherine & Kenneth Green	C-2023-3045441
Naomi Conte	C-2024-3045464

Clyde H. Morgan	C-2024-3045571
Colleen Adams	C-2024-3045572
Mark Pezone	C-2024-3045574
Mark J. Mazurkiewicz	C-2024-3045582
Larry Wise	C-2024-3045669
James Lyband Jackson	C-2024-3045673
Janice M. Reynolds	C-2024-3045684
Veronica A. Hannevig	C-2024-3045694
Theresa Skobel	C-2024-3045695
David & Lynn Griffith	C-2024-3045696
Thomas Campisano	C-2024-3045723
Paulette Knott	C-2024-3045734
Gene & Patricia Malaspina	C-2024-3045747
Jordan Henning	C-2024-3045773
Kyle & Lori Rompella	C-2024-3045779
Richard Hamilton	C-2024-3045806
Kenneth Stoudt Jr.	C-2024-3045811
Bilal Salaam	C-2024-3045826
Ashley Sanchez	C-2024-3045815
Kendra Robinson	C-2024-3045839
David Breitegam	C-2024-3045873
Anita Sakevich	C-2024-3045902
George M. Kamage, Jr.	C-2024-3045967
Michael W. Knoll	C-2024-3045984
Joseph Koza	C-2024-3045989
Ruth McMullan	C-2024-3045994
Thomas Tomeo	C-2024-3046051
David A. Grecco	C-2024-3046052
Theodore Parchinski	C-2024-3046054
Mark Mecca	C-2024-3046056
William Seeger	C-2024-3046058
Josephine Roman	C-2024-3046060
Edmond Maroney	C-2024-3046062
Nereida Colon-Gonzalez	C-2024-3046072
William Roman	C-2024-3046081
Frank S. Sislo	C-2024-3046088
Patrick H. Brentano	C-2024-3046083
Bill Gaughan	C-2024-3046089
Giselle Rutchford	C-2024-3046091
Roberta Brentano	C-2024-3046093
Brian Cadugan	C-2024-3046119
John Fletcher	C-2024-3046121
Marianne Vergnetti	C-2024-3046126

Dominic Cuchara	C-2024-3046128
Richard Brill	C-2024-3046130
Ronald & Lucy Benke	C-2024-3046133
Gary Shiner	C-2024-3046134
Suzanne Horishny	C-2024-3046145
Chris Casciano	C-2024-3046150
James G. Haggerty	C-2024-3046152
Joseph Baronski	C-2024-3046154
Joseph Guerra	C-2024-3046156
John Borer	C-2024-3046159
Michael Shafer	C-2024-3046160
Joel Hoffman	C-2024-3046185
Paul DelRosso	C-2024-3046193
Ferentz Irrevocable Grantor Trust c/o Joseph Surenko	C-2024-3046197
Robert Meyers	C-2024-3046198
Bernadette Bussacco	C-2024-3046222
Susan Gilday	C-2024-3046223
Arthur F. Werner, Jr.	C-2024-3046242
Timothy Brier	C-2024-3046239
Frances S. Kearney	C-2024-3046251
Sean McAndrew	C-2024-3046255
Elaine F. Campbell	C-2024-3046256
Marty Flynn	C-2024-3046258
Gerard Dombroski	C-2024-3046260
Harold Kiefer	C-2024-3046264
Linda Kiefer	C-2024-3046266
David F. Sevensky	C-2024-3046268
John Blackledge	C-2024-3046273
John Mayer	C-2024-3046280
Lucy Jason	C-2024-3046247
Lynn King	C-2024-3046248
Ernest & Kathy Mayer	C-2024-3046293
James & Marie Wynder	C-2024-3046295
Kathleen Nole	C-2024-3046297
James P. McDermott	C-2024-3046300
Nadine Simms	C-2024-3046350
David A. Grecco	C-2024-3046352
John Kulick	C-2024-3046354
Richard & Carmella Zaleski	C-2024-3046355
John McAuliffe	C-2024-3046393
Laura Virtue-Delayo	C-2024-3046398
Robert Barry	C-2024-3046400
Mark Perry	C-2024-3046407

Rebecca Pesyna	C-2024-3046409
Louis Guzzi, Jr.	C-2024-3046472
Maureen Guzzi	C-2024-3046473
David Dobrzyn	C-2024-3046474
Albert Denunzio	C-2024-3046475
Caesar Bordo	C-2024-3046476
Gary & Beth Graziano	C-2024-3046739
Valerie Mendicino	C-2024-3046740
Tara & Tom Schuster	C-2024-3046752
Karen Schuster	C-2024-3046807
Mary C. Jennings	C-2024-3046808
Patricia Barbuti	C-2024-3046809
Francis Kranick, Jr.	C-2024-3046812
Natalie Davis	C-2024-3046863
Sharon Cuff	C-2024-3046869
Colleen Demuro	C-2024-3046868
Domenic P. Cafarella	C-2024-3046879
Michael Dempsey	C-2024-3046883
Marianne Brown	C-2024-3046887
Gerald Fabricatore	C-2024-3047362
Gerald R. Fabricatore	C-2024-3047371
Gina McCarthy	C-2024-3047533
Julie Janosy	C-2024-3047696

v.

Pennsylvania-American Water Company

OPINION AND ORDER

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BY THE COMMISSION:

Before the Pennsylvania Public Utility Commission (Commission) for consideration and disposition are the Exceptions of Pennsylvania-American Water Company (PAWC, or the Company), the Bureau of Investigation and Enforcement (I&E), the Office of Consumer Advocate (OCA), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA), Pennsylvania-American Water Large Users Group (PAWLUG), Cleveland-Cliffs Steel (Cleveland-Cliffs), and the City of Scranton, filed on May 17, 2024, to the Recommended Decision (R.D.) of Deputy Chief Administrative Law Judge (ALJ) Christopher P. Pell and ALJ John M. Coogan (collectively, the ALJs), issued on May 7, 2024,[1] in the above -captioned consolidated general rate increase proceedings.[2] PAWC, I&E, the OCA, the OSBA, CAUSE-PA, PAWLUG, and Cleveland-Cliffs filed Replies to Exceptions on May 22, 2024. Additionally, on May 22, 2024, the OCA filed a Motion for Relief Regarding Ex Parte Communications by PAWC (OCA Motion). PAWC filed an Answer to the OCA Motion (Motion Answer) on June 18, 2024.

For the reasons stated, *infra*, we shall: (1) grant, in part, and deny, in part, the Exceptions filed by I&E, the OCA, and CAUSE-PA; (2) deny the Exceptions filed by PAWC, PAWLUG, Cleveland-Cliffs, and the City of Scranton; and (3) deem the OCA Motion to be moot, consistent with this Opinion and Order.

As discussed below, through its consolidated general rate increase request, *as revised*, PAWC proposed base rate changes that would have increased its total annual operating revenues by $202.4 million, or approximately 20.0%, based on a fully projected

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[1] The Office of Small Business Advocate (OSBA) submitted a letter on May 7, 2024, indicating that it would not be filing Exceptions.

[2] By Prehearing Order #1, dated January 5, 2024, Docket Nos. R-2023-3043189 and R-2023-3043190 and all Formal Complaints filed with respect thereto, were consolidated for further proceedings and disposition, without objection.

future test year (FPFTY) ending June 30, 2025.[3] PAWC M.B., Appendix A, Table Act 11 – Step 2. The proposed rate increase for PAWC's water customers comprised $198.9 million (24.1% increase) of the combined $202.4 million rate increase, including $69.5 million of the wastewater revenue requirement re-allocated to water customers

[3] In its initial filing, PAWC proposed base rate changes that would have increased its total annual operating revenues by $203.9 million, or approximately 20.2%. *See*, PAWC Exh. 3-A. As shown in Table 1, during the rebuttal phase of the proceeding, PAWC prepared a revised statement of its revenue requirement, shown in PAWC Exhibit 3-A Revised, which supported an increase in revenue requirement of $204.3 million. PAWC St. 1-R at 3. Ultimately, in light of the concerns Parties have raised in this proceeding with the Company's acquisitions that have not yet closed, PAWC revised its request for rate relief to remove the Brentwood acquisition and to incorporate Step 2 Rates for the Butler Area Sewer Authority (BASA) acquisition to ensure that customers do not pay rates reflecting the Commission-approved BASA ratemaking rate base until that transaction closes. PAWC M.B. at 10.

Table 1: PAWC's Requested Increase

	Pro Forma Present Rate Revenue 6/30/25	Additional Revenue Requirement	Act 11 Allocation	Rate Increase/Decrease		Pro Forma Revenues Under ProposedRates 6/30/25
As-Filed						
(PAWC Exh. 3-A)						
Water	$824,117,186	$128,149,690	$71,087,394	$199,237,084		$1,023,354,270
WW SSS General	$95,470,867	$31,793,150	($31,962,411)	($169,261)		$95,301,606
CSS WW	$78,636,216	$15,780,126	($16,007,052)	($226,926)		$78,409,290
BASA WW	$11,847,402	$26,288,308	($21,552,699)	$4,735,609		$16,583,011
Brentwood WW	$1,824,191	$1,934,637	($1,565,232)	$369,405		$2,193,596
Total Company	**$1,011,895,862**	**$203,945,911**	**$0**	**$203,945,911**	**20.2%**	**$1,215,841,773**
Rebuttal Testimony						
(PAWC Exh. 3-A Revised)						
Water	$824,117,186	$129,343,180	$71,087,394	$200,430,574		$1,024,547,760
WW SSS General	$95,470,867	$31,855,090	($31,962,411)	($107,321)		$95,363,546
CSS WW	$78,636,216	$15,834,928	($16,007,052)	($172,124)		$78,464,092
BASA WW	$12,814,193	$25,322,947	($21,552,699)	$3,770,248		$16,584,441
Brentwood WW	$1,824,191	$1,935,019	($1,565,232)	$369,787		$2,193,978
Total Company	**$1,012,862,653**	**$204,291,164**	**$0**	**$204,291,164**	**20.2%**	**$1,217,153,817**
Main Brief						
(PAWC M.B., Appendix A, Table Act 11 – Step 2)						
Water	$824,117,186	$129,343,180	$69,522,162	$198,865,342		$1,022,982,528
WW SSS General	$95,470,867	$31,855,090	($31,962,411)	($107,321)		$95,363,546
CSS WW	$78,636,216	$15,834,928	($16,007,052)	($172,124)		$78,464,092
BASA WW	$12,814,193	$25,322,947	($21,552,699)	$3,770,248		$16,584,441
Brentwood WW	$0	$0	$0	$0		$0
Total Company	**$1,011,038,462**	**$202,356,145**	**$0**	**$202,356,145**	**20.0%**	**$1,213,394,607**

pursuant to Act 11 of 2012.[4] Regarding wastewater rates, PAWC's proposal would have increased its total operating revenues for its wastewater service by approximately $3.5 million, or approximately 1.9%.[5] *Id*. PAWC also requested approval for a Revenue Decoupling Mechanism (RDM), an Environmental Compliance Investment Charge (ECIC), and deferral accounting mechanisms for pension, Other Post-Employment Benefits (OPEB), and production expenses. PAWC St. 1 at 23-27; PAWC St. 8 at 11-12, 21-30; PAWC St. 10 at 86-106.

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4 Act 11 of 2012 (Act 11), amending Chapters 3, 13 and 33 of the Pennsylvania Public Utility Code (Code), provides, *inter alia*, the opportunity for wastewater utilities to allocate a portion of their revenue requirement to the combined wastewater and water utility customer base. Specifically, Section 1311(c) of the Code, 66 Pa.C.S. § 1311(c), provides that, upon petition of a utility that provides water and wastewater utility service, the Commission may, *after notice and opportunity to be heard*, allocate a portion of the wastewater utility's revenue requirement to the combined water and wastewater customer base if deemed to be "in the public interest." The benefits of this provision are that the costs of necessary upgrades to wastewater systems to maintain safe and reliable service, which can be substantial on a stand-alone basis, can be spread among the common customer base of the water and wastewater utilities.

5 Broken down further, as shown in Table 1, this represents a reduction of $107,321 to PAWC Wastewater Sanitary Sewer System (SSS) General operations (Wastewater SSS); a reduction of $172,124 to PAWC Combined Sewer System (CSS) Wastewater operations (CSS Wastewater) (collectively, Wastewater SSS and CSS Wastewater are referred to as Wastewater); and an increase of $3,770,248 to BASA wastewater operations. *See*, PAWC M.B., Appendix A, Table Act 11 – Step 2. The separate revenue requirements for BASA and Brentwood are the result of commitments made by the Company in each acquisition proceeding. *See*, *Application of Pennsylvania-American Water Company under Section 1329 for Acquisition of the Butler Area Sewer Authority*, Docket No. A-2022-3037047 (Opinion and Order entered November 16, 2023) (*BASA*); *see also*, *Application of Pennsylvania-American Water Company under Section 1329 for Acquisition of the Borough of Brentwood*, Docket No. A-2021-3024058 (Opinion and Order entered March 4, 2024) (*Brentwood*). Further, it should be noted that, in *BASA*, PAWC's application was modified by a settlement of the parties in that application proceeding, and the Commission approved that settlement; however, the Commission's decision was appealed to the Commonwealth Court by Center and Summit Townships, Butler County, on due process grounds. Additionally, recently in *Brentwood*, the Commission rejected PAWC's application for the acquisition of Brentwood on the grounds that the transaction did not meet the requirements of Sections 1102 and 1103 of the Code.

In this Opinion and Order, we shall approve an annual revenue increase of $88,121,069 to the Company's *pro forma* revenue at present rates of $820,869,547, or approximately 10.74%, for its water service and an annual revenue increase of $11,207,944 to the Company's *pro forma* revenue at present rates of $173,308,937, or approximately 6.47%, for its wastewater service.

I. Introduction and Background

PAWC provides jurisdictional water and wastewater services to approximately 780,000 customers in its service territory, which covers 37 counties across the Commonwealth of Pennsylvania. PAWC St. 2 at 2-3. PAWC is a subsidiary of American Water Works Company, Inc. (AWK) and is a public utility and jurisdictional water distribution and wastewater company as those terms are defined in Section 102 of the Code, 66 Pa.C.S. § 102.

According to PAWC, this rate increase is driven by the need to earn a fair return on investments; to reflect capital additions that the Company has placed into service since its last base rate proceeding and the estimated $1 billion in capital additions that are projected to be placed in service during the future test year (FTY) ending June 30, 2024 and the FPFTY ending June 30, 2025, including acquired troubled water utilities' distribution systems; and to recover higher levels of operating and maintenance (O&M) expenses resulting from increases in production costs, employee-related expenses, and the cost of bringing high quality and reliable water service to additional communities in the Commonwealth. PAWC St. 1 at 7-9.

II. History of the Proceeding

On November 8, 2023, the Company filed Supplement No. 45 to Tariff Water – Pa. P.U.C. No. 5 (Water Tariff Supplement) and Supplement No. 47 to

Tariff Wastewater – Pa. P.U.C. No. 16 (Wastewater Tariff Supplement) to become effective on January 7, 2024. PAWC's supporting financial data for the Water Tariff Supplement and Wastewater Tariff Supplement reflected an increase in total annual operating revenues of approximately $203.9 million.[6]

On November 17, 2023, the OCA filed Formal Complaints, Public Statements, and Notices of Appearances. On November 20, 2023, the OSBA filed Formal Complaints and Notices of Appearances. On November 21, 2023, I&E filed Notices of Appearances. Formal Complaints were also filed by various PAWC customers.[7] Notices of Appearances were also filed by PAWLUG and Cleveland-Cliffs. Additionally, Petitions to Intervene were received by the Commission on Economic Opportunity (CEO), CAUSE-PA, Cleveland-Cliffs, the City of Scranton, Victory Brewing Company (Victory Brewing), and Exeter Township.

By separate Orders entered December 21, 2023, pursuant to 66 Pa.C.S. § 1308(d) (Suspension Orders), the Commission instituted a formal investigation at Docket Nos. R-2023-3043189 (Water) and R-2023-3043190 (Wastewater) to determine the lawfulness, justness, and reasonableness of the Company's existing and proposed

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[6] Under the Company's proposal, the Water Tariff Supplement would increase PAWC's total annual operating revenues for water service by approximately $199.2 million, or 24.2%, and the Wastewater Tariff Supplement would increase PAWC's total annual operating revenues for wastewater service by approximately $4.7 million, or 2.5%. As previously noted, subsequently, the Company updated its requested increase. Therefore, the Company's final proposed increase was an increase of approximately $202.4 million in total annual operating revenues, including an increase of approximately $198.9 million in total annual operating revenues for its water service and approximately $3.5 million in total annual operating revenues for its wastewater service. *See*, PAWC M.B., Appendix A, Table Act 11 – Step 2.

[7] Additionally, opposition to the proposed rate increases was filed by various individuals and placed into the Public Comment file associated with this proceeding, including a letter filed by AARP Pennsylvania on June 11, 2024, requesting that the Commission deny the proposed rate increases.

rates, rules and regulations. Per the Suspension Orders, the Water Tariff Supplement and Wastewater Tariff Supplement were suspended, by operation of law until August 7, 2024, unless permitted by Commission order to become effective at an earlier date. The matter was assigned to the Office of Administrative Law Judge (OALJ) for the prompt scheduling of hearings culminating in the issuance of a Recommended Decision. This matter was subsequently assigned to the ALJs for the purposes of conducting hearings and issuing a Recommended Decision.

On December 28, 2023, PAWC filed its Petition for Protective Order at Docket Nos. R-2023-3043189 and R-2023-3043190. Additionally, PAWC filed its Petition for Consolidation of Rate Proceedings at the aforementioned dockets. None of the Parties objected to PAWC's Petition for Consolidation.

A Prehearing Conference was held on January 3, 2024, at which two consumer Complainants requested active status in this proceeding, Robert Ralls, and Kyle Donahue. Also, during the Prehearing Conference, the ALJs granted PAWC's Motion to Consolidate these proceedings.

On January 5, 2024, the ALJs issued an order granting PAWC's Petition for Protective Order.

A series of twelve public input hearings were held as scheduled,[8] at which a total of 217 people testified:

- January 29, 2024 – two in-person public input hearings in Port Vue, PA;

[8] Vice Chair Kimberly Barrow attended the Scranton public input hearings on January 30, 2024, and the 6 p.m. Harrisburg public input hearing on February 6, 2024. Commissioner Kathryn L. Zerfuss attended the Scranton public input hearings and the Harrisburg public input hearings.

- January 30, 2024 – two in-person public input hearings in Scranton, PA;
- January 31, 2024 – two in-person public input hearings in Exeter Township, PA;
- February 5, 2024 – two telephonic public input hearings;
- February 6, 2024 – two in-person public input hearings in Harrisburg, PA; and
- February 7, 2024 – two telephonic public input hearings.

The evidentiary hearings were held as scheduled on March 7 and 8, 2024. The list of the pre-served testimony and exhibits that were admitted into the record at the evidentiary hearings were attached as Appendix A to the Recommended Decision.[9]

On March 26, 2024, Main Briefs were filed. Reply Briefs were filed on April 5, 2024.

In the Recommended Decision, issued on May 7, 2024, the ALJs recommended that PAWC's Water Tariff Supplement and its Wastewater Tariff Supplement, and the associated proposed revenue increases, be denied because the Company did not meet its burden of proving by a preponderance of the evidence the justness and reasonableness of every element of its requested increases. Instead, the ALJs recommended the approval of an increase in annual water operating revenues in the amount of approximately $92.6 million, or approximately 11.3% over present rates, and an increase in annual wastewater operating revenues in the amount of approximately $11.5 million, or approximately 6.6% over present rates. R.D. at 1.

As previously noted, PAWC, I&E, the OCA, CAUSE-PA, PAWLUG, Cleveland-Cliffs, and the City of Scranton filed Exceptions to the Recommended

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9 *See*, R.D. at 394-400.

Decision on May 17, 2024. On May 22, 2024, PAWC, I&E, the OCA, the OSBA, CAUSE-PA, PAWLUG, and Cleveland-Cliffs filed Replies to Exceptions.

Additionally, on May 22, 2024, the OCA filed its Motion wherein it alleged that the Company had engaged in ex parte communications with Commission employees, when it gave a video presentation on May 20, 2024, at the annual meeting of the Pennsylvania Chapter of the National Association of Water Companies (NAWC). On May 31, 2024, the Commission issued a Secretarial Letter (*May 2024 Secretarial Letter*), wherein it, *inter alia*: (1) served a copy of the OCA Motion on all Parties of Record to this Proceeding; (2) provided a link to the video presentation; and (3) directed interested parties to file an Answer to the OCA Motion within twenty (20) days of the date of issuance of the *May 2024 Secretarial Letter* (*i.e*., no later than June 19, 2024).[10] On June 18, 2024, PAWC filed its Motion Answer.

III. Public Input Hearings, Comments, and *Pro Se* Complaints

As noted above, in the History of Proceeding, the Commission took extensive public input throughout the course of this rate case proceeding and hosted twelve public input hearings. More specifically, eight in-person public input hearings were convened between January 29, 2024 and February 6, 2024. Additionally, four telephonic public input hearings were held between February 5, 2024 and February 7, 2024. These hearings were held in light of significant public interest in this proceeding, in addition to requests from several Pennsylvania state legislators. During these hearings, PAWC's customers provided public input testimony regarding the Company's proposed water and wastewater rate increases. A total of 217 witnesses testified: 32 in Port Vue, 52 in Scranton, 58 in Exeter, 10 in Harrisburg and 65 by telephone. The Recommended Decision tallied the content of these customers'

[10] As June 19, 2024, was a state holiday, the actual deadline to file an Answer to the OCA Motion was on June 20, 2024.

comments into four categories: affordability, quality of service, PAWC supportive, and other. Table 2, below, indicates the topics covered by location.

Table 2: Public Input Hearing Summary[11]

Location (Date/Time)	Affordability	Quality of Service	PAWC supportive	Other
Port Vue (1/29/24 1pm)	10	3	7	1
Port Vue (1/29/24 6pm)	12	2	0	7
Scranton (1/30/24 1pm)	23	11	6	11
Scranton (1/30/24 6pm)	22	16	0	12
Exeter (1/31/24 1pm)	31	18	1	22
Exeter (1/31/24 6pm)	17	6	1	10
Telephonic (2/5/24 1pm)	9	3	13	4
Telephonic (2/5/24 6pm)	4	0	2	2
Harrisburg (2/6/24 1pm)	1	2	4	1
Harrisburg (2/6/24 1pm)	1	0	3	1
Telephonic (2/7/24 1pm)	6	3	11	3
Telephonic (2/7/24 6pm)	9	3	5	7
TOTAL	**145**	**67**	**53**	**81**

R.D. at 35-36.

[11] Table 2 displays more than 217 topics testified on because a public input witness may have testified regarding more than one topic. *See,* R.D. at 36, n.4.

A. Quality of Service[12]

Reviewing the transcripts of the various public-input hearings uncovers a trend of customers claiming negative quality of service experiences mainly due to a lack of water quality. This is especially true in the northeastern Pennsylvania region of PAWC's service territory encompassing the City of Scranton and the greater Lackawanna County region. We note the following examples, below.

Scranton Hearings – January 30th:

- Senator Marty Flynn testified about dirty water issues. Tr. at 400.

- Scranton City Councilmember Jessica Rothchild testified that PAWC is providing dirty water to customers. Tr. at 645-46.

- Scranton School Board Director Sean McAndrew testified that several times throughout the summer he had dirty water or no water at all. Tr. at 670.

- Several PAWC customers complained of having to buy filtered water because their water has rust contaminants, is cloudy, smells funny, tastes like metal, and is not good to drink or use. Tr. at 539, 554-55.

- Several PAWC customers in Scranton claimed their water is dirty, lacking quality, is unpalatable, and smells of excessive chlorine. They noted they were afraid to consume it because of the odor and appearance. Tr. at 677, 726.

Telephonic Hearings:

- Customers claimed poor water quality, including dirt particles in the water, a chlorine odor, and hardness causing harm to appliances. Tr. at 1170, 1270.

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[12] In our summary of the public input hearings in this Opinion and Order, we shall focus on the testimony related to quality of service from the Company. For a more detailed summary of the public input hearings, see pages 35-54 of the Recommended Decision.

- Customers contended poor water quality with a chlorine odor and mineral deposits found in toilet water tanks. Tr. at 1701, 1712.

- Customers claimed there was strong chlorine odor and taste. Tr. at 1847.

In addition to the above public input hearing testimony, we note that various comments and complaints filed in this case further exhibit a trend in customer concerns for the quality of service provided in PAWC's northeastern territory. Over thirty *pro se* complaints and over fifty comments were filed asserting negative quality of service. Tables 3 and 4, below, provide a summary of these comments and complaints.

Table 3: Comments Regarding Quality of Service

Quality of Service Comments		
Customer Name	**Town**	**Notes**
Diane McLaughlin	Mechanicsburg	Water bubbly with soap suds in it
Arthur Lucarelli	Old Forge	Water occasionally dirty, cloudy
Anthony Reakes	Moscow	Cloudy water; air in lines; excessive chlorine. Leak in line closer to home.
Nadine Ghosn	Dunmore	Water is discolored, yellow on occasion.
Jeff Vesnesky	Scranton	Water stains everything
Teresa and Eldon Parks	Morrisdale	Poor water pressure
William Robison	Camp Hill	Had to install a whole house filter to make water drinkable and not hard on plumbing
Sheila Eboli	Dunmore	Subjected to multiple water breaks; water often brownk; water smells like chlorine and is not drinkable; filters water for her pets
Johanna F. Salazar and Jorge M. Salazar	East Stroudsbury, PA	Quality of water is subpar; water color is yellow/ brown; stains applicances and clothing; chlorine taste and smell
Jeanne Schneider	Scranton	discolored water numerous times out of the year
Lucinda Klahr	Annville	Water is whhite and cloudy; feels that it is not safe to drink due to chemicals
Natalya Krapman	East Stroudsbury, PA	Quality of water is subpar; water color is yellow/ brown; stains applicances and clothing; chlorine taste and smell
David and Mary Lazarony	East Stroudsbury, PA	Quality of water is subpar; water color is yellow/ brown; stains applicances and clothing; chlorine taste and smell
Mark Johansen	East Stroudsbury, PA	Quality of water is subpar; water color is yellow/ brown; stains applicances and clothing; chlorine taste and smell
Raymond Volsario	East Stroudsbury, PA	Quality of water is subpar; water color is yellow/ brown; stains applicances and clothing; chlorine taste and smell
Loretta and Thomas Kaczmarek	Grindstone	Water smells like chlorine; customer buys bottled water
Marian Reidenbach	Scranton	Dirty, unclean water; has to buy water to drink
Albert Collins	Dunmore	Water quality is subpar; has to buy water to drink
Louise Kurechka	Scranton	Water is cloudy and dirty
Dominic Farino	Scranton	Water is dirty; reliability issues
Andrea Sable	Scranton	Discolored water after pipe replacement; pipes break every winter; has to go without water or with cloudy/ dirty water for hours
Kelly Wary	Clarks Summit	Deals with water main breaks every few months. Water is dirty and laundry needs to be re-washed.
Walter Garner	McKeesport	Water smells like chlorine and other odors. Purchases water to drink.
Lynn Daroczy	East Stroudsburg	Water is yellow and brown and stains clothing and appliances
Nancy A. Edmunds	Archbald, PA	Water is undrinkable; contains sediment
John Orbin	Dickson City	Water tastes poor and ruins the taste of food if food is boiled in the water
Ronald Pavlisko	Washington, PA	Bad water quality; undrinkable; has to uses filters
Joanne Galette	Norriston	2-day water outage resulted in a faulty repair that caused a leak in her utility closet
Andrew H. Lake	Coatesville	Water has a foul odor; tastes bad;
Mike Sabin	Coatesville	Water smells like chlorine; uses water filter
Mariam Mahmoud	East Stroudsburg	Water is yellow and brown and stains clothing and appliances
Erin Maloney	Scranton	Experiences brown water 1 to 2 times per month. Significant increase in undrinkable/unusable water despite increased pricing
Jennifer Dougherty	East Stroudsburg	Water is yellow and brown and stains clothing and appliances
Jessica Ruhl	East Stroudsburg	Lines are frequently flushed producing a brown sediment and residue; Water is high in iron and copper leaving rust and lime colored stains. Filtered water still tastes like chlorine
Elizabet and Sergio Ferro	East Stroudsburg	Lines are frequently flushed producing a brown sediment and residue; Water is high in iron and copper leaving rust and lime colored stains. Filtered water still tastes like chlorine
Melissa Conniff-Fox	Scranton	Has dirty water
Daniel Tedesco	Shiremanstown	There are days when the water is cloudy and has a slight odor
Guillaume Durand	East Stroudsburg	Water is subpar; yellow/ brown stains on appliances and clothing; water smells and tastes like chlorine
Carl Battistone	McDonald	No alert that customer was under a boil water advisory after a water main break occurred
James Defrancesco Jr.	Pittsburgh	Water is undrinkable; brown color
Robert and Emily Ott	East Stroudsburg	Water is yellow and brown and stains clothing and appliances
MaryJo Bonadonna	East Stroudsburg	Water is yellow and brown and stains clothing and appliances
Shanna McDonald-Campbell	East Stroudsburg	Water is yellow and brown and stains clothing and appliances
Michael Grier	Douglassville	Bad water quality
Scott Repella	Carbondale	Water has a mildew, rotten egg smell on a daily basis
Anthony Pennino	East Stroudsburg	Water is yellow and brown and stains clothing and appliances
Susan Brace	Dunmore	Water is yellow and has an overwhelming chlorine smell. Installed a whole-home water filter
Neil Bossart	McDonald	Does not have access to safe, clean, and reliable drinking water
James Faye	Nanticoke	Water has a strong chlorine taste. Needed to install a whole home filtration system. Has a buildup of solid sludge like substance that forms in the screens in the faucets and toilets.
Jessica Diaz	East Stroudsburg	Water is yellow and brown and stains clothing and appliances
Debra Borosky	Dalton	Corrosion ruined faucets and tiles in bathrooms; water has strong chlorine smell and is not drinkable
Anthony Buffardi	Roaring Brook	Water flows gray from the tap; dark brownish sludge builds up and almost blocks the faucet. Water is not drinkable.

Table 4: *Pro Se* Complaints Regarding Quality of Service

Quality of Service Complaints		
Customer Name	**Town**	**Notes**
Michelle R. Miller	Carbondale, PA	Needs filter to drink water; old pipes not replaced until there is an issue
Raymond Volsario	East Stroudsbury, PA	Unclean water; has to change filter every 3 weeks
Nicole Glimp	Reading, PA	Water is "very hard" and tastes "awful"
Susan Gilday	Scranton	Water is discolored; dirty
Gary Shiner	Scranton	Needs to buy bottled water to drink; water is rusty and sometimes is unable to do laundry or dishes
Gene and Patricia Malaspina	Coatesville, PA	Water tastes like chlorine
Paul Walaski	Forest City	Water smells, is discolored and has residue
Mary Ann Maro	Scranton	Pipes are dirty; has purchaseed water when there is a water main break and no water available
Roberta Brentano	Scranton	Has experienced no water due to broken lines
Tara and Tom Schuster	Scranton	Water line in front yard has been shut off and on, resulting in a subsidence; company not responsive to complaint
Deborah and Robert M. May	Scranton	Dirty water notifications
LeRoy James Watters III	West Norriton	Company "does nothing to protect the watersheds from pollution of stormwater"; previous stormwater flooding complaints remain unfixed
James McDermott	Scranton	Poor service; dirty water
Gerald Fabricatore	Scranton	Overpriced for quality of service received
Julie Janosy	Scranton	Strong chlorine smell; afraid to drink water unfiltered
Gary Graziano	Scranton	Water smells like chemicals
Frank Sislo	Scranton	Water smells like iodine. Purchases drinking water and filters tap water
Janice Reynolds	Reading, PA	Water is yellow or brown
Michael and Mary Weishner	Washington, PA	Dirt in water; had to replace filters multiple times
Paula Krammes	Reading, PA	Water not safe to drink without being filtered
Miranda Connors	Pittsburgh, PA	Lack of support or service; company does not "fix any type of water lines"
Nelson Moeller	Reading, PA	Lack of improvement or extension in water or sewer services
Randy McDaniels	West Mifflin, PA	Water is dirty and smells; needs to purchase a filer to drink it. Water leaks have lasted for many months before addressed.
Vicki DiArchangelo	Reading, PA	Water is distasteful; needs to purchase water from store. Has a whole house water softener and filter but this still does not help
Robert Boni	Reading, PA	Low water quality; must filter drinking water
James Metzer	West Mifflin, PA	Water lines ruptured and unfixed for months; water smells like chlorine; had to purchase water filter
Andrea Devlin	Reading, PA	Water quality hard; needed to purchase a water softener
Gerald R. Fabricatore	Scranton	Bad quality of service; details not provided
Robert Barry	Scranton	Claims that "water quality is terrible"
Keith Sauer	Reading, PA	Bad water quality; uses bottled water for unboiled consumables
Jim Davidson	Reading, PA	Unjustified rate increases compared to the poor water quality
Lynn Mugno	Reading, PA	Bad water flavor and smell; added an "expensive treatment just to shower and do laundry"
Anh Duong	Reading, PA	Water quality is "hard" and "borderline undrinkable"
Laura Semel	Parkesburg, PA	Long sewer line replacement times; brown and white water in pipes; had to run the water to clear sediment "due to their contstant interruption of service (without notification)"
Robert Bifano	Archbald, PA	Low water pressure
Debora A. Sokol	Reading, PA	Bad water quality; water has "oily film to it"

We specifically highlight the following comments and complaints:

Comments

- Susan Brace from Dunmore stated her water is yellow, has an overwhelming chlorine smell, and therefore she installed a whole-home water filter.

- Sheila Eboli from Dunmore asserted the company had multiple water main breaks, her water is often brown, it smells like chlorine, is not drinkable, and she filters water for her pets.

- Marian Reidenback from Scranton submitted that her water is dirty and that she has to buy water to drink.

Complaints

- Michelle R. Miller from Carbondale stated that she needs filters to drink water and that old pipes are not replaced until there is an issue.

- Gary Shiner of Scranton asserted that he needs to buy bottled water to drink, his water is rusty, and that he is unable to do his laundry or dishes.

- Frank Sislo of Scranton submitted that his water smells like iodine. He stated that he purchases his drinking water and filters the tap water.

B. Disposition

Based upon the cumulative number of quality-of-service concerns raised in this proceeding via hearing, comments, and complaints, we find that further investigation by this Commission is warranted. Forty percent of such comments, and thirty-eight percent of such complaints raised pertain to the Lackawanna County region. As such, an investigation is necessary to determine the cause of these service quality issues, and, to ensure the Company effectively manages these issues toward remediation. In an effort to carry out this task, we shall direct the Commission’s Law Bureau, in conjunction with the Bureau of Technical Utility Services (TUS), to implement an investigation into the quality-of-service issues in PAWC’s northeastern service territory. Such investigation may entail conferencing with the utility, issuing data requests, or any other action deemed necessary by Commission Staff to explicate these issues. The Law Bureau, in conjunction with TUS, should coordinate with the Pennsylvania Department of Environmental Protection (PADEP), as it deems necessary, and should complete the investigation within nine months of the effective date of rates in this proceeding.

This investigation should culminate with the issuance of a root cause analysis report exhibiting any key findings. Further, the Bureaus’ Staff may make recommendations for future actions by PAWC, including but not limited to, modification to Company practices, procedures, or its Long-Term Infrastructure Investment Plan (LTIIP). Finally, the Law Bureau, in conjunction with TUS, may refer its findings to I&E, the PADEP, or both, should it deem such action necessary.

IV. Legal Standards and Additional Preliminary Matters

A. Legal Standards

At issue here is the Company's request for a general base rate increase, which is governed by Section 1308(d) of the Code, 66 Pa.C.S. § 1308(d). Section 1308(d) of the Code provides the procedures for changing base rates, the time limitations for the suspension of the new rates, and the time limitations on the Commission's actions. 66 Pa.C.S. § 1308(d).[13] "Under traditional ratemaking, utilities may not change rates charged to customers outside of a base rate case." *McCloskey v. Pa. PUC*, 127 A.3d 860, 863 n.2 (Pa. Cmwlth. 2015).

Section 1301(a) of the Code mandates that "[e]very rate made, demanded, or received by any public utility . . . shall be just and reasonable, and in conformity with [the] regulations or orders of the [C]ommission." 66 Pa.C.S. § 1301(a). Pursuant to the just and reasonable standard, a utility may obtain "a rate that allows it to recover those expenses that are reasonably necessary to provide service to its customers[,] as well as a reasonable rate of return on its investment." *City of Lancaster Sewer Fund v. Pa. PUC,* 793 A.2d 978, 982 (Pa. Cmwlth. 2002) (*City of Lancaster*). There is no single way to arrive at just and reasonable rates, and "[t]he [Commission] has broad discretion in determining whether rates are reasonable" and "is vested with discretion to decide what

[13] Among other things, Section 1308(d) of the Code requires the Commission to render a final decision granting or denying, in whole or in part, the general rate increase requested by a public utility, within a general time frame not to exceed seven months from the proposed effective date of the utility's proposed tariff supplement. *See,* 66 Pa.C.S. § 1308(d); *see also,* 52 Pa. Code § 53.31 (requiring a tariff proposing a rate increase to be effective upon sixty days' advance notice). Unless the utility voluntarily extends the suspension period, the Commission's non-action within this timeframe means, by operation of law, the utility's proposed general rate increase will go into effect, as proposed, at the end of such period. *See,* 66 Pa.C.S. § 1308(d).

factors it will consider in setting or evaluating a utility's rates." *Popowsky v. Pa. PUC*, 683 A.2d 958, 961 (Pa. Cmwlth. 1996) (*Popowsky*).

A public utility is entitled to an opportunity to earn a fair rate of return on the value of the property dedicated to public service. *Pennsylvania Gas and Water Co. v. Pa. PUC*, 341 A.2d 239, 251 (Pa. Cmwlth. 1975) (citations omitted). In determining a fair rate of return, the Commission must adhere to the constitutional standards established by the United States Supreme Court in the seminal cases *Bluefield Water Works and Improvement Co. v. Public Service Comm'n of West Virginia*, 262 U.S. 679, 692-93 (1923) (*Bluefield*) and *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) (*Hope Natural Gas*). In *Bluefield*, the Supreme Court stated:

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.

Bluefield, 262 U.S. at 692-93. Twenty years later, in *Hope Natural Gas*, the Supreme Court reiterated:

> From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that

> standard the return to equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

Hope Natural Gas, 320 U.S. at 603.

The Commission is required to investigate all general rate increase filings. *Popowsky*, 683 A.2d at 961. The burden of proof to establish the justness and reasonableness of every element of a public utility's rate increase request rests solely upon the public utility in all proceedings filed under Section 1308(d) of the Code. 66 Pa.C.S. § 315(a); *see also, Lower Frederick Twp. Water Co. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980) (*Lower Frederick*); *see also, Brockway Glass Co. v. Pa. PUC*, 437 A.2d 1067 (Pa. Cmwlth. 1981). Section 315(a) of the Code provides as follows:

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

66 Pa.C.S. § 315(a). The evidence necessary to meet that burden must be substantial. *Lower Frederick* at 507.

In general rate increase proceedings, the burden of proof does not shift to parties challenging a requested rate increase. Rather, the utility's burden of establishing the justness and reasonableness of every component of its rate request is an affirmative one, and that burden remains with the public utility throughout the course of the rate proceeding. There is no similar burden placed on parties to justify a proposed adjustment to the Company's filing. The Pennsylvania Supreme Court has held:

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

Berner v. Pa. PUC, 116 A.2d 738, 744 (Pa. 1955).

However, in proving that its proposed rates are just and reasonable, a public utility need not affirmatively defend every claim it has made in its filing, even those which no other party has questioned. As the Pennsylvania Commonwealth Court has held:

> While it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged.

Allegheny Center Assocs. v. Pa. PUC, 570 A.2d 149, 153 (Pa. Cmwlth. 1990) (citation omitted); *see also, Pa. PUC v. Equitable Gas Co.*, 73 Pa. P.U.C. 301, 359-360 (1990).

Additionally, Section 315(a) of the Code cannot reasonably be read to place the burden of proof on the utility with respect to an issue the utility did not include in its general rate case filing and which, frequently, the utility would oppose. 66 Pa.C.S. § 315(a). The burden of proof must be on the party who proposes a rate increase beyond that sought by the utility. *Pa. PUC v. Metropolitan Edison Company*, Docket No. R-00061366, 2007 Pa. PUC LEXIS 5 (Order entered January 11, 2007). The mere rejection of evidence contrary to that presented by the public utility is not an impermissible shifting of the evidentiary burden. *United States Steel Corp. v. Pa. PUC*, 456 A.2d 686 (Pa. Cmwlth. 1983).

In their Recommended Decision, the ALJs made 194 Findings of Fact and reached 14 Conclusions of Law. R.D. at 5-35, 389-91. The Findings of Fact and Conclusions of Law are incorporated herein by reference and are adopted without comment unless they are either expressly or by necessary implication rejected or modified by this Opinion and Order.

Finally, any issue or Exception that we do not specifically address shall be deemed to have been duly considered and denied without further discussion. The Commission is not required to consider expressly or at length each contention or argument raised by the parties. *Consolidated Rail Corp. v. Pa. PUC*, 625 A.2d 741 (Pa. Cmwlth. 1993); *see also, generally, University of Pennsylvania v. Pa. PUC*, 485 A.2d 1217 (Pa. Cmwlth. 1984).

B. The OCA's Motion

1. The OCA's Motion and PAWC's Answer

The OCA Motion was filed pursuant to 66 Pa.C.S. § 334(c) and 52 Pa. Code § 5.103, alleging that PAWC had engaged in ex parte communications with Commission employees, and requesting that the Commission: (1) find that PAWC engaged in prohibited ex parte communications under 66 Pa.C.S. § 334(b)-(c) when it gave a video presentation on May 20, 2024 at the annual meeting of the Pennsylvania Chapter of the NAWC relating to PAWC's receivership of the East Dunkard Water Authority (EDWA); (2) direct PAWC to cure the ex parte communication violation by circulating the video presentation to all the active parties in this proceeding; (3) admonish PAWC for its attempt to proffer extra-record evidence through prohibited ex parte communications; (4) ensure that the Commission and Commission advisory staff assigned to this proceeding will not consider the extra-record video presentation as it relates to the issue of PAWC's claim for a management performance adder and its receivership of the EDWA system; and (5) consistent with paragraph 19 of the March 11, 2024 Order on Briefs and Closing of the Record issued by the ALJs, assure the parties that the Commission will not consider PAWC's position on its management performance adder claim as it pertains to PAWC's receivership of the EDWA system. OCA Motion at 1-2.

In support of its Motion, the OCA contends that the video presentation given by PAWC at the NAWC – Pennsylvania Chapter's annual meeting on May 20, 2024, contained information regarding PAWC's managerial performance, capital contributions, operational expenses, and improvements to the EDWA system, which PAWC manages in a receivership appointed by the Commonwealth Court of Pennsylvania, along with asserted improvements to communications to customers served by the EDWA system. The OCA states that, in the instant proceeding, PAWC is requesting up to twenty-five (25) basis points be added to its cost of equity for management performance and efficiency, including its receivership of EDWA; however, the OCA avers that PAWC did not present any record evidence in this proceeding regarding its management of the EDWA system. The OCA further states that the Recommended Decision in this proceeding only makes mention of the EDWA by way of reference to Public Input Hearing testimony and citation to PAWC's Reply Brief regarding how the Company has been appointed as receiver, and that there is no discussion in the Recommended Decision regarding capital improvements to the EDWA system or the efficacy of PAWC's management as receiver. OCA Motion at 5-7.

With respect to the video presentation on May 20, 2024, the OCA argues that PAWC's video presentation consisted of factual averments and images regarding PAWC's management of the EDWA water system. The OCA submits that evidence of the efficacy of PAWC's management of the EDWA system as receiver is not admissible in this proceeding because it was presented after the close of record and is not otherwise admissible under the Commission's Regulations or Pennsylvania Rules of Evidence. In addition, the OCA avers that the NAWC annual meeting was not a public event, but open only to those who were invited, and included Commission staff that were present during the video presentation and who are responsible for advising Commissioners on decisions for proceedings before them, such as the instant proceeding. The OCA stated that not all of the Parties to the instant proceeding were invited to the NAWC annual meeting or present for PAWC's presentation. OCA Motion at 7-8.

The OCA submits that the PAWC presentation constitutes an ex parte communication, which is prohibited pursuant to 66 Pa.C.S. § 334 (b)-(c), because: (1) it was given to an invited audience that included employees of the Commission; (2) it pertained to the merits of PAWC's request for a cost of equity adder for management efficiency in the instant proceeding; (3) the instant proceeding constitutes a contested, on-the-record proceeding; and (4) any factual averments made by a party to this proceeding are off-the-record communications because the proceeding is still pending before the Commission after hearings were conducted and the record was closed. OCA Motion at 8-9. Moreover, the OCA avers that in prior proceedings before the Commission, Commission staff in receipt of ex parte communications have distributed such communications to the parties to the proceeding to ensure all parties remain appraised of all information provided to Commission staff. *Id*. at 9 citing *Zenmon v. Pa. Power Co.*, C-2022-3030679 (October 27, 2022) (*Zenmon*).

The OCA argues that the Commission should admonish PAWC because the Company is sophisticated legally and technically, and its counsel and management are well versed in the rules of process and procedure. In addition, the OCA states that admonishment may deter similar ex parte communications from occurring in the future. The OCA contends that PAWC knew, had reason to know, or should have known that:

(1) the instant proceeding was a contested, on-the-record proceeding that was currently pending before the Commission; (2) the information contained in the video and accompanying oral presentation was relevant to the Company's request for a management adder to its rate of return request; (3) PAWC did not present any evidence on the efficacy of its management of or capital improvements to the EDWA system following receipt of receivership; (4) PAWC was not obligated to provide a presentation on the EDWA at the NAWC annual meeting to which Commission staff were specifically invited; and (5) Commission staff who may influence the outcome of the instant proceeding would be in attendance at the presentation, the presentation before such Commission staff constituted an ex parte communication in violation of 66 Pa.C.S. § 334(c). OCA Motion at 10-11.

The OCA contends that PAWC must be directed to cure the violation by distributing its video presentation to all parties in the proceeding to ensure that procedural due process is considered by providing all parties with the opportunity to review the information provided in PAWC's video presentation at the NAWC annual meeting on May 20, 2024. Also, the OCA requests assurance that no information offered during PAWC's presentation will be considered by Commission employees when advising the Commission on its decision on the instant proceeding and that the Commission will rely solely on the record evidence presented prior to the close of record. Finally, the OCA argues that PAWC's claim for the management performance adder as premised on its management and receivership of the EDWA should not be considered as an appropriate sanction for the attempt to inject extra-record evidence into the instant proceeding through prohibited ex parte communications. OCA Motion at 11-13.

In conclusion, the OCA requests that the Commission grant the Motion and: (1) find that PAWC engaged in prohibited ex parte communications under 66 Pa.C.S. § 334(b)-(c) when it gave its video presentation on May 20, 2024 at the NAWC annual meeting; (2) direct PAWC to cure the ex parte communication violation by circulating the video presentation to all the active parties in this proceeding; (3) admonish PAWC for its attempt to proffer extra record evidence through strictly prohibited ex parte communications; (4) ensure that the Commission and Commission advisory staff assigned to this proceeding will not consider the extra-record presentation as it relates to the issue of PAWC's claim for a management performance adder and its receivership of the EDWA system; and (5) assure the parties that the Commission will not consider PAWC's position on its management performance adder claim as it pertains to PAWC's receivership of the EDWA system. OCA Motion at 14.

In its Motion Answer, PAWC urges the Commission to reject the OCA Motion and OCA's attempt to prevent the Commission from considering PAWC's assistance to the community served by the EDWA through this allegation of ex parte communications. PAWC argues that the OCA is wrongly trying to do so by falsely claiming that a short, publicly-available video (video) played during a widely-attended annual meeting of a trade association (event) somehow constitutes an ex parte off-the-record communication. Motion Answer at 1.

PAWC portrays the event in question, at which the video was viewed, as an annual meeting of the Pennsylvania chapter of the NAWC, with chapters spread across the United States. PAWC states that this annual meeting was held on May 20, 2024, from 8:30 a.m. to 1:30 p.m., at which seven presentations were made, including one presentation, which was a 45-minute panel entitled "Executives' Panel Discussion" consisting of executives from regulated utilities and chaired by the NAWC-Pennsylvania Chapter leader. In that session, PAWC avers that the PAWC panelist presented a two-minute and forty-five second video that focused on PAWC's actions as a receiver of the troubled EDWA system, a system that is the subject of a separate and uncontested proceeding. PAWC explains that the panelist from PAWC, Justin Ladner, is President of PAWC and was one of several panelists, including the presidents of Aqua PA, Veolia, the York Water Company, and Columbia Water Company. PAWC emphasizes that the panel topic was focused on timely issues facing the Commonwealth's regulated water and wastewater utilities, of which PAWC was one, and not this proceeding. Motion Answer at 2.

PAWC claims that the Section 334 prohibition in the Code regarding ex parte communications defines an ex parte communication as limited to any "off-the-record communication to or by any member of the commission," and that the video in question was neither "to or by" a member of the Commission nor did it address the merits of any "fact or issue" in this proceeding. PAWC further stresses that the event and the video are publicly available, and that the event at which the video was played was open to members and non-members with over 100 people in attendance. Motion Answer at 2.

PAWC disputes the OCA's claim as a mischaracterization of the video as part of its effort to have the Commission disregard the undisputed record evidence related to PAWC's appointment as a receiver for EDWA when deliberating on a management performance adjustment to their authorized Return on Equity (ROE) sought by PAWC in this proceeding. PAWC dismisses this OCA effort, to undermine PAWC's demonstrated management performance, as entirely inappropriate.[14] Motion Answer at 2-3.

PAWC also disputes the OCA's requests to have the Commission circulate the video to all Parties and provide assurances that no information offered by PAWC during the NAWC meeting will be considered by the Commission. PAWC states that the video had already been distributed by the Commission and PAWC does not object to the

[14] PAWC notes that prior to being publicized on YouTube, the video presented at the event was slightly revised to address a safety concern by replacing a brief image that was in the original version. Motion Answer at 3, n. 6. PAWC further states that the video uploaded to the Commission's Sharepoint site, in response to the *May 2024 Secretarial Letter*, was the same version of the video shown at the NAWC event. *Id*. at 4, n. 8.

Commission assuring the OCA that the video played no role in the recommendations or determinations in this proceeding. Motion Answer at 4.

Furthermore, PAWC asks the Commission to deny the OCA Motion because the video is not an ex parte communication in violation of Section 334 of the Code. PAWC avers that the video was not a communication "by or to" the Commission or Commission staff, the subject matter of the video was not "regarding the merits of any fact in issue" in the proceeding. PAWC claims that watching the video at the event was no different than coming across a newspaper article or televised news event on PAWC's actions as a receiver. PAWC submits that the presentation of the video was to a public audience during an industry meeting that happened to include some Commission employees, and that this bears no resemblance to those off-the-record communications that are relied upon as precedent in the OCA Motion. Motion Answer at 6-7.

PAWC contends that precedent has not classified filings that pointed out a calculation error, after the Commission adopted a motion, regarding the amortized return of taxes, as ex parte communications. Moreover, PAWC argues that the video does not address the merits of PAWC's rate case nor the receivership that is the subject of an uncontested docketed proceeding. PAWC further notes that no Commission staff raised concerns about the video being an ex parte communication at the event. Motion Answer at 6-10.

2. Disposition

These currently pending rate proceedings contain contested on the record matters before the Commission for disposition. Consequently, these proceedings are subject to the statutory prohibition on ex parte communications under Section 334(c) of the Code. 66 Pa.C.S. § 334(c).

Upon review of the OCA Motion and PAWC's Motion Answer, we deem the OCA Motion to be moot and find that there is no need to consider or take any further action with respect to the issues raised in the OCA Motion. We conclude that determining whether or not the video presentation provided by PAWC at the NAWC annual meeting held on May 20, 2024 may constitute an ex parte communication, as defined and prohibited by 66 Pa.C.S. § 334, is not necessary at this time.

Assuming otherwise, *arguendo,* in the event an ex parte communication occurs, the proper remedy is to circulate all such communications received to all parties to the contested, on the record proceeding. *See*, *Zenmon*; *Haverstick v. Pa. Office of Att'y Gen.*, 273 A.3d 600; *Pa. PUC v. Pennsylvania Electric Co.*, Docket Nos. R-80051197; C-80072106, 54 Pa. PUC 436 (Order entered December 4, 1980). Upon receipt of the OCA Motion, out of an abundance of precaution, the Commission, in its *May 2024 Secretarial Letter:* (1) provided notice to the Parties in this proceeding concerning the video; (2) created a link on its website for interested Parties to access the video; (3) enclosed a copy of the OCA Motion; and (4) provided an opportunity for Parties to file a response to the OCA Motion. *See*, *May 2024 Secretarial Letter* at 1-2.

Inasmuch as the *May 2024 Secretarial Letter* provided the Parties to this proceeding with notice of, and access to, the video presentation, as well as an opportunity to comment on the OCA Motion, we find that any potential ex parte communication violation was appropriately and successfully remedied. Therefore, there is no reason to consider further or take action regarding this issue at this time. Accordingly, the OCA's Motion is deemed to be moot.

V. Rate Base

Rate base, also known as measure of value, is the depreciated original cost of a utility's investment in plant a utility has in place to serve customers plus other additions and deductions that the Commission determines to be necessary in order to keep the utility operating and providing safe and reliable service to its customers. I&E St. 3 at 78. Rate base is one part of the financial equation used by the Commission to determine the appropriate revenue that a utility is granted in a rate proceeding.

According to PAWC, its final total claimed rate base of $6,071,315,148 for the FPFTY ending June 30, 2025, reflects the culmination of four separate rate base claims: (1) $4,700,940,379 associated with the proposed revenue requirement of its water operations; (2) $649,336,105 associated with the proposed revenue requirement of its wastewater SSS operations; (3) $489,501,661 associated with the proposed revenue requirement of its CSS wastewater operations; and (4) $231,537,003 associated with the proposed revenue requirement of its anticipated acquisition of BASA.[15] The calculations of each of these amounts are shown in PAWC Exhibit 3-A Revised under the respective rate base sections for each revenue requirement, which are summarized in Table 5, as follows:

[15] As previously noted, in light of the concerns raised by the Parties in this proceeding regarding the Company's acquisitions that have not yet closed, PAWC revised its request for rate relief to remove the Brentwood acquisition and to incorporate Step 2 rates for the BASA acquisition, reflecting the Commission-approved BASA ratemaking rate base only after the transaction closes. PAWC M.B. at 10.

Table 5: PAWC's FPFTY Rate Base Claim

	Water	WW SSS General	WW CSS	BASA	Total
Utility Plant in Service	$7,350,692,906	$1,011,374,526	$867,858,794	$243,068,327	$9,472,994,553
Less:					
Reserve for Depreciation	$1,241,627,202	$256,394,760	$297,870,665	$8,496,233	$1,804,388,860
Total Depreciated Plant in Service	$6,109,065,704	$754,979,766	$569,988,129	$234,572,094	$7,668,605,693
Add:					
Materials and Supplies	$21,781,099	$439,941	$492,348	$117,597	$22,830,985
Cash Working Capital -Expenses	$23,152,054	$2,235,324	$1,881,933	$373,674	$27,642,985
Accrued and Prepaid Taxes	$1,684,837	$352,273	$245,319	$65,342	$2,347,771
Acquisition Adjustments	$13,205,080	$3,749,235	$3,686,015	$1,092,393	$21,732,723
Other Addiitons	$327,057	$0	$0	$0	$327,057
Deduct:					
CIAC	$290,552,978	$50,089,276	$12,011,932	$0	$352,654,186
Customer Advances	$63,679,220	$833,590	$0	$0	$64,512,810
Excluded Property	$1,558,014	$0	$0	$0	$1,558,014
CWC - Int and Div	$8,347,179	$1,186,101	$894,111	$422,915	$10,850,306
Unamortized Itc (3%)	$213,324	$0	$0	$0	$213,324
Extension Deposits in Suspense	$20,895	$0	$0	$0	$20,895
Citizens Acquisition CIAC & CAC	$17,729,494				$17,729,494
Tax Cuts and Jobs Act - Stub Period	$1,508,401	$84,324	$64,842	$0	$1,657,567
Other Deductions	$431,508	$0	$0	$0	$431,508
Deferred Income Taxes	$1,084,234,439	$60,227,143	$73,821,198	$4,261,182	$1,222,543,962
PAWC's Rate Base Claim	**$4,700,940,379**	**$649,336,105**	**$489,501,661**	**$231,537,003**	**$6,071,315,148**

See, PAWC Exh. 3-A Revised at 25R, 96R, 145R, 217R.

The depreciated plant-in-service is determined by subtracting the book reserve, which is the accumulation of all prior annual depreciation expense, and other items such as retirements and salvage value, from the original cost of the plant-in-service that is projected to be used and useful in the public service at the end of the FPFTY. I&E St. 3 at 78.

Further, for a utility plant to be included in rates, the plant must be used and useful in the provision of utility service to the customers. Therefore, by definition, only plant currently providing or capable of providing utility service to customers or plant projected to be completed and in service by the end of the FPFTY is eligible to be reflected in rates.

PAWC has proposed the inclusion of two water system acquisitions in this base rate proceeding: (1) Farmington Township (Farmington); and (2) Audubon Water Company (Audubon),[16] as well as three wastewater system acquisitions: (1) Farmington;[17] (2) Sadsbury Township Municipal Authority (STMA),[18] and (3) BASA. Therefore, the Company's rate base claims include the cost of water assets to be acquired from Farmington and Audubon, and the wastewater assets to be acquired from Farmington, STMA, and BASA. PAWC M.B. at 5.

I&E and the OCA contended that the five[19] anticipated acquisitions should be excluded from this base rate proceeding, as it would be improper to approve rate recovery at this time-because there is no way to know whether, and when, those

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[16] On September 21, 2023, PAWC filed an application for Commission approval to acquire Audubon at Docket No. A-2023-3043194.

[17] On August 28, 2023, PAWC filed an application for Commission approval to acquire Farmington (wastewater) at Docket No. A-2023-3042587 and Farmington (water) at Docket No. A-2023-3042567.

[18] On August 3, 2023, PAWC filed an application for Commission approval to acquire STMA at Docket No. A-2023-3042058.

[19] Including Brentwood, *supra*, the Company originally proposed to include six anticipated acquisitions in this rate proceeding.

transactions will be approved.[20, 21] I&E M.B. at 11; OCA M.B. at 10. The arguments surrounding these objections to the Company's claim for rate recognition of the pending acquisitions, as it relates to its impact on rate base, are discussed below.[22]

The second remaining point of contention regarding the calculation of the appropriate rate base is the OCA's disagreement with the service life/survivor curve information used in PAWC's depreciation studies for its water operations, and therefore, proposed adjustments to the Company's claimed depreciation reserve.

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[20] The OSBA did not propose any adjustments pertaining to the STMA or the Farmington acquisitions. However, with respect to the acquisitions of BASA and Audubon, the OSBA stated that, if any acquisition does not close, all of the costs of the non-closing acquisition should be removed from PAWC's revenue requirement. If the BASA and Audubon acquisitions do close, however, the OSBA proposed "mitigation" adjustments that would: (1) deny the Company recovery of all amortization expense and rate base related to the Audubon acquisition in excess of the net book value of Audubon's assets; and (2) require PAWC shareholders to absorb a portion of the PUC-approved ratemaking rate base for the BASA acquisition. OSBA St. 1 at 20-26, 28-30. The BASA mitigation adjustment is discussed more fully in Section VI.D of this Opinion and Order, *infra.*

[21] PAWC stated that if, however, the Commission agrees with the OCA, I&E, and the OSBA with respect to the certainty of closing the BASA acquisition, PAWC's proposed two-step rate increase structure addresses this concern. *See*, PAWC St. 1-R at 4. According to PAWC's proposal, Step 1 rates would become effective on August 7, 2024 (the end of the normal suspension period in this case). Step 2 rates would become effective on one day's notice, no earlier than August 7, 2024, and only after the Company has certified to the Commission that it closed on the BASA acquisition. If, for any reason, the BASA acquisition does not close, Step 2 rates would never become effective. PAWC stated that this two-step methodology ensures that customers are protected by not allowing any rate changes to occur until the Company has closed on the purchase of the BASA system. PAWC R.B. at 12-13.

[22] As discussed, *infra*, the denial of any rate base recognition related to these pending acquisitions, as claimed by the Company, results in concomitant adjustments to O&M expenses, operating revenue, taxes, amortization expense, and depreciation expense.

A. Utility Plant-in-Service

1. Positions of the Parties

PAWC's revenue requirement, as presented in PAWC's Exhibit 3-A Revised, reflected a ratemaking rate base claim for each of the five not yet completed acquisitions. According to PAWC, these acquisitions were included in the filing because the Company anticipates them closing before the end of the FPFTY. *See*, PAWC St. 6-R at 12. PAWC's witness, Mr. E. Christopher Abruzzo, estimated that each of the acquisitions discussed above could be closed within a few weeks following approval. PAWC St. 6-R at 3-5. PAWC cited to its two prior base rate cases in *Pa. PUC v. Pennsylvania American Water Company*, Docket Nos. R-2020-3019369 and R-2020-3019371 (Opinion and Order entered February 25, 2021) (*PAWC 2020*) and *Pa. PUC v. Pennsylvania American Water Company,* Docket No. R-2022-3031672 (Order entered December 8, 2022) (*PAWC 2022*). PAWC asserted that there is no reason to treat the pending acquisitions at issue in this current base rate proceeding any differently than any other plant that the utility places in service during the FPFTY or any differently than the Commission treated the Company's pending acquisitions in *PAWC 2020* and *PAWC 2022*, wherein the Commission allowed the Company's then-pending acquisitions to be included in PAWC's rates.[23] PAWC M.B. at 12-14.

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[23] *See*, PAWC M.B. at 13-14 (citing *Application of PAWC, Pursuant to the Pennsylvania Public Utility Code, 66 Pa.C.S. § 1102(a) and 1329, for Approval of the Transfer, by Sale, of the Wastewater Collection and Treatment System of the Borough of Kane Authority*, Docket No. A-2019-3014248 (Order entered June 18, 2020); *Pa. PUC v. Winola Water Co.*, Docket No. P-2018-3006216 (Order entered August 6, 2020) (*Winola Water 2020*) (Section 529 acquisition); *Investigation Instituted per Section 529 Into Whether the Commission Shall Order a Capable Public Utility to Acquire Delaware Sewer Company*, Docket No. I-2016-2526085 (Opinion and Order entered March 26, 2020) (*Delaware Sewer 2020*); *Application of PAWC to Acquire the Wastewater Collection and Treatment System Owned by the York City Sewer Authority*, Docket No. A-2021-3024681 (Order entered April 14, 2022) (Section 1329 transaction); *Application of PAWC under Sections 1102 and 1329 of the Pa. Public Utility Code, to*

PAWC characterized its dispute with I&E, the OCA, and the OSBA regarding the pending acquisitions at issue in this current proceeding as one of timing. PAWC stated that as explained in its Main Brief, including assets in a rate case is appropriate, if those assets will be used and useful by the end of the FPFTY. According to the Company, the Commission should not find that closing on an acquisition must occur prior to the closing of the record in a rate case. Instead, PAWC contended that when the Commission enters its final order in this proceeding, it should review the status of the acquisition proceedings and determine whether closing is reasonably certain to occur before the end of the FPFTY. PAWC R.B. at 10-11.

According to PAWC's filing, of its claimed $4,700,940,379 rate base related to its water operations, the Company is reflecting $2,502,811 of net plant as a result of the Farmington (water) acquisition and $360,229 as a result of the Audubon acquisition. Likewise, of its claimed $649,336,105 Wastewater SSS rate base, PAWC is reflecting $2,826,700 and $1,935,612 of net plant as a result of the Farmington (wastewater) and STMA acquisitions, respectively, as illustrated in Table 6 below.

Acquire the Wastewater Collection and Conveyance System of Upper Pottsgrove Twp., Docket No. A-2020-3021460 (Order entered September 15, 2021); *Application of PAWC to Acquire Certain Wastewater Assets from Foster Township*, Docket No. A-2021-3028676 (Order entered July 14, 2022) (Section 1102 acquisition); *Application of PAWC to Acquire Certain Water System Assets from Creekside Homeowners Association*, Docket No. A-2022-3031020 (Order entered May 18, 2023) (Section 1102 acquisition)).

Table 6: PAWC's FPFTY Rate Base Attributable to Pending Acquisitions

		Water		Wastewater SSS General	
		Farmington (Water)	**Audubon**	**Farmington (WW)**	**STMA**
Utility Plant in Service					
Total Utiity Plant in Service	*	$5,257,100	$9,187,482	$5,720,178	$3,390,193
Depreciation Reserve	**	($1,079,659)	($6,101,415)	($1,689,290)	($849,730)
Depreciated Utility Plant in Service		$4,177,441	$3,086,067	$4,030,888	$2,540,463
CIAC	**	($1,674,630)	($2,725,838)	($1,204,188)	($604,851)
Net Utility Plant in Service		$2,502,811	$360,229	$2,826,700	$1,935,612
Acquisition Costs					
Acquisition Adjustment	***	$195,736	$6,939,459		
Transaction Costs	***	$49,799	$107,142	$51,761	$83,085
Total Acquisition Adjustment		$245,535	$7,046,601	$51,761	$83,085
Claimed FPFTY Rate Base		$2,748,346	$7,406,830	$2,878,461	$2,018,697

* *See* , PAWC Exh. 3-A at 26, 97
** *See* , PAWC Exh. 3-C at 14-15, 21, 23, 28-31
*** *See* , PAWC Exh. 3-A at 36, 106

I&E's and the OCA's opposition to the inclusion of these not-yet-acquired systems in the Company's FPFTY ratemaking rate base is based largely on the fact that PAWC does not own the systems, and the transaction closing dates, if any, are unknown. I&E St. 3 at 6; I&E St. 4 at 5-6; I&E M.B. at 10-11; OCA M.B. at 22. I&E asserted that PAWC has the burden to demonstrate that the property is actually used and useful in the public service, and since the Audubon, Farmington, STMA, and BASA acquisitions have not closed, the property is not owned by PAWC nor is the property used and useful in service to its customers. I&E M.B. at 10-11. The OCA's witness, Mr. Ralph Smith, proposed two conditions precedent for inclusion of the to-be-acquired systems in rates: (1) a final Commission Order approving the acquisition; and (2) no uncertainty as to whether the utility will close on the acquisition for reasons other than Commission approval. OCA St. 2 at 19; OCA St. 2-SR at 21.

Therefore, according to I&E, given that there is no reasonable certainty that the Audubon, Farmington, STMA, or BASA systems will be acquired and used and useful by the end of the FPFTY, I&E proposed that the revenue requirement associated with these systems be removed from the present proceeding, including all costs, revenues, taxes, and amortizations. I&E M.B. at 13-15. Likewise, the OCA argued that the Commission should deny PAWC's utility plant-in-service claims for property the Company aspires to own but does not yet own because PAWC has failed to demonstrate, by a preponderance of evidence, that there is reasonable certainty that the property will be acquired and used and useful by PAWC by the end of the FPFTY. OCA M.B. at 22.

Further, the OCA rejected PAWC's proposed multi-step revenue increase for two main reasons. First, Step 1 of the proposal allows the proposed acquisitions for Audubon, Farmington (water and wastewater), or STMA to be included for ratemaking purposes. Second, the OCA stated that it is not known under what terms or conditions any of these acquisitions would close, or if they will close. For example, the OCA reasoned, BASA could be remanded by an appellate court and conditions or renegotiations could impact ratemaking rate base or result in other costs. But under PAWC's multi-step proposal, rates would increase in Step 2 as claimed in PAWC's filing, with no recognition of those changes. OCA St. 2-SR at 16-17. The OCA argued this presents due process concerns because parties present evidence in response to the Company's proposal regarding utility property in an acquisition proceeding only to have to respond to the Company's different proposal about the same utility property in the parallel rate proceeding. The OCA posited that it also has the effect of usurping the Commission's authority to make decisions on legal issues as the Company presents its position in one proceeding (*i.e.*, an acquisition proceeding) only to "pull the rug out from under" that position in a parallel proceeding (*i.e.*, the base rate case). Additionally, the

OCA stated that the Company's rebuttal proposal, as modified in rejoinder, would circumvent the procedural due process afforded to parties by PAWC needing to petition to reopen the record. OCA M.B. at 30-31 (citing OCA St. 2-SR at 18).

2. Recommended Decision

In their Recommended Decision, the ALJs agreed with the positions of I&E and the OCA that it would be premature to include the five anticipated acquisitions in PAWC's FPFTY rate base, and therefore, recommended that PAWC's rate base exclude utility plant-in-service related to Audubon, Farmington (water and wastewater), STMA, and BASA.[24, 25] R.D. at 73-77. The ALJs noted that, with the exception of BASA, these acquisitions are currently pending before the Commission, and Commission action could necessitate a change to depreciated original cost or any acquisition adjustment for the difference between purchase price and depreciated original cost or may deny the proposed transaction in its entirety. R.D. at 75 (citing I&E M.B. at 12-13; OCA R.B. at 22-23).

Further, the ALJs found that I&E and the OCA adequately distinguished the disputed acquisitions from the pending acquisitions that were allowed to be included in the Company's rates in *PAWC 2020* and *PAWC 2022*, reasoning as follows:

> First, I&E detailed how the Commission had entered orders approving the acquisitions for the Borough of Kane Authority, Winola Water Company, Delaware Sewer

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[24] As discussed in Section VI.D, *infra*, the ALJs noted that they did not make a recommendation concerning the OSBA's advocated BASA mitigation adjustment since they did not recommend that BASA be included in PAWC's FPFTY rate base. *See*, R.D. at 77, 94.

[25] The ALJs also agreed with the OCA, recommending that, since the BASA and Brentwood systems should be excluded from the FPFTY rate base, PAWC's claims for rate base additions for improvements to these systems should similarly be excluded. R.D. at 77.

> Company, York City Sewer Company, and Upper Pottsgrove Township before the record had closed in the relevant rate cases. Although not included in I&E's Reply Brief, the Commission similarly approved the Foster Township acquisition by an order entered on July 14, 2022, which was before the record closed in PAWC's 2022 base rate proceeding. In this proceeding, as shown by PAWC's status descriptions above, the Commission has not approved any of the disputed Acquisitions, except BASA. The Commission did not approve the Creekside Development acquisition until May 2023, which was after 2022 base rate case record had closed. However, we agree with I&E that this case is distinguishable as a non-litigated proceeding involving only 49 residential customers. We also agree with the OCA that the acquisitions included in the 2020 and 2022 rate cases are distinguishable because acquisitions in those proceeding were in the context of cases where there were settlements.

R.D. at 75-76 (citations omitted).

Additionally, the ALJs concluded that the BASA acquisition should not be included in PAWC's FPFTY rate base at this time because there is no basis to predict how the Commonwealth Court or, if the case is appealed, the Supreme Court of Pennsylvania will act on the BASA acquisition with any certainty. Likewise, the ALJs agreed with the concerns outlined by the OCA and recommended that the proposed two-step rate increase, conditioned upon the closing date of the BASA transaction, not be approved, since there is no certainty that the BASA acquisition will close with the same terms approved by the Commission because an appellate court could remand the case to the Commission for further proceedings. R.D. at 76-77.

3. PAWC Exception No. 3 and Replies

In its Exception No. 3, PAWC objects to the ALJs' recommendation to deny the two-step rate increase proposal and exclude the BASA acquisition from rates, contending that BASA is distinguishable from the STMA, Farmington, and Audubon acquisitions, since it has been approved by the Commission and has a separate revenue requirement, such that the rate impact can be implemented conditioned on the transaction closing as approved before the end of the FPFTY.[26] PAWC Exc. at 13.

In support, PAWC maintains that "Section 315(e) does not require *absolute certainty* that the facilities will be in service by the end of the FPFTY." PAWC Exc. at 14. PAWC submits that, as noted in the Recommended Decision, in *PAWC 2020* and *PAWC 2022*, the Commission approved including several acquisitions in PAWC's rates before closing occurred. *Id*. (citing R.D. at 75). PAWC explains that while the Commission's decision in *BASA* has been appealed to the Commonwealth Court, it expects to close as soon as a decision becomes final and unappealable and that it is reasonably certain that BASA will close prior to the end of the FPFTY. PAWC Exc. at 13-14.

Asserting that it is prudent and fair for the BASA acquisition to be timely integrated into PAWC's rates in order to mitigate regulatory lag, the Company notes that it does not object to the Step 2 rates being conditioned on a final, non-appealable Commonwealth Court order affirming the Commission's decision in *BASA* approving the BASA transaction without modification. PAWC Exc. at 15.

In their Replies, I&E, the OCA, and the OSBA each assert that the ALJs correctly determined that all six of the acquisitions, including BASA, should be excluded from this base rate proceeding. I&E R. Exc. at 6-7; OCA R. Exc. at 2; OSBA R. Exc. at 2.

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[26] PAWC notes that it does not except to the ALJs' recommendation to exclude the STMA, Farmington, and Audubon acquisitions from the Company's rates at this time. PAWC Exc. at 13. Thus, PAWC has waived any claim that it has to include each of those systems in ratemaking rate base for the FPFTY in this proceeding.

The OCA maintains that it does not dispute that the Commission can take official notice of a final, unappealable order in another proceeding, pursuant to 52 Pa. Code § 5.408. However, the OCA explains that what PAWC is asking the Commission to do is to take official notice that the acquisitions at issue will close in the FPFTY – a fact that does not exist in the record – and to simultaneously adopt PAWC's ratemaking claims related thereto without modification. OCA R. Exc. at 3 (citing OCA R.B. at 22). The OCA argues that, given that the record is closed, the Parties to the instant base rate case must have an opportunity to respond to the new fact of the occurrence of an acquisition closing, the determinations of the final, unappealable order, and the resulting impact on PAWC's ratemaking claims related thereto. The OCA contends that to hold otherwise would create an undue burden on party litigants in base rate cases to take multiple positions on the same issue in a rate case based on various steps of acquisitions being approved by the end of the FPFTY despite none of the closings having occurred on or before the close of the record in the base rate case. OCA R. Exc. at 4.

On the issue of regulatory lag, the OCA submits that the FPFTY is designed to reduce regulatory lag for utilities; however, for the concept to not be abused, there must be reasonable certainty by the close of the record in the rate case that the property claimed in rate base will be used and useful by the end of the FPFTY. OCA R. Exc. at 4 (citing *Pa. PUC v. UGI Utilities, Inc. - Electric Division*, Docket No. R-2017-2640058, at 27-31 (Opinion and Order entered October 25, 2018) (*UGI Electric 2018*) *aff'd by McCloskey v. Pa. PUC*, 225 A.3d 192 (Pa. Cmwlth. 2020)).

In its Replies, the OSBA argues that "PAWC's torturing of the statutory language ('absolute certainty!') is a baseless argument that should be rejected by the Commission." Rather, the OSBA explains that Section 315(e) of the Code requires "appropriate data evidencing the accuracy of the estimates contained in the future test year," and as no one can predict the actions of the Commonwealth Court, no such "accuracy" regarding the outcome of the BASA case can be ascertained. OSBA R. Exc. at 2.

4. Disposition

PAWC's original request for rate relief included six acquisitions that had not yet closed; two water system acquisitions: (1) Farmington (water) and (2) Audubon, as well as four wastewater system acquisitions: (1) Farmington (wastewater); (2) STMA; (3) BASA; and (4) Brentwood. Ultimately, in light of the concerns the Parties have raised in this proceeding with the Company's acquisitions that have not yet closed, PAWC revised its request for rate relief to remove the Brentwood[27] acquisition and to incorporate Step 2 Rates for the BASA acquisition to ensure that customers do not pay rates reflecting the Commission-approved BASA ratemaking rate base until that transaction closes. PAWC M.B. at 10.

As discussed, *supra*, I&E and the OCA argued against the inclusion of utility plant-in-service related to Audubon, Farmington, STMA, and BASA in PAWC's claimed FPFTY rate base. Upon review, we agree with the ALJs that it would be premature to include the five anticipated acquisitions, including BASA, in PAWC's FPFTY rate base, and therefore, PAWC's rate base should exclude utility plant-in-service related to Audubon, Farmington (water and wastewater), STMA, and BASA.

The Company's position is based on the assumption that the Commonwealth Court will find in PAWC's favor with respect to *BASA,* and that if it does, no party to that proceeding will file a further appeal. PAWC's prediction is pure speculation; the Commission cannot assume that PAWC correctly knows with any

[27] The Commission's decision in *Brentwood* ultimately denied PAWC's acquisition application.

certainty how the Commonwealth Court will rule on this matter. Therefore, accepting such assumptions is not in the public interest.

Further, PAWC's suggestion – that the frequency of its rate cases may increase if the Commission's decision in *UGI Electric 2018* is followed here – rings hollow given the frequency of PAWC's filings. PAWC uses a Distribution System Improvement Charge (DSIC)[28] and the FPFTY,[29] and both tools are meant to reduce rate case frequency; yet this is PAWC's   rate case in four years, even though it was allowed to include not-yet-acquired property in the rate case settlements in both *PAWC 2020* and *PAWC 2022*. It is within PAWC's discretion as to when it files a base rate case and a decision by this Commission will not dictate its timing. Indeed, it was PAWC that decided to file the current base rate case within the same year that base rates increased from its 2022 rate filing, rather than waiting until the BASA acquisition could be properly included in the FPFTY.

Therefore, BASA should be excluded from the Company's rate base claim in this proceeding, including PAWC's claims for rate base additions for improvements to this system. Additionally, related revenue, expenses, taxes, and the corresponding revenue shortfall of $25,322,947[30] from the BASA system should be similarly excluded

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[28] A DSIC is a surcharge on customers' bills that is revised quarterly and allows recovery of costs to replace aging infrastructure between rate cases. 66 Pa.C.S. §§ 1353, 1357. Therefore, it "provides utilities with an additional rate mechanism to recover the capitalized costs related to repair, improvement, and replacement [of] utility infrastructure. A DSIC can reduce regulatory lag, improve access to capital at lower rates, and accelerate infrastructure improvement and replacement." *Implementation of Act 11 of 2012*, Docket No. M-2012-2293611 (Final Implementation Order entered August 2, 2012) at 57 (*Act 11 Implementation Order*).

[29] An FPFTY was implemented by the Pennsylvania legislature to "reduce regulatory lag due to the use of rate case inputs that are outdated by the time new base rates become effective and, further, to provide more ratemaking flexibility for the timely recovery of prudently incurred infrastructure costs." *Act 11 Implementation Order* at 4.

[30] *See*, PAWC M.B., Appendix A, Table Act 11 – Step 2.

from this proceeding. Excluding such property in this case protects the public interest by ensuring that utility consumers, who ultimately pay the revenue requirement to the utility, will pay enough, *but no more than is necessary,* to ensure that service remains adequate, reliable and safe, while allowing the utility to have the opportunity to recover its costs and earn a fair rate of return on its investments. Accordingly, we shall deny PAWC's Exception No. 3.

Consistent with the above, as set forth in Table II-Water and Table II-Wastewater SSS, in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, we shall remove the following claimed net utility plant-in-service amounts: (1) $360,229 of net utility plant-in-service associated with the Audubon system; (2) $2,502,811 of net utility plant-in-service associated with the Farmington (water) system; (3) $1,935,612 of net utility plant-in-service associated with the STMA system; and (4) $2,826,700 of net utility plant-in-service associated with the Farmington (wastewater) system.

B. Depreciation Reserve

1. Positions of the Parties

The Company's depreciation reserve, based upon the Straight-Line Average Remaining Life Method, was calculated by the Company's witness, Mr. John J. Spanos, and was applied to the original costs of Company plant-in-service on June 30, 2023, June 30, 2024, and June 30, 2025.[31] *See,* PAWC St. 4 at 21; *see also generally*, PAWC St. 11.

As discussed, *supra*, I&E and the OCA argued against the inclusion of utility plant-in-service related to Audubon, Farmington, STMA, and BASA in PAWC's claimed FPFTY rate base. Concomitant to I&E's and the OCA's previously discussed proposals are adjustments to the Company's claimed depreciation reserve at the end of the FPFTY. These adjustments remove the amount of depreciation reserve that the Company included in the FPFTY related to the Audubon, Farmington, STMA, and BASA pending acquisitions, as shown in Tables 5 and 6, above.

In order to estimate the Company's depreciation reserve as of June 30, 2023, June 30, 2024, and June 30, 2025, Mr. Spanos completed depreciation studies to estimate the annual depreciation accruals related to water and wastewater plant-in-service. *See generally*, PAWC St. 11. PAWC stated that service life studies were the basis for the service lives and survivor curves Mr. Spanos used to calculate annual accruals. PAWC's most recent service life studies were performed in 2022 for the Company's water assets (based on plant data through 2021) and in 2020 for its wastewater assets (based on plant data through 2019). *Id.* at 7.

The OCA has raised concerns regarding service lives for some water plant accounts and corresponding annual depreciation expense. The OCA argued that recent shortening of service lives has increased annual depreciation expense for PAWC's water

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[31] PAWC Exhs. 11-A, 11-D, and 11-K present the results of the depreciation studies for each water and wastewater operation as of June 30, 2023, except BASA and Brentwood because PAWC was not anticipating acquiring those systems until the FTY. PAWC Exhs. 11-B, 11-E, 11-G, 11-I, and 11-L present the results of the depreciation study for each water and wastewater operation as of June 30, 2024. PAWC Exhs. 11-C, 11-F, 11-H, 11-J, and 11-M present the results of the depreciation study for each water and wastewater operation as of June 30, 2025.

operations by $15.479 million. OCA St. 2 at 64-66. Specifically, the OCA's witness, Mr. Smith, objected to PAWC's use of service life/survivor curve information from the most recent water asset service life study (the 2021 Water Service Life Study) for three water accounts, as follows:

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

See, OCA M.B. at 44. Contending that PAWC has not justified the shortening of useful service lives for certain water plant, which was a change from PAWC's last base rate case in *PAWC 2022*, the OCA proposed a downward adjustment to depreciation expense of $15.479 million. *See*, OCA Exh. LA-2, Sch. C-17.

PAWC asserted that Mr. Smith's objections have no reasonable basis and should be rejected by the Commission. First, regarding water accounts 304.15 (Other Water Source Structures), 331.00 (Mains and Accessories), and 335.00 (Fire Hydrants), Mr. Smith argued that information from the 2021 Water Service Life Study should not be used solely because the life parameters were "drastically shortened" as compared to the service life information presented in PAWC's 2022 rate case proceeding that was taken from an earlier service life study (the 2016 Water Service Life Study). For these three water accounts only, he recommended use of the outdated service life information from the 2016 Water Service Life Study. In his rebuttal testimony, Mr. Spanos provided detailed survivor curve information for the three water accounts at issue and shows that, for each account, the updated information from the 2021 Water Service Life Study was a better statistical fit with the most current historical data than the 2016 Water Service Life Study. PAWC M.B. at 18-19 (citing PAWC St. 11-R at 5-10).

2. Recommended Decision

In their Recommended Decision, the ALJs agreed with PAWC that it demonstrated that its 2021 Water Service Life Study was a better statistical fit with the most current historical data than the 2016 Water Service Life Study. Therefore, the ALJs recommended that the Commission adopt PAWC's claim for depreciation reserve; however, the ALJs noted that consistent with their recommendation regarding utility plant-in-service, above, depreciation reserve related to Audubon, Farmington, STMA, and BASA should be excluded. R.D. at 79-80.

3. OCA Exception Nos. 3 and 9 and Replies

In its Exception Nos. 3 and 9, the OCA objects to the ALJs' recommendation that the Commission accept PAWC's use of service life/survivor curve information from the 2021 Water Service Life Study, rather than utilizing data from the previous 2016 Water Service Life Study. OCA Exc. at 5-6,12.

For the reasons argued, *supra*, as well as summarized in the Section VII.O of this Opinion and Order, *infra*, PAWC asserts that the Commission should reject the OCA's proposed $15.5 million downward adjustment to depreciation expense, as it ignores the most recent and complete information available. PAWC R. Exc. at 11-12.

4. Disposition

For the reasons set forth in our disposition of the issue pertaining to the OCA's proposed $15.5 million downward adjustment to depreciation expense, contained in Section VII.O of this Opinion and Order, we shall deny the OCA's Exception Nos. 3 and 9 and adopt the ALJs' recommendation, which accepts PAWC's claim for depreciation reserve with one exception. Consistent with our decision regarding utility plant-in-service, *supra*, depreciation reserve related to Audubon, Farmington, STMA, and BASA should be excluded.

C. Cash Working Capital (CWC) Addition to Rate Base

For ratemaking purposes, CWC is the capital needed to operate a utility between the rendition of service and the receipt of revenues in payment for services rendered. In short, CWC covers the lag between the payment of operating expenses and the receipt of revenues from ratepayers. All cash-based expenses are included in the Company's overall CWC claim; therefore, any adjustments to the Company's O&M expense claims impact the CWC allowance. I&E M.B. at 15-16.

1. Positions of the Parties

In the current proceeding, PAWC proposed the following CWC amounts:[32]

- Water Operations – Approximately $23.2 million for O&M expenses and negative $8.35 million for Interest and Dividend expenses;

- Wastewater SSS Operations - $2.2 million for O&M expenses and negative $1.19 million for Interest and Dividend expenses;

- CSS Wastewater Operations - $1.9 million for O&M expenses and negative $894,111 for Interest and Dividend expenses; and

[32] For the calculations of the water, wastewater SSS, CSS wastewater, and BASA operations' rate base claims, a net offset to CWC requirements was deducted from each to reflect the timing of the payment of interest and preferred dividends. *See*, PAWC St. 4 at 8.

- BASA Operations - $373,674 for O&M expenses and negative $422,915 for Interest and Dividend expenses.

See, PAWC Exh. 3-A Revised at 25R, 96R, 145R, 217R.

The Company represented that its CWC allowance was derived using the Commission-approved lead-lag method, by which the CWC component of rate base is calculated by multiplying the net lag days (revenue lag days less expense lag days) by the average operating expenses per day (total operating expenses ÷ 365 days). PAWC St. 4 at 13-15.

While I&E and the OCA did not dispute the Company's method of calculating CWC, as shown in Table 7 below, I&E and the OCA both recommended downward adjustments to the Company's claim because of their respective adjustments to the Company's claimed operating expenses.

Table 7: I&E and the OCA Proposed Adjustments to PAWC's CWC Claim

	PAWC's Claim	I&E		OCA	
		Adjustment	Proposed	Adjustment	Proposed *
	PAWC Exh. 3-A Revised at 25R, 96R, 217R	I&E Exh. 1-SR, Sch. 1			OCA Exh. LA-2 Schs. B-5.B, B-5.C and B-5.D
Water					
CWC - Expenses	$23,152,054	($1,088,631)	$22,063,423	($812,585)	$22,339,469
CWC - Int and Div	($8,347,179)	$0	($8,347,179)	($941,091)	($9,288,270)
	$14,804,875	($1,088,631)	$13,716,244	($1,753,676)	$13,051,199
Wastewater SSS					
CWC - Expenses	$2,235,324	($30,925)	$2,204,399	($56,107)	$2,179,217
CWC - Int and Div	($1,186,101)	$0	($1,186,101)	($100,225)	($1,286,326)
	$1,049,223	($30,925)	$1,018,298	($156,332)	$892,891
CSS Wastewater					
CWC - Expenses	$1,881,933	$0	$1,881,933	($17,767)	$1,864,166
CWC - Int and Div	($894,111)	$0	($894,111)	($82,363)	($976,474)
	$987,822	$0	$987,822	($100,130)	$887,692
TOTAL	**$16,841,920**	**($1,119,556)**	**$15,722,364**	**($2,010,138)**	**$14,831,782**

* It should be noted that the OCA's adjustments shown on OCA Exhibit LA-2 were calculated using the Company's request in PAWC Exhibit 3-A, prior to the Company's updates provided in PAWC Exhibit 3-A Revised.

Specifically, I&E ultimately recommended that PAWC's O&M expense claims be reduced by $8,111,532 for water operations and $504,709 for wastewater SSS operations, which reduced the Company's CWC allowance by $1,119,556, as shown in Table 7 above. No O&M adjustments were made by I&E to CSS wastewater operations; therefore, there is no corresponding CWC adjustment shown in the above table. I&E averred that because its recommended expense adjustments are prudent, I&E's recommended $1,119,556 reduction to PAWC's CWC claim is reasonable. I&E M.B. at 16-17.

The OCA's proposed adjustments to PAWC's CWC claim are based on the OCA's proposed adjustments to PAWC's O&M expenses and interest and dividend expenses, and the capital structure recommended by the OCA's witness, Mr. David Garrett. The OCA's proposals regarding CWC are summarized in Table 7 above and are derived on Schedules B-5.B, B-5.C, and B-5.D of OCA Exhibit LA-2 for water operations, wastewater SSS operations, and CSS wastewater operations, respectively.[33] The OCA asserted that should the Commission adopt the OCA's recommended adjustments to expenses, the Commission should also adopt the OCA's resulting adjustments to CWC for PAWC's existing systems. OCA M.B. at 33.

2. Recommended Decision

Based on the ALJs' other recommendations in their Recommended Decision, the ALJs recommended that PAWC's claim for CWC should be adjusted for interest and dividends, taxes, and O&M expenses detailed in Tables II, IV, V, and VI for Water, Wastewater SSS, and CSS Wastewater in the Appendix to the Recommended Decision. R.D. at 82.

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33 Since the BASA and Brentwood revenue requirements have been proposed to be removed in their entirety, no separate adjustments to BASA and Brentwood CWC requirements were made by the OCA.

3. OCA Exception No. 4 and Replies

In its Exception No. 4, the OCA disputes the basis for the ALJs' CWC adjustment, to the extent that the ALJs failed to account for the proper adjustment based on a capital structure of 51% equity and 49% debt. The OCA's dispute is not with the methodology used by the ALJs, but with the underlying calculations, which rejected the capital structure adjustment proposed by the OCA, as explained at length in the OCA's Exception No. 10, *infra*. Therefore, the OCA submits that the ALJs' recommendation regarding CWC must be adjusted accordingly if the OCA's proposed use of a hypothetical capital structure is accepted by the Commission. OCA Exc. at 7.

In Replies, PAWC argues that for the reasons discussed in response to OCA Exception No. 10, objecting to the OCA's hypothetical capital structure, the OCA's Exception No. 4 should also be denied. PAWC R. Exc. at 12.

4. Disposition

As noted by the ALJs, none of the Parties opposed the methodology used by PAWC for determining its claim for CWC. However, the CWC calculation, known as an iteration, effectively prevents the determination of a precise calculation until such time as all proposed adjustments to PAWC's claims have been considered by the Commission.

We concur with the ALJs and the Parties that the methodology utilized by the Company is appropriate for calculating CWC. Therefore, the CWC allocation is based on our adjustments to PAWC's expenses and denial of the OCA's Exception No. 10, in Section VII.U of this Opinion and Order, *infra*. Accordingly, we shall deny the OCA's Exception No. 4.

D. Acquisition Adjustment and Amortization Expense

An acquisition adjustment occurs when a utility purchases another system for more or less than the book value. It can also include transaction costs incurred to acquire a system and is typically claimed in rate base and amortized over a reasonable period of time. Annual amortization expense is an operating expense. It represents the recovery or refund of regulatory assets and liabilities over an agreed upon period of time. Regulatory assets and liabilities may or may not be included in a company's rate base. I&E M.B. at 18.

1. Positions of the Parties

PAWC claimed acquisition adjustments of $13,205,080, $3,749,235, and $3,686,015 for its water, wastewater SSS, and CSS wastewater operations, respectively. *See*, PAWC Exh. 3-A Revised at 25R, 96R, 217R.

As previously discussed, four small water and wastewater acquisitions are contemplated as part of this base rate filing, with applications pending before the Commission: (1) Farmington (water); (2) Audubon; (3) Farmington (wastewater); and (4) STMA; however none of these are being acquired under 66 Pa.C.S. § 1329 (Section 1329) for fair market value. As such, there are acquisition adjustment proposals associated with each of these pending acquisitions.

Regarding its water operations, the Company has included positive acquisition adjustments in its rate base claim related to the Farmington (water) and Audubon systems. For the Farmington (water) system, PAWC proposed to amortize the difference between the purchase price and the net book value, $215,489, over ten years as a utility plant acquisition adjustment and to include the unamortized balance in rate base. PAWC St. 4 at 5-6; PAWC Exh. 3-B at 341. Similarly, PAWC is proposing to acquire

Audubon's assets through a merger transaction valued at $8.0 million[34] even though the net book value of the Audubon assets is only $360,229 as of December 31, 2024. PAWC proposed to amortize the difference between the purchase price and the net book value, $7,639,771, over ten years as a utility plant acquisition adjustment and to include the unamortized balance in rate base. PAWC St. 4 at 6; PAWC Exh. 3-B at 341. As shown in Table 6, *supra*, PAWC proposed to include $195,736 ($215,489 – $19,753)[35] in its FPFTY rate base related to the unamortized balance of the $215,489 acquisition adjustment associated with the Farmington (water) system and $6,939,459 ($7,639,771 – $700,312)[36] related to the unamortized balance of the $7,639,771 acquisition adjustment associated with the Audubon system. In addition, as illustrated in Table 6, *supra*, PAWC's total acquisition adjustment claimed in its Water operations rate base included $49,799 of transaction costs related to the Farmington (water) system and $107,142 of transaction costs related to the Audubon system. *See*, PAWC Exh. 3-C at 72.

Regarding the wastewater SSS operations, the Company also claimed a negative plant acquisition adjustment in the total amortization expense related to the STMA system. For the STMA system, the Company projected that the purchase price will be $945,612 less than the net book value of the STMA plant. PAWC Exh. 3-B at 344. Because it is a negative acquisition adjustment, the Company is required to amortize the adjustment as a credit back to customers over ten (10) years. While there is no rate base adjustment, the Company is claiming a negative $94,561 ($945,612 /10) acquisition adjustment expense be credited back to customers over ten (10) years. *See*, PAWC Exh. 3-A at 130. In addition, as illustrated in Table 6, *supra*, PAWC's total acquisition adjustment claimed in its wastewater SSS operations rate base includes

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34 *See*, PAWC St. 6 at 11-12, 18.

35 Amortized 11 months starting August 2024. PAWC Exh. 3-C at 72.

36 Amortized 11 months starting August 2024. PAWC Exh. 3-C at 72.

$51,761 of transaction costs related to the Farmington (wastewater) system and $83,085 of transaction costs related to the STMA system. *See*, PAWC Exh. 3-C at 79.

I&E and the OCA proposed to remove the acquisition adjustments, transaction costs, and amortization expenses related to the Audubon, Farmington (water), Farmington (wastewater), and STMA systems concomitant to their proposed exclusion of the disputed acquisitions discussed previously. I&E M.B. at 12-13, 21, 29; OCA M.B. at 41-43.

As I&E and the OCA have recommended the Audubon and Farmington (water) acquisitions be removed from this proceeding in total, I&E and the OCA argued that it will also be necessary to remove from rate base the acquisition adjustments of $195,736 and $6,939,459 related to the Farmington (water) and Audubon systems, respectively. I&E M.B. at 12-13, 21, 29; OCA M.B. at 41-43. Additionally, both Parties argued that $49,799 of transaction costs related to the Farmington (water) system and $107,142 of transaction costs related to the Audubon system included in the acquisition adjustments should be removed from the total acquisition adjustment claimed in rate base. *See*, OCA Exh. LA-2, Schs. B-1 and B-2.

If the Commission adopts I&E's and the OCA's recommendation to exclude the Audubon and Farmington (water) systems, I&E and the OCA argued that there should be a corresponding $775,772 ($763,977 + $11,795) reduction of amortization expense claimed for the Audubon system and $27,032 ($21,549 + $5,483) claimed for the Farmington (water) system. *See*, PAWC Exh. 3-A at 67.

As I&E and the OCA have recommended the STMA acquisition be removed from this proceeding in total, I&E stated that it will also be necessary to remove the negative $94,561 acquisition adjustment claimed in the Company's total amortization expense related to the STMA system. I&E M.B. at 18; OCA M.B. at 41-43.

I&E's witness, Mr. Joseph Kubas, argued that $83,085 of transaction costs related to the STMA system and $51,761 of transaction costs related to the Farmington (wastewater) system included in the acquisition adjustments should be removed from the total acquisition adjustment claimed in rate base. These systems are not yet owned by PAWC; therefore, I&E contended that PAWC should not be able to include the corresponding transaction costs incurred to acquire these systems as part of the total acquisition adjustment in rate base from these systems in the wastewater SSS operations. I&E M.B. at 18-19; OCA Exh. LA-2, Schs. B-3 and B-4.

If the Commission adopts I&E's and the OCA's recommendations to exclude the STMA and Farmington (wastewater) system, I&E argued that there should be a corresponding $9,147 reduction of amortization expense claimed for the STMA system and $5,699 claimed for the Farmington (wastewater) system. I&E M.B. at 19; *See also*, PAWC Exh. 3-A at 130.

In addition, if the $83,085 of transaction costs related to the STMA system and $51,761 of transaction costs related to the Farmington (wastewater) system are removed from the total acquisition adjustment claimed in rate base, I&E contended there should be a corresponding reduction of $8,385 of annual amortization related to the STMA system and a reduction of $5,224 of annual amortization related to the Farmington (wastewater) system. I&E M.B. at 19.

2. Recommended Decision

In their Recommended Decision, the ALJs agreed with I&E and the OCA and recommended that if the disputed acquisitions are removed from rate base, the Commission should also remove the acquisition adjustments, transaction costs, and related amortization expenses, for the Audubon, Farmington (water), Farmington (wastewater) and STMA systems. The ALJs' recommendation is reflected in Table II Water and Wastewater SSS in the Appendix attached to the Recommended Decision.

3. Disposition

None of the Parties filed Exceptions to the ALJs' recommendation. We find the ALJs' recommendation to be reasonable and shall adopt it. Accordingly, as set forth in Table II Water and Table II-Wastewater SSS, in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, we shall remove the following amounts claimed by the Company, which are outlined in Table 6, *supra*: (1) the acquisition adjustments of $195,736 and $6,939,459 related to the Farmington (water) and Audubon systems, respectively; (2) the transaction costs included in the acquisition adjustments of $49,799 related to the Farmington (water) system and $107,142 related to the Audubon system; (3) the transaction costs of $51,761 related to the Farmington (wastewater) system and $83,085 related to the STMA system.[37]

E. Annual Depreciation Expense

1. Positions of the Parties

Annual depreciation expense is an operating expense that represents the loss of service value of plant over the life of the plant. I&E St. 3 at 80. PAWC is claiming $214,460,165, $27,482,112, and $20,500,959 of annual depreciation expense for the FPFTY for its water, wastewater SSS, and CSS wastewater operations, respectively. *See*, PAWC Exh. 3-A Revised at 1R, 76R, 204R.

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[37] The related amortization expenses are addressed in Section VII.M of this Opinion and Order, *infra*.

Concomitant to its proposed exclusion of the disputed acquisitions discussed previously, I&E proposed that $310,188 of annual depreciation expense associated with the Audubon system and $607,272 of annual depreciation expense associated with the Farmington (water) system be removed from the water operations annual depreciation expense. *See*, I&E M.B. at 14. Similarly, I&E submitted that $24,342[38] of annual depreciation expense associated with the STMA system and $11,611 associated with the Farmington (wastewater) system should be removed from the Wastewater SSS operations annual depreciation expense.[39] I&E M.B. at 19-20.

Concomitant to its proposed exclusion of the disputed acquisitions discussed previously, the OCA similarly proposed that $269,599 of annual depreciation expense associated with the Audubon system and $101,751 of annual depreciation expense associated with the Farmington (water) system be removed from the Water operations annual depreciation expense, and $51,847 of annual depreciation expense associated with the STMA system and $137,987 associated with the Farmington (wastewater) system be removed from the wastewater SSS operations annual depreciation expense.[40] OCA St. 2 at 52-54.

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38 *See*, PAWC Exh. 3-C at 30-31.

39 I&E's witness, Mr. Kubas, explained that the filing did not contain a breakdown of annual depreciation expense for the Farmington system; therefore, he applied the approximately 1.26% composite depreciation rate applicable in the STMA system to the Farmington (wastewater) system net plant to arrive at the $11,611 ($923,272 x 0.012576) of Farmington (wastewater) annual depreciation expense. I&E St. 3 at 81.

40 OCA's witness, Mr. Smith, utilized plant amounts from pages 26 and 97 of PAWC Exhibit 3-A and depreciation rates from PAWC Exhibit 11-C, Water Operations, June 30, 2025 Depreciation Study, Table 2 and PAWC Exhibit 11-F, Wastewater SSS General Operations, June 30, 2025 Depreciation Study, Table 2. *See*, OCA Exh. LA-2, Schs. C-5, C-6, C-7, C-8.

In addition to depreciation expense adjustments associated with acquisitions, the OCA proposed adjustments to depreciation expense concomitant to its objections to service life/survivor curves employed in the depreciation studies prepared by PAWC's witness, Mr. Spanos, as discussed in Section V.B above.

2. Recommended Decision

In their Recommended Decision, the ALJs agreed with I&E and the OCA and recommended that, if the disputed acquisitions are removed from rate base, the Commission should also remove annual depreciation expense for the Audubon, Farmington (water), Farmington (wastewater), and STMA systems. The ALJs' recommendation, reflecting agreement with the OCA's calculated amounts, is reflected in Table II Water and Wastewater SSS attached to the Appendix of the Recommended Decision.

The ALJs noted that further adjustments to depreciation expense concomitant to the OCA's objections to service life/survivor curves employed in the depreciation studies prepared by PAWC' witness, Mr. Spanos, would be discussed in the Expenses section of the Recommended Decision. R.D. at 85-86.

3. OCA Exception Nos. 3 and 9 and Replies

As discussed, *supra*, in its Exception Nos. 3 and 9, the OCA objects to the ALJs' recommendation that the Commission accept PAWC's use of service life/survivor curve information from the 2021 Water Service Life Study, rather than utilizing data from the previous 2016 Water Service Life Study. OCA Exc. at 5-6,12.

For the reasons argued, *supra*, as well as summarized in the Depreciation Expense section in Section VII.O of this Opinion and Order, *infra*, PAWC asserts that the

Commission should reject the OCA's proposed $15.5 million downward adjustment to depreciation expense, as it ignores the most recent and complete information available. PAWC R. Exc. at 11-12.

4. Disposition

I&E's and the OCA's proposed adjustments to the Company's claimed annual depreciation expense are, in part, concomitant to their proposed exclusion of the Audubon, Farmington (water), Farmington (wastewater), and STMA acquisitions. As none of the Parties filed Exceptions to the ALJs' recommendation on this issue, we find the ALJs' recommendation to be reasonable and, therefore, adopt it, concomitant with our disposition regarding utility plant-in-service, *supra.* Accordingly, we shall exclude the Company's claimed depreciation expense related to Audubon, Farmington (water and wastewater), and STMA.[41] As set forth in Table II-Water and Table II-Wastewater SSS, in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, we shall remove the following claimed annual depreciation amounts: (1) $269,599 of annual depreciation expense associated with the Audubon system; (2) $101,751 of annual depreciation expense associated with the Farmington (water) system; (3) $51,847 of annual depreciation expense associated with the STMA system; and (4) $137,987 associated with the Farmington (wastewater) system. These amounts reflect our agreement with the OCA's calculated amounts, *supra.*

Additionally, as previously discussed, the OCA proposed further adjustments to annual depreciation expense concomitant to its objections to service life/survivor curves employed in the depreciation studies prepared by PAWC's witness, Mr. Spanos. For the reasons set forth in our disposition of the issue pertaining to the

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[41] As we are excluding BASA in this proceeding, we shall also exclude all depreciation amounts related to BASA.

OCA's proposed $15.5 million downward adjustment to depreciation expense, contained in Section VII.O of this Opinion and Order, *infra*, we shall deny the OCA's Exception Nos. 3 and 9 and adopt the ALJs' recommendation, which accepts PAWC's claim for depreciation reserve with one exception. Consistent with our decision regarding utility plant-in-service, *supra*, amounts related to Audubon, Farmington (water), Farmington (wastewater), STMA, and BASA should be excluded, as described above.

F. Reporting – Utility Plant-in-Service

1. Positions of the Parties

I&E proposed that the Company provide I&E and the OCA with updates to PAWC Exhibit 3-A, pages 26, 97, 146, 179, and 218 no later than December 1, 2025, under this docket number. I&E stated that PAWC's updates should include actual plant additions and retirements for the twelve months ending June 30, 2024, and for the twelve months ending June 30, 2025. I&E M.B. at 20.

The Company is estimating that it will add approximately $742,020,740 of plant additions in the FTY ending June 30, 2024, and approximately $797,874,110 of plant additions in the FPFTY. PAWC St. 3 at 9. I&E averred that there is value in determining how closely PAWC's projected investments in future facility comport with the actual investments that are made by the end of the FTY and the FPFTY. Determining the correlation between PAWC's projected and actual plant additions and retirements will help verify the validity of PAWC's projections. I&E M.B. at 20.

PAWC has indicated that it agrees with I&E's reporting requirement recommendation and that it will provide the updates as requested. PAWC St. 4-R at 7.

2. Recommended Decision

The ALJs recommended that the Company provide I&E and the OCA with updates to PAWC Exhibit 3-A, pages 26, 97, 146, 179, and 218 no later than December 1, 2025, under the R-docket numbers in this proceeding, and PAWC's updates should include actual plant additions and retirements for the twelve months ending June 30, 2024, and for the twelve months ending June 30, 2025. R.D. at 86-87.

3. Disposition

None of the Parties filed Exceptions to the ALJs' recommendation. Finding the ALJs' recommendation to be reasonable, we adopt it without further comment.

VI. Revenues at Present Rates, Revenue Increase, and Revenue Requirement

A. Present Rate Revenue / Revenues Related to the Six Proposed Acquisitions

1. Positions of the Parties

PAWC's overall claim for *pro forma* revenue at present rates for the FPFTY was $1,011,038,462.[42] The Company developed this claim using the level of water and wastewater sales revenue generated during the historic test year (HTY) ended

[42] PAWC's claim consisted of the sum of its Water, Wastewater SSS, Wastewater CSS, and BASA Operations, respectively, as follows: [$824,117,186 + $95,470,867 + $78,636,216 + $12,814,193 = $1,011,038,462]. PAWC represented that its claimed revenues did not include any impacts of the Company's attempt to acquire Brentwood. PAWC M.B. at Appendix A, Table Act 11 – Step 2. We further note that in the body of its Main Briefs, the Company stated that its claim for *pro forma* revenue at present rates was $1,213,394,607. However, this figure is the Company's proposed overall revenue requirement on a total company basis, as discussed, *infra*.

June 30, 2023, and, in accordance with well-established Commission practice, PAWC made appropriate adjustments to eliminate non-recurring items and to annualize the effect of known or anticipated changes. These included adjustments: (1) to eliminate unbilled revenue; (2) to annualize revenues associated with acquired systems; (3) to reflect changes affecting the consumption of specific large customers; and (4) to reflect changes in the number of customers during the HTY and as projected for the FTY ending June 30, 2024, and the FPFTY ending June 30, 2025. Additionally, for residential, commercial, and municipal customers, PAWC proposed adjustments to the actual FTY billing determinants related to trends in declining use, weather normalization, and the impact of the COVID-19 pandemic on water consumption. PAWC M.B. at 20, Appendix A, Table Act 11 – Step 2.

I&E argued that $12,814,193 of present rate revenue from the Company's pending acquisition of BASA and $1,824,191 of present rate revenue from the Company's attempted acquisition of Brentwood should be excluded from rate recovery.[43] I&E also argued that the following additional present rate revenues should be excluded: (1) $2,965,024 from the Company's pending acquisition of Audubon; (2) $266,371 from the Company's pending acquisition of Farmington (water); (3) $322,926 from the Company's pending acquisition of Farmington (wastewater); and (4) $471,228 from PAWC's pending acquisition of STMA. I&E restated its argument, *supra,* that because PAWC does not yet own these systems, nor is it clear at what point the Company will own these systems, the associated revenue impacts should be removed from the Company's claims in this proceeding. I&E M.B. at 22; I&E St. 4 at 10.

[43] I&E acknowledged that the Company already excluded any Brentwood impacts from its revenue claim. Nonetheless, I&E explained that, for purposes of clarity, it noted its recommendation related to the exclusion of revenue impacts from Brentwood. I&E M.B. at 22, n.59.

The OCA, likewise, maintained that because the Company does not currently own any of the property associated with its six proposed acquisitions, the following should be excluded from PAWC's revenue claims: (1) the $2.965 million and $266,371 in operating revenues at present rates related to Audubon and Farmington (water), respectively; (2) the $322,926 and $471,228 in operating revenues at present rates related to Farmington (wastewater) and STMA, respectively; and (3) all revenues associated with BASA and Brentwood. OCA M.B. at 34.

The OSBA proposed a BASA mitigation adjustment, which is discussed in Section VI.D, below. OSBA M.B. at 8-9. The OSBA added that if the Audubon acquisition is rejected by the Commission, or if the Commission does not issue a final order in the Audubon acquisition proceeding prior to the record closing in the instant proceeding, all costs related to Audubon should be removed from the revenue requirement in this case. Additionally, the OSBA submitted that once the Commission decides the PAWC/Audubon case, that result can be addressed in the Company's next rate case. OSBA R.B. at 7-8.

2. Recommended Decision

As previously noted, the ALJs concluded that it would be premature to include the BASA acquisition in PAWC's FPFTY rate base. Consistent with this finding, the ALJs found that PAWC's operating revenues should be adjusted downward to remove revenues associated with BASA, Audubon, Farmington, and STMA, consistent with the positions of I&E and the OCA. The ALJs explained that these downward revenue adjustments require concomitant adjustments for bad debt and general assessment expenses and forfeited discounts/late payment fee/penalties revenues that are determined as a percentage of revenues. R.D. at 90-91.

3. PAWC Exception No. 3 and Replies

As noted in Section V.A of this Opinion and Order, PAWC, in its Exception No. 3, objects to the ALJs' recommendation that the Commission disallow the Company's revenue requirement claims related to the acquisition of BASA. PAWC submits, *inter alia*, that the ALJs' conclusion, that the BASA acquisition should not be included in PAWC's rates at this time because there is no certainty that the Company will close on the BASA acquisition during the FPFTY, was in error. According to PAWC, Section 315(e) of the Code does not require absolute certainty that the facilities will be in service by the end of the FPFTY. PAWC reasons that if the Commission desires absolute certainty that the Company will close on the BASA acquisition prior to the end of the FPFTY before including BASA in PAWC's rate base, then the Company supports the Commission imposing a condition. Namely, PAWC supports the Commission requiring that the Company certify that closing has occurred on the BASA acquisition prior to the end of the FPFTY in order to implement Step 2 of its stepped rate increase proposal. PAWC reasons that if closing on the BASA acquisition does not occur by the end of the FPFTY, its proposed Step 2 rates will not be implemented. PAWC Exc. at 12-16.

In its Replies to Exceptions, I&E argues, *inter alia*, that PAWC's position is based on its assumption that the Commonwealth Court will find in PAWC's favor, and that if it does, no party to that proceeding will file for a further appeal. I&E cautions, however, that accepting those assumptions is not in the public interest, nor can the Commission assume PAWC knows with absolute certainty how the Commonwealth Court will rule. Therefore, I&E maintains that the BASA present rate revenues must be removed from PAWC's revenues. I&E R. Exc. at 6-7.

In its Replies to Exceptions, the OCA argues, *inter alia*, that the ALJs were correct in recommending that BASA and the other not-yet-acquired systems, *supra*, should be excluded from the Company's claimed rate base and revenues. OCA R. Exc. at 1-6.

Similarly, the OSBA, in its reply, submits that the ALJs properly recommended that the BASA acquisition be excluded from the Company's rates. The OSBA stresses that this acquisition is still before the Commonwealth Court, and there is no certainty as to when the Court will reach a decision. OSBA R. Exc. at 2-3.

4. Disposition

We have previously determined, in Section V.A, *supra*, that it would be premature to include the acquisitions of BASA, Audubon, Farmington (water), Farmington (wastewater), and STMA in PAWC's rate base. As noted above, because the Company does not yet own these systems, they are not yet used and useful in the provision of utility service to PAWC's customers. I&E M.B. at 10. Further, there is no certainty as to when the Company will own these systems. OSBA R. Exc. at 3. Therefore, we shall also adopt the associated recommendation of the ALJs that the revenues related to these proposed acquisitions be removed from the Company's claim for *pro forma* revenue at present rates. Accordingly, we shall remove: (1) $12,814,193 of present rate revenue from the Company's pending acquisition of BASA; (2) $2,965,024 from the Company's pending acquisition of Audubon; (3) $266,371 from the Company's pending acquisition of Farmington (water); (4) $322,926 from the Company's pending acquisition of Farmington (wastewater); and (5) $471,228 from PAWC's pending acquisition of STMA.[44] Our above adjustments for the Audubon, Farmington (water), Farmington (wastewater) and STMA systems are set forth in Table II-Water and Table II-Wastewater SSS, in the rate tables that outline the Commission

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[44] As previously noted, PAWC has already removed its claimed present rate revenues related to the Brentwood system.

Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order.

PAWC's Exception No. 3, as it relates to the Company's revenue at present rates and its revenues related to its proposed acquisitions at issue in this proceeding is denied.

B. Late Payment Revenue

1. Positions of the Parties

I&E explained that late payment revenue is received from customers when they are assessed late payment charges for not paying their bills on time. I&E reasoned that because such revenues are based upon a percentage of a customer's bill, an increase in base rates will generally result in late payment revenues increasing by the same percentage as the bills' increase. I&E M.B. at 9. I&E noted that in its wastewater SSS operations, PAWC included late payment fees under "Other Operating Revenue." Accordingly, I&E proposed an increase of $154,448 in Other Operating Revenue, or from $3,241,057 to $3,395,505, to appropriately reflect additional late payment revenues. I&E multiplied the present rate late payment revenue of $463,681 by the 35.1% increase in tariff rates and then subtracted the $8,332 increase the Company reflected to arrive at its proposed late payment revenue increase of $154,448.[45] *Id.* (citing PAWC Vol. 9, Exh. 10-B at 33).

The Company did not oppose I&E's method of calculating late payment revenues, but it did assert that I&E's proposed increase to Other Operating Revenue

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[45] [$463,681 x 35.106%=$162,780]; [$162,780-$8,332=$154,448].

should be rejected if the Commission rejects I&E's proposed increases in rates for wastewater SSS and CSS customers.[46] PAWC R.B. at 15-16.

2. Recommended Decision

As will be discussed in Sections X.E and X.H, infra, the ALJs did not recommend that the Commission adopt I&E's proposed increases in rates for wastewater SSS and CSS customers. Accordingly, the ALJs recommended that I&E's proposed adjustment to late payment revenues and other operating revenues be rejected. Furthermore, the ALJs recommended that the Commission adopt PAWC's proposed ratio of 0.5027% of penalties to total billed water/wastewater sales revenues to calculate the Company's late payment fee revenues at present and proposed rates. According to the ALJs, this ratio should also be used to calculate concomitant late payment fee revenues when adjusting present rate revenues, and to calculate late payment fee revenues at allowed rates, consistent with the Commission's final authorized increase in billed water/wastewater sales revenues. R.D. at 91-92.

3. Disposition

No Party filed Exceptions to the ALJs' recommendation on this issue. Finding the ALJs' recommendation to be reasonable and supported by substantial evidence in the record, we shall adopt it without further comment.

[46] These proposed increases are discussed in Sections X.E and X.H of this Opinion and Order.

C. Miscellaneous Revenues

1. Positions of the Parties

For the HTY ended June 30, 2023, PAWC received $659,624 of revenues related to the "on-bill" billing of charges on behalf of American Water Resources (AWR) for its non-utility products and services. PAWC represented that it recorded these revenues above-the-line, which provides a benefit to PAWC's customers by offsetting the Company's operating and maintenance expenses recovered through rates. The Company included $659,624 of miscellaneous revenue from AWR in the revenue requirement for the FPFTY ending June 30, 2025. PAWC St. 1-R at 20. PAWC stated that if the Commission determines that the Company cannot continue its long-standing on-bill arrangement with AWR, the associated revenues must also be removed from the Company's revenue requirement. However, the Company stressed that it disagrees with the position of the OCA, *infra*, that this arrangement should be discontinued. PAWC R.B. at 15.

The OCA stated that it has not challenged PAWC's miscellaneous revenue claims. Rather, as discussed, in detail, in section XIII.D, *infra*, the OCA provided that its concerns regarding the Company's relationship with AWR center on its contention that PAWC is engaging in deceptive and discriminatory billing and marketing practices for non-utility "protection services" of customer-owned service lines and in-home plumbing provided by AWR, to the detriment of consumer interests. Despite these concerns, the OCA disagreed with PAWC's argument that if the Commission determines that the Company should cease its on-bill agreement with AWR, then these revenues should be removed. The OCA reasoned that: (1) the $659,624 revenue that PAWC receives from AWR is fully substantiated by the Company for the FPFTY; and (2) reflecting this miscellaneous revenue benefits consumers by offsetting the Company's proposed revenue requirement. Moreover, the OCA stated that, at present, it has simply recommended an investigation and a pause on any new customer enrollments until the Commission concludes its investigation. OCA M.B. at 34-35, 106.

2. Recommended Decision

As explained in Section XIII.D of this Opinion and Order, *infra*, the ALJs recommended that the Commission reject the OCA's proposal to open an investigation into PAWC's relationship with AWR. As such, the ALJs did not recommend any corresponding adjustment to PAWC's claim for miscellaneous revenues related to AWR. R.D. at 93.

3. OCA Exception No. 5 and Replies

In its Exception No. 5, the OCA states that it agrees with the ALJs' recommendation that PAWC's miscellaneous revenues related to AWR should not be adjusted. However, the OCA submits that the ALJs erred in their reasoning for why these revenues should not be adjusted. The OCA restates its argument that the Company's claim is fully substantiated and provides a benefit to ratepayers. Additionally, the OCA maintains that it has simply recommended an investigation and a pause on any new enrollments pending such an investigation. The OCA posits that if the Commission adopts the OCA's recommendation to open an investigation, it would be speculative to predict the outcome thereto. In light of this uncertainty, the OCA insists that no adjustment is necessary to PAWC's miscellaneous revenue claim. OCA Exc. at 7-8.

As will be discussed in greater detail in Section XIII.D of this Opinion and Order, PAWC, in its Replies to Exceptions, takes the position that the Commission should reject the OCA's request to initiate an investigation of PAWC's relationship with

AWR. PAWC avers, *inter alia*, that its billing arrangement with AWR is not discriminatory. PAWC R. Exc. at 16-17.

4. Disposition

As will be discussed in Section XIII.D, *infra*, we shall adopt the recommendation of the ALJs and will reject the OCA's proposal to open an investigation into PAWC's relationship with AWR. As a result, we disagree with the OCA that the ALJs erred in their reasoning for why PAWC's claim for miscellaneous revenues related to AWR should be adopted. Accordingly, the OCA's Exception No. 5 is denied.

D. BASA Mitigation Adjustment

1. Positions of the Parties

The OSBA argued that as part of the Settlement Agreement approved in *BASA*, PAWC agreed to move BASA's rates to the lower of: (1) 1.40 times the current BASA rates; or (2) PAWC's proposed Rate Zone 1 system-average wastewater rates, upon the latter of the first anniversary of Closing or January 1, 2025. The OSBA stated that although PAWC has adhered to this settlement condition, it has proposed in this instant proceeding to recover $21.6 million in annual Act 11 revenues from water customers associated with the acquisition of BASA. The OSBA claimed that such recovery should be denied. According to the OSBA, it is unreasonable for the Company to shift this cost burden to water customers. Namely, the OSBA argued, PAWC "negotiated" the BASA acquisition price and negotiated with the OSBA and other parties to mitigate the impact on BASA customers in this rate case. Consequently, the OSBA recommended setting the BASA-related revenue requirement increase at the 40% capped increase for BASA wastewater customers, or $4,735,610, with no Act 11 revenue shift to water customers. The OSBA reasoned that this recommended "BASA Mitigation

Adjustment" simply requires PAWC to adhere to its commitment under the settlement in *BASA*. The OSBA added that its proposed adjustment is effectuated by temporarily imputing revenues to the BASA system in the amount necessary to recover the BASA revenue requirement without shifting costs to non-BASA customers. Finally, the OSBA posited that PAWC can revisit this issue in its next base rate proceeding. OSBA M.B. at 8-9.

PAWC submitted that, in making its proposed adjustment, the OSBA has mischaracterized the terms of the settlement in *BASA*. In this regard, the Company argued that the OSBA relied on the fact that PAWC agreed to propose rates at the lower of 1.4 times current BASA rates or the proposed Rate Zone 1 rates to imply that the Commission *must* limit BASA rates to this amount, and that PAWC agreed that any resulting shortfall in revenue would be imputed to its shareholders. According to PAWC, this is inaccurate. Rather, PAWC insisted that while the Company agreed that it would propose moving BASA rates to 1.4 times the lower of current BASA rates or 1.4 times PAWC's proposed Rate Zone 1 rates, the Commission has the authority to set rates at an amount that it determines is reasonable. In addition, PAWC asserted that the Commission and the parties to the settlement in *BASA* clearly recognized that the terms of the settlement would result in a revenue shortfall and that PAWC might propose in a future rate case to allocate this shortfall to its water customers. Therefore, PAWC submitted that the Commission should reject the OSBA's proposed BASA mitigation adjustment. PAWC R.B. at 13-14.

2. Recommended Decision

As previously noted, the ALJs recommended that the Commission exclude BASA from PAWC's rate base. Therefore, the ALJs declined to make a recommendation regarding the OSBA's proposed BASA mitigation adjustment. R.D. at 94.

3. Disposition

None of the Parties filed Exceptions with regard to the ALJs' decision to refrain from making a recommendation on this issue. As we have adopted the ALJs' above recommendation to exclude the BASA acquisition from PAWC's rate base in this proceeding, we find this issue to be moot. Provided that PAWC physically owns the BASA system by its next base rate proceeding, we note that this issue can be raised in that proceeding.

E. Revenue Increase and Revenue Requirement

A utility's revenue requirement represents "the total revenue that the utility needs to collect through the rates charged to the public to cover its cost of service." James H. Cawley & Norman J. Kennard, *A Guide to Utility Ratemaking* at 102 (2018 ed.) (*PUC Rate Case Handbook*). The formula to calculate the utility's revenue requirement is set forth, as follows:

RR=T+E+D+(RB x ROR)

Where: RR=Revenue Requirement
T=Taxes
E=Operating Expense
D=Depreciation Expense
RB=Rate Base
ROR=Overall Rate of Return

I&E St. 2 at 2-3. The central issue in a base rate case involves identifying the appropriate cost-of-service, or revenue requirement, for the utility, in this case PAWC.[47] *PUC Rate Case Handbook* at 102.

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[47] We have discussed the Company's rate base, *supra*, and will discuss the remaining components of the Company's Revenue Requirement formula in the sections that follow.

1. Positions of the Parties

PAWC's final overall proposed revenue requirement on a total Company basis was approximately $1,213,394,607, representing a proposed revenue increase of $202,356,145 over *pro forma* revenues at present rates of $1,011,038,462. As previously discussed, PAWC proposed a two-step revenue increase. Thus, the Company's final proposed revenue increase and revenue requirement was broken down as follows:

> (1) A Step 1 revenue requirement of $1,175,257,467, representing a proposed revenue increase of $177,033,198 over *pro forma* revenues at present rates of $998,224,269. After allocating a portion of the wastewater revenue requirement to water customers, this consisted of a proposed water revenue requirement of $1,001,429,829, representing a proposed revenue increase of $177,312,643 over water revenues at present rates of $824,117,186; and a proposed wastewater revenue requirement of $173,827,638, representing a proposed revenue decrease of $279,445 over wastewater revenues at present rates of $174,107,083. PAWC represented that its Step 1 revenue increase did not include any revenue requirement associated with the BASA acquisition, and that it excluded all impacts of the Brentwood acquisition.
>
> (2) PAWC then proposed a Step 2 revenue increase, to be effective on one-day's notice upon the closing of the BASA acquisition. Thus, the Step 2 revenue requirement included the revenue requirement proposed in Step 1, *supra*, plus the addition of the revenue requirement associated with the BASA acquisition. As previously noted, PAWC's proposed Step 2 revenue increase led to a final proposed revenue requirement of $1,213,394,607 on a total company basis, representing a proposed revenue increase of $202,356,145 over *pro forma* revenues at present rates of $1,011,038,462. After allocating a portion of the wastewater revenue requirement to water customers,

> this consisted of a proposed water revenue requirement of $1,022,982,528, representing a proposed revenue increase of $198,865,342 over water revenues at present rates of $824,117,186; and a proposed wastewater revenue requirement of $190,412,079, representing a proposed revenue increase of $3,490,803 over wastewater revenues at present rates of $186,921,276.[48]

PAWC M.B. at 10, Appendix A, Table Act 11 – Water and Wastewater Revenue Requirement Summary – Step 1 and Table Act 11 – Water and Wastewater Revenue Requirement Summary – Step 2.

I&E recommended a revenue requirement of $1,050,249,404 for PAWC, on a total company basis. I&E's proposal would result in a total revenue increase of approximately $56,050,684 over revenues at present rates of $994,198,720. This consisted of a proposed water revenue requirement of $850,229,374, representing an increase of approximately $29,343,583 to the Company's water revenues of $820,885,791 at present rates; and a proposed wastewater revenue requirement of $200,020,030, representing an increase of approximately $26,707,101 to the Company's wastewater revenues of $173,312,929 at present rates. As previously noted, I&E opposed the inclusion of any revenue and rate increases associated with the Company's pending BASA acquisition, as that transaction has not yet closed. Therefore, I&E opposed the Company's Step 2 increase in its entirety. I&E M.B. at 6, Appendix A, Table Act 11 Allocation.[49]

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[48] Included in this wastewater revenue requirement was a revenue requirement for BASA of $16,584,441, representing a proposed revenue increase for BASA of $3,770,248 over revenues at present rates of $12,814,193. PAWC M.B. at Appendix A, Table Act 11 – Water and Wastewater Revenue Requirement Summary – Step 2.

[49] As discussed in Section X.E of this Opinion and Order, *infra*, I&E took the position that the Commission should not permit the Company to allocate any of its wastewater revenue requirement to its water customers.

The OCA proposed a final revenue requirement of $1,057,332,943 on a total Company basis. The OCA's proposal would result in a total revenue increase of $45,437,081 over revenues at present rates of $1,011,895,862. After allocating a portion of the wastewater revenue requirement to water customers, this consisted of a proposed water revenue requirement of $860,808,007, representing an increase of approximately $36,690,821 to the Company's water revenues of $824,117,186 at present rates; and a proposed wastewater revenue requirement of $182,853,342, representing an increase of approximately $8,746,259 to the Company's wastewater revenues of $174,107,083 at present rates. OCA M.B. at Appendix A, Summary Table. As previously noted, the OCA, likewise, opposed the inclusion of any revenue requirement associated with the Company's pending BASA acquisition. *Id.* at 34.

The OSBA proposed a maximum revenue increase for the Company of $109,088,498. As discussed above, the OSBA proposed the inclusion of a BASA mitigation adjustment. OSBA M.B. at 7-9.

CAUSE-PA did not take a specific position as to the revenue requirement in this proceeding. However, CAUSE-PA stated that it is highly concerned that the Company's proposal to "dramatically" increase rates for basic water and wastewater services will negatively affect the accessibility of service for residential customers, especially low-income customers. Therefore, CAUSE-PA requested that PAWC's proposed revenue increase and revenue requirement be rejected in its entirety because the Company has failed to demonstrate that its proposals are just, reasonable, and in the public interest. CAUSE-PA M.B. at 18.

PAWLUG, likewise, did not propose an independent revenue requirement recommendation. However, PAWLUG submitted that the Commission should review the expense adjustments proposed by I&E and the OCA, *infra*, to ensure the Company's proposed rates are adjusted, as necessary, to protect customer interests, including moderating the impact of the proposed Act 11 allocation. PAWLUG M.B. at 5.

2. Recommended Decision

As previously noted, the ALJs concluded that it would be premature to include the BASA acquisition in PAWC's FPFTY rate base. Consistent with this finding, the ALJs recommended that the Company's proposed two-step rate increase proposal be denied. Instead, the ALJs recommended an overall revenue requirement of approximately $1,098,260,686 for PAWC on a total Company basis, based on the various adjustments that they recommended that the Commission adopt in their Recommended Decision, resulting in an overall distribution revenue increase of approximately $104,082,203. After allocating a portion of the wastewater revenue requirement to water customers, the ALJs' recommendation consisted of: (1) a revenue requirement of $913,459,551 for PAWC's water service, representing an increase of approximately $92,590,004 over *pro forma* present rate water revenues of $820,869,547; and (2) a revenue requirement of $184,801,136 for PAWC's wastewater service, representing an increase of approximately $11,492,198 over *pro forma* present rate wastewater revenues of $173,308,937. The ALJs' recommendation represented an increase of approximately 11.28% in water operating revenues and an increase of approximately 6.63% in wastewater operating revenues. R.D. at 1, Appendix Table Act 11 – Water and Wastewater Revenue Requirement - Summary.

3. Exceptions and Replies

As discussed elsewhere in this Opinion and Order, PAWC, I&E, and the OCA each filed Exceptions to certain recommendations the ALJs made regarding the components of PAWC's revenue requirement. Additionally, I&E and the City of

Scranton filed specific Exceptions to the ALJs' recommended revenue increase and revenue requirement, as discussed below.

a. I&E Exception No. 7[50]

In its Exception No. 7, I&E submits that based upon the flaws I&E alleged are present in the Recommended Decision, as discussed in its Exception Nos. 1 through 6 and presented elsewhere in this Opinion and Order, the ALJs arrived at an erroneous recommended revenue increase for PAWC that will result in unjust and unreasonable rates for its customers. I&E insists that PAWC should receive a revenue increase of no more than $56,050,684, on a total Company basis, including a revenue increase of $29,343,583 for the Company's water operations and $26,707,101 for its wastewater operations. I&E claims that modifying the ALJs' recommendation and adopting the position of I&E regarding: (1) the Company's ROE; (2) the Act 11 subsidy; and (3) the proposed rate design for both water and wastewater, *infra*, will adjust the Company's allowed revenue increase and revenue requirement to a more appropriate level that produces just and reasonable rates. I&E Exc. at 15-16.

b. City of Scranton Exception No. 1 and Replies

In its Exception No. 1, the City of Scranton argues that the ALJs erred as a matter of law by supporting rate increases after finding that PAWC did not meet its burden for its request for relief, especially in the context of the wastewater rate increase. The City of Scranton contends that it was improper for the ALJs to recommend the adoption of another Party's request for relief when the burden of proof did not shift and the rate increase proposed by PAWC was denied. The City of Scranton submits that the Parties opposing the rate increase prevailed because the Recommended Decision denies

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[50] None of the Parties proffered a direct response to I&E's Exception No. 7.

the relief requested by PAWC. However, the City of Scranton avers that despite holding that PAWC did not meet its burden of proof to substantiate its requested rate increases, the ALJs improperly recommended a rate increase as to wastewater, which was over four times the rate requested by PAWC in its wastewater filings, and whereby the majority of the affected customers reside in the City of Scranton and surrounding areas. The City of Scranton argues that the Commission should deny both rate increases. City of Scranton Exc. at 1-5.

In reply to the City of Scranton's Exception No. 1, PAWC argues that the City of Scranton misinterprets the Recommended Decision and Commission precedent. PAWC avers that the ALJs did not find that the Company failed to meet its burden of proof to warrant any rate increase; rather, the ALJs found that PAWC did not appropriately support every element of its requested increase, which resulted in a recommended increase in rates that is substantially less than the increase sought by PAWC. Furthermore, PAWC states that there were many components of the Company's requested increase, and alternative proposals advanced by other parties, that the ALJs determined were adequately supported. PAWC submits that it would be an absurd result, and inconsistent with the principle that a public utility is entitled to an opportunity to earn a fair rate of return, to deny the Company's rate increase in its entirety because the ALJs did not find that each and every element of PAWC's proposed rate increase was adequately supported. PAWC R. Exc. at 20-21.

4. Disposition

a. I&E Exception No. 7 and City of Scranton Exception No. 1

As noted above, I&E represents that its Exception No. 7 is based upon the arguments made in its other Exceptions to the Recommended Decision. We shall address I&E's Exception Nos. 1 through 6 in the remaining sections of this Opinion and Order.

As we shall adopt neither the ALJs' recommended revenue increase and revenue requirement nor that proffered by I&E, I&E's Exception No. 7 is granted, in part, and denied, in part.

With respect to the City of Scranton's Exception No. 1, we agree with PAWC that the City of Scranton has misinterpreted the Recommended Decision. Upon review, we find that the ALJs did not conclude that PAWC failed to meet its burden to support *any* rate increase. The ALJs instead concluded that PAWC failed to support every element of its requested increase. Therefore, while the ALJs recommended an increase in rates less than the increase requested by PAWC, here were certain components of PAWC's requested increase and other proposals of the opposing Parties that were adequately supported. We have adopted certain of these components and proposals in reaching the revenue increase and revenue requirement that we shall authorize for the Company, *infra.* Accordingly, we shall deny the City of Scranton's Exception No. 1.

b. Authorized Revenue Increase and Revenue Requirement for PAWC

Based upon our findings regarding certain inputs to PAWC's rate base, *supra,* to its revenues, as discussed in this section of our Opinion and Order, and to PAWC's expenses, cost of common equity, and overall rate of return, discussed, *infra,* we shall approve an overall revenue requirement of $1,093,507,496, on a total company basis, which will result in a maximum allowed overall distribution revenue increase of $99,329,012, on an annual basis. After allocating a portion of the wastewater revenue requirement to PAWC's water customers, we shall approve: (1) a revenue requirement of $908,990,615 for PAWC's water service, representing a revenue increase of $88,121,069, or 10.74%, on an annual basis; and (2) a revenue requirement of $184,516,880[51] for PAWC's wastewater service, representing a revenue increase of $11,207,944,[52] or 6.47%, on an annual basis. These amounts are depicted in Table Act 11 Water and Wastewater Revenue Requirement – Summary, which is part of the Commission Tables Calculating Allowed Revenue Increase that are attached to this Opinion and Order.

VII. Expenses

A. Payroll Costs – Vacancy Rate

1. Positions of the Parties

PAWC provided that the Company's payroll allowance for the FPFTY was developed based on PAWC's authorized complement of 1,294 equivalent employees. PAWC M.B. at 21 (citing PAWC St. 5 at 4-7).

The OCA proposed an adjustment to reflect a 1.76% vacancy rate, to reduce: (1) salaries and wages by $1,045,353; (2) related payroll taxes by $79,970; (3) annual performance pay by $85,523; and (4) related payroll tax by $6,543. The OCA further recommended accompanying adjustments based on the vacancy rate for: (1) group insurance by $200,623; and (2) 401K, Defined Contribution Plan (DCP), and Employee Stock Purchase Plan (ESPP) by $72,817. As such, the OCA proposed a

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[51] As set forth in Table Act 11 – Water and Wastewater Revenue Requirement – Summary, which is included in the Commission Tables Calculating Allowed Revenue Increase, attached to this Opinion and Order, this amount consists of the following individual wastewater revenue requirements: $100,729,441 for wastewater SSS and $83,787,440 for CSS wastewater.

[52] This amount consists of the following individual allowed annual revenue increases: $6,056,720, or 6.40%, for Wastewater SSS and $5,151,224, or 6.55%, for CSS Wastewater. *See, Id.*

reduction to the Company's claim for salaries, wages, payroll taxes, and related benefits totaling $1,490,829. OCA M.B. at 35 (citing PAWC St. 5R at 2-3; OCA St. 2-SR at 2; OCA St. 2 at 56-59; OCA M.B. at Appendix H). Additionally, the OCA recommended that PAWC remove the Company's expense claim of $123,250 because PAWC eliminated its external Board as of December 31, 2023. PAWC agreed to remove this expense claim. OCA M.B. at 35-36 (citing OCA St. 2-SR at 2; OCA St. 2 at 62).

PAWC accepted the OCA's vacancy rate adjustment and updated payroll expense to reflect a merit increase that became effective January 8, 2024, for non-collective bargaining unit hourly employees and exempt employees (2024 Merit Increase). PAWC M.B. at 21 (citing PAWC St. 5-R at 2-3; PAWC Exh. 3-A Revised). PAWC submitted a final payroll expense claim of $78,161,527, with the inclusion of the accepted adjustment and 2024 Merit Increase. PAWC M.B. at 21-22.

2. Recommended Decision

The ALJs recommended that PAWC's Payroll Costs - Vacancy Rate be adjusted to reflect the OCA's proposed adjustment of a 1.76% vacancy rate because PAWC accepted the OCA's proposed adjustments. The ALJs also recommended that PAWC's claim of $123,250, related to its external Board, be eliminated because the Company accepted the OCA's recommendation to remove $123,250 from its external Board expense claim. The ALJs noted that because PAWC adopted these adjustments to its initial claims in rebuttal, their recommended adjustment was reflected in the Company Adjustments column in Table I-Water, Table I-Wastewater SSS, and Table I-Wastewater CSS in the Appendix of their Recommended Decision. R.D. at 95-96.

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendations that: (1) PAWC's Payroll Costs - Vacancy Rate be adjusted to reflect a 1.76% vacancy rate; and (2) PAWC's external Board claim of $123,250 be eliminated.

B. Annualized Performance Pay (PAWC)

1. Positions of the Parties

PAWC provided that the performance compensation challenged by PAWLUG's witness, Ms. Billie LaConte, and the OSBA's witness, Mr. Kevin Higgins, is an integral part of the compensation package that is necessary to compete for and retain qualified employees. PAWC M.B. at 22 (citing PAWC St. 2-R at 4-10; PAWC St. 2 at 39-42). PAWC averred that the Commission has historically found that the focus for ratemaking purposes is the reasonableness of overall compensation awards, and not the size or nature of individual pieces of the compensation package. PAWC M.B. at 22-23 (citing *PAWC 2020* at 50-53; *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 and R-2021-3027386 (Opinion and Order entered May 16, 2022 (*Aqua 2022*) at 100-01; *UGI Electric 2018* at 73-74; *Pa. PUC v. PPL Electric Utilities Corporation*, Docket No. R-2012-2290597 (Opinion and Order entered December 28, 2012) (*PPL 2012*) at 26; *Pa. PUC v. Aqua Pennsylvania, Inc.,* Docket No. R-00072711 (Order entered July 31, 2008), at 20-21; *Pa. PUC v. PPL Gas Utilities Corporation*, Docket No. R-00061398 (Order entered February 8, 2007) (*PPL Gas 2007*) at 40). Further, PAWC averred that no Party contested that the Company's total market-based employee compensation is unreasonable, and the Company provided evidence concerning how performance pay benefits customers by encouraging, *inter alia*, operational efficiency. PAWC M.B. at 23 (citing PAWC St. 2-R at 4-10). Moreover, PAWC averred that its performance-based compensation expense, including the Annual

Performance Plan (APP) and the Long-Term Performance Plan (LTPP), was recently reviewed and approved by the Commission in the PAWC 2020 base rate proceeding. PAWC M.B. at 23 (citing *PAWC 2020* at 53). As such, PAWC submitted that the OSBA and PAWLUG neither addressed nor acknowledged the adverse precedent presented by the Company. PAWC R.B. at 18.

The OCA asserted that its proposed adjustments to reduce the APP expense by $85,523, and related payroll tax expense by $6,543 for Water, are supported by the Company's acceptance of the OCA's recommended vacancy rate of 1.76%. OCA M.B. at 36 (citing OCA St. 2 at 59-60).

The OSBA recommended that 50% of the APP expense be eliminated from the revenue requirement, based on: (1) the weight of the earnings per share (EPS) goal included in the APP corporate performance calculation; and (2) placing more of the financial burden for the APP on PAWC's shareholders, because rewarding employees for financial performance rests primarily on the shareholders. The OSBA's recommended adjustment decreased the FPFTY revenue requirement by approximately $5,153,394 in total, which includes: (1) the impact of removing 50% of the APP expense directly related to PAWC employees and 50% of the APP expense allocated to PAWC by its Service Company from the revenue requirement; and (2) the estimated impact of payroll tax expense. OSBA M.B. at 11 (citing OSBA St. 1 at 11-12).

2. Recommended Decision

Consistent with their recommendation that the Commission adopt the OCA's proposed adjustment to PAWC's Payroll Costs - Vacancy Rate, the ALJs also recommended that this adjustment be applied to PAWC's APP expense claim. R.D. at 98 (citing OCA M.B. at 36). The ALJs noted that because PAWC adopted this adjustment to its initial claims in rebuttal, their recommended adjustment was reflected in the Company

Adjustments column in Table I-Water, Table I-Wastewater SSS, and Table I Wastewater CSS of the Appendix to their Recommended Decision. R.D. at 98.

The ALJs also recommended that the Commission reject the OSBA's proposed adjustments to APP. The ALJs explained that consistent with the OSBA's recommendation to reduce APP expense in half, the OSBA acknowledged that the APP calculation is not based solely on the Company's financial performance. R.D. at 98 (citing OSBA M.B. at 11; PAWC St. 2 at 41). Further, the ALJs found that the Company provided sufficient evidence regarding how its APP calculation benefits customers by encouraging, *inter alia*, operational efficiency and accessing capital at reasonable rates. R.D. at 98 (citing PAWC St. 2-R at 6-7). Moreover, the ALJs agreed with the Company that approval of the APP expense claim, inclusive of financial metrics, is consistent with the Commission's decision in *PAWC 2020*. R.D. at 98-99 (citing PAWC M.B. at 23).

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation that, consistent with adjusting PAWC's Payroll Costs - Vacancy Rate to reflect a 1.76% vacancy rate, this adjustment must be applied to PAWC's APP expense claim. We also agree with the ALJs' recommendation to reject the OSBA's proposed adjustments to APP.

C. Group Insurance Expense

1. Positions of the Parties

PAWC acknowledged that the OCA's proposed adjustments to Group Insurance Expense are concomitant to the OCA's recommended vacancy rate, *supra*. PAWC M.B. at 21-23. The OCA noted that PAWC's acceptance of the OCA's vacancy rate supports the OCA's adjustment to reduce group insurance expense by $200,623 for water. OCA M.B. at 36 (citing OCA St. 2SR at 2; OCA St. 2 at 60).

2. Recommended Decision

Given their recommendation that the Commission adopt the OCA's adjustment to vacancy rate, the ALJs recommended that the Commission adopt the OCA's proposed adjustment to group insurance expense. The ALJs noted PAWC's acknowledgement that the OCA's proposed adjustments to group insurance expense are concomitant to the OCA's recommended vacancy rate. R.D. at 99 (citing PAWC M.B. at 23). The ALJs further noted that because the Company adopted this adjustment to its initial claims in rebuttal, their recommended adjustment was reflected in the Company Adjustments column in Table I-Water, Table I-Wastewater SSS, and Table I Wastewater CSS in the Appendix to the Recommended Decision. R.D. at 99

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation that the Commission adopt the OCA's proposed adjustment to group insurance expense.

D. 401K, Defined Contribution Plan (DCP) and Employee Stock Purchase Plan (ESPP)

1. Positions of the Parties

PAWC asserted that the ESPP is available to all active, full- or part-time employees of the Company, and all PAWC employees who become Company shareholders have additional incentive to establish efficiencies that benefit customers. PAWC M.B. at 24 (citing PAWC St. 5-R at 5; PAWC St. 2-R at 6).

The OCA stated that the Company's acceptance of the OCA's vacancy rate supports the OCA's proposed adjustments to reduce the projected 401K, DCP, and ESPP Expense for 2025 by $72,817 for water. OCA M.B. at 36 (citing OCA St. 2-SR at 2; OCA St. 2 at 60).

The OSBA submitted that PAWC's proposal, that ratepayers should fund the stock purchase discount, should be rejected. The OSBA argued that ratepayers are not responsible to incentivize employees to purchase Company stock and, because the ESPP operates through payroll deductions, this stock purchase mechanism increases payroll costs for the portion of an employee's compensation that is used to purchase stock. OSBA M.B. at 11 (citing OSBA St. 1 at 13-14). As such, the OSBA submitted that if the Company wants to provide an incentive for employees to purchase stock, then the ESPP should be funded by shareholders. Therefore, the OSBA recommended a $457,009 decrease to the FPFTY revenue requirement. OSBA M.B. at 12 (citing OSBA St. 1 at 14).

2. Recommended Decision

Consistent with their above recommendation that the Commission adopt the OCA's proposed adjustment to the Company's Payroll Costs – Vacancy Rate, the ALJs recommended that this adjustment be applied to the Company's 401K, DCP, and ESPP expense claim. R.D. at 101 (citing OCA M.B. at 36). The ALJs noted that because the Company adopted this adjustment to its initial claims in rebuttal, their recommended adjustment was reflected in the Company Adjustments column in Table I-Water, Table I-Wastewater SSS, and Table I-Wastewater CSS in the Appendix to the Recommended Decision. R.D. at 101.

The ALJs also recommended that the Commission reject the OSBA's proposed adjustments to ESPP expense. The ALJs found that PAWC provided sufficient evidence that Company employees who become Company shareholders have additional incentive to establish efficiencies that benefit customers. R.D. at 101 (citing PAWC St. 5-R at 5; PAWC St. 2-R at 6). The ALJs added that this finding is consistent with their recommendation that a financial metric component be included in the claim for APP expense. R.D. at 101.

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation that the OCA's proposed adjustment to the Company's Payroll Costs – Vacancy Rate be applied to the Company's 401K, DCP, and ESPP expense claim. We also agree with the ALJs' recommendation that the Commission reject the OSBA's proposed adjustments to ESPP expense.

E. Stock-Based Compensation Expense – American Water Executives

1. Positions of the Parties

As discussed below, the OCA recommended adjustments to disallow the Company's claimed expenses for: (1) stock-based compensation (SBC); and (2) dividend equivalents paid to AWK's top executives. OCA M.B. at 36-38.

According to PAWC, expenses that are part of the compensation provided to top executives ensure that total compensation is reasonable and market-based. PAWC M.B. at 24. PAWC asserted that no Party has presented evidence that top executives could be attracted or retained with a total compensation level that is substantially below the Company's claim. Further, PAWC averred that top executives, like all other employees, are necessary to enable the Company to manage the provision of safe and reliable water and wastewater service. Moreover, PAWC submitted that both customers and utility investors benefit from awarding a portion of total compensation as SBC because it: (1) incentivizes utility employees to promote PAWC's efficiency and financial health; and (2) promotes a stable leadership team and mitigates employee turnover costs by vesting over a prospective three-year period. *Id*. at 24-25 (citing PAWC St. 2-R at 3-10). Furthermore, as discussed in Section VII.A, *supra,* PAWC noted that the Commission recently reviewed and approved the Company's total compensation package and, therefore, it is appropriate to do so again here. PAWC M.B. at 21-22, 25. Additionally, PAWC argued that an objective review of the record in this case shows that the Company has provided substantial evidence related to the same customer benefits that were highlighted by the Commission when it approved performance-based compensation in its decision in *Aqua 2022*, including: (1) controlling costs; (2) improving efficiency; (3) promoting retention; and (4) promoting safe and reliable service. PAWC R.B. at 19 (citing PAWC St. 2-R at 2-10; PAWC St. 2 at 39-42).

The OCA recommended an adjustment to remove expenses related to the SBC associated with the LTPP for AWK top executive officers. Specifically, the OCA recommended reducing PAWC's operating expenses by $1.722 million to remove the portion projected to be paid to top executives of AWK and charged to PAWC for the FPFTY. The OCA noted that the SBC for such top executives includes: (1) performance stock units (PSU); and (2) restricted stock units (RSU). OCA M.B. at 36-37 (citing OCA St. 2-SR at 2; OCA St. 2 at 66-67).

The OCA argued that this adjustment is necessary because ratepayers should not be required to pay for a portion of SBC paid to top executives, where such compensation: (1) is linked to the performance of AWK's stock price; and (2) is primarily to benefit AWK's stockholders and aligns the interests of participants with those of such stockholders. OCA M.B. at 37. Further, the OCA referred to *Aqua 2022*, where the Commission found that SBC benefits ratepayers where the compensation is linked to performance objectives that benefit consumers, including controlling costs and compliance initiatives. *Id.* at 37 (citing *Aqua 2022* at 60-61). Here, the OCA continued that PAWC acknowledged that: (1) SBC expense consists of RSUs and PSUs; and (2) the compensation under the LTPP is linked to stock performance. OCA M.B. at 37 (citing PAWC St. 2-R at 9; OCA St. 2-SR at 45-47). Moreover, the OCA contended that recovering the portion of SBC expense that is linked to shareholder interests from the Company's customers is unreasonable and does not promote reasonable, adequate, or efficient utility service. OCA M.B. at 37 (citing OCA St. 2-SR at 67; OCA St. 2 at 67). Accordingly, the OCA recommended reducing pre-tax operating expenses by: (1) $1.643 million for water; (2) $51,658 for wastewater SSS; and (3) $27,551 for CSS wastewater. OCA M.B. at 37 (citing OCA St. 2 at 69).

The OSBA noted that PAWC provides eligible employees: (1) SBC through the Company's LTPP; (2) RSU awards, which are based on a three-year vesting period if the participant remains employed with the Company; and (3) PSU awards, which are based on: (a) "performance vesting conditions;" and (b) a combination of compounded EPS growth and relative total shareholder return when compared to a peer group of stock over a three-year period. The OSBA further noted that the LTPP awards for the HTY ended June 30, 2023, were approximately 22% RSUs and 78% PSUs. OSBA M.B. at 12 (citing OSBA St. 1 at 12).

The OSBA recommended that the LTPP expense be removed from the revenue requirement because: (1) this is an award program that should be funded by shareholders; (2) most of the LTPP cost is the PSU component, which is directly based on the financial performance of AWK; and (3) the RSU component is based upon an employee continuing to work for the Company and not work-related goals. Thus, the OSBA submitted that any SBC expense is properly borne by the Company's shareholders. Therefore, the OSBA recommended an adjustment to decrease the FPFTY revenue requirement by approximately $5,230,156, which includes the estimated impact on payroll tax expense. OSBA M.B. at 12 (citing OSBA St. 1 at 13).

As previously noted, PAWLUG is not proposing comprehensive adjustments to PAWC's expenses or a specific recommendation for the revenue requirement. However, PAWLUG submitted that the Commission must modify the Company's proposed incentive compensation expense because, according to PAWLUG, the proposal to recover $4.1 million for incentive compensation costs is inflated by $2 million. PAWLUG M.B. at 6. PAWLUG averred that although PAWC reserves the managerial discretion to award incentive compensation as the Company deems appropriate, only incentive compensation associated with operational goals, such as customer satisfaction or safety, should be recoverable through base rates. *Id.* at 6 (citing PAWLUG St. 1 at 8). Accordingly, PAWLUG recommended that to eliminate the recovery of incentive compensation costs tied to financial targets, the Commission should reduce the Company's proposed total incentive compensation expense by $2 million. PAWLUG M.B. at 6.

2. Recommended Decision

The ALJs recommended that given their recommendation regarding APP expense, and consistent with the Commission's decision in *Aqua 2022*, the Commission approve PAWC's claim for SBC Expense – American Water Executives. R.D. at 105 (citing *Aqua 2022* at 100-01). The ALJs found that the Company sufficiently demonstrated that its claimed SBC Expense, including its LTPP, benefits ratepayers. R.D. at 105 (citing PAWC St. 2-R at 2-10; PAWC St. 2 at 39-42). Further, the ALJs disagreed with the OCA that SBC Expense is significantly different from the similarly allowed expense in *Aqua 2022*. R.D. at 105 (citing OCA M.B. at 37). The ALJs noted that both expenses include SBC that can produce operational efficiencies to benefit ratepayers. Moreover, the ALJs referred to the testimony of PAWC's witness, Mr. James

Runzer, to note that the LTPP includes both RSUs and PSUs, and PSUs reflect the Company's financial performance. R.D. at 105-06 (citing PAWC St. 2 at 41). The ALJs continued that, consistent with their discussion regarding APP expense, improved financial performance can benefit customers by encouraging operational efficiency. Further, the ALJs noted that RSUs are not linked to financial goals or targets but vest in equal increments in the three years that follow the year in which the RSUs were granted. R.D. at 106 (citing PAWC St. 2-R at 7). Moreover, the ALJs found that contrary to the OSBA's assertion that RSUs reward employees for simply showing up for work, PAWC provided persuasive evidence to show that encouraging employee retention can benefit ratepayers by maintaining stable leadership experienced with PAWC's operations and avoiding costs for turnover. R.D. at 106 (citing PAWC St. 2-R at 8; OSBA M.B. at 12). Furthermore, the ALJs agreed with PAWC that approval of the claim for LTPP expense is consistent with the Commission's decision to approve a similar expense in the base rate case in *PAWC 2020*. R.D. at 106 (citing PAWC M.B. at 23; *PAWC 2020* at 53).

3. OCA Exception No. 6 and Replies

In its Exception No. 6, the OCA argues that the ALJs erred in concluding that executive compensation that is tied to stock price benefits consumers. The OCA contends that this expense is distinguishable from the allowed expense in *Aqua 2022*, where the Commission found that SBC benefits ratepayers where the compensation is linked to performance objectives that benefit consumers, including controlling costs and compliance initiatives. OCA Exc. at 8 (citing *Aqua 2022* at 60-61).

In this case, the OCA recommends removing that portion of the expense claim projected to be paid to the top executives of AWK and charged to PAWC for the FPFTY that are linked to shareholder interests rather than customer interests. The SBC for those executives consists of PSUs and RSUs. This removal would reduce PAWC's operating expenses by $1.722 million. OCA Exc. at 8 (citing OCA St. 2 at 66-67). The

OCA contends that this adjustment is necessary because customers should not be required to pay for a portion of the expense for SBC paid to AWK's top executives where such compensation is linked to the performance of AWK's stock price and has the primary purpose of benefitting AWK's stockholders. OCA Exc. at 8-9. The OCA reasons that the record does not support the conclusion drawn by the ALJs and there is no substantial evidence that supports the finding that SBC associated with LTPP benefits customers. OCA Exc. at 9.

In its Replies, PAWC explains that it uses a mix of fixed and variable (*i.e.*, performance-based) compensation to provide reasonable and market-based compensation to attract and retain highly qualified employees. PAWC R. Exc. at 12 (citing PAWC St. 2 at 39-40). According to PAWC, the Commission approves stock-based compensation where the utility can demonstrate a benefit to customers – including the recent *Aqua 2022* and *PAWC 2020* proceedings. PAWC R. Exc. at 13 (citing R.D. at 105-06) (additional citations omitted). PAWC avers that it provided evidence that both customers and utility investors benefit from SBC because: (1) it incentivizes utility employees to improve PAWC's efficiency and financial health; and (2) it promotes a stable leadership team and mitigates employee turnover costs by vesting over a prospective three-year period. PAWC R. Exc. at 13 (citing PAWC St. 2-R at 8-10) (additional citations omitted). PAWC asserts that the ALJs properly found that the expenses were sufficiently similar to those approved in *Aqua 2022* and *PAWC 2020*. PAWC R. Exc. at 13 (citing R.D. at 106; PAWC St. 1-R at 32).

4. Disposition

We agree with the ALJs' recommendation and find merit in the ALJs' reasoning that their recommendation is consistent with the Commission's decisions in *Aqua 2022* and *PAWC 2020* for a similar expense. The ALJs noted that PSUs reflect the Company's financial performance, and improved financial performance can benefit customers by encouraging operational efficiency. We agree. Additionally, RSUs vest over a three-year period, encouraging employee retention which can benefit ratepayers by maintaining experienced employees.

PAWC's witness, Mr. Runzer, testified that the Company targets its total direct compensation (base and variable compensation) for each role at the Company near the market median (50th percentile) for that role. Mr. Runzer explained that by using a combination of fixed and variable compensation, the Company satisfies a dual objective of ensuring competitive market-based total compensation for all employees, while continuing to motivate employees to achieve goals that will improve performance and efficiency for the benefit of its customers. PAWC St. 2 at 40. We note that PAWC averred that no other Party presented evidence that the Company could attract or retain top executives with a total compensation level that is substantially below the Company's claim. PAWC M.B. at 24. Therefore, we find the Company's claim reasonable. Accordingly, we shall deny the OCA's Exception No. 6 and adopt the recommendation of the ALJs on this issue.

F. Executive Perquisites (AWK Executives Dividend Equivalents)

1. Positions of the Parties

The OCA's proposed adjustments to PAWC's claimed O&M expenses to remove certain executive perquisites are addressed in Section VII.E of this Opinion and Order, *supra.*

The OCA recommended an adjustment to reduce PAWC's FPFTY operating expenses by $31,371, to remove expenses related to the executive perquisites associated with Dividend Equivalents for top AWK executives. OCA M.B. at 38 (citing OCA St. 2 at 70). The OCA referred to AWK's Proxy Statement to aver that Dividend Equivalents are another form of compensation to AWK executives linked to shareholder interests, not consumer interests. *Id.* As such, the OCA submitted that charging the Dividend Equivalents portion of all Other Compensation received by AWK's top executives to PAWC's ratepayers is unreasonable and does not promote reasonable, adequate, or efficient utility service. OCA M.B. at 38 (citing OCA St. 2-SR at 47-48). Accordingly, the OCA recommended reducing pre-tax operating expenses by: (1) $29,928 for water; (2) $941 for wastewater SSS; and (3) $502 for CSS wastewater. OCA M.B. at 38.

2. Recommended Decision

The ALJs recommended that the Commission approve PAWC's claim for Executive Perquisites for the same reasons they recommended that the Commission approve the Company's claimed SBC expense, *supra*. R.D. at 107 (citing R.D. at 105). The ALJs noted that the Executive Perquisites associated with dividend equivalents are paid in cash. R.D. at 107 (citing OCA M.B. at 38).

3. OCA Exception No. 7 and Replies

In its Exception No. 7, the OCA contends that, like the LTPP, this additional Executive Perquisite relates to SBC and is linked to the Company's financial performance and not to activity that necessarily benefits customers. The OCA maintains that it is not appropriate to charge such parent company perquisites to PAWC customers because the Dividend Equivalents expense yields little to no benefit to customers. OCA Exc. at 10.

As PAWC stated in its Replies to the OCA's Exception No. 6, *supra*, PAWC avers that both customers and utility investors benefit from SBC because: (1) it incentivizes utility employees to promote PAWC's efficiency and financial health; and (2) it promotes a stable leadership team and mitigates employee turnover costs by vesting over a prospective three-year period. PAWC R. Exc. at 13 (citing PAWC St. 2-R at 8-10) (additional citations omitted).

4. Disposition

We find the ALJs' recommendation regarding Executive Perquisites to be reasonable for the same reasons as the related SBC expense, *supra*: PSUs reflect the Company's financial performance and improved financial performance can benefit customers by encouraging operational efficiency. RSUs vest over a three-year period, encouraging employee retention which can benefit ratepayers by maintaining experienced employees. PAWC's executive compensation has not been shown to be excessive or unreasonable. Accordingly, we shall deny the OCA's Exception No. 7 and adopt the recommendation of the ALJs on this issue.

G. Payroll Taxes

1. Positions of the Parties

PAWC submitted that the OSBA's recommended adjustment to payroll taxes should be rejected because this adjustment is concomitant to the OSBA's proposed adjustments to performance pay and the ESPP. PAWC M.B. at 25 (citing OSBA St. 1 at 11-13). PAWC noted that the OCA's proposed adjustments to payroll tax expense are concomitant to the OCA's recommended vacancy, which is addressed in the Payroll Costs – Vacancy Rate Section, *i.e.*, Section VII.A, *supra*. PAWC further noted that the OSBA's proposed performance pay adjustment includes the estimated impact on payroll tax expense and is addressed in the APP Section, *i.e.*, Section VII.B, *supra*. PAWC M.B. at 25; PAWC R.B. at 34.

I&E withdrew its performance pay adjustment and, as a result, withdrew its payroll tax expense adjustment as well. I&E M.B. at 26 (citing I&E St. 1-SR at 17).

The OCA noted that the OCA's proposed adjustments to payroll have related payroll tax adjustments. OCA M.B. at 38.

The OSBA noted that payroll tax adjustments are appropriate if the Commission approves adjustments to compensation-related expenses that impact payroll taxes. Accordingly, the OSBA recommended an adjustment to APP and LTPP expenses, which include the estimated impact on payroll taxes. OSBA M.B. at 13.

2. Recommended Decision

Consistent with their recommendation that PAWC's Payroll Costs - Vacancy Rate be adjusted to reflect the OCA's proposed adjustment, the ALJs recommended that PAWC's Payroll Costs, including Payroll Taxes, also be adjusted to reflect the OCA's proposed adjustment (*i.e.*, a 1.76% vacancy rate). The ALJs noted that because PAWC adopted this adjustment to its initial claims in rebuttal, their recommended adjustment was reflected in the Company Adjustments column in Table I-Water, Table I-Wastewater SSS, and Table I-Wastewater CSS in Appendix A of their Recommended Decision. R.D. at 109.

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation that payroll taxes be adjusted to reflect the 1.76% vacancy rate for payroll costs.

H. Insurance Other than Group

1. Positions of the Parties

PAWC submitted that the OCA's proposal, *infra,* to use a single data point – the HTY to FTY increase – in lieu of the five-year average the Company-employed, to determine its FPFTY insurance other than group expense claim should be rejected. However, PAWC noted that in its last base rate case, the Company used a five-year average to smooth year-to-year variations, which was not opposed by the OCA. PAWC averred that using a five-year average continues to be the appropriate approach to smooth year-over-year variations and, therefore, the Commission should reject the OCA's proposed adjustment. PAWC M.B. at 25 (citing PAWC St. 5-R at 8).

The OCA recommended an adjustment to Insurance Other Than Group (IOTG) Expense to use the actual percentage change from the HTY ended June 30, 2023, rather than the PAWC-proposed five-year average percentage change, which was calculated based on the twelve-month periods from June 30, 2019, through June 30, 2023. OCA M.B. at 38. The OCA's witness, Mr. Smith, agreed that generally, averages can be used to normalize costs, and trends and current information should be considered. However, the OCA noted that annual percentage change for the twelve-month ending periods of June 30, 2019, June 30, 2021, and June 30, 2022, were abnormally high or low when compared to the twelve-month ending periods June 30, 2020, and the HTY ended June 30, 2023. Thus, the OCA recommended that to ensure reasonableness, the HTY percentage change of 4.53% be used to calculate IOTG for the FPFTY. Accordingly, the OCA recommended reducing pre-tax operating income by: (1) $247,905 for water; (2) $34,694 for wastewater SSS; and (3) $23,713 for CSS wastewater. OCA M.B. at 38-39 (citing OCA St. 2 at 63-64; OCA St. 2-SR at 36-37).

2. Recommended Decision

The ALJs recommended that the Commission adopt the Company's position and use a five-year average to calculate PAWC's FPFTY claim for its IOTG expense. The ALJs agreed with the Company that this methodology is appropriate to smooth year-over-year variations. R.D. at 110 (citing PAWC M.B. at 25). The ALJs found that although the OCA asserted that the HTY percentage change should be used because the annual percentage change for the twelve-month ending periods of June 30, 2019, June 30, 2021, and June 30, 2022, were abnormally high or low, it is because of these variations that it is appropriate to use an averaging methodology. The ALJs added that other than the OCA's characterization of three years of data as abnormal, there is no basis to find that use of the HTY percentage change would be more accurate than a result based on averaging. R.D. at 110 (citing OCA M.B. at 38-39).

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation that the Commission adopt PAWC's proposed five-year average methodology to calculate PAWC's FPFTY claim for its IOTG expense.

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

1. Positions of the Parties

PAWC provided that outstanding arrearages for the Company's customers stabilized from the increases during the peak of the COVID-19 Pandemic, and the Company's net write-offs have been trending toward pre-pandemic levels since mid-2021. As a result, PAWC continued, the Company calculated its claim for bad debt (uncollectible) expense using a two-year historic average (July 1, 2021 to June 30, 2023) ratio of net write-offs as a percentage of sales revenues (1.176%), to normalize the rate of uncollectible accounts to pre-pandemic levels and account for the application of Low-Income Household Water Assistance Program (LIHWAP) funds, which reduce unpaid balances. PAWC M.B. at 26 (citing PAWC St. 8 at 3-6).

PAWC submitted that using a two-year percentage of net write offs, ended June 30, 2023, eliminates all impacts of the COVID-19 Pandemic on customer collections activities and Company revenues, which occurred beginning with the moratorium on disconnects starting in March 2020, and continued through March 2021. PAWC further submitted that if the Commission wants to maintain the historic practice and utilize a three-year average rate to determine the level of uncollectible expense reflected in new base rates, then the 12-months ended June 30, 2019, should be used because all periods impacted by the COVID-19 Pandemic will be excluded and an uncollectible rate of 1.196% will be produced, which is 0.02% higher than the Company's proposal. PAWC M.B. at 26 (citing PAWC St. 8-R at 3-4).

PAWC also noted that although the OCA agreed that the COVID-19 Pandemic impacts should be eliminated from the historic average ratio of write-offs used to determine the Company's rate allowance for uncollectible expense, the OCA's proposed uncollectible rate of 1.164% is based on a three-year historic average which includes the March to June 2020 period. PAWC R.B. at 21 (citing OCA M.B. at 39). PAWC countered that the Company has several measures in place to help customers deal with the financial impact of the COVID-19 Pandemic, including ceasing service terminations for non-payment. As such, PAWC submitted that the OCA's proposed adjustment, *infra*, should be rejected. PAWC R.B. at 21.

The OCA recommended using a three-year historic average ratio of net write-offs to calculate the going level Uncollectibles Expense based on the twelve months ended June 30, 2020; June 30, 2022; and June 30, 2023. According to the OCA, this will produce an uncollectibles write-off percentage of 1.164%. OCA M.B. at 39 (citing OCA St. 2-SR at 32-34; OCA St. 2 at 54-56). The OCA averred that the period July 1, 2020, through June 30, 2021, should not be used in the calculation of going level Uncollectibles Expense because it is reasonable and prudent to eliminate the impacts of the COVID-19 Pandemic on customer collections. OCA M.B. at 39 (citing OCA St. 2-SR at 33; OCA St. 2 at 55).

The OCA provided that for the 12-months ended June 30, 2021, the uncollectibles annual write-off percentage calculates to 0.548%. The OCA continued that for the 12-month period ended June 30, 2020, the annual write-off percentage was 1.135%, which is consistent with the write-off percentages shown for the 12-months ended June 30, 2022, and June 30, 2023. As such, the OCA asserted that averaging the annual write-off information using the 12 months ended June 30, 2020, 2022, and 2023, appears to be reasonable in the context of the instant rate case. OCA M.B. at 39-40 (citing OCA St. 2-SR at 33-34; OCA St. 2 at 55-56). Accordingly, the OCA submitted that its proposed adjustment reduces claimed Uncollectibles Expense by: (1) $100,054 for water; (2) $11,591 for wastewater SSS; (3) $9,547 for CSS wastewater; and (4) $1,438 for BASA wastewater. OCA M.B. at 40 (citing OCA St. 2 at 54-55).

2. Recommended Decision

The ALJs recommended that the Commission adopt the Company's position and calculate its claim for bad debt (uncollectible) expense using a two-year historic average, *i.e.*, July 1, 2021 to June 30, 2023, ratio of net write-offs as a percentage of sales revenues. R.D. at 113 (citing PAWC M.B. at 26). The ALJs noted PAWC's averment that the Company's net write-offs have been trending back toward pre-pandemic levels since mid-2021. R.D. at 113 (citing PAWC St. 8 at 3-6). The ALJs, therefore, agreed with the Company that its use of a two-year percentage of net write offs "better eliminates" the impacts of the COVID-19 Pandemic on customer collections activities and Company revenues. R.D. at 113 (citing PAWC M.B. at 26). Further, the ALJs agreed with PAWC that the 12 months ending June 30, 2020, should be excluded because it contains data from March to June 2020, which would reflect impacts from the COVID-19 Pandemic. R.D. at 113 (citing PAWC R.B. at 21; OCA M.B. at 39-40).

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation to calculate PAWC's claim for bad debt or uncollectible expense using a two-year historic average ratio of net write-offs as a percentage of sales revenues.

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

1. Positions of the Parties

PAWC noted that its Miscellaneous Expense Adjustment included costs related to the Arrearage Management Plan (AMP) that was pending before the Commission at the time of the initial base rate filing and later approved in the *Petition of Pennsylvania American Water Company for Approval of an Arrearage Management Plan (On Remand)*, at Docket No. P-2021-3028195 (Order entered December 7, 2023) (*PAWC 2023 Order*). The total cost of arrearage forgiveness is based on the average number of Bill Discount Program (BDP) customers in the HTY, with arrears multiplied by the annual AMP credits, assuming a 100% participation rate. PAWC M.B. at 27 (citing PAWC St. 5-R at 8; PAWC St. 5 at 26).

PAWC addressed the OCA's recommended reduction in AMP credit cost recovery to reflect how many BDP customers make full and timely payments. PAWC M.B. at 27 (citing OCA St. 5-R at 25-27; OCA St. 5 at 124-26). PAWC averred that contrary to the OCA's concern regarding timely payment behavior, the requirement for

arrearage forgiveness is that the customer make an in-full payment of current charges plus a copay of $5.00. PAWC M.B. at 27 (citing Tr. at 1977). Further, PAWC noted that if AMP expense is lower than the Company's projection, then the difference will be recorded as a regulatory liability and returned to customers in a future base rate case. PAWC M.B. at 27 (citing PAWC St. 5-R at 8-9). As such, PAWC submitted that the Commission should reject the OCA's proposed reduction, discussed below.
PAWC R.B. at 22.

The OCA submitted that the Company's addition of dollars to uncollectibles to reflect AMP credits should be reduced by the percentage of BDP dollars already historically included in uncollectibles. OCA M.B. at 40 (citing OCA St. 2-SR at 48). The OCA averred that in account 670.7, related to the Company's proposed AMP, this adjustment reduces overall FPFTY uncollectibles expense by $2.162 million, and, therefore, account 670.7 should reflect the amount of $214,728 for the AMP-related uncollectibles expense, rather than the Company's proposed $2,377,200. OCA M.B. at 40 (citing OCA St. 2 at 73-74). Accordingly, the OCA recommended reducing pre-tax operating expenses by: (1) $1.848 million for water; (2) $150,724 for wastewater SSS; (3) $113,746 for CSS wastewater; and (4) $39,573 for BASA wastewater. The OCA noted that this adjustment is necessary to eliminate the Company's double-recovery of dollars added to uncollectibles to reflect AMP credits where those dollars are already historically included in uncollectibles for the BDP. OCA M.B. at 40 (citing OCA St. 5 at 7, 127; OCA St. 5-SR at 27).

The OCA averred that its position is consistent with the *PAWC 2023 Order*, which provided that the cost recovery issues were to be addressed in a future rate case. OCA M.B. at 40. The OCA noted that the Settlement in that proceeding provided that the Company could "propose a dollar amount" which could be disputed by the OCA and which, accordingly, would be "subject to review and approval by the Commission." OCA M.B. at 40 (citing OCA St. 5-SR at 26-27).

2. Recommended Decision

The ALJs recommended that the Commission adopt the OCA's position and reduce the Company's claimed expense for AMP credits. R.D. at 116 (citing OCA St. 5 at 123). The ALJs acknowledged the Company's assertion that timely payments are not required for a customer to be eligible for credits under the AMP. R.D. at 116 (citing PAWC M.B. at 27). However, the ALJs agreed with the OCA that to assume that 100% of possible AMP credits will be earned each year is unreasonable. The ALJs were persuaded by the testimony of the OCA's witness, Mr. Roger Colton, that it is more likely that the Company will experience an 11% participation rate based on historic BDP data. Similarly, the ALJs agreed with the OCA that the Company's addition of dollars to uncollectibles to reflect AMP credits should be reduced by the percentage of BDP dollars historically included in uncollectibles. R.D. at 116 (citing OCA St. 5 at 123-25). The ALJs noted Mr. Colton's testimony that AMP arrears that are already included in rates to again be collected as AMP credits would allow the Company to collect those costs as both past uncollectibles and AMP credits. R.D. at 116 (citing OCA St. 5-SR at 27). The ALJs further noted that PAWC's witness, Ms. Lori O'Malley, stated that AMP credits expense will be recorded as a regulatory liability and amounts either under- or over-collected through rates in this case will be recovered or refunded in the next base rate case. R.D. at 116 (citing PAWC St. 5-R at 8-9).

The ALJs found that because the OCA determined its adjustments and allowable AMP expense by utilizing the same allocation factors that PAWC used to allocate the Company's AMP expense claim, PAWC's AMP expense for water, wastewater SSS, and wastewater CSS shall be reduced in a manner that is consistent with the OCA's calculations. As such, the ALJs noted that the proposed adjustments in Expenses for AMP were identified in the Recommended Decision in the Appendix at Table II-Water, Table II-Wastewater SSS, and Table II-Wastewater CSS. R.D. at 117 (citing PAWC St. 1, Exh. 3-B at 336; OCA St. 2, OCA Exh. LA-2, Sch. C-22).

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation to adopt the OCA's position and reduce PAWC's claimed expense for AMP credits in a manner that is consistent with the OCA's calculations. This will result in a reduction to the Company's AMP Credits-Uncollectible Expense, which is broken down, as follows: (1) a reduction of $1,847,832 for the Company's water operations, or from $2,031,317 to $183,485; (2) a reduction of $150,724 to the Company's wastewater SSS operations, or from $165,691 to $14,967; and (3) a reduction of $113,746 to the Company's CSS wastewater operations, or from $125,041 to $11,295.[53] These adjustments are reflected in Table II-Water, Table II-Wastewater SSS, and Table II-Wastewater CSS in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order.

K. Acquisition-Related Expenses

1. Positions of the Parties

PAWC made adjustments to annualize the O&M expenses not fully recognized in the HTY for the Company's pending acquisitions. The Company's allocation of O&M expenses were, as follows:

[53] This results in a combined allowance of $209,746 representing a reduction of $2,112,303 from the Company's combined claim of $2,322,049. [$ 2,322,049 - $ 2,112,303 = $209,746]. We note that the OCA's calculated amounts set forth in OCA Exh LA-2, Sch C-22, which we adopt in reducing the Company's claimed amounts, also included calculations related to the Company's BASA and Brentwood acquisitions. For the reasons previously stated in this Opinion and Order, all claimed BASA and Brentwood amounts are excluded from this proceeding.

1. Water Operations: $152,385 for Farmington (water) and $1,585,572[54] for Audubon.

2. Wastewater SSS General Operations: $264,176 for Farmington (wastewater) and $249,288[55] for STMA.

3. $7,077,728 for BASA Wastewater Operations.

4. $762,049 for Brentwood Wastewater Operations.[56]

PAWC St. 5 at 27; PAWC Exh. 3-B at 303-08.

PAWC averred that I&E's adjustments and the OCA's adjustments regarding the Farmington (water), Audubon, Farmington (wastewater), STMA, and BASA acquisitions should be rejected for the reasons discussed in its Main Brief and Reply Brief under the Utility Plant-in-Service Section, *i.e.*, Section V.A, *supra*. PAWC R.B. at 22 (citing I&E M.B. at 26-28; OCA M.B. at 42).

I&E argued that it is not appropriate for the Company to claim and recover expenses for utilities that it does not own. As such, I&E recommended disallowance of the entire above claims given the uncertainty surrounding each of these acquisitions. I&E noted that such systems should only be included, if at all, in the next base rate case filed by the Company in which PAWC actually owns those systems. I&E M.B. at 27-29 (citing PAWC St. 6-R at 14-15; I&E St. 1 at 27).

The OCA recommended that because claims associated with the not-yet-acquired property should be excluded from rate base, the Commission should, by

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54 Included in this amount was $27,709 in Taxes-Other for property tax.

55 Included in this amount was $3,547 in Taxes-Other for property tax.

56 As previously noted, the Company withdrew its claims related to Brentwood.

extension, exclude all projected expenses related to the not-yet-acquired property, including acquisition expense, O&M expenses, and depreciation expense. OCA M.B. at 41 (citing *UGI Electric 2018* at 27-31, 79). Additionally, the OCA recommended removing the payroll expense for forty-three additional positions that the Company is proposing to add related to these acquisitions for a total reduction to payroll expense of $2.984 million. OCA M.B. at 42 (citing OCA St. 2 at 56-57, Exh. LA-1, Schs. A, C-1, C-2, C-3).

2. Recommended Decision

The ALJs recommended that, consistent with their recommendation to exclude the identified acquisitions from rate base, they also recommended that the Commission exclude acquisition-related expenses from the Company's claim. R.D. at 118 (citing I&E M.B. at 27-28). The ALJs noted that their recommendation resulted in proposed adjustments in expenses for Farmington (water) O&M; Audubon O&M & Taxes-Other; Farmington (wastewater) O&M; and STMA O&M & Taxes-Other. R.D. at 118; *see*, R.D. at Appendix, Tables II, V, and VI for Water and Wastewater SSS.

3. PAWC Exception No. 3 and Replies

As discussed in Section V.A, *supra*, PAWC excepts to the ALJs' recommendation to deny the two-step rate increase proposal and exclude the BASA acquisition from rates. In short, PAWC contends that the BASA acquisition should be reflected in base rates established in this case given, *inter alia*, the current status of the *BASA* proceedings and the reasonable certainty that the BASA acquisition will close prior to the end of the FPFTY. PAWC Exc. at 14 (citing 66 Pa.C.S. § 315(e)). Therefore, PAWC requests that the Commission modify the Recommended Decision to approve the Company's stepped rate increase. PAWC Exc. at 12-16.

As previously discussed, in its Replies, I&E contends that, essentially, PAWC's assumption that the Commonwealth Court will find in the Company's favor, and the acceptance of such an assumption, is not in the public interest. Accordingly, I&E submits that given this uncertainty, the BASA system must be excluded from the filing. I&E R. Exc. at 6-7.

As previously discussed, in its Replies, the OCA agrees with the ALJs reasoning in recommending that the BASA system, and the other systems not yet acquired, be excluded from rate base. OCA R. Exc. at 1-2. The OCA contends that PAWC's argument that the BASA property be included in the Company's FPFTY ratemaking claims is meritless. OCA R. Exc. at 4-5. In short, the OCA submits that a utility cannot add plant to a system that it does not own. Therefore, the OCA argues that the Commission should exclude the Company's claim in rate base additions for improvements to the BASA system. OCA R. Exc. at 5-6.

As previously discussed, in its Replies, the OSBA agrees with the ALJs' recommendation that the revenue requirement related to PAWC's proposed acquisition of the BASA system be rejected. As such, the OSBA submits that the Commission should reject the Company's position and instead adopt the OSBA's recommended treatment of the BASA-related revenue requirement. OSBA R. Exc. at 2-3.

4. Disposition

As discussed in the Utility Plant-in-Service Section under Section V.A of this Opinion and Order, *supra*, we agree with the ALJs' conclusion that the BASA acquisition should not be included in PAWC's FPFTY rate base at this time. Similarly, we agree with the ALJs' recommendation that PAWC's proposed two-step rate increase, conditioned upon the closing date of the BASA transaction, not be approved.

Further, we concur with the position of I&E and the OCA that the Company's claims to its other not-yet-acquired property, including acquisition expense, should be removed. As previously stated, PAWC's contentions regarding the current status of the BASA proceedings, the pending Commonwealth Court case, and predictions about any occurrence or timing of closing are speculative and not certain. PAWC does not own the BASA system at this time; therefore, the Company cannot add plant for improvements to the BASA system and any such claims in rate base addition must be excluded. In addition to all claims related to the Company's BASA acquisition, we shall remove the following acquisition-related expenses for the other not-yet acquired property proposed by the Company: (1) $152,385 for Farmington (water) O&M; (2) $1,585,572 for Audubon (AWC) O&M & Taxes-Other;[57] (3) $264,176 for Farmington (wastewater) O&M; and (4) $264,176 for STMA O&M & Taxes-Other.[58] These adjustments are reflected in Table II-Water, Table V-Water, Table VI-Water; and Table II-Wastewater SSS, Table V-Wastewater SSS, and Table VI-Wastewater SSS, all of which are included in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order. Accordingly, PAWC's Exception No. 3 shall be denied.

L. Interest Synchronization

1. Positions of the Parties

PAWC provided that its claim for income tax expense is set forth in PAWC Exhibit 3A-Revised, and is based, in part, on an interest expense deduction calculated

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[57] As shown in Table II-Water, this includes a reduction of $1,557,863 to AWC O&M Expenses and a reduction of $27,709 to AWC Taxes-Other. [(- $1,557,863 - $27,709) = -$1,585,572]

[58] As shown in Table II-Wastewater SSS, this includes a reduction of $245,741 to STMA O&M Expenses and a reduction of $3,547 to STMA Taxes-Other. [(- $245,741 - $3,547) = -$249,288]

using PAWC's proposed rate base and weighted cost of debt. PAWC M.B. at 28 (citing PAWC Exh. 3-A Revised at 72R-75R). PAWC submitted that the OCA's proposed interest expense adjustment, which is concomitant to the OCA's proposed adjustments to rate base and the weighted average cost of debt, should be rejected for the reasons set forth in the Rate Base and Rate of Return Sections of the Company's Main Brief. PAWC M.B. at 28 (citing OCA St. 2-SR at 34-36; OCA St. 2 at 61-62).

The OCA provided that its witness, Mr. Smith, multiplied the OCA's adjusted rate base by the weighted cost of debt included in the OCA recommended capital structure.[59] OCA M.B. at 42 (OCA St. 2-SR at 34-36; OCA St. 2 at 61). The OCA asserted that the use of a different rate base or weighted cost of debt impacts the interest synchronization, and the resulting amount of interest is reflected for ratemaking purposes as the "synchronized" interest deduction used to compute income tax expense. OCA M.B. at 42 (citing OCA St. 2-SR at 35). The OCA continued that the interest synchronization adjustment is necessary to ensure that the amount of income taxes claimed by the Company is properly matched to the Company's rate base and weighted cost of debt. The OCA further averred that the interest synchronization method is a standard ratemaking approach that has been well-established as appropriate and fair to all Parties. OCA M.B. at 42 (citing OCA St. 2-SR at 34-36; OCA St. 2 at 61, Exhs. LA-2, C-14). Mr. Smith recommended an interest synchronization adjustment in the amount of $2,999,784. OCA M.B. at 42 (citing OCA St. 5-SR at 27; OCA St. 5 at 7, 127).

2. Recommended Decision

The ALJs noted that interest synchronization is used in ratemaking to determine the amount of interest expense to be used in the calculation of income tax, and the adjustment ensures that the tax-deductible interest expense for ratemaking is properly

[59] The Parties' positions on the appropriate capital structure are discussed in Section IX.B of this Opinion and Order, *infra*.

matched with the rate base and weighted cost of debt. R.D. at 119 (citing OCA M.B. at 42). The ALJs also referred to PAWC's acknowledgement that the OCA's proposed interest expense adjustment is concomitant to the OCA's proposed adjustments to rate base and the weighted average cost of debt. R.D. at 119 (citing PAWC M.B. at 28).

The ALJs agreed that the tax-deductible interest expense for ratemaking is properly matched with the rate base and weighted cost of debt. As such, the ALJs noted that their recommendation contains a concomitant interest synchronization adjustment as it relates to their recommended rate base adjustments, as detailed in Table II-Water, Table II-Wastewater SSS, and Table II-Wastewater CSS in the Appendix of the Recommended Decision. R.D. at 119.

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation that the tax-deductible interest expense for ratemaking is properly matched with the rate base and weighted cost of debt. Therefore, based upon the adjustments to rate base that we adopt in this Opinion and Order, along with the weighted cost of debt we adopt thereto, there will be a concomitant interest synchronization adjustment. This is detailed in Table II-Water, Table II-Wastewater SSS, and Table II-Wastewater CSS in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order.

M. Amortization Expense

1. Positions of the Parties

PAWC submitted that I&E and the OCA's proposed amortization expense adjustments, which are related to the Audubon, BASA, Farmington (water), Farmington (wastewater) and STMA acquisitions, should be rejected for the reasons set forth in the Rate Base – Utility Plan-In-Service Section of the Company's Main Brief and Reply Brief. PAWC R.B. at 22-23 (citing I&E M.B. at 29; OCA M.B. at 43).

I&E noted that annual amortization expense is an operating expense that represents the recovery or refund of regulatory assets and liabilities over an agreed upon period of time. I&E continued that regulatory assets and liabilities may or may not be included in a company's rate base. I&E M.B. at 29 (citing I&E St. 3 at 81).

I&E explained that if the Commission agrees with the recommendation to exclude the STMA and Farmington (wastewater) systems, then there should be a corresponding reduction to amortization expense of $9,147 claimed for the STMA system, and $5,699 claimed for the Farmington (wastewater) system. I&E M.B. at 29 (citing I&E St. 3 at 82; PAWC Vol. 3, SSS Operations at 130). I&E continued that because these systems are not yet owned by the Company, it is premature to allow the Company to recover the corresponding expenses. Further, I&E noted that PAWC also claimed a negative plant acquisition adjustment in the total amortization expense related to the STMA system, and the Company is projecting that the purchase price for the STMA system will be $945,612 less than the net book value of the STMA plant. I&E M.B. at 29-30 (citing PAWC Vol. 4, Exh. 3-B at 344). Moreover, I&E averred that PAWC is required to amortize the adjustment as a credit back to customers over 10 years because it is a negative acquisition adjustment and, while there is no rate base adjustment, PAWC is claiming a negative $94,561 ($945,612 /10) acquisition adjustment expense be credited back to customers over 10 years. I&E M.B. at 30 (citing PAWC Vol. 3, Exh. 3-A at 130).

I&E submitted that if the Commission agrees with I&E's recommendation to remove the plant, revenue, expenses, taxes, and amortizations related to the STMA system, then the Commission should also remove the negative $94,561 annual amortization expense credit related to the STMA system because the system has not yet been acquired and therefore, PAWC should not be required to credit $94,561 in Annual Amortization expense back to customers. I&E M.B. at 30 (citing PAWC Vol. 3, Exh. 3-A at 130).

The OCA referred to its position regarding expenses related to the six proposed acquisitions, *supra*. *See*, OCA M.B. at 41-42, 43.

2. Recommended Decision

The ALJs referred to the Company's acknowledgement that I&E and the OCA's proposed adjustments to amortization expense are concomitant to their proposed exclusion of the acquisitions. R.D. at 120 (citing PAWC R.B. at 22). Further, the ALJs recommended that similar to their recommendation to exclude the identified acquisitions, they also recommended that the Commission adopt I&E's and the OCA's proposed adjustments to Amortization Expense. As such, the ALJs noted that the proposed adjustments in depreciation for "AWC [Audubon] Acq. Amort.;" "Farmington Acq. Amort.;" and "STMA Acq. Amort.," are detailed in the Appendix to the Recommended Decision at Table II-Water and Table II-Wastewater SSS. R.D. at 120.

3. Disposition

As discussed in the Utility Plant-in-Service Section under Section V.A, *supra*, we agree with the ALJs' conclusion that the BASA acquisition should not be included in PAWC's FPFTY rate base at this time.

Additionally, none of the Parties filed Exceptions to the ALJs' recommendation that the Commission remove PAWC's claimed Amortization Expenses associated with its acquisitions of Audubon, Farmington (water), Farmington (wastewater), and STMA. As these systems are net yet owned by the Company, we concur with the ALJs' recommendation and shall adopt it. As set forth in Table II-Water and Table II-Wastewater SSS in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, we shall make the following adjustments to remove the Company's claimed amortization expenses under the depreciation for "Audubon Acq. Amort.,"[60] "Farmington Acq. Amort.," and "STMA Acq. Amort."

(1) A reduction of $775,772 to remove PAWC's claims related to Audubon. This includes an acquisition adjustment amortization expense of $763,977 and associated transaction costs of $11,795. [$763,977 + $11,795=$775,772]

(2) A reduction of $27,032 to remove PAWC's claims related to Farmington (water). This includes an acquisition adjustment amortization expense of $21,549 and associated transaction costs of $5,483. [$21,549 + $5,483]

(3) An addition of $85,414 to remove PAWC's claimed negative acquisition amortization expense related to STMA. This includes a negative acquisition amortization of $94,561 and associated transaction costs of $9,147. [($94.561) + $9,147=($85,414)]

(4) A reduction of $5,699 to remove the transaction costs associated with Farmington (wastewater).

See, PAWC Exh 3-A at 67, 130. Additionally, we note that the Table II-Water attached to the Recommended Decision did not include the removal of the transaction costs associated with the amortization expense for Audubon or Farmington (water). Therefore,

[60] As noted above, Table II-Water in the Recommended Decision referred to this as the "AWC Acq. Amort."

through the adjustments outlined above, we shall modify the ALJs' recommendation by removing these transaction costs.

N. Call Center Expense

1. Positions of the Parties

The OCA proposed an adjustment to eliminate $3.1 million from PAWC's O&M expense claim related to third-party call handling agencies. PAWC submitted that call handling operations are necessary to provide service to PAWC's customers and, if the Company did not utilize third-party call handling agencies, then PAWC would incur additional expense for staffing increases to handle the call volumes previously answered by third-party contractors. PAWC M.B. at 28 (citing PAWC St. 1-R at 22). PAWC further submitted that the OCA has not offered any valid reason why the call center expense that the Company necessarily incurs to serve its customers should be disallowed. PAWC R.B. at 23.

The OCA recommended that expenses for the third-party call centers that have routinely failed to meet reasonable call performance standards be eliminated by disallowing the following FPFTY expenses proposed by the Company for account 634.8: (1) $2,475,869 for Transworld; and (2) $606,386 for InteLogix. OCA M.B. at 43 (citing OCA St. 2-SR at 48; OCA St. 2 at 73). The OCA asserted that the evidence demonstrates the Company's failure to ensure adequate performance by third-party call centers that have routinely failed to meet call performance standards. Further, the OCA averred that the actual performance of the third-party call centers in answering calls is below the performance of the corporate call centers operated by Service Company employees. Moreover, the OCA contended that the Company ignored the evidence of the poor performance of its third-party call centers compared to Service Company call operations and refuses, in this proceeding, to make any changes in its current call center contracts.

OCA M.B. at 43 (citing OCA St. 6-SR at 9-10; OCA St. 6 at 20; PAWC St. 9-R at 15-16). As such, the OCA submitted that such expenses should be disallowed because they are imprudent and unreasonable. OCA M.B. at 43 (citing OCA St. 6-SR at 10; *Popowsky v. Pa. PUC*, 674 A.2d 1149, 1154 (Pa. Cmwlth. 1996) at 1154; 66 Pa.C.S. § 523).

2. Recommended Decision

The ALJs recommended that the Commission reject the OCA's proposed adjustment to Call Center Expense based on the OCA's assertion that third-party call centers were performing below that of the call centers operated by the Company's affiliated Service Company. R.D. at 121-22 (citing OCA[61] St. 6-SR at 9-10; OCA St. 6 at 20). The ALJs were not persuaded that an adjustment to Call Center Expense is merited because, although the OCA's proposed adjustment is only for third-party call centers, the concerns outlined by the OCA also extend to the Company's own call centers, which are operated by the Service Company. R.D. at 122 (citing OCA St. 6 at 19-26). As such, the ALJs were not persuaded that the evidence cited by the OCA that the performance of the third-party call centers is so egregious when compared to the performance by the Service Company that it merits disallowance of the associated expense claim. Further, the ALJs noted the Company's explanation that third-party call center agents are trained with the same materials as internal call center employees. R.D. at 122 (citing PAWC St. 9-R at 6). Moreover, the ALJs found that given that the Company's own call centers are managed similarly, it is unclear how eliminating the Company's claim related to third-party call centers will provide the improved service

[61] On page 122 of the R.D., the ALJs, in making these citations, erroneously cited to PAWC's Statement Nos. 6 and 6-SR on this issue. The correct citations have been used here. Therefore, Footnote Nos. 256 and 257 of the R.D. should refer to OCA St. 6 and St. 6-SR, not PAWC. On this same page, the ALJs also incorrectly stated "As PAWC witness Alexander explains." However, Ms. Barbara Alexander was a witness for the OCA. Therefore, this sentence should read "As PAWC witness Degillio explains." *See,* OCA Exc. at 11, n6.

sought by the OCA. Therefore, the ALJs were not persuaded that eliminating the expense related to third-party call centers will improve the Company's call center activities. R.D. at 122.

The ALJs noted that there were several customers who offered testimony during the Public Input Hearings regarding issues they experienced when contacting the Company to report various issues. Nonetheless, the ALJs reasoned that it was insufficient to warrant directing PAWC to implement changes to its call handling procedures. The ALJs found that PAWC has adequate procedures in place to track and respond to customer complaints and PAWC's daily monitoring of the Customer Service Organization (CSO) and third-party call handling agencies constitutes sufficient oversight. R.D. at 364.

3. OCA Exception No. 8 and Replies

In its Exception No. 8, the OCA avers that the ALJs did not accurately assess or account for the evidence the OCA placed on the record. The OCA maintains that the call center performance for Transworld Systems and InteLogix has been noticeably worse than the call center performance indicated with the Customer Care Table of Exhibit BA-3, which is a combined total for American Water agents as well as third-party contractors. OCA Exc. at 11 (citing OCA Exh. BA-3). The OCA provides that despite this documented discrepancy in poor performance, the Service Company has failed to utilize any of its contractual remedies for this continual failure of the third parties to meet performance standards. OCA Exc. at 11-12 (citing OCA St. 6 at 20). The OCA argues that PAWC failed in its management responsibilities to enforce contractual standards for the third-party contractors and thus the expense should be disallowed as the expense is neither justified nor prudently incurred. OCA Exc. at 12.

In reply, PAWC disagrees with the OCA's recommendation to disallow costs related to third-party contractors for responding to customer calls. PAWC sets forth that if PAWC did not utilize third-party call handling agencies, the Company would incur an additional expense for staffing increases to handle the call volumes previously answered by the contractors. PAWC R. Exc. at 13 (citing PAWC St. 1-R at 22). PAWC explains that the criticisms by the OCA's witness, Ms. Alexander, of PAWC's customer CSO performance ignore key indicators of customer satisfaction and differences between the "service level" data reported by the CSO and Pennsylvania energy utilities. PAWC notes that there were no significant complaints from customers about PAWC's customer service after hearing from 217 witnesses. PAWC R. Exc. at 14 (citing R.D. at 364).

4. Disposition

We find the ALJs' recommendation regarding the third-party contracts to be reasonable. Disallowing the expense will not improve the call center performance. The Company would need to replace the third-party contractors at an additional cost. We agree with the ALJs that PAWC has adequate procedures in place to track and respond to customer complaints. We note that PAWC conducts daily monitoring of the CSO and third-party call handling agencies. *See*, PAWC 9-R at 6-8. Accordingly, we shall adopt the ALJs' recommendation on this issue and deny the OCA's Exception No. 8.

O. Depreciation Expense

1. Positions of the Parties

PAWC submitted that other than depreciation expense adjustments associated with acquisitions, the OCA is the only Party that recommended an adjustment to depreciation expense. PAWC explained that its witness, Mr. Spanos, President of Gannett Fleming Valuation and Rate Consultants, LLC (Gannett Fleming), utilized

Commission-approved methods and the Company's most-recent service life studies when determining the annual depreciation accruals. Accordingly, PAWC averred that the Company properly determined service lives and depreciation expense for all accounts by utilizing the most current and complete information available. PAWC R.B. at 23-24 (PAWC M.B. at 17-19; PAWC St. 11-R at 5-10).

I&E noted that its only adjustment to depreciation expense is discussed in the "Annual Depreciation Expense" portion of its Main Brief which pertains to depreciation expense adjustments for two acquisitions not yet owned by PAWC. I&E M.B. at 19-20, 30.

The OCA noted, as a general matter, that the shorter the useful life, the higher the depreciation expense and, therefore, the higher the revenue requirement. OCA M.B. at 43 (citing OCA St. 2-SR at 43). The OCA averred that the Company, in its initial filing, proposed shorter useful lives for certain water plant when compared to PAWC's last base rate case, at Docket No. R-2022-3031673. The OCA noted that PAWC did not justify the shortening in its initial filing. OCA M.B. at 43 (citing OCA St. 2 at 64-66, OCA Exh. LA-2, Sch. C-17). The OCA provided that, in rebuttal, PAWC's witness, Mr. Spanos, explained that the shorter useful lives are supported by PAWC's 2021 Service Life Study rather than the 2016 Service Life Study. OCA M.B. at 44 (citing OCA St. 2-SR at 37; PAWC St. 11-R at 1-2).

The OCA continued that the Company has not demonstrated the need or reasonableness to use shorter useful lives that increase PAWC's depreciation expense. Further, the OCA noted that the water utility acquisitions that occurred since the 2016 Service Life Study, which supported the prior-approved useful lives, included two Section 1329 acquisitions: Steelton Borough Authority and Valley Township Water. Moreover, the OCA noted that the Company's appraiser in the Valley Township Section 1329 case, at Docket No. A-2020-3019859, used the useful lives that are recommended by the OCA in this case. OCA M.B. at 44 (citing OCA St. 2-SR at 37-43; PAWC St. 11-R at 1-2, 5).

2. Recommended Decision

The ALJs recommended that, consistent with their recommendation to adopt the Company's position on Depreciation Reserve for Rate Base, and I&E's and the OCA's positions for Annual Depreciation Expense for Rate Base, the Commission reduce the Company's claim for depreciation expense, to remove annual depreciation expense for the AWC, STMA, and Farmington systems. As such, the ALJs noted that the proposed adjustments in depreciation are detailed in the Recommended Decision at Table II-Water and Table II-Wastewater SSS, for "AWC Depreciation;" "Farmington Depreciation;" and "Sadsbury Depreciation." R.D. at 124.

3. OCA Exception Nos. 3 and 9 and Replies

The OCA proposed, in its Exception Nos. 3 and 9, that the service lives from the 2022 rate case be used for the current case and allow the service lives from the 2021 Service Life Study, or its replacement study, to be deferred to and examined in PAWC's next base rate case. The OCA explains that given that expense items are a direct input into the revenue requirement amount, this adjustment would reduce the ALJs' recommended increase to $88.6 million ($104.1 – $15.5 million). OCA Exc. at 12 (citing OCA St. 2 at 64-66).

In its Replies, PAWC disagrees with the OCA's recommendation that it should use the results of its 2016 Water Service Life Study rather than its 2021 Water Service Life Study for three of approximately fifty water accounts. PAWC R. Exc. at 11 (citing OCA Exc. at 5-6, 12). PAWC contends that it provided detailed survivor curve information for the three water accounts at issue and showed that, for each account, the updated information from the 2021 Water Service Life Study was a better statistical fit with the most current historical data than the 2016 Water Service Life Study. PAWC R. Exc. at 11-12 (citing PAWC St. 11-R at 5-10). PAWC avers that the service lives and depreciation expense for all accounts were properly determined utilizing the most current and complete information available. PAWC R. Exc. at 12 (citing PAWC M.B. at 17-19; PAWC St. 11-R at 5-10).

PAWC provides that the OCA recommended in its Exceptions, that the results of the 2021 Water Service Life Study be "deferred" and examined in the Company's next base rate. PAWC R. Exc. at 11, fn. 54 (citing OCA Exc. at 12). PAWC argues that presenting a new recommendation at this stage in the proceeding is improper, and, in any event, PAWC has provided substantial evidence supporting the use of the 2021 Water Service Life Study in this proceeding. PAWC R. Exc. at 11 (citing PAWC M.B. at 17-19).

4. Disposition

We find the ALJs' recommendation to adopt PAWC's claim for accrued depreciation related to its plant-in-service to be reasonable. We do not agree with the OCA's recommendation to use the Company's 2016 Service Life Study and to defer the use of the 2021 Service Life Study until the Company's next base rate case. PAWC has stated that the service life studies were most recently performed in 2022 for its water assets (based on plant data through 2021) and in 2020 for its wastewater assets (based on plant data through 2019). PAWC St. 11 at 7. There are three accounts at issue: 304.15 (Other Water Source Structures); 331.00 (Mains and Accessories); and 335.00 (Fire Hydrants). The OCA's witness, Mr. Smith, argued that the 2021 Water Service Life Study uses shorter life data for these accounts than the 2016 Water Service Life Study. PAWC M.B. at 17-19. PAWC's witness, Mr. Spanos, has provided that it is standard practice to conduct a service life study every five years for each regulated utility. PAWC

St. 11-R at 2. Mr. Spanos stated that the plant data used in the service life study came from Company records, including retirements. PAWC St. 11 at 8. Mr. Spanos explained that PAWC has made significant changes to the plant investment since the 2016 Service Life Study. Further, Mr. Spanos determined that for each account, the 2021 Service Life Study was a better statistical fit than the 2016 Service Life Study. PAWC M.B. at 19 (citing PAWC St. 11-R at 5-10). The OCA has not provided evidence to show that the 2016 Service Life Study is a more appropriate fit than the 2021 Service Life Study. As such, we find that the OCA's recommendation to defer the use of the 2021 Service Life Study until the Company's next base rate case is unreasonable. Furthermore, the 2021 Service Life study has been developed to reflect recent replacement activity and investment activities and it is proper to use the more recent data. *See*, PAWC St. 11 at 5, 8, 9. Therefore, the OCA's Exception Nos. 3 and 9 are denied.[62]

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

1. Positions of the Parties

PAWC claimed $971,071 for pension expense and a negative allowance of ($6,496,737) for OPEB income. PAWC M.B. at 29.

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[62] As noted in our disposition to Section V.E of this Opinion and Order, *supra*, as set forth in Table II-Water and Table II-Wastewater SSS, in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, we shall remove the following claimed annual depreciation amounts: (1) $269,599 of annual depreciation expense associated with the Audubon system; (2) $101,751 of annual depreciation expense associated with the Farmington (water) system; (3) $51,847 of annual depreciation expense associated with the STMA system; and (4) $137,987 associated with the Farmington (wastewater) system.

PAWC provided that the Company's pension and OPEB costs are calculated by WTW (formerly known as Willis Towers Watson), a national actuarial firm that uses actuarial methods.[63] PAWC asserted that the pension and OPEB costs that WTW calculates are subject to material change based on a variety of economic and demographic variables that are outside the Company's control. Further, PAWC averred that actuaries like WTW must make reasonable assumptions to supply the values for those variables, and the assumptions and variables of the calculation are impacted by demographic assumptions related to the composition of the population that will receive retirement benefits, the behavior of members of that population (*i.e.*, decisions about when to retire), and the life expectancy of the recipients of retirement benefits. Consequently, PAWC continued, actual expenses can be lower or higher than the amounts embedded in the Company's base rates from year-to-year. PAWC M.B. at 29-30 (citing PAWC St. 8 at 10-14). Moreover, PAWC asserted that the Commission regularly authorizes utilities to defer costs for accounting purposes arising from events that are unanticipated and outside the utility's control to provide the utility an opportunity to claim such costs for recovery in a future rate proceeding. PAWC M.B. at 30. Therefore, PAWC submitted that the pension and OPEB costs calculated by the Company's actuary are within the scope of the Commission's exception to the prohibition against retroactive ratemaking. As such, PAWC requested that the Company be permitted to defer and record any amounts above or below the projected level of pension and OPEB expenses into regulatory asset or liability accounts until its next base rate proceeding. PAWC M.B. at 30-31 (citing PAWC St. 8 at 10-15).

First, I&E submitted that the Company's proposed pension and OPEB tracker should be denied. I&E M.B. at 31 (citing I&E St. 1 at 20). I&E noted that the

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[63] PAWC's original claims consisted of pension expense of $22,214 and a negative allowance for OPEB income of ($5,817,327). Based on the actuarial report furnished by WTW for 2024 after the Company's initial filing, PAWC revised its pension claim and OPEB claim to the final amounts outlined above. PAWC M.B. at 29.

Commission has permitted extraordinary, unanticipated, non-recurring, and substantial expenses to be deferred for accounting purposes, including: (1) repair costs to avoid and imminent threat to public health and safety; (2) hurricane damage; and (3) accounting changes that would financially impact a utility. I&E M.B. at 31 (citing *Petition of Pennsylvania Util. Co., Inc.*, 2012 Pa. P.U.C. LEXIS 1124, at 2-3; *see also, Petition of Pike County Light and Power Company*, 2012 Pa. P.U.C. LEXIS 939 at 5-6; *Petition of Columbia Gas of Pa. Inc.*, 2012 Pa. P.U.C. LEXIS 836). However, I&E asserted that based on the standard which a utility must meet when seeking Commission authorization for deferral accounting, such treatment may be granted if the expense is: (1) extraordinary; (2) unanticipated; (3) non-recurring; and (4) substantial. I&E M.B. at 31-32 (citing *Petition of Columbia Gas of Pa., Inc. for Authority to Defer for Accounting and Financial Purposes Certain Start Up Expenses Assoc. with the Redesign of Upgrade of Financial Processes and Info. Systems*, Docket No. P-2012-2319920 (Order entered December 5, 2012) (*Columbia Gas Petition for Deferral*)).

I&E averred that here, the costs are not extraordinary because pension and OPEB costs: (1) are routine, yearly expenses incurred by the Company, not one-time expenses; (2) are part of contractual agreements with past employees; and (3) can be forecasted on an annual basis and, therefore, cannot be categorized as non-recurring. I&E M.B. at 32 (citing *Popowsky v. Pa. PUC*, 642 A.2d 648, 652 (Pa. Cmwlth 1994) (*Popowsky*)). As such, I&E submitted that it is not appropriate for the Commission to grant approval for the Company to defer these costs because pensions and OPEB costs do not meet the requirements for deferral treatment. I&E M.B. at 32.

Second, I&E recommended a negative allowance of ($3,800,736) for pension expense, or a reduction of $4,771,807 to the Company's FPFTY final claim for water operations, based on a three-year average of historic actuals for pension expense.[64]

[64] [$971,071 - ($3,800,736) = $4,771,807].

I&E M.B. at 24 (citing I&E St. 1-R at 10). I&E noted that this approach, if the Company continues it in future base rate proceedings, will allow pension expense to normalize over time and address the Company's concern about over-recovery of pension expense without the need for a tracker. I&E noted that the Commission recently adopted a three-year normalization of rate case expense in *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-2023-3037933, (Opinion and Order entered November 9, 2023) (*PGW 2023*). Accordingly, I&E continues to recommend using a three-year average of historic actual expenses for pension based on the evidence presented and relevant case law. I&E M.B. at 33-34 (citing *PGW 2023*).

Third, I&E recommended the use of a historic three-year average for OPEB expense, resulting in a reduction of $1,664,016 to the Company's FPFTY claim.[65] I&E M.B. at 35 (citing I&E St. 1-SR at 26). I&E noted that using the three-year historic average will allow OPEB expense to normalize over time and address any concerns about over-recovery without the need for a tracker. I&E M.B. at 35. Further, I&E noted that its recommended approach is consistent with prior Commission determinations. I&E M.B. at 36-37 (citing *PGW 2023* at 86; *Pa. PUC v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929 (Order entered June 22, 2021) (*PECO 2021*) at 90).

The OCA referred to the Production Expense Section of its Main Brief to argue that PAWC has not met its burden to demonstrate that the accounting mechanisms for pension and OPEB expenses are necessary or just and reasonable.[66] OCA M.B. at 44-45.

PAWLUG noted that although the Commission is authorized to consider alternative ratemaking mechanisms filed pursuant to Act 58 of 2018, the general rule

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65 [($6,496,737) - ($8,160,753) = ($1,664,016)].

66 Accordingly, the OCA's position on this issue is discussed, in detail, in Section VII.Q of this Opinion and Order, *infra*.

remains that single-issue ratemaking is disfavored and Commission precedent prohibits single-issue ratemaking if it impacts something that is normally considered in a base rate case. Further, PAWLUG averred that the Company's proposed OPEB, pension, and production deferral mechanisms are examples of single-issue ratemaking which ignores the impact of any offsetting over recovery for other costs and, thereby, negates the need for the deferral mechanism. PAWLUG M.B. at 7-8 (citing *Pa. PUC v. Philadelphia Gas Works*, Docket No. P-00042090 (Order entered July 9, 2004) at 7; *Pa. Indus. Energy Coalition v. Pa. PUC*, 653 A.2d 1336, 1350 (Pa. Cmwlth. 1995)). As such, PAWLUG submitted that the Company's proposed deferral mechanisms should be denied or, if the Commission approves any of the proposed deferral mechanisms, then the impact on PAWC's operational risk should be considered in review of the Company's proposed ROE. PAWLUG M.B. at 8.

2. Recommended Decision

The ALJs recommended that the Commission reject the Company's proposal to defer and record any amounts above or below the projected level of pension and OPEB expenses into regulatory asset or liability accounts until its next base rate proceeding. The ALJs agreed with I&E that pension and OPEB costs are not extraordinary, unanticipated, or non-recurring, and, therefore, should not qualify for regulatory asset treatment. R.D. at 131 (citing I&E M.B. at 31-32). Similarly, the ALJs agreed with the OCA and PAWLUG that allowing deferred recovery of routine costs would raise concerns of single-issue ratemaking, which is not permissible. R.D. at 131 (citing OCA M.B. at 44-45; PAWLUG M.B. at 7-8).

The ALJs also recommended that the Commission accept I&E's proposed adjustments to pension and OPEB expenses based on a three-year historic average. The ALJs agreed with I&E that the Commission has recently favored adopting three-year averaging in calculating Pension and OPEB expenses. R.D. at 131 (citing I&E M.B.

at 33-36; *PGW 2023* at 86; *PECO 2021* at 90). Further, in disagreement of the Company's contention that its claim is based on actuarial projections, the ALJs found that "prior expenses and the variability of the year-to-year expense balances should be taken into consideration." R.D. at 131 (citing PAWC M.B. at 31-32; *PGW 2023* at 86). Moreover, the ALJs found that I&E adequately demonstrated the variability of PAWC's historic pension and OPEB costs and that the claims for such costs in this rate case should be based on averaging. R.D. at 131 (citing I&E St. 1-SR at 20-26; I&E St. 1 at 21-25). As such, the ALJs noted that the proposed adjustments in Pension Expense and OPEB Expense were detailed in the Recommended Decision in the Appendix at Table II-Water. R.D. at 131.

3. PAWC Exception Nos. 4 and 5 and Replies

In its Exception No. 4, PAWC argues that the ALJs improperly recommended that the Commission adjust the Company's claimed pension and OPEB expenses using a three-year average. PAWC Exc. at 16 (citing R.D. at 131). PAWC avers that while most Pennsylvania utilities base their claims for pension and OPEB costs on cash contributions to their pension and OPEB plans, the Commission approved the Company's request to cease using cash contributions and, instead, follow Financial Accounting Standards Board (FASB) Accounting Standard Codification Topic 715 (ASC 715). PAWC explains that under ASC 715, net changes in the actuarial determination of pension and OPEB obligations and associated plan funding levels impact the amount reflected on the income statement for the applicable accounting period. PAWC continues that historic actuarial determinations under ASC 715 do not inform how future pension and OPEB plan costs will be recorded because the economic and demographic variables used in actuarial forecasts change frequently. PAWC Exc. at 16-17 (citing PAWC R.B. at 24-25; PAWC M.B. at 31-32).

PAWC also posits that based on undisputed actuarial forecasts, the use of a three-year historic average understates the level of expense, or overstates the level of income, that the Company will record in 2024. PAWC Exc. at 17 (citing PAWC St. 5-R at 5; PAWC St. 8-R at 6-8; PAWC Exh. 3-A Revised at 51R-52R; Tr. 2004-06). PAWC also contends that because past performance has no bearing on future performance, the misalignment between the Company's rate allowance and actuarial determination will not be resolved through the use of a three-year historic average, which is why the Company is requesting that the Commission approve a deferral and record any amounts above or below the actuarial forecasted level of pension and OPEB expenses into regulatory asset or liability accounts until the Company's next base rate proceeding. Further, PAWC avers that if a three-year historic average is used to determine the rate allowance, then deferred accounting is necessary to address these fluctuations, for both customers and the Company. Moreover, PAWC argues that a rate allowance calculated using a three-year historic average, as the ALJs recommended, would result in larger variances between the annual amount of pension and OPEB expenses reflected in base rates and the actual level of expense or income the Company records on its books. PAWC Exc. at 17.

In short, PAWC argues that the 2024 actuarial reports and the Company's comparative analysis of its authorized and actual levels of pension and OPEB costs refute the rationale underlying the ALJs' recommendation that the use of a three-year historic average will normalize the Company's pension and OPEB expenses between rate cases. Therefore, PAWC argues that the Commission should approve the Company's claims of pension expense of $971,071 and OPEB income of $6,496,737. PAWC Exc. at 17.

In its Replies, I&E counters that the ALJs properly recommended that the Commission adjust the Company's pension and OPEB expense using a three-year average. I&E R. Exc. at 7 (citing R.D. at 131). I&E maintains that its recommended approach, and specifically the approach recommended by its witness, Ms. Vanessa Okum, is consistent with prior Commission determinations. I&E R. Exc. at 36-37 (citing

PGW 2023 at 86; *PECO 2021* at 90). Further, I&E argues that the evidence presented by I&E and the relevant case law demonstrate that a three-year average for pension and OPEB expense is the appropriate measure. Moreover, I&E contends that while the Company states that it's pension and OPEB expense are "authorized levels," forecasted amounts are not an "authorized expense." Furthermore, I&E adds that the Company's recent rate cases have all resulted in settlement with no specific monetary value assigned to pension and OPEB expense. Therefore, I&E argues that PAWC's Exception No. 4 should be denied. I&E R. Exc. at 8 (citing *Pa. PUC v. Pennsylvania American Water Company*, Docket No. R-2017-2595853 (Order entered December 7, 2017) (*PAWC 2017*); *PAWC 2020*; and *PAWC 2022*).

In its Exception No. 5, PAWC disagrees with the ALJs characterization of pension and OPEB plan costs as "routine," arguing that the Commission regularly authorizes utilities to defer costs for accounting purposes arising from events that are unanticipated and outside of the utility's control, thereby providing the utility an opportunity to claim those costs for recovery in a future rate proceeding. PAWC Exc. at 18 (citing *Petition of Pennsylvania-American Water Company for Authorization to Defer, and Record as Regulatory Assets for Future Recovery: (1) Incremental Expenses Incurred Because of the Effects of the COVID-19 Emergency; (2) Revenue Reductions Attributable to the Effects of the COVID-19 Emergency; and (3) Carrying Charges on the Amounts Deferred*, Docket No. P-2020-3022426 (Opinion and Order entered September 15, 2021) at 12-13, 30-32, 42, 49-50; *Petition of Pennsylvania American Water Company for Authorization to Defer Expenses Incurred to Pay New Regulatory Fees Imposed by the Pa. Department of Environmental Protection*, Docket No. P-2019-3008253 (Opinion and Order entered May 9, 2019) at 3-4; *Petition of Pa.-Am. Water Co. for Auth. to Defer for Accounting and Fin. Reporting Purposes Expenses Relating to a Water Customer Class Demand Study*, Docket No. P-2012-2308982 (Opinion and Order entered August 20, 2012); *Petition of Columbia Gas of Pa., Inc. for Auth. to Defer, for Accounting Purposes, Certain Costs Associated with a Regulatory*

Asset Related to Other Post-Retirement Benefits Provided by NiSource Corporate Serv. Co., Docket No. P-2011-2275383 (Opinion and Order entered May 24, 2012); *Petition of the Newtown Artesian Water Co. for Permission to Defer and Record Unrecovered Purchased Water Costs*, Docket No. P-2010-221420 (Order entered June 1, 2011); *Petition of Citizens Utils. Water Co. of Pa.*, Docket No. P-00930746 (Order entered February 25, 1994); *Pa. P.U.C. v. Consumers Pa. Water Co.* – Roaring Creek Div., Docket No. R-932655 (Order entered February 3, 1994)).

PAWC also argues that the Company presented unrefuted evidence that pension and OPEB costs determined on an accrual basis in accordance with ASC 715 can materially fluctuate higher or lower than forecasted from year-to-year, which occurs because actuarial forecasts reflect numerous economic and demographic assumptions that are outside of the Company's control, including expected behavior (*i.e.*, decisions about when to retire) and the life expectancy of the participant group. PAWC Exc. at 18-19 (citing PAWC St. at 10-14). Further, PAWC contends that deferred accounting authorization ensures that both customers and the Company only bear actual costs incurred for pension and OPEB expenses. Moreover, PAWC avers that the ALJs failed to consider the record evidence demonstrating that customers would have realized a net benefit of approximately $104 million if pension and OPEB deferral mechanisms had been in place from 2012 through 2022. PAWC Exc. at 19 (citing PAWC M.B. at 31; PAWC Exh. JCS-1R).

PAWC also contends that the ALJs' recommendation is contrary to the record evidence demonstrating that the Company's production expenses can materially increase or decrease based on volatility in the prices charged by suppliers due to market conditions that are outside of the control of the Company and its suppliers. PAWC Exc. at 19 (citing PAWC M.B. at 32-33; PAWC St. 8 at 17-21). PAWC illustrates that its witness, Mr. J. Cas Swiz, testified that when compared to historic levels, the chemical market was extremely volatile in 2022 and 2023, based on impacts from the COVID-19

Pandemic, the conflict in Ukraine, and inflationary growth in commodity prices. Similarly, PAWC asserts that energy market prices are higher than they have been in several years, resulting in the Company's electric generation suppliers increasing contract rates for power supply and being less willing to lock in prices for 12-month terms. PAWC Exc. at 19 (citing PAWC St. 8 at 18-19). PAWC argues that its proposed accounting deferral for production expenses would protect both the Company and customers against this volatility. Further, PAWC contends that the ALJs and the opposing Parties ignored the ways in which the Company's production costs closely resemble the types of costs that the Commission has authorized other utilities to recover under Section 1307 of the Code, 66 Pa.C.S. § 1307, which are also driven by changes in supplier prices beyond the utility's control. Accordingly, PAWC argues that the Commission should approve the Company's proposed deferral mechanisms for its pension, OPEB, and production expenses. PAWC Exc. at 19-20.

In its Replies, I&E counters that the ALJs properly denied PAWC's request for deferred accounting for pension expenses, OPEB expenses, and production expenses. I&E R. Exc. at 8 (citing R.D. at 131). I&E repeats that the Commission has permitted deferred accounting for extraordinary, unanticipated, non-recurring, and substantial expenses, including costs for repairs to avoid and imminent threat to public health and safety, hurricane damage, and across the board accounting changes that would have a significant financial impact on a utility. I&E R. Exc. at 8-9 (citing *Petition of Pennsylvania Util. Co., Inc.,* 2012 Pa. PUC LEXIS 1124, at 2-3; *see also Petition of Pike County Light and Power Company*, 2012 Pa. PUC LEXIS 939 at 5-6; *Petition of Columbia Gas of Pa. Inc.*, 2012 Pa. PUC LEXIS 836). Further, I&E reiterates that based on the standard which a utility must meet when seeking Commission authorization for deferral accounting, such treatment may be granted if the expense is: (1) extraordinary; (2) unanticipated; (3) non-recurring; and (4) substantial. I&E R. Exc. at 9 (citing *Columbia Gas Petition for Deferral*). Moreover, I&E maintains that here, the costs are not extraordinary because pension and OPEB costs: (1) are routine, yearly expenses incurred by the Company, not one-time expenses; (2) are part of contractual agreements with past employees and, therefore, not unanticipated; and (3) can be forecasted on an annual basis and, therefore, cannot be categorized as non-recurring. I&E R. Exc. at 9 (citing *Popowsky*). Accordingly, I&E maintains that it is not appropriate for the Commission to grant approval for PAWC to defer these costs because pensions and OPEB costs do not meet the requirements for deferral treatment. I&E R. Exc. at 9-10.

In its Replies, the OCA counters that the ALJs properly recommended that the Commission deny PAWC's request for deferred accounting for pension, OPEB expenses, and production expenses. OCA R. Exc. at 6 (citing R.D. at 131, 135).

The OCA asserts that single-issue ratemaking is the deferral of a single cost or cost category in isolation from all other costs. OCA R. Exc. at 6 (citing OCA R.B. at 28). Further, the OCA avers that several costs fluctuate, and examining a single cost without considering others would deny consumers the benefit of offsetting costs and reductions. Moreover, the OCA contends that the Company's requested deferral: (1) would shift the risk of fluctuation away from investors, who are compensated for that risk, to captive ratepayers who would be forced to bear the risk for no compensation; and (2) contradicts the fundamental ratemaking principle of allowing the utility the opportunity to recover its costs, especially in the presence of an FPFTY. OCA R. Exc. at 6 (citing OCA R.B. at 28; OCA M.B. at 45).

According to the OCA, the Company is attempting to "bootstrap" electric utility default service cost recovery and natural gas utility purchased gas cost mechanisms into its argument for a deferred accounting of production costs. OCA R. Exc. at 7 (citing PAWC Exc. at 19-20). The OCA submits that this argument is without merit and should be rejected. Further, the OCA argues that it fully rebutted the Company's argument regarding an alleged net benefit if pension and OPEB deferral mechanisms would have been in place. OCA R. Exc. at 7 (citing PAWC Exc. at 19; OCA R.B. at 27-29).

Accordingly, the OCA submits that the Commission should deny PAWC's Exception No. 5 and instead adopt the ALJs' recommendation. OCA R. Exc. at 7.

In its Replies, PAWLUG counters that the ALJs correctly determined that pension, OPEB expenses, and production expenses are not extraordinary, unanticipated, or nonrecurring. PAWLUG argues that the Company's recitation of prior Commission decisions approving deferral mechanisms for extraordinary or nonrecurring expenses is not persuasive. Accordingly, PAWLUG submits that PAWC's Exception No. 5 should be denied. PAWLUG R. Exc. at 3-4 (citing R.D. at 131; PAWC Exc. at 18, 20; PAWLUG M.B. at 7).

4. Disposition

We agree with the ALJs and I&E that pension and OPEB costs are not extraordinary, unanticipated, or non-recurring. R.D. at 131 (citing I&E M.B. at 31-32). As discussed by I&E, pension and OPEB costs are routine expenses that can be forecasted on an annual basis and are part of contractual agreements with past employees. *See*, I&E M.B. at 32. Therefore, costs for pension and OPEB expense do not qualify for deferred accounting treatment. Indeed, as noted by the ALJs, the OCA, and PAWLUG, to allow deferred recovery for such routine costs would raise concerns of single-issue ratemaking. *See*, R.D. at 131 (citing OCA M.B. at 44-45; PAWLUG M.B. at 7-8).

To the extent that PAWC argues that the ALJs' adjustment of PAWC's pension and OPEB expense claim using a three-year average is improper, we disagree. As noted by I&E, adopting three-year averaging in calculating pension and OPEB expenses is consistent with recent Commission determinations. *See,* I&E M.B. at 36 (citing *PGW 2023* at 86; *PECO 2021* at 90). Furthermore, we agree with the ALJs that I&E adequately demonstrated that PAWC's claims for pension and OPEB costs should be based on averaging. R.D. at 131 (citing I&E St. 1-SR at 20-26; I&E St. 1 at 21-25).

Accordingly, we shall deny the Company's Exception Nos. 4 and 5 and adopt the ALJs' recommendation on this issue. As noted in Table II-Water in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, this results in: (1) a reduction of $4,771,807 to the Company's claim for pension expense, or from $971,071 to a negative allowance of $3,800,736; and (2) a reduction of $1,664,016 to the Company's claim for OPEB income, or from ($6,496,737) to ($8,160,753).

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

1. Positions of the Parties

PAWC claimed $59,989,147 in total Production Expense, broken out as $3,098,544 for Purchased Water and Wastewater Treatment, $21,276,332 for Fuel and Power, $27,485,022 for Chemicals, and $8,129,249 for Waste Disposal. PAWC St. 8 at 17; PAWC Exh. 3-A, at 54-57, 118-20, 238-40. None of the Parties disagreed with PAWC's claimed amount. However, I&E, the OCA, the OSBA and PAWLUG each took issue with the Company's proposed deferral mechanism for production expenses, as discussed below. PAWC M.B. at 32.

PAWC averred that the Company's production expenses can materially increase or decrease based on volatility in the prices charged by suppliers due to market conditions that are outside the control of the Company and its suppliers. PAWC continued that energy prices are higher than they have been in several years and, as a result, the Company's electric generation suppliers have increased contract rates for power supply and are less-willing to lock in prices for 12-month terms. PAWC M.B. at 32-33 (PAWC St. 8 at 17-21). As such, PAWC asserted that the Company's proposed accounting deferral for production expenses would protect both the Company and its customers against this volatility. Moreover, PAWC averred that pursuant to Section 1307 of the Code, 66 Pa.C.S. § 1307, energy utilities in Pennsylvania are authorized to adjust rates for variations in gas commodity or electric fuel and transmission costs between rate cases and, although no specific statute applies to the Company's production cost recovery, the same ratemaking principles that justify such Section 1307 mechanisms apply to the Company's recovery of production costs. PAWC M.B. at 33 (citing PAWC St. 8-R at 5-6; PAWC St. 8 at 18-19). Therefore, PAWC submitted that the Commission should afford the Company deferred accounting treatment for production expenses. PAWC M.B. at 33.

I&E submitted that the Company's proposed Production Expense tracker should be denied for the same reasons that the Pension and OPEB Tracker, *supra,* should be denied. I&E M.B. at 37. I&E argued that PAWC's Production Expenses are not extraordinary, unanticipated, or non-recurring. I&E M.B. at 38 (citing OSBA St. 1 at 47-48). I&E added that although production expenses may be substantial in some instances, they do not meet the requirements to be deferred for accounting purposes. I&E did not make an adjustment to production expense. I&E M.B. at 38 (citing I&E St. 1 at 33).

The OCA averred that PAWC has not met its burden to demonstrate that the Company's deferred regulatory accounting mechanisms are just and reasonable for: (1) Pension and OPEB Expenses; and (2) Production Expenses. OCA M.B. at 44-45. The OCA further stressed its position that the requested treatments of isolated expenses for deferred recovery in future base rate cases are impermissible single-issue ratemaking, which is similar to retroactive ratemaking and, generally, is prohibited if it impacts on a matter that is normally considered in a base rate case. OCA M.B. at 45 (citing *Nat'l Fuel Gas Dist. Corp. v. Pa. PUC*, 464 A.2d 546, 567 (Pa. Cmwlth. 1983); *Phila. Elec. Co. v. Pa. PUC*, 502 A.2d 722, 727-28 (Pa. Cmwlth. 1985); *Pa. Indus. Energy Coalition v. Pa. PUC*, 653 A.2d 1336, 1350 (Pa. Cmwlth. 1995), *aff'd*, 670 A.2d 1152 (Pa. 1996)

(*PIEC*)). The OCA continued that unlike the proceeding in *PIEC*, which affirmed the Commission's authority to allow a Section 1307 surcharge, this case is a base rate case and PAWC is asking for specific deferred accounting treatment and future recovery of line-item expenses that are addressed in base rate cases. OCA M.B. at 45 (citing *PIEC*).

The OCA asserted that although a utility's cost-of-service is made up of individual cost components which vary from expected values, single-issue ratemaking: (1) ignores that as a single cost component changes in one direction, other components may change in the opposite direction; and (2) denies customers the benefit of these offsetting cost reductions because it shifts the risk of fluctuations in two specific expense items away from investors and onto the customers. OCA M.B. at 45 (citing OCA St. 2-SR at 50-51; OCA St. 2 at 75-79). Further, the OCA noted that isolating and tracking the Pension and OPEB expenses as well as production costs for eventual recovery runs counter to a fundamental principle of ratemaking that a utility should be afforded the *opportunity* to recover its costs of providing service-but that it is *not guaranteed* such recovery. OCA M.B. at 45-46. Moreover, the OCA argued that the Company is utilizing FPFTY costs of providing service, which includes pension and OPEB expenses as well as production expenses. OCA M.B. at 46. Furthermore, the OCA averred that if the Commission were to allow this, then the Company will lose the incentive to manage or reduce these expenses where it is certain the Company will recover the expenses without any review of prudency or reasonable of these expenses within the base rate case. OCA M.B. at 46 (citing OCA St. 2-SR at 50-51, 53; OCA St. 2 at 75-79). As such, the OCA submitted that the Commission should disallow the Company's ancillary requests for Commission approval of deferred regulatory accounting treatment for: (1) Pension and OPEB Expenses; and (2) Production Expenses. OCA M.B. at 46.

The OSBA submitted that the Company's request for deferred accounting treatment for its production expenses should be denied because utility management should be expected to handle normal business risks and the operation of economic forces without resorting to single-issue ratemaking, such as the requested deferred accounting treatment, except in circumstances of compelling public interest. OSBA M.B. at 13 (citing OSBA St. 1 at 47-48).

PAWLUG referenced its argument regarding Pension and OPEB expense, *supra*. PAWLUG M.B. at 7-8.

2. Recommended Decision

The ALJs recommended that the Commission reject the Company's proposal to afford deferred accounting treatment for production expenses. The ALJs agreed with I&E that production costs are not extraordinary, unanticipated, or non-recurring, and therefore should not qualify for regulatory asset treatment. R.D. at 135 (citing I&E M.B. at 37-38). Similarly, the ALJs agreed with the OCA and PAWLUG that allowing deferred recovery of routine costs would raise concerns of impermissible single-issue ratemaking. R.D. at 135 (citing OCA M.B. at 44-45; PAWLUG M.B. at 7-8).

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation to reject PAWC's proposal to afford deferred accounting treatment for production expenses, as recommended by I&E, the OCA, the OSBA, and PAWLUG.

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

1. Positions of the Parties

I&E's witness, Ms. Okum, found a discrepancy in PAWC's claim for credit card and e-check fees. I&E M.B. at 38-39 (citing I&E St. 1-R at 4). The Company provided that PAWC Exhibit 3-B includes the correct amounts, and PAWC's witness, Ms. O'Malley, stated that the adjustment reduces PAWC's original claim for miscellaneous expense by $182,738. I&E M.B. at 39 (citing PAWC St. 5 at 7). Ms. O'Malley noted that the change is reflected in the revised filing at PAWC Exhibit 3-A Revised at 64R, with supporting calculations at PAWC Exhibit LNO-4R. Table 8 shows that the reduction in the Company's original claim was calculated, as follows:

Table 8: PAWC's Claim for Credit Card and E-Check Fees

	BYR Allocation Factor 1: Customers	Future Allocation Factor 2: Customers	Base Yr	12 Mos Jun 2024	12 Mos Jun 2025	Adjustment 2023	Adjustment 2024	Adjustment 2025
Water Operations	95.39%	85.45%	$1,665,018	$1,540,602	$1,545,547		($124,416)	$4,945
Wastewater SSS General Operations	2.98%	6.97%	52,049	125,664	126,067		73,615	403
Brentwood WW		0.49%	0	8,834	8,863		8,834	28
BASA WW		1.83%	0	32,994	33,099		32,994	106
Wastewater CSS Operations	1.63%	5.26%	28,381	94,834	95,138		66,453	304
Total	100.00%	100.00%	$1,745,448	$1,802,928	$1,808,715	$0	$57,480	$5,787

Amount included in Company's claim	$57,480	$5,787
Correct amount	($124,416)	$4,945
Variance	($181,896)	($842)
Total Variance		($182,738)

See, PAWC Exh. LNO-4R.

Accordingly, I&E submitted that this should be reflected in the ALJs' Recommended Decision and the Commission's Final Order in this proceeding. I&E M.B. at 39.

2. Recommended Decision

The ALJs concurred with I&E's proposed adjustment to Miscellaneous Expense Adjustment – Credit Card and E-check Fees and, as such, recommended that the

Company's Miscellaneous Expense for Credit Card and E-check Fees be adjusted to reflect I&E's proposed adjustment, thereby reducing the claimed expense by $182,738. R.D. at 136 (citing PAWC St. 5-R at 7). The ALJs noted that because the Company adopted this adjustment to its initial claims in rebuttal, this adjustment is reflected in the Company Adjustments column in Table I-Water, Table I-Wastewater SSS, and Table I-Wastewater CSS in the Appendix to the Recommended Decision. R.D. at 136.

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation that PAWC's claim for Miscellaneous Expense for Credit Card and E-check Fees be adjusted to reduce the claimed expense by $182,738, as proposed by I&E.

S. Service Company Executive Retirement Plan Expense

1. Positions of the Parties

The OSBA recommended an adjustment to remove the Service Company Executive Retirement Plan (SCERP) expense, thereby decreasing the FPFTY revenue requirement by $35,106. OSBA St. 1 at 15. The OSBA noted that PAWC removed the SCERP expense from the revenue requirement in rebuttal testimony. OSBA St. 1-S at 6.

2. Recommended Decision

The ALJs recommended that the Commission remove the Company's claim for Supplemental Retirement Plan costs. The ALJs pointed out that PAWC accepted the OSBA's recommendation to remove this expense. R.D. at 136-37 (citing OSBA St. 1 at 15; PAWC St. 5-R at 6). The ALJs noted that because the Company adopted this adjustment to its initial claims in rebuttal, this adjustment was reflected in the Company Adjustments column in Table I-Water, Table I-Wastewater SSS, and Table I-Wastewater CSS in the Appendix attached to the Recommended Decision. R.D. at 136-37.

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation to remove PAWC's claim for Supplemental Retirement Plan costs, as recommended by the OSBA and accepted by the Company.

T. External Board Expense

1. Positions of the Parties

The OSBA recommended an adjustment to remove the External Board expense based on the Company's stated intention to eliminate its External Board. The OSBA noted that this adjustment decreases the FPFTY revenue requirement by approximately $126,792. OSBA St. 1 at 16. The OSBA noted that PAWC agreed to remove its claim for External Board expense. OSBA St. 1-S at 6.

2. Recommended Decision

The ALJs recommended that the Commission remove the Company's claim for External Board costs. The ALJs pointed out that the Company accepted the OSBA's recommendation to remove this expense. R.D. at 137 (citing OSBA St. 1 at 16; PAWC St. 5-R at 7). The ALJs noted that because the Company adopted this adjustment to its initial claims in rebuttal, this adjustment is reflected in the Company Adjustments column in Table I-Water, Table I-Wastewater SSS, and Table I-Wastewater CSS in the Appendix attached to the Recommended Decision. R.D. at 137.

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation to remove PAWC's claim for External Board costs, as recommended by the OSBA.

U. Cash Working Capital

CWC represents the funds needed to pay O&M expenses and taxes that, on average, are incurred in advance of the utility's receipt of revenues. As previously noted, PAWC calculated its cash working capital requirement using the lead-lag method. R.D. at 7, 80 (citing PAWC St. 4 at 13-15). No Party disputed the methodology that the Company employed or challenged its proposed revenue lag, expense lag, or net lag (revenue lag minus expense lag). However, because O&M expenses are an input to the calculation of CWC, adjustments to working capital will be made in accordance with total O&M operating adjustments adopted in this proceeding. *See*, R.D. at 80.

1. Positions of the Parties

I&E recommended an allowance of $26,149,755, representing a reduction of $1,119,556 ($27,269,311 - $1,119,556) to the Company's final CWC claim. However, I&E noted that its recommendation is not a final recommendation. In this regard, I&E explained that all adjustments to the Company's claims must be continually brought together in the ALJs' Recommended Decision and again in the Commission's Final Order. I&E continued that this process, known as "iteration," effectively prevents the determination of a precise calculation until all adjustments have been made to the Company's claims. I&E M.B. at 17.

The OCA provided that given that the Commission should remove the revenue requirements for BASA and Brentwood, the Commission should exclude the Company's claims for the BASA and Brentwood cash working capital. OCA St. 2 at 47, n.8. Accordingly, the OCA's witness, Mr. Smith, made resulting adjustments to the Company's cash working capital claim based on his adjustments to PAWC's O&M expenses and interest and dividend expenses, as well as the different capital structure proposed by the OCA's witness, Mr. Garrett. OCA St. 2 at 46-47; PAWC Exh. 3-A. Specifically, Mr. Smith recommended the following cash working capital adjustments: (1) a negative adjustment to water for $1.761 million; (2) a negative adjustment to wastewater SSS for $150,794; and (3) a negative adjustment to CSS wastewater for $98,811. OCA St. 2 at 47-48, Exh. LA-2, Schs. B-5.B, B-5.C, B-5.D. The OCA submitted that if the Commission adopts the OCA's recommended adjustments to expenses, then the Commission should adopt the OCA's resulting adjustments to cash working capital for the Company's existing systems. OCA M.B. at 33.

2. Recommended Decision

The ALJs, noting none of the Parties challenged the Company's methodology for cash working capital, based their adjustment to PAWC's claim for cash working capital on recommendations elsewhere in the Recommended Decision. Specifically, the ALJs recommended that PAWC's claim for cash working capital be adjusted for the following: (1) Interest and Dividends; (2) Taxes; and (3) O&M Expenses. The ALJs noted that their recommended cash working capital adjustments were detailed in Tables II, IV, V, and VI for Water, Wastewater SSS, and Wastewater CSS in the Appendix to the Recommended Decision. R.D. at 82.

3. OCA Exception No. 4 and Replies

In its Exception No. 4, the OCA avers that if the OCA's adjustment to capital structure proposed in the OCA Exception No. 10, and addressed in Section IX.B, *infra*, is accepted by the Commission, then an additional adjustment to the cash working capital will be necessary, as the ALJs' recommended cash working capital adjustment must be updated. OCA Exc. at 7.

In its replies, PAWC contends that the OCA's assertion that the ALJs' cash working capital adjustment should be denied because the Commission should also reject the OCA's proposed "hypothetical capital structure." PAWC R. Exc. at 12.

4. Disposition

As discussed in Section IX.B of this Opinion and Order, we shall reject the OCA's proposal to employ a hypothetical capital structure in this proceeding. For this reason, we shall also deny the OCA's Exception No. 4. As a result, we shall, likewise, decline to make the OCA's related requested adjustments to CWC, as outlined in its Exception Nos. 4 and 10.

Based on the above discussion of the adjustments to PAWC's individual expense claims, we have approved a total downward adjustment to the Company's water O&M expenses of $9,993,903.[67] The cash working capital components related to interest

[67] As set forth in Table II-Water in the Commission Tables Calculating Allowed Revenue Increase, attached to this Opinion and Order, our total reduction to the Company's water expenses claim is $10,032,096. This figure includes a total reduction of $9,993,903 related to our downward adjustments to the Company's water expense claims for Acquisition Related O&M Expenses, Pension Expense, OPEB Expense, and AMP Credits-Uncollectible Expense, as discussed in this Expenses section. This is combined with a total decrease to expenses of $38,192 related to the Company's claimed revenues associated with its pending acquisitions of AWC and Farmington (water) and

and dividends, taxes, and O&M expense result in a net overall reduction of $990,882 to PAWC's water cash working capital.[68]

Additionally, we have approved a total downward adjustment to the Company's wastewater O&M expenses of $774,387.[69] The cash working capital components related to interest and dividends, taxes, and O&M expense result in a net overall increase of $17,151 to the Company's wastewater CWC. This is broken down as follows: (1) a net decrease to the CWC component for Wastewater SSS of $462, which

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concomitant adjustments for bad debt & general assessment expenses, as discussed in Section VI of this Opinion and Order, *supra.*
[-$9,993,903 plus - $38,193= -$10,032,096]. It is our $9,993,903 reduction to the Company's expenses that flows to our downward adjustment to Cash Working Capital – O&M Expense that is described in the next footnote.

[68] As set forth in Table II-Water, the $990,882 reduction is the net of: (1) an increase of $19,785 to Cash Working Capital – Interest and Dividends; (2) an increase of $146,442 to Cash Working Capital – Taxes; and (3) a decrease of $1,157,109 to Cash Working Capital – O&M Expense. [($19,785 + $1,446,442 - $1,157,109) = - $990,882].

[69] As set forth in Table II-Wastewater SSS in the Commission Tables Calculating Allowed Revenue Increase, attached to this Opinion and Order, our total reduction to the Company's Wastewater SSS expense claim is $670,027. This figure includes a total reduction of $660,641 related to our downward adjustments to the Company's Wastewater SSS expense claims for Acquisition Related O&M Expenses, and AMP Credits-Uncollectible Expense, as discussed in this Expenses section. This is combined with a total decrease to expenses of $9,386 related to the Company's claimed revenues associated with its pending acquisitions of the STMA and Farmington (wastewater) and concomitant adjustments for bad debt & general assessment expenses, as discussed in Section VI of this Opinion and Order, *supra.*
[-$660,641 plus - $9,386= -$670,027]. It is our $660,641 reduction to the Company's wastewater expenses that flows to our downward adjustment to Cash Working – O&M Expense that is described in our footnote regarding the CWC Component for Wastewater SSS, below. Additionally, as set forth in Table II-Wastewater CSS in the Commission Tables Calculating Allowed Revenue Increase, our total reduction to the Company's CSS Wastewater expense claim is $113,746. This figure is related entirely to our downward adjustment to the Company's CSS Wastewater expense claim for AMP Credits-Uncollectible Expense. Therefore, our total adjustment to Wastewater O&M Expense is $774,387. [-$660,641 plus - $113,746 = -$774,387].

reflects, in part, our downward adjustment to O&M expenses of $660,641;[70] and (2) a net increase to the CWC component for CSS Wastewater of $17,613, which reflects, in part, our downward adjustment to O&M expenses of $113,746.[71]
[- $462 + $17,613 = $17,151].

VIII. Taxes

A. Positions of the Parties

PAWC described its claims for federal and state income taxes in PAWC St. 7. The Company stated no Party disputed how it calculated its federal and state income taxes. PAWC M.B. at 33.

I&E stated it made no specific recommendations related to adjustments to PAWC's taxes. According to I&E:

> [a]ll adjustments to the Company's claims for revenues, expenses, taxes, and rate base must be continually brought together in the Administrative Law Judge's Recommended Decision and again in the Commission's Final Order.
> I&E M.B. at 39.

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[70] As set forth in Table II-Wastewater SSS, the $462 reduction is the net of: (1) an increase of $8,962 to Cash Working Capital – Interest and Dividends; (2) an increase of $21,955 to Cash Working Capital – Taxes; and (3) a decrease of $31,379 to Cash Working Capital – O&M Expense. [($8,962 + $21,955 - $31,379) = - $462].

[71] As set forth in Table II-Wastewater CSS, the $17,613 addition is the net of: (1) a decrease of $31 to Cash Working Capital – Interest and Dividends; (2) an increase of $17,644 to Cash Working Capital – Taxes; and (3) neither an increase nor a decrease to Cash Working Capital – O&M Expense. [(-$31 + $17,644 + $0) = $17,613].

Therefore, I&E asserted any tax adjustments would be the result of the flow-through of other I&E adjustments and not a specific tax adjustment. I&E M.B. at 39.

B. Recommended Decision

The ALJs noted no Party disputed how PAWC calculated its federal and state income taxes. Accordingly, the ALJs recommended that PAWC's taxes be adjusted as detailed in Tables II and III of the Appendix to the Recommended Decision. R.D. at 138.

C. Disposition

None of the Parties filed Exceptions objecting to the ALJs' recommendation on this issue. We find that the manner in which PAWC calculated its federal and state income taxes is supported by ample record evidence and is just and reasonable. Noting any tax adjustments are the result of the flow-through of other adjustments and not a specific tax adjustment, we shall adopt PAWC's calculation method. PAWC's tax adjustments are outlined in Table II-Water, Table III-Water, Table II-Wastewater SSS, Table III-Wastewater SSS, Table II-Wastewater CSS, and Table III-Wastewater CSS in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order.

IX. Fair Rate of Return

A. Proxy Groups

A proxy group is a group of companies that have similar traits as compared to the subject utility, in this case PAWC. This group of companies acts as a benchmark for determining the subject utility's rate of return in a base rate case. A proxy group is also typically used because using data exclusively from one company may be less reliable than using a group of companies because the data for one company may be subject to short-term anomalies that distort its ROE. Use of a proxy group smooths these potential anomalies. In addition, the use of a proxy group satisfies the long-established principle of utility regulation that seeks to provide the utility with the opportunity to earn a return equal to that of enterprises of similar risk. I&E M.B. at 42; I&E St. 2 at 7-8.

1. Positions of the Parties

PAWC employed a proxy group (Proxy Group)[72] of eleven companies using the following specific criteria:

1. The companies pay consistent quarterly cash dividends. PAWC submitted that companies that do not do so cannot be analyzed using the Constant Growth Discounted Cash Flow (DCF) model;
2. Each company has investment grade long-term issuer ratings from Standard & Poor's (S&P) and/or Moody's;
3. Each company is covered by at least two utility industry analysts;
4. The companies have positive long-term earnings growth forecasts from at least two utility industry equity analysts;
5. Each company derives more than 70.00% of its total operating income from regulated operations; and

[72] In this Opinion and Order, when the term "Proxy Group" is capitalized, it shall refer to the proxy group proposed by PAWC. In all other instances, the term will not be capitalized.

6. None of the companies were parties to a merger or transformative transaction during the analytical periods relied on.

PAWC St. 13 at 25, 26. PAWC explained that because of on-going consolidation in the water utility industry, the *Value Line Investment Research (Value Line)* research service commonly relied upon by investors identifies only seven companies in the United States as water utilities. Additionally, the Company's above screening criteria further reduced that group of water utilities to only four. PAWC stated that because a small proxy group can lead to one company having an outsized effect on any proxy group calculation, the Company included several electric and gas utilities with water operations in its proxy group. According to the Company, the similar nature of electric and natural gas utilities is well understood by other public utility commissions, as well as industry leaders. PAWC stresses that it applied screening criteria to select electric and gas utilities with comparable risks to PAWC. PAWC M.B. at 38-39.

I&E proposed to use a proxy group of five water companies. In selecting a proxy group that resembles the water utility industry, I&E applied the following criteria:

1. Fifty percent or more of the company's revenues must be generated from the regulated water utility industry;
2. The company's stock must be publicly traded;
3. Investment information for the company must be available from more than one source, which includes *Value Line*;
4. The company must not have been currently involved in an announced merger or material acquisition at the time of I&E's analysis;
5. The company must have four consecutive years of historical earnings data.

I&E observed that the Company's Proxy Group included four of the five companies utilized by I&E. However, I&E included PAWC's parent company, AWK, and excluded all electric and natural gas companies that were included by PAWC, including Essential Utilities, Inc. (Essential Utilities), which has water, wastewater, and natural gas segments. I&E submitted that: (1) it does not appear that there is a good reason to exclude AWK from the proxy group; and (2) companies that are in the water industry are the most representative of the financial and operational risks faced by PAWC. Thus, I&E reasoned that using gas and electric utilities in the proxy group can distort the information that the proxy group provides. Additionally, I&E submitted that Essential Utilities should be excluded from the proxy group because it fails to meet I&E's first proxy group criterion, *supra,* that 50% or more of the company's revenues must be generated from regulated water utility operations. According to I&E, Commission precedent favors relying on a company's percentage of regulated revenue for determining whether a company should be included in a proxy group. I&E M.B. at 42-47.

The OCA utilized the same proxy group as the Company. Although the OCA opined that it is reasonable for the Commission to focus only on water utilities within the proxy group, the results of the OCA's analyses were not materially different with the inclusion of electric and gas utilities. Therefore, as a practical matter, the OCA focused on the results of the Company's Proxy Group. OCA M.B. at 48; OCA R.B. at 29.

In response to I&E's criticism of its Proxy Group, PAWC argued that I&E's decision to include AWK but exclude Essential Utilities in its own proxy group compounds the flaws of an already-diminished proxy group. First, PAWC opined that including AWK would create a circular effect. In this regard, PAWC highlighted that it is responsible for approximately 23.4% of AWK's revenue, such that I&E has effectively used the Company to determine its own ROE. Second, PAWC argued that I&E focused solely on the fact Essential Utilities' revenue from water operations in 2022 was only

47.33% while it ignored the facts that 2022 was an anomalous year due to high gas prices, and that Essential Utilities' operating revenue from its water operations has historically been above 50%. PAWC M.B. at 39-40.

Table 9, below, provides a summary of the companies each Party proposed to be used in their respective water proxy groups:

Table 9: Summary of the Proposed Water Proxy Groups in this Proceeding

PAWC	OCA	I&E
American States Water Company	American States Water Company	American Water Works
Atmos Energy Corporation	Atmos Energy Corporation	American States Water Company
California Water Service Group	California Water Service Group	California Water Service Group
Essential Utilities, Inc.	Essential Utilities, Inc.	Middlesex Water Company
Eversource Energy	Eversource Energy	SJW Water Group
Middlesex Water Company	Middlesex Water Company	
NiSource Inc.	NiSource Inc.	
Northwest Natural Gas Company	Northwest Natural Gas Company	
ONE Gas, Inc.	ONE Gas, Inc.	
SJW Water Group	SJW Water Group	
Spire, Inc.	Spire, Inc.	

PAWC St. 13 at 26; I&E M.B. at 43; OCA Exh. DGJ-2.

2. Recommended Decision

The ALJs recommended that the Commission adopt I&E's proxy group. According to the ALJs, although I&E's proxy group included four water utilities also used in the proxy groups of PAWC and the OCA, I&E properly included AWK in its proxy group. In this regard, the ALJs found that it is not uncommon for the Commission to include a parent company in a proxy group. R.D. at 144-45. The ALJs also ruled that I&E properly excluded Essential Utilities from its proxy group because less than 50% of Essential Utilities' operating revenues come from regulated water service. *Id.* at 145 (citing PAWC St. 13-R at 22). Additionally, the ALJs concluded that neither electric nor natural gas utilities are properly included in the proxy group for use in this proceeding. The ALJs were persuaded by I&E's position that companies that are in the water industry are the most representative of the financial and operational risks faced by PAWC, while electric and natural gas utilities are too dissimilar. R.D. at 145.

3. PAWC Exception Nos. 1.1, 1.2, and 1.3 and Replies

In its Exception No. 1.1, PAWC maintains that contrary to the ALJs' recommendation, Essential Utilities should be included in the Proxy Group used to calculate the Company's ROE. PAWC restates its argument that the sole reason why the percentage of Essential Utilities' revenue from its regulated water operations in 2022 was below 50% was the higher cost of natural gas, which affected the percentage of water versus natural gas operations on a revenue basis but did not affect operating income since natural gas costs are recovered as a pass through directly to customers. Therefore, PAWC reasons that although the 2022 data on a revenue basis might suggest that Essential Utilities should be excluded from the proxy group, Essential Utilities clearly meets I&E's screening criteria on an operating income basis and should be included. PAWC asserts that operating income, and not operating revenue, more appropriately reflects the risk profile of the utility's operations. However, PAWC further reasons that when the revenues are adjusted to remove the effect of these higher incremental natural gas costs, revenues from Essential Utilities' regulated water operations in 2022 were also above 50%. PAWC Exc. at 5 (citing PAWC St. 13-R at 21-22).

In its Exception No. 1.2, PAWC notes that each Party who set forth a proposed proxy group in this proceeding included Middlesex Water in its proxy group. However, PAWC submits that if the Commission chooses to rely on the proxy group proffered by I&E, then it must exclude Middlesex Water from the proxy group. In this regard, PAWC submits that when Middlesex Water's DCF result was calculated, the result was a "remarkably low 5.77%." Therefore, PAWC argues that given the small size of I&E's proxy group, Middlesex Water was effectively given a 20% weight in I&E's DCF calculation of 8.45%. PAWC reasons that this caused the ALJs' recommended ROE to be artificially low, given the ALJs' finding that PAWC's allowed ROE should be calculated by averaging this DCF result with I&E's capital asset pricing model (CAPM) calculation.[73] PAWC Exc. at 5-6.

In its Exception No. 1.3, PAWC argues that given the ongoing consolidation in the water utility industry, and the resulting small number of water utilities, the Commission should rely on a larger proxy group of distribution utilities. The Company explains that, to that end, and consistent with the actions of other public utility commissions, it proposed the Proxy Group of eleven-companies consisting of four water companies and seven natural gas and electric utilities with water operations. According to PAWC, the ALJs erred in finding that the Commission should focus on a water-only proxy group. Rather, PAWC remains of the opinion that it is most appropriate to utilize a broader proxy group for purposes of establishing the ROE in this proceeding. Accordingly, PAWC insists that the Commission should modify the Recommended Decision and adopt the Company's Proxy Group for use in setting the appropriate ROE and overall rate of return. PAWC Exc. at 8-10.

In its Replies to Exceptions, I&E submits that the ALJs correctly recommended that the Company's Proxy Group be rejected in favor of the one set forth by I&E. I&E submits that in continuing to argue for the inclusion of Essential Utilities in its Proxy Group, PAWC is effectively claiming that this company should be included based on its net operating income from water. However, I&E notes that a company's net income depends on various factors, including management efficiency, operational and financial efficiency, O&M cost containment, and capital expenditures. Therefore, I&E restates its position that a utility's revenue composition is the appropriate measure to

[73] The DCF, CAPM, and ROE are discussed, in detail, in Section IX.D, *infra*.

gauge when developing a proxy group because a proxy group should establish a set of companies that are of a similar risk profile to the subject utility. I&E insists that because less than 50% of Essential Utilities' revenues came from the regulated water sector in the subject year it considered in its analysis, the ALJs correctly recommended that it be excluded. I&E R. Exc. at 1, 2-3.

On the other hand, I&E claims that despite PAWC's arguments to the contrary, Middlesex Water should be included in I&E's proxy group, which the ALJs correctly recommended be adopted. I&E reinforces that if this company was removed, it would undermine the purpose of the proxy group in this proceeding, which is to employ a group of similarly situated water utilities to smooth out any anomalous data points in a ROE analysis. I&E also counters PAWC's argument that including Middlesex Water causes the ROE to be artificially low, and submits that removing low-end results, while simultaneously retaining the high-end results only serves to inflate the results and skew the ROE in PAWC's favor. I&E R. Exc. at 4.

Finally, I&E claims that PAWC's contention that I&E's proxy group is "too small" is undermined by the testimony of PAWC's own witness. More specifically, I&E argues that at the hearing, the Company's witness, Ms. Ann Bulkley, testified that the appropriate size for a proxy group is five utilities of comparable risk, as established by the Federal Energy Regulatory Commission (FERC). I&E R. Exc. at 2 (citing Tr. at 2100). Thus, I&E asserts that its proxy group is sufficiently large, and the ALJs were correct in relying on it in their recommendation. I&E stresses its position that its own proxy group is the appropriate proxy group to use in this proceeding because companies that are in the water industry best represent the financial and operational risks faced by PAWC. I&E R. Exc. at 2, 4.

4. Disposition

On review, we find that I&E's proxy group, comprised solely of water utilities, is the proxy group proffered in this proceeding that most closely resembles PAWC. Therefore, we shall deny PAWC's Exceptions on this issue, consistent with the following discussion.

As previously discussed, I&E, in setting forth its proxy group of five water companies, included four of the five water companies in PAWC's Proxy Group. Namely, both PAWC and I&E included American States Water Company, California Water Service Group, Middlesex Water Company, and SJW Water Group in their respective proxy groups. However, I&E also included PAWC's parent company, AWK, while excluding Essential Utilities. I&E M.B. at 44-45. We note that PAWC did not specifically except to the ALJs' finding regarding the inclusion of AWK. Nonetheless, we shall reinforce that this company is properly included in the proxy group. Like I&E and the ALJs, we find no valid reason or basis to exclude this company. Although PAWC expressed concern that including its parent company in the proxy group would create a circular effect, we find that AWK's vast operations across many states and numerous divisions and its required compliance to an equal number of state regulatory bodies eliminates the potential for any circular effect, as opposed to if only PAWC itself was included in the proxy group. *See*, I&E St. 2-SR at 13. In addition, we note the ALJs' observation that it is not uncommon for this Commission to include a utility's parent company in the proxy group it utilizes to set that utility's rate of return. R.D. at 144-45. For example, in *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835 (Order entered February 19, 2021) (*Columbia Gas 2021*), we adopted I&E's proposed proxy group, which included the Columbia parent company, NiSource, in setting the appropriate rate of return in that proceeding. *Columbia Gas 2021* at 107, 110.

Conversely, in its Exception No. 1.1, PAWC argues that the ALJs erred by recommending that Essential Utilities should be excluded in the proxy group used to set the Company's rate of return in this proceeding. PAWC remains of the opinion that a company's operating revenue is not an appropriate screening criterion for determining if the company belongs in a proxy group. Rather, PAWC asserts that a company's operating income more appropriately reflects the risk profile of the company's operations. PAWC Exc. at 5; PAWC St. 13-R at 20. However, we find that PAWC's position runs contrary to the precedent that has been set by this Commission. We recently affirmed this precedent in *Pa. PUC v Columbia Water Company,* Docket No. R-2023-3040258, (Opinion and Order entered January 18, 2024) (*Columbia Water 2024*) wherein we stated, as follows:

> Columbia contends that because the financial community is more likely to rely on measures of income than measures of revenue when making credit assessments and investment decisions, the Commission should examine the water utility's income and earnings when deciding whether it should be included in the proxy group. In our view, however, while the financial community relies more on measures of income, it is more appropriate to examine the use of percentage of revenues in a base rate proceeding, because this measure represents the percentage of cash flow a company receives from each business segment. As noted by I&E, revenue is the total income a business, or a business segment, produces. On the other hand, net operating income is an indicator of financial performance and strength and is a direct result of a company's business decisions and operations.

Columbia Water 2024 at 76 (citations omitted). *See also, Columbia Gas 2021* at 110; *PECO 2021* at 137-38. In our view, this same standard should be applied in this instant proceeding. As I&E notes in its Replies to Exceptions, when considering that a company's net income depends on various factors, including management efficiency, operational and financial efficiency, O&M cost containment, and capital expenditures, it becomes evident that revenue composition is the more appropriate measure because a proxy group should establish a set of companies that are of a similar risk profile to the subject utility. I&E R. Exc. at 2.

The record indicates that in 2022, Essential Utilities' revenue from its regulated water operations was 47.33% of its total revenues. Thus, this data indicates that this company is not comparable to the subject utility, PAWC, as it does not provide a similar level of regulated water business. I&E St. 2-SR at 14-15. Further, we acknowledge the Company's contention that Essential Utilities' percentage of revenues derived from its regulated water operations has historically been above 50%. Nonetheless, I&E's analysis, which we are adopting, was based on S&P Global's Fiscal Year (FY) 2022 business segment analysis of Essential Utilities, which was the most recent information available at the time of I&E's analysis. *Id.* at 14. As Essential Utilities' percentage of operating revenues derived from its regulated water operations was below the 50% threshold in the subject year, we find no error in the ALJs' recommendation that Essential Utilities should be excluded from the proxy group.

Next, we disagree with PAWC's argument in its Exception No. 1.2 that if we adopt the ALJs' recommendation to use the proxy group proffered by I&E, then we should exclude Middlesex Water. PAWC contends that when Middlesex Water's DCF result was calculated, the result was a "remarkably low 5.77%." Thus, PAWC claims that given the small size of I&E's proxy group, *i.e., five companies*, Middlesex Water was effectively given a 20% weight, which, when combined with Middlesex Water's DCF result, produces an "artificially low" ROE. PAWC Exc. at 6-7. However, we find I&E's argument persuasive that the key purpose of assembling a proxy group is to avoid relying on data for a single company in order to smooth out any abnormalities. Accordingly, any attempt to disregard "low end" results, or to disregard one side of a range of results is inconsistent with the purpose of a proxy group. In turn, this will subjectively influence the results of an otherwise unbiased analysis. Thus, contrary to the position of PAWC, we find that removing Middlesex Water from the proxy group would yield an *artificially high* ROE and would defeat the very purpose of using a proxy group. I&E St. 2-SR at 17, 24.

We likewise disagree with the Company's argument, in its Exception No. 1.3, that given the small amount of water utilities, we should rely on a larger proxy group of distribution utilities. PAWC Exc. at 8-10. Initially, we note the veracity of PAWC's position that, in general, it is preferable to have a larger number of companies in a proxy group. Nonetheless, the Company has proposed to use electric and natural gas companies in its Proxy Group. *Id.* Thus, the Company's proposal would result in using companies that are too dissimilar to the subject company, PAWC. I&E St. at 13.

In this regard, water companies face different degrees of operational, safety, and weather-related risks and uncertainties, in addition to substantially different environmental regulations, than do electric and natural gas distribution companies. Additionally, water utilities have a more captive customer base, as customers cannot eliminate the need for water. In contrast, other fuel sources can be substituted for natural gas. Further, while customers of electric and natural gas distribution companies can shop competitively for the generation of electricity and natural gas, there is no such opportunity for customers of water companies, as these utilities remain vertically integrated. These differences, among others, make electric and natural gas utilities dissimilar enough from water companies to properly be excluded from a water proxy group. Thus, in this instance, we find that it is more appropriate to include fewer companies that are more similar to the subject company, PAWC, in the proxy group because it will produce a more valid result. I&E St. 2 at 16-17. For this reason, and the others discussed above, we shall utilize I&E's proxy group, consisting only of water utilities.

Based upon the record before us, we shall adopt the ALJs' recommendation to utilize I&E's proposed proxy group in setting the Company's authorized rate of return. Accordingly, we shall deny PAWC's Exception Nos. 1.1, 1.2, and 1.3.

B. Capital Structure

A capital structure represents how a utility has financed its rate base with different sources of funds. Determining the appropriate capital structure is crucial in developing the weighted average cost of capital (WACC), which, in turn, determines the overall authorized rate of return in the revenue requirement equation, *supra*. The primary funding sources for the utility are long-term debt and common equity. Additionally, a capital structure may include preferred stock and/or short-term debt. However, PAWC is financed only with long-term debt and common equity. I&E M.B. at 47; I&E St. 2 at 14-15.

1. Positions of the Parties

PAWC proposed to utilize an actual capital structure, as set forth in Table 10, as follows:

Table 10: PAWC's Proposed Actual Capital Structures

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

PAWC M.B. at 41. PAWC explained that because there is specific debt that has been identified for its wastewater services, the capital structures for its water and wastewater services were calculated separately. PAWC calculated the capital structure for the total company first, including all debt issuances and all sources of capital. Next, PAWC calculated the capital structure for its water operations by removing the wastewater specific debt instruments from the total long-term debt of the Company and recalculating the ratios of the remaining capital stock. PAWC then calculated its wastewater specific capital structure by applying the total company debt ratio to the wastewater rate base, excluding the specific wastewater debt issuances. PAWC St. 13 at 59-60.

According to the Company, it is well settled that the use of an actual capital structure represents the utility's decision, in which it has full discretion, on how to capitalize its rate base. Thus, PAWC reasons, a utility's actual capital structure is to be used in rate of return analysis unless that capital structure is atypical or too heavily weighted on either the debt or equity side. PAWC represents that its proposed capital structure recognizes the composition of the financing that the Company is currently using to fund its investments and obligations, and that this capital structure is well within the range of equity ratios of its Proxy Group of utilities. *Id*. at 41-42; PAWC R.B. at 31 (citing *PPL 2012*, *Aqua 2022*, and *Columbia Water 2024*).

I&E argued that the Company's claimed capital structures for both water and wastewater should be utilized because these capital structures fall within the range of I&E's proxy group. I&E M.B. at 47-48.

In contrast, the OCA posited that the Commission should impute a hypothetical capital structure for PAWC that is equal to that of the Company's Proxy Group average (inclusive of the non-water utilities), which consists of 51% equity and 49% debt.[74] According to the OCA, PAWC's proposed actual capital structure is too heavily weighted toward the equity side and represents an additional cost to consumers of $30.7 million per year when compared to the OCA's proposed hypothetical capital structure. In addition, the OCA claimed that PAWC's proposed debt ratio is "clearly too low" when compared to the Company's proxy group (49%), its parent Company, AWK (55%), and comparable industries (60% to 68%). OCA M.B. at 48-50. In the OCA's view, the use of the hypothetical capital structure is appropriate in cases like this present proceeding to reduce costs to ratepayers, as opposed to increasing costs, where the utility's management proposes an actual capital structure that imposes an unfair cost burden on ratepayers. *Id.* at 50 (citing *T.W. Phillips Gas and Oil Co. v. Pa. PUC*, 474 A.2d 355, 362 (Pa. Cmwlth. 1984); *Carnegie Natural Gas Co. v. Pa. PUC*, 433 A.2d 938 (Pa. Cmwlth. 1981); *Pa. PUC v. Carnegie Natural Gas Co.*, 54 Pa. PUC 381, 393 (1980), *aff'd* by *Carnegie*; and *Big Run Tel. Co. v. Pa. PUC*, 449 A.2d 86, 89 (Pa. Cmwlth. 1982) (*Big Run*)). Moreover, the OCA claimed that a

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[74] In discussing its position that PAWC should utilize a hypothetical capital structure, the OCA explicitly stated its proposed hypothetical capital structure for PAWC's water operations. As noted in Section IX.E, *infra*, the OCA's proposed hypothetical capital structure for PAWC's wastewater operations consisted of 48.76% common equity, 46.84% long-term debt, and 4.40% wastewater-specific long-term debt. *See*, OCA St. 2, Exh. LA-6 at 8.

hypothetical capital structure will ensure that wealth is not unfairly transferred from ratepayers to shareholders. OCA R.B. at 30-31.

2. Recommended Decision

The ALJs recommended that the Commission adopt PAWC's proposal to use an actual capital structure. The ALJs found that PAWC's proposed capital structure recognizes the composition of the financing that the Company is currently using, and that it falls within the range of equity ratios of PAWC's Proxy Group. In contrast, the ALJs concluded that the cases cited to by the OCA are inapplicable to the instant proceeding because such cases represent rate proceedings where a company's actual capital structure was inconsistent with a comparable group of utilities. R.D. at 150-51.

3. OCA Exception No. 10 and Replies

In its Exception No. 10, the OCA objects to the ALJs' recommendation to adopt the Company's proposed actual capital structure. The OCA claims that contrary to the ALJs' conclusion, the cases cited by the OCA are not factually different from the proposed capital structure at issue in this proceeding. The OCA restates its position that the Company's proposed capital structure would cost ratepayers an additional $30.7 million per year. The OCA argues that although this amount would be reduced if the Commission adopts the ALJs' recommended reductions to rate base, along with those contained in the OCA's Exceptions, the Company's proposed capital structure still represents an excessive return granted to the Company that results in an overall unreasonable revenue requirement that benefits the Company's shareholders at the expense of its ratepayers. OCA Exc. at 13-15.

The OCA remains of the opinion that its own proposed hypothetical capital structure of 51% equity and 49% debt would more closely match the capital structure to that of PAWC's proposed Proxy Group, and to PAWC's parent company, AWK. Thus, the OCA insists that the cases it cited in its Main Brief are applicable to this proceeding. The OCA restates its position that the Commission can and should exercise its discretion to impute a capital structure for ratemaking purposes because the use of a hypothetical capital structure is appropriate to reduce costs to ratepayers who would otherwise face an unfair cost burden if an actual capital structure was employed. OCA Exc. at 13, 15.

In reply, PAWC notes that the Commission has rejected the OCA's proposal to utilize a hypothetical capital structure in several recent base rate cases on the same grounds for which it should do so in this instant proceeding. PAWC insists that the OCA's proposed hypothetical capital structure is neither reasonable nor supported by the record evidence. PAWC R. Exc. at 1-3. The Company restates that, as the Commission decided, most recently in *Columbia Water 2024,* an actual capital structure represents [the utility's] decision, over which it has full discretion, on how to capitalize its rate base. *Id.* at 2 (citing *Columbia Water 2024* at 83). PAWC also rebuts the OCA's contention that a hypothetical capital structure of 51% equity and 49% debt would "more closely match" the capital structure of the OCA's proxy group and the capital structure of PAWC's parent company, AWK. Namely, PAWC submits that the OCA's comparison is inapposite because the OCA was relying upon the capital structure of utility holding companies, with corporate level debt from unregulated operations, and not utility operating subsidiaries. Accordingly, the Company submits that the Commission should adopt the ALJs' recommendation to employ an actual capital structure in this proceeding. PAWC R. Exc. at 2-3.

4. Disposition

In setting the appropriate overall rate of return in this proceeding, we shall adopt PAWC's proposal, and the associated recommendation of the ALJs, to use the Company's actual capital structure for both its water and wastewater operations.

Initially, we find it prudent to emphasize, as we have in several recent base rate proceedings before this Commission, that the use of an actual capital structure represents the Company's decision, in which it has full discretion, on how to capitalize its rate base. This actual capitalization forms the basis upon which the Company attracts capital. *See, PPL 2012* at 68; *Columbia Gas 2021* at 116; *PECO 2021* at 144; and *Columbia Water 2024* at 83. *See also*, PAWC M.B. at 31. For example, as discussed below, in Section IX.C, PAWC has proposed the following long-term debt cost rates: (1) a cost of long-term debt of 4.71% on a total company basis; (2) a 4.76% cost of long-term debt for water operations; and (3) a 4.76% cost of long-term debt for wastewater operations, in addition to a 2.67% cost rate of long-term debt for wastewater-specific debt issuances. None of the Parties to this proceeding have objected to this proposal. This represents the level of long-term debt funding that the Company has deemed appropriate in capitalizing its rate base.

Next, we note that in *Columbia 2024,* we reaffirmed the legal standard that has been established in Pennsylvania for deciding whether to use a party's proposed hypothetical capital structure in setting rates. We restate this standard, in pertinent part, as follows:

> Absent a finding by the Commission that a utility's actual capital structure is atypical or too heavily weighted on either the debt or equity side, we would not normally exercise our discretion with regard to implementing a hypothetical capital structure.

Columbia Water 2024 at 84; s*ee also, PPL 2012* at 68; *Columbia Gas 2021* at 116-17; *PECO 2021* at 144-45; and *Aqua 2022* at 139.

Applying the above to this instant proceeding, we are not persuaded by the arguments of the OCA that we should preempt the Company's use of its proposed actual capital structure and employ a hypothetical capital structure. As discussed in Section

IX.A, *supra,* we have found that I&E's proxy group should be utilized in this proceeding. As I&E pointed out, the Company's proposed actual capital structure falls within the range of this proxy group's most recently available capital structures, as set forth in Table 11, below.

Table 11: Capital Structures of I&E's Proxy Group Companies

Proxy Group Capital Structure

($ in Millions)

	2022		2021		2020		2019		2018		Average
American Water Works Company, Inc.											
Long-term Debt	$ 10,999,000	58.84%	$ 10,424,000	58.82%	$ 9,414,000	59.33%	$ 8,733,000	58.79%	$ 7,576,000	56.37%	58.43%
Preferred Stock	$ -	0.00%	$ -	0.00%	$ -	0.00%	$ -	0.00%	$ -	0.00%	0.00%
Common Equity	$ 7,693,000	41.16%	$ 7,298,000	41.18%	$ 6,454,000	40.67%	$ 6,121,000	41.21%	$ 5,864,000	43.63%	41.57%
	$ 18,692,000	100.00%	$ 17,722,000	100.00%	$ 15,868,000	100.00%	$ 14,854,000	100.00%	$ 13,440,000	100.00%	100.00%
American States Water Company											
Long-term Debt	476,637	40.18%	595,596	46.47%	584,184	47.66%	492,735	45.03%	376,587	40.28%	43.93%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	709,549	59.82%	685,947	53.53%	641,673	52.34%	601,530	54.97%	558,223	59.72%	56.07%
	1,186,186	100.00%	1,281,543	100.00%	1,225,857	100.00%	1,094,265	100.00%	934,810	100.00%	100.00%
California Water Service Group											
Long-term Debt	1,066,325	44.73%	1,069,395	47.59%	794,968	46.32%	799,682	50.63%	710,027	49.30%	47.71%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	1,317,590	55.27%	1,177,594	52.41%	921,344	53.68%	779,906	49.37%	730,157	50.70%	52.29%
	2,383,915	100.00%	2,246,989	100.00%	1,716,312	100.00%	1,579,588	100.00%	1,440,184	100.00%	100.00%
Middlesex Water Company											
Long-term Debt	293,986	42.22%	310,887	45.67%	278,286	44.41%	236,509	42.05%	152,851	37.83%	42.44%
Preferred Stock	2,084	0.30%	2,084	0.31%	2,084	0.33%	2,084	0.37%	2,433	0.60%	0.38%
Common Equity	400,328	57.49%	367,726	54.02%	346,208	55.25%	323,792	57.57%	248,787	61.57%	57.18%
	696,398	100.00%	680,697	100.00%	626,578	100.00%	562,385	100.00%	404,071	100.00%	100.00%
SJW Group											
Long-term Debt	1,491,965	57.32%	1,492,935	59.07%	1,287,580	58.40%	1,283,597	59.05%	431,424	32.67%	53.30%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	1,110,868	42.68%	1,034,519	40.93%	917,160	41.60%	889,984	40.95%	889,312	67.33%	46.70%
	2,602,833	100.00%	2,527,454	100.00%	2,204,740	100.00%	2,173,581	100.00%	1,320,736	100.00%	100.00%
Five-Year Average Capital Structure											
Long-term Debt	49.16%		**Maximum**	58.43%	**Minimum**	42.44%					
Preferred Stock	0.08%										
Common Equity	50.76%		**Minimum**	41.57%	**Maximum**	57.18%					
	100.00%										

I&E Exh. 2, Sch 2. As Table 11 indicates, the most recent five-year average range of the individual company capital structure ratios in the proxy group that we shall employ in this proceeding are from 42.44% to 58.43% long-term debt and 41.57% to 57.18% common equity. Therefore, PAWC's proposed actual capital structure of: (1) 44.01% long-term debt and 55.99% common equity for its water operations; (2) 42.73% long-term debt, 4.40% wastewater specific debt (*i.e.*, total long-term debt of 47.30%), and 52.87% common equity for its wastewater operations; and (3) 44.70% long-term debt and 55.30% common equity on a total Company basis are all well within this range. For this reason, we find that PAWC's proposed actual capital structure is neither atypical nor too heavily weighted on either the debt or equity side.

We also disagree with the assertion of the OCA that the cases it cited in support of its use of a hypothetical structure are not factually different from the proposed capital structure at issue in this proceeding. As the ALJs noted, each of the cases cited by the OCA represent cases where the utility's actual capital structure was *inconsistent* with a comparable group of utilities. For example, in *Big Run,* the Commonwealth Court noted that Big Run proposed a capital structure entirely devoid of debt, which was inconsistent with the average capital structures of the forty-two (42) smallest independent Pennsylvania telephone companies besides Big Run of 53% debt and 42% equity. Therefore, the Commonwealth Court upheld the Commission's decision to employ a hypothetical capital structure. *Big Run* at 296, 302. In contrast, we have established that PAWC's proposed actual capital structure is consistent with a comparable group of utilities, *i.e.*, the companies in the proxy group we have elected to employ in setting the Company's authorized rate of return in this proceeding. In our view, the Company's proposed use of an actual capital structure for both its water operations and its wastewater operations will not impose an unfair burden on its ratepayers.

For each of the above reasons, we shall deny the OCA's Exception No. 10 and adopt the recommendation of the ALJs on this issue.

C. Cost of Debt

1. Positions of the Parties

PAWC proposed the following actual costs of long-term debt: (1) a cost of long-term debt of 4.71% on a total company basis; (2) a 4.76% cost of long-term debt for water operations; and (3) a 4.76% cost of long-term debt for wastewater operations, in addition to a 2.67% cost rate of long-term debt for wastewater-specific debt issuances. PAWC Exh. 13-A at Schs. 11 and 12; Exh. 13-R at Sch 14.

I&E accepted PAWC's claimed cost rate of long-term debt of 4.76% for water and wastewater, as well as its claimed 2.67% cost rate of long-term debt for wastewater specific issuances. I&E submitted that the Company's claimed cost rates are reasonable and representative of the industry. In this regard, I&E noted that the Company's claimed cost rates on a total company basis, and for its water operations, fall within I&E's proxy group's implied long-term cost of debt range of 3.19% to 5.67%. In addition, I&E reasoned that while the Company's claimed 2.67% cost rate for wastewater specific debt is slightly below this range, it is sufficiently close to the low end of the range, and, therefore, is appropriate to use for this proceeding. I&E M.B. at 48.

The OCA did not oppose the Company's proposed debt cost rates. OCA M.B. at 51; OCA R.B. at 32.

2. Recommended Decision

The ALJs observed that none of the Parties disagreed with PAWC's proposal to use its actual cost of long-term debt, including the specific actual cost of long-term debt that it identified for wastewater services. Therefore, the ALJs recommended that the Company's proposal be adopted. R.D. at 152.

3. Disposition

None of the Parties filed Exceptions on this issue with regard to the ALJs' recommendation. Finding the ALJs' recommendation to be reasonable, and supported by substantial evidence in the record, we shall adopt it without further comment. Accordingly, we shall approve the following long-term debt cost rates for PAWC in this proceeding: (1) a cost of long-term debt of 4.71% on a total company basis; (2) a 4.76% cost of long-term debt for water operations; and (3) a 4.76% cost of long-term debt for wastewater operations, in addition to a 2.67% cost rate of long-term debt for wastewater-specific debt issuances.

D. Cost of Common Equity

1. Methods for Determining the Cost of Equity

a. Discounted Cash Flow Method (DCF)

The DCF method applied to a proxy group of similar utilities has historically been the primary determinant utilized by the Commission in determining the cost of common equity. *Pa. PUC v. City of Lancaster – Bureau of Water*, Docket No. R-2010-2179103 (Order entered July 14, 2011) at 56; *Pa. PUC v. PPL Electric Utilities Corp*., Docket No. R-00049255 (Order entered December 22, 2004) (*PPL 2004*) at 59. The DCF model assumes that the market price of a stock is the present value of the future benefits of holding that stock. These benefits are the future cash flows of holding the stock, *i.e.*, the dividends paid and the proceeds from the ultimate sale of the stock. Because dollars received in the future are worth less than dollars received today, the cash flow must be "discounted" back to the present value at the investor's rate of return.

(1) Positions of the Parties

PAWC used the following single-stage constant growth DCF model, $K_e = (D_0\ (1+g))/P + g$, where K_e is the cost of common equity, D_0 is the annualized dividend, P is the current stock price, and g is the growth rate. The Company's dividend yield calculation used the unadjusted dividend yields of the Proxy Group's dividends divided by the average of the closing market prices for the 30-, 90-, and 180-trading days ending October 31, 2023. PAWC then adjusted the dividend yields upward to reflect one-half the average projected growth rate since the companies in the Proxy Group increase their quarterly dividend at various times during the year. PAWC St. 13 at 33-34.

PAWC used long-term forecasts of earnings per share growth from three separate sources: (1) Zacks Investment Research; (2) Thomson as reported by Yahoo! Finance; and (3) *Value Line*. The Company calculated a low end DCF result using the minimum growth rate for each of its Proxy Group companies. Similarly, PAWC calculated a high-end result using the maximum growth rate for each of the Proxy Group companies. Lastly, the Company calculated a mean result using the average growth rate for each Proxy Group company. Based on these calculations, PAWC's DCF-indicated common equity cost rate range is 8.69% to 10.96%, with a mean of 9.60%. PAWC St. 13 at 35-36.

As will be discussed in more detail below, in Section X.D.2, PAWC also made a business risk adjustment and financial risk adjustment to its DCF cost rate. The Company explained that an adjustment is necessary to reflect the increased business risk due to the small size of the Company relative to the Proxy Group. PAWC St. 4 at 47, Sch. DWD-8. Therefore, PAWC added 1.00% to the indicated range of common equity cost rates to reflect the increased business risk. PAWC St. 4 at 50-51. The Company also made a downward adjustment of 0.11% to the indicated range of common equity cost rate to reflect the financial risk of its capital structure compared to that of the Proxy Group. PAWC St. 4 at 51-54, Sch. DWD-9. After applying the 1.00% size adjustment and the negative 0.11% financial risk adjustment to the indicated range of ROEs between 10.09% and 11.09%, PAWC proposed a range of common equity cost rates between 10.98% and 11.98%. PAWC St. 4 at 55.

At the outset, I&E noted its recommendation to use the DCF method is consistent with the methodology historically used by the Commission in base rate proceedings, most recently acknowledged in *UGI Electric 2018* at 104-06, 121. Through the methodologies outlined in its testimony, I&E calculated that the DCF methodology produces a cost of common equity of 8.45%. I&E M.B. at 48-49.

I&E employed the standard DCF model, $K = D_1/P_0 + g$, where K is the cost of common equity, D_1 is the dividend expected during the year, P_0 is the current price of the stock, and g is the expected growth rate of dividends. I&E argued that a representative dividend yield must be calculated over a time frame that avoids problems of both short-term anomalies and stale data. I&E's dividend yield calculation placed equal emphasis on the most recent spot and the 52-week average dividend yields, resulting in an average dividend yield of 2.15%. I&E M.B. at 49-50.

I&E used earnings growth forecasts to calculate its expected growth rate. I&E's earnings forecasts are developed from projected growth rates using 5-year estimates from established forecasting entities for its proxy group of companies, yielding an average 5-year growth forecast of 6.30%. I&E M.B. at 50.

I&E criticized PAWC's DCF analysis for its elimination of low-end results while considering mean and high-end results. The Company did this to support its claim that higher interest rates and yields on government bonds caused utility stocks to underperform. However, I&E avers this adjustment to PAWC's DCF undermines the purpose of utilizing a proxy group of similar water utilities to smooth out anomalous data in the DCF analysis. Additionally, I&E argues that removing low-end results and retaining high-end results inflates the Company's DCF results and skews the ROE higher in PAWC's favor. I&E M.B. at 52-53.

The OCA calculated a 9.40% DCF cost of equity, based on the following DCF model: $k = D_0 (1 + g) / P_0 + g$. However, the OCA made two separate DCF calculations with one using a sustainable growth rate and one using analysts' growth rates. OCA St. 3 at 27-28. To obtain the stock price (P_0), the OCA selected a 30-day average for each company in the proxy group. OCA St. 3 at 20-22. The dividend terms used by the OCA are forward-looking annualized dividends published by Yahoo! Finance (D_0). OCA St. 3 at 22. In the sustainable growth rate DCF model, the OCA used the projected long-term U.S. growth domestic product (GDP) growth rate (g) of 3.8%. For its analysts' growth rate DCF model, the OCA used projected short-term dividend growth rate estimates published by Value Line. OCA Exh. DJG-6.

The OCA submitted that PAWC's DCF analysis is overstated because it used unsustainable growth rates that are unreasonably high. Specifically, the OCA points out the Company's use of long-term growth projections that exceed long-term growth projections of U.S. gross domestic product (GDP). OCA M.B. at 52.

b. Capital Asset Pricing Model (CAPM)

The CAPM uses the yield on a risk-free interest-bearing obligation (such as those issued by the U.S. Treasury) plus a rate of return premium that is proportional to the systematic risk of an investment. To compute the cost of equity with the CAPM, three components are necessary: (1) a risk-free rate of return (R_f); (2) the beta measure of systematic risk (β); and (3) the market risk premium (R_m-R_f) derived from the total return on the market of equities reduced by the risk-free rate of return. The CAPM specifically accounts for differences in systematic risk (*i.e.*, market risk as measured by the beta) between an individual firm or group of firms and the entire market of equities.

PAWC, I&E, and the OCA each used the following standard CAPM formula:

$$k = R_f + b(R_m - R_f)$$

Where: k = the cost of equity and the remaining terms are as defined above.

Additionally, the Company believes the Empirical Capital Asset Pricing Model (ECAPM) is an appropriate ROE model due to academic research indicating that the risk-return relationship is different than estimated by the CAPM. Accordingly, the Company states the ECAPM addresses the tendency of the CAPM to underestimate the cost of equity for companies with low beta coefficients. PAWC St. 13 at 42-43.

(1) Positions of the Parties

PAWC calculated a traditional CAPM cost of equity based on three risk-free rates: (1) the current 30-day average yield on 30-year U.S. Treasury bonds, which is 4.84%; (2) the average projected 30-year U.S. Treasury bond yield for the first quarter of 2024 through the first quarter of 2025, which is 4.44%; and (3) the average projected 30-year U.S. Treasury bond yield for 2025 through 2029, which is 3.80%. PAWC utilized various data to calculate a market risk premium range of 7.64% to 8.69%. The Company used the average beta of its Proxy Group companies reported by Bloomberg and the average beta of its Proxy Group companies as reported by *Value Line*. PAWC's ECAPM model calculates the product of the adjusted beta coefficient and the market risk premium and applies a weight of 75% to that result. The model then applies a 25% weight to the market risk premium without any effect from the beta coefficient. PAWC's traditional CAPM produced a 10.15% to 11.17% cost of equity range, while its ECAPM produced a range from 10.73% to 11.50%. PAWC St. 4 at 36-44.

In calculating the CAPM cost of common equity, I&E determined the risk-free rate of return of 4.00% from the projected yield on 10-year Treasury bonds as the most stable risk-free measure. I&E explained that its decision to use 10-year Treasury bonds balanced out issues related to the use of 30-year long-term bonds and short-term T-Bills. I&E used the average of its proxy group betas from *Value Line* of 0.80. To arrive at a representative expected return on the overall stock market, I&E stated that it reviewed *Value Line*'s 1700 stocks and the S&P 500. I&E explained that the result of the overall stock market returns based on its CAPM analysis is 12.05%, which yields a cost of equity result of 10.44%. I&E St. 1 at 31-34.

I&E disagreed with PAWC's use of the CAPM as a means of calculating the Company's ROE. Citing various rate cases where the Commission affirmed the DCF and rejected other methods, including the CAPM, I&E claimed only the DCF should be used to calculate the Company's ROE. I&E also noted that the Commission only varies from the DCF methodology in very specific circumstances, where DCF only results may understate the ROE. In this case, I&E asserted no evidence was presented to indicate I&E's DCF only results understate PAWC's cost of equity. Additionally, I&E disapproved of the CAPM as it can be manipulated based on the inputs used. I&E stated, to calculate the CAPM risk free rate, the Company used 30-year Treasury Bonds which have a high maturity risk and subsequently higher yields. Further, I&E noted the Commission has recognized the 10-year Treasury Note as the appropriate measure of the risk-free rate. Finally, I&E disagreed with PAWC's use of the ECAPM as it has the same flaws as the CAPM but with greater input subjectivity. I&E M.B. at 53-57.

In its CAPM analyses, the OCA used a 30-day average of 30-year Treasury Bond yields to calculate a risk-free rate of 4.42%. OCA St. 3 at 35. The OCA used betas published by *Value Line* for each company in its proxy group. OCA St. 3 at 36. To find the equity risk premium, the OCA relied on expert surveys and an implied equity risk premium (ERP). For an expert survey, the OCA chose the IESE Business School survey. For 2023, this survey reported an average ERP of 5.7%. The OCA calculated the implied equity risk premium by subtracting the risk-free rate from an implied expected market return. Using this data, the OCA estimated the proper CAPM ROE is 8.7%. OCA St. 3 at 39-42.

The OCA disagreed with PAWC's market risk premium, stating the OCA's testimony is more credible than the Company's for two reasons. First, the OCA claims its ERP is more reasonable as it used three ERP sources plus its own ERP estimate. When compared to its ERPs, the OCA states PAWC's risk premium is not within the range of reasonableness established by the OCA's ERPs. Second, the OCA avers the

Company is suggesting its risk premium is more accurate than the OCA's ERPs, which are based on estimates published by independent sources. OCA M.B. at 53-55.

c. Recommended Decision

The ALJs recommended adopting a ROE based on both the DCF and CAPM models, consistent with the Commission's decisions in *Aqua 2022* and *Columbia Water 2024*.[75] At the outset, the ALJs noted that they agreed with PAWC's position that I&E's sole reliance on the DCF model is flawed. The ALJs observed that I&E cited previous Commission decisions that accepted only the DCF model. However, the ALJs stated that PAWC correctly asserted more recently the Commission adopted the use of both the DCF and CAPM models to determine the ROE in *Aqua 2022* and *Columbia Water 2024*. Moreover, the ALJs were convinced by PAWC's argument that economic factors that led to the Commission's decision in *Aqua 2022* and *Columbia Water 2024*, such as high inflation, high interest rates, and high capital costs, still existed during this proceeding and are likely to persist. The ALJs also stated I&E used a spot dividend yield and a 52-week dividend yield for its DCF model and 10-year Treasury notes for its CAPM, which is the same as I&E's models adopted by the Commission in *Aqua 2022* and *Columbia Water 2024*. Therefore, the ALJs recommended adopting a ROE based on both the DCF and CAPM models, consistent with the Commission's decisions in *Aqua 2022* and *Columbia Water 2024*. Lastly, the ALJs recommended the Commission reject PAWC's ECAPM analysis because it introduces subjectivity to the CAPM analysis by reducing reliance on the company-specific beta. Although the ALJs agreed with PAWC that both the DCF and CAPM models should be used, they recommended the use of I&E's DCF and CAPM models. The ALJs noted this is also consistent with the Commission's decision in *Aqua 2022* and *Columbia Water 2024*. R.D. at 167-69.

[75] As discussed below, in Section IX.D.3, the ALJs recommended that I&E's DCF and CAPM results be averaged in arriving at the appropriate ROE in this proceeding. *See*, R.D. at 167.

d. Exceptions and Replies

(1) PAWC Exception No. 1 and Replies

In its Exception No. 1, PAWC contends that the ALJs erred by relying on I&E's DCF and CAPM results in calculating its recommended ROE. As discussed in section IX.A, the Company contends I&E's proxy group is flawed. Therefore, PAWC submits that by accepting I&E's proxy group, the ALJs also erred by subsequently utilizing I&E's DCF and CAPM calculations. PAWC submits that if the Commission instead utilizes the Company's Proxy Group, this will correct the ALJs' errors and will produce a more appropriate ROE. PAWC Exc. at 2-4.

In response, I&E notes PAWC's Exception No. 1 is based on the ALJs use of I&E's proxy group to determine the ROE, as discussed in Section IX.A, *supra*. Therefore, I&E disagrees with PAWC that its DCF and CAPM calculations are erroneous based on I&E's proxy group. I&E R. Exc. at 1, 4.

In its Reply to PAWC's Exception 1, the OCA claims the Commission should deny PAWC's arguments as no Party had an opportunity to respond on the record to the averaging of I&E's DCF and CAPM results, discussed, *infra,* while also utilizing the Company's Proxy Group. According to the OCA, rather than making a decision based on the record, granting PAWC Exception No. 1 would place the Commission in the role of creating a record to justify its decision. OCA R. Exc. at 9.

(2) I&E Exception No. 1 and Replies

In its Exception No. 1, I&E contends that the ALJs erred by recommending the use of I&E's DCF and CAPM results. I&E alleges the Recommended Decision is flawed due to the ALJs' reasoning that I&E did not use its CAPM as a comparison to its

DCF result. Responding to the ALJs reasoning, I&E claims it did use the CAPM as a comparison to its DCF results. However, I&E clarifies that the CAPM is a less reliable model because it measures the cost of equity indirectly and can be manipulated by the time period used. I&E insists that the DCF is more reliable as it measures the cost of equity directly by calculating the discounted present value of future cash flows. I&E Exc. at 3-5.

In its Reply to I&E's Exception No. 1, PAWC maintains the ALJs correctly used both the DCF and CAPM results. The Company states the ALJs properly noted that the Commission has recently adopted the use of both the DCF and CAPM methodologies to determine the ROE in *Aqua 2022* and *Columbia Water 2024*. PAWC notes the ALJs' explanation that the DCF is slow to respond to interest rate changes, as it does not directly account for interest rates. Furthermore, PAWC states the ALJs were convinced by the Company's argument that the conditions that led to the Commission's ROE determinations in *Aqua 2022* and *Columbia Water 2024* still exist during this proceeding. PAWC R. Exc. at 3-4.

In its Reply to I&E's Exception No. 1, the OCA agrees with I&E's Exception No. 1 that the ALJs erred by averaging I&E's DCF and CAPM ROE results. The OCA believes the Commission should select a ROE from the on-the-record testimony of one of the parties in this case based on a fully substantiated cost of equity analysis. The OCA claims it did not have an opportunity in rebuttal or surrebuttal testimony to address I&E's CAPM and averaging I&E's DCF and CAPM. Further, the OCA argues that since I&E did not give its CAPM any weight when recommending a ROE, the OCA did not respond to I&E's CAPM. Therefore, the OCA avers it was denied due process as it did not have an opportunity to be heard at a meaningful time and in a meaningful manner. OCA R. Exc. at 7-8, citing *Montefiore Hospital Ass'n of Western Pa. v. Pa. PUC*, 421 A.2d 481, 484 (Pa. Cmwlth. 1980) (*Montefiore*).
OCA R. Exc. at 7-8.

(3) OCA Exception No. 11 and Replies

In its Exception No. 11, the OCA claims the ALJs erred by using the average of I&E's DCF and CAPM analysis. The OCA avers the ALJs modified I&E's recommendation by averaging I&E's DCF and CAPM results, although I&E did not recommend this method. By using both DCF and CAPM results, the OCA maintains it provided an accurate assessment of PAWC's ROE as it measures market risk and its impact on individual companies. OCA Exc. at 15-17.

In its Reply to the OCA's Exception No. 11, PAWC contends that the OCA's criticism of the long-term growth rate used in its DCF does not meet the OCA's own standard. Second, the Company notes that the OCA used an ERP based on surveys and its own calculations. PAWC argues that its ERP based on *Value Line* projected growth rates is more accurate, as it is consistent with historical equity returns. PAWC R. Exc. No. 11 at 6-7.

e. Disposition

Based on the record, we agree with the ALJs that it is appropriate to consider the CAPM results, in addition to the DCF results, to determine PAWC's ROE. We concur with the ALJs' determination that:

> PAWC correctly noted that more recently the Commission adopted use of both the DCF and CAPM models to determine ROE in *Aqua 2022* and *Columbia Water 2024*. PAWC convincingly argued that the conditions that lead [sic] the Commission to its determinations in *Aqua 2022* and *Columbia Water 2024*, i.e., higher inflation and associated higher interest rates and capital costs, still exist and are likely to continue.

R.D. at 168.

In *Aqua 2022* and *Columbia Water 2024*, the Commission determined the ROE by using informed judgement based on I&E's DCF and CAPM methodologies. Based on our above determination to deny PAWC's Exception No. 1, we agree with the ALJs' recommendation to employ I&E's DCF and CAPM results based on its proxy group. We agree with the ALJs that I&E's DCF model correctly considers spot price, the 52-week high and 52-week low price in the calculation of the average spot dividend yield and average 52-week dividend yield. Although I&E did not recommend its CAPM as a method to determine PAWC's ROE, I&E did present its CAPM analysis in testimony and briefed the ALJs as to the veracity of its CAPM inputs. I&E M.B. at 48-51. Additionally, we agree with the ALJs that I&E's CAPM appropriately uses 10-year Treasury notes and eliminates the shortcomings of using short term Treasury bills or 30-year long-term Treasury bonds. R.D. at 168-69. Therefore, we will disregard the Company's and the OCA's DCF and CAPM results and base our recommended ROE on the results of I&E's DCF and CAPM analyses. Therefore, we shall deny PAWC's Exception No. 1, I&E's Exception No. 1, and the OCA's Exception No. 11 on this issue.

2. Business Risks and Management Performance

a. Positions of the Parties

PAWC sought an upward adjustment of twenty-five basis points to its ROE claim in recognition of the Company's business risks and management performance. Both I&E and the OCA opposed any such allowance.

PAWC identified several business risks that the Company faces, including: (1) risks associated with the Company's capital expenditure program to combat aging infrastructure; (2) risks associated with environmental and water quality regulations; and

(3) flotation costs.[76] PAWC submitted that these risks should be viewed in comparison to the companies in its Proxy Group. PAWC represented that its alternative ratemaking proposals, *infra,* will not reduce its risk in comparison to these companies. Next, PAWC claimed that it has exhibited excellent management performance in a variety of areas critically important to providing safe and reliable service, including the Company's: (1) industry-leading programs to assist low-income and payment-troubled customers; (2) environmental record and commitment to water quality; (3) strong safety performance; (4) commitment to operational and water efficiency for the benefit of its customers; (5) significant infrastructure investment; (6) community engagement and consumer education initiatives; (7) efforts to support the long standing policy of the Commission and the PADEP to eliminate the problems of small, troubled and nonviable water and wastewater systems by acquiring those systems and making the improvements needed to achieve and continue to provide safe and reliable service; and (8) efforts to extend service to meet the needs of customers without access to safe and reliable water service. PAWC M.B. at 52-53.

PAWC submitted that under Section 523 of the Code, 66 Pa.C.S. § 523, the Commission considers the management performance of a utility and, where appropriate, may include an upward adjustment to the utility's ROE for management effectiveness. Accordingly, PAWC insisted that its superior management performance should be appropriately recognized by granting the Company a ROE at the upper end of the range of 10.00% to 11.25% that it sought. Alternatively, PAWC submitted that if the Commission were to authorize a ROE less than 10.95%, then it should award the

[76] Flotation costs are associated with the sale of new issues of common stock. According to PAWC, to the extent that a utility is denied the opportunity to recover prudently incurred flotation costs, actual returns will fall short of expected (or required) returns, thereby diluting equity share value. Flotation costs are part of the invested costs of the utility and are not otherwise recovered. PAWC M.B. at 52.

Company an upward adjustment of no less than 25 basis points for business risks and management performance.[77] PAWC M.B. at 53; PAWC R.B. at 40-47.

I&E submitted that PAWC's claimed business risk is already accounted for in the proxy group proffered by I&E and does not need to be further accounted for when setting the Company's ROE. I&E argued, *inter alia*: (1) that infrastructure is a common problem for water and wastewater utilities in Pennsylvania that generally requires significant investment; (2) that flotation costs accounted for and recovered as an O&M expense or they are amortized over time on the books of the issuing company such that it would be inappropriate to account for the potential impact thereof through the awarding of an upward adjustment to ROE; and (3) the DSIC, which allows PAWC to recover the costs associated with replacing and repairing aging water and wastewater infrastructure already serves to lessen the Company's business risk. Thus, I&E took the position that nothing on the record demonstrates that PAWC faces any extraordinary risk in comparison to other water and wastewater utilities. I&E M.B. at 59-60.

As to the Company's claimed superior management performance, I&E countered that the true measure of strong management performance is earning a higher return through efficient use of resources and cost cutting measures, resulting in a higher level of net income available to be passed on to shareholders. In I&E's view, no utility should reap additional rewards for simply meeting its statutory obligation under Section 1501 of the Code, 66 Pa.C.S. § 1501, to provide safe and reliable service through the administration of programs funded by ratepayers. I&E submitted that if the Company is as effective at controlling operating and maintenance costs as it argues, those savings should flow through to its ratepayers and/or investors. At the same time, I&E contended that PAWC's claimed savings to its ratepayers would likely be offset by the addition of basis points for management performance, as ratepayers would have to fund the

[77] The specific proposed ROEs of PAWC, I&E, and the OCA are discussed in Section IX.D.3 of this Opinion and Order.

additional costs. I&E M.B. at 60-63. Moreover, I&E argued that a review of the recent Management and Operations Audit Report, prepared by the Commission's Bureau of Audits (Audits), illustrates that out of the twelve functional areas examined in the audit, PAWC did not meet expectations in any. *Id.* at 64 (citing Management and Operations Audit of Pennsylvania-American Water Company, Docket No. D-2022-3035217 (released October 2023) (*2023 Management Audit*)). As such, I&E submitted that the Commission should reject, in its entirety, the Company's request for an upward adjustment of twenty-five basis points to its ROE. I&E M.B. at 64-65.

The OCA, likewise, opposed any upward adjustment to PAWC's ROE for either its claimed business risk or its claimed superior management performance. According to the OCA, the Commission would be acting outside the zone of reasonableness to grant PAWC's request for an upward adjustment, which results in nothing more than unsubstantiated and excessive rates. In the OCA's view, although Section 523 of the Code authorizes the Commission to *consider* the efficiency, effectiveness, and adequacy of service when determining just and reasonable rates, under no circumstances is the Commission obliged to *grant* an upward adjustment for management performance. The OCA reasoned that it would be neither proper nor appropriate for the Commission to award shareholder interests based upon the utility's prudent managerial performance when shareholders themselves cannot expect to earn an additional ROE for a firm's prudent managerial performance when the shareholders invest in competitive firms in the marketplace. OCA M.B. at 55-57.

The OCA also claimed that the Company has failed to justify its requested upward adjustment. In this regard, the OCA submitted that while PAWC represented that it took "superior management performance" into consideration in making its proposed 10.95% ROE, the Company's witness, Ms. Bulkley, admitted at the hearing that neither the Company's DCF model, nor its CAPM analysis accounted for managerial performance. OCA M.B. at 57-58 (citing Tr. at 2113). Additionally, the OCA argued that the Company's specific request for an upward adjustment of twenty-five basis points was arbitrary and unsupported by the record. For this reason, the OCA took the position that it would also be arbitrary for the Commission to award the Company an upward adjustment in this amount. Furthermore, the OCA claimed that the Company has not demonstrated that its managerial performance is exemplary in all areas of service to its customers. Rather, the OCA submitted that PAWC has, at best, demonstrated that it is meeting its obligations under Section 1501 of the Code, and in some instances has demonstrated less than exemplary management. Namely, the OCA asserted that PAWC has failed to respond, and is not responding, to the issues related to long-term arrears that have now been presented in two management audits; and that the Company has demonstrated poor performance in several other areas of customer service. The OCA further pointed to "the unprecedented volume of customer opposition" to this rate proceeding. OCA M.B. at 58-59; OCA R.B. at 36-39.

b. Recommended Decision

The ALJs recommended that the Commission award an upward adjustment of ten basis points to PAWC's cost of common equity in recognition of the Company's business risks and management performance. According to the ALJs, this adjustment is warranted because the Company has completed sixteen acquisitions of very small, less-viable water and wastewater systems over the last ten years. The ALJs stressed that the Company has completed the acquisitions of systems that were not, at the time of acquisition, providing adequate, efficient, safe, and reasonable service, and in some instances where the Company also acted as a receiver prior to acquisition. Specifically, the ALJs pointed to PAWC's acquisitions of Delaware Sewer Company (Delaware Sewer) and Winola Water Company (Winola Water). The ALJs noted that the Commission's Policy Statement regarding incentives for the acquisition of small nonviable water and wastewater systems, set forth in the Commission's Regulations at 52 Pa. Code § 69.711, explicitly contemplates the awarding of upward adjustments to a utility's rate of return to encourage the acquisition of such systems. The ALJs further stated that PAWC's assertion that it provides service to customers in extraordinary circumstances further supports an upward adjustment. R.D. at 183. The ALJs noted that in *Aqua 2022*, the Commission awarded an upward adjustment to Aqua in recognition of similar efforts. *Id.* (citing *Aqua 2022* at 169).

The ALJs disagreed with the OCA's arguments that awarding an upward adjustment for management performance would cause the Commission to act outside the zone of reasonableness and that the adder will result in unsubstantiated and excessive rates. According to the ALJs, the Company's willingness to provide aid to other water and wastewater providers indicates that the Company is doing more than is required under Section 1501 of the Code. At the same time, however, the ALJs agreed with the OCA that the record does not support awarding the Company the full twenty-five basis points upward adjustment that it sought. In this regard, the ALJs concurred with the OCA that PAWC has not demonstrated that its service is exemplary in all areas. Rather, the ALJs found that the activities PAWC cited in favor of its requested upward adjustment of twenty-five basis points simply demonstrated that the Company is complying with its public service obligations under Section 1501 of the Code. The ALJs further pointed to the significant amount of criticism voiced by PAWC's customers, through the filing of complaints and/or participation at public input hearings, as justification for recommending that the Commission award an upward adjustment of ten basis points, in lieu of the full amount requested by the Company. R.D. at 183-84.

c. Exceptions and Replies

(1) PAWC Exception No. 2 and Replies

In its Exception No. 2, PAWC finds fault with the ALJs' recommendation that the Commission award an upward adjustment of ten basis points, rather than the full upward adjustment of twenty-five basis points requested by the Company. PAWC notes that in recommending a reduced upward adjustment, the ALJs referenced the Commission's decision in *Aqua 2022*. However, PAWC submits that in *Aqua 2022*, the Commission awarded Aqua an upward adjustment of twenty-five basis points to its ROE. PAWC continues that the Commission awarded this adjustment based solely on Aqua's history of service to troubled communities. PAWC reasons that nowhere in its analysis did the Commission reference any finding of Aqua's extraordinary or exemplary performance "in all areas," nor is any such requirement imposed under Section 523 of the Code. PAWC Exc. at 10-11 (citing *Aqua 2022* at 168-73).

The Company highlights that similar to the Commission's decision in *Aqua 2022*, the ALJs recommended an upward adjustment to PAWC's ROE based entirely on PAWC's history of acquiring sixteen small, less viable water and wastewater systems in the last ten years, including systems that were not providing adequate, safe, and reasonable service; and PAWC's history of providing service to customers in extraordinary circumstances. However, PAWC claims that the ALJs erred in recommending that the Company's requested upward adjustment be reduced based upon a finding that PAWC did not show that its service was "exemplary in all areas." PAWC insists that the ALJs did nothing to demonstrate that the Commission's decision in *Aqua 2022* is distinguishable from the instant proceeding. Accordingly, PAWC argues that the Commission should modify the Recommended Decision and award the Company an upward adjustment of twenty-five basis points to its ROE. PAWC Exc. at 10-12.

In its reply to PAWC's Exception No. 2, I&E restates its position that no utility should be awarded additional rate of return basis points for doing what it is required to do to meet its obligation to provide adequate, efficient, safe, and reasonable service in accordance with Section 1501 of the Code, or for increasing profits, as it is incentivized to do by its board of directors and shareholders. Therefore, as it discussed in its own Exceptions, *infra*, I&E is of the opinion that while the Commission should deny

PAWC's Exception No. 2, it also should not award the Company *any* upward adjustment to its ROE for management performance. I&E R. Exc. at 5.

In its reply to the Company's Exception No. 2, the OCA stresses its position that there is neither a constitutional nor a statutory requirement that a public utility be awarded an upward adjustment to its ROE for management performance. Rather, the OCA submits that the Commission has discretion on whether to award such an adjustment, based upon the specific record evidence. Similar to I&E, *supra*, the OCA asserts that based upon the record in this proceeding, the Commission should deny PAWC's Exception No. 2, but should also deny the Company's request for an upward adjustment to its ROE in its entirety. The OCA asserts that even an upward adjustment of ten basis points would unnecessarily increase consumer rates by more than $4.52 million per year. The OCA restates its position that there is no evidentiary basis for such an increase because PAWC has not demonstrated that its overall management performance is exemplary. Moreover, the OCA submits that PAWC has failed to demonstrate that its performance related to the sixteen acquisitions or its willingness to act as a receiver of certain systems is worthy of a management performance adjustment. OCA R. Exc. at 11-12.

(2) I&E Exception No. 2, OCA Exception Nos. 1 and 12, and Replies

In its Exception No. 2, I&E emphasizes its position that the ALJs erred by recommending that the Company be awarded *any* upward adjustment to its ROE for business risk or management performance. I&E restates its argument that awarding the Company an upward adjustment would erode any cost-saving measures that PAWC may be implementing. Additionally, I&E submits that while it is true that PAWC has acquired many small and potentially less viable water and wastewater systems, the Company passes on the capital expenditures related to these acquisitions to its ratepayers.

Therefore, I&E opines that without a sound reason beyond the Company's acquisition of systems, which ratepayers ultimately pay for, no upward adjustment for business risk or management performance is warranted. Moreover, I&E stresses that because this is PAWC's third requested rate increase in the last four years, an upward adjustment would only further burden the Company's ratepayers. I&E Exc. at 5-8.

In its Exception No. 1, the OCA opposes Finding of Fact No. 44, which states that "[i]n the last ten years the Company has completed sixteen acquisitions of very small, less-viable water and wastewater systems with less than 1,000 customers each." OCA Exc. at 4 (citing R.D. at 12; additional citations omitted). According to the OCA, the ALJs erred in making this finding of fact because they failed to specify or identify the sixteen acquisitions to which they referred. As a result, the OCA asserts that there is no evidentiary basis for the ALJs to have made their associated recommendation that these acquisitions warrant an upward adjustment to the Company's ROE. OCA Exc. at 4.

In its Exception No. 12, the OCA argues that the ALJs correctly concluded that PAWC's testimony of activities it referenced in support of its twenty-five basis points adjustment better reflects the Company's compliance with its public service obligations under the law, rather than any provision of extraordinary service. The OCA also agrees with the ALJs' finding that the significant amount of criticism voiced by PAWC customers through, *inter alia*, participation at public input hearings, merits against awarding the Company its requested adjustment. However, similar to I&E, *supra*, the OCA submits that the ALJs erred by recommending that the Commission award the Company *any* upward adjustment to its ROE. OCA Exc. at 18-23.

According to the OCA, the ALJs' citation to the Commission's "explicit endorsement" of rate return premiums in the Commission's Policy Statement at

52 Pa. Code § 69.711(b)(1)[78] was erroneous because the ALJs did not make any specific findings that the Company satisfied the requirements under 52 Pa. Code § 69.711(a), [79] that must first be met in order for the Commission to give consideration to a utility's proposed acquisition incentive. The OCA restates its position that the ALJs failed to specify or identify the sixteen acquisitions to which they referred. Additionally, the OCA contends that the Company failed to develop a record with substantial evidence to, at a minimum, identify the sixteen acquisitions and to demonstrate that each acquisition has met the criteria set forth in Section 69.711(a) of the Commission's Regulations. As to the Company's acquisitions of Delaware Sewer and Winola Water, the OCA argues that PAWC did not acquire these systems voluntarily. Instead, the OCA notes that the Commission directed the Company to acquire these systems pursuant to Section 529 of the Code. According to the OCA, Section 529 makes it the public service obligation of a "capable public utility," like PAWC, to acquire a "small water or sewer utility" pursuant to a Commission order, when certain conditions exist. Thus, the OCA submits that such

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[78] This section states, as follows:

> (b) Acquisition incentives. In its efforts to foster acquisition of suitable water and wastewater systems by viable utilities when the acquisitions are in the public interest, the Commission seeks to assist these acquisitions by permitting the use of a number of regulatory incentives. Accordingly, the Commission will consider the following acquisitions incentives:
>
> (1) Rate of return premiums. Under 66 Pa.C.S. § 523 (relating to performance factor considerations), additional rate of return basis points may be awarded for certain acquisitions and for certain associated improvement costs, based on sufficient supporting data submitted by the acquiring utility within its rate case filing. The rate of return premium as an acquisition incentive may be the most straightforward and its use is encouraged.

52 Pa Code § 69.711(b)(1).

acquisitions do not demonstrate extraordinary management performance and do not merit the awarding of an upward adjustment to the Company's ROE. OCA Exc. at 18-20.

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[79] This section states, in pertinent part, as follows:

> The following parameters shall first be met in order for Commission consideration of a utility's proposed acquisition incentive. It should be demonstrated that:
>
> (1) The acquisition serves the general public interest.
> (2) The acquiring utility meets the criteria of viability that will not be impaired by the acquisition; that it maintains the managerial, technical and financial capabilities to safely and adequately operate the acquired system, in compliance with 66 Pa.C.S. (relating to the [Code]), the Pennsylvania Safe Drinking Water Act (35 P. S. § § 721.1—721.17) and other requisite regulatory requirements on a short and long-term basis.
> (3) The acquired system has less than 3,300 customer connections; the acquired system is not viable; it is in violation of statutory or regulatory standards concerning the safety, adequacy, efficiency or reasonableness of service and facilities; and that it has failed to comply, within a reasonable period of time, with any order of the [PADEP] or the Commission.
> (4) The acquired system's ratepayers should be provided with improved service in the future, with the necessary plant improvements being completed within a reasonable period of time.
> (5) The purchase price of the acquisition is fair and reasonable and the acquisition has been conducted through arm's length negotiations.
> (6) The concept of single tariff pricing should be applied to the rates of the acquired system, to the extent that it is reasonable. Under certain circumstances of extreme differences in rates, or of affordability concerns, consideration should be given to a phase-in of the rate difference over a reasonable period of time.

52 Pa. Code § 69.711(a).

The OCA stresses its position that the standards set forth in *Bluefield* and *Hope Natural Gas, supra,* do not establish the concept of a fair rate of return as a "quid-pro-quo" concept where non-market-based increments to cost of equity are awarded to a utility's shareholders in return for a utility's management operating the utility in a prudent manner as required by law. As such, the OCA maintains that the Commission is not obligated to award an upward adjustment for management performance. Rather, the OCA argues, the Company's request is at the discretion of the Commission. The OCA submits that because the Company has failed to support its request, the Commission should reject its claim in its entirety and modify the Recommended Decision accordingly. According to the OCA, doing so will send a clear signal to water utilities that they must demonstrate exemplary service related to the acquisition of, and improvements to, small, non-viable systems. OCA Exc. at 21-23.

In its Replies to Exceptions, PAWC rebuts that the ALJs correctly concluded that an upward adjustment to the Company's ROE is warranted. PAWC submits that no Party objected to the testimony of the Company's witness, Ms. Ashley Everette, regarding the Company's sixteen acquisitions of very small, less-viable water and wastewater systems over the last ten years. PAWC R. Exc. at 7-9. PAWC also insists that the OCA has mischaracterized the Company's acquisitions of Delaware Sewer and Winola Water. Namely, PAWC avers that it: (1) voluntarily acquired Delaware Sewer after a settlement of a proceeding initiated by Delaware Sewer, and not the Commission; and (2) voluntarily acquired Winola Water after a settlement in that proceeding following the Company being appointed as a receiver. *Id.* at 9 (citing *Delaware Sewer 2020* and *Winola Water 2020*).

Further, PAWC argues that although it did not detail every investment it made in the sixteen systems it acquired, the Company's witness, Mr. Bruce Aiton testified to PAWC's extensive investments in troubled water systems. PAWC R. Exc. at 9 (citing PAWC St. 3-R at 10-11). Based on the above, PAWC submits that the assertions of I&E and the OCA that any upward adjustment is improper because acquisitions of troubled systems are simply an obligation of a regulated water utility and may increase customers' rates plainly ignore: (1) Section 523 of the Code; (2) Commission precedent; and (3) the Commission's policies explicitly authorizing an upward adjustment to the ROE for water and wastewater utilities to foster the acquisition of small water and wastewater systems. Accordingly, PAWC claims that the Commission should deny the Exceptions of both I&E and the OCA on this issue and should grant PAWC's Exception No. 2, *supra*, by awarding an upward adjustment of twenty-five basis points in recognition of the Company's efforts. PAWC R. Exc. at 10.

d. Disposition

Pursuant to the Code, the Commission may reward utilities through rates for their performance. In pertinent part, Section 523 of the Code, 66 Pa.C.S. § 523 provides:

> **§ 523. Performance factor consideration.**
>
> (a) **Considerations.** – The Commission shall consider, in addition to all other relevant evidence of record, the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates under this title. On the basis of the commission's consideration of such evidence, it shall give effect to this section by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate. Any adjustment made under this section shall be made on the basis of specific findings upon evidence of record, which findings shall be set forth explicitly, together with their underlying rationale, in the final order of the commission.
>
> (b) **Fixed utilities.** – As part of its duties pursuant to subsection (a), the commission shall set forth criteria by which it will evaluate future fixed utility performance and in

> assessing the performance of a fixed utility pursuant to subsection (a), the commission shall consider specifically the following:
>
> (1) Management effectiveness and operating efficiency as measured by an audit pursuant to Section 516 (relating to audits of certain utilities) to the extent that the audit or portions of the audit have been properly introduced by a party into the record of the proceeding in accordance with applicable rules of evidence and procedure.
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> * * *
>
> (4) Action or failure to act to encourage development of cost-effective energy supply alternatives such as conservation or load management, cogeneration or small power production for electric and gas utilities.
>
> * * *
>
> (7) Any other relevant and material evidence of efficiency, effectiveness and adequacy of service.

66 Pa.C.S. § 523.

Based on the record evidence and the arguments of the Parties, we concur with the positions of I&E and the OCA that PAWC's requested upward adjustment to its ROE for management performance should be denied in its entirety. Accordingly, we shall modify the recommendation of the ALJs consistent with the following discussion.

The Company claims it has presented evidence demonstrating that its performance in a variety of critical areas related to providing safe and reliable service, including, but not limited to, water quality, operational efficiency, and infrastructure investments warrants an upward adjustment to its ROE. We disagree. As discussed in Section III of this Opinion and Order, *supra*, there has been substantial negative input from the public regarding PAWC's quality-of-service, particularly in the northeastern

Pennsylvania region of the Company's service territory. As such, we find it inappropriate to award an upward adjustment to the Company's ROE in this proceeding. In our view, awarding PAWC's requested additional basis points to its ROE would conflict with precedent for granting such ROE adders. More specifically, such upward adjustments are awarded where the utility has clearly demonstrated extraordinary service worthy of recognition and reward. *See*, 66 Pa.C.S. § 523, *supra*; *Aqua 2022* at 380. While PAWC has exhibited evidence to substantiate a rate increase in this matter, the record evidence in this proceeding, along with the public input discussed in Section III of this Opinion and Order, do not exhibit service quality and effectiveness to a level warranting an upward adjustment to the Company's ROE.

In addition to the above, we find that both I&E and the OCA provided additional evidence to demonstrate that an upward adjustment to the Company's ROE for management performance is not warranted in this proceeding. For example, the OCA provided evidence to demonstrate that PAWC has not addressed issues related to arrears (*i.e.*, "bills behind").[80] Specifically, the OCA demonstrated that PAWC's collections performance was deficient when compared to the performance of Pennsylvania's other large water utility, Aqua PA. Using 2022 data, the OCA noted that, when compared to Aqua PA, PAWC had: (1) a higher percentage of its residential billings in debt (6.3% versus 4.03%); (2) a higher percentage of its residential customers in debt (17.4% vs. 13.8%); and (3) a disproportionate number of residential disconnections. Namely, PAWC disconnected its residential customers at a rate of 3.83%, which is a rate of more than three times higher than Aqua PA's rate of 1.35%. *See*, OCA R.B. at 36-37; OCA St. 5 at 113-14.

[80] Measuring "bills behind" allows a utility not only to compare its collection performance between time periods (which may have differing bill levels), but between utilities as well. OCA St. 5 at 114.

The OCA also provided additional evidence to show that the Company cannot be found to have demonstrated superior management in several areas of customer service. These areas are summarized, as follows:

> 1. <u>Customer Complaints:</u> in 2022, the most recent year for which complete data is available, the Commission's Bureau of Consumer Services (BCS) received 681 consumer complaints from PAWC's customers. Of those complaints, BCS found 25% of these complaints to be "justified.[81]" This rate of justified complaints was 25% higher than Aqua PA, which had a 2022 justified complaint rate of 20%, and nearly two times higher than the justified complaint rate of other Class A water utilities in Pennsylvania. In addition, the 686 PAWC complaints found to be justified in the first three quarters of 2023 represented a 29% increase from the 532 justified complaints in the first three quarters of 2022.
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> 2. <u>Payment Arrangements:</u> In 2022, the last year for which complete data was available, the number of PAWC's justified payment arrangement requests to BCS was more than four times higher than the number of Aqua PA requests, despite PAWC having just over half (53%) of all residential water customers.
>
> 3. <u>Verified infractions</u>: Through the first three quarters of 2023, the Company had 191 "verified infractions," which was 50% more than Aqua PA. Of those, 185 (97%) involved infractions of the standards for billing practices for residential public utility service outlined in Chapter 56 of the Commission's Regulations at 52 Pa. Code § 56. Moreover, these verified infractions remained at a level nearly six times higher than prior to the COVID pandemic. More specifically, in the first three quarters of 2019, BCS reported that the Company had a total of 34 verified infractions.

[81] A justified Payment Arrangement Request is one, where, prior to BCS intervention, the Company did not comply with Commission regulations, reports, Secretarial Letters, tariffs or guidelines. OCA St. 5 at 117.

> 4. Customer Surveys: PAWC has not compiled information that could have been used to assess how the Company might improve its customer satisfaction or its collections outcomes from customers. Additionally, the Company's quarterly surveys that it conducts are not targeted toward Confirmed Low-Income customers or toward Bill Discount Program participants.

OCA R.B. at 37; OCA St. 5 at 116-21.

Further, I&E highlighted the *2023 Management Audit.* More specifically, Audits found it was necessary for PAWC to make either a minor improvement or a moderate improvement in the following functional areas: (1) Executive Management and Organizational Structure; (2) Corporate Governance; (3) Cost Allocations and Affiliated Interests; (4) Financial Management; (5) Water Operations; (6) Wastewater Operations; (7) Emergency Preparedness; (8) Purchasing and Materials Management; (9) Customer Service; (10) Information Technology; (11) Fleet Management; and (12) Human Resources Diversity. *See*, I&E M.B. at 74-75 (citing *2023 Management Audit*). In summary, we find that each of the examples proffered by I&E and the OCA provide additional persuasive evidence for why it is not appropriate to award the Company an upward adjustment to its ROE in this proceeding.

Consistent with the above discussion, we shall deny PAWC's Exception No. 2. In addition, we shall grant I&E's Exception No. 2, and the OCA's Exception Nos. 1 and 12. Finally, we shall reverse the recommendation of the ALJs on this issue and reject PAWC's request for an upward adjustment to its ROE for management performance. Instead, as noted in Section X.D.3, *infra*, we shall authorize a total ROE for the Company of 9.45%.

3. Rate of Return on Common Equity

a. Positions of the Parties

PAWC notes in *Columbia Water 2024*, the Commission recognized the need to use both the DCF and CAPM in times of high inflation and high interest rates. Consistent with *Columbia Water 2024,* and based upon its DCF and CAPM results and consideration of the Company's business, financial and regulatory risks, and its management performance, PAWC sought a ROE of 10.95%. PAWC M.B. at 43-44.

I&E recommended a DCF-based 8.45% ROE for the Company. I&E stressed its position that the DCF measures the cost of equity directly, recognizes the time value of money, is forward-looking, and has wide-spread regulatory acceptance. I&E submitted that for a point of comparison, its 10.44% CAPM ROE confirms the reasonableness of its 8.45% DCF ROE calculation. As the CAPM measures the cost of equity indirectly and can be manipulated by the time period used, I&E gave no specific weight to its CAPM ROE. I&E stated that while the CAPM is also forward-looking and is based on the concept of risk and return, it has flaws that should discount its use to determine PAWC's ROE. I&E M.B. at 48-51.

The OCA recommended a 9.1% ROE. The OCA calculated this ROE by taking the average of its DCF ROE (9.4%) and its CAPM ROE (8.7%). The OCA noted that its recommended ROE of 9.1% falls within PAWC's DCF range. Therefore, the OCA claimed its recommended ROE balances the interests of investors and consumers. However, the OCA argued that if the Commission accepts PAWC's actual capital structure and/or adopts any of the Company's alternative ratemaking proposals, then it should grant the Company a ROE of no more than 8.7%. OCA M.B. at 51-52.

The OSBA supported either I&E's proposed ROE of 8.45%, or the OCA's proposed ROE of 9.1%, using the hypothetical capital structure proffered by the OCA. To calculate PAWC's revenue requirement, the OSBA utilized the water industry 9.65% ROE authorized for the DSIC in the most recent Report of TUS on the Quarterly Earnings of Jurisdictional Utilities. The OSBA claimed the DSIC ROE provided a more realistic calculation of revenue requirement impact of the OSBA's acquisition related adjustments. OSBA M.B. at 14.

PAWLUG averred that PAWC's proposed ROE was unreasonable based on the recommendations developed by I&E and the OCA. PAWLUG noted that the Company's proposed ROE of 10.95% exceeded I&E's 9.45% average ROE by 150 basis points. According to PAWLUG, the Company's suggested ROE was also unreasonable because it omitted adjustments for the various alternative rate and deferral mechanisms proposed by PAWC in this proceeding, which serve to further reduce the Company's operational risks. Although PAWLUG did not make a specific ROE recommendation, it requested that the Commission reject PAWC's proposed 10.95% ROE and consider the evidence presented by PAWLUG to determine a reasonable ROE based on range of reasonableness supported by I&E's and the OCA's ROE analysis. PAWLUG M.B. at 9-12.

b. Recommended Decision

Consistent with the Commission's decisions in *Aqua 2022* and *Columbia Water 2024*, the ALJs recommended a ROE based on both I&E's DCF and CAPM models. By taking the average of I&E's DCF (8.45%) and CAPM (10.44%) analysis, the ALJs recommended that the Commission adopt a ROE of 9.55%. This consisted of a base ROE 9.45% plus an upward adjustment of ten (10) basis points for management performance, discussed, *supra.* [9.45%+0.10%=9.55%]. R.D. at 167, 184.

c. Exceptions and Replies

(1) PAWC Exception No. 1 and Replies

In its Exception No. 1, PAWC contends that the ALJs erred by relying on I&E's DCF and CAPM results in calculating the recommended ROE. As discussed in Section IX.A, the Company contends I&E's proxy group is flawed. Therefore, by accepting I&E's proxy group, PAWC states the ALJs calculated a ROE that is below the ROE awarded in *Columbia Water 2024* of 9.75% and below the Commission authorized DSIC ROE of 9.65%.[82] Based on four different modifications to I&E's proxy group, PAWC insists that the Commission should award the Company one of the following ROE's: 9.76%, 9.88%, 10.05%, or 10.46%. PAWC Exc. at 2-9.

In its Reply to the Company's Exception No. 1, I&E agrees with PAWC that the ALJs erred by recommending a 9.45% ROE with an additional ten (10) basis point management performance adder. However, it is I&E's position that the ROE proposed by the ALJs is too *high* while the Company in this Exception argues that the ROE was too low. I&E notes PAWC's Exception No. 1 is based on the ALJs' use of I&E's proxy group to determine the ROE, as discussed in section IX.A, *supra*. I&E R. Exc. at 1,4.

In its Reply to PAWC's Exception No. 1, the OCA restates its argument that the Commission should deny PAWC's Exception No. 1 because no Party had an opportunity to respond on the record to the Company's recommendation to calculate its ROE by taking the average of I&E's DCF and CAPM model results utilizing multiple proxy groups picked by PAWC. The OCA states the Company presented these calculations for the first time in its Exceptions, with PAWC arguing the ROE should be

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[82] *Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended December 31, 2023,* Docket No. M-2024-3048688 (May 9, 2024).

one of the following: 9.76%, 9.88%, 10.05%, or 10.46%. Since this is the first time that PAWC has presented these calculations, the OCA claims it is extra record evidence and deprives the Parties of their due process rights. OCA R. Exc. at 9 (citing *Montefiore* at 484). Furthermore, the OCA claims that replacing the proxy group inputs in I&E's DCF and CAPM analyses and then averaging the results will change I&E's DCF and CAPM analyses that is on the record. The OCA stresses its position that rather than making a decision based on the record, granting PAWC's Exception No. 1 will place the Commission in the role of creating a record to justify its decision. OCA R. Exc. at 9.

(2) I&E Exception No. 1 and Replies

In its Exception No. 1, I&E contends that the ALJs erred by recommending a ROE by taking the average of I&E's DCF and CAPM results. I&E alleges the ALJs' recommendation is flawed due to the ALJs' reasoning that I&E did not use its 10.44% CAPM ROE as a comparison to its 8.45% DCF ROE. Additionally, I&E states the ALJs essentially gave the CAPM a 50% weight by averaging the DCF and CAPM ROE results. I&E deems that given the flaws of the CAPM, there is no way to give an appropriate weight to the CAPM. Hence, I&E explains that it has simply used the CAPM as a comparison to the DCF and does not incorporate it in its ROE calculation. Therefore, I&E asserts that the Commission should rely primarily on the I&E DCF analysis and grant PAWC a ROE of 8.45%. I&E Exc. at 3-5.

In its Reply to I&E's Exception No. 1, PAWC maintains the ALJs correctly used both the DCF and CAPM results. The Company states the ALJs properly found that the Commission has recently adopted the use of both the DCF and CAPM methodologies to determine the ROE in *Aqua 2022* and *Columbia Water 2024*. PAWC R. Exc. at 3.

In its Replies to Exceptions, the OCA agrees with I&E that the ALJs erred by averaging I&E's DCF and CAPM ROE results. The OCA insists the Commission should select a ROE from the testimony of one of the Parties in this case based on a fully substantiated cost of equity analysis. Regarding averaging I&E's DCF and CAPM ROE results, the OCA declares I&E did not present testimony, the ALJs did not present findings of fact in the Recommended Decision, nor is there any record evidence to support the ALJs' recommendation that the Commission set a ROE based upon the average of I&E's DCF and CAPM results. The OCA further claims it did not have an opportunity in rebuttal or surrebuttal testimony to address I&E's CAPM or the averaging of I&E's DCF and CAPM. Moreover, the OCA argues that since I&E did not give its CAPM any weight when recommending a ROE, the OCA did not respond to I&E's testimony concerning its CAPM. Therefore, the OCA avers it was denied due process as it did not have an opportunity to be heard at a meaningful time and in a meaningful manner. OCA R. Exc. at 7-8, (citing *Montefiore*). Finally, the OCA asserts that while its own ROE testimony presented an average of its DCF and CAPM results, the other Parties had an opportunity to respond to this testimony. OCA R. Exc. at 8.

(3) OCA Exception No. 11 and Replies

In its Exception No. 11, the OCA reinforces its claim that the ALJs erred by recommending a 9.45% ROE that used the average of I&E's DCF and CAPM analysis. The OCA avers the ALJs modified I&E's recommendation by averaging I&E's DCF and CAPM results, although I&E did not recommend this method. By picking what parts of I&E's ROE analysis to use, and ignoring other evidence, the OCA argues that the ALJs recommended a ROE that is excessive by thirty-five (35) basis points. The OCA states that its own recommended ROE falls within the zone of reasonableness that protects both consumer and shareholder interests and provides just and reasonable rates. As previously noted, based on DCF and CAPM results, the OCA's ROE recommendation is either 9.1% or 8.7% depending on whether alternative ratemaking requests or the Company's actual capital structure are granted in this proceeding. Since the ALJs recommended granting the Company's actual capital structure, the OCA insists that the Company's ROE should be no higher than 8.7%. The OCA notes that its proposed ROE is based on the average of its DCF and CAPM results. By using both DCF and CAPM results, the OCA maintains it provided an accurate assessment of PAWC's ROE as it measures market risk and its impact on individual companies. Lastly, the OCA restates that its 9.1% proposed ROE falls within PAWC's DCF ROE range. OCA Exc. at 15-17.

In its Replies to Exceptions, PAWC restates its position that the OCA's hypothetical capital structure is improper and the ALJs decision to not use the OCA's ROE analysis is supported by the record evidence. The Company argues the OCA's ROE recommendations have two primary errors. First, PAWC contends that the OCA's criticism of the long-term growth rate used in its DCF does not meet the OCA's own standard. Second, the Company notes that the OCA used an ERP based on surveys and its own calculations. PAWC argues that its ERP based on *Value Line* projected growth rates is more accurate, as it is consistent with historical equity returns. PAWC R. Exc. at 4-7.

d. Disposition

We agree with the ALJs' recommendation to take the average of I&E's DCF and CAPM ROE results. This produces a ROE of 9.45%, noting I&E's DCF and CAPM produce a ROE range of reasonableness from 8.45% to 10.44%. Based upon our informed judgment, which includes consideration of a variety of factors such as increasing inflation leading to increases in interest rates and capital costs, we find that a ROE of 9.45% is reasonable and appropriate for PAWC. As discussed in Section IX.D.2, *supra*, we have also determined that the Company's request for an upward adjustment to its ROE for management performance should be denied. Therefore, we shall award the Company a total ROE of 9.45%.

Before concluding this section, we stress that based upon the specific record developed in this proceeding, we have determined that taking the average of the DCF and CAPM results produces a reasonable ROE. However, we do not strictly endorse averaging the DCF and CAPM in other proceedings where it is determined that methodologies other than the DCF are necessary to determine the utility's ROE. Consistent with these determinations, we shall deny PAWC's Exception No. 1, I&E's Exception No. 1, and the OCA's Exception No. 11.

E. Overall Rate of Return

1. Positions of the Parties

PAWC claimed that it should be permitted to earn the following overall rates of return in this proceeding:

(1) An overall rate of return of 8.17% on a total company basis, comprised of a weighted average of a 4.71% rate of return on long-term debt, and a 10.95% rate of return on common equity, inclusive of an upward adjustment for management effectiveness. Additionally, this is based on an actual capital structure of 44.70% long-term debt and 55.30% common equity;

(2) An overall rate of return of 8.22% for its water operations, comprised of a weighted average of a 4.76% rate of return on long-term debt, and a 10.95% rate of return on common equity, inclusive of an upward adjustment for management effectiveness. Additionally, this is based on an actual capital structure of 44.01% long-term debt and 55.99% common equity; and

(3) An overall rate of return of 7.94% for its wastewater operations, comprised of a weighted average of a 4.76% rate of return on long-term debt, a 2.67% rate of return on long-term debt for wastewater-specific debt

> issuances, and a 10.95% rate of return on common equity, inclusive of an upward adjustment for management effectiveness. Additionally, this is based on an actual capital structure of 42.73% long-term debt, 4.40% wastewater-specific long-term debt, and 52.87% common equity.

PAWC Exh. 13-A at Schs. 11 and 12; Exh. 13-R at Sch 14.

I&E argued that PAWC should be afforded the opportunity to earn the following overall rates of return:

> (1) An overall rate of return of 6.82% for PAWC's water operations. This recommended overall rate of return is comprised of a weighted average of a 4.76% rate of return on long-term debt and an 8.45% rate of return on common equity, and is based off of the Company's proposed capital structure for its water operations.
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> (2) An overall rate of return of 6.62% for PAWC's wastewater operations. This recommended overall rate of return is comprised of a weighted average of a 4.76% rate of return on long-term debt, a 2.67% rate of return on wastewater-specific long-term debt, and an 8.45% rate of return on common equity, and is based off of the Company's proposed capital structure for its wastewater operations.

I&E M.B. at 65; I&E St. 2-SR at 44.[83]

The OCA proffered that the Commission should allow PAWC the opportunity to earn the following overall rates of return on its rate base:

> (1) An overall rate of return of 6.97% for PAWC's water operations. This recommended overall rate of return is comprised of a weighted average of a 4.76% rate of

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[83] We note that I&E did not provide a proposed overall rate of return for PAWC on a total company basis.

return on long-term debt, a 2.62% rate of return on wastewater-specific long-term debt, and a 9.10% rate of return on common equity, and is based on a hypothetical capital structure of 49% long-term debt and 51% common equity.

(2) An overall rate of return of 6.97% for PAWC's water operations. This recommended overall rate of return is comprised of a weighted average of a 4.76% rate of return on long-term debt and a 9.10% rate of return on common equity and is based on a hypothetical capital structure of 46.84% long-term debt, 4.40% wastewater-specific long-term debt, and 48.76% common equity.

OCA M.B. at 46-47; OCA St 2., Exh. LA-6 at 7-8; OCA St. 3 at 4.[84]

2. Recommended Decision

The ALJs recommended that the Company be afforded the opportunity to earn an overall rate of return of 7.44% for its water operations and an overall rate of return of 7.20% for its wastewater operations. These recommended overall rates of return are based upon the ALJs' recommendations, *supra*: (1) that the Commission adopt PAWC's proposed actual capital structures; (2) that the Commission adopt PAWC's proposed claimed cost rates for long-term debt and wastewater-specific long-term debt; (3) averaging the results of I&E's DCF and CAPM analyses; and (4) awarding PAWC an upward adjustment of ten basis points to its ROE in recognition of the Company's business risks and management performance. The ALJs' recommended overall rates of return are outlined in Tables 12 and 13, as follows:

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[84] Like I&E, the OCA did not provide a proposed overall rate of return for PAWC on a total Company basis. Additionally, in calculating its proposed overall rate of return for PAWC's wastewater operations, the OCA utilized PAWC's originally proposed rate of return on long-term debt for wastewater-specific debt issuances of 2.62%. The Company revised this to 2.67% in its rebuttal testimony. *See*, PAWC St. 13-R at 11.

Table 12: The ALJs' Recommended Capital Structure and Overall Rate of Return for PAWC's Water Operations

Type of Capital	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	44.01%	4.76%	2.09%
Common Equity	55.99%	9.55%	5.35%
Total	100.00%		7.44%

Table 13: The ALJs' Recommended Capital Structure and Overall Rate of Return for PAWC's Wastewater Operations

Type of Capital	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	42.73%	4.76%	2.03%
WW-Specific Long-Term Debt	4.40%	2.67%	0.12%
Common Equity	52.87%	9.55%	5.05%
Total	100.00%		7.20%

The ALJs applied these rates of return to Table IA of each of the sets of rate tables set forth in Appendix A to the Recommended Decision. R.D. at Appendix A, Table IA-Water, Table IA-Wastewater SSS, and Table IA-Wastewater CSS.[85]

3. Exceptions and Replies

As outlined above, each of PAWC, I&E, and the OCA filed Exceptions to the ALJs' recommendations on a fair rate of return for the Company. Each Party's Exceptions and Replies to Exceptions on the overall rate of return are based on their respective Exceptions and Replies to Exceptions regarding the ALJs' recommended proxy group, capital structure, and the cost of common equity, *supra.*

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85 The ALJs did not provide a recommended overall rate of return for PAWC on a total company basis.

4. Disposition

For the reasons discussed above, we have adopted the ALJs' recommendation as to the appropriate proxy group, capital structure and cost of debt for PAWC. Additionally, as we have rejected the Company's request for an upward adjustment to its ROE for management performance, we have modified the ALJs' recommendation as to the appropriate cost of common equity for PAWC. This will, in turn, modify the ALJs' recommended overall rate of return. The following tables summarize our final determinations regarding PAWC's capital structure, cost of debt, and cost of common equity, as well as the resulting weighted costs. As these tables indicate, we shall set an authorized overall rate of return for PAWC of: (1) 7.33% on a total Company basis;[86] (2) 7.39% for the Company's water operations; and (3) 7.15% for the Company's wastewater operations. We shall apply these rates of return, as set forth in Table IA, to each of the sets of rate tables that are attached to the Commission Tables Calculating Allowed Revenue Increase at the end of this Opinion and Order.

Table 14: PAWC Capital Structure – Authorized Overall Rate of Return on a Total Company Basis

Type of Capital	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	44.70%	4.71%	2.11%
Common Equity	55.30%	9.45%	5.23%
Total	100.00%		7.33%

[86] As previously noted, the ALJs did not make a recommended overall rate of return for PAWC on a total Company basis.

Table 15: PAWC Capital Structure – Authorized Overall Rate of Return for Water Operations

Type of Capital	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	44.01%	4.76%	2.09%
Common Equity	55.99%	9.45%	5.29%
Total	100.00%		7.39%

Table 16: PAWC Capital Structure – Authorized Overall Rate of Return for Wastewater Operations

Type of Capital	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	42.73%	4.76%	2.03%
WW-Specific Long-Term Debt	4.40%	2.67%	0.12%
Common Equity	52.87%	9.45%	5.00%
Total	100.00%		7.15%

X. Rate Structure and Rate Design

This section of the Opinion and Order addresses the ALJs' recommendations pertaining to cost-of-service, revenue allocation, and rate design. When a utility files for a rate increase and the requested increase exceeds $1 million, the utility must include with its filing a cost-of-service study (COSS) in which it assigns to each customer class a rate based upon the operating costs that it incurred in providing that service. 52 Pa. Code § 53.53; *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1015 (Pa. Cmwlth. 2006) (*Lloyd*). Public utility rates should enable the utility to recover its cost-of-service through the creation of a rate design that recovers costs from the appropriate customer class as closely as possible to the allocated cost-of-service. These rates are required by statute to be just, reasonable, and non-discriminatory. 66 Pa.C.S. §§ 1301.

PAWC submitted five separate COSSs, one for its water operations (PAWC Exh. 12-A Revised) and four for its wastewater operations. PAWC presented a COSS for its wastewater SSS operations (PAWC Exh. 12-B Revised), for its CSS wastewater operations (PAWC Exh. 12-C Revised), and it prepared separate wastewater service COSSs for the Brentwood operations (PAWC Exh. 12-D Revised) and the BASA operations (PAWC Exh. 12-E Revised).[87]

A. Cost-of-Service Studies – Water Operations

1. Positions of the Parties

PAWC utilized the Base-Extra Capacity (BEC) method in preparing its Water COSS. This method is described in the American Water Works Association's Water Rates Manual (AWWA Manual) and, according to the Company, has been accepted by the Commission as the appropriate methodology for determining class cost-of-service. PAWC M.B. at 54-55. Under the BEC method, investment and costs are first classified into four primary functional cost categories: (1) base or average capacity; (2) extra capacity; (3) customer; and (4) fire protection. Once investment and costs are classified to these functional categories, they are allocated to the various customer classes. OCA St. 4 at 12.

The OCA and the OSBA generally agreed with PAWC's use of the BEC methodology; however, the OCA and the OSBA recommended modifications to the system-wide maximum day extra-capacity demand factor of 1.4 and the maximum hour extra-capacity factor of 2.1 utilized by PAWC to allocate functionalized costs to the

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[87] PAWC submitted a separate COSS for the BASA operations to comply with the settlement filed in *BASA*. While PAWC submitted a COSS for the Brentwood acquisition in its initial filing and rebuttal case, as previously explained, PAWC agreed to remove the Brentwood acquisition from this case.

various customer classifications, contending that they are outdated. *See*, OCA M.B. at 61-65; OSBA M.B. at 14-17. The OCA also contended that interruptible industrial usage should be included in the extra capacity allocations because those customers have not been regularly interrupted during periods of peak demand. OCA M.B. at 65 (citing OCA St. 4-SR at 9). For its part, PAWLUG criticized the demand study statistics used in the Water COSS because the study was conducted from 2013-2015 and residential consumption has declined since that time. *See*, PAWLUG M.B. at 14-15.

PAWC explained that its proposed system-wide maximum day demand factor of 1.4 is based on a detailed analysis, reflecting PAWC's actual maximum daily send-out since its formation in 1987. PAWC St. 12-R at 5. Specifically, the Company's actual maximum day send-out was 1.4 times average day send-out in each of the years 1988, 1995, 1996, 1999, and 2003, and, according to PAWC, it has experienced system-wide maximum day factors close to that value in other years since 1987. PAWC M.B. at 55. Additionally, PAWC indicated that the water usage on the maximum day of 2021 in several areas within its overall water operations was more than 1.4 times the average usage for that year. *Id*. PAWC submitted that the 1.4 system-wide maximum day demand factor employed in its Water COSS produces a diversity factor that is reasonable based on the range recommended in the AWWA Manual. PAWC M.B. at 55-56 (citing PAWC St. 12-R at 6-8).

PAWC further explained that its system-wide maximum hour demand factor of 2.1 was based on a detailed analysis of its actual maximum hour send-out. PAWC St. 12-R at 8.

As the OCA averred that PAWC's maximum day demand factor is outdated and not representative of PAWC's actual system-wide experience, it proposed the use of a maximum day factor of 1.2, based on its truncated data set to include data for only the last twelve years.[88] OCA R.B. at 40. PAWC pointed out that the OCA's proposed maximum day factor of 1.2 was experienced in 2012 and is the highest maximum day factor within the OCA's limited twelve-year window. PAWC St. 12-R at 5.

In lieu of the 2.1 maximum hour factor employed in PAWC's Water COSS, the OCA and the OSBA proposed the use of a maximum hour demand factor of 1.5 and 1.8, respectively. OCA St. 4 at 15-17; OCA St. 4-SR at 6-9; OSBA St. 1-R at 9, 13. PAWC noted that, rather than conducting their own analysis of maximum hour send-out, the OCA proposed a maximum hour ratio derived from demand data using a study conducted by The York Water Company and the OSBA proposed a maximum hour factor derived from its recommended adjustment to the maximum day factor. PAWC M.B. at 56-57.

Both the OCA and the OSBA challenged PAWC's proposal to continue relying on demand data from a 1988 analysis to determine a maximum hour demand factor for its COSS. The OCA contended that PAWC ignores that its data and analysis is increasingly less reliable with each rate case and cannot reasonably be considered "representative" of PAWC's actual, recent customer demands, particularly where PAWC's own witness makes an adjustment to the Company's revenues for the future test years to reflect what he claims has been a "significant and pervasive decline in usage for [residential, commercial and municipal] classes over the past ten years." OCA R.B. at 40-41 (citing PAWC St. 10 at 67-72, 78-79).

Additionally, the OCA explained that the 2.1 maximum hour factor utilized by PAWC is based on a 1988 analysis and recommended that PAWC should be required to update its analysis of system-wide maximum hour extra capacity demands prior to its

[88] In rebuttal testimony, the OSBA supported the OCA's maximum day factor. *See*, OSBA St. 1-R at 8-13; OSBA M.B. at 16-17; OSBA R.B. at 11.

next base rate proceeding. OCA M.B. at 65. The OSBA noted its agreement with this recommendation. OSBA St. 1-R at 13.

As indicated, *supra*, the OCA also contended that interruptible industrial usage should be included in the extra capacity allocations because those customers have not been regularly interrupted during periods of peak demand. OCA M.B. at 65 (citing OCA St. 4-SR at 9). The OCA based its proposal on the Commission's recent decision in a Philadelphia Gas Works (PGW) rate case. More specifically, the OCA noted that in *PGW 2023*, the Commission agreed with PGW that interruptible demand should be treated as firm for the purpose of PGW's COSS. OCA M.B. at 65 (citing *PGW 2023* at 111-12, 138-39). The OCA requested that the Commission make the same finding here on grounds that PAWC's sole interruptible customer has not been interrupted in 20 years. *See*, OCA St. 4-SR at 9.

PAWLUG does not contest PAWC's proposal to utilize the BEC methodology for the Water COSS. However, PAWLUG opposed PAWC's proposed maximum hour demand ratio for the residential customer class. PAWLUG averred that the Commission should adjust PAWC's proposed COSS to use the actual maximum hour demand ratio for the residential customer class. PAWLUG M.B. at 13-14.

PAWLUG also opposed various proposals advanced by other Parties to adjust PAWC's COSS. PAWLUG disagreed with the OCA, noting that the OCA's proposal to simply include interruptible usage with industrial customer class allocation for extra capacity demand costs does not align with cost causation because the vast majority of PAWC's industrial customers are firm service customers and are already paying rates set in alignment with cost causation for firm service. PAWLUG M.B. at 13. PAWLUG noted the testimony of PAWC's witness, Ms. Constance Heppenstall, that "this adjustment to the cost of service for industrial curtailment customers has been reflected in the Company's cost of service studies since at least the Company's 2007 rate case and Docket No. R-00072229 and has long been accepted by the Commission and other parties." *Id.* at 17 (citing PAWC St. 12-R at 10). PAWLUG contended that increasing the cost-of-service for PAWC's industrial class to now include interruptible usage creates substantial complications that were not present in *PGW 2023*, including a likelihood of intraclass subsidization of PAWC's sole interruptible industrial customer by the remaining firm industrial customers. PAWLUG M.B. at 13, 17.

Lastly, PAWLUG asserted that the estimated system wide maximum demand allocators developed by the OCA and the OSBA should be rejected in favor of prospective solutions to comprehensively update PAWC's demand data. PAWLUG M.B. at 13, 18-20.

While I&E made various recommendations based on the COSSs presented by PAWC, I&E did not challenge specific elements of the COSSs presented by PAWC. Additionally, as discussed, *infra*, regarding the customer cost analysis, I&E recommended the results of the Company's more direct customer cost be used to determine the customer charge. I&E M.B. at 67; I&E R.B. at 26.

2. Recommended Decision

In their Recommended Decision, the ALJs found that the COSS methods and factors utilized by PAWC for its water operations are reasonable and consistent with past practice and recommended that the Commission adopt the Company's COSS without modification. R.D. at 195.

However, while the ALJs recommended adoption of PAWC's COSS, they did agree with the OCA that for PAWC's next base rate case, PAWC should be required to update its analysis of system wide maximum hour extra capacity demands and then include the results of its updated analysis in its Water COSS for that case. The ALJs found that PAWC's analysis of system wide maximum hour extra capacity should be updated to better reflect demands on PAWC's system. R.D. at 195.

3. Exceptions and Replies

a. PAWC Exception No. 7 and Replies

In its Exception No. 7, PAWC reiterates its previous arguments, maintaining that no Party has identified any errors in the 1988 analysis used to determine the maximum hour demand factor for its COSS and its results have been accepted in prior PAWC cases. PAWC Exc. at 26. Therefore, PAWC submits that the ALJs' recommendation for a large, multi-year study of PAWC's system-wide maximum hour demands prior to its next base rate case is unwarranted. Moreover, PAWC contends that in performing such an analysis, the Company faces challenges in accurately measuring maximum hour demand in districts with multiple groundwater sources due to a number of factors, such as missing SCADA connections, tank filling, and metering issues. *Id*.

In Replies, the OCA asserts that the Company's data cannot reasonably or reliably be considered representative of PAWC's actual, recent demand, particularly where PAWC's own witness makes an adjustment to the Company's revenues for the future test years to reflect what he claims has been a "significant and pervasive decline in usage for [residential, commercial and municipal] classes over the past ten years." OCA R. Exc. at 13 (citing PAWC St. 10 at 67-72, 78-79). The OCA explains that this is a continuation of the declining consumption trend that PAWC's witness, Mr. Charles Rea, identified from reports analyzing water usage since 1992 and the impact of energy efficiency legislation in 1992 and 2007– all of which occurred *after* the 1988 demand analysis relied on by PAWC. OCA R. Exc. at 13 (citing PAWC St. 10 at 67-70). Therefore, the OCA maintains that the Company's assertions ignore that PAWC's data and analysis become less reliable with each rate case.

b. OCA Exception No. 13 and Replies

In its Exception No. 13, the OCA argues that the ALJs erred by recommending that the Commission reject the OCA's proposal to adjust PAWC's Water COSS to include interruptible usage[89] in the extra capacity factor allocations. OCA Exc. at 23-25. The OCA maintains that there is no factual premise for excluding interruptible industrial usage in the extra capacity factor allocations, since these customers have not been required to curtail their usage in the last 20 years. The OCA maintains that this is consistent with the Commission's decision in *PGW 2023*, wherein the Commission found that interruptible demand should be included with firm industrial customers in PGW's COSS based on a record showing no interruptions for over 20 years. OCA Exc. at 24-25.

In their Replies, PAWLUG and Cleveland-Cliffs each maintain that the OCA's arguments are misplaced. PAWLUG R. Exc. at 1-3; Cleveland-Cliffs R. Exc. at 1-2. Specifically, PAWLUG maintains that the Commission's decision in *PGW 2023* should be distinguished because: (1) in *PGW 2023*, the Commission approved the COSS proposed by the utility; whereas here, the OCA seeks to modify the COSS proposed by PAWC; and (2) the Commission's findings in *PGW 2023* sought to align PGW's Rate IT customer class, consisting exclusively of interruptible customers, with cost-of-service. PAWLUG R. Exc. at 2 (citing *PGW 2023* at 138). Here, because the interruptible customers in the instant proceeding are not a separate class, they are a part of the larger industrial class, which is mostly made up of firm customers. As such, PAWLUG argues that including interruptible usage as firm would cause firm industrial customers to subsidize costs. PAWLUG R. Exc. at 2-3.

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[89] PAWC provides service under an Industrial Curtailment Rate that applies a reduced tail block rate to participating customers' usage over 15 million gallons a month. In exchange, participants must curtail usage of Company-supplied water for industrial purposes when requested or be subject to penalties for failure to curtail. *See*, Supplement No. 2 to Tariff Water – PA P.U.C. No. 5, First Revised Pages 18-19, effective January 1, 2018.

Since PAWC's interruptible load allows the Company to plan for a higher peak load without additional capacity investment, which results in savings to the system even in the absence of interruption events, and interruptible customers do not contribute to extra-capacity demand costs, Cleveland-Cliffs argues that the adjustment to the COSS proposed by the OCA would unreasonably attribute cost savings made possible by industrial, non-firm customers to other customer classes and artificially inflate the amount of costs that the Company incurs to serve industrial load. Cleveland-Cliffs R. Exc. at 2.

4. Disposition

The Commission uses the results from COSSs as a guide in developing appropriate customer class rates. Nevertheless, as we have stated in past rate decisions, COSSs are tools to be used in the ultimate design of customer rates, but they are necessarily subject to the philosophies of the analysts preparing them. We therefore emphasize that appropriate judgment and discretion is required in analyzing the COSSs and using them to help set the final customer class rates based on the evidentiary record.

We agree with the ALJs' recommendation that PAWC's proposed water COSS be approved, and the OCA's arguments in support of including interruptible industrial usage in the extra capacity factor allocations be rejected. Since interruptible customers must be prepared to curtail their water usage during peak periods when requested, it is appropriate to exclude interruptible usage from the extra capacity components of PAWC's allocation factors. Including interruptible load in the extra capacity components of these factors would over-allocate costs to the industrial class by failing to recognize the value of curtailment.

Although curtailment has not occurred for several years, participating customers must be prepared to curtail their usage when requested or face penalties for failure to curtail. PAWC's tariff provides a reduced rate for customers served on the Industrial Curtailment Rate and it is appropriate to also reflect the value of this demand-side resource in the cost allocation process. Accordingly, we shall deny the OCA's Exception No. 13.

Although, for the purposes of this proceeding, we have found that the Company's water COSS should be accepted as adequate given the data available in this case, we acknowledge that PAWC has not updated its analysis of system-wide maximum hour extra capacity demands since 1988. As indicated by the Company, the system-wide maximum day extra capacity demand factor used in its water COSS was last experienced in 2003, which was over twenty (20) years ago. Since 2003, water demand on the PAWC system has changed due to water conservation, legislation, development, and changing land uses.[90] Therefore, since PAWC does not have recent actual maximum peak hour demand data for its water system, we agree with the ALJs' recommendation that PAWC should be required to update this analysis prior to its next base rate proceeding and include the results of that analysis in the COSS filed in the next base rate proceeding. Accordingly, we shall deny PAWC's Exception No. 7.

B. Cost-of-Service Studies – Wastewater Operations

1. Positions of the Parties

For its Wastewater SSS operations, PAWC's COSSs were prepared using the functional cost allocation methodology described in *Financing and Charges for*

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[90] We note that although it is possible that total residential demand has increased due to more people working from home, when people work at home, the days and number of hours that water can be used increases significantly; therefore, the maximum day and maximum hour demands of residential customers are likely to decrease. This is because residential customers no longer need to concentrate their use of water to days and hours they are not at work outside of their homes.

Wastewater Systems, Manual of Practice No. 27, published by the Water Environment Federation. PAWC St. 12 at 16-24; *See*, PAWC Exh. 12-B Revised. That allocation methodology was modified to determine the incremental cost related to handling stormwater for PAWC's CSS Wastewater operations. PAWC St. 12 at 25-31; *See*, PAWC Exh. 12-E Revised.

While none of the Parties raised any objections to the allocation methodology employed in PAWC's wastewater COSSs, I&E noted that it used the Company's COSS to develop its various wastewater rates that move the relative rates of return for each class toward zero. PAWC M.B. at 58-59; I&E M.B. at 68. Similarly, the OCA noted that its positions on excluding the pending wastewater acquisitions and the Act 11 shift are reflected in the Wastewater revenue allocation and rate design of the OCA's witness, Mr. Jerome Mierzwa. OCA M.B. at 67 (citing OCA St. 4 at 38-39).

2. Recommended Decision

Since none of the Parties raised any objections to the allocation methodology employed in PAWC's wastewater COSSs, the ALJs recommended that the Commission adopt PAWC's wastewater COSSs. R.D. at 197.

3. Disposition

None of the Parties filed Exceptions to the ALJs' recommendation. Finding the ALJs' recommendation to be reasonable, we adopt it without further comment.

C. Cost-of-Service Studies – Cost-of-Service for Future General Rate Increases

1. Positions of the Parties

PAWC objected to providing additional cost-of-service information in its future base rate filings for systems acquired pursuant to Section 1329 of the Code, as proposed by I&E and the OCA. PAWC M.B. at 59; I&E M.B. at 68-69; OCA M.B. at 67-68. PAWC averred that the Commission should reject this recommendation and continue its approach of moving toward single tariff pricing for all of PAWC's systems, including those acquired under Section 1329, and evaluate the necessity of separate COSSs as part of future acquisition proceedings. PAWC M.B. at 59 (citing PAWC St. 1-R at 29-31); PAWC R.B. at 48.

Further, PAWC has historically excluded Rider Demand Industrial Sales (DIS) and Rider Demand Resale Sales (DRS) customers from the COSS and allocated revenue from these customers as a credit to the overall cost-of-service, thereby reducing the overall revenue requirement for all customers. *See*, OCA St. 4, at 19. PAWC explained that in approving Riders DIS and DRS, the Commission found that those riders create benefits for all PAWC water customers by preserving or attracting incremental sales that, because of competitive forces, could not otherwise be made. PAWC St. 12-R at 11. Therefore, PAWC objected to the OCA's request for the Company to include Riders DIS and DRS as separate customer classes in its Water COSS, arguing that revenues from those riders are appropriately reflected as a deduction to all classes' cost-of-service. PAWC M.B. at 59-60.

Specifically, I&E recommended that when PAWC files its next base rate case, should it then own the BASA and/or Brentwood systems, a separate COSS be provided for each system to ensure the rates charged thereto are just, reasonable, non-discriminatory, and in the public interest. I&E R.B. at 27-28. Likewise, the OCA requested that if the Commission rejects the inclusion of BASA and Brentwood in the current rate case, and PAWC claims them in a future rate case, the Company should be required to provide a separate COSS for each. OCA M.B. at 67.

The OCA further suggested that for future Section 1329 acquisitions, PAWC should prepare separate COSSs in the first base rate case that includes those systems, unless the utility shows in the underlying Section 1329 proceeding that a separate COSS should not be required. OCA M.B. at 67-68. Going forward, after the initial base rate case in which a Section 1329 system is properly included, the OCA asserted that PAWC should continue to provide separate COSSs for the Section 1329 systems either individually or (for non-CSS wastewater only) as a group. Where Section 1311(c) is used to require water customers to subsidize revenue shortfall for systems acquired under Section 1329, the amount of that subsidy should be known and transparent, so a determination can be made whether the proposed Act 11 reallocation is in the "public interest." OCA M.B. at 68.

As discussed, *supra*, PAWLUG opposed the OCA's proposal to modify PAWC's system-wide demand factors in this proceeding; however, PAWLUG supports prospective efforts to update PAWC's demand study. Therefore, PAWLUG recommended that PAWC conduct a new demand study to confirm its demand ratios reflect current usage and demand patterns. PAWLUG did not object to PAWC's suggestion of proceeding with a feasibility study as an initial step but requested that the feasibility study be presented with PAWC's next base rate filing rather than being presented for comment and review between rate filings. PAWLUG noted that this proposal would necessarily extend the use of PAWC's existing demand study for one additional rate case, but also achieve incremental progress towards a comprehensively updated demand study. PAWLUG M.B. at 20-21.

Additionally, PAWLUG asserted that the OCA's proposal to modify PAWC's prospective COSSs to include Rider DIS and Rider DRS customers should be denied. PAWLUG contended that the OCA's proposal presents a solution to a perceived problem that has not been remotely substantiated through the available means, since both Rider DIS and Rider DRS prescribe minimum rate requirements for these customers in the tariffs, and there is no record of discovery disputes where PAWC has declined to respond to any inquiry concerning compliance with the minimum rate requirements. PAWLUG M.B. at 21.

2. Recommended Decision

Finding the OCA's proposal to be reasonable, the ALJs recommended that the Commission direct PAWC to prepare separate COSSs in the initial base rate case that includes systems acquired under Section 1329, unless PAWC shows in the underlying Section 1329 proceeding that a separate COSS should not be required[91] and, after the initial base rate case, the Company should continue to provide separate COSSs for the Section 1329 systems. R.D. at 202-03. The ALJs found this requirement will "allow greater transparency for the system to determine whether an Act 11 reallocation to subsidize a revenue shortfall is actually in the public interest." R.D. at 203.

In recommending that the Commission direct PAWC to provide additional water cost-of-service information in its future base rate filings, the ALJs specifically recommended PAWC include Rider DIS and Rider DRS customers as separate customer classes in the Water COSS in its next base rate proceeding. R.D. at 203. The ALJs noted that, in the current proceeding, PAWC did not separately determine the costs associated with serving Rider DIS and DRS customers in its Water COSS; the Company simply

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[91] The ALJs noted that this recommendation also encompasses I&E's request that PAWC be required to provide separate COSSs for BASA and Brentwood, should PAWC own these systems by that time. R.D. at 203.

reflected revenues from Rider DIS and DRS customers as a credit to the overall cost-of-service. R.D. at 202-03. As such, the ALJs found the OCA's proposal to be reasonable and agreed with the OCA that having cost-of-service information for these two riders in the next base rate case will ensure that the rates charged to these riders are reasonable and in the public interest. R.D. at 203.

Lastly, the ALJs noted that, while they found PAWLUG's proposal to be generally reasonable, they disagree about presenting the feasibility study with PAWC's next base rate filing rather than in between filings. The ALJs reasoned that filing the feasibility study between rate cases will allow more time for review without the many distractions that can be associated with a base rate case. Accordingly, while the ALJs recommended approval of the requested feasibility study, they also recommended that the Commission direct PAWC to file the feasibility study ninety (90) days before its next base rate case so parties will have adequate time for review. R.D. at 203-04.

3. Exceptions and Replies

a. PAWC Exception No. 8 and Replies

In its Exception No. 8, PAWC objects to the ALJs' recommendation that the Company maintain separate COSSs for systems acquired under Section 1329 of the Code *after* the initial base rate case where the acquisition is reflected in the Company's revenue requirement.[92] PAWC Exc. at 26. First, PAWC argues that this would be time-consuming and unnecessary based on PAWC's movement toward single tariff pricing, as well as adding unnecessary complexity to its future base rate cases. PAWC Exc. at 26-27. Second, PAWC argues that it would be unwieldly to provide separate

[92] The Company notes it is not excepting to the ALJs' recommendation that PAWC prepare separate COSSs for Section 1329 acquisitions in the first base rate proceeding where the systems are included in revenue requirement. PAWC Exc. at 26.

COSSs for the ten Section 1329 acquisitions already consolidated with its revenue requirement and COSSs for its water and wastewater SSS operations. PAWC Exc. at 27.

In its Replies, I&E states that no matter how time-consuming and complex for the Company, it is in the public interest that the rates charged to customers are just, reasonable, and based on an appropriate cost to service. I&E R. Exc. at 13.

In its Replies, the OCA explains that PAWC can continue to propose rates that move Section 1329 systems towards consolidation with its wastewater SSS and CSS wastewater divisions; however, the difference is that the information provided in the COSS will enable the Commission and parties to evaluate the reasonableness of the proposed subsidies. The OCA contends that the ALJs properly found this requirement will "allow greater transparency for the system to determine whether an Act 11 reallocation to subsidize a revenue shortfall is actually in the public interest." OCA R. Exc. at 15 (citing R.D. at 203).

Furthermore, the OCA also notes that the ALJs recommended adoption of the OCA's proposal, which provides the option for PAWC to provide separate COSSs for the Section 1329 systems individually or as two groups: (1) CSS wastewater Section 1329 systems; and (2) non-CSS wastewater Section 1329 systems. OCA R. Exc. at 16 (citing R.D. at 201, 203). Therefore, in response to the Company's concerns regarding separate COSSs for each Section 1329 system, the OCA explains that the Company can limit the number of COSSs for Section 1329 systems to those that are included for the first time, and as few as two other studies (CSS and non-CSS).

b. PAWC Exception No. 9, PAWLUG Exception No. 2, and Replies

In their Exceptions, PAWC and PAWLUG each object to the ALJs' recommendation that the Company provide cost-of-service information about Riders DIS and DRS in future base rate filings as separate customer classes. PAWC Exc. at 27-28; PAWLUG Exc. at 3-4.

PAWC maintains that these Riders are designed to retain or attract industrial and resale load for the benefit of all PAWC customers,[93] and therefore, the revenues derived from Rider DIS and DRS customers are appropriately reflected as a deduction to all classes' cost-of-service. PAWC Exc. at 27-28.

PAWLUG argues that the potential usefulness of such information does not support the Commission's requirement that PAWC modify its COSS. Additionally, PAWLUG suggests that the burden should be on the OCA and other Parties to ask for information about cost-of-service for PAWC's Rider DIS and Rider DRS customers. PAWLUG Exc. at 4.

In its Replies, the OCA explains that the requirement does not change PAWC's ability to continue to negotiate discounted rates; however, the difference is that the information provided in the COSS will enable the Commission and the Parties to evaluate the reasonableness of the negotiated rates. OCA R. Exc. at 14 (citing R.D. at 203).

The OCA additionally contends that PAWLUG's argument, in its Exceptions, should be rejected, given the fact that PAWLUG also requested additional information regarding demand ratios on which PAWC bases its COSS. The OCA points

[93] PAWC explains that Riders DIS and DRS authorize the Company to negotiate contracts at rates, with specified minimum and maximum levels, designed to retain or attract industrial and resale load for which the customer or applicant for service has a viable competitive alternative that the customer intends to select to the detriment of the Company and its other customers. PAWC Exc. at 27 (citing PAWC St. 12-R at 11).

out that in response to PAWLUG's request, the ALJs noted the limited time during a rate case:

> [f]ilings under Section 1308(d) of the Public Utility Code trigger a strict statutory deadline which limits the amount of time available to the parties and the Commission to review the associated filings. However, filing the feasibility study between rate cases will allow more time for review without the many distractions that can be associated with a base rate case.

OCA R. Exc. at 14 (citing R.D. at 203-04). The OCA notes the ALJs finding that the request for PAWC to provide cost-of-service information for the Riders with its filing to be a reasonable one, and providing the information does not prejudge whether negotiated rates for these customers should be discontinued – it simply facilitates review within the limited time available in a base rate case. OCA R. Exc. at 14.

4. Disposition

We agree with the ALJs' recommendation that, not only should PAWC continue to prepare separate COSSs for new Section 1329 acquisitions in the first base rate proceeding where those systems are included in PAWC's revenue requirement, but for Section 1329 acquisitions that are included in the present base rate case, PAWC should continue to prepare separate COSSs either individually for each acquisition or as a group.[94] This requirement is reasonable given the amount of revenue requirement at issue and the principle that rates should be reasonably cost-based.[95] As noted, the OCA's proposal only applies going forward. Therefore, according to the OCA's proposal,

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[94] This group should include only non-CSS wastewater Section 1329 systems. The CSS wastewater systems (whether or not acquired under Section 1329) should be included in the separate COSS for CSS wastewater systems.

[95] PAWC claimed that the full cost-of-service for the two Section 1329 systems (BASA and Brentwood) is $41.9 million. *See*, PAWC Exhs. 12-D and 12-E.

PAWC is not required to provide separate or group COSSs for the ten systems acquired under Section 1329 that have already been consolidated into water operations, wastewater SSS operations, and CSS wastewater operations. We find that this requirement allows for greater transparency of the system in order to determine whether an Act 11 reallocation to subsidize a revenue shortfall is actually in the public interest. Accordingly, we shall deny PAWC's Exception No. 8.

Additionally, we agree with the ALJs' recommendation that in its next base rate proceeding, the Company should include Rider DIS and Rider DRS customers as separate customer classes in its water COSS, rather than simply reflecting the revenues from these Riders as a credit to the overall cost-of-service. Including Rider DIS and DRS customers in the water COSS will not prejudge whether negotiated rates for these customers should be discontinued but will assist in ensuring that the rates charged to Rider DIS and DRS customers are reasonable. PAWLUG's suggestion, that the burden should be on the Parties to ask for information about cost-of-service for PAWC's Rider DIS and Rider DRS customers, rings hollow given PAWLUG's own request for additional information to which the ALJs' response took note of the limited time during a rate case. Therefore, we find the request for PAWC to provide cost-of-service information for the Riders with its filing to be a reasonable one, and providing this information does not prejudge whether negotiated rates for these customers should be discontinued, it simply facilitates review within the limited time available in a base rate case. Accordingly, we shall deny PAWC's Exception No. 9 and PAWLUG's Exception No. 2.

D. Cost-of-Service Studies – Allocation of Arrearage Management Program (AMP) Costs and Administrative Costs for H2O Programs

1. Positions of the Parties

Currently, PAWC offers customer assistance through its Help to Others (H2O) programs, which are administered by the Dollar Energy Fund (DEF) and is expanding its H20 program to assist low-income customers by offering arrearage forgiveness through its AMP.[96] *See*, CAUSE-PA St. 1 at 40; *see also*, PAWC St. 1 at 15-16, 34.

As previously referenced, PAWC presented revised COSSs in its rebuttal testimony. In addition to correcting the aforementioned adjustment to exclude interruptible load from the COSS, PAWC also revised its allocation of low-income program costs by directly allocating those costs to residential customers only, including costs of its AMP and administrative costs for other low-income programs.[97] *See*, PAWC St. 12-R at 10-11.

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[96] Under the AMP, qualifying residential customers will receive $25 of arrearage forgiveness monthly. PAWC St. 1 at 15-16.

[97] PAWC recovered the direct costs of the Company's residential low-income discounts from the residential class in the Company's rate design. However, in its original filing, PAWC allocated $3,180,090 caused by the Company's AMP and administrative costs associated with its low-income residential programs among *both* residential and non-residential customer classes in its COSSs. OSBA M.B. at 18. Initially, PAWC claimed that costs associated with its AMP are recovered in base rates from residential customers. Later, the Company acknowledged that these costs are not directly assigned to the residential class in its COSSs. Therefore, PAWC adopted the OSBA's recommendation, agreeing that its AMP credits are incremental to other uncollectible expense and its customer assistance programs are designed to benefit residential customers, and directly assigned AMP costs and residential low-income program administrative costs to the residential class. *Id.*; PAWC St. 12-R at 10-11.

The OCA contended that the costs for PAWC's AMP and administration of its H2O Grant and Discount programs are properly allocated consistent with the allocation of uncollectible costs generally, *i.e.,* to all customer classes, as the Company did in its initial filing. OCA M.B. at 68-70 (citing OCA St. 5-R at 1-6). The OCA's witness, Mr. Colton, provided data showing that the arrears that would be made subject to arrearage forgiveness are substantial and sufficiently high that PAWC will have already contributed to its reserve for write-offs before these low-income customers enter the arrearage forgiveness program. To the extent that the program succeeds in prompting future in-full payments toward current bills, plus a copayment toward arrears, PAWC will reduce the dollars that will ultimately be found to be uncollectible. There would be no new, and no incremental, arrearage forgiveness program costs to be directly assigned to the residential class. OCA M.B. at 68-69.

The OCA also opposed PAWC's proposal to directly allocate its customer assistance program administrative costs to residential customers only, asserting that the only way to appropriately capture, and to allocate, both the costs and the cost reductions, is to allocate the costs as PAWC initially proposed to do, based on an O&M composite factor. OCA M.B. at 70.

In its Main Brief, CAUSE-PA argued that it "supports PAWC's practice of equitably allocating certain universal service program costs across all ratepayers." CAUSE-PA M.B. at 20. CAUSE-PA cited 52 Pa. Code §§ 69.261-69.267 to support its argument. CAUSE-PA argued that it is unreasonable to review universal services, such as the AMP and the H20 programs, strictly as a benefit for residential customers. CAUSE-PA M.B. at 20-21. As CAUSE-PA's witness, Mr. Geller, stated, the societal impacts of utility insecurity "significantly undermine worker productivity, impacting businesses, non-profits, government entities, schools, and other nonresidential customer groups." *Id.*; CAUSE-PA St. 1-R at 6-7.

PAWC, the OSBA, and PAWLUG objected to the OCA's and CAUSE-PA's positions, maintaining that the programs are designed to benefit residential customers, and, therefore, support the Company's current practice of recovering costs associated with its AMP, and administrative costs associated with the H2O programs and DEF amongst both residential and non-residential customers. PAWC M.B. at 60; OSBA M.B. at 18; PAWLUG M.B. at 22.

PAWLUG concurred with the OSBA that, to the extent the Commission approves recovery of incremental costs of the AMP, such costs are properly allocated to residential customers. Similarly, the administrative costs of other low-income programs are properly allocated to residential customers. Any positive impact on bad debt expense resulting from these programs would benefit the residential class by improving collectibles for residential customers and reducing the class's allocation of bad debt expense. Moreover, CAUSE-PA's reliance on the Commission's policies related to cost recovery for mandatory electric and gas Customer Assistance Programs should be disregarded as irrelevant to PAWC's voluntary low-income programs.[98] Accordingly, PAWLUG argued that the Commission should approve PAWC's COSS revisions allocating any incremental AMP costs and administrative costs for other low-income programs to residential customers. PAWLUG M.B. at 22.

2. Recommended Decision

In their Recommended Decision, the ALJs agreed with the OSBA and PAWLUG that costs for PAWC's AMP and administration of its H2O Grant and Discount programs are appropriately assigned to the residential class. The ALJs reasoned that since these programs are only available to residential customers, the costs of these programs are appropriately assigned to the residential class. Moreover, the ALJs noted

[98] *See*, PAWLUG St. 1-S at 15.

that there is no evidence in the record to demonstrate that the residential class will suffer an undue economic impact by requiring it to be solely responsible for these programs and administrative costs. The ALJs also agreed with PAWLUG that any positive impact on bad debt expense resulting from these programs will benefit the residential class by improving collectibles for residential customers and reducing the class's allocation of bad debt expense. Accordingly, the ALJs recommended that the Commission adopt the OSBA's proposal to assign these costs to the residential class. R.D. at 209.

Separately, the OCA requested that, regardless of what determination is made regarding recovery of AMP costs going forward, the amortization of the regulatory liability for AMP costs in the last base rate case, but never incurred, should be directly credited to the residential class. *See*, OCA M.B. at 69-70. The OCA observed that PAWC directly assigns the administrative expenses associated with these programs without also identifying and directly assigning the administrative savings. The ALJs reasoned that if the costs are assigned to the residential class, any savings should similarly be assigned to the residential class. Accordingly, the ALJs found the OCA's proposal to be reasonable and recommended that it be adopted by the Commission. R.D. at 209-10.

3. OCA Exception No. 14 and Replies

In its Exception No. 14, the OCA contends that the ALJs erred by recommending that AMP costs and the administrative costs of the H2O Grant and Discount programs be directly assigned to the residential class only. The OCA maintains that the costs for PAWC's AMP and administration of its H2O Grant and Discount programs are properly allocated consistent with the allocation of uncollectible costs generally, *i.e.*, to all customer classes. OCA Exc. at 25-26.

In their Replies, the OSBA and PAWLUG maintain that the ALJs were correct in adopting the OSBA's recommendation on this issue because these programs are only available to residential customers, and as such, the costs of these programs are appropriately assigned to the residential class. OSBA R. Exc. at 3-4; PAWLUG R. Exc. at 3. The OSBA pointed out that, in their Recommended Decision, the ALJs recommended that the Commission reduce the incremental AMP costs in the revenue requirement from $2,377,200 as originally proposed by PAWC to $209,746 (excluding BASA and Brentwood), thereby removing the large majority of AMP costs that otherwise would be directly assigned to the residential class as specified by the Recommended Decision. The OSBA asserted that in addition to the remaining $209,746 of AMP costs, the ALJs were correct in recommending that the administrative costs for the H2O Grant and Discount programs (which total $315,390) should be allocated to the residential class only. OSBA R. Exc. at 3.

PAWLUG submits that the OCA has not offered a compelling basis for diverting from the Commission's long-standing adherence to cost-of-service principles regarding recovery of program costs from customers eligible to participate in the program. PAWLUG R. Exc. at 3.

4. Disposition

The direct revenue shortfall from residential low-income discounts is recovered from the residential class in the Company's rate design. As previously indicated, $3,180,090 in AMP costs and administrative costs associated with its H2O Grant and Discount and DEF programs is proposed by PAWC to be allocated among its residential class customers. Specifically, PAWC proposes to allocate $2,031,317 for its proposed AMP and $416,569 in DEF administrative costs among its residential water customers. For wastewater, PAWC proposes to allocate a total of $345,883 in AMP expense and $70,931 in DEF administrative costs among its residential customers within its four claimed wastewater operations (Wastewater SSS, CSS Wastewater, BASA, and Brentwood). In addition, as shown in Table 17, PAWC allocated $315,390 in administrative costs for its H2O Grant and Discount program among residential water customers.

Table 17: PAWC's Allocation of H20 Grant and Discount Program Administrative Costs

Residential Low-Income Program Costs	
AMP Expense Claim (Water)	$2,031,317
Dollar Energy (Water)	$416,569
AMP Expense Claim (WW)	$345,883
Dollar Energy (WW)	$70,931
H2O Grant and Discount Programs	$315,390
Total	**$3,180,090**

See, PAWC Exh. 3-B at 336; *see also*, PAWC Exhs. 12-A Revised, 12-B Revised, 12-C Revised, 12-D Revised, and 12-E Revised under Proposed Rates.

We agree with the ALJs that costs for PAWC's AMP and administration of its residential low-income programs are appropriately assigned to the residential class. It does not appear that PAWC has adjusted its uncollectible costs downward to account for bad debt that will be "forgiven" through the AMP. PAWC calculates its uncollectible expense by applying the historical two-year average uncollectible percentage of 1.176% to total proposed sales revenue. *See*, PAWC Exh. 3-B at 339. To this amount, PAWC adds $2,377,200 in AMP-related uncollectible expense[99] plus $487,500 in DEF

[99] As described in Section VII.J, *supra*, we have reduced this amount to $209,746, consisting of an allowance of $183,485 for the Company's water operations, $14,967 for the Company's wastewater SSS operations, and $11,295 for the Company's wastewater CSS operations. Additionally, we have excluded all amounts related to BASA and Brentwood.

administrative costs. *See*, PAWC Exh. 3-B at 336. We do not find persuasive the OCA's argument that AMP expense represents a subset of uncollectible expense. Incremental AMP expense appears to represent a new cost that would not otherwise be accounted for as uncollectible expense. Therefore, we agree with the ALJs that these costs should be directly assigned to the residential class, on whose behalf they are incurred. Accordingly, we shall deny the OCA's Exception No. 14.

E. Revenue Allocation and Act 11

1. Positions of the Parties

As Victory Brewing noted in its Main Brief, the purpose of revenue allocation is to establish the responsibility of each customer class for a portion of the revenue requirements that are approved by the Commission. A key factor in determining the appropriate portion of the revenue requirements that is allocated to each class is the COSS. Victory Brewing M.B. at 7 (citing *Lloyd*).[100]

PAWC's proposed revenue allocation is described on pages 60-61 of the Company's Main Brief and is set forth in PAWC Exhibits 10-A Revised, 10-B, 10-C, 10-D and 10-E Revised and is generally based on the Company's COSSs.

As discussed below, the OCA and the OSBA recommended alternative revenue allocations for water service based on their respective COSSs. OCA M.B. at 71; OSBA M.B. at 19. Regarding its water operations, PAWC's proposed allocation of its requested revenue requirement is shown in Table 18, below:

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[100] It should be noted that Victory Brewing has not contested the results of costs being allocated to certain customer classes, given that the Company's revenue allocation goals were consistently applied in accordance with prior rate cases. Victory Brewing M.B. at 7-8.

Table 18: PAWC's Proposed Water Operations Revenue Distribution

	Pro Forma FPFTY Cost of Service						
	Cost of Service	Act 11 Re-Allocation	Total COS	Present Rates	Proposed Rates	Proposed Increase	
Residential	$612,997,598	$45,864,399	$658,861,997	$528,290,043	$657,085,231	$128,795,188	24.4%
Commercial	$233,858,828	$17,571,738	$251,430,566	$202,779,636	$254,604,000	$51,824,364	25.6%
Industrial	$44,198,427	$4,547,070	$48,745,497	$37,580,738	$48,143,784	$10,563,046	28.1%
Public Authority	$24,425,618	$2,664,710	$27,090,328	$22,559,539	$26,209,929	$3,650,390	16.2%
Other Water Utilities - Group A	$11,845		$11,845	$51,822	$53,666	$1,844	3.6%
Other Water Utilities - Group B	$628,455		$628,455	$202,436	$277,021	$74,585	36.8%
Private Fire Protection	$5,808,618	$439,468	$6,248,086	$5,301,032	$6,304,285	$1,003,253	18.9%
Public Fire Protection	$11,863,933		$11,863,933	$9,519,368	$11,847,068	$2,327,700	24.5%
Total Sales of Water	**$933,793,321**	**$71,087,384**	**$1,004,880,707**	**$806,284,614**	**$1,004,524,984**	**$198,240,370**	**24.6%**

See, PAWC Exh. 12-A Revised. PAWC objected to the OCA's and the OSBA's proposals for the same reasons the Company rejected the Parties' revisions to its water COSS. PAWC R.B. at 49.

In this filing, PAWC invoked Section 1311(c)[101] of the Code, 66 Pa.C.S. § 1311(c), to mitigate the impact of revenue increases on wastewater customers by recovering a portion of the Company's wastewater revenue requirement from its total water and wastewater customer base. Table 19 outlines PAWC's purported effect on each wastewater operation of allocating a portion of wastewater revenue requirement to water operations:

[101] As previously noted, Section 1311(c) of the Code, 66 Pa.C.S. § 1311(c), provides, in relevant part, that the Commission, "when setting base rates, after notice and an opportunity to be heard, may allocate a portion of the wastewater revenue requirement to the combined water and wastewater customer base if in the public interest."

Table 19: PAWC's Purported Revenue Requirement Allocated from Wastewater to Water Customer Base

Wastewater Operations	**FPFTY June 30, 2025**
Wastewater Sanitary Sewer Systems General Operations	$31,962,411
Butler Wastewater ("WW") Operations	$21,552,699
~~Brentwood WW Operations~~	~~$1,565,232~~
Wastewater Combined Sewer Systems Operations	$16,007,052
Total	**$69,522,162**

See, PAWC St. 1 at 20.[102] Several Parties took issue with PAWC's proposal to use Section 1311(c) to mitigate the impact of rate increases on wastewater customers by recovering a portion of the Company's wastewater revenue requirement from its total water and wastewater customer base. *See*, I&E St. 3 at 12; OCA St. 4 at 22-28; OSBA St. 1 at 33-34; Cleveland-Cliffs St. 1 at 7-8; PAWLUG St. 1 at 23-27. PAWC argued that, while Section 1311(c) allocation plays an important role in mitigating the increases to PAWC's 76,000 wastewater customers, it has a modest effect on water customers' bills – representing an increase of approximately $6 per month to an average residential customer. PAWC M.B. at 60-61 (citing PAWC St. 1 at 20-21; PAWC St. 10 at 51-52).

In addition, PAWC submitted that its proposed rates would properly move the rates of return for all classes closer to the overall system average rate of return,[103] as

[102] As indicated previously, PAWC agreed to exclude Brentwood. *See*, PAWC M.B. at 60. However, this does include revenue associated with Farmington (wastewater), STMA and BASA operations. I&E, the OCA, and the OSBA oppose the shifting of any revenue requirement related to the pending BASA acquisition. I&E M.B. at 71; OCA M.B. at 74; OSBA M.B. at 8-9. Removing BASA reduces PAWC's proposed shift by an additional $21.5 million.

[103] *See*, PAWC St. 1 at 19-20.

demonstrated by the following indexed relative rates of return by customer class at present and proposed rates in Table Nos. 20 and 21, below:

Table 20: PAWC's Relative Rates of Return for its Water Operations

Class	Under Present Rates	Under Proposed Rates
Residential	0.98	0.99
Commercial	1.03	1.03
Industrial	0.98	0.98
Public Authority	1.17	0.93
Other Water Utilities - Group A	8.51	6.57
Other Water Utilities - Group B	(0.17)	0.08
Private Fire Protection	1.16	1.02
Public Fire Protection	0.98	1.00
Total	1.00	1.00

See, PAWC Exh. 12-A Revised.

Table 21: PAWC's Relative Rates of Return for its Wastewater Operations

	Wastewater SSS Operations		CSS Wastewater Operations	
Class	Under Present Rates	Under Proposed Rates	Under Present Rates	Under Proposed Rates
Residential	1.35	1.27	1.10	1.08
Non-Residential	1.00	1.16	0.73	0.79
Industrial	0.79	1.02	0.23	0.45
Bulk	1.36	0.87	1.90	1.65
Total	1.00	1.00	1.00	1.00

See, PAWC Exhs. 12-B Revised and 12-C Revised. Moreover, PAWC averred that denial of the Company's proposal could result in significant rate increases in several wastewater zones, eroding wastewater affordability and posing potential for rate shock to the Company's wastewater customers. PAWC M.B. at 50-51.

The Company proposed allocating the Act 11 wastewater revenue requirement directly to water customers based on wastewater class contributions to the revenue requirement deficiency and, where such contributions are not class specific, allocating to water customers based on relative levels of water cost-of-service. *See*, PAWC Exhs. 10-B through 10-E. The Company contended that its proposal is reasonable since, as its witness, Mr. Rea, explained, there is not a complete match between wastewater and water customer classes. PAWC St. 10-R at 34, 36.

According to I&E, the Commission should not permit the Company to allocate any of its wastewater revenue requirement to water customers. I&E explained that, given that the Company is proposing that its water customers subsidize wastewater customers by $71,087,394, simply removing the BASA and Brentwood systems from this proceeding reduces the Act 11 subsidy to $47,969,463. I&E M.B. at 70-71 (citing PAWC Exh. 3-A); I&E St. 3 at 12. Based upon I&E's proposed wastewater rates, the total subsidy needed to operate the wastewater SSS systems is $357,517. *Id*. This $357,517 is the amount necessary based on PAWC's full requested increase being approved. Therefore, I&E contended that if its proposed increase is adopted, there is no need for a subsidy at all. I&E M.B. at 71.

Other Parties acknowledged that the Commission should permit the Company to allocate some portion of its wastewater revenue requirement to water customers, but not the amount sought by the Company.

The OCA argued that the Company's proposed allocation should be reduced given the Commission's determination in *Aqua 2022* to limit Aqua's proposed allocation. The OCA asserted that shifting 94% of the claimed wastewater revenue deficiency is in no way reasonable. This would recover 27% of the total wastewater revenue requirement through the rates for water service. Allocating such a significant percentage of the total wastewater revenue requirement to water, the OCA reasoned, moves all customers further from paying rates that reflect their indicated cost-of-service and would result in wastewater rates that have no reasonable relationship to the cost of serving those customers. The OCA asserted that its proposal would move the wastewater SSS and CSS rates closer to their indicated cost-of-service while not disproportionately increasing rates for water customers. OCA M.B. at 72-74.

As noted in Section VI.E of this Opinion and Order, *supra*, the OCA proposed a revenue requirement increase of $45,437,081 for PAWC on a total Company basis. The OCA submitted that it would be reasonable to shift up to 75% of the wastewater SSS revenue requirement increase and up to 50% of the CSS wastewater revenue requirement increase to water customers. OCA St. 4 at 28. Regarding the wastewater revenue requirement, the OCA recommended a Pre-Act 11 Allocation wastewater SSS revenue requirement increase of $20.3 million, and a CSS Wastewater revenue requirement increase of $7.3 million for a combined total increase of $27.6 million at PAWC's claimed revenue requirement. Therefore, the OCA submitted that after the Act 11 wastewater allocation, this would result in an approximate increase in revenue requirement as shown below:

OCA Recommended Revenue Requirement		
Water Operations	Wastewater SSS Operations	Wastewater CSS Operations
4.5%	5.3%	4.7%
$36,690,821	$5,078,655	$3,667,604

See, OCA R.B. at 49. Regarding how to assign wastewater revenue requirement to the water customer base, the OCA contended that the dollars are properly allocated based on the Water COSS adopted by the Commission. OCA M.B. at 74-75.

The OSBA and Cleveland-Cliffs only commented on the method of determining the allocation, not the amount of the allocation. *See*, OSBA M.B. at 19-21;

Cleveland-Cliffs M.B. at 3-4.[104] Cleveland-Cliffs agreed with the OCA that the Act 11 subsidy should be allocated among water classes based on the results of the water COSS. Cleveland-Cliffs M.B. at 3-6. According to Cleveland-Cliffs, the Commission should "require the Company to maintain its current practice of allocating any subsidy approved by the Commission based on the underlying water cost of service percentages from PAWC's COSS."[105] Cleveland-Cliffs M.B. at 5.

The OSBA supported the Company's methodology. Its principal arguments are that allocating the subsidy as the OCA has done treats wastewater costs like water costs and thus violates the plain language of 66 Pa.C.S. § 1311(c) and the cost-causation requirements of *Lloyd*. OSBA M.B. at 20-21. In its Main Brief, the OSBA pointed out the legal problem with the OCA's and Cleveland-Cliffs' methodology- it transforms wastewater costs into water costs, and then those "transformed" wastewater costs are allocated based upon PAWC's water COSS. Such a "transformation" violates the plain language of the statute. Specifically, Section 1311(c) explicitly uses the word "allocate" – not "transform" or "change." The OSBA averred that while it is true that the Commission has latitude in interpreting its statutes, the Commission has no authority to change the words of those statutes. OSBA M.B. at 20-21.

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[104] CAUSE-PA stated that it did not take a position with respect to Act 11 in this proceeding and contended that the Company's proposal be rejected based on arguments raised by others. CAUSE-PA M.B. at 23-24.

[105] In current rates, the wastewater subsidy is recovered from water customers according to the customer class share of water costs. Since the total wastewater subsidy cannot be tracked to specific water service classes, the total wastewater subsidy reallocation is currently based on each water service class's proportionate share of total water service cost responsibility under current rates. Therefore, Cleveland-Cliffs contended that PAWC's new allocation methodology in which wastewater subsidies from wastewater service classes are directly assigned to the corresponding water service classes is not reasonable. Cleveland-Cliffs M.B. at 4.

The OSBA further argued that such a transformation of wastewater costs into water costs so that a water COSS can be applied violates the basic tenets of the *Lloyd* decision. The OSBA contended that if cost-of-service is the polestar, then diluting a water COSS with wastewater costs is forbidden. OSBA M.B. at 21.

PAWLUG recommended that the Commission slightly modify PAWC's allocation of the Act 11 subsidy to reflect cost causation for directly assignable costs:

PAWLUG Brief Table 1[106] Revised Re-allocation of Wastewater Subsidy ($Millions)				
Customer Class	**PAWC Proposed Re-allocation**		**PAWLUG Proposed Re-allocation**	
	$	**%**	**$**	**%**
Residential	$45.9	64.5%	$46.0	64.8%
Commercial	$17.6	24.7%	$19.6	27.6%
Large Industrial	$4.5	6.4%	$4.3	6.0%
Municipal	$2.7	3.8%	$1.1	1.5%
Fire	$0.4	0.6%	$0.07	0.1%
Total	$71.1	100.0%	$71.1	100.0%

PAWLUG averred that its revised allocation acknowledges some incongruity between the water and wastewater customer classes, but appropriately aligns a greater portion of the Act 11 allocation on the basis of wastewater cost-of-service. PAWLUG M.B. at 23-25. PAWLUG also recommended that the Commission "moderate" the impact of the proposed Act 11 allocation. PAWLUG M.B. at 23.

[106] PAWLUG St. 1S, p. 7 (originally presented as PAWLUG Surrebuttal Testimony Table 1).

2. Recommended Decision

The ALJs recommended that, in lieu of the Company's proposal, which allocates $71 million of wastewater costs to water customers under Act 11, the OCA's approach to the Act 11 subsidy should be adopted, reasoning as follows:

> The OCA's approach constitutes a reasonable balance that will afford some rate relief to PAWC's wastewater customers while still moving Wastewater SSS and CSS rates closer to their cost of service without excessively burdening PAWC's water customers. We further agree with OCA's recommendation that 75% of the Wastewater SSS revenue requirement increase and 50% of the CSS Wastewater revenue requirement increase be assigned to water customers. While this will result in more substantial rate increases for WW CSS customers like those in Scranton, we agree this is more reasonable than the Company's 0% increase.

R.D. at 227.

3. I&E Exception No. 3 and Replies

In its Exception No. 3, I&E argues that the ALJs erred in recommending that the Commission adopt the OCA's proposed Act 11 shift because "[t]he RD does not persuasively explain why the OCA approach would be more reasonable than the other Act 11 subsidy recommendations proposed in this proceeding." I&E Exc. at 8.

In their Replies, PAWC and the OCA each request that I&E's Exception No. 3 be denied, contending that the Commission should adopt the ALJs' recommendation to use the OCA's proposed methodology to allocate revenue requirement 66 Pa.C.S. § 1311(c). PAWC R. Exc. at 18; OCA R. Exc. at 16-17.[107] The OCA explained that it was only after an extensive summary and examination of all of the Parties' positions, that the ALJs endorsed the OCA's proposal, which will help mitigate the increase to PAWC's water customers. OCA R. Exc. at 16-17. PAWC notes that, although it proposed a higher Section 1311(c) allocation, the Company does not object to the ALJs' recommendation. PAWC submits that I&E's proposal would result in unaffordable wastewater rates in clear contravention of the purpose of Section 1311(c). PAWC R. Exc. at 18.

4. Disposition

The OCA has proposed: (1) a significantly less overall revenue requirement increase to both water and wastewater customers; and (2) to shift less of the wastewater revenue requirement to water customers. Specifically, the OCA recommended a lower overall revenue requirement increase to the CSS Wastewater operations ($7.3 million or 9.3%), compared to PAWC's proposed revenue increase ($15.8 million or 20.1%). *See*, OCA Exh. LA-1. Second, the OCA recommended a shift of half of its reduced CSS revenue requirement to water customers, which would result in a 4.7% revenue increase remaining for the customers in the CSS Wastewater operations. Therefore, under the OCA's proposal, customers in the CSS Wastewater operations would be paying only 50% of the increase needed to cover their full cost-of-service. We agree with the ALJs that this is more reasonable than the Company's proposed 0% increase.

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[107] The OCA notes that its proposed methodology also addresses how the Act 11 allocation is assigned to water classes, specifically that it should be based on the water COSS. OCA R. Exc. at 17 (citing R.D. at 216-19; OCA M.B. at 74-75; OCA R.B. at 50-51). None of the Parties filed an exception on that issue.

The OCA has additionally proposed that 75% of the OCA's recommended revenue deficiency for wastewater SSS operations be allocated to water operations. The OCA recommended a lower overall revenue requirement increase to the wastewater SSS operations ($20.3 million or 21.3%), compared to PAWC's proposed revenue increase ($31.9 million or 33.4%). *See*, OCA Exh. LA-1. The OCA's proposal to shift 75% of its reduced wastewater SSS revenue requirement to water customers would result in a 5.3% revenue increase remaining for the customers in the wastewater SSS operations, resulting in customers in the wastewater SSS operations paying only 25% of the increase needed to cover their full cost-of-service. *Id.*

Therefore, under the OCA's proposal, water customers, most of whom are not wastewater customers, would see an additional revenue requirement increase of $18.9 million, or 2.2%, related solely to the shift of costs that the wastewater SSS ($15.2 million) and CSS wastewater ($3.7 million) customers are not covering for their wastewater service. *See*, OCA Exh. LA-1.

Although the OCA's proposal concerning the Act 11 assignment of the wastewater revenue requirement to water customers is based on its proposed water and wastewater revenue requirement increases, we acknowledge that wastewater cost-of-service is a significant driver of PAWC's rate increase request in this proceeding, and therefore, it would be unreasonable to assign no increase to those customers, as proposed by the Company. Therefore, we agree with the ALJs that the OCA's approach constitutes a reasonable balance that will afford some rate relief to PAWC's wastewater customers while still moving wastewater SSS and CSS rates closer to their cost-of-service without excessively burdening PAWC's water customers. Accordingly, we shall deny I&E's Exception No. 3.[108]

F. Tariff Structure – Residential Customer Charge

PAWC currently provides water utility service through its water operations in five different rate zones, as follows:

- Rate Zone 1 – General Statewide Rate;
- Rate Zone 2 – Valley;
- Rate Zone 3 – Scranton Lackawanna Industrial Building Company (SLIBCO);
- Rate Zone 4 – Turbotville; and
- Rate Zone 5 – Steelton.

The largest of these rate zones is Rate Zone 1, with over 99% of the Company's total water revenue. OCA St. 4 at 4.

[108] Although we are adopting the OCA's revenue allocation methodology, as noted in Section VI.E of this Opinion and Order, we have authorized the following individual allowed annual revenue requirement increases based upon the record in this proceeding: $92,572,399, or 11.2774%, for the Company's water operations, $6,169,555, or 6.52%, for its wastewater SSS operations, and $5,322,644, or 6.77%, for its CSS wastewater operations. As set forth in Table Act 11-Water and Wastewater Revenue Requirement Summary, which is part of the Commission Table Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, we have authorized a Pre-Act 11 Allocation revenue requirement increase of $68,741,091 for the Company's water operations, $24,678,219 for its wastewater SSS operations, and $10,645,287 for its CSS wastewater operations. We have then employed the OCA's revenue allocation methodology to arrive at the final revenue requirement increase amounts above.

PAWC currently provides SSS wastewater service through its wastewater SSS operations in six different rate zones, as follows:

- Rate Zone 1 – General Statewide Rate;
- Rate Zone 2 – New Cumberland;
- Rate Zone 5 – Valley;
- Rate Zone 7 – York;
- Rate Zone 8 – Foster Township; and
- Rate Zone 9 – Royersford.

The largest of these rate zones is Rate Zone 1, with approximately 60% of the Company's total current SSS wastewater revenue. OCA St. 4 at 4-5.

Currently, PAWC also provides CSS wastewater service through its CSS wastewater operations in three different rate zones, as follows:

- Rate Zone 3 – Scranton;
- Rate Zone 4 – Kane; and
- Rate Zone 6 – McKeesport.

The largest of these rate zones is Rate Zone 3, with approximately 70% of the Company's total current CSS wastewater revenue. OCA St. 4 at 5-6.

1. Water Operations

a. Positions of the Parties

Regarding its water operations, PAWC has proposed to increase the residential 5/8, ¾, 1, and 1½, inch monthly customer charges from $17.50 to $20.00 in the FPFTY. In support, the Company provided two customer cost analyses for the

FPFTY in PAWC Exhibit 12-A Revised, Appendix A, Attachment RS1j.[109] The results of the first cost analysis, shown on page 1, include all costs being allocated to the customer cost function and results in a cost of $25.57 per month in the FPFTY. Additionally, PAWC provided a second customer cost analysis that relied on the allocation of costs more directly applicable to customers. The result of the more direct customer cost analysis is $20.26 per month per 5/8" residential customer in the FPFTY. *See*, PAWC Exh. 12-A Revised, Appendix A, Attachment RS1j at 2. PAWC submitted that its proposed $20.00 per month residential customer charge is fully supported by its witness, Ms. Heppenstall's direct cost analysis. PAWC M.B. at 51-52.

I&E agreed with PAWC's proposed increase to $20.00 for the monthly customer charges for 5/8, ¾, 1, and 1½, inch residential water customers, based on the Company's direct customer cost analysis.[110] I&E M.B. at 74.

Regarding residential customers with meter sizes over 2", commercial, and municipal customers, I&E accepted the Company's proposed customer charges for those customers noting that all of the proposed increases were in the 7% to 8% range, which it deemed to be a reasonable increase for a customer charge. I&E M.B. at 75. In addition, I&E did not make any adjustments to the Company's proposed customer charge for the Industrial and Other Water Utilities Monthly, Groups A and B, because while those classes have a larger percentage increase in their customer charge, the percent increase for an average industrial customer is reasonable. *Id.*

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[109] A customer cost analysis is a part of a COSS that is used to determine the appropriate fixed customer charges for the various classes and meter sizes. It is necessary to perform a customer cost analysis because a fixed customer charge represents the revenue that the Company is guaranteed to receive each month, regardless of the level of usage. As acknowledged in the seventh edition of the AWWA Manual, there is a tradeoff between revenue stability from a high customer charge, and affordability and conservation from a low customer charge and higher usage rates. I&E M.B. at 72.

[110] In the event that less than the full requested increase is granted, I&E proposed that these customer charges be scaled back. I&E M.B. at 74.

The OCA averred that PAWC's monthly residential water customer charges should remain at their current rates, contending that PAWC's analysis includes costs that are not direct customer costs and do not change with the addition or subtraction of a customer, including office building and furniture expenses. OCA M.B. at 78. The OCA adjusted the Company's calculated direct customer charge, at PAWC's filed-for revenue requirement increase, removing the improperly included office building and furniture costs and to reflect the OCA's recommended rate of return. These adjustments, shown on OCA Schedule JDM-4SR, reduce the calculated charge to $18.73. Based on the OCA's overall position on revenue requirement, the OCA recommended the existing $17.50 monthly charge for residential customers should be maintained. OCA M.B. at 77-78.

b. Recommended Decision

In their Recommended Decision, the ALJs agreed with I&E and found that PAWC's proposal to increase the monthly water residential customer charge from $17.50 to $20.00 in the FPFTY is justified. R.D. at 234. The ALJs recommended that the Commission reject the OCA's argument that PAWC's analysis included costs that are not direct customer costs, noting the Company's contention that the OCA sought to exclude similar costs from consideration of the residential customer charge in Aqua's most recent base rate case which the Commission rejected. R.D. at 235 (citing *Aqua 2022* at 268-69). The ALJs noted that in *Aqua 2022*, the Commission indicated that "[w]e find that the OCA proposed limitation of costs excludes customer costs that should be included in a customer charge and is unreasonably narrow." R.D. at 235 (citing *Aqua 2022* at 269). Accordingly, the ALJs recommended that the Commission adopt PAWC's proposal to increase the monthly residential customer charge from $17.50 to $20.00. R.D. at 235.

c. OCA Exception No. 15 and Replies

In its Exception No. 15, the OCA contends that the ALJs erred by recommending that the Commission adopt the Company's direct customer cost analysis for the water customer charge. In support, the OCA reiterates arguments advanced in its Main and Reply Briefs. OCA Exc. at 26-27. The OCA posits that the customer cost analysis is flawed because it includes costs that are not direct customer costs and do not change with the addition or subtraction of a customer, using office building and furniture expenses as an example. Additionally, in support of its proposal that the existing $17.50 monthly residential customer charge should be maintained, the OCA argues that a reduction in the Company's revenue requirement increase would indicate a lesser water customer charge. OCA Exc. at 27-28.

In its Replies, PAWC posits that the OCA's Exception on this matter should be rejected since the arguments presented by the OCA have already been considered by the ALJs, who recommended that the Commission reject such arguments. PAWC R. Exc. at 19.

d. Disposition

A fixed customer charge represents the revenue that the Company is guaranteed to receive each month, regardless of the level of usage. As indicated previously, the latter of the two customer cost analyses provided by the Company relied on the allocation of costs more directly applicable to customers and is used to support PAWC's proposal to increase the residential 5/8, ¾, 1, and 1½, inch monthly customer charges from $17.50 to $20.00. The result of this more direct customer cost analysis is $20.26 per month per 5/8" residential customer in the FPFTY. *See*, PAWC Exh. 12-A Revised.

With regard to the alternative proposal of the OCA, which relies on the OCA's assertion that PAWC's customer cost analysis is flawed because it includes costs that are not direct customer costs and do not change with the addition or subtraction of a customer, we find it to be without merit. Rather, we concur with the ALJs that we have previously rejected such limitations on cost recovery through the fixed customer charge, as proposed by the OCA. *See*, *UGI Electric 2018* at 168-75; *see also*, *Aqua 2022* at 268-69. Therefore, based upon our consideration of the evidence and record herein, we shall adopt the ALJs' recommendation on this issue. Accordingly, we shall deny the OCA's Exception No. 15.

2. Wastewater Operations

a. Positions of the Parties

Regarding PAWC's wastewater SSS operations, most rate zones currently have a monthly wastewater residential customer charge of $14.30. PAWC is proposing to increase that charge to $20.00 per month. In support, the Company provided one COSS for the wastewater SSS operations (Rate Zones 1, 2, 5, 7, 8, and 9). PAWC Exh. 12-B Revised. This COSS included a customer cost analysis that claimed the wastewater SSS operations wastewater customer cost is comprised of $13.43 per month of direct customer costs, and $29.20 per month of inflow and infiltration (I&I) costs for a total cost of $42.63 for a residential customer. *See,* PAWC Exh. 12-B Revised.

I&E supported a monthly wastewater residential customer charge of $15.00, noting that a $15.00 per month customer charge will recover more than the direct customer cost of $13.87[111] per month plus a small portion of the I&I costs identified by

[111] The Company's claimed direct customer costs of $13.87 per month was revised in its rebuttal testimony to $13.43 per month. *See,* PAWC Exh. 12-B Revised.

the Company. In support of limiting the amount of I&I costs to be recovered through the customer charge I&E's witness, Mr. Kubas, provided the following explanation:

> I recognize that I&I costs are a large portion of the cost of operating wastewater systems. However, I&I costs relate to flow, which does not vary with the number of customers, a typical criterion for determining if a cost should be recovered in the customer charge. Therefore, I recommend only a small part of I&I costs be recovered in the customer charge to generate revenue, but I believe it is improper to recover more than a small amount of the cost of I&I in the customer charge.

I&E St. 3 at 19.

Additionally, for wastewater SSS operations commercial customers, I&E recommended a customer charge of $36.70, or an increase of $1.70 from the current $35.00 customer charge. This is a 4.9% increase, which matches the increase I&E recommended for residential customers. I&E M.B. at 76.

The OCA argued that the current customer charges in Rate Zones 1, 2, 5, and 6 should be maintained at $14.30, the current residential customer service charges in Rate Zones 3, 4, 7, and 9 should be reduced to $14.30 for consistency,[112] and any additional revenue to be recovered from residential customers should be recovered through increases in volumetric usage charges. OCA M.B. at 78-79. These

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[112] The Company proposed the Rate Zone 3 residential customer charge *increase* from $19.50 per month to $19.71 per month, or by 1.1%. The Company proposed the Rate Zone 4 residential customer charge *decrease* from $40.00 per month to $20.00 per month, or by 50%. The Company proposed the Rate Zone 7 residential customer charge *increase* from $18.00 per month to $20.00 per month, or by 11.1%. The Company proposed the Rate Zone 9 residential customer charge decrease from $48.00 per month to $20.00 per month, or by 58.3%. *See*, PAWC Exhs. 10-C at 3-4, 10-B at 6, 8. In Rate Zone 8 all customers are currently charged a flat rate charge, which PAWC has proposed to *decrease* from $106.00 to $100.00. *See*, PAWC Exh. 10-B at 7.

recommendations are supported by the testimony of the OCA's witness, Mr. Colton, with regard to the impact of higher fixed charges on customers' ability to control their bills. *Id*.

b. Recommended Decision

In their Recommended Decision, the ALJs agreed with I&E that a $15.00 per month wastewater residential customer charge will recover more than the direct customer costs of $13.87 per month but will limit the amount of I&I costs to be recovered through the customer charge. The ALJs also noted their agreement with I&E that its $0.70 increase, which constitutes a 4.9% increase, will provide the Company with sufficient revenue while limiting the increase to low-usage residential customers. R.D. at 235-36.

Although no one else addressed it, the ALJs also noted their agreement with I&E's proposal to increase the monthly wastewater customer charge from $35.00 to $36.70, or by $1.70, for wastewater SSS operations commercial customers. Similar to the residential customer charge, this constitutes an increase of 4.9%, which is a reasonable increase to the monthly wastewater customer charge for wastewater SSS commercial customers. R.D. at 236.

c. OCA Exception No. 16 and Replies

In its Exception No. 16, the OCA states, "[t]he ALJs erred by adopting I&E's $15 proposal because that proposal is not supported by substantial evidence and is the result of I&E witness [Mr.] Kubas arbitrarily assigning a small portion of certain indirect costs – Inflow and Infiltration (I&I) costs – to the customer charge…" OCA Exc. at 28.

The OCA contends that PAWC's wastewater direct customer cost calculation improperly included I&I costs, since these costs do not vary directly with the addition or subtraction of a customer. The OCA argues that I&E's $15 customer charge proposal similarly committed the same error by including a small portion of I&I costs in its calculation. The OCA asserts that, exclusive of I&I costs, the Company's calculation of customer costs would indicate a direct cost of $13.87 at the Company's proposed revenue requirement. Therefore, the OCA maintains that, regarding residential wastewater customers with 5/8, ¾, 1, and 1½, inch meters, in those rate zones with a current monthly residential customer charge of $14.30, the $14.30 customer charge should be maintained, and in those rate zones with a current monthly residential customer charge which exceeds $14.30, the charge should be reduced to $14.30 for consistency. OCA Exc. at 28-29.

In its Replies, PAWC posits that the OCA's Exception on this matter should be rejected since the arguments presented by the OCA have already been considered by the ALJs, who recommended that the Commission reject such arguments. PAWC R. Exc. at 19.

In its Replies, I&E maintains that, since it is appropriate to recover a small portion of I&I costs through the customer charge, I&E's analysis should be adopted. I&E explains that the increase will provide sufficient revenue, while limiting the increase to low-usage residential customers. I&E R. Exc. at 14.

d. Disposition

Before us are three divergent positions regarding the appropriate monthly residential customer charge for wastewater customers. Each Party's respective proposals have been summarized in Table 22, as follows:

Table 22: Comparison of Monthly Residential Customer Charge Proposals

Wastewater SSS Operations	**Current Customer Charge (1)**	**PAWC Proposed Customer Charge (1)**	**I&E Proposed Customer Charge (3), (4)**	**OCA Proposed Customer Charge (5)**
Rate Zone 1	$14.30	$20.00	$15.00	$14.30
Rate Zone 2	$14.30	$20.00	$15.00	$14.30
Rate Zone 5	$14.30	$20.00	$15.00	$14.30
Rate Zone 7	$18.00	$20.00	$15.00	$14.30
Rate Zone 8 (Flat Rate)	$106.00	$100.00	$132.00	N/A
Rate Zone 9	$48.00	$20.00	$15.00	$14.30
CSS Wastewater Operations				
Rate Zone 3 **(2)**	$19.50	$19.71	$20.00	$14.30
Rate Zone 4	$40.00	$20.00	$20.00	$14.30
Rate Zone 6	$14.30	$20.00	$20.00	$14.30

(1) *See*, PAWC Exhs. 10-B at 6-7, 10-C at 3-4.

(2) PAWC indicated that it limited the increase in Rate Zone 3 – Scranton in accordance with its agreement with the seller that it is limited to proposing an increase of 1.9% per year. PAWC St. 4 at 40.

(3) *See*, I&E Exh. 3, Schs. 3 and 19.

(4) I&E indicated that its monthly residential flat rate proposal of $132.00 for Rate Zone 8 is based upon the average bill of a Rate Zone 1 customer that uses 3,122 gallons per month. I&E St. 3 at 22.

(5) *See*, OCA St. 4 at 47.

We agree with the ALJs that I&E's proposed 4.9% increase to the current $14.30 per month customer charge will provide the Company with sufficient revenue while limiting the increase to low-usage residential customers, as well as limiting the amount of I&I costs recovered through the customer charge. We recognize that I&I costs are a large portion of the cost of operating wastewater systems. PAWC estimated its costs related to I&I total approximately $25.7 million. *See*, PAWC Exh. 12-B Revised. PAWC included only two-thirds of this amount ($17.1 million) in its customer cost analysis, and I&E's $15 per month customer charge proposal further limits this, recovering only 3.6%[113] of all costs related to I&I in the customer charge.

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113 [586,012 ÷ ($15.00 - $13.43)] / $25,667,991.

Furthermore, under I&E's proposal, the decrease to the present Rate Zone 7 customer charge from $18.00 per month to $15.00 per month will be slightly less than under the OCA's proposal, thus generating more revenue in Rate Zone 7 than reducing the Rate Zone 7 customer charge to $14.30 per month.

In this case, we agree with the ALJs' reasoning and add that revenue stability for the utility must be balanced against the affordability and conservation concerns. I&E's proposal appears to accomplish this objective. Accordingly, we shall deny the OCA's Exception No. 16.

G. Tariff Structure – Water Rate Design

1. Positions of the Parties

PAWC noted that initially, the OSBA's witness, Mr. Higgins, recommended a $5.3 million reduction to the Commercial class offset by a $5.3 million increase to the Municipal class. PAWC M.B. at 62 (citing OSBA St. 1 at 35). Subsequently, Mr. Higgins updated his proposed revenue allocation based on the results of his rebuttal COSS. PAWC M.B. at 62 (citing OSBA St. 1-SR at 19). PAWC further noted that Cleveland-Cliffs' witness, Mr. Richard Baudino, recommended an alternative revenue allocation that results in a higher increase for the Municipal class, and a lower increase for the Residential, Commercial, Industrial, and Private Fire classes. PAWC M.B. at 62 (citing Cleveland-Cliffs St. 1 at 12). PAWC's witness, Mr. Rea, did not oppose the proposals of Mr. Higgins and Mr. Baudino for higher increases for the Municipal class with offsetting decreases to other customer classes. PAWC M.B. at 62-63 (citing PAWC St. 10-R at 43). However, PAWC submitted that the OCA's proposed alternative revenue allocation for water service should be rejected because it is based on the OCA's alternative and deficient COSS. PAWC M.B. at 63 (citing OCA St. 4 at 33-34).

PAWC also submitted that the Company's proposed meter charges are reasonable, and the Commission should reject the alternative proposals of I&E, the OCA, PAWLUG, CEO, and Cleveland-Cliffs. PAWC M.B. at 63 (citing I&E St. 4 at 30-35; OCA St. 4 at 35-36; Cleveland-Cliffs St. 1 at 13-14; PAWLUG St. 1 at 28-29). Specifically, PAWC averred that the proposals of PAWLUG and Cleveland-Cliffs would result in increased meter charges with no cost-basis. More specifically, Mr. Rea stated that PAWC's meter charges for the Industrial and Other Water Utilities classes are already more than double PAWC's proposed meter charges for residential and commercial charges with meter sizes of 4" and above. Mr. Rea continued that the proposal of PAWLUG's witness, Ms. LaConte, would result in the meter charges being more than four times the proposed charges for residential and commercial charges with no apparent basis in cost. PAWC St. 10-R at 45. PAWC also disagreed with the recommendation of I&E's witness, Mr. Ethan Cline, to adopt a Rate Zone 1 (RZ-1) residential customer charge of $19.50 because his calculation is based solely on a cost allocation study restricted to direct customer-related costs. PAWC M.B. at 63 (citing PAWC St. 10-R at 44).

PAWC also submitted that the alternative volumetric rate proposals of I&E, the OCA, PAWLUG, and Cleveland-Cliffs should all be rejected. PAWC M.B. at 63 (citing I&E St. 4 at 36-41; OCA St. 4 at 36-37; PAWLUG St. 1 at 28-29; Cleveland-Cliffs St. 1 at 13-14). PAWC contended that Mr. Cline and the OCA's witness, Mr. Mierzwa, have not demonstrated that the Company's proposed rates for Rate Zone 2 (RZ-2) – Valley and Rate Zone 4 (RZ-4) - Turbotville are unreasonable, and adoption of their recommendations would delay their full integration into RZ-1. PAWC also submitted that the recommendations of PAWLUG and Cleveland-Cliffs conflict with the intent to design industrial rates to collect total revenue allocated to that class less revenues from current industrial meter charges. PAWC M.B. at 63-64 (citing PAWC St. 10-R at 47).

I&E submitted that given its recommendation that Audubon and Farmington be removed from the instant case, I&E recommended that the rate zones for Audubon and Farmington also be removed. Therefore, I&E did not address proposed rate changes for the Audubon and Farmington rate zone customers. I&E M.B. at 76.

I&E's witness, Mr. Cline, opined that except for the proposal to merge RZ-2 – Valley usage rates into RZ-1, the Company's proposed rates, which are based on the Company's proposal to consolidate monthly metered rates for all customer classes in the following rate zones into RZ-1 for the FPFTY, are reasonable: (1) RZ-2 – Valley; (2) Rate Zone 3 (RZ-3) – SLIBCO; (3) RZ-4 – Turbotville; and (4) Rate Zone 5 (RZ-5) – Steelton. I&E M.B. at 76-77 (citing I&E St. 4-SR at 21; PAWC St. 10 at 35). Mr. Cline explained that the proposed usage rates for the RZ-1 residential class, and the usage rates for any rate zones that are being proposed to merge with RZ-1 rates, need to be increased because of the decreased customer charge revenue based on I&E's recommended customer charges compared to PAWC's proposed customer charges under the fully requested revenue increase. I&E St. 4 at 36. Further, Mr. Cline noted that given its recommendations regarding the Act 11 subsidy and the adjustments made by I&E's witnesses, Mr. DC Patel and Ms. Okum, it is more likely that the usage rate will be subject to a scale back rather than an increase. As such, Mr. Cline did not calculate what the increase would be at the fully proposed increase. *Id.*

Mr. Cline recommended adopting PAWC's proposed customer charges for the Commercial, Municipal, Industrial, and Other Water Utilities Monthly – Groups A and B rate classes. I&E M.B. at 77 (citing I&E St. 4 at 34-35).

Regarding RZ-2, I&E averred that: (1) the proposed percentage increase for residential customers is at least double that of the average residential customers in the other rate zones; and (2) for commercial customers, the disparity between the percentage increases for the other rate zones, apart from RZ-4, is more than that of the residential customers. I&E M.B. at 77-78 (citing PAWC Exh. 10-A at 4, 11, 77, 83). As set forth in Table 23, below, Mr. Cline recommended the following usage rates for RZ-2 Residential and Commercial:

Table 23: I&E's Recommended RZ-2 Residential and Commercial Rates

Rate Zone 2 Residential and Commercial Usage Rates			
Usage Level	Present Rate Per Hundred Gal	I&E Proposed Rate Per Hundred Gal	Revenue Percent Increase
Residential			
First 3,400 Gal	$1.1000	$1.6000	45.5%
Over 3,400 Gal	$1.1000	$1.6000	45.5%
Commercial			
First 16,000 Gal	$1.1000	$1.6500	55%
Over 16,000 Gal	$1.1000	$1.2540	14%

I&E St. 4 at 37-38. Mr. Cline averred that a $1.6 per hundred-gallon usage rate for residential customers will generate a reasonable percent increase on the total residential bill. Mr. Cline continued that for commercial customers, he kept the second block usage rate at approximately 76% of the first block, which is the same ratio as the Company's proposed rates. Accordingly, Mr. Cline submitted that the resulting overall percentage increases for commercial customers is reasonable. I&E St. 4 at 38.

Mr. Cline agreed with PAWC's recommendation to set RZ-3 commercial and municipal usage rates equal to RZ-1. I&E St. 4 at 38-39.

Mr. Cline also submitted that the Company's proposal to set the RZ-4 residential and municipal rates equal to RZ-1 is reasonable. However, Mr. Cline averred that PAWC's proposal to set RZ-4 commercial usage rates equal to RZ-1 would result in a 68.56% increase to the average RZ-4 commercial customer bill. I&E St. 4 at 39-40 (citing PAWC St. 10, Exh. 10-A at 77, 83). Mr. Cline provided that because this represents an unnecessarily large increase when compared to the increase proposed for RZ-1 commercial customers, he set the RZ-4 commercial usage rates equal to those of

RZ-2, thereby allowing RZ-2 and RZ-4 to be merged after this base rate case, and likely merged with RZ-1 after the subsequent base rate case. I&E St. 4 at 40. Accordingly, Mr. Cline submitted that the percentage increases become far more reasonable based on these adjustments. As set forth in Table 24, Mr. Cline recommended the following RZ-4 Residential and Commercial usage rates:

Table 24: I&E's Recommended RZ-4 Residential and Commercial Rates

Rate Zone 4 Residential and Commercial Usage Rates			
Usage Level	Present Rate Per Hundred Gal	I&E Proposed Rate Per Hundred Gal	Revenue Percent Increase
Commercial			
First 16,000 Gal	$1.1000	$1.6500	55%
Over 16,000 Gal	$1.1000	$1.2540	14%

I&E St. 4 at 40.

Finally, Mr. Cline accepted PAWC's proposal to set RZ-5 residential, commercial, municipal, and industrial rates equal to that of RZ-1. I&E St. 4 at 41.

The OCA provided that in addition to its recommendations regarding the residential customer charges, *supra*, it disagreed with the Company's proposed residential Water usage charge for RZ-2 – Valley customers. OCA M.B. at 79 (citing OCA St. 4 at 36-37). The OCA submitted that to allow gradualism and reduce rate shock, the usage charge for RZ-2 – Valley customers should be set at 70% of the RZ-1 usage charge, which will limit the increase for a RZ-2 – Valley residential customer using 3,201 gallons per month to about 1.7x the OCA's proposed system average increase. Further, the OCA added that I&E agreed that PAWC's proposed increase for Valley customers is unnecessarily large and recommended a more moderate increase. OCA M.B. at 80 (citing I&E St. 4-SR at 28; I&E St. 4 at 37-38).

PAWLUG provided that as part of PAWC's justification for proposing the RDM and ECIC, discussed in Section XI.A, *infra*, the Company asserted an interest in reducing revenue volatility. PAWLUG averred that although it opposes approval of the RDM and ECIC, the Company can address revenue stability for industrial customers by increasing the Industrial customer charge for customers with meters that are 6" or larger. PAWLUG M.B. at 26. Specifically, PAWLUG's witness, Ms. LaConte, recommended that the Company decrease the volumetric rate and increase the customer charge for industrial customers because a higher customer charge will reduce revenue volatility and provide a stable and reliable revenue stream. PAWLUG St. 1 at 28 (citing PAWC St. 10 at 90). As such, PAWLUG submitted that adoption of the below modified rate design will ensure more stable revenue from the Industrial customer class:

Table 3
Revised Industrial Rate Design

Description	Current	PAWC	PAWLUG
Customer Charge			
6" Meter	$1,401	$1,401	$2,802
8" Meter	$2,243	$2,243	$4,486
10" Meter	$3,223	$3,223	$6,446

Table 3
Revised Industrial Rate Design

Description	Current	PAWC	PAWLUG
Volumetric Charge			
First 16,000 Gal	$1.4200	$1.9128	$2.8565
Next 584,000 Gal	$1.0804	$1.4824	$1.4083
All Over 600,000 Gal	$0.8499	$1.1477	$1.0329
Above 15,000,000*	$0.5110	$0.6852	$0.6167

*Curtailment rate
Source: Exhibit 10-A Water Operations.

PAWLUG St. 1 at 28-29. PAWLUG noted that its revised rate design would recover 17% of the Company's fixed costs through customer charges, compared to the Company's determination that approximately 95% of its costs are fixed. PAWLUG St. 1 at 29.

PAWLUG noted that while PAWC's customer charge analysis provides a cost basis for the 5/8" meter customer charge, it opposed the Company's proposed rate design because it is not cost-based. PAWLUG M.B. at 27 (citing PAWC St. 10-R at 45; PAWC St. 10, Exh. 10-A). Further, PAWLUG argued that the Company has not established the cost-basis for the existing Industrial customer charge. Moreover, PAWLUG contended that under its proposed rate design, the overall revenue requirement allocated to industrial customers would remain unchanged. As such, PAWLUG submitted that its proposal is reasonable and should be approved by the Commission. PAWLUG M.B. at 27.

Cleveland-Cliffs averred that it is "problematic" that the Company did not propose any increase to the existing industrial meter charges but is seeking to collect the entire industrial revenue increase through the volumetric charges. Cleveland-Cliffs M.B. at 6 (citing PAWC St. 10 at 86). In response to the testimony of PAWC's witness, Mr. Rea, that over 95% of the Company's costs are fixed and do not vary with water consumption, Cleveland-Cliffs' witness, Mr. Baudino, provided that volumetric rates collect these costs based on the volumes of water consumed by the water service rate classes. Mr. Baudino continued that as consumption varies by month and year, the Company's collection of fixed costs will also vary, thereby introducing more variability in its revenues and earnings than if more costs, such as meter charges, were collected from fixed charges. Accordingly, Mr. Baudino submitted that to the extent possible, fixed costs should be collected through fixed charges. Mr. Baudino added that under Mr. Rea's proposed rate design, PAWC would collect even more fixed costs through volumetric rates, which moves in the opposite direction from cost-causation. Cleveland-Cliffs St. 1 at 13-14.

Cleveland-Cliffs also addressed Ms. LaConte's proposed rate design for the Industrial class, noting that the industrial meter charges would nearly double and provide for smaller percentage increases to the volumetric charges. According to Cleveland-Cliffs, the Company's description of its variable versus fixed costs would justify an even greater increase in industrial fixed charges. However, Cleveland-Cliffs submitted that Ms. LaConte's proposal would ensure that more of PAWC's fixed costs would be collected through a meter charge. Cleveland-Cliffs M.B. at 6-7 (citing PAWLUG St. 1 at 28). As such, Cleveland-Cliffs submitted that PAWLUG's proposed rate design for the Industrial class should be approved, or alternatively, industrial customer charges should be increased by the same percentage as industrial volumetric charges. Cleveland-Cliffs M.B. at 7.

Victory Brewing agreed with Cleveland-Cliffs' recommendation of higher customer charges and lower volumetric charges for large industrial customers because it allows customers to reduce their bills through conservation when possible. Victory Brewing M.B. at 8 (citing Cleveland-Cliffs St. 1 at 13-14). Victory Brewing averred that this outcome is consistent with prior Commission rulings where, for example, the Commission has recognized that it is appropriate to set a customer charge that ensures the recovery of fixed costs that are more customer-related than usage-related while still allowing some revenue to be recovered through usage-based charges. Victory Brewing M.B. at 6 (citing *PPL 2012*).

The City of Scranton requested that the Commission deny the requested water tariff increase, noting that its residents are already struggling to make ends meet and the additional burden of an increase to water rates would exacerbate that situation. City of Scranton M.B. at 2.

2. Recommended Decision

The ALJs noted that PAWC currently offers water service in: (1) RZ-1 – the largest rate zone, with over 99% of PAWC's total water revenue; (2) RZ-2 – Valley; (3) RZ-3 – SLIBCO; (4) RZ-4 – Turbotville; and (5) RZ-5 – Steelton. The ALJs also noted that PAWC is proposing to consolidate rates for RZ-2 – Valley, RZ 3 – SLIBCO, RZ-4 – Turbotville, and RZ-5 – Steelton, with RZ-1 rates. The ALJs further noted that PAWC's only proposed changes in volumetric rate structure are changes in the steps for volumetric rates necessary to move Steelton, Valley, and SLIBCO rate zones to RZ-1 rates. R.D. at 245-46 (citing PAWC St. 10 at 31, 35).

The ALJs agreed with I&E that PAWC's proposed consolidation of the other rate zones into RZ-1 in the FPFTY is reasonable, with the exception of RZ-2 – Valley. The ALJs noted that this proposed change would cause a 63% rate increase for a residential customer using 3,201 gallons per month, making it twice the system average. As such, the ALJs agreed with I&E's alternate proposal of $1.60 per hundred-gallon usage rate for residential customers, finding that this will generate a reasonable increase on the total bill for a RZ-2 residential customer. Similarly, the ALJs agreed with I&E that its proposed adjustment to the commercial customer rate of $1.6500 for the first 16,000 gallons, and $1.2540 over 16,000 gallons, will generate a reasonable increase for the commercial class and, therefore, should be adopted. R.D. at 246.

The ALJs also agreed with I&E's concerns regarding PAWC's proposed consolidation of RZ-4 – Turbotville into RZ-1. The ALJs noted that I&E's witness, Mr. Cline, agreed with the proposal, insofar as to consolidate residential and municipal rates with RZ-1 is reasonable. However, the ALJs pointed out that Mr. Cline determined that PAWC's proposal, as it relates to commercial usage, would result in a 68.56% average bill increase for a RZ-4 –Turbotville customer, which is excessive when compared to the RZ-1 commercial customer. Accordingly, the ALJs agreed with Mr. Cline's proposal to set the RZ-4 commercial usage rates equal to the RZ-2 commercial usage rate of $1.6500 for the first 16,000 gallons, and $1.2540 over 16,000 gallons, so that RZ-2 and RZ-4 may be merged after this base rate case, with the goal of merging RZ-4 with RZ-1 after PAWC's next base rate case. The ALJs also agreed that this proposal will result in a far more reasonable increase than proposed by PAWC. R.D. at 246.

Separately, the ALJs agreed with PAWC that PAWLUG's proposed rate design, to increase the Industrial customer charge for customers with meters that are 6" or larger, is not cost based and should be rejected. Further, the ALJs were not persuaded by PAWLUG's counter argument that: (1) PAWC's customer charge analysis only provides a cost basis for the 5/8" meter customer charge; (2) PAWC has not established the cost-basis for the existing Industrial customer charge; and (3) the overall revenue requirement allocated to Industrial customers would not change. Moreover, the ALJs agreed with PAWC's witness, Mr. Rea, that volumetric rates for industrial customers should be designed to collect the total revenue allocated to that class, less revenue from current industrial meter charges. R.D. at 247.

The ALJs also recommended that because the Company does not oppose the higher increases for the Municipal class proposed by the OSBA and Cleveland-Cliffs, the Commission adopt this proposal. R.D. at 247.

3. Exceptions, Replies, and Dispositions

a. PAWLUG Exception No. 1 and Replies

In its Exception No. 1, PAWLUG argues that the ALJs' recommendation that the Commission approve higher increases for the Municipal class proposed by the OSBA and Cleveland-Cliffs: (1) lacks clarity as to which of the proposals would be implemented; (2) conflicts with cost-of-service principles; and (3) would result in unjust and unreasonable rates for municipal customers, including the public colleges and hospitals in the Company's service territory. PAWLUG Exc. at 2 (citing R.D. at 247; Supplement No. 48 Tariff Water-Pa. P.U.C. No. 5, Rule 26).

PAWLUG notes that the Commonwealth Court and the Commission have repeatedly held that a utility's cost of providing service must be the guiding principle – or polestar – in utility ratemaking. PAWLUG Exc. at 2 (citing *Lloyd*; *see also, i.e.*, *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-2008-2073938 (Order entered March 26, 2009) (*PGW 2008*)). Further, PAWLUG contends that the cost-of-service for the Municipal class was modified substantially due to a correction made by the Company. Specifically, PAWLUG notes that the original rate filing included an overstated allocation factor for the meters and services in the Municipal class, which resulted in the Municipal class cost-of-service considerably below cost-of-service at present revenues, with a Relative Rate of Return (RROR) at present revenues of 0.33. PAWLUG Exc. at 2-3 (citing PAWC St. 10-R at 2; PAWC St. 12, Exh. 12-A, Sch. B). PAWLUG continues that in Rebuttal, PAWC adjusted the Municipal class RROR at present revenues to 1.16. PAWLUG Exc. at 3 (citing Cleveland-Cliffs St. 1-R at 10).

Consequently, PAWLUG contends that the basis for the Parties' proposal, to assign a higher increase for the Municipal class, no longer exists. Further, PAWLUG notes that while both the OSBA and Cleveland-Cliffs acknowledged this correction, they continued to propose that the Municipal class absorb a higher share of revenues than proposed by the Company. PAWLUG notes that the OSBA, to moderate the rate increase for the Residential and Commercial classes, assigned costs to the Municipal class based on the results of its COSS. PAWLUG Exc. at 3 (citing OSBA St. 1-S at 19). PAWLUG further notes that Cleveland-Cliffs retracted its statement that the Municipal class should receive an increase above system average but recommends flat percentage increases for each customer class. PAWLUG Exc. at 3 (citing Cleveland-Cliffs St. 1-R at 10).

PAWLUG avers that the ALJs made no distinction between these two proposals and, while there may have been a basis to adjust the Company's proposed increase to Municipal based on the original 0.33 RROR, such a proposal is now unreasonable and contrary to *Lloyd*. Further, PAWLUG argues that following PAWC's Rebuttal COSS changes, PAWC's revenue allocation for the Municipal class makes reasonable progress towards cost-of-service and should be approved. Moreover, PAWLUG argues that due to the inconsistencies between the recommendations of Cleveland-Cliffs and the OSBA, unintended consequences are likely to result from efforts to incorporate the ALJs' directive to shift additional revenue to the Municipal class. PAWLUG Exc. at 3.

In its Replies, the OCA infers that PAWLUG is proposing that the Company's updated revenue allocation should be adopted without modification. OCA R. Exc. at 17-18 (citing PAWLUG Exc. at 3). The OCA disagrees with this proposal, arguing that contrary to PAWLUG's averment, the record demonstrates that based on the Company's corrected COSS, PAWC's revenue allocation would under-allocate costs to the Municipal class. OCA R. Exc. at 18 (emphasis omitted).

The OCA contends that at proposed rates, the system average increase is 24.6%, and the Company proposed a 16.2% increase for the Municipal class, which would leave that class short of the cost-of-service (cost-of-service is $27.1 million, compared to revenues of $26.2 million). However, the OCA notes that the OSBA proposed to match cost-of-service by increasing Municipal class revenues to $27.83 million, compared to the OSBA's calculated cost-of-service of $27.88 million. The OCA points out that because this is a 23.4% increase at PAWC's proposed revenue requirement, it is still under the system average increase of 24.6%. OCA R. Exc. at 18 (citing OSBA St. 1 at Sch. KCH-12; PAWC Exh. 12-A Revised).

The OCA notes that comparing the different proposals is complicated because different parties have different Water COSS results and proposed different amounts to be shifted under Act 11. OCA R. Exc. at 18 (citing PAWLUG Exc. at 3; PAWC St. 12, Exh. 12-A; OSBA St. 1-R at Sch. KCH-12). Thus, the OCA submits that generally, the ALJs' recommendation to assign additional revenue to the Municipal class, to more closely align cost-of-service and revenues, is reasonable and supported by the record because the resulting increase with the additional revenue would still be less than the system average. OCA R. Exc. at 18.

In its Replies, the OSBA counters that the ALJs properly recommended allocating a higher revenue increase to the Municipal class. OSBA R. Exc. at 4 (citing PAWLUG Exc. at 2-3). The OSBA notes that it took full account of the correction of PAWC's error in its initial cost allocation to the Municipal class and, consequently, recommended a revenue allocation to the Municipal class less than the system average on a percentage basis, but is not as far below the average as the Company initially proposed. OSBA R. Exc. at 4 (citing OSBA St. 1-R at 5-6; PAWLUG Sch. KCH-12 at 1). Further, the OSBA submits that the extent of PAWC's originally proposed, below-average increase to the Municipal class, as set forth in the Company's direct filing, remains unjustified despite the Company's correction. OSBA R. Exc. at 4.

b. Disposition

As noted by the ALJs, PAWC did not oppose higher increases for the Municipal class. R.D. at 247. Specifically, PAWC's witness, Mr. Rea, did not oppose the proposal of the OSBA's witness, Mr. Higgins, who initially recommended a $5.3 million reduction to the Commercial class offset by a $5.3 million increase to the Municipal class, and subsequently, updated his proposed revenue allocation based on the results of his rebuttal COSS. *See*, PAWC St. 10-R at 43; OSBA St. 1-S at 19 (citing OSBA St. 1-R at Sch. KCH-12); OSBA St. 1 at 35. Additionally, Mr. Rea did not oppose the alternative revenue allocation initially proposed by Cleveland-Cliffs' witness Mr. Baudino, who recommended that at the Company's requested percentage increase of 24.6%, the Municipal (or Public) class receives an increase of 30.8%, and Residential, Commercial, Industrial, and Private Fire classes each receive an increase near the system average of 24.4%. *See*, PAWC St. 10-R at 43; Cleveland-Cliffs St. 1 at 12 (citing Cleveland Cliffs St. 1 at Exh. RAB-8). Subsequently, Mr. Baudino recommended an equal percentage increase for the Residential, Commercial, Industrial, and Municipal (or Public) classes. Cleveland-Cliffs St. 1-R at 10. Notwithstanding, the ALJs recommended that the Commission adopt the proposal of higher increases for the Municipal class, noting that PAWC did not oppose such increases. R.D. at 247.

We agree with the OCA and the OSBA that the ALJs properly recommended allocating a higher revenue increase to the Municipal class. As noted by the OCA, the record evidence supports that PAWC's revenue allocation would under-allocate to the Municipal class based on the Company's corrected COSS. *See*, OCA R. Exc. at 18. The OCA pointed out that with a system average increase of 24.6%, and PAWC proposing a 16.2% increase for the Municipal class, the cost-of-service is $27.1 million, compared to revenues of $26.2 million. However, the OSBA proposed an increase to Municipal (or Public) class revenues of $27.83 million, compared to the OSBA's calculated cost-of-service of $27.88 million, for a 23.4% increase at PAWC's proposed revenue requirement, which is still under the system average increase of 24.6%. *See*, OCA R. Exc. at 18; OSBA St. 1-R at Sch. KCH-12; PAWC St. 12, Exh. 12-A (Revised). Therefore, as noted by the OCA, assigning additional revenues to the Municipal class is reasonable because the resulting increase would be less than the system average and would move the Municipal class closer to its cost-of-service. We agree. Furthermore, we find PAWLUG's argument, that the basis for assigning a higher increase for the Municipal class no longer exists, to be meritless. Accordingly, we shall deny PAWLUG's Exception No. 1.

c. PAWLUG Exception No. 3, Cleveland-Cliffs Exception No. 1 and Replies

In its Exception No. 3, PAWLUG argues that the ALJs erred in declining to increase the industrial customer charge. PAWLUG Exc. at 4 (citing R.D. at 247). PAWLUG contends that the Company's industrial meter charges should be designed to recover the cost-of-service and, contrary to the ALJs' recommendation, the Company's proposal to not increase the industrial customer charge is not cost-based and, therefore, should be rejected. PAWLUG Exc. at 4.

PAWLUG contends that the Industrial customer charge for meters 6" and above should not be increased because such charges are higher than the customer charges applicable to the Company's residential and commercial customers.[114] Further, PAWLUG argues that the cost for the Company's Industrial customer charge is limited to a customer cost analysis of the cost-of-service for 5/8" meters, with larger RZ-1 residential and commercial meter sizes receiving proportional increases based on that analysis. PAWLUG Exc. at 4-5 (citing PAWC St. 12-R at 13; PAWC St. 10 at 35). Accordingly, PAWLUG contends that the Company has not established a cost basis for the larger Industrial meter customer charges. PAWLUG Exc. at 5.

PAWLUG also disagrees with PAWC's position that Industrial customer charges for larger meters should not be increased because those charges are higher than current Residential and Commercial customer charges. According to PAWLUG, PAWC's position lacks a cost basis because the Company has not established a cost basis for the Residential and Commercial customer charge for meters 6" and larger. PAWLUG Exc. at 5. Further, PAWLUG avers that given the absence of a customer cost analysis for the large meter industrial customers, it is more reasonable to assign an increase rather than

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[114] We note that more than once in its Exceptions, PAWLUG does not refer to the appropriate abbreviation for inches. *See,* PAWLUG Exc. at 4-5.

leave the customer charge unchanged from the Company's prior rate case. PAWLUG Exc. at 5 (citing PAWLUG St. 1 at 28). Moreover, PAWLUG maintains that increasing the fixed costs would reduce revenue volatility and ensure the recovery of fixed costs. Accordingly, PAWLUG submits that its proposed rate design should be approved or, alternatively the Commission should approve Cleveland-Cliffs' proposal and increase industrial customer charges by the same percentage increase as the industrial volumetric charges. PAWLUG Exc. at 5 (citing PAWLUG M.B. at 26; Cleveland-Cliffs M.B. at 7).

In short, PAWLUG submits that the Company's proposal to preserve the current Industrial customer charge and apply all of the Industrial class revenue increase to volumetric rates should be denied because it is not cost-based and is unsupported and unreasonable. However, PAWLUG notes that if the Commission approves the Company's recommendation to preserve the existing Industrial class customer charges, then the proportional scale back supported by PAWC should be applied solely to the volumetric Industrial rates. PAWLUG Exc. at 5.

In its Exception No. 1, Cleveland-Cliffs argues that the ALJs: (1) incorrectly asserted that the Company's proposal aligns more closely with cost-of-service than the rate design proposals of PAWLUG, Victory Brewing, and Cleveland-Cliffs; (2) did not reasonably address concerns related to the industrial rate design; and (3) incorrectly asserted that PAWC's proposal to not increase the existing industrial meter charges and instead seek to collect the entirety of the industrial revenue increase through the volumetric charges is more reflective of Company's cost-of-service testimony than the proposals of the industrial parties. Cleveland-Cliffs Exc. at 1-2 (citing R.D. at 247). Cleveland-Cliffs maintains that the Company's proposed rate design would collect even more costs through volumetric rates, which moves in the opposite direction of cost-causation. Cleveland-Cliffs Exc. at 2 (citing PAWC St. 10 at 86).

Cleveland-Cliffs argues that its proposal, and the proposals of PAWLUG and Victory Brewing, would result in a modest movement toward the Company's cost-of-service. Specifically, Cleveland-Cliffs maintains that PAWLUG's proposal to approximately double the industrial meter charges and provide for smaller percentage increases to the volumetric charges is a step toward cost-of-service and would ensure that more fixed costs would be collected through a meter charge. Cleveland-Cliffs Exc. at 2-3 (citing PAWLUG St. 1 at 28). Accordingly, Cleveland-Cliffs repeats its position that the Commission should approve PAWLUG's proposed rate design for the Industrial class or increase the customer charges for the Industrial class by the same percentage as the volumetric charges. Cleveland-Cliffs Exc. at 3.

d. Disposition

Both PAWLUG and Cleveland-Cliffs disagree with the ALJs' recommendation that the Commission reject PAWLUG's proposal to increase the meter charge for Industrial customers. PAWLUG Exc. at 4; Cleveland-Cliffs Exc. at 2-3. PAWLUG's witness, Ms. LaConte, proposed to decrease the volumetric rate and increase the Industrial customer charge to reduce revenue volatility and provide a more stable and reliable revenue stream by recovering more costs through a fixed charge, which will reduce the possibility of the Industrial class paying more than its cost to serve if sales are higher than projected. PAWLUG St. 1 at 28-29. Cleveland-Cliffs' witness, Mr. Baudino, argued that fixed costs should be collected through fixed charges, and proposed that an equal percentage increase be applied to both meter charges and volumetric charges for the Industrial class. Cleveland-Cliffs St. 1 at 14. As such, Cleveland-Cliffs recommended that the Commission either increase Industrial customer charges by the same percentage as Industrial volumetric charges or approve Ms. LaConte's rate design proposal for the Industrial class. Cleveland-Cliffs M.B. at 7.

We concur with the ALJs that PAWLUG's proposal, to increase the Industrial customer charge for customers with meters that are 6" or larger, should be rejected. Contrary to the proposals of PAWLUG's witness, Ms. LaConte, and Cleveland Cliffs' witness, Mr. Baudino, PAWC's witness, Mr. Rea, supported the Company's proposal to leave the monthly meter charges for the Industrial class unchanged. As noted by the ALJs, Mr. Rea explained that volumetric rates for industrial customers should be designed to collect the total revenue allocated to the Industrial class less revenue from current Industrial meter charges. PAWC St. 10-R at 47. We agree. Further, Mr. Rea provided that Ms. LaConte's proposal has no apparent basis in cost and would result in Industrial meter charges more than four times the proposed Residential and Commercial meter charges. Mr. Rea also testified that PAWC did not propose any changes to meter charges for the Industrial and Other Water Utilities classes because those charges are already more than double the Company's proposed meter charges for residential and commercial charges for meter sizes 4" and above. PAWC St. 10-R at 45. We find Mr. Rea's testimony persuasive. Moreover, we agree with the ALJs that PAWLUG's argument in response to the Company's position – PAWC's customer charge analysis only provides a cost basis for the 5/8" meter customer charge; PAWC has not established the cost-basis for the existing Industrial customer charge; and PAWC's overall revenue requirement allocated to Industrial customers would remain unchanged – is not persuasive. *See*, R.D. at 247; *see also*, PAWLUG M.B. at 27.

On review, we find that PAWLUG and Cleveland-Cliffs have not provided sufficient analysis to support their position that PAWLUG's proposed rate design for the Industrial class should be approved or that Industrial customer charges should be increased. Thus, as the ALJs observed, PAWLUG's proposal to increase the Industrial customer charge for customers with meters that are 6" or larger should be rejected. Furthermore, to the extent that Cleveland-Cliffs argues that the ALJs did not reasonably address concerns regarding the Industrial rate design, we find this argument is meritless.

Accordingly, we shall deny PAWLUG's Exception No. 3 and Cleveland-Cliffs' Exception No. 1.

H. Tariff Structure – Wastewater Rate Design

1. Positions of the Parties

Regarding wastewater SSS Operations, PAWC submitted that the Commission should reject I&E's and the OCA's proposed increases to wastewater SSS rates, *infra*, which include their COSS recommendations and modifications to the Company's Act 11 allocation, for the reasons set forth in the Rate Structure and Rate Design Section of PAWC's Main Brief, under the Cost-of-Service Studies Section and the Revenue Allocation and Act 11 Section. PAWC M.B. at 64 (citing I&E St. 3, Sch. 3; OCA St. 4 at 39, 46-48). PAWC added that the recommendations of I&E's witness, Mr. Kubas, do not account for the affordability for wastewater SSS customers. As such, PAWC also submitted that the Commission should reject I&E's and the OCA's proposed reduction to the residential service charge, to be consistent with charges to other residential customers. Furthermore, PAWC submitted that the Commission should reject Mr. Kubas' recommended charges for unmetered service and rates for special flat rate customers, to be consistent with the overall increase for the wastewater SSS group. PAWC M.B. at 64 (citing OCA St. 10-R at 58-59).

PAWC submitted that its proposed 9.9% increase in rates over two years (resulting in an annual increase of approximately 4.45%) for seven bulk wastewater customers that are served by the York system, referred to as York Bulk Customers (YBCs), is reasonable and justified because YBCs have viable and competitive alternatives to receiving service from the Company. PAWC noted that the YBCs consist of: (1) The York Water Company, which is the owner of the former West York Borough Collection System; (2) Springettsbury Township; (3) North York Borough; (4) York

Township; (5) Manchester Township; (6) West Manchester Township; and (7) Spring Garden Township. PAWC M.B. at 64 (citing PAWC St. 6-R at 18; PAWC St. 3 at 66-69). According to PAWC, the proposed rate increases will cover the variable costs of bulk treatment service and contribute to the total fixed costs incurred to furnish wastewater service to retail customers in PAWC's wastewater SSS Operations. PAWC M.B. at 64-65 (citing PAWC St. 12 at 9). Further, PAWC averred that the Company presented substantial evidence regarding the competitive alternatives available to YBCs, including affidavits showing that the YBCs had competitive alternatives at the time of the acquisition of the York system and continue to have alternatives to bulk wastewater service. PAWC M.B. at 65 (citing PAWC St. 6-R at 19-22; PAWC Exh. ECA-1R (CONFIDENTIAL); PAWC Exh. ECA-2R). As such, PAWC submitted that the Commission should deny I&E's proposed rate increase for the YBCs. PAWC M.B. at 65.

PAWC added that the YBCs have greater bargaining power because they negotiated as a block and, if the Company had refused to enter into a uniform contract with all of the YBCs, then the Company would have lost all of the bulk customers. PAWC submitted that given these circumstances, it is inappropriate to consider whether the rate charged to one given bulk customer maximizes the amount of revenue that the Company could have received from that particular customer. PAWC M.B. at 66.

With respect to CSS wastewater and BASA operations, PAWC averred that the Commission should accept the Company's proposed rate design for BASA. PAWC M.B. at 67. PAWC further averred that the Commission should reject I&E's and the OCA's below recommendations pertaining to CSS wastewater operations, which include higher rates for City of Scranton than proposed by the Company. PAWC submitted that the Company proposed City of Scranton CSS rates consistent with the purchase agreement for that system, and any increase in rates for City of Scranton customers directed by the Commission should be just, reasonable, and consistent with the concept of gradualism to avoid rate shock. PAWC M.B. at 67-68 (citing PAWC St. 4-R at 12-13).

I&E provided that the goal of its witness, Mr. Kubas, was to reduce the revenue shortfall of $31,962,411, created by PAWC's proposal to decrease present rate revenue by $169,253, or 0.2%, from $95,470,866 to $95,301,613. PAWC M.B. at 80 (citing I&E St. 4 at 15-17). I&E averred that it is unreasonable to subsidize wastewater customers to the extent proposed by the Company because most Company water customers are not wastewater customers. *See*, OCA M.B. at 80 (citing OCA St. 1 at 7). As such, Mr. Kubas recommended a total increase in the wastewater SSS system of $32,265,198, which results in a remaining subsidy in the wastewater SSS Operations of $321,682. Further, Mr. Kubas noted that he used the Company's COSS to develop the various wastewater rates that move the relative rate of return of each class towards 1.0. I&E M.B. at 80 (citing I&E St. 4 at 17).

Regarding Wastewater SSS Operations, I&E posited that customers in the following locations should receive a higher percentage increase than proposed by PAWC: (1) Caln, West Brandywine (WB), the VA Medical Center (VA), and St. Lawrence Borough (St. Lawrence) in RZ-1; and (2) various Bulk contracts in RZ-7. I&E M.B. at 80 (citing PAWC Vol. 9, Exh. 10-B at 31). Further, I&E averred that class rates should be based on cost; however, upon applying the Company's proposed increase, the RROR for these customers is 0.87, which demonstrates they are not paying their cost to serve. I&E M.B. at 80-81 (citing I&E St. 3 at 45). As such, Mr. Kubas recommended rates to move these customers closer to the cost to serve. Specifically, Mr. Kubas recommended a monthly charge of $456.50 and a usage rate of $1.680 per hundred gallons for Caln, West Brandywine, and the VA. Mr. Kubas further recommended that in accordance with the general tariff provision requiring all customers to pay a monthly customer charge, the Company begin to charge St. Lawrence a monthly customer charge of $456.50. I&E M.B. at 81 (citing I&E St. 3 at 46).

I&E submitted that the rates for YBCs must be increased to move these customers close to their cost to serve because PAWC has not provided sufficient evidence to demonstrate that YBCs have a competitive alternative. As such, Mr. Kubas recommended further increases of approximately 50% to the Company's proposed increases to the YBC usage rates, resulting in a subsidy of $7,999,227. I&E M.B. at 81-82 (citing I&E Exh. 3, Sch. 3 at 2; I&E St. 3 at 49, 53). Mr. Kubas added that this subsidy should continue to be decreased in future cases. I&E M.B. at 82 (citing I&E St. 3 at 53).

Regarding CSS wastewater operations, I&E submitted that the goal of Mr. Kubas was to reduce the subsidy of $16,007,052, created by PAWC's proposal to decrease present rate revenue by $226,926, or 0.3%, from $78,636,222 to $78,409,294. PAWC M.B. at 82 (citing PAWC Vol. 9, Exh. 10-C at 1, 3-38; I&E Exh. 3, Sch. 17 at 1). As such, Mr. Kubas recommended a total increase in the CSS wastewater system of $15,744,287, which reduces the CSS wastewater operations subsidy to $35,835. I&E M.B. at 82 (citing I&E St. 3 at 57-58; I&E Exh. 3, Schs. 1, 16).

I&E submitted that its proposed rates all serve to move customers closer to their cost to serve and represent reasonable increases. Therefore, I&E recommended their rates should be adopted. I&E M.B. at 83.

The OCA's witness, Mr. Mierzwa, provided that the Company's volumetric rate proposals should be proportionately adjusted to recover the cost-of-service approved by the Commission for: (1) each current wastewater SSS and CSS wastewater customer class; and (2) any revenue deficiency resulting from the adoption of his monthly residential customer charge recommendations for wastewater SSS and CSS wastewater residential customers. OCA St. 4 at 48. Further, the OCA agreed with PAWC that if the Commission approves the Company's proposal to delay the effective date for new rates for certain wastewater rate zones, then it should also adopt the Company's proposal to impute revenues by calculating the proof of revenues as if the customers were paying the new rates without any delay. OCA M.B. at 80 (citing PAWC St. 4-R at 12; OCA St. 4

at 49-50). The OCA added that this is necessary to prevent other ratepayers from paying the cost of rate commitments that the Company chose to make in its agreements to purchase those systems. OCA M.B. at 80.

The City of Scranton submitted its opposition to Mr. Kubas' recommendations because, according to the City of Scranton, Mr. Kubas' recommendations include higher rates than PAWC's proposed rates. The City of Scranton agreed with the Company that first, Scranton CSS wastewater rates remain consistent with the purchase agreement for that system. Further, the City of Scranton requested that the Commission refrain from increasing costs for the City of Scranton, particularly given the terms of the Asset Purchase Agreement. Second, if the Commission considers any increase in wastewater rates for Scranton CSS ratepayers, then that increase should be just, reasonable, and consistent with the concept of gradualism and rate shock. City of Scranton M.B. at 1.

2. Recommended Decision

The ALJs summarized that the Company provides the following rate schedules in the following rate zones: (1) SSS, which includes RZ-1 – PAWC Statewide; RZ-2 – New Cumberland; RZ-5 – Valley; RZ-7 – York; Rate Zone 8 (RZ-8) – Foster Township; and Rate Zone 9 (RZ-9) – Royersford; and (2) CSS, which includes RZ-3 – Scranton, RZ-4 – Kane, and Rate Zone 6 (RZ-6) – McKeesport. The ALJs also noted that PAWC proposed the following: (1) under the provisions of Act 11, to reallocate a portion of the wastewater revenue requirement calculated in this case to its water service customers; (2) to move all CSS wastewater customers, with the exception of the Scranton system, to a single tariff with a single set of rates; (3) to move New Cumberland and Valley to wastewater SSS RZ-1; (4) to set fixed charges to be the same for all wastewater customers, unless prohibited by prior agreement; and (5) to move rates in the wastewater SSS group for the York and Royersford system closer to RZ-1 rates.

R.D. at 254 (citing PAWC St. 10 at 36-37, 40-41). The ALJs also summarized PAWC's proposal for wastewater service rate design and tariff consolidation. R.D. at 254-55 (citing PAWC St. 10 at 41-42). Moreover, the ALJs noted that PAWC proposed to change the Company's current methodology of the volumetric component of bills for residential customers from being based on total metered usage for a month to winter averaging. R.D. at 255 (citing PAWC St. 10 at 42).

The ALJs agreed with the testimony of the OCA's witness, Mr. Mierzwa, that the Company's volumetric rate proposals should be proportionately adjusted to recover the cost-of-service approved by the Commission for each current wastewater SSS and CSS wastewater customer class. R.D. at 255-56 (citing OCA St. 4 at 48). Further, the ALJs responded to I&E's proposal to increase YBCs' rates by approximately 50% because, according to I&E, PAWC's argument that competitive alternatives for YBCs is speculative. Specifically, the ALJs found that based on the pertinent testimony of PAWC's witness, Mr. Aiton, it is "more than speculative" to conclude that YBCs do not have competitive alternatives. Accordingly, the ALJs recommended that the Commission reject I&E's proposed rate increase for the YBCs. R.D. at 256-57 (citing PAWC St. 3 at 66-67).

At the same time, however, the ALJs concurred with the recommendation of I&E's witness, Mr. Kubas, that PAWC begin to charge St. Lawrence a monthly customer charge, to ensure that St. Lawrence contributes appropriate revenues to fund the Company's direct and indirect customer costs for service. R.D. at 257 (citing I&E M.B. at 80-81). The ALJs recommended that the Company charge St. Lawrence the same service charge per month that the Commission approves for other Wastewater SSS RZ-1 bulk metered usage customers, including Caln, West Brandywine, and the VA Medical Center, that have special rates for bulk metered usage. R.D. at 257.

3. Exceptions, Replies, and Dispositions

a. I&E Exception No. 4 and Replies

In its Exception No. 4, I&E contends that the ALJs erred in recommending that the Commission reject I&E's proposal to increase the rates for YBCs by approximately 50%. I&E repeats its argument that YBCs should be paying a rate that is closer to the cost to serve because "it is at best speculative that these customers have competitive alternatives." I&E Exc. at 9.

I&E reiterates its position that rates for YBCs must be increased to move those customers close to their cost to serve because PAWC has not provided sufficient evidence to demonstrate that YBCs have a competitive alternative. As such, I&E repeats its recommendation to decrease the subsidy and, after applying Mr. Kubas' proposed rate design, the YBCs continue to receive a $7,999,227 subsidy. I&E Exc. at 9-10 (citing I&E St. 3 at 34, 49).

I&E disagrees with the ALJs claim that the testimony of PAWC's witness, Mr. Aiton, provides assurance that there is a competitive alternative. I&E Exc. at 10 (citing R.D. at 256-57). According to I&E, PAWC's claims concerning the viable competitive alternative are "unsupported" because PAWC failed to describe the alternative and failed to provide the fixed costs or variable costs these customers would incur to utilize the alternative. I&E Exc. at 10 (citing I&E St. 3-SR at 31-32; I&E St. 3 at 48). Further, I&E posits that having an alternative is not the same as having an alternative that is both viable and competitive. I&E Exc. at 10 (citing I&E R.B. at 34).

I&E repeats that PAWC has not provided evidence of the competitive alternative. Instead, I&E avers that PAWC has continued to request that the Commission rely on the customer's threat to leave the system. Further, I&E posits that if a viable competitive alternative exists, then the Company must demonstrate what that alternative is because the cost to serve YBCs is allocated to other PAWC customers. As such, I&E contends that "something more than an unsubstantiated threat to leave the system should be necessary in order for that subsidy to be imbedded in rates." I&E Exc. at 11. Accordingly, I&E argues that the Commission should reject the ALJs' recommendation and approve the YBCs rates as proposed by Mr. Kubas. I&E Exc. at 10-11.

In its Replies, PAWC counters that I&E's argument was considered and rejected by the ALJs at the hearing because I&E's witness admitted that YBCs have competitive alternatives. PAWC R. Exc. at 19 (citing R.D. at 256-57). PAWC contends that contrary to I&E's assertion, the record fully supports the ALJs' finding that the YBCs have competitive alternatives. Further, PAWC refers to the ALJs' finding that the YBCs are in close geographic proximity, meaning that YBCs could enter, or already have entered, into intermunicipal flow agreements to transmit wastewater flow between themselves and to other surrounding municipalities with existing treatment capacity, instead of sending their flows to the York wastewater treatment plant. PAWC R. Exc. at 19 (citing R.D. at 256; PAWC St. 3 at 66-67). Moreover, PAWC points out that its witness, Mr. Abruzzo, testified that YBCs had competitive alternatives when the Company acquired the York system in 2021, and when the Company litigated its 2022 rate case. PAWC R. Exc. at 19 (citing PAWC St. 6-R at 19-22). Furthermore, PAWC reiterates that the record evidence includes affidavits from the YBCs demonstrating that they had competitive alternatives in the recent past and continue to have alternatives to bulk wastewater service from PAWC today. PAWC R. Exc. at 19-20 (citing PAWC Exh. ECA-2R).

PAWC disputes I&E's argument that the ALJs' finding is speculative because PAWC did not present any evidence on what costs the YBCs would incur to exercise their competitive alternatives. PAWC R. Exc. at 20 (citing I&E Exc. at 10-11). PAWC counters that contrary to I&E's argument otherwise, the Company is only required to introduce evidence that competitive alternatives exist. Further, PAWC reiterates that the Company's proposed rates for the YBCs cover the variable costs of bulk treatment service and provide a meaningful contribution to the total fixed costs incurred to furnish wastewater service to retail customers. PAWC Exc. at 20 (citing PAWC R.B. at 55; PAWC M.B. at 64-67). Moreover, PAWC contends that because the YBCs contribute about 54% of the treatment flows to the system, the loss of these customers would necessitate a rate increase for retail customers and have an adverse impact on the operation of the wastewater treatment plant. Accordingly, PAWC submits that the ALJs' recommendation to increase rates consistent with the existing agreements between the Company and the YBCs is just and reasonable. PAWC R. Exc. at 20.

b. Disposition

As previously noted, the ALJs were not persuaded by I&E's position that YBC rates should be increased by approximately 50%. According to I&E, PAWC's argument that YBCs have competitive alternatives is speculative at best. R.D. at 256. The ALJs reasoned that it is more than speculative to conclude that YBCs do not have competitive alternatives. We concur with the ALJs' reasoning.

As discussed by the ALJs, PAWC's witness, Mr. Aiton, provided testimony to substantiate its claim that YBCs that have entered into wastewater treatment and conveyance agreements to treat their wastewater flows at the York wastewater treatment plant (WWTP) have competitive alternatives to PAWC service. Specifically, Mr. Aiton provided that:

> The [YBCs] are in close geographic proximity – which means that they could enter into (and have in some circumstances already entered into) intermunicipal flow agreements to transmit wastewater flow between themselves and to other surrounding municipalities with existing treatment capacity, instead of sending their flows to the York WWTP. The

> [YBCs] are sophisticated, knowledgeable, and experienced. Therefore, they could divert flows to alternative treatment providers or develop a new treatment system.
>
> In the proceeding for approval of PAWC's acquisition of the York wastewater system at Docket Nos. A-2021-3024681 et al. ("Acquisition Proceeding"), the [YBCs] opposed the transaction and testified that [they] were planning for a competitive alternative to bulk treatment service from PAWC. As witnesses for the [YBCs] explained in their testimony in the Acquisition Proceeding and discussed in detail by Company witness Bernard D. Grandusky in Statement No. 7-R submitted on August 19, 2022 in PAWC's 2022 rate case, unless PAWC entered into the Bulk Agreements on the terms and rates set forth in those contracts, each of the [YBCs] would leave the York System after PAWC's acquisition and pursue alternative treatment.

PAWC St. 3 at 66-67. Further, the Company's witness, Mr. Abruzzo, provided testimony that PAWC presented evidence demonstrating the competitive alternatives available to YBCs, including affidavits showing that the YBCs had competitive alternatives at the time of the acquisition of the York system. PAWC St. 6-R at 19; PAWC Exh. ECA-2R. Moreover, in the *PAWC 2022* proceeding, I&E proposed to increase the rates for the YBCs by 50% because of the lack of competitive alternatives. However, I&E subsequently withdrew that proposal in response to PAWC's rebuttal testimony. PAWC St. 6-R at 19-22. Thus, we find the ALJs' recommendation to reject I&E's proposed rate increase for the YBCs reasonable. Therefore, I&E's Exception No. 4 is denied.

c. I&E Exception No. 6 and Replies

In its Exception No. 6, I&E argues that the ALJs did not address whether its proposed wastewater rates are adopted in total. According to I&E, the ALJs did not address several aspects of I&E's wastewater rate design, including PAWC's proposal that the Commission reject Mr. Kubas' recommended charges for unmetered rates. I&E Exc.

at 15 (citing R.D. at 247). Accordingly, I&E requests that for clarification and in conjunction with granting I&E's Exceptions related to rate design, the Commission affirmatively adopt I&E's wastewater rate design in total. I&E Exc. at 15 (citing I&E M.B. Appendix B at 2-6). I&E adds that its proposed rates should be adopted because they serve to move customers closer to their cost to serve and represent reasonable increases. I&E Exc. at 15.

In its Replies, PAWC states that to the extent the ALJs did not explicitly approve a proposed modification to the Company's rate design, the Commission should approve the rate design proposed by the Company. PAWC R. Exc. at 17, n. 79.

d. Disposition

At the onset, we will address I&E's claim that the ALJs failed to address "various aspects of the I&E wastewater rate design." I&E Exc. at 15. We note that the ALJs were aware of the position and arguments put forth by I&E; however, it is up to the ALJs to determine whether, and to what extent, further discussion and analysis is warranted. *See, Aqua 2022* at 112-13. Here, it appears that the ALJs did not believe that further consideration of I&E's wastewater rate design proposal was necessary. Accordingly, to the extent that I&E claims that the ALJs overlooked I&E's wastewater rate design, we find that this argument is without merit.

To summarize, and for the purposes of clarity, the ALJs agreed with the OCA that the volumetric rates proposed by PAWC should be proportionately adjusted to recover the cost-of-service approved by the Commission for the wastewater SSS and CSS wastewater customer classes. R.D. at 255. Further, the ALJs recommended that the Commission reject I&E's proposed rate increase for the YBCs. R.D. at 256-57. The ALJs also agreed with I&E that PAWC should be directed to begin charging St. Lawrence a monthly customer charge, to ensure that St. Lawrence contributes appropriate revenues to fund PAWC's direct and indirect customer costs for service. R.D. at 257. Additionally, the ALJs recommended that PAWC charge St. Lawrence the same service charge per month that the Commission approves for other wastewater SSS Rate Zone 1 bulk metered usage customers that have special rates for bulk metered usage, including Caln, West Brandywine, and the VA Medical Center. *Id.* Based on the forgoing, I&E's Exception No. 6 is denied.

I. Tariff Structure – Winter Averaging Proposal

1. Positions of the Parties

PAWC proposed to change the way that the Company determines the volumetric component of residential customer bills to a winter averaging methodology, to more closely align wastewater bills in the summertime with cost-causation design principles. PAWC explained that winter averaging is a method for determining the volumetric components of wastewater bills that attempts to separate metered water usage that is likely to go through the wastewater system from water usage that is used for outdoor purposes in the summer. PAWC further explained that under winter averaging, a customer's bill in the wintertime is determined by actual metered water usage for the month, and in the summertime the customer's bill is determined by the lesser of the actual metered water usage for the month or the average water consumption for that customer in the winter months of January, February, and March. PAWC noted that the winter averaging calculation will be customized for each individual customer, and the methodology will be the same for all customers, but the calculations will be completed on an individual basis so that each customer will be billed based on their winter average usage and not the average monthly usage for all residential customers. PAWC St. 10 at 42-45.

In response to I&E's below recommendation that winter averaging only be approved as a temporary program, PAWC countered that such an implementation would require "shadow billing," which would require the Company to develop two sets of billing determinants, two sets of rates, and two different bill calculations for each wastewater customer, in order to provide a comparative analysis of bills and revenues with and without winter averaging. PAWC R.B. at 56 (citing Tr. at 2010-11). Further, PAWC provided that although higher-income customers are more likely to benefit more from winter averaging by having greater seasonal water usage in the summertime for which they would no longer be billed for wastewater service, this is a fair result supported by cost causation and does not mean that low-income customers will not benefit from winter averaging. PAWC R.B. at 56-57 (citing PAWC St. 10-R at 54-55). As such, PAWC submitted that winter averaging will benefit all customers and is reflective of cost-causation. PAWC M.B. at 68 (citing PAWC St. 10-R at 55).

According to I&E, wastewater usage is currently based upon actual water usage, but PAWC is proposing a winter averaging plan where the wastewater usage volume for a residential customer be adjusted downward to account for water purchased but not entering the wastewater system. I&E M.B. at 83. Initially, I&E proposed two conditions related to the Company's winter averaging proposal: (1) because the program is designed to help only residential wastewater customers, none of the revenue shortfall from this proposal be recovered from other wastewater customers or water customers; and (2) the Commission determine that the proposal is approved as a temporary program, thereby allowing the resulting revenue impacts to be evaluated in the first rate case following the program's implementation. I&E M.B. at 84 (citing I&E St. 3 at 55-56). Subsequently, I&E recommended that the program not be approved because, according to I&E, the Company does not want to track multiple sets of numbers under a temporary program. I&E M.B. at 85 (citing I&E St. 3-SR at 38). I&E also referred to the arguments of the OCA and CAUSE-PA to aver that this program has the potential to have a disproportionate impact on low-income customers. I&E M.B. at 85-86 (citing OCA

St. 5 at 98, 105; CAUSE-PA St. 1 at 13). As such, I&E submitted that PAWC's proposed winter averaging program should be rejected in its entirety. I&E M.B. at 86 (citing I&E St. 3-SR at 38-39).

The OCA submitted that the Company's proposal to change the way it determines the volumetric component of bills for residential wastewater customers should be rejected because the proposal would disproportionately harm low-income customers. OCA M.B. at 80-81 (citing OCA St. 4-SR at 19-20; OCA St. 4 at 40-44; OCA St. 5-SR at 9-11; OCA St. 5 at 97-109; CAUSE-PA St. 1 at 13-14; I&E St. 3-SR at 38-39). The OCA averred that the record shows that customers who will pay the increase in charges are disproportionately likely to be low-income. Further, the OCA asserted that the Company has failed to demonstrate that its proposed methodology for recognizing outdoor usage would reasonably achieve its stated purpose. OCA M.B. at 81. Specifically, the OCA contended that the Company's data shows there is not a substantial variability in residential water bills (and thus in residential consumption) between the PAWC-defined "winter months" and the remaining nine "non-winter" months. OCA M.B. at 81-82 (citing OCA St. 5 at 97-99; OCA St. 5 at 99-101; OCA St. 4 at 43-44). As such, the OCA submitted that the Company's proposed methodology should be rejected. However, the OCA averred that if PAWC's proposal is adopted, then the volumetric charges should be made subject to the same low-income discounts to which other PAWC volumetric charges are subject. OCA M.B at 82 (citing OCA St. 5 at 109).

CAUSE-PA averred that the Company's proposed winter averaging methodology is inequitable and contrary to the public interest because it improperly favors customers: (1) that reside in larger properties and have greater levels of discretionary water usage in the non-winter months; and (2) with summer vacation homes and swimming pools, which may have low average usage in the winter months. As such, CAUSE-PA submitted that PAWC's proposal to change the way it determines the volumetric component of bills for residential wastewater customers should be rejected because it would shift costs from higher income customers with greater discretionary usage onto lower income customers. CAUSE-PA M.B. at 25-26 (citing CAUSE-PA St. 1 at 13).

According to CAUSE-PA, the Company's winter averaging methodology is flawed because it assumes that: (1) outdoor water usage does not impact wastewater system costs, without consideration of whether a given system is combined stormwater and wastewater; (2) increased summer water usage is all attributable to outdoor water usage, without consideration of a customer's average winter usage; and (3) customers with a vacation home used primarily in the summer months, families with children returning from college for summer vacation, and other households with higher summer usage would be charged the lower winter rates over the course of 12 months. CAUSE-PA M.B. at 26 (citing CAUSE-PA St. 1 at 13). Further, CAUSE-PA noted the OCA's assertion that the Company has not presented a legitimate basis to overcome concerns related to adverse impacts on low-income customers. CAUSE-PA M.B. at 26-27 (citing OCA St. 5-SR at 11). Moreover, CAUSE-PA noted that the Act 11 equity issues are relevant to this discussion because the Company is proposing to shift wastewater costs from higher income customers to lower income customers while, concurrently, shifting costs from wastewater customers onto water customers. As such, CAUSE-PA submitted that the Company's proposed winter averaging methodology should be rejected because it is unreasonable and contrary to the public interest. CAUSE-PA M.B. at 27 (citing CAUSE-PA St. 1 at 13-14).

2. Recommended Decision

The ALJs agreed with I&E, the OCA, and CAUSE-PA that the Company's winter averaging proposal should be rejected. Specifically, the ALJs agreed with the OCA that PAWC failed to show that its proposed methodology for recognizing outdoor wastewater usage would reasonably achieve its stated purpose. Further, the ALJs were persuaded by the legitimate concerns raised by both the OCA and CAUSE-PA that the Company's winter averaging proposal might have a disproportionate and adverse impact on low-income customers. R.D. at 264.

The ALJs noted that the Company rejected I&E's suggestion that the winter averaging program be approved on a temporary basis until the Company's next base rate case, to allow interested parties and the Commission an opportunity to evaluate whether this program achieved its stated goals. The ALJs found that PAWC's unwillingness to track the information needed for evaluation of the program during the next base rate case does not instill confidence in the proposal. Accordingly, the ALJs recommended that the Commission reject the Company's winter averaging proposal. R.D. at 264-65.

3. PAWC Exception No. 13 and Replies

In its Exception No. 13, PAWC disagrees with the ALJs' recommendation to deny the Company's winter averaging proposal for wastewater customers. PAWC Exc. at 32 (citing R.D. at 264-65). PAWC repeats that it proposed winter averaging to more closely align wastewater bills with cost-causation, adding that it will address the concern of several customers regarding charges for seasonal outdoor water usage. PAWC Exc. at 32 (citing R.D. at 49-52). Further, PAWC maintains that contrary to criticism and assertions otherwise, winter averaging will benefit customers and more closely align summer wastewater bills with cost-causation rate design principles. PAWC Exc. at 33 (citing R.D. at 259-64; PAWC St. 10 at 43-44). Moreover, PAWC submits that the ALJs failed to address the record evidence that the winter averaging proposal: (1) is statistically supported; (2) will benefit both higher- and lower-income customers; and (3) has been successfully implemented by other utilities, including Company affiliates, in other jurisdictions to the benefit of customers. PAWC Exc. at 33 (citing PAWC R.B. at 56-57; PAWC St. 10 at 43-44).

In its Replies, I&E agrees with the ALJs' recommendation to deny PAWC's winter averaging proposal for wastewater customers. I&E R. Exc. at 14 (citing R.D. at 264-65). I&E argues that PAWC has offered no explanation regarding why the ALJs' analysis is incorrect but instead maintains that winter averaging will more closely align summer wastewater bills with cost causation. Accordingly, I&E submits that the Commission must deny PAWC's winter averaging proposal. I&E R. Exc. at 14.

In its Replies, the OCA agrees with the ALJs' recommendation to reject PAWC's proposal to change the way that it determines the volumetric component of bills for residential wastewater customers because: (1) PAWC failed to demonstrate that it would reasonably achieve its stated purpose; and (2) the methodology would disproportionately and adversely impact low-income customers. OCA R. Exc. at 18-19 (citing R.D. at 264-65).

The OCA disagrees with the Company's argument that the ALJs failed to address the Company's position that the proposed methodology: (1) is statistically supported; (2) will benefit both higher- and lower-income customers; and (3) has been implemented by utilities in other states. OCA R. Exc. at 19 (citing PAWC Exc. at 33). Specifically, the OCA counters that the statistics that the Company based its claim on demonstrate that the difference between residential customers' usage during the winter average period, when compared to their usage during the remaining months, ranged from 100 to 173 gallons per month during the past few years, or approximately 2.4 gallons per day. OCA R. Exc. at 19 (citing OCA St. 4 at 43-44, Table 6). Further, the OCA notes that similarly, the Company's data shows that there is not a substantial variability on a bill basis. For example, the OCA offers that the three-month average median bill of $62.06 during the "winter months," as defined in PAWC's proposal, did not substantially differ from the average of the median bills for the remaining nine months of $63.49. The OCA continues that the median residential bill for January 2023 of $67.43 was identical to the median residential bills in both June 2023 and July 2022, and higher than the median residential bills in each of the other seven non-winter months. OCA R. Exc. at 19 (citing OCA St. 5 at 98-99). The OCA adds that an extra shower and loads of wash fully account for the Company's historic difference between residential winter and summer water usage, given that the average shower uses 17.2 gallons of water and a standard washing machine uses 20 gallons of water per load. OCA R. Exc. at 19 (citing OCA St. 4 at 43).

The OCA points out that PAWC conceded that higher income customers are more likely to benefit from the winter averaging proposal because they are more likely to be absent from their homes during the winter. Further, the OCA notes that PAWC did not dispute that, where residential customers have higher usage in the summer months not due to outdoor usage but because they are absent from their homes in the winter, PAWC's winter averaging proposal would understate summer months usage that flows through the sewer system. Moreover, the OCA argues that contrary to the Company's averment that the purpose of its winter averaging proposal is to shift costs from higher-income customers to lower-income customers, the unrebutted evidence shows that customers who will pay the increase in charges are disproportionately likely to be low-income. OCA R. Exc. at 19-20 (citing OCA M.B. at 81-82; PAWC St. 10-R at 55).

The OCA also argues that adoption of some form of winter averaging in other jurisdictions does not warrant approval of PAWC's proposed winter averaging methodology and the various assumptions about summer usage on which the methodology is based. Accordingly, the OCA submits that the ALJs' recommendation that the Commission reject PAWC's proposal is supported by the disproportionate harm to the low-income wastewater customers who will bear the burden of foregone revenue created by winter averaging, with little opportunity to be the recipient of any reduced bills. OCA R. Exc. at 20 (citing R.D. at 264-65; OCA M.B. at 80-82; OCA R.B. at 55-56). The OCA adds that if the Company's proposed winter averaging methodology is adopted, then the volumetric charges should be made subject to the same low-income discounts to which other PAWC volumetric charges are subject. OCA R. Exc. at 20 (citing OCA M.B. at 82; OCA St. 5 at 109).

In its Replies, CAUSE-PA argues that the Commission should affirm the ALJs' recommendation rejecting the Company's proposed winter averaging methodology. CAUSE-PA notes that the Company's proposal allegedly attempts to separate indoor water usage from outdoor water usage (such as landscaping and swimming pools) that is not necessarily passed through wastewater systems. Further, CAUSE-PA explains that under the Company's winter averaging proposal, a customer's wastewater bill in the winter averaging months of January-March, would be determined by actual metered water usage for the month. In non-winter months, a customer's wastewater bill would be based on the lesser of their actual monthly metered water usage or the average water usage for that customer for the winter months. Moreover, CAUSE-PA notes that PAWC acknowledged that the winter averaging method, if approved, would increase volumetric wastewater rates for all customers. CAUSE-PA R. Exc. at 18 (citing CAUSE-PA M.B. at 25; PAWC St. 10 at 43-44). Accordingly, CAUSE-PA reiterates that the Company's proposed winter averaging methodology: (1) is inequitable and contrary to the public interest; and (2) improperly favors customers that reside in larger properties and have greater levels of discretionary water usage in the non-winter months. CAUSE-PA R. Exc. at 18 (citing CAUSE-PA M.B. at 25-26).

CAUSE-PA maintains its position that the Company's proposed winter methodology would inequitably shift costs from higher income customers with greater discretionary usage onto lower income customers that struggle to afford basic home services. Further, CAUSE-PA notes that the Company has conceded that the beneficiaries of the proposed winter averaging methodology are likely higher income customers. Therefore, CAUSE-PA continues, the proposed methodology will disproportionately harm lower income households. CAUSE-PA R. Exc. at 19 (citing CAUSE-PA M.B. at 26-27). Moreover, CAUSE-PA repeats the OCA's assertion that the

Company has not set forth a legitimate basis to overcome concerns related to adverse impacts on low-income customers. CAUSE-PA R. Exc. at 19 (citing CAUSE-PA M.B. at 26-27; OCA St. 5-SR at 11 (PUBLIC)). Furthermore, CAUSE-PA offers that if the Company's winter averaging proposal were implemented, then some families would be able to afford and maintain swimming pools at the expense of other families' ability to maintain drinking water. CAUSE-PA R. Exc. at 19-20 (citing CAUSE-PA M.B. at 25-26). CAUSE-PA contends that this scenario is unreasonable, inequitable, and contrary to the public interest.

CAUSE-PA further maintains that the Company's proposed winter averaging methodology and assumptions for the proposal are flawed because the methodology assumes that: (1) outdoor water usage does not impact wastewater system costs, without consideration of whether a given system is combined stormwater and wastewater, or how the discharge of outdoor water usage may nevertheless impact wastewater systems; (2) increased summer water usage is entirely attributable to outdoor water usage, without any individualized determination of whether a customer's average winter usage is reflective of their average summer usage. CAUSE-PA R. Exc. at 20 (citing CAUSE-PA M.B. at 26).

In summary, CAUSE-PA repeats that the Company's proposed winter averaging methodology is unreasonable, inequitable, and contrary to the public interest. CAUSE-PA R. Exc. at 20 (citing CAUSE-PA M.B. at 25-26). Therefore, CAUSE-PA recommends that the Commission reject PAWC's Exception No. 13. CAUSE-PA R. Exc. at 20.

4. Disposition

At the onset, we will address PAWC's claim that the ALJs failed to address the record evidence pertaining to the Company's winter averaging proposal arguments and considerations. We note that the ALJs were aware of the position and arguments put forth by PAWC; however, as previously noted, the ALJs have the discretion to determine whether, and to what extent, further discussion and analysis is warranted. Here, it appears that the ALJs did not believe that further consideration of the record evidence pertaining to the winter averaging proposal was necessary. Accordingly, we find PAWC's claim that the ALJs overlooked any of the Company's arguments and considerations is without merit.

We agree with the ALJs that PAWC failed to sufficiently demonstrate that their proposed winter averaging methodology would reasonably achieve its stated purpose for more closely aligning wastewater bills to cost causation. As detailed by the OCA's witness, Mr. Mierzwa, when the average monthly water usage of a residential customer during the months of January through March (*i.e.*, the winter months that PAWC proposes to utilize under its winter averaging methodology), is compared to the average monthly usage for the remaining months of the year, the difference is *de minimis*, with the last two years ranging from 100 to 173 gallons per month. OCA St. 4 at 43. Mr. Mierzwa continued:

> I would expect that during the summer months[,] customers are likely to take more showers and wash clothes more often. The average shower uses 17.2 gallons of water. A standard washing machine uses 20 gallons of water per load. A few extra showers and clothes washing loads per month would totally account for the historic difference between Residential winter and summer water usage. Therefore, it does not necessarily follow that PAWC's Residential customer outdoor water usage during the summer is sufficiently significant to justify adopting winter averaging and the resulting increase in volumetric rates…

Id. We agree with Mr. Mierzwa's reasoning here. Moreover, we agree with the OCA and CAUSE-PA that PAWC's winter averaging proposal might have a disproportionate adverse impact on low-income customers. Indeed, by PAWC's own admission, the beneficiaries of the winter averaging proposal are likely to be higher income customers because they are the customers more likely to have seasonal water usage during the summer that would no longer be billed for wastewater service. PAWC St. 10-R at 54-55. Furthermore, as pointed out by the ALJs, we find it significant that PAWC did not agree with I&E's suggestion that the winter averaging program be approved on a temporary basis, thereby allowing the Company to track the information needed for evaluation of the program. *See*, R.D. at 264. Indeed, PAWC's unwillingness to undertake the necessary measures to track the winter averaging methodology on a temporary basis for further evaluation does not instill confidence in their proposal. Therefore, for all of the foregoing reasons, PAWC's winter averaging proposal must be rejected. Accordingly, we shall deny PAWC's Exception No. 13.

J. Scale Back of Rates

1. Positions of the Parties

PAWC submitted that if the Commission approves a revenue requirement that is less than that proposed by the Company, then the Company proposes to proportionally reduce the water and wastewater revenue requirements and the proposed amount of reallocation from wastewater to water under Act 11 to be proportional so that the same percentages to the total of water service revenue requirement, wastewater service revenue requirement, and Act 11 reallocation amounts be maintained at proper levels. PAWC asserted that the levels of rates for water service and wastewater service relative to each other should be maintained as proposed in the event that a lower revenue requirement is approved by the Commission. PAWC St. 10-R at 37 (citing PAWC St. 10 at 16-17).

PAWC's witness, Mr. Rea, agreed with I&E's witness, Mr. Cline, that the first step in any scale back determination is to calculate the revenue requirement for wastewater operations and a scale back for wastewater operations, because that must be set first to determine the revenue requirement amount that must be allocated to water operations. Further, Mr. Rea did not object to Mr. Cline's proposal that if a revenue requirement for water service is approved at levels below PAWC's recommended amount, then both usage rates and fixed charges should be reduced, but usage rates for RZ-2 residential and commercial, and RZ-4 commercial should not be scaled back if they remain lower that the usage rates in RZ-1. Moreover, Mr. Rea noted that he did not object to recommendations that any reductions in water service revenue requirements be "applied ratably" across customer classes. PAWC 10-R at 40. However, Mr. Rea submitted its opposition to the alternative scale back proposals of I&E, the OCA, the OSBA, and PAWLUG, that pursuant to Act 11, any reductions in revenue requirements for wastewater service be applied to the Act 11 reallocation amount first. Mr. Rea countered that this approach would result in a revenue requirement reduction to water service, and wastewater rates would only be reduced due to a reduction in wastewater revenue if that reduction was greater than a proposed Act 11 reallocation amount. PAWC St. 10-R at 40-41.

In summary, PAWC submitted that in the event that the Commission approves a lower revenue requirement, its scale back proposal is designed to maintain, as proposed: (1) the same relative percentages to the total of water service revenue requirement, wastewater service revenue requirement, and Act 11 reallocation amounts; and (2) the levels of rates for water service and wastewater service relative to each other. Accordingly, PAWC submitted that its proposal results in a just and reasonable outcome for all customer classes. PAWC St. 10-R at 41.

Regarding water operations, I&E averred that the Company's proposed rates would be reduced, or scaled back, to produce the revenue requirement allowed by the Commission if the Commission approves a revenue requirement that is less than the Company's requested increase and adopts I&E's proposed customer charges. I&E noted that the first step in any scale back is to determine the revenue requirements and scale backs of the wastewater operations. According to I&E, to determine the amount of revenue requirement that must be allocated to water operations under Act 11, the wastewater operations revenue requirement must be set first. I&E continued that once the wastewater to water allocation is determined, then the full water operations revenue requirement will be established, and those rates can be scaled back. As such, I&E recommended that any scale back be netted against the subsidy the Commission determines for the wastewater operations. I&E M.B. at 86-87; I&E St. 4 at 41-42.

I&E also recommended that if the Commission grants an increase less than the fully requested increase for Water operations, then the usage rates and customer charges be decreased to produce the revenue level the Commission approves. According to I&E, any reduction in any of the ratemaking inputs by the Commission would reduce the inputs used in the customer cost analysis that was used to determine the $20.00 per month customer charge, which is based upon the direct customer cost. Further, I&E noted that the Commission recently reaffirmed its commitment to including the customer charge in the scale back of rates. I&E M.B. at 87 (citing *PGW 2023* at 157, 166). Moreover, I&E recommended that the usage rates for RZ-2 residential and commercial, and RZ-4 commercial, not be scaled back as long as they remain lower than the usage rates in RZ-1. I&E St. 4-SR at 31 (citing I&E St. 4 at 44); I&E M.B. at 87.

Concerning wastewater operations, I&E also recommended that if the Commission approves less than the full increase for the wastewater SSS operations, then any subsidy from water customers should be eliminated first to prevent water customers from subsidizing any of the SSS operations. I&E provided that the scale back should start with reducing the residential usage rate for RZ-1, RZ-2, and RZ-5, to achieve the desired level of increase, together with a reduction in the non-residential usage rate proportional to the percentage increase proposed for each rate under the full increase, which will keep the total increase in the residential class and non-residential class relatively proportional. I&E M.B. at 87-88. I&E further provided that the Special Commercial rate of $2.350 per hundred gallons for Cleveland-Cliffs and Victory Brewing should be scaled back based upon a 67.9% increase, and the Special Commercial flat monthly charges should be similarly scaled back. I&E M.B. at 88 (citing I&E Exh. 3, Sch. 3 at 1, lines 11, 13-16, 18). However, I&E averred that the following should not be scaled back: (1) the non-residential flat rate of $150.00 per month, as it is below the average bill for a non-residential customer; (2) the special customer charge of $465.50 per month, as the increase is only 10.0%; (3) the usage rates for Caln, West Brandywine, the VA, and St. Lawrence, because the rates are below the corresponding usage rate in RZ-1; and (4) the customer charge and usage rate paid by Rainbow Washhouse, where the usage rate that I&E proposed is below the present commercial usage rate. I&E M.B. at 88 (citing I&E Exh. 3, Sch. 3 at 1, lines 19-21, 35-38).

I&E also recommended that the following not be scaled back: (1) the RZ-7 and RZ-9 general usage rates, as they are below the RZ-1 usage rate; (2) the flat charge for RZ-8 residential and commercial can be made the same as the corresponding flat charge in RZ-1, but the flat rate charges for Butler Township of $40.00 per month and for RZ-9 of $75.00 should not be scaled back because they are below the $132.00 per month flat rate proposed by I&E in RZ-1; and (3) the Bulk rates for the YBCs and in Royersford, as the revenue received from these classes is far below the cost to provide service to these classes. I&E M.B. at 88-89 (citing I&E Exh. 3, Sch. 3 at 2, lines 1-21).

With respect to CSS wastewater operations, I&E recommended that the customer charges not be scaled back for CSS wastewater operations. I&E averred that in RZ-4, the charge decreased and, therefore, no further decrease is appropriate. Regarding Residential flat rate customers, I&E recommended that the residential flat rate be adjusted downward based upon the final average residential RZ-1 bill established when rates are scaled back. I&E M.B. at 89 (citing I&E Exh. 3 Sch 3 at 1, lines 4-5; I&E St. 3-SR at 27). I&E noted that the scale back should begin with RZ-3, RZ-4, and RZ-6 residential, reducing the usage rate to achieve the desired level of increase together with a reduction in the non-residential usage rate proportional to the percentage increase that I&E proposed for each rate under the full increase, which will keep the total increase in the residential class and non-residential class relatively proportional. I&E added that the Bulk rates in RZ-6 should not be scaled back because they are not being increased. I&E M.B. at 89 (citing I&E Exh. 3, Sch. 17, lines 2, 5, 22-24).

Regarding water service, the OCA proposed revenue increases for each class at the Company's claimed revenue requirement based on the OCA's COSS, which should be scaled back proportionately to reflect the actual water revenue increase (including revenues reallocated to water service under Act 11) authorized by the Commission in this proceeding. The OCA noted that it accepted the Company's proposed COSS for the direct cost of wastewater service and recommended that any scale back to the revenue increases for each class should be made consistent with the Company's allocation proposal. OCA M.B. at 82 (citing OCA St. 4-SR at 16-17, Table 4-SR).

The OCA submitted that the amount reallocated under Act 11 should be substantially reduced from what the Company proposed. However, the OCA pointed out that it does not recommend that any reduction in the wastewater requirement be applied first to the Act 11 reallocation, as that may not provide an adequate level of relief to wastewater customers. Accordingly, the OCA recommended that although the specific amount of revenues shifted under Act 11 should be determined by the Commission based on the authorized wastewater revenue requirement, an Act 11 reallocation that results in comparable percentage increases for water and wastewater customers would be in the public interest. OCA M.B. at 82-83 (citing OCA St. 4-SR at 17-18, 35; OCA St. 4 at 25-27).

The OSBA recommended that if the Commission approves a lower increase than that requested by the Company, the decrease be applied primarily to water rates. The OSBA also recommended that if the Commission approves a lower revenue requirement increase associated with the Company's wastewater systems than proposed by the Company, then the incremental revenue requirement reduction should not reduce the Company's proposed wastewater rates, so long as the cost-based wastewater revenue requirement is greater than the Company's proposed wastewater rates. The OSBA noted that this means that generally, a lower revenue requirement will reduce Act 11 revenues and the Company's proposed water rates. OSBA M.B. at 21-22 (citing OSBA St. 1 at 36-37).

Regarding water rates at a lower revenue requirement, the OSBA recommended scaling back the revenue allocation to each customer class in proportion to each class's share of the total non-Act 11 revenues. OSBA M.B. at 22 (citing OSBA Sch. KCH-12 at 1). The OSBA also recommended that each water class recover its allocated share of any approved Act 11 subsidy, averring that it: (1) fixes the admitted errors in the Company's originally-filed Water COSS; (2) employs more reasonable and accurate maximum day and hour allocators; and (3) will recover the Act 11 subsidy allocated to each water class. OSBA M.B. at 22.

PAWLUG submitted that with the exception of modifying PAWC's proposed maximum hour demand ratio for the residential customer class, the Commission should accept the Company's revised COSS. PAWLUG averred that the Company's proposal to allocate $71.1 million of the wastewater revenue requirement to water customers pursuant to Act 11 should be modified to adopt PAWLUG's revised allocation method and apply any approved scale back of the wastewater revenue requirement to offset the total $71.1 million allocation. PAWLUG submitted that its proposal to increase the industrial customer charge is consistent with the recommendation of its witness, Ms. LaConte, and should be approved.

PAWLUG also averred that to the extent the Commission approves a lower water revenue requirement than that proposed by the Company, a proportional scale back should be implemented. PAWLUG added that the Commission should scale back only the volumetric rates for the Company's industrial and municipal customer classes for the portion attributable to industrial and municipal customers due to the high proportion of total class revenues recovered through the respective volumetric rates. PAWLUG M.B. at 28 (citing PAWLUG St. 1 at 29-30). PAWLUG noted that although applying any scale back to volumetric rates for both the industrial and municipal classes remains appropriate in conjunction with the Company's proposed increase to the industrial customer charge, it becomes particularly necessary in the event the Commission denies PAWLUG's proposal to increase the industrial customer charge. PAWLUG M.B. at 28.

Victory Brewing submitted that it accepts the Company's scale back proposal. Victory Brewing M.B. at 8 (citing PAWC St. 10 at 45-46).

2. Recommended Decision

The ALJs recommended that the Commission adopt the Company's position on the scale back of rates. R.D. at 271. The ALJs found that the Company's witness, Mr. Rea, explained PAWC's position on the scale back of rates as follows:

> [I]n the event that the Commission approves a revenue requirement that is less than that proposed by the Company, the Company proposes to reduce the revenue requirements for water service and wastewater service, and the proposed amount of reallocation from wastewater to water under Act 11 to be proportional so that the same relative percentages to the total of water service revenue requirement, wastewater service revenue requirement, and Act 11 reallocation amounts be maintained at proposed levels. [PAWC] believes that the levels of rates for water service and wastewater service relative to each other should be maintained as proposed in the

> event that a lower revenue requirement is approved by the Commission in this case.

R.D. at 271 (citing PAWC St. 10-R at 37). The ALJs noted that adopting PAWC's proposal, to proportionately reduce the water and wastewater revenue requirements and the proposed amount of reallocation from wastewater to water under Act 11, would be an equitable scale back while still allowing some rate relief for wastewater customers pursuant to Act 11. R.D. at 272.

3. Exceptions and Replies

a. I&E Exception No. 5 and Replies

In its Exception No. 5, I&E argues that the ALJs failed to explain why PAWC's approach should be adopted and ignores the precedent set in *Aqua 2022*, where the Commission explained that a scale back of water rates should first reduce the Act 11 subsidy. I&E Exc. at 11 (citing *Aqua 2022* at 226). I&E contends that its customer cost analysis, customer charge, and scale back proposals should be adopted because they are based on sound Commission ratemaking policies and precedent. I&E Exc. at 11.

I&E reiterates that the first step in any scale back is to determine the revenue requirements and scale backs of the wastewater operations. I&E continues that to determine the amount of revenue requirement that must be allocated to Water operations under Act 11, the wastewater operations revenue requirement must be set first. I&E Exc. at 11-12. However, I&E disagrees with the revenue requirements recommended by the ALJs for both water and wastewater operations. I&E repeats that once the wastewater to water allocation is determined, the full water operations revenue requirement will be established, at which time those rates can be scaled back. Therefore, I&E maintains that any scale back be netted against the subsidy the Commission determines for the wastewater operations. I&E Exc. at 12.

I&E also repeats that for water operations, the usage rates and customer charges should be decreased to produce the revenue level the Commission approves. I&E maintains that any reduction in any of the ratemaking inputs by the Commission would reduce the inputs used in the customer cost analysis that was used to determine the $20.00 per month customer charge, which is based on the direct customer cost. Further, I&E again notes that the Commission recently reaffirmed its commitment to including the customer charge in the scale back of rates. I&E Exc. at 12 (citing *PGW 2023* at 157, 166).

Regarding wastewater SSS operations, I&E repeats that any subsidy from water customers should be eliminated first to prevent water customers from subsidizing any of the SSS operations. I&E asserts that the scale back should start with reducing the residential usage rate for RZ-1, RZ-2, and RZ-5, to achieve the desired level of increase and a reduction in the non-residential usage rate proportional to the percentage increase proposed for each rate under the full increase. I&E Exc. at 12. I&E illustrates that if the general residential usage rate is scaled back 50%, the residential usage rate would increase 15.05% (30.1% x 50.0%). Further, I&E states that an increase in the general non-residential usage rate of approximately 24.9% (49.8% x 50.0%) will maintain a proportionate total increase in the residential class and non-residential class. Further, I&E again provides that the Special Commercial rate of $2.350 per hundred gallons for Cleveland-Cliffs and Victory Brewing should be scaled back based upon a 67.9% increase, and the Special Commercial flat monthly charges should be similarly scaled back. I&E Exc. at 12-13 (citing I&E Exh. 3, Sch. 3 at 1, lines 11, 13-16, 18). Moreover, I&E again avers that the following should not be scaled back: (1) the non-residential flat rate of $150.00 per month, because it is below the average bill for a non-residential customer; (2) the special customer charge of $465.50 per month, because the increase is only 10.0%; (3) the usage rates for Caln, West Brandywine, the VA, and St. Lawrence, as the rates are below the corresponding usage rate in RZ-1; and (4) the customer charge and usage rate paid by Rainbow Washhouse, where the usage rate that I&E proposed is below the present commercial usage rate. I&E Exc. at 13 (citing I&E Exh. 3, Sch. 3 at 1, lines 19-21, 35-38).

I&E also repeats that the following should not be scaled back: (1) the general usage rates in RZ-7 and RZ-9, because they are below the RZ-1 usage rate; (2) the flat charge for RZ-8 residential and commercial can be made the same as the corresponding flat charge in RZ-1, but the flat rate charges for Butler Township of $40.00 per month and for RZ-9 of $75.00 should not be scaled back because they are below the $132.00 per month flat rate proposed by I&E In RZ-1; and (3) the Bulk rates for the YBCs and in Royersford, because the revenue received from these classes is far below the cost to provide service to these classes. I&E Exc. at 13 (citing I&E Exh. 3, Sch. 3 at 2, lines 1-21).

Regarding CSS wastewater operations, I&E reiterates its recommendation that the customer charges should not be scaled back, noting that in RZ-4, the charge decreased and, therefore, no further decrease is appropriate. I&E Exc. at 14. Further, I&E repeats its recommendation that for residential flat rate customers in CSS operations, the residential flat rate be adjusted downward based upon the final average residential RZ-1 bill established when rates are scaled back. I&E maintains that the scale back should begin with RZ-3, RZ-4, and RZ-6 residential, reducing the usage rate to achieve the desired level of increase together with a reduction in the non-residential usage rate proportional to the percentage increase that I&E proposed for each rate under the full increase. I&E illustrates that if the general residential usage rate is scaled back 50%, which would result in the general residential usage rate increasing by 11.7% (23.4% X 50%), the increase in the general non-residential usage rate should be approximately 24.7% (49.4% X 50.32), which will keep the total increase in the residential class and non-residential class relatively proportional. Moreover, I&E again avers that the Bulk rates in RZ-6 should not be scaled back because they are not being increased. I&E Exc. at 14 (citing I&E Exh. 3, Sch. 17, lines 2, 5, 22-24).

I&E repeats that its scale back recommendation is based on sound rate making principles and Commission precedent that a scale back should first be applied to the Act 11 subsidy. Therefore, I&E asks that the Commission grant this exception and approve the I&E recommended scale back in determining the rate design for PAWC water and wastewater rates. I&E Exc. at 14.

In its Replies, PAWC counters that the scale back of rates should be considered in the broader context of revenue allocation, which in turn, must consider ratemaking policy and gradualism. As such, PAWC submits that the Commission should adopt the ALJs' determination that the Company's proposed scale back of rates is reasonable. Further, PAWC notes that the ALJs considered and rejected I&E's scale back proposals. Moreover, PAWC notes that the Company's system, rates, and proposed rates differ from the circumstances in *Aqua 2022* and, therefore, the Commission should not reach the same result here. Furthermore, PAWC points out that the ALJs recognized that the Company's proposal will still allow for some rate relief for wastewater customers under Act 11, which is consistent with Commission policy and the principle of gradualism. PAWC R. Exc. at 18 (citing R.D. at 271-72).

In its Replies, the OCA maintains that the Commission should adopt an Act 11 reallocation that results in comparable percentage increases for water and wastewater customers. OCA R. Exc. at 20 (citing R.D. at 271-72; OCA R.B. at 56; OCA M.B. at 82-83). The OCA disagrees with I&E's recommendation that "essentially zero relief should be provided to wastewater customers through an Act 11 assignment." OCA R. Exc. at 20 (citing OCA M.B. at 73-74). Therefore, the OCA disagrees with I&E's position on scale back (*i.e.*, that any reduction in the wastewater requirement should be applied first to the Act 11 reallocation), arguing that this approach may not provide a sufficient level of relief to wastewater customers. OCA R. Exc. at 20 (citing OCA M.B. at 74; I&E Exc. at 11). Further, the OCA avers that the ALJs properly adopted the OCA's proposal for allocation of the Act 11 subsidy, which is to provide some rate relief for the Company's wastewater customers while still moving wastewater SSS and CSS wastewater rates closer to their cost-of-service while not burdening the water customers. OCA R. Exc. at 20-21 (citing R.D. at 227). Moreover, the OCA maintains that although the specific amount of revenues shifted under Act 11 should be determined by the Commission based on the authorized wastewater revenue requirement, an Act 11 reallocation (after scale back) that results in comparable percentage increases for water and wastewater customers would be in the public interest. OCA R. Exc. at 21 (citing OCA R.B. at 47-51; OCA M.B. at 71-74).

b. OCA Exception No. 17 and Replies

In its Exception No. 17, the OCA disagrees with the ALJs' recommendation to the extent that it is construed to mean that the ALJs' recommended adoption of the $20 water customer charge and the $15 wastewater customer charge will not be scaled back or reduced based on the overall revenue requirement authorized by the Commission. OCA Exc. at 29-30 (citing R.D. at 271-72). The OCA notes that the Company's direct customer charge analyses for both water and wastewater were calculated at the Company's filed-for revenue requirement increase and pre-tax rate of return. OCA Exc. at 30 (citing PAWC Exh. 12-B, Sch. RS1 j., Responses at 2). The OCA continues that Commission adjustments to the allowed revenue requirement, including pre-tax rate of return, impact those calculations and should be flowed through to reduce the indicated customer charges. OCA Exc. at 30 (citing; OCA St. 4-SR at 14; OCA St. 4 at 36). Similarly, the OCA notes that I&E's recommendation for the $15 wastewater customer charge was made at PAWC's requested revenue requirement and they should be flowed through where adjustments to that revenue requirement impact I&E's analysis and calculation. OCA Exc. at 30 (citing OCA St. 4-R at 6).

In its Replies, the PAWC argues that the Commission should approve the ALJs' recommendation regarding the Company's customer charges and proposed scale back for the reasons set forth in their Recommended Decision. PAWC R. Exc. at 19 (citing R.D. at 227-36; 265-75).

4. Disposition

As previously noted, the ALJs found that adopting PAWC's proposal to proportionately reduce the water and wastewater revenue requirements, including the proposed amount of reallocation from wastewater to water under Act 11, would be an equitable scale back while still allowing for some rate relief for wastewater customers under Act 11. R.D. at 271. As discussed above, we agree with the OCA that an Act 11 reallocation that results in comparable percentage increases for water and wastewater customers would be in the public interest. Indeed, as noted by the OCA, the ALJs recommended that the Commission adopt the OCA's proposal to allocate the Act 11 subsidy, which is to provide some rate relief for the Company's wastewater customers while still moving wastewater SSS and CSS rates closer to their cost-of-service without placing a burden on the water customers. OCA R. Exc. at 20-21 (citing R.D. at 227). We concur with the ALJs on this reasoning. However, regarding the issue of how any scale back should be implemented, we disagree with the ALJs' endorsement of the Company's proposal that the Act 11 allocation should be maintained on a proportional basis to the amount of the scale back granted. Rather, we agree with I&E to the extent that a scale back should reduce the Act 11 subsidy first, consistent with the Commission's decision in *Aqua 2022*. I&E Exc. at 11 (citing *Aqua 2022* at 226).

We shall also address I&E's and the OCA's arguments regarding the scale back of the customer charge. Upon review, the Recommended Decision did not address the scale back of the water customer charge and the wastewater customer charge. Notwithstanding, we agree with I&E that customer charges are based upon direct customer costs, meaning any reduction in any of the ratemaking inputs would reduce the inputs used in the customer cost analysis that was used to determine the monthly customer charge. Indeed, as noted by I&E, the Commission included the customer charge in the scale back of rates in *PGW 2023*. I&E Exc. at 12 (citing *PGW 2023* at 157, 166); *see also,* I&E St. 4 at 43-44. Therefore, we agree with I&E's reasoning that any scale back be netted against the subsidy that the Commission determines for the wastewater operations. We are in further agreement with I&E that, regarding water operations, both usage rates and customer charges shall be scaled back proportional to the increase granted.[115] Accordingly, we shall grant I&E's Exception No. 5. In addition, we shall grant the OCA's Exception No. 17, to the extent that a clarification is warranted regarding the scale back applicability to PAWC's residential customer charges.

XI. Alternative Ratemaking Requests

PAWC provided that Section 1330 of the Code, 66 Pa.C.S. § 1330 authorizes public utilities to propose alternative rate mechanisms. PAWC St. 8-R at 8.

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[115] Regarding Wastewater operations, the residential customer charge should be excluded from any scale back, given the minimal increase of $0.70 per month and rate decreases for certain wastewater rate zones (RZ-4, RZ-7, and RZ-9). As discussed, *supra*, I&E stated that the following should not be scaled back: (1) the non-residential flat rate of $150.00 per month; (2) the special customer charge of $465.50 per month; (3) the usage rates for Caln, West Brandywine, the VA, and St. Lawrence; (4) the customer charge and usage rate paid by Rainbow Washhouse; (5) the general usage rates in RZ-7 and RZ-9; (6) the flat rate charges for Butler Township of $40.00 per month and for RZ-9 of $75.00; and (7) the Bulk rates for the YBCs and in Royersford. I&E Exc. at 13-14.

Accordingly, in this proceeding, PAWC proposed the RDM and the ECIC, as discussed below.

A. Revenue Decoupling Mechanism

1. Positions of the Parties

PAWC stated that decoupling mechanisms like the RDM are authorized by 66 Pa.C.S. § 1330(b)(2), and that the recovery of fixed costs is a concern for PAWC because 81% of its water and wastewater revenues are collected under volumetric rates and over 95% of its costs are fixed, diminishing PAWC's ability to recover approved costs if water sales are less than anticipated. PAWC cited declining use among certain customers, seasonal weather conditions, and unexpected external events as factors that could result in reduced sales. PAWC M.B. at 69. Furthermore, PAWC argued that its continued non-revenue producing investments for the benefit of customers, along with variability in usage, causes revenues to remain outside of the Company's control. *Id*. at 70.

In requesting approval of the RDM, PAWC stated that the mechanism will compare revenues collected under Commission-approved rates with revenues that would have been collected through Straight Fixed Variable (SFV) pricing. PAWC described that if actual revenues are higher than would have been collected under the RDM formula, the difference is credited to customers in the following year. Conversely, if actual revenues are lower than would have been collected under the RDM formula, the difference will be collected from customers in the following year. PAWC contended that the RDM does not shift risk to or away from customers, as both PAWC and customers continue to share revenue risk because the RDM can result in either a credit or surcharge to customers depending on PAWC's actual results compared to the SFV price components. Also, PAWC submitted that the RDM does not guarantee recovery of PAWC's authorized return. PAWC M.B. at 70.

PAWC argued that the RDM should not be subject to an earnings test and cap because it would decrease the utility of the RDM and undermine the revenue requirement authorized by the Commission in this proceeding. In addition, PAWC averred that while mechanisms such as declining use adjustment, the use of the FPFTY, and the DSIC are available, they do not address the issue that the RDM is intended to solve, which is revenue volatility resulting from declining consumption and other events that impact forecasted usage. PAWC further stated that the RDM will not discourage conservation or compromise affordability. Further, PAWC argued that the RDM should not be limited to residential customers because revenue volatility is not constrained to the residential class. Finally, PAWC contended that the RDM would not cause rate instability or confusion, but, rather, it would smooth out revenues over a longer term for the benefit of customers and PAWC. PAWC disagreed with the position of the OCA, *infra*, that the RDM does not satisfy the fourteen factors of the Commission's Policy Statement regarding alternative ratemaking at 52 Pa. Code § 69.3302. PAWC M.B. at 71-73.

I&E, the OCA, the OSBA, CAUSE-PA, PAWLUG, Cleveland Cliffs, and Victory Brewing opposed the RDM.

I&E argued that PAWC did not establish a need for revenue stabilization, especially given that it has simultaneously proposed a declining usage adjustment. I&E stated that between the frequent base rate cases filed by PAWC, the FPFTY, and the DSIC, PAWC has not demonstrated a need for further revenue stabilization measures. Also, I&E averred that it does not appear likely that the RDM will lessen the frequency that PAWC files base rate cases. Moreover, I&E argued that PAWC has no history of an inability to attract capital. I&E M.B. at 90-95.

In addition, I&E submitted that in order for the RDM to be approved it should have some benefit to customers; however, the proposed RDM may harm customers. In this regard, I&E contended that the RDM would devalue conservation efforts of customers that can afford efficiency measures and harm customers who cannot afford such measures by assessing an additional charge on all customers. Specifically, I&E submitted that customers who take measures to reduce their water consumption will be forced to share some of their bill savings with PAWC. I&E averred that the RDM would likely cause rate confusion because another surcharge will be added to PAWC's customer bills, and based on how the credit or surcharge is calculated, a customer will be unable to predict whether they will receive a credit or a surcharge. I&E M.B. at 96-98.

The OCA argued that PAWC did not demonstrate a need for the RPM, or that it is just and reasonable. The OCA stated that by proposing the RDM, PAWC improperly seeks to shift risk of under-recovery from the Company to consumers. The OCA averred that the RDM fails to meet the requirements under 66 Pa.C.S. § 1330, violates sound ratemaking principles, and poses a risk to the consumers in the form of unknown rate increases outside of the rate case process. OCA M.B. at 83.

The OCA stated that it is unclear how the RDM will enhance the safety, security, reliability, and availability of infrastructure since PAWC is already meeting its responsibilities under 66 Pa.C.S. § 1501. Accordingly, the OCA insisted that the RDM is not needed. OCA M.B. at 84-85. Also, the OCA averred that the RDM is inconsistent with "efficient consumption of utility service." *Id*. at 84 (citing 66 Pa.C.S. § 1330(a)(2)). The OCA submitted that, in order to benefit from the RDM, PAWC's customers would have to reduce their consumption by more than the reduction in usage by all other customers. Furthermore, the OCA argued that the RDM will not provide for rate stability. *Id*. at 84-85.

In addition, the OCA argued that the RDM will harm customers unless PAWC's ROE is adjusted downward to reflect the shifting of risk from the Company to consumers. The OCA stated that the RDM would produce guaranteed revenue recovery for PAWC where no guarantee has existed in the past, wholly shifting the risk onto consumers without any benefit. To that end, the OCA averred that PAWC's FPFTY consumption projections in this proceeding already reflect declining per-customer water usage, resulting in investors benefitting from the reduction in regulatory lag associated with use of the FPFTY. Moreover, the OCA contended that the RDM will harm low-income customers by transferring costs from higher income customers to lower-income customers. The OCA further claimed that the RDM does not meet the fourteen factors of the Commission's Policy Statement at 52 Pa. Code § 69.3302(a)(1)-(14). OCA M.B. at 86-88.

The OSBA raised a concern that if a large business went out of business or moved, the remaining small businesses would have to pick up the revenue shortfall calculated by the RDM. OSBA M.B. at 23.

CAUSE-PA opposed PAWC's RDM proposal because it would prejudice and disadvantage residential customers who practice conservation to lower their bills and disproportionately impact low-income customers. Namely, CAUSE-PA contended that the RDM would detract from savings that may be achieved through customers' conservation efforts, and customers would be disincentivized from practicing conservation. Furthermore, CAUSE-PA argued that the RDM does not contain adequate consumer protections, specifically because PAWC's low-income customers would have to bear additional costs from the RDM without any mitigation, which would exacerbate increases in unaffordability. CAUSE-PA also averred that the RDM may be difficult for customers to understand. CAUSE-PA also argued that there is no evidence to suggest that implementation of the RDM will lessen the severity or frequency of future rate increases. To the extent the Commission would approve the RDM, CAUSE-PA submitted that the Company’s BDP customers should be exempt from RDM charges. CAUSE-PA M.B. at 30-33.

PAWLUG argued that PAWC's proposed RDM disadvantages customers by creating additional administrative burdens by creating a new annual regulatory filing subject to comments and potential hearings, eroding conservation incentives, and exposing customers to interclass subsidization and conflicting with cost causation by applying a uniform surcharge to all non-residential customers. To the extent the Commission approved the RDM, PAWLUG proposed that Industrial and Municipal customers should be exempt from it. Also, PAWLUG recommended that, at a minimum, the Commission should condition any approval of the RDM on heightened protections, including the implementation of an earnings test and an asymmetrical 3% cap on a surcharge. PAWLUG M.B. at 28-30.

Cleveland Cliffs argued that the implementation of another revenue recovery tracker is unnecessary since PAWC already utilizes a Commission-approved DSIC and has the opportunity to include forecasted costs and investments through the use of an FPFTY, both of which serve to reduce regulatory lag. Furthermore, Cleveland Cliffs averred that a RDM should not include the Industrial Class in the tracker because PAWC failed in its burden to support the implementation of an RDM for industrial water users. Cleveland Cliffs submits that industrial customers have a natural incentive to implement cost-effective investments in efficient use and are unsuitable customers for an RDM tracker. Additionally, Cleveland Cliffs stated that the proposed RDM presents significant problems with interclass allocations of lost revenues because any revenue shortfall would be collected from all customers, even if one customer class was responsible for the decline, which is unreasonable. Also, Cleveland Cliffs noted that if a single industrial customer left PAWC's system, the loss in revenues from that customer would be confined to the rest of the Industrial customers and would have to be picked up by those customers. In Cleveland Cliffs’ view, industrial customers should not be placed in such a risky and potentially damaging position by the operation of an RDM. Cleveland Cliffs M.B. at 7-9.

Victory Brewing agreed that the RDM should be rejected. However, if the proposal is accepted by the Commission, Victory Brewing agreed with the recommendation of Cleveland Cliffs to exclude the Industrial class from the RDM. Victory Brewing M.B. at 9-10.

2. Recommended Decision

The ALJs concluded that approval of PAWC's proposed RDM is not in the public interest. The ALJs found that the RDM will negate consumer conservation efforts, and customers who take measures to conserve water usage will end up giving some of their monetary savings back to PAWC. In addition, the ALJs determined that PAWC has not demonstrated a need for a further revenue stabilization measure since it is already compensated for revenue shortfalls through Act 11, the FPFTY, its DSIC, and frequent rate case filings. Furthermore, the ALJs found that the RDM is not a just and reasonable alternative distribution ratemaking mechanism because it would not provide rate stability to customer bills because the design of the RDM uses adjustments to customers' bills to maintain revenue levels. The ALJs also concluded that the RDM's impact on the frequency of rate case filings is unknown. Finally, the ALJs determined that the RDM would be difficult for customers to understand. Therefore, the ALJs recommended that the RDM be rejected. R.D. at 292-93.

3. PAWC Exception No. 6.2 and Replies

In its Exception No. 6.2, PAWC argues that the ALJs erred by recommending that the Commission reject the proposed RDM. PAWC requests approval to establish a RDM to reduce revenue volatility resulting from declining consumption and other unanticipated events that can impact forecasted usage. PAWC summarizes the ALJs' recommendation on this matter and states that it addressed each of the concerns raised by the ALJs, as well as the fourteen factors set forth in the Commission's Policy Statement on distribution rate considerations at 52 Pa. Code § 69.3302, in its Main Brief, Reply Brief, and the testimony of its witness, Mr. Rea. PAWC Exc. at 23-24.

Furthermore, PAWC contends that the ALJs did "not meaningfully address the substantial record evidence provided by the Company, which demonstrates that the RDM will not negatively impact conservation efforts since the RDM will not remove any incentive (financial or otherwise) to reduce water consumption; ratemaking tools such as Section 1311(c), the FPFTY, and DSIC do not adequately address revenue volatility; and low-income customers will not be negatively impacted by the RDM." PAWC also argues that the ALJs did not reach findings of fact in support of almost all of their bases for rejecting the RDM. PAWC states that the Commission should find that the RDM is a just and reasonable ratemaking mechanism that will mutually benefit the Company and customers and should be approved. PAWC Exc. at 25.

In reply, I&E argues that the ALJs did not err in recommending denial of the RDM. I&E notes that the way for a water customer to reduce their bill is through conservation efforts; however, the RDM will force customers who take measures to reduce their water consumption to share some of their bill savings with PAWC. Also, I&E avers that revenue stabilization removes the risk of not recovering the full amount of revenue requirement allowed by the Commission due to changes in usage, and PAWC does not need further revenue stabilization measures due to the frequent base rate cases filed by the Company, the FPFTY, and the DSIC. I&E states that PAWC's exception does not demonstrate that the ALJs were incorrect in their reasons for recommending denial of the RDM. I&E R. Exc. at 12-13.

The OCA, in its reply to PAWC's Exception No. 6.2, also argues that the ALJs properly considered and rejected the RDM. In addition to agreeing with the reasoning of the ALJs in rejecting the RDM, the OCA contends that the RDM would resemble a natural unregulated monopoly by shifting risks of declining consumption entirely away from PAWC, which is compensated for risk, to captive ratepayers who would receive no compensation and lose a means to reduce their bill. Further, the OCA avers that the RDM would cause costs to be transferred from higher-income customers to lower-income customers because water usage reduction actions are disproportionately taken by higher-income households. OCA R. Exc. at 21-22.

CAUSE-PA also contends, in its reply, that the Commission should uphold the Recommended Decision's conclusion that the RDM is not just and reasonable and should be rejected. CAUSE-PA remains of the opinion that the proposed RDM should be rejected because it unreasonably prejudices and disadvantages residential customers who practice conservation to lower their monthly bills and will disproportionately impact low-income customers. CAUSE-PA states that the RDM would detract from savings that may be achieved through customers' conservation efforts and would hamper the ability of low-income customers to practice conservation and achieve bill savings. CAUSE-PA also argues that the RDM lacks adequate consumer protections, since PAWC's low-income customers would bear additional costs from the RDM making additional increases unaffordable. Furthermore, CAUSE-PA states that the RDM will not be understandable to consumers due to its highly complex design. Finally, CAUSE-PA notes that there is no indication that implementation of the RDM would impact the frequency of PAWC rate filings. CAUSE-PA R. Exc. at 7-9.

In reply to PAWC's Exception No. 6.2, PAWLUG agrees with the ALJs recommendation that the Commission deny the proposed RDM. PAWLUG contends that PAWC's characterization of the RDM as "commonplace" is misleading; rather, PAWLUG submits that the RDM is extraordinary and broad in scope. PAWLUG argues that the costs to be recovered through the RDM are not extraordinary, unanticipated, or nonrecurring. Also, PAWLUG states that the RDM would conflict with cost causation principles by applying a uniform surcharge to all non-residential customers, which would impact interclass cost shifting between the various non-residential customer classes. Finally, PAWLUG restates its request that if the Commission approves the RDM, it should exempt Industrial and Municipal customers from the charge, implement certain customer protections, including an earnings test and an asymmetrical cap on any surcharge, and apply a downward adjustment to PAWC's ROE to recognize the operational risk mitigation resulting from approval of the RDM. PAWLUG R. Exc. 4-5.

4. Disposition

Upon review, we agree with the ALJs that approval of PAWC's proposed RDM is not in the public interest. First, PAWC did not establish a need for the RDM as an additional revenue stabilization mechanism. Revenue stabilization mechanisms are implemented to remove the risk of non-recovery of the full amount of any permitted revenue requirement. However, PAWC already utilizes frequent base rate cases, the FPFTY, and the DSIC to address revenue shortfalls. Specifically, the impact of the RDM on the frequency of base rate case filings is unknown and may not lessen the need and frequency of base rate cases. Therefore, PAWC has not proven that the RDM is needed.

In addition, we find that the RDM does not benefit customers. In fact, it appears that the RDM will hinder customer conservation efforts and could cause customers who take measures to reduce their water consumption to share some of their bill savings with PAWC. We agree that charging customers an additional charge through the RDM may act as a disincentive from conservation practices by customers because it will diminish the value of any savings achieved from such conservation efforts.

Furthermore, the RDM is not a just and reasonable alternative distribution ratemaking mechanism. As proposed, the RDM would produce guaranteed rate recovery where no guarantee existed in the past and shift the risk of recovery entirely onto customers without any benefit. Without adequate consumer protections, low-income customers will be placed at risk of bearing additional costs from the RDM, and this potential increase in unaffordability would expose these customers to a greater risk of arrears and termination of service. Moreover, the RDM will likely be confusing and difficult to understand for consumers due to its complex design in determining whether the RDM is a credit or charge. This additional surcharge on customer bills, along with the quarterly rate changes that occur under PAWC's DSIC, would only add to that complexity and confusion.

Therefore, we conclude that it is not in the public interest to approve the proposed RDM, which would provide an additional type of revenue stabilization to PAWC at the risk of eroding customers' conservation savings, which is the only way for water customers to affect a reduction to their water bill. With the PAWC's frequency of filing base rate cases, along with its use of the FPFTY and the DSIC, we further find that PAWC has not demonstrated a need for the proposed RDM. For these reasons, as well as the RDM's negative impact on consumer conservation efforts and its resulting confusion, as discussed above, we shall reject PAWC's proposed RDM. Accordingly, we will deny PAWC Exception No. 6.2.

B. Environmental Compliance Investment Charge

1. Positions of the Parties

PAWC has also proposed a rate adjustment clause to recover, between rate cases, the costs to comply with environmental regulations. PAWC St. 8 at 21. The costs in the ECIC must be consistent with the projects and activities set forth in an annual

environmental compliance plan (ECP) that is subject to Commission review.
PAWC St. 8 at 22. PAWC proposes a review process for the ECP similar to the process followed by the Commission when reviewing the electric distribution companies' (EDC) energy efficiency and conservation (EE&C) plans. PAWC St. 8 at 26 (additional citations omitted).

The ECIC will include the fixed costs of the ECP capital investments placed in service after the end of the FPFTY in this case. The fixed costs will be captured quarterly. The ECIC will be updated quarterly, with supporting data filed with the Commission and served upon I&E, Audits, the OCA and the OSBA at least ten days prior to the effective date. The ECIC will be applied to the total amount billed to each customer for service, excluding amounts billed for public fire protection service, the State Tax Adjustment Surcharge (STAS), and the DSIC. The ECIC will be applied equally to all customer classes. PAWC St. 8 at 29.

PAWC provided that its environmental compliance requirements are continuously evolving and the need for and timing of measures to comply with these evolving regulatory requirements are outside the Company's control. According to PAWC, the proposed ECIC will provide a reasonable mechanism to support full and timely rate recognition of PAWC's costs to comply with new and updated environmental mandates. Additionally, the ECIC will mitigate customer exposure to less frequent but more significant rate increases in a base rate case. PAWC R.B. at 62. PAWC explains that costs that are recoverable through the ECIC must be consistent with the set of projects and activities set forth in an annual ECP that will be subject to Commission review and approval. PAWC M.B. at 73 (citing PAWC St. 8 at 25-26).

PAWC cites to the state and federal regulations concerning per- and polyfluoroalkyl substances (PFAS) as an example of rapidly changing environmental mandates. As PAWC witness, Mr. Aiton, explained, on March 14, 2023, the United

States Environmental Protection Agency (USEPA) issued proposed drinking water regulations for six PFAS that will establish maximum contaminant levels (MCLs), maximum contaminant level goals (MCLGs), and monitoring, public notice and treatment requirements. PAWC M.B. at 74 (citing PAWC St. 3 at 5-9). The USEPA is expected to finalize those PFAS standards before the end of 2024 and public water systems will then have three years to comply. PAWC M.B. at 74 (citing PAWC St. 3 at 6-7). The PADEP has promulgated state drinking water standards establishing strict MCLs and MCLGs for two PFAS with compliance monitoring requirements effective January 1, 2024. PAWC estimated compliance costs for the federal and state PFAS requirements in the range of $200 million before the end of 2027. *Id.*

I&E opposed the ECIC for several reasons: (1) the ECIC will be filed outside the parameters of a base rate case; (2) the ECIC will affect efficiency incentives; (3) the Company has not projected any data related to the ECIC; and (4) the ECIC would be premature, as the final regulations have not been formulated, the Commission has not had the opportunity to react to the PFAS issue on a utility-wide basis, and federal and state funding opportunities may become available in the future. I&E M.B. at 98-101 (citing PAWC St. 8, Exh. JCS-1 at 1; I&E St. 1 at 35). I&E reasoned that while it does not dispute that a utility should generally be able to recover costs associated with environmental compliance, an open-ended surcharge such as the ECIC is not the proper way to do so while so many unknowns regarding the ECIC remain. I&E R.B. at 41.

The OCA argued that PAWC has failed to demonstrate by a preponderance of evidence that the ECIC will "enhance the safety, security, reliability or availability of utility infrastructure." OCA M.B. at 88 (citing 66 Pa.C.S. § 1330(a)(2)). While PAWC sought to model the ECIC on the DSIC/LTIIP, the OCA contended that the similarities are superficial. The OCA maintains that the DSIC/LTIIP is "aimed at <u>*accelerating*</u> the replacement of aging underground infrastructure <u>*above and beyond what is required under the law*</u>," while the ECIC is aimed at shifting the risk of recovery of sizable and wide-ranging environmental capital investments from the Company to its customers. The OCA argued that these environmental capital costs have traditionally been part of the Company's normal business risk of complying with environmental laws. OCA M.B. at 88-89 (citing OCA St. 1 at 49-50) (emphasis in original). According to the OCA, the Company has shown that it can meet its requirements in Section 1501 of providing adequate, safe and reasonable service and facilities without any additional incentive or inducement and has therefore failed to show that the ECIC would "*enhance*" the safety, security, or availability of utility infrastructure." OCA M.B. at 89 (emphasis in original).

The OCA argued that the Company has the responsibility and expertise to make decisions regarding environmental compliance infrastructure needs and the ECIC is unnecessary. The OCA provided that the Company needs to remain agile in making decisions on infrastructure capital spending between rate cases and should not endeavor to make the Commission a super board of directors by initiating the ECIC review process between rate cases. OCA R.B. at 58-59. Finally, the OCA averred that if the Commission approved the ECIC, the Company's risk profile would be lowered, and this lower risk would need to be reflected in the approved cost of equity for the Company. OCA R.B. at 59 (citing OCA St. 3 at 19).

The OSBA alleged that the ECIC is the "textbook example of single-issue ratemaking." The OSBA argued that "PAWC has shown a predilection for entering into costly expenditures – the acquisition of [BASA] being a prime example." OSBA M.B. at 23. The OSBA maintained that single-issue ratemaking is not sound regulatory practice. While a traditional rate case allows all parties to balance the expenses of an issue such as the ECIC with possible savings created by a Company's environmental compliance projects, considering the ECIC in isolation would not. OSBA St. 1 at 46.

CAUSE-PA noted that it is impossible to determine the reasonableness of the ECIC, if the ECIC will operate equitably, or if it is in the public interest because of the lack of details in PAWC's proposal. CAUSE-PA M.B. at 34-35 (citing CAUSE-PA St. 1 at 1-19). CAUSE-PA provided that the ECIC would negatively affect low-income customers – contrary to Section 69.3302(a)(7) and Section 69.3302(a)(8). Additionally, CAUSE-PA contended that the proposed ECIC fails to include appropriate consumer protections for financially vulnerable low-income customers pursuant to Section 69.3302(a)(12). Finally, CAUSE-PA averred that BDP participants will inequitably face heightened bills due to the ECIC and non-BDP low-income customers will face the full impact of ECIC charges. CAUSE-PA M.B. at 38.

PAWLUG contended that while PAWC claims that mechanisms like the ECIC are common, this claim inappropriately conflates the ECIC with a DSIC. PAWLUG M.B. at 30 (citing PAWLUG St. 1 at 16). PAWLUG noted that PAWC has failed to identify any pending environmental costs that would apply to the ECIC. According to PAWLUG, the ECIC is speculative single-issue ratemaking and should not be approved. PAWLUG M.B. at 30. PAWLUG opposed the ECIC, but if it is approved, recommended a 3% cap on total annual revenue recovered through the ECIC. PAWLUG M.B. at 31 (citing PAWLUG St. 1 at 17).

Victory Brewing affirmed the OCA statement regarding the ECIC which noted that PAWC proposes to shift the risk of recovery for a wide range of capital investments and other costs fully onto customers. Victory Brewing also agreed with the OCA statement that PAWC does not need the ECIC as compliance with environmental laws is part of the Company's obligation to provide adequate, safe and reasonable service and facilities under Section 1501. Victory Brewing M.B. at 10-11 (citing OCA St. 1 at 48-51). Victory Brewing agreed with I&E's witness, Ms. Okum, who testified that the Commission would not have the ability to review the ECIC in the context of total impact to ratepayers and with respect to other expenses if the ECIC is modified between rate cases. Victory Brewing M.B. at 11 (citing I&E St. 1 at 34-35). Victory Brewing also noted that PAWLUG, witness Ms. LaConte, provided that PAWC claimed that the proposed ECIC has become commonplace in utility regulation, but none of the water utilities in its proxy group have such a mechanism. Victory Brewing M.B. at 11 (citing PAWLUG St. 1 at 16).

2. Recommended Decision

The ALJs recommended that the Commission reject the Company's proposed ECIC. The ALJs noted that PAWC advised that its proposed ECIC will provide a mechanism for adjusting PAWC's rates between base rate cases to allow for changes to costs to comply with new and updated environmental regulations as they occur. The ALJs provided that since PAWC would file the proposed environmental compliance plan between rate cases, the Commission will not be able to assess the impact that the ECIC, along with other expenses, will have on PAWC's ratepayers. The ALJs reasoned that the only way to have a full opportunity to review the plan is within the confines of a rate case. The ALJs concluded that PAWC's ECIC proposal is single-issue ratemaking. The ALJs provided that the Commonwealth Court has held that single-issue ratemaking is prohibited if it addresses a matter normally considered in a base rate case. R.D. at 307 (citing *Pa. Industrial Energy Coalition v. Pa. PUC*, 653 A.2d 1336 (Pa. Cmwlth. 1995)).

Additionally, the ALJs determined that it is impossible to evaluate the impact of this proposed charge due to the limited data available. As such, it is impossible to determine the impact of this charge on low-income customers as suggested by the Commission's policy statement on distribution rate considerations. R.D. at 307 (citing 52 Pa. Code § 69.3302(a)(7)). The ALJs concluded that it would be premature to implement a rider recovery mechanism for just one company before any universal Commission action can occur and before any potential government funding has been established to address the problem. R.D. at 307.

3. PAWC Exception No. 6.1 and Replies

In its Exception No. 6.1, PAWC contends that the ALJs erred by recommending that the Commission reject the proposed ECIC. PAWC argues that it faces "environmental compliance costs to the tune of $200 million by 2027..." PAWC Exc. at 21 (citing PAWC St. 3 at 5-7) (additional citations omitted). PAWC maintains that the ECIC is consistent with the policy declaration incorporated into Section 1330, and the ECIC will "provide PAWC a reasonable opportunity to recover the capital costs and expenses incurred after June 30, 2025 to meet the challenges of providing high-quality water and wastewater service." PAWC Exc. at 21.

PAWC contends that the ECIC is not single-issue ratemaking, rather it is an automatic adjustment clause authorized by Section 1330(b)(2). Additionally, PAWC's proposed ECP process provides a reasonable procedure to examine the prudence and reasonableness of the ECIC charges outside of a base rate case. PAWC Exc. at 22.

According to PAWC, if the ECIC is approved, the Commission and interested parties will have ample opportunity to evaluate and challenge PAWC's proposed investments to comply with environmental mandates before they occur. PAWC avers that this constitutes full and fair ratemaking review. PAWC Exc. at 22 (citing PAWC St. 8-R at 11).

PAWC provides that the Code requires utilities to propose alternative rate mechanisms as part of a base rate case, thus the ECIC proposal is not premature as the ALJs stated. In addition, PAWC notes that PAWC Exhibit JCS-1 provides PAWC's analysis of the fourteen factors in the Commission's alternative ratemaking policy statement which means that the Commission has all the information necessary to evaluate the ECIC. PAWC Exc. at 23 (citing 52 Pa. Code § 69.3302).

PAWC contends that BDP participants will receive a discount on ECIC costs so that the impact of PAWC's environmental compliance costs on low-income customers will be the same regardless of whether those costs are recovered through base rates or an alternative ratemaking mechanism. PAWC Exc. at 23.

In Replies to PAWC Exc. No. 6.1, I&E avers that the proposed environmental compliance plan would be filed outside the parameters of a base rate case, disrupting the Commission's ability to review the potential expenses of the plan in context with the other expenses that may be increasing or decreasing between rate cases, which constitutes single-issue ratemaking. I&E R. Exc. at 10.

Further, I&E disagrees with PAWC's argument that the ECIC will not impact efficiency incentives. I&E R. Exc. at 10 (citing PAWC St. 8, Exh. JCS-1 at 1). I&E maintains that changing environmental regulations requiring the Company to make investments or increase spending does not mean the Company should be guaranteed recovery of all environmental compliance projects it undertakes. I&E contends that the ECIC would take away the incentive for the Company to investigate possible alternative options for environmental compliance if cost recovery was guaranteed. Additionally, the Company has not provided cost information for the ECIC, which makes evaluation of the ECIC impossible. I&E R. Exc. at 10-11.

I&E reasons that environmental compliance has always been a normal part of PAWC's expenditures and will continue to be so with or without approval of the ECIC. The new and impending regulations will be faced by water and wastewater utilities nationwide and therefore I&E asserts that a surcharge for one company at this time before potential funding could be identified would be premature. I&E does not dispute that a utility should be able to recover costs associated with environmental compliance, but an open-ended surcharge like the ECIC is not the proper vehicle. I&E R. Exc. at 11-12.

The OCA provides that the ALJs properly found that the ECIC would not allow the Commission to assess the impacts of the ECIC along with other expenses on PAWC ratepayers. OCA R. Exc. at 21 (citing R.D. at 307). The OCA states that the ALJs properly concluded that the ECIC would represent single-issue ratemaking which is prohibited if it addresses a matter normally considered in a base rate case. OCA R. Exc. at 21 (citing R.D. at 307; OCA M.B. at 84-85). According to the OCA, the ECIC attempts to inappropriately shift the risk of recovery of wide-ranging environmental capital investments from the company, who is compensated for risk, to captive ratepayers who under the proposal would be forced to bear the business risk for no compensation. OCA R. Exc. at 22 (OCA M.B. at 89).

The OCA disagrees with PAWC's assertion that the ECIC would allow for "ample opportunity to proactively evaluate and challenge PAWC's proposed investments and measures to comply." OCA R. Exc. at 22 (citing PAWC Exc. at 22). The OCA responds to PAWC's argument by noting that the only way to have a full opportunity to review the plan is within the confines of a rate case. The OCA avers that under PAWC's proposal, quarterly updates would take effect on only ten days' notice. The OCA provides that statutory advocates and consumers have limited resources and cannot realistically be expected to review recurring ECIC plan filings with the same degree of scrutiny as in a base rate case. OCA R. Exc. at 23 (citing OCA St. 4-SR at 28; OCA M.B. at 91).

CAUSE-PA contends that the proposed ECIC fails on several of the factors in 52 Pa. Code § 69.3302 including: the effect on low-income customers and customer assistance programs, impact on energy efficiency programming, alignment with cost causation principals, and the prevention of improper cost shifting. CAUSE-PA R. Exc. at 3-4 (citing 52 Pa. Code § 69.3302(a); CAUSE-PA M.B. at 34).

Based on the information available, CAUSE-PA argues, it is impossible to determine what costs will be included in the ECIC or how those costs will be calculated and allocated across PAWC's customer base. Without this key information, CAUSE-PA asserts, it is impossible to assess the reasonableness and justness of the ECIC, whether the ECIC will operate equitably and consistent with cost causation principles, or whether the ECIC will reduce the need for more frequent or severe base rate filings as PAWC contends. CAUSE-PA R. Exc. at 4.

Next, CAUSE-PA expresses its concerns regarding the filing process for PAWC's proposed environmental compliance plan. While the proposed process would include the filing of answers and comments, CAUSE-PA notes that there is no ability to conduct discovery or otherwise assess the prudency of the plan, the reasonableness of and justness of the expenditures necessitated by the plan, or the reasonableness and justness of the resulting charge on consumers. CAUSE-PA R. Exc. at 4 (citing CAUSE-PA M.B. at 34; PAWC St. 8 at 25-26). Additionally, CAUSE-PA notes that it is unclear what kind of public notice would be provided to permit impacted customers to meaningfully participate in the truncated ECP review process proposed by PAWC. CAUSE-PA R. Exc. at 4-5.

According to CAUSE-PA, the proposed ECIC would improperly and unjustly shift the burden of mitigating PFAS and meeting environmental standards to low-income customers, their households, and their communities. CAUSE-PA R. Exc. at 5 (citing CAUSE-PA M.B. at 35-36). CAUSE-PA provides that the vast majority of PAWC's low-income customers are not enrolled in the BDP and would face the full financial impacts of ECIC charges. CAUSE-PA R. Exc. at 5 (citing CAUSE-PA M.B. at 37-38).

PAWLUG avers that the ALJs correctly denied PAWC's proposed ECIC. PAWLUG argues that PAWC's attempts to characterize its proposed alternative ratemaking mechanisms including the RDM and ECIC as "commonplace" is misleading. PAWLUG R. Exc. at 4 (citing PAWC Exc. at 20). PAWLUG provides that the mechanisms are quite extraordinary and broad in scope. PAWLUG R. Exc. at 4 (citing PAWLUG M.B. at 10-12, 29-30). According to PAWLUG, PAWC misconstrues Section 1330 of the Code, 66 Pa.C.S. § 1330 as authorizing the implementation of these mechanisms, when the statute merely authorizes the Commission to consider approval of such mechanisms. PAWLUG R. Exc. at 4.

4. Disposition

Regarding the ECIC, we find the ALJs' recommendation reasonable to reject PAWC's proposal to institute an ECIC as an alternative rate mechanism. We agree with the ALJs, the only way to assess the impact of the ECIC, along with other expenses, is to review the costs within a rate case. The proposed review process outside of a base rate case for the ECIC would make the ECIC single-issue ratemaking.

There is insufficient information to evaluate the proposed ECIC. PAWC has provided only a rough estimate "to the tune of $200 million dollars" of potential costs. PAWC Exc. at 21. The record does not show whether PAWC facilities are currently compliant or non-compliant with the PFAS MCLGs or MCLs. Infrastructure costs for treatment of waters with potential compliance needs cannot be determined until PAWC has evaluated current PFAS levels and monitored PFAS levels over time in its treated waters and wastewaters.

The impact on low-income customers cannot be determined, which is contrary to the Commission's policy statement. 52 Pa. Code § 69.3302(a)(7). At this time, we cannot determine what financial assistance will be available from the state and federal government to assist water and wastewater utilities in complying with the new

PFAs regulations. Without detailed cost estimates and evaluation of potential funding sources, we agree with I&E that the ECIC proposal is premature. I&E M.B. at 98-101.

We agree with the OCA's concerns regarding the proposed ECP review process. The ten-day review time for ECP quarterly updates is not sufficient for a meaningful review of the potential impact on consumers.

We disagree with PAWC's likening of the ECIC to the DSIC. The ECIC is not the same as a DSIC. The DSIC recovers costs to accelerate infrastructure replacement that otherwise would take years to complete. The ECIC is to recover the cost of environmental compliance, which is part of the cost of doing business for PAWC. We agree with the OCA that PAWC does not need a mechanism like a DSIC to achieve its environmental compliance goals. It is unreasonable to shift the risk for environmental compliance to consumers. PAWC is being compensated for that risk while customers are not. *See*, OCA R. Exc. at 22.

PAWC avers that mechanisms like the proposed ECIC are commonplace in utility regulation, but we note that none of the water utilities in the proxy group have an environmental cost recovery mechanism. PAWLUG St. 1 at 16 (citing PAWC St. 13 at 51).

We note CAUSE-PA's concerns of the potential impacts of the ECIC on low-income customers and their communities. The discount on ECIC costs for BDP customers that PAWC cites is not adequate to protect low-income customers, especially those not participating in BDP. Low-income customers should not have to pay proportionally higher for environmental compliance costs impacting their communities disproportionately. CAUSE-PA M.B. at 38. For all the reasons above, we shall deny PAWC's Exception No. 6.1.

XII. Low-Income Customer Assistance

A. Affordability Analysis

1. Positions of the Parties

PAWC argued that its witness, Mr. Rea, prepared: (1) an Enterprise-Level Analysis of affordability that considered the affordability of service at a high-level over a multi-year period; and (2) a Community-Level Analysis that focused on affordability of service at the individual customer level under current and proposed rates and current economic conditions. PAWC M.B. at 76 (citing PAWC St. 10 at 5; PAWC St. 10-R at 3-4). Mr. Rea concluded that the Company's water and wastewater service has been and is expected to continue to be affordable for most of its residential customers while also noting the presence of groups of customers for whom affordability of service may be challenging. PAWC M.B. at 76-77 (citing PAWC St. 10 at 22). Specifically, Mr. Rea noted that PAWC's proposed rates are affordable not only because the bill-to-income (BTI) ratio at median household income (MHI) falls below the 2% level, but also because the Company's proposed rate design (including the BDP) provides almost every residential customer the opportunity to obtain "Basic Water Service" and wastewater service at affordable levels. PAWC M.B. at 77 (citing PAWC St. 10-R at 9).

In response to the argument of the OCA's witness, Mr. Colton, that PAWC's witness, Mr. Rea, should not have relied upon MHI data from homeowners (MHI-HO) in his Enterprise-Level Analysis due to the increasing limitation of home ownership to households with higher incomes, the Company argued that MHI is a widely recognized, readily available, and appropriate measure of household income since most PAWC customers are homeowners. PAWC M.B. at 77-78 (citing OCA St. 5 at 10-11; PAWC St. 10-R at 10-12). Further, the Company contended that the multi-year focus of the Enterprise-Level analysis is proper as it focused on customer bills over time, which account for rates and usage, rather than rates alone. PAWC M.B. at 78-79 (citing PAWC St. 10-R at 13-14).

In response to the critique of the OCA's witness, Mr. Colton, that PAWC's Community-Level analysis does not consider each individual customer to determine affordability for that particular customer, PAWC's witness, Mr. Rea, explained that his analysis looks at data at the customer level, but the Company cannot assess the affordability of each individual customer. PAWC M.B. at 79-80 (citing PAWC St. 10-R at 18-19). Additionally, the Company maintained that its estimate of 40 gallons of water per household member is representative of PAWC customer actual water usage. PAWC M.B. at 80 (citing PAWC St. 10-R at 19-20, 24). Lastly, PAWC asserted that the unavoidable truth is that there will always be customers for whom affordability of service may be challenging, but for the large majority of residential customers, water and wastewater service is affordable and will continue to be affordable under the Company's proposed rates. PAWC M.B. at 80. According to PAWC, it addressed the issue of affordability for lower income customers in a reasonable manner by proposing an expansion to its BDP in this case and noted that it does not oppose the OCA's and CAUSE-PA's proposals to further increase discount levels for existing income tiers. *Id.*; PAWC R.B. at 66-67 (citing PAWC St. 10-R at 31).

I&E contended that PAWC's affordability analysis is flawed and should not be used to establish wastewater rates. I&E M.B. at 102 (citing I&E Statement No. 3 at 13-14). In support of its position, I&E argued that the primary objective should not be making the average bills of water and wastewater customers comparable due to the significant difference in operating costs between water and wastewater systems. According to I&E, cost causation should be the primary factor in determining rates. I&E M.B. at 101. Second, I&E argued that PAWC's analysis disregards the fact that water customers that do not receive wastewater service from PAWC will incur their own wastewater costs that may not be comparable to their PAWC water rates while subsidizing PAWC wastewater customers to provide them comparable rates. Lastly, I&E asserted that PAWC's analysis further disregards the benefits that the Company claims could or have accrued to customers in acquired systems. *Id*. at 102.

The OCA argued that the Commission has previously considered rate affordability when setting rates. OCA M.B. at 95 (citing *Columbia 2021* at 46-47). The OCA expressed general agreement with PAWC that in determining whether rates are affordable for PAWC's customers, a consumer's water/wastewater burden, or the proportion of income dedicated to paying the consumer's bill for water and wastewater service, or the BTI ratio should not exceed 2%. OCA M.B. at 95 (citing PAWC St. 10 at 4-23; OCA St. 5 at 7-39). The OCA disagreed with the Company on the affordability analysis used to determine those customers that have a water burden exceeding the affordable 2% BTI Ratio. OCA M.B. at 95. According to the OCA, this disagreement is important because the affordability analysis used to identify and determine the number of customers that have water burdens exceeding 2% BTI supports the development and design of low-income customer assistance programs. The OCA argued that PAWC did not meet its burden of proof in showing, with substantial evidence, that its affordability analysis will lead to affordable and just and reasonable rates. *Id*. at 95-96.

In turn, the OCA recommended, at a high level, the following affordability analysis:

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

> *Community level*: First, reject the limitation of any "affordability analysis" to use of a minimal "Basic Water Service." Second, do not examine affordability only for the PAWC population as whole. Third, measure affordability at different income levels. Finally, do not consider only the *breadth* of affordability (*i.e.*, the number of customers with BTI Ratios exceeding 2% of income), but also consider the *depth* of affordability (*i.e.*, recognizing that a substantial number of the customers with unaffordable bills, do not merely have a BTI Ratio "over 2%," but have a BTI Ratio of over 20%). OCA St. 22-39; OCA St. 5SR at 8-9.

OCA M.B. at 96 (emphasis in original).

CAUSE-PA asserted that its witness, Mr. Harry Geller's, analyses of the affordability of PAWC's rates determined that low-income customers face excessive and unaffordable water/wastewater burdens, which depending on household size and usage, often exceeds 20% of household income. CAUSE-PA M.B. at 40 (citing CAUSE-PA St. 1 at 27-28; CAUSE-PA St. 1, Exh. 1). Further, CAUSE-PA argued that based on the computations presented in CAUSE-PA Exhibit 1, attached to the direct testimony of its witness, Mr. Geller, low-income customers devote significant portions of their incomes each month to basic water/wastewater services. CAUSE-PA M.B. at 40 (citing CAUSE-PA St. 1 at 27-28). CAUSE-PA explained that CAUSE-PA Exhibit 1 offers insight into the water and wastewater burdens faced by low-income customers at current and proposed rates. CAUSE-PA further explained that a utility bill burden is a recognized metric used to determine the affordability of utility service and includes the percentage of income required to cover the cost of the bill. CAUSE-PA M.B. at 40 (citing CAUSE-PA St. 1 at 27). Therefore, CAUSE-PA concluded that PAWC's low-income customers are already struggling to afford and stay connected to water/wastewater services and the Company's proposed rate increases would worsen existing levels of unaffordability for such customers. CAUSE-PA M.B. at 43

In response to PAWC's affordability analyses, Mr. Geller expressed concerns that such analyses obscured critical affordability challenges experienced by PAWC's low-income customers, which, he contended, is neither just, reasonable, nor in the public interest. CAUSE-PA M.B. at 47 (citing CAUSE-PA St. 1 at 38). CAUSE-PA proffered that its Exhibit 1 demonstrates that the breadth and depth of unaffordability for PAWC's low-income customers are excessive at current and proposed rates, particularly when varied usage levels are considered. CAUSE-PA M.B. at 46-47 (citing CAUSE-PA St. 1 at 38). Moreover, CAUSE-PA argued that it is not in the public interest "to shunt the significant numbers of low-income customers aside by concluding that unaffordability for these customers is unavoidable and therefore acceptable." CAUSE-PA R.B. at 16. According to CAUSE-PA, PAWC failed to meet its burden of showing that its rates, both as existing and as proposed, are just, reasonable, and in the public interest. As such, CAUSE-PA requested that the Commission reject PAWC's present rate increase request and require the Company to modify its programs, policies, and procedures to guarantee that PAWC's low-income customers can afford and maintain PAWC's services. *Id*. at 16-17.

2. Recommended Decision

In the Recommended Decision, the ALJs found PAWC's Enterprise-Level Analysis and Community-Level Analysis to be reasonable methods to determine customer affordability. Regarding the Company's Enterprise-Level Analysis, the ALJs agreed that the multi-year focus on customer bills over time is proper because it accounts for rates and usage, which are connected. The ALJs further noted PAWC's consideration of a substantial level of income information and BTI ratios for customers at different levels of household income by increment of the federal poverty level (FPL). As for the Community-Level Analysis, the ALJs expressed agreement with PAWC that the Company cannot assess the affordability of every customer and found the 40-gallon-per-household member metric to be reasonable. R.D. at 315.

Lastly, the ALJs acknowledged the extent of which the public input hearing testimony largely concerned unaffordability of service. The ALJs reasoned that irrespective of any adopted affordability analysis, there will always be customers who will struggle with their bills. The ALJs concluded that such customers will have to utilize PAWC's low-income assistance programs. R.D. at 316.

3. OCA Exception No. 18 and Replies

In its Exception No. 18, the OCA argues that the ALJs erred by not recommending that the Commission adopt the OCA's adjustments to PAWC's affordability analysis. OCA Exc. at 30 (citing R.D. at 315-16; OCA M.B. at 95-96; OCA R.B. at 60). In support, the OCA reiterates the same arguments and recommendation made in its Main Brief, *supra*. OCA Exc. at 30-31; *see*, OCA M.B. at 95-96.

In reply, PAWC agrees with the ALJs that the OCA's proposed modifications to the Company's affordability analysis should be rejected, and with the ALJs' conclusion that PAWC's analysis represents a reasonable way to measure customer affordability. PAWC R. Exc. at 21 (citing R.D. at 315). PAWC argues that the OCA, in its Exception No. 18, simply reiterates the same arguments considered and rejected by the ALJs. PAWC R. Exc. at 22 (citing OCA Exc. at 30-31). In response to the OCA's argument that PAWC's witness, Mr. Rea, did not credibly respond to the recommended affordability analysis of the OCA's witness, Mr. Colton, PAWC asserts that the OCA disregarded the voluminous testimony and data of its own witness, Mr. Rea. PAWC R. Exc. at 22.

4. Disposition

As a preliminary matter, we note, as argued by the OCA, that we have previously considered rate affordability when setting just and reasonable rates. *See*, OCA M.B. at 95 (citing *Columbia 2021* at 48). Most recently, in *Columbia Water 2024*, we considered the principles of cost causation in tandem with second considerations of gradualism and affordability. Here again, we acknowledge that there are several important factors or principles that must be considered and weighed when designing a rate recovery proposal, including the concept of affordability. However, while affordability is permitted to be considered, it is but one of several factors to be considered and weighed by the Commission in determining a utility's rates. The rate increase reflects the business challenges the Company currently faces, including required investments in the repair/replacement or improvement of its distribution systems, including acquired troubled water utilities' distribution system; and the high costs associated with maintaining a distribution system necessary to provide safe and reliable water and wastewater service within the Commonwealth.

Based on our review of the OCA's Exceptions on this issue, we are not persuaded by its arguments that the ALJs erred in their conclusion that PAWC's analyses are reasonable methods to determine customer affordability. Regarding PAWC's Enterprise-Level Analysis, we agree with the Company that focusing on customer bills over time is appropriate as those bills account for rates and usage, which are connected. Furthermore, PAWC considered a large degree of income information and BTI ratios for customers at varying household income levels by increment of the FPL. With respect to the Company's Community-Level Analysis, PAWC's witness, Mr. Rea, testified that the Company cannot assess the affordability of each individual customer in its service territory. We find this testimony persuasive and agree with PAWC that the issue of affordability should be viewed from the perspective of the broader customer base. Additionally, we note the Company's argument that, as a means of addressing the issue of affordability for lower income customers, it proposed to add a fourth tier of eligibility to expand the offerings of its BDP to customers whose household incomes are between 151% and 200% of the FPL.

Finally, it is important to note that we share the concern regarding the affordability of utility rates expressed by the witnesses that testified at the public input hearings held in this proceeding. We are aware of the difficulties experienced by those living on fixed or low-incomes in paying their bills for all types of utility service. The testimony from the public input hearings presented an overarching theme which described residential ratepayers who live on fixed incomes or minimum wages and cannot afford the proposed increase.

However, we must also recognize that even the most efficient least-cost water service may not be affordable to many people on fixed or low-incomes. This is why we regard low-income customer assistance programs as vital and agree with the ALJs that low-income customers should avail themselves of such programs. Through the testimony of PAWC's witness, Ms. Everette, the Company described its low-income customer assistance programs, including its H2O program, which offers bill discounts for water and wastewater service, hardship grants, and water conservation assistance, an AMP to assist low-income customers with arrearages, a budget billing plan, and installment agreements. *See*, PAWC St. 1 at 12-16. The Company also noted that it has used funding from the LIHWAP program[116] to provide bill assistance for qualifying,

[116] Separately, we note that the Commission has proactively taken steps to help ameliorate the impact of water rate increases on the most vulnerable. In December of 2023, we wrote to the members of the Pennsylvania Congressional Delegation urging the members to continue funding LIHWAP for FY 2024 (FY24) and to create a mechanism to *permanently* fund a low-income program like LIHWAP for water customers. Highlighting the essentialness of water utility service and the program's success, we encouraged those members of the General Assembly to support continued funding for LIHWAP in FY24, including appropriations requests, to assure continued critical federal water assistance to help low-income customers pay for water service.

low-income customers. *See*, PAWC St. 1 at 13-14. Additionally, we note that our BCS is available to assist any customer who is having medical problems or difficulty in arranging reasonable payment agreements which consider a customer's inability to pay.

Moreover, we strongly encourage PAWC to collaborate with BCS to consider the feasibility of implementing other measures which would promote the affordability of water service. The Company and BCS are further encouraged to consider, *inter alia,* combination programs that provide water audits, conservation treatments, education, and payment assistance in exchange for regular payments. We emphasize that this approach is in the best interest of both the shareholders and ratepayers as affordable bills will maximize revenues for the Company and will enable ratepayers to continue to receive an essential service.

Accordingly, the OCA's Exception No. 18 on the issue of PAWC's affordability analysis is denied, and the ALJs' recommendation regarding this issue is adopted.

B. H2O Bill Discount Program Design

1. Positions of the Parties

The Company submitted that its existing BDP provides substantial billing discounts to PAWC customers with annual household incomes falling between 0% and 150% of the FPL. PAWC M.B. at 81 (citing PAWC St. 10 at 23; PAWC St. 10-R at 28). According to PAWC, the current BDP has three-tiers, with the lowest-income customers receiving the highest percentage discounts. This is shown in Table 25, as follows:

Table 25: PAWC'S Current BDP Program Design

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

PAWC M.B. at 81.

PAWC proposed to keep, without modification, the three existing BDP tiers and to add a fourth tier expanding the program to include customers whose annual household income falls between 151% and 200% of the FPL. This proposed fourth tier of eligibility offered a discount of 30% on the 5/8" meter charge and 15% on the volumetric rate for water service, with wastewater customers receiving a 20% discount on the total wastewater bill. PAWC M.B. at 81. The expanded BDP is an attempt by PAWC to address affordability issues for customers with annual household income between 151% and 200% of the FPL, with PAWC's analysis finding a majority of customers in this income range would have water and/or wastewater service bills greater than 2% of household income. *Id*. at 81-82 (citing PAWC St. 10 at 23-26; PAWC St. 10-R at 28-29).

Responding to suggestions from the OCA and CAUSE-PA, PAWC noted it does not oppose higher discount percentages for the existing three tiers and the proposed fourth tier. PAWC noted the proposed changes and higher discount percentages would provide greater affordability for PAWC customers at the lowest end of the income scale. PAWC M.B. at 82. PAWC stated it would defer to the Commission as to the appropriate level of customer assistance discounts. *Id*. (citing PAWC St. 10-R at 31).

The OCA supported PAWC's proposal to add a fourth BDP eligibility tier for customers whose annual household incomes fall between 151% and 200% of the FPL. OCA M.B. at 97 (citing OCA St. 5 at 49-50). The OCA argued for increased percentage discounts in each eligibility tier and noted the evidence from the OCA and CAUSE-PA showed the need for such increases. OCA M.B. at 98. As a basis for its proposed modifications, the OCA noted the existing BDP did not adequately address customer affordability, averring that: (1) fewer than 10% of customers with an affordable bill have income less than 200% of [the FPL]; (2) 84% of customers with income less than 50% of [the FPL] exceed the 2% burden level; and (3) 80% of customers with income between 50% and 100% of [the FPL], and 82% of customers with income between 100% and 150% of [the FPL], exceed the 2% burden level. Similar impacts arise for PAWC wastewater customers as well. OCA R.B. at 61 (citing OCA St. 5 at 40-41, 45).

As shown in Table 26 below, the OCA proposed the following BDP tiers and percentage discounts:

Table 26: The OCA's proposed BDP Program Design

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

OCA M.B. at 97. The OCA suggested these changes to the BDP program would generate more reasonably affordable bill-to-income ratios for PAWC customers and would result in more affordable rates than existing levels. *Id*. at 97-98 (citing PAWC St. 10-R at 29; OCA St. 5 at 46-48; CAUSE-PA St. 1 at 45-46).

CAUSE-PA made two recommendations regarding PAWC's BDP: (1) increased discounts within existing BDP tiers to increase affordability; and (2) a requirement that PAWC transition the BDP to a percentage of income program (PIP). CAUSE-PA M.B. at 49-51. As summarized in Table 27 below, CAUSE-PA made the following recommendations regarding BDP discount levels:

Table 27: CAUSE-PA's Recommended BDP Discount Levels

	Water		Wastewater	
	Fixed Charge	**Volumetric Charge**	**Fixed Charge**	**Volumetric Charge**
Tier 1 (0-50% FPL)	90%	80%	85%	85%
Tier 2 (51-100% FPL)	75%	65%	73%	73%
Tier 3 (101-150% FPL)	60%	40%	55%	55%

CAUSE-PA M.B. at 49. CAUSE-PA argued its proposed amendments to the BDP would result in "marked improvements to affordability and reductions in water/wastewater burdens, ensuring a greater number of participants will receive a consistently affordable rate." *Id*.

Next, CAUSE-PA outlined its request that PAWC be required to transition the BDP to a PIP. CAUSE-PA's proposal would require PAWC to file a Petition within six (6) months of a Final Order in this proceeding to pursue a PIP designed to achieve a combined water/wastewater billing burden not exceeding 4% of a BDP participating customer's annual household income. CAUSE-PA averred that a PIP structure is "the optimal way to achieve consistent, equitable, and targeted levels of affordability" by calculating rates based on a customer's verified income level. CAUSE-PA M.B. at 50.

2. Recommended Decision

The ALJs recommended that the Commission approve multiple proposed changes to PAWC's BDP, but ultimately recommended that the Commission reject CAUSE-PA's request that the BDP be converted to a PIP. R.D. at 320.

As to PAWC's proposal to add a fourth eligibility tier to the BDP, the ALJs noted "we are in favor of additional measures to assist PAWC's customers afford their bills." The Recommended Decision also reflected the fact that no Party opposed the proposed expansion of the BDP; therefore, finding the proposal reasonable, the ALJs recommended that the Commission approve PAWC's proposal. R.D. at 320.

The ALJs also found the increases in discount percentages proposed by the OCA and CAUSE-PA to be reasonable, particularly considering the lack of opposition by PAWC. The ALJs recommended approving the proposed increases, with the increases taking effect no later than the effective date of rates resulting from PAWC's next general rate case filed with the Commission, with this time providing the Commission an opportunity to evaluate the financial impacts of customer assistance program changes. R.D. at 320-21.

Finally, the ALJs considered CAUSE-PA's recommendation that PAWC transition its BDP to a PIP structure. The ALJs considered PAWC's opposition to such a change, alongside the facts that the Company's billing system is not configured to allow for a PIP structure and that PAWC does not currently have verified income data for most BDP participants. Based on the lack of feasibility for this proposal and approved alterations to the BDP, the ALJs recommended the Commission reject CAUSE-PA's proposal that PAWC transition the BDP to a PIP structure. R.D. at 321.

3. OCA Exception No. 19[117]

In its Exception No. 19, the OCA states that it agrees with the ALJs' recommendation regarding the increased tiered discount percentages of the BDP.

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[117] None of the Parties filed Reply Exceptions to the OCA's Exception No. 19 regarding this issue.

However, the OCA objects to the effective date recommended by the ALJs for PAWC to implement the changes. OCA Exc. at 32.

The OCA argues that "[n]o party advocated for the timeline that the ALJs selected for implementation." Additionally, the OCA believes the timeline established by the ALJs is uncertain because it places the implementation schedule in PAWC's control as PAWC can decide when to file its next rate case. OCA Exc. at 32.

The OCA requests the Commission reject the "uncertain timeline" of the Recommended Decision and require the increased tiered discount percentages of the BDP be implemented at the same time as the addition of the fourth tier, or, in the alternative, within one-year after the effective date of the rates set in this case. OCA Exc. at 32.

4. Disposition

During this proceeding, the OCA and CAUSE-PA made proposals related to PAWC's BDP/H2O programs. Many of these proposals were made to address the affordability concerns summarized above. PAWC did not contest many of the proposed changes and the ALJs recommended that the Commission grant many of the proposed changes.

Given the concerns regarding affordability of rates and the lack of objection from PAWC, we find it appropriate to adopt the recommendations proposed by the OCA and CAUSE-PA regarding the addition of a fourth tier for customers at 151% to 200% of the FPL and increased discount percentages in already existing tiers. In our view, these changes will help PAWC's low-income customers who may struggle with affordability given the increase in rates.

We likewise shall adopt the ALJs' recommendation to reject CAUSE-PA's proposal that PAWC convert its BDP to a PIP program. In doing so, we note the evidence provided by PAWC that such a change would not be reasonable given the Company's current billing software is not configured for a PIP, and PAWC does not currently have verified income information for most BDP participants.

Turning to the OCA's Exception No. 19, we are persuaded by the OCA's arguments. Namely, we shall impose a deadline of one year from the effective date of rates set in this case for the Company to implement these changes. We are of the opinion that the timeline recommended by the ALJs is uncertain and, given the importance of these changes to PAWC's customers and affordability, we find the one-year deadline to be more appropriate. We also note the lack of objection to this proposed timeline by PAWC in either its Exceptions or Reply Exceptions. Accordingly, we shall modify the ALJs' recommendation and shall grant the OCA's Exception No. 19.

C. Hardship Fund

1. Positions of the Parties

PAWC explained, by way of background, that its H2O program provides hardship grants for qualifying customers with annual household incomes at or below 200% of the FPL and that have made a payment of at least $50 over the last 90 days. The Company further explained that a customer may receive a hardship grant equal to their total account balance at the time of issuance of the grant, up to the maximum annual grant amount of $500 for water and wastewater service, respectively. PAWC M.B. at 83. PAWC noted that its hardship grants are funded through an annual shareholder donation as well as employee and customer donations. *Id*. (citing PAWC St. 9 at 13-14; PAWC St. 14-R at 15-16). PAWC stated that upon closing the Commission-approved BASA acquisition, it will expand eligibility to customers with household incomes at or below

250% of the FPL and contribute $3.5 million to the Hardship Fund in addition to its annual contribution of $750,000. PAWC M.B. at 83 (citing PAWC St. 9 at 17-18). The Company clarified that its Hardship Fund administrator, DEF, is working on a software enhancement that is expected to deploy at the beginning of the 2024-2025 program year. PAWC noted that once the enhancement is effective, customers will be able to apply for multiple hardship grants during a program year. PAWC R.B. at 69.

Lastly, PAWC contended that aside from the proposal regarding multiple customer grants per year, which the Company is already working to implement, the proposed operational modifications should be rejected. In support, PAWC contended that its existing statewide funds for water and wastewater are properly designed to ensure that the Hardship Fund dollars reach as many low-income customers across the Company's service territory as possible. Second, PAWC argued that a good-faith payment requirement is necessary to ensure that eligible customers are making a genuine effort to pay their bills. Further, PAWC stated that it is premature to raise the annual Hardship Funds grant amount to $600 for water and wastewater due to the Company's AMP implementation and proposed expansion of BDP. PAWC M.B. at 84. Moreover, the Company asserted that while it does not support expanding eligibility of the Hardship Fund to customers with incomes above 200% of the FPL, when the BASA acquisition closes, the Company has already agreed as part of the settlement in *BASA* to increase the Hardship Fund eligibility threshold to 250% of the FPL. *Id*. (citing PAWC St. 14-R at 15-16).

I&E noted at the outset that its recommendations regarding the Company's low-income customer programs generally relate to how such programs are funded. Specifically, I&E maintained that should funding for the Hardship Fund be increased, as recommended by CAUSE-PA's witness, Mr. Geller, then PAWC shareholders, and not its ratepayers, should be responsible for funding these programs. I&E M.B. at 101-03.

The OCA recommended that the maximum income eligibility for PAWC's hardship grants be increased to 250% of the FPL and that the rules of the Company's program be amended to provide for multiple distributions to a customer in a year up to the existing maximum of $500 per year. OCA M.B. at 98 (citing OCA St. 5 at 64-66). Additionally, the OCA argued that although the Company agreed to "work with its [Customer Assistance Advisory Group (CAAG)] members to develop a solution to allow an eligible customer to receive multiple Hardship Fund grant awards each year, up to the maximum grant amount of $500 for water and $500 for wastewater," as a condition to the rate case settlement in *PAWC 2022*, a solution has not been achieved. OCA M.B. at 98-99 (citing OCA St. 5 at 64). Therefore, the OCA contended that PAWC should be required to develop a method for allowing multiple Hardship Grants up to the maximum allowed amount. OCA M.B. at 99 (citing OCA St. 5 at 64).

Similarly, CAUSE-PA argued that PAWC's Hardship Fund is undersubscribed compared to need among low-income customers. CAUSE-PA M.B. at 52. CAUSE-PA expressed its concerns that the average arrearage level of recipients of hardship funding exceeds the maximum Hardship Fund grant limit of $500 and that the Hardship Fund requires an upfront payment of $50. *Id*. at 53 (citing CAUSE-PA St. 1 at 50-51). CAUSE-PA acknowledged that the settlement in *BASA* comprises certain increases to the Hardship Fund but argued that these commitments predate the instant proceeding and do not contemplate the additional need resulting from any increase in rates. CAUSE-PA M.B. at 54. CAUSE-PA's witness, Mr. Geller, stated that income-eligible customers face burdens affording water and wastewater service, and he testified that PAWC's water and wastewater burden levels for income-eligible customers leave economically vulnerable Pennsylvania families with insufficient funds to pay for housing, energy, food, medicine, childcare, and other basic needs. CAUSE-PA St. 1 at 27-28; CAUSE-PA Exh. 1.

Therefore, CAUSE-PA recommended that PAWC increase annual hardship funding by an additional $1 million over existing funding levels. CAUSE-PA M.B. at 54 (citing CAUSE-PA St. 1 at 52). CAUSE-PA further recommended elimination of the good faith payment arguing that it poses a significant barrier to obtaining Hardship Fund assistance. CAUSE-PA M.B. at 54-55 (citing CAUSE-PA St. 1 at 53). Lastly, CAUSE-PA recommended that the Company increase the maximum amount of its Hardship Fund grant from $500 to $600 for water and wastewater, respectively. CAUSE-PA M.B. at 55.

CEO recommended that PAWC increase its funding for the hardship grant program and distribute its hardship funds based upon the percentage of low-income customers within the service region or county. Specifically, CEO proposed that, should a rate increase be granted in this proceeding, the Company increase its contribution to the Hardship Fund by $300,000. CEO St. 1 at 6-7.

2. Recommended Decision

In the Recommended Decision, the ALJs noted PAWC's indication that the Company was already working to implement multiple customer grants per year, as proposed by the OCA and CAUSE-PA, and that the Company did not reject this proposal. Therefore, the ALJs recommended the adoption of the proposal for the allowance of multiple customer grants per year to take effect no later than the effective date of rates resulting from PAWC's next general rase increase filed with the Commission. The Recommended Decision further recommended that the multiple grants be up to the existing $500 maximum and declined the $600 maximum that CAUSE-PA proposed. R.D. at 327.

Regarding the proposed modifications to the eligibility requirements for the Hardship Fund, the ALJs recommended the Commission adopt the OCA's proposal to raise the income threshold from 200% to 250% of the FPL and CAUSE-PA's proposal to remove the $50 good faith payment required to receive a Hardship Fund grant. The ALJs reasoned that such changes would open up Hardship Fund assistance to financially stressed customers with somewhat higher household income or with less favorable payment history. The ALJs concluded that both proposals should take effect "no later than the effective date of rates resulting from PAWC's next general rate increase filed with the Commission." R.D. at 327-28.

3. Exceptions and Replies

a. PAWC Exception No. 10 and Replies

In its Exception No. 10, PAWC contends that the Commission should reject the proposed modifications to Hardship Fund eligibility to preserve the Fund's focus on supporting customers with lower incomes and good faith payment behavior. The Company explains that the funds for hardship grants are not unlimited as they are drawn from an annual shareholder donation and employee and customer donations and could be depleted before the end of the program year if the proposed modifications are adopted. PAWC Exc. at 29. According to PAWC, it is reasonable and proper to dedicate funds to lower-income customers and customers that are making a genuine effort to pay their bills. *Id*. (citing PAWC St. 14-R at 15-16). Furthermore, the Company notes that although it separately agreed to raise the FPL threshold to 250% of the FPL as part of the settlement in *BASA*, this adjustment was coupled with increased shareholder funding. PAWC Exc. at 29 (citing Tr. at 2024).

In Reply to PAWC's Exception No. 10, the OCA agrees with the ALJs' recommendation to increase the hardship grant eligibility to include incomes up to 250% of the FPL and eliminate the $50 upfront payment requirement. In response to PAWC's argument that the recommended modifications could deplete the hardship grant before the end of the program year, the OCA contends that such argument is not supported by the record which reflects that the hardship grant program has been undersubscribed. Accordingly, the OCA argues that the Commission should adopt the ALJs' recommended modifications pertaining to the Hardship Fund. OCA R. Exc. at 23-24.

Similarly, in its Reply, CAUSE-PA argues that the Commission should reject PAWC's Exception No. 10 and adopt the ALJs' recommendation to modify the Company's Hardship Fund so that low-income customers will be eligible for a Hardship Fund grant, regardless of whether they are able to make an upfront payment. In support, CAUSE-PA argues that the Company's Hardship Fund is significantly undersubscribed and that upfront payment requirements do not test a customer's good faith but rather pose significant barriers to receiving Hardship Fund assistance. Lastly, CAUSE-PA urges the Commission to require the Company to make efforts to identify additional sources of funding to support grant assistance. CAUSE-PA R. Exc. at 10-11, 13.

b. OCA Exception No. 20[118]

In its Exception No. 20, the OCA argues that the timeline set forth by the Recommended Decision, for implementation of the proposals, is uncertain as it places the entire schedule within the Company's discretion in terms of determining when to file for its next rate case. OCA Exc. at 33. In the alternative, the OCA proposes a timeline of one year after the effective date of the rates set in this case in light of DEF's work to develop software allowing for multiple hardship grants. *Id.* (citing R.D. at 322, n.1124). According to the OCA, this software is expected to deploy at the beginning of the 2024-2025 grant year, which is within one year of the effective date of the rates set in this case. OCA Exc. at 33.

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[118] None of the Parties filed Reply Exceptions to the OCA's Exception No. 20 regarding this issue.

4. Disposition

We have previously noted the issue of affordability raised in the public input testimony in this proceeding and thereby emphasized the importance of low-income customer assistance programs, including hardship funds, encouraging low-income customers to avail themselves of such programs. As a preliminary matter, we find compelling the arguments of the OCA and CAUSE-PA that the Company's Hardship Fund is undersubscribed. We specifically note CAUSE-PA's argument that from January through November 2023, 9,658 confirmed low-income customers were terminated for nonpayment, yet only 3,443 customers received a Hardship Fund grant. CAUSE-PA M.B. at 53 (citing CAUSE-PA St. 1 at 50, Table 14). We agree with CAUSE-PA that the significant number of confirmed low-income customers terminated for nonpayment compared to the number of issued Hardship Fund grants marks a need for increased access to Hardship Fund grants for struggling, low-income customers.

With this in mind, we find that PAWC's upfront $50 payment requirement to receive a Hardship Fund grant contravenes the purpose of a hardship fund, which is to provide financial assistance to low-income, payment-troubled customers to help them pay their utility bills. We agree with CAUSE-PA that this upfront, payment requirement could pose a barrier to obtaining needed grant funding to low-income customers that are already payment-troubled. As such, we concur with the Recommended Decision that such requirement should be eliminated.

Regarding the OCA's proposal to expand Hardship Fund eligibility to 250% of the FPL, we agree with the ALJs that increased eligibility may help those whom the OCA identifies as having a fragile income, especially when facing an unforeseen circumstance. Further, we note that, with respect to PAWC's BDP, the Company has proposed to expand that program's offerings to customers whose household incomes are between 151% and 200% of the FPL. Therefore, while customers whose household incomes that are between 201% and 250% of the FPL will be ineligible for the Company's BDP, adoption of the proposed expansion of eligibility to the Hardship Fund will provide those customers, as identified by the OCA as having a fragile income, with an alternative means of assistance of which to avail themselves. Accordingly, we will adopt the ALJs' recommendation of expanding Hardship Fund eligibility to 250% of the FPL.

Next, the OCA opposes the Recommended Decision's timeline for implementation of the modifications to PAWC's Hardship Fund, which is no later than the effective date of rates resulting from PAWC's next general rate increase. We agree with the OCA that its proposal of one (1) year after the effective date of the rates set in this proceeding is a more suitable timeline as it provides more certainty regarding the date of implementation of the modifications to the Hardship Fund and coincides with DEF's software deployment to allow for multiple hardship grants. Additionally, the OCA's proposed timeline will logically result in the faster implementation of the necessary modifications to this program which we have previously exhorted eligible, low-income customers to utilize. Moreover, we note that none of the other Parties opposed the OCA's proposed timeline.

Lastly, as PAWC has raised a concern that the proposed modifications to its Hardship Fund could deplete its resources, we encourage the Company to take steps to identify additional funding sources to support grant assistance, as suggested by CAUSE-PA. On the other hand, in light of the issue of undersubscription to this program and the supporting statistics, as presented by the OCA and CAUSE-PA, we believe that the Company should conduct outreach efforts to ensure as many eligible, low-income customers as possible receive this funding. To that end, we find it appropriate to strongly encourage the Company to set a target donation of an additional $1 million into its Hardship Fund. This voluntary payment would be in addition to the Company's annual Hardship Fund contribution of $750,000. These additional dollars, if donated, will serve to make water and wastewater service more affordable for income-eligible customers in most need of assistance.

Accordingly, PAWC's Exception No. 10 is denied and the ALJs' recommended modifications to the Company's Hardship Fund are adopted with the exception of the recommended timeline for implementation of such modifications. In that regard, we will grant the OCA's Exception No. 20 with respect to the timeline of implementation of the approved modifications and require PAWC to implement the adopted modifications to its Hardship Fund within one (1) year after the effective date of the rates set in this case. In addition to encouraging the Company to set a target donation of an additional $1 million into its Hardship Fund, we direct PAWC to explain, in its next base rate proceeding, the efforts it has taken to provide Hardship Fund assistance to as many eligible, low-income customers as possible.

D. Conservation Assistance

1. Positions of the Parties

PAWC argued that CAUSE-PA's Conservation Assistance proposal, *infra,* attempts to impose a low-income usage reduction program (LIURP) construct on the Company, similar to LIURPs established only for EDCs and natural gas distribution companies NGDCs. PAWC noted that imposition of a LIURP-type program in this proceeding would require the Company to "hire additional staff and manage costs associated with repairing and replacing the leaking lines and infrastructure of low-income customers." These costs, considered alongside the lack of a legal requirement for PAWC to have a LIURP, form the basis for the Company's request that the Commission reject CAUSE-PA's Conservation Assistance proposal. PAWC M.B. at 85-86.

I&E noted two issues with the Conservation Assistance proposal made by CAUSE-PA: (1) the proposal does not specify a funding source; and (2) no cap or budget for the program is included in the proposal. I&E argued that since the program "will focus on water conservation inside individual customers homes and assistance with repairing and replacing service lines on individual customers property" it would be inappropriate to require all ratepayers to fund this program. Therefore, I&E requested that, should the Commission approve CAUSE-PA's Conservation Assistance proposal, the program be funded by PAWC's shareholders rather than ratepayers. I&E M.B. at 103 (citing I&E St. 1-R at 4).

The OCA requested that the Commission order PAWC to "develop a plan to utilize U.S. Department of Energy's Weatherization Assistance Program and the natural gas and/or electric [LIURP] agencies as partners to develop and deliver water conservation investments" to its customers. In support of this request, the OCA averred that PAWC's "failure" to address water conservation needs of low-income customers has the effect of forcing these customers to fund water conservation investments themselves, often in addition to water bill burdens of 6% to nearly 80% of the BTI ratio. OCA M.B. at 99.

CAUSE-PA recommended that the Commission require PAWC to "develop and implement a comprehensive low-income water conservation and leak repair program" no later than six (6) months after a Final Order in this proceeding. CAUSE-PA M.B. at 60. CAUSE-PA argued that PAWC currently offers limited water conservation assistance to low-income customers participating in the H2O programs. This assistance includes water conservation kits containing self-installed basic water-saving devices, a leak detection kit, conservation tips and materials, and a water use calculator. CAUSE-PA submitted this limited assistance was insufficient, hampering the ability of low-income customers to reduce high usage and address repairs and leaks and exacerbating unnecessarily high universal service program (USP) costs. *Id.* at 58.

CAUSE-PA's proposal called for conservation assistance to include comprehensive conservation measures, *i.e*., basic plumbing and service line repair and replacement, with no out-of-pocket or up-front costs for the measures or installation. CAUSE-PA M.B. at 60. The proposal also recommended "annual reporting parameters of water savings and reductions to costs of low-income assistance programs resulting from this program. *Id*. (citing CAUSE-PA St. 1 at 63-64). CAUSE-PA proposed the conservation assistance program set a maximum eligibility cap at 200% of FPL, with a specific target on high usage, low-income customers enrolled in PAWC's BDP. CAUSE-PA M.B. at 60-61.

CAUSE-PA echoed and built upon the suggestions made by the OCA, *supra*, recommending that PAWC "coordinate the delivery of services" with similar programs provided by electric and natural gas utilities in PAWC's service area, and argued that such partnerships "will help to coordinate conservation and repair efforts." CAUSE-PA M.B. at 61.

In response to PAWC's objections to the proposal, CAUSE-PA stated, "[t]he lack of an explicit statutory *requirement* to operate a conservation program does not preclude the Commission from ordering PAWC to implement this important program." CAUSE-PA M.B. at 62 (emphasis in original). CAUSE-PA argued the critical assistance the program offers to low-income customers would also have positive impacts on all ratepayers by reducing uncollectible costs associated with terminations. CAUSE-PA also averred the Commission "has long recognized" that conservation is an essential component of universal service plans, as conservation programs are part of "holistic services" to address unaffordability through bill assistance, debt management, and conservation. CAUSE-PA M.B. at 62-63.

Finally, CAUSE-PA addressed I&E's proposal that costs for such a program, if approved, should be funded by shareholders rather than ratepayers.

CAUSE-PA is not opposed to I&E's proposal but argued that costs for the program could be properly recovered via rates. CAUSE-PA also demurred, stating it is not necessary for the Commission to determine the proper method of cost-recovery in this proceeding. CAUSE-PA M.B. at 63.

2. Recommended Decision

The ALJs recommended that the Commission reject CAUSE-PA's proposal that PAWC be required to design and implement a comprehensive conservation and line repair and replacement plan. R.D. at 334.

While finding that "such a program would certainly be beneficial to PAWC's ratepayers," the ALJs agreed with PAWC that LIURPs (and similar programs) are currently only required under Pennsylvania law for EDCs and NGDCs. R.D. at 334, *see also*, 52 Pa. Code § 58.1. Without statutory authority mandating LIURPs for water companies, the ALJs concluded that it "would be inappropriate to impose such a requirement on PAWC alone." R.D. at 334.

3. CAUSE-PA Exception No. 1 and Replies

CAUSE-PA argues, in its Exception No. 1, that the ALJs erred "as a matter of law and sound public policy" in their conclusion that PAWC should not be ordered by the Commission to establish a comprehensive water conservation program for low-income customers. CAUSE-PA Exc. at 5. CAUSE-PA repeats the arguments outlined in its briefs and submitted testimony, stating the proposal would provide "critical assistance to low-income customers with usage beyond their control, would help to control USP costs, and would reduce uncollectible costs as a result of terminations which affect all ratepayers." CAUSE-PA Exc. at 10 (citing CAUSE-PA St. 1 at 62-63). While CAUSE-PA acknowledges "that there is currently no statutory or regulatory requirement directing jurisdictional water and wastewater utilities to maintain LIURPS," it also insists that this does not preclude the Commission from ordering PAWC to implement the program. CAUSE-PA compares its proposal to LIURP programs for EDCs and NGDCs, which CAUSE-PA avers were developed and implemented "years before promulgation of the Commission's LIURP regulations." CAUSE-PA Exc. at 9-10.

CAUSE-PA also restates its request that PAWC be ordered by the Commission to work with its CAAG to develop a comprehensive assistance program no later than six (6) months after the final order in this proceeding. CAUSE-PA Exc. at 11-12.

In reply, PAWC requests that the Commission adopt the reasoning of the ALJs in the Recommended Decision, averring "[t]he ALJs properly found that statutory and regulatory obligations related to … low-income conservation assistance apply to electric and natural gas distribution utilities only." PAWC echoes the reasoning of the ALJs, arguing that absent statutory or regulatory obligations, "it would not be appropriate to single out PAWC and mandate the implementation of a Comprehensive Conservation Program…" PAWC R. Exc. at 24-25.

4. Disposition

We agree with the reasoning of the ALJs in the Recommended Decision and shall reject the positions of the OCA and CAUSE-PA that the Company be directed to develop the conservation programs proposed above. In the absence of a regulation that mandates a LIURP for water companies, similar to the regulation that exists for EDCs and NGDCs, we find it inappropriate for the Commission to impose such an obligation on PAWC alone. Therefore, we shall deny Exception No. 1 filed by CAUSE-PA.

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

1. Positions of the Parties

PAWC contended that it utilizes a robust, multi-prong approach to apprise customers of the benefits of its H2O Programs, which include direct customer communication (*i.e.*, bill inserts, social media), participation in PUC consumer education events, and DEF outreach (*i.e.*, public service announcements). PAWC M.B. at 86 (citing PAWC St. 9 at 14-16; PAWC St. 14-R at 7). The Company explained that when accessing its customer portal, customers are presented with information on bill assistance self-service options and a link to information on the Company's H2O Programs, along with instructions on how to apply. PAWC M.B. at 86 (citing PAWC St. 9-R at 11). According to the Company, from December 2020 to November 2023, PAWC increased participation in its BDP by over 30%. PAWC M.B. at 86 (citing PAWC St. 14-R at 8).

In response to the recommendations of the OCA and CAUSE-PA, PAWC agreed that low-income customers should be enrolled in its H2O program as early as possible and explained that when a customer calls seeking payment assistance, the Company's customer care agents (CCAs) are trained to direct customers to call DEF to enroll. PAWC M.B. at 87 (citing PAWC St. 9-R at 11). According to the Company, it complies with the requirements of Chapter 14 of the Code and Chapter 56 of the Commission's Regulations regarding payment arrangements and service terminations, and also places a 30-day collections and termination lock on the account of any customer that mentions they are working with an agency for payment assistance. PAWC M.B. at 87-88 (citing PAWC St. 14-R at 11). On the other hand, PAWC argued that it should not decide on behalf of the customer whether to apply for the H2O program or enter a separate payment arrangement as proposed by the OCA and CAUSE-PA. PAWC M.B. at 88.

The OCA argued that PAWC's low-income customer outreach and intake for its BDP and AMP programs are inadequate. OCA M.B. at 99 (citing OCA St. 5 at 54-63). In support, the OCA asserted that from November 2021 to October 2023, PAWC enrolled 17.7% of the 60,660 confirmed low-income customers and that from January 2021 to October 2023, the Company's disconnection count of confirmed low-income customers was 35,488. OCA M.B. at 99-100 (citing OCA St. 5 at 57). Therefore, the OCA made the following recommendations for PAWC to implement to provide adequate service:

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

OCA M.B. at 100 (citing OCA St. 5 at 54-63). The OCA asserted that these recommendations should be implemented by the Company as a part of any authorized rate increase to ensure adequate service is being provided to customers. OCA M.B. at 100 (citing 66 Pa.C.S. §§ 523, 1501, 1505; *Pa. PUC v. Pa. Gas & Water Co.*, 74 PUR4th 238, 244-45 (Pa. PUC 1986) (*PG&W 1986*); *Pa. PUC v. Philadelphia Gas Works*, 2000 Pa. PUC LEXIS 876, *41-44 (Opinion and Order entered November 22, 2000) (*PGW 2000*).

Similarly, CAUSE-PA argued that PAWC's USPs, including reduced rates available through the Company's BDP, are not reasonably accessible to the Company's low-income customers. CAUSE-PA M.B. at 63 (citing CAUSE-PA St. 1 at 54). In support, CAUSE-PA contended that as of November 2023, only 25% of PAWC's estimated low-income customers and 40% of its confirmed low-income customers were enrolled in BDP. Moreover, CAUSE-PA asserted that while 9,658 confirmed low-income customers were terminated for nonpayment in 2023, only 3,443 Hardship Fund grants were issued during that time. *Id*. According to CAUSE-PA, the Company does not have adequate systems in place to ensure that customers are being timely referred and assisted to enroll in BDP and the Hardship Fund assistance, consistent with Sections 1303 and 1410.1 of the Code and undersubscription of PAWC's low-income assistance programs contravenes those Sections of the Code. CAUSE-PA M.B. at 64-65.

Therefore, CAUSE-PA recommended several modifications so that low-income customers can enroll in available USPs more easily and before such customers accrue unmanageable debts. CAUSE-PA M.B. at 65 (citing CAUSE-PA St. 1 at 56). First, CAUSE-PA proposed that PAWC begin screening all new and moving customers for income level and eligibility at the time their service is established and periodically thereafter during non-emergency calls. CAUSE-PA M.B. at 65 (citing CAUSE-PA St. 1 at 57). Next, CAUSE-PA recommended that the Company develop call scripting and checklists for its Customer Service Representatives (CSRs) to assist in screening customers for eligibility and refer low-income customers to available assistance programs, including BDP and the Hardship Fund, before being placed on a payment arrangement. Further, CAUSE-PA recommended that the Company should be required to refer low-income customers to available assistance programs, including the

Company's BDP and Hardship Fund, before placing such customers on a payment arrangement. CAUSE-PA M.B. at 66.

2. Recommended Decision

In the Recommended Decision, the ALJs noted a public utility's responsibility, when contacted by a customer to make a payment agreement, to provide information about its USPs and to refer the customer to the USP administrator to determine eligibility for enrollment in the program. R.D. at 340-41 (citing 66 Pa.C.S. § 1410.1). The ALJs found that PAWC is following these guidelines since PAWC CCAs are trained to direct customers to call DEF to enroll. The ALJs held that PAWC is meeting its obligations by informing callers about the availability of the Company's customer assistance programs. Accordingly, the ALJs recommended that the proposals of the OCA and CAUSE-PA regarding low-income customer outreach be rejected. R.D. at 341.

3. OCA Exception No. 21, CAUSE-PA Exception No. 3, and Replies

In its Exception No. 21, the OCA argues that while PAWC may be adhering to statutory standards, the OCA's witness, Mr. Colton, presented concerning statistics regarding a low level of low-income customer level enrollment in the Company's BDP. OCA Exc. at 34. In support, the OCA reiterates the same arguments and recommendation made in its Main Brief. *Id.*; *see*, OCA M.B. at 99-100. As such, the OCA asserts that the Commission should consider this evidence of low enrollment and adopt the OCA's recommendations. OCA Exc. at 34 (citing R.D. at 341; OCA M.B. at 99-100; OCA R.B. at 63).

CAUSE-PA argues in its Exception No. 3 that the ALJs made factual and legal errors in its determination that PAWC's existing screening and intake processes are adequate and consistent with statutory standards. According to CAUSE-PA, the undersubscription in PAWC's low-income assistance programs limits the ability of the Company's low-income customers to access affordable services prior to accruing unmanageable arrears and facing termination. CAUSE-PA Exc. at 20. In support, CAUSE-PA contends that Section 1303 of the Code requires that PAWC ensure customers are enrolled in the most advantageous rate, including rates available through the Company's BDP. *Id*. (citing CAUSE-PA M.B. at 63-64). Similarly, CAUSE-PA contends that under Section 1410.1 of the Code, the Company is required to refer customers to available USPs, including its BDP and Hardship Fund, before placing customers on a payment arrangement. CAUSE-PA maintains its position that the undersubscription in PAWC's low-income assistance programs contravenes Sections 1303 and 1410.1 of the Code. CAUSE-PA Exc. at 20-21.[119]

In further support, CAUSE-PA reiterates the same arguments and recommendation made in its Main Brief. CAUSE-PA Exc. at 21-23; *see*, CAUSE-PA M.B. at 63-69. Additionally, CAUSE-PA disagrees with PAWC's argument that its recommendation regarding screening and intake would deprive customers of the choice of whether to enroll in USPs and expresses its concern that low-income customers are not being adequately referred to assistance programs. CAUSE-PA Exc. at 24.

In its Reply, PAWC agrees with the ALJs that the Company's low-income customer outreach, intake, and screening are appropriate and consistent with statutory

[119] We further note that in its reply to the Company's Exception No. 11, discussed in Section VII.F, *infra*, CAUSE-PA argues that the ALJs' recommendation that the Commission reject CAUSE-PA's proposed modifications to PAWC's screening and intake procedures should not preclude implementation of CAUSE-PA' recommendations to the Company's data collection and reporting. CAUSE-PA R. Exc. at 17. CAUSE-PA notes that while its recommendations regarding screening and intake are aimed at addressing the methods by which PAWC increase enrollment in its USPs, the data collection and reporting recommendations are intended to improve Commission oversight of the Company's USPs. *Id*.

standards. PAWC R. Exc. at 22. The Company reiterates that it offered evidence of its robust, multi-prong approach to inform customers about the benefits of its H2O program. *Id*. at 22-23 (citing PAWC St. 9 at 14-16; PAWC St. 9-R at 11; PAWC St. 14-R at 7). By way of its Reply, PAWC states its desire to address CAUSE-PA's "mischaracterization" of Section 1410.1 of the Code, and CAUSE-PA's allegation that the Company is in violation of Sections 1303 and 1410.1 of the Code. PAWC R. Exc. at 23. According to the Company, CAUSE-PA has misinterpreted Section 1410.1 to prohibit the establishment of a payment arrangement until the customer has completed the referral process and in response, the Company argues that the plain language of Section 1410.1 provides no such prohibition. *Id*. (citing CAUSE-PA Exc. at 20). In response to CAUSE-PA's argument that PAWC's H2O program offerings are undersubscribed and thus, in violation of Sections 1303 and 1410.1 of the Code, the Company argues that neither statute refers to customer enrollment or participation in assistance programs or requires a subscription level. PAWC R. Exc. at 23-24 (citing 66 Pa.C.S. § 1303; CAUSE-PA Exc. at 20). Accordingly, PAWC argues that the ALJs properly examined these processes in making their determination that the Company is following 66 Pa.C.S. §§ 1303 and 1410.1 and requests that the Commission reject the Exceptions of the OCA and CAUSE-PA with respect to this issue. PAWC R. Exc. at 24 (citing R.D. at 340-41).

4. Disposition

As a preliminary matter, we note, again, the concerns expressed by the OCA and CAUSE-PA that PAWC's customer assistance programs are undersubscribed. The OCA and CAUSE-PA each made proposals to address this issue. The focus of the OCA's recommendations is to ensure that customers are receiving adequate service consistent with 66 Pa.C.S. §§ 523, 1501, and 1505 by increasing customer outreach and intake for the Company's BDP and AMP programs. *See*, OCA M.B. at 99-100. CAUSE-PA asserted that its proposals are targeted at ensuring that PAWC's customers are properly referred and assisted to enroll in the Company's USPs, consistent with

Sections 1303 and 1410.1 of the Code, 66 Pa.C.S. §§ 1303, 1410.1. *See*, CAUSE-PA M.B. at 65; CAUSE-PA Exc. at 18-24. As of November 2023, 25% of PAWC's estimated low-income customers and 40% of its confirmed low-income customers were enrolled in BDP. *See,* CAUSE-PA M.B. at 63 (citing CAUSE-PA St. 1 at 54). Such statistics highlight that additional outreach efforts are appropriate.

Accordingly, we agree with a number of the recommendations made by the OCA and CAUSE-PA to address low-income customer outreach. First, we believe PAWC should develop call scripting and checklists for its CSRs to assist in screening customers for eligibility and refer low-income customers to available assistance programs, including BDP and the Hardship Fund, before placing customers on a payment arrangement. *See,* CAUSE-PA St. 1 at 58.

Second, PAWC should make personal contact with any confirmed low-income customer facing termination of service for nonpayment, and these customers should be informed of and given the opportunity to enroll in the BDP and the AMP as an alternative to disconnection. *See* OCA St. 5 at 59. Further, moving forward, customers enrolled in the BDP should also be informed of the AMP and enrolled in it as well if they are eligible and so choose. OCA M.B. at 100.

We shall direct PAWC to implement the above recommendations no later than one year after the effective dates of rates in this proceeding. Lastly, while PAWC noted that its outreach efforts increased participation in its BDP by over 30%, we strongly encourage PAWC to continue taking steps to increase its outreach efforts for all low-income customer assistance programs.

Based on the above discussion, we shall modify the ALJs' recommendation and grant the OCA's Exception No. 21 and CAUSE-PA's Exception No. 3.

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

1. Positions of the Parties

PAWC requested that the Commission reject the below proposals of CAUSE-PA's witness, Mr. Geller, regarding data collection and reporting recommendations. In support of its request, PAWC noted "significant strides in reaching out to customers without formalizing outreach/enrollment benchmarks or quantitative goals." PAWC stated its outreach strategy had resulted in a 30% increase in BDP participation between December 2020 and November 2023. PAWC M.B. at 88.

PAWC also pointed to the proposed changes to its low-income programs. PAWC believed it would be unreasonable to establish benchmarks when enrollment levels may fluctuate based upon new income verification requirements for low-income programs and increased bill discounts. PAWC M.B. at 88-89.

PAWC averred that it already has processes in place to regularly share information with the CAAG via quarterly meetings to discuss methods for enhancing low-income customer outreach. These communications include obtaining feedback on outreach materials. PAWC M.B. at 89.

Finally, PAWC objected to the OCA's below recommendation that it utilize customer satisfaction surveys targeting low-income and at-risk customers. PAWC characterized such recommendations as redundant given PAWC's ongoing transaction surveys and trend tracking. PAWC R.B. at 71-72.

The OCA requested that PAWC be required by the Commission to introduce customer satisfaction surveys targeting the following: (1) customers seeking to enroll in low-income customer billing assistance programs; (2) customers seeking to enroll in deferred payment arrangements; (3) customers experiencing difficulties or an inability to pay bills timely and fully; and (4) customers responding to disconnection of service for non-payment. OCA M.B. at 101. The OCA stated the compilation of information from these surveys can be used to improve customer satisfaction and collections outcomes, with the knock-on outcome of allowing PAWC to "improve its management control of costs and revenues, improve the stability of its earnings, and thus control the need for future rate relief." *Id*. (citing OCA St. 5 at 123-24).

CAUSE-PA asked the Commission to order improvements to PAWC's low-income program data collection and reporting to ensure access and enrollment in such programs by eligible customers. CAUSE-PA M.B. at 69. According to CAUSE-PA, PAWC's low-income assistance programs are undersubscribed, with approximately "75% of PAWC's estimated low-income customers, and roughly 60% of households *known* to be eligible" not enrolled. CAUSE-PA M.B. at 69 (citing CAUSE-PA St. 1 at 47) (emphasis in original). CAUSE-PA made three assertions and recommendations to address the undersubscription in PAWC's low-income assistance programs.

First, CAUSE-PA argued that the Company should be required to update its estimated low-income customer count on an annual basis, working with the Commission's BCS to ensure any method used is appropriate and accurate. CAUSE-PA M.B. at 69 (citing CAUSE-PA St. 1 at 47-48). Second, CAUSE-PA submitted that the Commission should require PAWC to establish target enrollment benchmarks, with CAUSE-PA recommending enrollment targets of "20% per year of PAWC's estimated low-income customer counts, until the Company reaches at least 75% enrollment of this estimated group." CAUSE-PA M.B. at 69 (citing CAUSE-PA St. 1 at 48). Finally, CAUSE-PA recommended the Commission require PAWC to "establish quantitative and qualitative goals related to affirmative customer outreach," including contacts via phone, mail, and electronic communications via text or email (with customer consent). In tracking implementation of these recommendations, CAUSE-PA also claimed that PAWC should expand membership of its CAAG to include more diverse community voices. CAUSE-PA M.B. at 70.

2. Recommended Decision

As to the OCA's proposed customer service satisfaction surveys, the ALJs agreed with PAWC that such surveys would be unnecessary and redundant given the Company's existing transaction surveys. Accordingly, the ALJs recommended the Commission reject OCA's proposal. R.D. at 345.

Conversely, the ALJs found that CAUSE-PA's recommendations are made "to better ensure that low-income customers can enroll in the BDP and other available universal service programs." Citing to testimony provided at public input hearings regarding billing affordability, the ALJs stated "ensuring that low-income customers can enroll in these programs is of great importance." Therefore, the ALJs recommended that the Commission adopt CAUSE-PA's data collection and reporting proposals. R.D. at 345-46.

3. Exceptions and Replies

a. PAWC Exception No. 11 and Replies

In its Exception No. 11, PAWC contends that the ALJs "improperly [recommended that the Commission adopt] unreasonable and unnecessary low-income data collection and reporting requirements" as proposed by CAUSE-PA. PAWC argues that the ALJs failed to "explain why enrollment benchmarks or outreach goals are necessary or appropriate" in light of their recommendation that the Commission reject other proposals to modify customer outreach strategies. PAWC also points to upcoming changes in how low-income assistance programs will be operated and possible fluctuations in enrollment, as well as the meetings and consultation already occurring between PAWC and the CAAG. For these reasons, the Company requests the Commission reject the ALJs' recommendations concerning low-income data collection and reporting. PAWC Exc. at 29-31.

In reply to PAWC's Exception No. 11, CAUSE-PA requests that the Commission reject this exception. CAUSE-PA R. Exc. at 13. CAUSE-PA further asks the Commission to affirm the improvements to PAWC's USP data collection and reporting ordered in the Recommended Decision. CAUSE-PA provides four reasons in support of its reply: (1) the proposed improvements will provide important metrics for measuring success; (2) the recommended improvements will enhance the upcoming changes PAWC plans to implement to its USPs; (3) the changes CAUSE-PA proposed to PAWC's engagement with its CAAG are designed to build upon the existing relationship, not as a critique; and (4) rejection of additional screening and intake proposals made by CAUSE-PA does not preclude implementation of the improved data collection and reporting proposals. *Id*. at 15-17.

b. OCA Exception No. 22 and Replies

In its Exception No. 22, the OCA takes issue with the ALJs' recommendation that the Commission reject the OCA's proposal that PAWC conduct targeted customer satisfaction survey of low-income customers. The OCA notes that it recommended the surveys "with the objective of improving customer satisfaction and collections outcomes" to benefit PAWC's control of costs and revenues. The OCA requests the Commission grant its Exception and approve its customer satisfaction survey proposal. OCA Exc. at 35.

In response to the OCA's Exception No. 22, PAWC reiterates it currently utilizes transaction surveys "immediately after all phone and customer portal interactions" and works to identify trends from the customer feedback received. PAWC therefore asks the Commission to reject the OCA's Exception No. 22 and adopt the ALJs' reasoning as to the redundancy of the customer satisfaction surveys proposed by the OCA. PAWC R. Exc. at 22.

4. Disposition

At the outset, we note that we shall deny the OCA's Exception No. 22 regarding customer satisfaction surveys. As the record evidence shows, PAWC conducts transaction surveys of its customers that accomplish the goals extolled by the OCA. We find these transaction surveys, coupled with PAWC's tracking of trends in the surveys, to be sufficient; therefore, we reject the OCA's proposal.

With respect to PAWC's Exception No. 11, CAUSE-PA has made several suggested recommendations with the stated goal of improving PAWC's low-income programs and gathering information to track efficacy of the programs. As the ALJs noted in the Recommended Decision, much of the public input testimony referenced concerns over affordability of rates. Based on this testimony, we agree with the ALJs that ensuring that low-income customers can enroll in these programs is of great importance. We find the recommendations from CAUSE-PA to be important in increasing affordability, enhancing the changes PAWC plans to make to low-income assistance programs, and providing metrics for program success. Therefore, we shall reject PAWC's Exception No. 11, and adopt the reasoning of the ALJs granting CAUSE-PA's proposed modifications. Although no Party suggested, nor did the Recommended Decision prescribe, a deadline for the implementation of these changes, we shall order PAWC to file a plan outlining how it proposes to implement CAUSE-PA's recommendations on this matter no later than one year after the effective dates of rates in this proceeding.

G. Comprehensive Written Universal Service Plan

1. Positions of the Parties

PAWC objected to the recommendations from the OCA and CAUSE-PA, *infra,* that it develop a written universal service plan and file the plan with the Commission's BCS. Specifically, PAWC argued the universal service plan policy recommendations advanced by the OCA and CAUSE-PA are attempts to impose a universal service framework on PAWC, similar to such requirements imposed on EDCs and NGDCs. PAWC M.B. at 89-90.

PAWC emphasized arguments in its Main Brief regarding universal service programming, including the lack of required universal service requirements and no cost mechanism for recovery of costs associated with universal service. PAWC also noted the costs, resources, and time associated with developing and maintaining a universal service plan. PAWC M.B. at 89-90. Furthermore, PAWC stated the Commission "should not mandate the development and implementation of a universal service plan in the absence of any universal service requirement (and corresponding full and timely cost recovery) for water and wastewater utilities under Pennsylvania law." *Id*. at 90 (citing PAWC St. 14-R at 12-13).

I&E stated that "only electric and natural gas utilities are required to develop universal service plans." I&E M.B. at 104 (citing 52 Pa. Code § 69.261). Based on this, I&E recommended that rather than imposing the requirement for a universal service plan on PAWC alone, if the Commission believes universal service plans are appropriate for water and wastewater utilities, it should provide "statewide guidance for all water and wastewater utilities as it has done in the gas and electric industries." I&E M.B. at 104-05. In addition, I&E argued that low-income benefits of a universal service plan "flow through base rates," and even if periodic reports were filed by PAWC regarding its universal service plan, there would be no ability to make changes to base rates. *Id.* (citing I&E St. 1-R at 5-6).

The OCA recommended PAWC be required to develop a comprehensive written universal plan. OCA M.B. at 101. In support, the OCA argued such a plan should be "an element of fundamental prudent and adequate program planning and management of its low-income customer assistance programs." *Id*. (citing OCA St. 5 at 67-72; OCA St. 5-SR at 30-31).

Similarly, CAUSE-PA requested the Commission require PAWC file a "comprehensive Universal Service Plan for periodic Commission review and approval." CAUSE-PA argued that the lack of a written, comprehensive plan "leaves a substantial gap for customers and utility advocates and makes it difficult for the Commission to properly oversee PAWC's administration of Commission-approved universal service programming." In addition to the requirement that PAWC file a comprehensive Universal Service Plan, CAUSE-PA advanced an argument that the Company be required to include a detailed customer education and outreach plan, with measurable goals and metrics, within the plan. CAUSE-PA M.B. at 72-73.

CAUSE-PA countered PAWC's argument regarding the lack of a statutory or regulatory obligation to file a universal service plan and opined that the plan is necessary "to assess whether PAWC's low-income assistance programs are being administered in accordance with PAWC's and the Commission's requirements." CAUSE-PA believed this to be especially true given PAWC's explanation regarding increased staffing needs to implement a universal service plan. CAUSE-PA M.B. at 74.

2. Recommended Decision

In the Recommended Decision, the ALJs referred back to their previous discussion regarding comprehensive conservation and line repair programs and LIURPs for water companies, which was presented in Section XII.D, *supra*. Conducting a similar analysis, the ALJs recommended that the Commission reject the proposals of the OCA and CAUSE-PA that PAWC be required to file a comprehensive universal service plan with the Commission. Specifically, the ALJs noted there is no requirement that water and wastewater utilities develop universal service plans. The ALJs found that imposing such an obligation on PAWC alone would be inappropriate and that if the Commission found a universal service plan to be appropriate for water and wastewater utilities, it should implement such a change on a statewide basis. R.D. at 350.

3. OCA Exception No. 23, CAUSE-PA Exception No. 2 and Replies

The OCA, in its Exception No. 23, argues that "the need to prepare and file such a plan is based on the need for efficient and adequate service to low-income customers and planning of expenditures for related programs." The OCA notes the merit of requiring PAWC to file a comprehensive plan in this proceeding, while also encouraging the Commission to consider statewide action requiring the filing of universal service plans for water and wastewater utilities. OCA Exc. at 36.

CAUSE-PA, in Exception No. 2, takes issue with the ALJs' recommendation that the Commission reject its proposal requiring PAWC to file a comprehensive written universal service plan. CAUSE-PA restates many of the arguments outlined in its briefs and testimony. In addition, PAWC stresses its position that a "[l]ack of statutory or regulatory mandate does not preclude the Commission from making important enhancements in the context of this proceeding which will improve access and affordability of services…" Moreover, in refuting PAWC's assertion that designing and implementing a universal service plan would require additional time and resources, CAUSE-PA counters that such a plan is "essential" for providing access and determining whether low-income assistance programs are administered in accordance with requirements. CAUSE-PA Exc. at 12-18.

CAUSE-PA also disputes I&E's assertion that it would be inappropriate to require PAWC to submit a universal service plan given that the benefits for low-income assistance programs flow through base rates. CAUSE-PA argues that "the existence of a unified universal service plan would not divorce universal service issues from a rate case" and would instead allow for a "more detailed periodic policy review" of USP issues. CAUSE-PA further requests that the Commission order PAWC to file a universal service plan with a Petition for Commission Review within one year of the final order in this case and include a customer education and outreach plan as part of the filing. CAUSE-PA Exc. at 17-18.

In reply to the OCA's Exception No. 23 and CAUSE-PA's Exception No. 2 regarding the proposed filing of a comprehensive written universal service plan, PAWC states that the ALJs properly found "that statutory and regulatory obligations related to [universal service plans] … apply to electric and natural gas distribution utilities only." Absent statutory or regulatory mandates to the contrary, PAWC echoes the ALJs in arguing that mandating a universal service plan filing on PAWC would not be appropriate. PAWC R. Exc. at 24-25.

4. Disposition

We agree with the reasoning of the ALJs in the Recommended Decision and shall reject the requests for a written universal service plan as proposed by CAUSE-PA and the OCA. Universal Service Plans are required, pursuant to Commission Regulations, for EDCs and NGDCs. *See*, 52 Pa. Code § 54.71-54.78 and 62.1-62.8. To the contrary, there is no similar statutory or regulatory authority that requires water companies to file such a universal service plan. Therefore, we will not impose such an obligation on PAWC in this proceeding. We also note the Commission has approved enhanced low-income assistance programs and increased collection of data associated with those programs in this proceeding. These steps are expected to address many of the concerns raised by the OCA and CAUSE-PA. Accordingly, we shall deny the OCA's Exception No. 23 and CAUSE-PA's Exception No. 2.

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

1. Positions of the Parties

PAWC contended that the recommendations, *infra*, of CAUSE-PA's witness, Mr. Geller, regarding PAWC exercising greater oversight of its low-income program administrator, DEF, are unnecessary due to the Company's current processes and would result in substantial new administrative costs. PAWC M.B. at 90 (citing CAUSE-PA St. 1 at 64-67). PAWC explained that it meets regularly with DEF regarding administration, has access to all necessary information, and that DEF provides the Company with standard periodic reports on application and grant activities. PAWC M.B. at 91. Further, the Company contended that the third-party auditing proposed by CAUSE-PA is required for EDCs and NGDCs under Pennsylvania law, not water and wastewater utilities. *Id*. (citing 52 Pa. Code §§ 54.76 and 62.6). Therefore, PAWC contended that the Commission should reject the OCA's proposals with respect to this issue. PAWC M.B. at 91.

The OCA expressed that it is generally supportive of Mr. Geller's testimony regarding his recommendations for the administration of PAWC's low-income assistance programs. OCA M.B. at 101.

CAUSE-PA expressed concern that PAWC does not appear to have systems in place to regularly monitor DEF's administration of its programs to ensure that standards are being met so that eligible customers can easily enroll in available assistance programs. CAUSE-PA M.B. at 75 (citing CAUSE-PA St. 1 at 65). Similarly, CAUSE-PA asserted that the Company does not have formal policies, assessments, or audits of DEF's administration of its low-income assistance programs. CAUSE-PA M.B. at 75. Thus, CAUSE-PA proposed that PAWC be required to implement systematic and regular processes for monitoring, screening, and oversight related to its low-income assistance programs with clear metrics for auditing DEF's administration of its programs to be implemented within six months of the entry date of the final order entered in this proceeding. *Id*. at 77.

Additionally, CAUSE-PA proposed that the Company be required to conduct and submit periodic third-party evaluations to the Commission on its low-income assistance programs, consistent with the six-year program evaluation period required of EDCs and NGDCs, with the first evaluation due a year from the entry date of the final order entered in this proceeding. CAUSE-PA M.B. at 78 (citing 52 Pa. Code §§ 54.76 and 62.6). Lastly, CAUSE-PA disagreed with PAWC that any increased costs resulting from enhanced oversight would require a rider recovery mechanism. CAUSE-PA M.B. at 79 (citing CAUSE-PA St. 1-SR at 21). According to CAUSE-PA, DEF's administration of the Company's USPs is already recovered through rates and any costs related to appropriate oversight should be recovered in the same manner as other program costs. CAUSE-PA M.B. at 79-80.

2. Recommended Decision

In the Recommended Decision, the ALJs agreed with PAWC that the recommendations advanced by CAUSE-PA's witness, Mr. Geller, are unnecessary. The ALJs noted the Company's assertion that it meets regularly with DEF regarding administration and that DEF provides the Company with standard periodic reports. The Recommended Decision further noted PAWC's argument that while such third-party auditing is required by law for EDCs and NGDCs as part of their universal service obligations, it is not required for water and wastewater utilities. Therefore, the ALJs recommended that the Commission reject CAUSE-PA's recommendations for the administration of PAWC's low-income assistance programs. R.D. at 354.

3. Disposition

No Exceptions have been filed to this determination. Finding the ALJs' recommendation to be reasonable, appropriate, and in accordance with the record evidence, it is adopted.

XIII. Service Quality and Customer Service Issues

A. Customer Service Performance

1. Positions of the Parties

PAWC explained that its CSO supports the customer service needs of PAWC and the other AWK utility subsidiaries and provides customers with convenient access to information and responsive, personal service to drive high satisfaction ratings. PAWC M.B. at 92 (citing to PAWC St. 9 at 7-8). Noting the opinion of the OCA's witness, Ms. Alexander, that CSO performance has been poor since 2019, the Company argued that Ms. Alexander's evaluation is narrowly and erroneously centered on wait times and call abandonment rather than the overall customer experience. PAWC M.B. at 93 (citing OCA St. 6 at 19-25; OCA Exh. BA-3). The Company emphasized the testimony of its own witness, Ms. Deborah Degillio, that first contact resolution is the highest driver of customer service that impacts overall satisfaction. PAWC M.B. at 93 (citing PAWC St. 9 at 7-8). Further, the Company argued that Ms. Alexander compared the CSO's performance with data reported to BCS by electric and gas utilities that do not use the same metrics for call center performance as PAWC. PAWC M.B. at 94. According to PAWC, Ms. Alexander's recommendations of additional management oversight of CSO call handling are unfounded, as the performance levels of the CSO and third-party call handling agencies are already monitored daily. *Id*. (citing PAWC St. 9-R at 6-8).

Regarding the OCA's witness, Ms. Alexander's, recommendation requiring, *inter alia*, a "professionally conducted root-cause analysis of complaint trends," PAWC's witness, Ms. Tawana Dean, explained that Ms. Alexander's concerns were without merit due to the Company's robust complaint analysis process. PAWC M.B. at 96 (citing OCA St. 5 at 11-18, 44). In response to the public input hearing testimony that a few PAWC customers either did not receive paper bills for December 2023 or received mailed bills late, the Company asserted that it agreed to credit a late fee charge to any Scranton area customer who did not have any late fees in the last quarter of 2023. PAWC M.B. at 96-97 (citing Tr. at 1976). PAWC further contended that it determined that this issue was caused by postal service delays and not due to the action or in-action of PAWC. PAWC M.B. at 96 (citing PAWC St. 9-R at 18). In response to Ms. Alexander's recommendation that PAWC document, *inter alia*, the frequency of inconsistent billing periods, PAWC argued that there is no basis for the Commission to require additional reporting and documentation because the Company's billing periods are consistent with Commission regulations. PAWC M.B. at 97 (citing OCA St. 6 Supp at 2; OCA St. 6-SR at 26).

The OCA argued that PAWC's call center performance is inadequate due to high call-answer times, high call abandonment rate, and high complaint rates. OCA M.B. at 102 (citing OCA St. 6 at 11-12, 19-24). The OCA asserted that as a result, the Commission should disallow certain call center expenses and reject the Company's managerial performance adder. OCA M.B. at 102. According to the OCA, the Company's inadequate call center performance was a subject of the Commission's *2023 Management Audit* that documented poor call center performance and found that the Company experienced a sustained decline in call handling performance since 2019. *Id*. at 103 (citing *2023 Management Audit*). The OCA contended that in response, PAWC stated that it would "strive" to achieve a performance of answering 80% of the calls within 60 seconds by the end of 2024. OCA M.B. at 103.

Therefore, OCA's witness, Ms. Alexander, recommended that the Company be required to, *inter alia*, adopt specific performance standards, have a professionally conducted root cause analysis of all customer complaint data, and provide managerial oversight to the Service Company's CSO's call center performance. OCA M.B. at 104. The OCA further referenced the Commission's Order releasing the *2023 Management Audit* where the Commission directed that PAWC file a new or amended affiliated interest agreement (AIA) that reflects the current company structure and the intercompany transactions taking place between PAWC and the Service Company. *Id*. (citing OCA St. 6 at 17). In addition, the OCA recommended that any new or amended AIA should contain arms-length contractual language granting PAWC contractual protection to perform audits of the Service Company's CSO performance based on defined metrics. OCA M.B. at 104. Lastly, the OCA contended that the Commission should require these recommendations be carried out by PAWC as a part of any authorized rate increase to ensure that consumers are receiving adequate service. *Id*. at 102, 105 (citing 66 Pa.C.S. §§ 523, 1501, 1505; *PG&W 1986* at 244-45; *PGW 2000* at *41-44).

CAUSE-PA noted that aside from the issues concerning DEF's administration of PAWC's low-income assistance programs and, in turn, the services provided to low-income customers, it did not take a position with respect to other customer service performance issues in the context of this proceeding. CAUSE-PA M.B. at 80.

2. Recommended Decision

In the Recommended Decision, the ALJs highlighted that out of the 217 witnesses that offered testimony at the public input hearings in this proceeding, only a handful of witnesses raised customer service issues and that the majority of testimony concerned affordability and water quality. R.D. at 363. The ALJs recognized that PAWC is required by Section 1501 of the Code to provide its customers with adequate and reasonable service but is not required to provide perfect service. *Id*. at 364 (citing 66 Pa.C.S. § 1501). Further, the ALJs found that the testimony of the several customers regarding the issues they experienced when contacting PAWC to report issues did not warrant requiring the Company to modify its call handling procedures. Additionally, the Recommended Decision found that the Company's daily monitoring of the CSO and third-party call handling agencies constitutes sufficient oversight. Therefore, the ALJs recommended that the OCA's proposal be rejected. Regarding the customers that did not receive paper bills for December 2023 and were assessed late fees by PAWC, the ALJs found PAWC's response in crediting the late fees to the customers' accounts to be reasonable, while also noting that this issue arose due to a postal service delay and not due to any action or in-action of PAWC. R.D. at 364.

3. OCA Exception No. 24 and Replies

In its Exception No. 24, the OCA argues that the ALJs erred in recommending that the Commission reject the OCA's proposed measures to improve customer service performance. According to the OCA, the ALJs did not afford enough weight to the OCA's witness, Ms. Alexander's, opinion on customer call handling and focused too much on the lack of public input testimony on customer service issues. In support, the OCA argues that when consumers are faced with yet another rate increase that threatens affordability, they are unlikely to utilize their limited time permitted for testimony to discuss customer service when they are concerned about affordability and service quality. OCA Exc. at 37-38. Further, the OCA contends that the lack of public input testimony on customer service issues is not determinative where the OCA, as the statutory advocate representing the interest of consumers in this proceeding, provided extensive evidence of the customer service issues by way of its witness, Ms. Alexander. *Id*. (citing OCA St. 6 at 21-23).

In its Reply, PAWC agrees with the ALJs' recommendation that the Commission reject the OCA's proposed service-related conditions and conclusion that the Company provides adequate and reasonable service. According to the Company, the OCA's evaluation of PAWC's customer service narrowly focuses on and misapplies two (2) call handling metrics presented in BCS' annual customer service reports for electric and gas utilities. PAWC R. Exc. at 14-15. PAWC further agrees with the Recommended Decision's finding that the additional managerial oversight proposed by the OCA is unnecessary because the performance levels of the CSO and third-party call handling agencies are already monitored daily. *Id*. at 15 (citing to R.D. at 364).

4. Disposition

Upon consideration of the record, and the arguments of the Parties, we find that there is no basis to condition PAWC's rate increase upon the imposition of the customer service performance standards proposed by the OCA. Importantly, we conclude the present rate case is not akin to the above PG&W case cited by the OCA in support of its position. In that case, the utility's service deficiencies were demonstrated to be so serious as to constitute the failure to provide safe and adequate service in violation of Section 1501 of the Code. To the contrary, in the present case there is no such finding.

Nevertheless, because we have encouraged those struggling to pay their utility bills to avail themselves of PAWC's customer assistance programs, we must stress the importance of call center performance as this is the primary contact point for customer inquiry into these programs and we believe it is best practice to ensure that call centers maintain baseline performance.

As referenced by the OCA, the *2023 Management Audit* noted a sustained decline in PAWC's call handling performance since 2019. Audits explained that the decline in call handling performance was measured against the metrics used for NGDCs and EDCs, including percentage of calls answered within thirty (30) seconds and call abandonment rate. Audits noted that while regulated water and wastewater utilities, like PAWC, are not subjected to the quality of service reporting requirements required of NGDCs and EDCs, these metrics are just as relevant to water and wastewater utilities. *2023 Management Audit* at 81. In addition, it is important to note Audits' finding that the Company did start to make improvements in its call handling performance after 2021. However, these performance levels were still worse than historical performance levels. *Id*. at 83. Accordingly, the *2023 Management Audit* called upon PAWC to "[i]mprove customer service performance at minimum to pre-pandemic levels." *Id*. at 84.

In response to the *2023 Management Audit*, PAWC stated that its customer service performance improved significantly in 2023 and that it would strive to achieve a performance of answering 80% of the calls within 60 seconds or less by December 31, 2024. *PAWC Implementation Plan in Response to the 2022-23 Focused Management and Operations Audit*, Docket No. D-2022-3035217 (*Implementation Plan*) at 38. The Company did not explain in its *Implementation Plan* how it intends to address its call abandonment rate.

We believe it is critical that PAWC not be stagnant in attempts to improve and maintain customer call center performance. For these reasons, we will require

PAWC to prepare and submit plans, within six (6) months of the entry date of the Final Order entered in this matter, demonstrating how it intends to continue to improve its percentage of calls answered in sixty (60) seconds or less and its call abandonment rate. We find this requirement to be a minimal burden on PAWC, especially considering the fact that customer call center performance has improved, albeit not to pre-pandemic levels.

Accordingly, the OCA's Exception No. 24, regarding the imposition of customer service performance standards, is denied and the recommendation of the ALJs on this issue is adopted, as modified, consistent with our above discussion. In addition, PAWC is directed to file a report detailing its plans on improving its percentage of calls answered and call abandonment rate within six (6) months of the entry date of the Final Order entered in this proceeding.

B. Tenant Issues and Protections

1. Positions of the Parties

PAWC asked the Commission to reject the tracking and reporting proposals advanced by CAUSE-PA, outlined below. The Company opined that it already fully complies with the Discontinuance of Services to Lease Premises Act (DSLPA) and its procedures are not incompatible with the Utility Services Tenants Rights Act (USTRA). PAWC also asserted that the DSLPA "places the obligation on the landlord ratepayer to notify the utility whether the premises being served are for rental purposes." PAWC M.B. at 98.

PAWC also averred that the Company implements additional measures to determine whether service addresses should be coded as landlord-ratepayer or tenant occupied. PAWC relies on information from landlords, as well as tenants and field service representatives to ensure properties are coded correctly. When delinquent, these accounts go through the 37-day notice process prior to service termination as required by DSLPA and USTRA with notice including directions on how to contact PAWC to continue service. PAWC represents that these processes are the same for termination or disconnection requests made by municipal sewer providers. PAWC M.B. at 98.

CAUSE-PA raised concerns regarding whether PAWC has adequate policies and procedures to monitor DSLPA compliance. CAUSE-PA M.B. at 83. According to CAUSE-PA, DSLPA compliance should require PAWC to track and report certain metrics, including: (1) the types of notices provided to tenant occupied accounts before termination for landlord/owner nonpayment; (2) when and how notices are provided; (3) whether tenants asserted their rights to continued service; (4) the number of accounts incorrectly coded as non-tenant accounts; (5) the number of notices of termination or disconnection sent to accounts improperly coded as non-tenant and if the account was terminated or disconnected while coded as non-tenant; and (6) the amount of partial payments made by tenants seeking to continue services pursuant to the DSLPA. *Id*. at 85.

CAUSE-PA's main concern stemmed from a lack of clarity given "PAWC indicates that it does not track and cannot report on the number of tenant-occupied accounts that received notice of an involuntary termination or voluntary disconnection pursuant to DSLPA." CAUSE-PA similarly points to the Company's admission that it does not track issues related to identification and coding of tenant accounts, nor does it regularly track partial payments made by tenants seeking to exercise their DSLPA rights. CAUSE-PA recommended several changes to PAWC's DSLPA policies and procedures, including reporting of the above proposed data quarterly to PAWC's Customer Assistance Advisory Group and inclusion of the data in PAWC's next rate case. CAUSE-PA M.B. at 83-85.

2. Recommended Decision

In the Recommended Decision the ALJs dismissed CAUSE-PA's concerns and found that the Company had "adequate policies and procedures in place to monitor its compliance with DSLPA." The ALJs noted that PAWC: (1) relied on information provided by landlords, tenants, and field service representatives to assist in determining whether properties are reasonably likely to be occupied by tenants and correctly coded; (2) provides the required notice prior to any service termination; and (3) utilizes the same processes prior to service termination at the request of municipal sewer providers. The ALJs found the steps taken by PAWC to determine whether a service address should be coded as landlord-ratepayer or tenant occupied to be sufficient and rejected CAUSE-PA's proposals. R.D. at 369.

3. Disposition

Since none of the Parties excepted to this determination, and finding the ALJs recommendation to be reasonable, appropriate, and in accordance with the record evidence, we agree with the ALJs' recommendation to reject CAUSE-PA's proposal and find that PAWC has sufficient policies to ensure compliance with the DSLPA.

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

1. Positions of the Parties

PAWC averred that its current policies and procedures regarding service termination at the request of a non-Company wastewater provider comply with the Water Services Act (WSA) and address several of the issues raised by the OCA and CAUSE-PA, *infra*. PAWC noted that prior to terminating service under the WSA, a ten-day termination notice must be mailed or posted at the property, and if the person liable for the unpaid charges delivers a written statement under oath to the municipal wastewater provider raising a just defense, the water service is not to be shut off until judicial investigation is conducted. PAWC also has processes in place to verify a municipal sewer provider has complied with the WSA, including certification from a responsible municipal official and a confirmation that the municipality has not received a medical certification for the relevant premise. PAWC M.B. at 99-100.

PAWC disagreed with the below proposals from the OCA and CAUSE-PA as either inconsistent with the WSA (recommendation that PAWC post their own notice) or unnecessary in light of PAWC's existing verification process (requiring proof of mailing and posting of the termination notice). PAWC M.B. at 100. PAWC also contested proposed modifications to the Company's proposed Tariff Section 12.8. PAWC stated the proposed changes are without supporting statute or regulation and "unreasonably restrictive," with several content requests for termination notices provided by wastewater providers with whom the Company has shut-off agreements. PAWC argues the Commission should not require these requests as: (1) the termination notices provided at shut-off are not required by statute or regulation and are instead provided voluntarily; and (2) PAWC has not been able to consult with the non-Company wastewater providers with whom it has shut-off agreements to ascertain whether the changes are feasible. *Id*. at 100-01.

The Company also responded to the OCA's below proposal to limit Tariff Section 12.8 to municipal entities covered by the WSA and non-Company wastewater providers with a "Commission-approved agreement." PAWC averred that its Joint Services Agreement with Aqua was not approved by the Commission; rather, the Commission directed the parties to seek approval of tariff changes related to the provisions affecting customers. PAWC argued the OCA's proposal shows a misunderstanding of the Joint Services Agreement and its recommendations are incompatible with the Joint Services Agreement. The Company asked for all the OCA's proposed changes to Tariff Section 12.8 to be rejected. PAWC R.B. at 77-78.

The OCA recommended the Commission adopt the revised Tariff Section 12.8 language because the language, as proposed by PAWC, "posed the risk of harming consumers and creating additional confusion regarding the process." OCA M.B. at 105. The proposed modifications were as follows, with strikeouts representing the OCA's recommended deletions and underlined text representing recommended language:

> 12.8 Termination by Company for Non-Payment of Wastewater Service to a Non-Company Wastewater Provider
>
> ~~The Company may also terminate service in accordance with the terms of any agreement between the Company and a non-Company wastewater provider for non-payment of wastewater service when due upon prior notice by the non-Company wastewater provider.~~ The Company may terminate a customer's water service due to the customer's non-payment of charges owed to a non-Company wastewater provider, provided that: (1) the Company has an effective agreement with the non-Company wastewater provider pursuant to the Water Services Act or Act of April 14, 2006, codified at 53 P.S. §§ 3102.501 – 3102.507, or a Commission-approved agreement with the non-Company wastewater provider; and (2) the customer received prior notice from the non-Company wastewater provider of the past due amounts owed to the non-Company wastewater provider.
>
> Following the issuance of termination notice by the non-Company wastewater provider, the Company will not ~~move forward with termination of~~ terminate the customer's water service upon notification to the Company by the non-Company wastewater provider that the customer does either of the following: (1) disputes the termination for non-payment; or (2) ~~if the customer~~ produces a medical certification.
>
> Upon termination, the Company will post the termination notice at the customer's premises. The Company's termination

> <u>notice shall provide the following information in conspicuous format and plain language: (1) a statement that PAWC terminated the customer's water service due to the customer's non-payment of non-Company wastewater charges; (2) a statement that the termination of service is not the result of customer's non-payment of water charges owed to PAWC; (3) the name and contact number of the non-Company wastewater provider; (4) the contact information for the Company; and (5) a citation to Section 12.8 of PAWC's Water Tariff and the weblink for accessing the Company's tariff webpage.</u>

OCA St. 6-SR at 18-19. The OCA asked the Commission to adopt the proposed language "to ensure that consumers are receiving reasonable service." OCA M.B. at 106.

CAUSE-PA expressed concern that PAWC's current procedures and processes for terminating water service on the request of a non-Company wastewater utility "does not adequately protect tenants." CAUSE-PA asserted that PAWC, as the entity performing service termination, "has an affirmative duty to confirm that the [Water Services] Act has been followed prior to terminating services based on a request of a sewer utility, and should not rely on sewer authorities to monitor their own compliance…" CAUSE-PA M.B. at 87-88.

To ensure that PAWC complies with the WSA and the USTRA, CAUSE-PA recommended the following policy and procedure reforms: (1) PAWC should be required to obtain actual proof of mailing and proof of posting of notice before terminating service at the request of a non-Company wastewater utility; (2) PAWC should consult with its CAAG to revise its policies and procedures to ensure compliance with the WSA and update training materials to reflect revisions; (3) PAWC should review policies and procedures to ensure that tenants are not required to rely on the wastewater utility to act on their behalf to maintain service. CAUSE-PA M.B. at 89-90.

2. Recommended Decision

The ALJs agreed with the OCA that its proposed tariff language should be adopted. The ALJs found the revisions proposed by the OCA "will remove possible confusion" from the original language filed by PAWC. In addition to providing further protections for consumers, the ALJs held the language will "allow the company to uphold its Joint Services Agreement with Aqua PA." In recommending the Commission adopt the OCA's proposed tariff language, the ALJs made a revision to the language and noted the term "a Commission-approved agreement" should be replaced with "an effective agreement" to recognize the Commission does not approve agreements under the WSA or Section 12.1 of PAWC's Water Tariff. R.D. at 374.

Conversely, the ALJs recommended the Commission reject the proposals made by CAUSE-PA regarding revised policies and procedures ensuring compliance with the WSA. After finding "that PAWC's process described by the Commission is sufficient to verify that the sewer provider has complied with all of its obligations under the WSA," the ALJs found CAUSE-PA's recommendations to be unnecessary. R.D. at 375.

3. PAWC Exception No. 12 and Replies

In its Exception No. 12, the Company takes issue with the ALJs' recommendation that the Commission adopt the tariff language proposed by the OCA. PAWC notes that the specific language requires "that notices provided upon termination under Tariff Section 12.8 (Section 12.8 Notices) include, among other things, contact information for the Company and the name and contact number of the non-Company wastewater provider." PAWC Exc. at 31-32.

PAWC accepts the recommendation that the notices provide Company contact information, but it objects to the required inclusion of the name and contact information for the non-Company wastewater provider. Noting that the Company currently has shut-off agreements with more than 120 non-Company wastewater providers, the Company believes customers are adequately protected by receiving PAWC contact information. PAWC believes the inclusion of contact information for over 120 non-Company wastewater providers would be unduly burdensome. PAWC Exc. at 32.

In reply to PAWC's Exception No. 12, the OCA requests the Commission adopt the ALJs' recommendations regarding Section 12.8 termination notices and require inclusion of the name and contact number for the non-Company wastewater provider. Noting PAWC's "less than exemplary call center performance," the OCA argues it would create an additional burden on customers to have to contact PAWC to inquire regarding the non-Company termination notice. The OCA requests the Commission adopt the recommendation of the ALJs and the OCA's proposed tariff language given that PAWC has not shown inclusion of the additional contact information will create an undue burden and will also aide the Company in upholding its Joint Services Agreement with Aqua. OCA R. Exc. at 24-25.

4. Disposition

We concur with the reasoning outlined in the Recommended Decision and believe the proposed tariff language, as modified by the ALJs' recommendation, is appropriate. The proposed language provides greater clarity to customers, increases customer protection, and also allows PAWC to uphold its Joint Service Agreement with Aqua. In addition, we find the steps taken by PAWC to ensure compliance with the WSA by non-Company wastewater utilities to be sufficient, and, therefore, reject the proposals made by CAUSE-PA.

In concurring with the ALJs, we shall reject Exception No. 12 filed by PAWC. We find the inclusion of non-Company wastewater utility contact information on termination notices to not be onerous and believe it provides greater clarity to customers. We agree with the OCA that not including the information creates additional burdens on customers who must call PAWC regarding the termination notice and PAWC's call center which must provide contact information for non-Company wastewater utilities.

D. American Water Resources

1. Positions of the Parties

PAWC averred that its relationship with AWR adheres to all Commission regulations and has remained unchanged for over twenty (20) years. PAWC M.B. at 102. Although AWK, parent company of PAWC, sold its interest in AWR in December 2021, ending an affiliate relationship between AWR and PAWC, the relationship between AWR and PAWC remains essentially the same based on a Utility Agreement executed by AWR and PAWC at the time of sale. *Id*. (citing CONFIDENTIAL OCA Exhibit BA-8).

The Company explains that AWR offers optional water line and sewer line protection plans to PAWC customers, with the customer paying a monthly fee that, for convenience, can be either directly billed by AWR or included on the customer's PAWC bill. If the customer experiences an issue, AWR will send a contractor for repairs under the warranty program with minimal up-front cost to the customer. PAWC M.B. at 101.

PAWC insisted its relationship with AWR is standard industry practice and points to the fact that AWR offers similar services to residential water and sewer utility customers "in 42 other states and the District of Columbia." PAWC M.B. at 102 (citing PAWC St. 9-R at 16). PAWC also pointed out that Commission regulations recognize the practice of utilities billing for "charges other than basic service," including "line repair programs and appliance warranty programs." PAWC M.B. at 102 (citing 52 Pa. Code § 56.13). PAWC stated that, consistent with Commission regulations, if a customer opts to purchase the AWR services, the charges for these services will be included on the PAWC bill, with customer payments first applied to the PAWC portion of the bill. Notably, a failure to pay for AWR's services does not result in a service termination request by PAWC. PAWC M.B. at 102.

PAWC responded to the OCA's contention, *infra,* that PAWC including AWR charges on its bill discriminates against other providers by noting "no other person has sought to include its non-basic products and services on PAWC's bills." PAWC averred its Utility Agreement with AWR does not preclude the Company from offering similar on-bill services to another entity and, since no other entity has sought such access, PAWC is not providing any preference or advantage to AWR. PAWC M.B. at 104.

PAWC also objected to the OCA's request that the Company have some oversight of AWR's pricing, noting that "non-basic products and services are beyond the scope of the Code and not subject to Commission jurisdiction." PAWC passes through AWR's contract pricing as a separate line item and does not terminate customers in the event of non-payment of AWR charges. PAWC M.B. at 105.

Regarding AWR's usage of PAWC's name and logo, PAWC asserted that such agreements are a standard industry practice and has been ongoing for over twenty (20) years. PAWC argued that no investigation was needed as this practice was not misleading based on disclosures "on all marketing materials explaining that AWR is not affiliated with PAWC, its products and services are optional, and AWR's prices are not determined by PAWC." PAWC M.B. at 105-06.

PAWC also addressed concerns raised by the OCA regarding PAWC's relationship with AWR and monitoring conducted by PAWC. *See*, OCA R.B. at 70-72 (Confidential). PAWC argued each of these concerns is unfounded as it is done pursuant to a PUC-approved Service Agreement. PAWC M.B. at 106 (Confidential).

Finally, PAWC objected to the OCA's proposal to "impute" AWR revenues and asserted it was "unreasonable and inconsistent with proper ratemaking" to order PAWC to suspend AWR services but act as if the Company were still receiving revenues from that service. PAWC M.B. at 107.

The OCA advanced that PAWC is "engaging in deceptive and discriminatory billing and marketing practices for non-utility 'protection services.'" The OCA believes this relationship is to the detriment of consumer interests and enabled by: (1) a written billing and marketing agreement between AWR and PAWC; and (2) a licensing agreement between AWK and its ex-subsidiary, AWR, both of which were entered into at or around the time AWK sold off AWR on or around December 9, 2021. As noted in Section VI.C, *supra*, the OCA recommended the Commission investigate the relationship between PAWC and AWR and suspend new customer enrollments pending such investigation. OCA M.B. at 106. As part of the investigation, the OCA recommended the Commission investigate whether the Utility Agreement approved by the Commission in 1989 is still reasonable. *Id*. at 74-75.

The OCA further expanded on its arguments, countering PAWC's assertion that PAWC and AWR's relationship has not changed by noting AWK's sale of its interest in AWR in December of 2021 and the two agreements noted in its Main Brief. OCA R.B. at 70. The OCA also refers to specific portions of the agreements for the assertion that there should be an investigation of the relationship between PAWC and AWR. *Id*. 70-72 (Confidential).

The OCA also argued the "exclusive marketing and billing arrangement" between PAWC and AWR is discriminatory to other providers of similar services in PAWC's service territory and may result in consumers paying more for such services. OCA buttressed this assertion by noting that "AWR stands to benefit from the false impression given to PAWC's customer" by being included on PAWC bills as a line-item and AWR's use of the Company's name and logo. OCA contested PAWC's argument that its arrangement with AWR is similar to those of other Pennsylvania utilities by noting that the example cited by PAWC is for non-basic utility services that are not included on bills by the utility. OCA R.B. at 72-74.

Lastly, the OCA addressed PAWC's argument regarding revenues from AWR. The OCA restated its position, set forth in Section VI.C, *supra,* that given the uncertainty of a possible investigation and that the revenue PAWC collected from AWR is "fully substantiated and benefits consumers," it should remain included in the revenue requirement for the FPFTY. OCA R.B. at 75 (citing OCA St. 2-SR at 50).

2. Recommended Decision

The ALJs recommended that the Commission reject the OCA's assertion that PAWC's relationship with AWR has resulted in discriminatory billing and marketing practices. The ALJs pointed to the voluntary nature of AWR's services, including the fact that PAWC customers could elect to have the charges appear on their bill or to be billed separately and would not be terminated by PAWC for failure to pay AWR charges. Also compelling to the ALJs were the disclosures included on all marketing materials explaining that AWR is not affiliated with PAWC, the services and products are optional, and PAWC does not determine AWR's pricing. R.D. at 381.

The ALJs also held that PAWC's relationship with AWR has remained unchanged for over 20 years and that the Utility Agreement between the parties provides the business relationship is not exclusive, and there has also not been a request by another entity seeking access to PAWC's bills. R.D. at 382.

Finally, the ALJs agreed with PAWC that the prices of non-basic products and services are beyond the scope of Commission jurisdiction and, therefore, PAWC should not be required to have monitoring responsibility over AWR's charges. Accordingly, the ALJs recommended the Commission reject the OCA's request for an investigation of the program. R.D. at 382.

3. OCA Exception Nos. 2 and 25 and Replies

The OCA raised two Exceptions to the Recommended Decision regarding PAWC's relationship with AWR. These Exceptions are discussed below.

In Exception No. 2, the OCA argues the ALJs erred in Finding of Fact No. 176, which states, as follows:

> Although [AWK] sold its interest in AWR in December 2021, which ended the affiliate relationship between AWR and PAWC, the day-to-day relationship between PAWC and AWR remains the essentially the same by virtue of a Utility Agreement executed by PAWC and AWR at the time of the sale. PAWC's relationship with AWR as a partner who provides optional warranty products and services to its customers has remained unchanged over the last two decades.

OCA Exc. at 4 (citing R.D. at 32; additional citations omitted). In support of its Exception No. 2, the OCA contends that this finding is not supported by the record when AWR was sold in 2021 and the relationship between AWR and PAWC is now controlled by a Utility Agreement. The OCA believes "[t]hese changes are material and significant and support the recommendation that the OCA made in its case that PAWC should be required to cease it [*sic*] marketing and billing arrangements prospectively and the Commission should open an investigation into the relationship between these companies." OCA Exc. at 4-5.

In its Exception No. 25, the OCA takes issue with the analysis conducted by the ALJs that resulted in their finding that PAWC's relationship with AWR has remained unchanged for over 20 years and is not deceptive and discriminatory to the detriment of PAWC's customers. The OCA points to the sale of AWR by AWK in December of 2021, which ended the affiliate relationship between AWR and PAWC and necessitated the signing of a Licensing Agreement between AWR and PAWC. The OCA argues that AWR's usage of the AWK name and logo, access to PAWC bills as a line item, and access to PAWC's customers for marketing creates a false impression that the companies are affiliated and that both parties profit from the false impression. OCA Exc. at 38-39. The OCA also insists the ALJs erred by finding the Utility Agreement and PAWC's practice of including AWR charges on customer bills is not discriminatory to other providers and reinforces its request that the Commission order an investigation into the AWR program. OCA Exc. at 39-40 (Confidential).

In reply, PAWC reiterates its argument that the Company's billing is not discriminatory as "PAWC is not providing any preference or advantage to AWR that runs afoul of the Public Utility Code." Additionally, PAWC restates that no other entity is seeking access to PAWC's bills. PAWC also maintains that AWR's use of PAWC's name and logo is reasonable as there are clear disclosures noting PAWC and AWR are not affiliated, AWR's services are optional, and AWR's prices are not determined by PAWC. PAWC states this "long-standing use of PAWC's name and logo for marketing purposes does not provide a basis for" the Commission to grant the OCA's request for an investigation. PAWC R. Exc. at 16-17.

4. Disposition

We agree with the ALJs and reject the OCA's request for an investigation into the relationship between PAWC and AWR. In doing so, we note the record evidence showing the relationship between PAWC and AWR has not materially changed, despite the issues outlined by the OCA. Therefore, we shall reject Exceptions No. 2 and No. 25 filed by the OCA and adopt the ALJs' recommendation on this issue.

In so doing, we first consider the OCA's argument that the relationship between PAWC and AWR has changed based on the December 2021 sale of AWK's interest in AWR and the parties' subsequent entrance into a Utility Agreement. As noted by the ALJs, this agreement maintains essentially the same day-to-day relationship between PAWC and AWR, with PAWC continuing to adhere to Commission regulations related to billing of AWR charges. The essential relationship between PAWC and AWR, a partnership where AWR provides optional warranty products and services to PAWC customers, is unchanged. The usage of PAWC's name and logo for marketing purposes is a longstanding practice as part of this arrangement and does not provide support for the OCA's requested investigation, especially given the clear disclosures that PAWC and AWR are not affiliated and AWR's services are optional.

Additionally, we find the relationship between PAWC and AWR is not discriminatory. The agreement between the parties is not exclusive and PAWC showed that no other companies were seeking access to PAWC's bill at this time. Taking note of the OCA's arguments, we also consider Section 1502 of the Code, 66 Pa.C.S § 1502, which prohibits discrimination or unreasonable preference to "any person, corporation, or municipal corporation." Here, the record does not show any preferential treatment on the part of PAWC towards AWR.

Regarding the OCA's request that PAWC have some oversight of AWR's pricing, we concur with the ALJs and reject this proposal, finding that the prices of non-basic products and services are beyond the scope of Commission jurisdiction and, therefore, PAWC should not be required to have monitoring responsibility over AWR's charges. In light of our findings here, we believe the revenues PAWC receives from AWR are appropriately part of this proceeding. Accordingly, as noted in Section VI.C, *supra*, we have approved PAWC's claim for miscellaneous revenues related to AWR.

E. Main Extensions

1. Positions of the Parties

PAWC explained that the OCA's witness, Mr. Terry Fought, recommended that the Company consider a main extension project that would extend an existing water line along Bethel Ridge Road to the West Virginia state border with spurs to serve Shades of Death Road, Locust and Carter Lanes and Penobscot Road in Jefferson Township. PAWC M.B. at 107. PAWC estimated that the main extension proposed by Mr. Fought and Jefferson Township Municipal Authority (JTMA) would require the Company to invest $5.2 million to install mains at 39 locations along the route presented in OCA Exhibit TLF-4. *Id.* (citing, PAWC St. 3-R at 3-4). PAWC noted that it is still assessing whether the proposed main extension is eligible under Rule 27.1(F) of its tariff, which permits main extensions within its existing service territory to be installed without customer contributions subject to Commission approval to address health and safety concerns. PAWC M.B. at 107.

The OCA explained in its Main Brief that Mr. Phil Choff is part of the JTMA Formal Complaint that requests an extension of water service within PAWC's existing service territory in Avella, Washington County, to at least 39 residents that struggle with quantity and quality of water. OCA M.B. at 106-07 (citing Tr. 1840-41; OCA St. 7-Supp. at 8-9, Exh. TLF-4). The OCA recommended that, as part of the approval of any rate increase in this proceeding, that PAWC be ordered to:

> 1. Seek grant funding, lower-cost funding, or contributions from other sources to help offset the costs of the project, whether or not the extension is funded under Rule 27.1(F).

> 2. Meet regularly with the OCA and other interested parties to provide updates on the JTMA project and allow the OCA to ask questions in real time. OCA St. 7-SR at 8-9.

OCA M.B. at 107.

2. Recommended Decision

Noting the absence of any disagreement between the Parties on this issue, the ALJs recommended the adoption of the OCA's proposal that PAWC be ordered to seek funding to offset the costs of the JTMA main extension request and to regularly meet with the OCA and other interested parties to provide updates on the JTMA project. R.D. at 384.

3. Disposition

No Exceptions have been filed to this determination. Finding the ALJs' recommendation to be reasonable, appropriate, and in accordance with the record evidence, it is adopted.

F. Pressure Surveys and Pressure Reducing Valves

1. Positions of the Parties

PAWC explained that Rule 4.7 of the Company's Water Tariff outlines the requirement for customers to install and maintain a pressure reducing valve (PRV) if the pressure at their service location exceeds 100 pounds per square inch (psi). PAWC stated that it largely agrees with the OCA's recommendations regarding this issue except for the OCA's proposed general education campaign. According to PAWC, the Company already records pressure information and reports it to the Commission for pressure complaints. Additionally, the Company asserted that it agreed to establish a notification process for customers where PAWC's system pressure regularly exceeds 100 psi. PAWC explained that as a part of this notification, the Company will educate the customer on their responsibility of installing a PRV at their service location under PAWC's tariff and encourage the customer to contact a licensed plumber for installation and maintenance of PRVs. PAWC M.B. at 108-09. The Company further explained that it will identify customers in higher pressure areas to receive this notification by using its Geographic Information System (GIS) system. *Id*. at 109 (citing Tr. at 1983-84). Due to the small number of customers affected by the PRV tariff requirement, PAWC's current education efforts, and its agreement to deploy a new, targeted notification process, the Company argued that the Commission should reject the outreach and education program proposed by the OCA's witness, Ms. Alexander. PAWC M.B. at 109.

The OCA noted PAWC's witness, Mr. Runzer's, statement regarding the Company's agreement to establish a notification process for customers where PAWC's system pressure regularly exceeds 100 psi. OCA M.B. at 107 (citing OCA St. 7 at 10; OCA St. 7-SR at 2; OCA St. 6 at 42-43; OCA St. 6-SR at 24-25; Tr. at 1983). The OCA stated that it supports the plan, which includes annual notice and targeted notices for move-ins. OCA M.B. at 107 (citing Tr. at 2055). In addition, the OCA recommended that PAWC also provide notice if, for operational reasons, the Company increases regular operating pressures above 100 psi. OCA M.B. at 107 (citing OCA St. 7-SR at 2). The OCA asserted that the Commission should direct the agreed-upon notification, including the OCA's addition, as a part of any authorized rate increase. OCA M.B. at 107-08 (citing 66 Pa.C.S. §§ 523, 1501, 1505; *PG&W 1986* at 244-45; *PGW 2000* at *41-44).

2. Recommended Decision

In the Recommended Decision, the ALJs recognized the public input hearing testimony from customers that had concerns regarding negative experiences with excess pressure. R.D. at 386 (citing Tr. at 1472-1523). As a result, the ALJs recommended that the Commission adopt the agreement between PAWC and the OCA that the Company provide notice to customers where systems regularly exceed 100 psi and the OCA's proposal that the Company provide annual notice and targeted notices for move-ins and if the Company increases regular operating pressures above 100 psi. R.D. at 386.

3. Disposition

No Exceptions have been filed to this determination. Finding the ALJs' recommendation to be reasonable, appropriate, and in accordance with the record evidence, it is adopted.

XIV. Miscellaneous Issues

A. Customer Notices Related to Rate Changes

1. Positions of the Parties

PAWC argued that it complied with the Commission's Regulations at 52 Pa. Code § 53.45 when it provided notice to all customers that reflected the Company's proposed Act 11 wastewater-to-water revenue requirement allocation. PAWC contended that the OCA's below proposal, that PAWC be required to mail customers a new notice of approved rates before rates go into effect, should be rejected. PAWC M.B. at 109. PAWC averred that any new notice requirements should be adopted by the Commission and applied to all water and wastewater utilities, and not solely to PAWC. PAWC submitted that its notice here was consistent with each of the notices in its rate cases since the enactment of Act 11, and that it already provides detailed notice of its rate changes once they are approved by the Commission through a bill insert. PAWC contended that an additional mailing is not feasible given the short time period between when rates are approved and when those rates become effective, and the process of sending a customized direct mail notice to its nearly 800,000 customers takes several weeks and is a considerable expense. *Id*. at 109-10.

The OCA argued that PAWC's notices to customers regarding the contents of its proposed rate changes are deficient and constitute inadequate notice. The OCA averred that the notice is deficient in terms of the accuracy of the bill impact of PAWC's proposed revenue shift under 66 Pa.C.S. § 1311(c), the residential customer usage level, and the Commission's final disposition of PAWC's proposed alternative ratemaking mechanisms under 66 Pa.C.S. § 1330. To remedy this deficiency, the OCA recommended that customer notices provide relevant information about the impact on their bill if PAWC's cost-of-service revenue deficiencies are used to set rates, and that a chart, illustrating three usage levels, be included in the rate case notices for water and wastewater in PAWC's next base rate filing. OCA M.B. at 108.

Furthermore, the OCA proposed that a notice should be directly mailed at the end of this proceeding that shows customers the impact on their bills from the final order, similar to how PAWC used direct mailing for the notices at the time of its filing. The OCA argued that this notice should include a link to the alternative ratemaking information posted on PAWC's website, as required by Commission Regulation or Order, as well as 66 Pa.C.S. § 1330(c)(1) and (2), and the website posting with the alternative ratemaking information could include information about the bill impact of the Commission's final order at three usage levels. The OCA averred that PAWC benefits from the obscurity that is provided by only showing what a typical customer's bill would be. Rather, the OCA contended that PAWC could choose to show usage at multiple levels but has made the choice not to do so. The OCA asserted that this could be accomplished without changing the Commission's Regulation on notice. OCA M.B. at 108-09.

2. Recommended Decision

The ALJs found that there is no need to revise customer notices related to rate changes, and that the notice provided by PAWC to customers in this and recent base rate cases complies with the Commission's Regulations. The ALJs also concluded that any new notice requirements should first be adopted by the Commission and then applied to all Pennsylvania water and wastewater utilities. Therefore, the ALJs recommended that the notice changes proposed by the OCA be rejected. R.D. at 389.

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation and adopt it without further comment.

XV. Conclusion

Based on our review of the record in this proceeding, we shall: (1) grant, in part, and deny, in part, the Exceptions filed by I&E, the OCA, and CAUSE-PA; (2) deny the Exceptions filed by PAWC, PAWLUG, Cleveland-Cliffs, and the City of Scranton; (3) deem the OCA Motion to be moot; and (4) approve an annual revenue increase of $88,121,069 to the Company's *pro forma* revenue at present rates of $820,869,547, or approximately 10.74%, for its water service and an annual revenue increase of $11,207,944 to the Company's *pro forma* revenue at present rates of $173,308,937, or approximately 6.47%, for its wastewater service, consistent with this Opinion and Order; **THEREFORE,**

IT IS ORDERED:

1. That the Exceptions filed by the Commission's Bureau of Investigation and Enforcement on May 17, 2024, are granted, in part, and denied, in part, consistent with this Opinion and Order.

2. That the Exceptions filed by the Office of Consumer Advocate on May 17, 2024, are granted, in part, and denied, in part, consistent with this Opinion and Order.

3. That the Exceptions filed by the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania on May 17, 2024, are granted, in part, and denied, in part, consistent with this Opinion and Order.

4. That the Exceptions filed by Pennsylvania-American Water Company on May 17, 2024, are denied, consistent with this Opinion and Order.

5. That the Exceptions filed by Pennsylvania-American Water Large Users Group on May 17, 2024, are denied, consistent with this Opinion and Order.

6. That the Exceptions filed by Cleveland-Cliffs Steel on May 17, 2024, are denied, consistent with this Opinion and Order.

7. That the Exceptions filed by the City of Scranton on May 17, 2024, are denied, consistent with this Opinion and Order.

8. That the Motion for Relief Regarding Ex Parte Communications filed by the Office of Consumer Advocate on May 22, 2024, is deemed to be moot, consistent with this Opinion and Order.

9. That the Recommended Decision of Deputy Chief Administrative Law Judge Christopher P. Pell and Administrative Law Judge John M. Coogan, issued on May 7, 2024, is adopted, as modified, by this Opinion and Order.

10. That the corrections and modifications directed by this Opinion and Order, reflected in the Pennsylvania-American Water Company and Pennsylvania-American Water Company-Wastewater Division, Docket Nos. R-2023-3043189 and R-2023-3043190 (Commission Tables Calculating Allowed Revenue Increase), attached hereto, are adopted as being in the public interest.

11. That Pennsylvania-American Water Company shall not place into effect the rates contained in Supplement No. 45 to Tariff – Water Pa. P.U.C. No. 5, as filed.

12. That Pennsylvania-American Water Company shall not place into effect the rates contained in Supplement No. 47 to Tariff – Wastewater Pa. P.U.C. No. 16, as filed.

13. That Pennsylvania-American Water Company is authorized to file tariffs, tariff supplements and/or tariff revisions, on at least one day's notice, and pursuant to the provisions of 52 Pa. Code §§ 53.1, *et seq.*, and 53.101, designed to produce an annual operating revenue of approximately $908,990,615 for its water operations, representing an annual revenue increase of approximately $88,121,069, to become effective for service rendered on and after August 7, 2024.

14. That Pennsylvania-American Water Company is authorized to file tariffs, tariff supplements and/or tariff revisions, on at least one day's notice, and pursuant to the provisions of 52 Pa. Code §§ 53.1, *et seq.*, and 53.101, designed to produce an annual operating revenue of approximately $184,516,880 for its wastewater

operations, representing an annual revenue increase of approximately $11,207,944 , to become effective for service rendered on and after August 7, 2024.

15. That Pennsylvania-American Water Company shall file detailed calculations with its tariff filings, which shall demonstrate to the Commission's satisfaction that the filed tariff adjustments comply with the provisions of this final Opinion and Order.

16. That Pennsylvania-American Water Company shall allocate the authorized increase in water operating revenues and wastewater operating revenues to each service, rate schedule, and customer class, and rate schedule within each rate customer class, in the manner prescribed in this Opinion and Order.

17. That Pennsylvania-American Water Company shall file with the Commission's Secretary's Bureau at these dockets and provide the Commission's Bureaus of Technical Utility Services and Investigation and Enforcement with updates to PAWC Exhibit 3-A, pages 26, 97, 146, 179, and 218 no later than December 1, 2025, which should include actual plant additions and retirements for the twelve months ending June 30, 2024, and for the twelve months ending June 30, 2025, as set forth in Section V.A of this Opinion and Order.

18. That Pennsylvania-American Water Company shall comply with all directives and conclusions contained in this Opinion and Order that are not the subject of individual ordering paragraphs as if they were the subject of specific ordering paragraphs.

19. That the Commission's Law Bureau, in conjunction with the Bureau of Technical Utility Services, shall implement an investigation into the quality-of-service issues in Pennsylvania American Water Company's northeastern service territory, culminating in the issuance of a root cause analysis report exhibiting any key findings,

within nine (9) months after the effective date of rates resulting from this base rate proceeding, *i.e.*, by no later than May 7, 2025, as set forth in Section III of this Opinion and Order.

20. That the Law Bureau, in conjunction with the Bureau of Technical Utility Services, may refer the findings of the investigation described in the previous ordering paragraph to the Commission's Bureau of Investigation and Enforcement and the Pennsylvania Department of Environmental Protection, or both, should it deem such action necessary.

21. That in its next base rate proceeding, Pennsylvania-American Water Company shall include Rider DIS and Rider DRS customers as separate customer classes in its water cost-of-service-study, as set forth in Section X.C of this Opinion and Order.

22. That Pennsylvania-American Water Company shall implement the increased tiered discount percentages of its Bill Discount Program within one (1) year after the effective date of rates resulting from this base rate proceeding, *i.e.*, by no later than August 7, 2025, as set forth in Section XII.B of this Opinion and Order. By this date, the Company shall file an associated report with the Commission's Bureau of Consumer Services.

23. That Pennsylvania-American Water Company shall implement the adoptions to its Hardship Fund, as described in Section XII.C of this Opinion and Order, within one (1) year after the effective date of rates resulting from this base rate proceeding, *i.e.*, by no later than August 7, 2025. By this date, the Company shall file an associated report with the Commission's Bureau of Consumer Services

24. That in its next base rate proceeding, Pennsylvania-American Water Company shall explain the efforts it has undertaken to provide Hardship Fund assistance

to as many eligible, low-income customers as possible, as set forth in Section XII.C of this Opinion and Order.

25. That Pennsylvania American Water Company should strive to set a target donation of an additional $1 million into its Hardship Fund.

26. That within one (1) year after the effective date of the rates resulting from this base rate proceeding, *i.e.*, by no later than August 7, 2025, Pennsylvania American Water Company shall implement the recommendations of the Office of Consumer Advocate and the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania regarding the Company's Low-Income Customer Outreach, Screening, and Intake, as set forth in Section XII.E of this Opinion and Order.

27. That within one (1) year after the effective date of the rates resulting from this base rate proceeding, *i.e.*, by no later than August 7, 2025, Pennsylvania-American Water Company shall file a plan with the Commission's Bureau of Consumer Services outlining how the Company proposes to implement the recommendations of the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania regarding the Company's Data Collection, Reporting, and Monitoring of its Low-Income Programs, as set forth in Section XII.F of this Opinion and Order.

28. That Pennsylvania American Water Company shall prepare and submit plans demonstrating how it intends to continue to improve its call abandonment rate and its percentage of calls answered in sixty (60) seconds or fewer, as set forth in Section XIII.A of this Opinion and Order. Such plans shall be filed with the Commission's Bureau of Consumer Services no later than one-hundred and eighty (180) days from the entry date of a Final Commission Order in this base rate proceeding.

29. That the following Formal Complaints at the respective docket numbers be dismissed and marked closed by the Commission's Secretary's Bureau:

Complainant(s)	Docket Number (Water)
Office of Consumer Advocate	C-2023-3044289
Office of Small Business Advocate	C-2023-3044375
Mark Henderson	C-2023-3044156
Kathleen Schwartz	C-2023-3044190
Amanda Johnsen	C-2023-3044185
Adam Nemchick	C-2023-3044191
Kirk Spencer	C-2023-3044189
Keith Sauer	C-2023-3044218
Andrew Kulp	C-2023-3044225
Jim Davidson	C-2023-3044223
Robert K. Ralls	C-2023-3044220
Richard Tawadros	C-2023-3044244
Natalie Rarick	C-2023-3044234
Tracy M. Rutherford	C-2023-3044293
David Ross	C-2023-3044348
Phyllis Connelly	C-2023-3044352
Thomas J. Hollenbach	C-2023-3044389
Alecia M. Lilley	C-2023-3044359
Lynn Mugno	C-2023-3044365
Michelle White	C-2023-3044369
Dr. Mostafa Easa	C-2023-3044567
Lynn DeAcosta	C-2023-3044380
Jeff Henry	C-2023-3044406
Anh Duong	C-2023-3044354
William Cameron & Linda Long	C-2023-3044355
Nicole Glimp	C-2023-3044565
Anthony McCann	C-2023-3044578
Shanna Weagle	C-2023-3044399
Brian Dugas	C-2023-3044563
Todd Blum	C-2023-3044583
Jennifer Dianna	C-2023-3044394
Mallory & Glenn Kercher	C-2023-3044686
Danielle Gabriel	C-2023-3044683
Devon Landis	C-2023-3044442
Morgan Wengert	C-2023-3044426
Angelica Alvarez	C-2023-3044405
John P. Dolekary	C-2023-3044580
John Miller	C-2023-3044416

Carl & Sharon Winter	C-2023-3044607
Paul & Catherine Brown	C-2023-3044611
Raymond Volsario	C-2023-3044614
Matthew J. Miller	C-2023-3044429
William R. Thomas	C-2023-3044601
Horace R. Battle	C-2023-3044600
Chirstopher Blake	C-2023-3044443
Laura Semel	C-2023-3044461
Robert M. Nowotarski	C-2023-3044676
Matthew & Melissa Mengel	C-2023-3044673
Tracy Cosgrove	C-2023-3044672
Richard Peal	C-2023-3044622
Patricia A. Finley	C-2023-3044504
Joseph Donahue	C-2023-3044524
Robert Bifano	C-2023-3044534
Gary Sirois	C-2023-3044830
Michelle Zebrowski	C-2023-3044868
Mary Ann Maro	C-2023-3044869
Joel Hernandez	C-2023-3044872
Dan Nebeker o/b/o Coldwater Lemoyne Carwash	C-2023-3044874
Mary Chibatar	C-2023-3044876
Mary Tanealian	C-2023-3044576
Tao Lu	C-2023-3044585
Jennifer Cohen	C-2023-3044682
Carla Seidel	C-2023-3044679
Amy E. Dalton	C-2023-3044677
Nicholas Orman	C-2023-3044642
Jay Phillips	C-2023-3044707
Carl W. Tunall, Jr.	C-2023-3044725
Steven Solomon	C-2023-3044733
Debora A. Sokol	C-2023-3044768
Shaun Keperling	C-2023-3044801
Audrey Gerold	C-2023-3044785
Robert Anderson	C-2023-3044799
Carl Kupchunas	C-2023-3044826
Matthew Jordan	C-2023-3044813
Cindy Cabrera	C-2023-3044816
Marie Sweeney	C-2023-3044918
Pennsylvania-American Water Large Users Group	C-2023-3044871
West Norriton Township	C-2023-3044965
John J. Heilenman	C-2023-3044908
Thalia Karalis	C-2023-3044929
Daniel Bergey	C-2023-3044984

Richard Matijasich	C-2023-3044981
Nicholas Collette	C-2023-3045023
Angela P. Kern	C-2023-3045039
Dennis McConnell	C-2023-3045053
James & Peggy Lingwall	C-2023-3045054
Wolfram Milz	C-2023-3045055
Donald Jones	C-2023-3045059
Marie Dougherty	C-2023-3045061
Michael & Mary Weishner	C-2023-3045062
Michelle R. Miller	C-2023-3045063
Carol Patterson	C-2023-3045064
Zachary Sprowls	C-2023-3045072
Elizabeth Sprowls	C-2023-3045073
Catharine Anderson	C-2023-3045082
Kathleen Donell	C-2023-3045083
Paul & Eileen Miller	C-2023-3045084
Norman T. Carpenter	C-2023-3045085
David Duquette	C-2023-3045087
Wesley Hartman	C-2023-3045088
Don Anderson	C-2023-3045089
Melissa Harper	C-2023-3045090
Charles E. Schwering	C-2023-3045093
Beth A. Gandelman	C-2023-3045094
Catherine & Kenneth Green	C-2023-3045095
Violet B. Kern	C-2023-3045105
Paul J. Walaski	C-2023-3045113
Cindy Murphy	C-2023-3045123
Gino Purchiaroni	C-2023-3045124
Christopher Nicholson	C-2023-3045134
Richard Small	C-2023-3045121
Nancy and Charles Wilson	C-2023-3045138
Harry Haas	C-2023-3045137
Jean Ustaszewski	C-2023-3045146
Kathryn Wilson	C-2023-3045152
Thomas McAuliffe	C-2023-3045156
Keith Pinkerton	C-2023-3045159
Kelly Knapp	C-2023-3045185
Alicia W. Shussett	C-2024-3045187
Patrick F. Boyle	C-2024-3045190
Jefferson Township Municipal Authority, c/o Patricia Lawrence, Secretary	C-2024-3045202
Juan F. Ramos	C-2024-3045208
Kyle Donahue	C-2024-3045210

John Erbicella	C-2024-3045209
Angela Gilmore	C-2024-3045212
Tracy L. Duff	C-2024-3045220
Timothy J. Creelman	C-2024-3045249
Frank Cerra	C-2024-3045257
Thomas F. Miller	C-2024-3045261
Mark Schuette	C-2024-3045263
Andrea Devlin	C-2024-3045285
Alena Trently	C-2024-3045258
Vicki DiArchangelo	C-2024-3045278
Thomas C. Kidwell	C-2024-3045315
Barry S. & Ethel Wagner	C-2024-3045320
Priscilla T. Gentry	C-2024-3045341
Matthew & Heather Heliger	C-2024-3045343
Barbara Stettenbauer	C-2024-3045360
Elizabeth Clark	C-2024-3045366
East Norriton Township	C-2024-3045399
Beth A. Gandelman	C-2024-3045422
Naomi Conte	C-2024-3045457
Ryan Gandelman	C-2024-3045467
Priscilla Jovais & Walter Baginski	C-2024-3045871
George M. Kamage, Jr.	C-2024-3045968
Julia Wright	C-2024-3045983
Anita Sakevich	C-2024-3045907
Michael W. Knoll	C-2024-3045985
Joseph Koza	C-2024-3045992
Randy McDaniels	C-2024-3045701
Christine Janiga	C-2024-3045987
Nereida Colon-Gonzalez	C-2024-3045788
Ruth McMullan	C-2024-3045997
Miranda Connors	C-2024-3046001
Deborah Nystrom	C-2024-3046000
Lora Gibb	C-2024-3045999
Ernest & Kathy Mayer	C-2024-3046292
Kathleen & William Nole	C-2024-3046296
Frances S. Kearney	C-2024-3046246
William Stevens	C-2024-3046071
Joe Dominick	C-2024-3046262
Andrea O'Neill-Hoffman	C-2024-3046195
Leslie Spindler	C-2024-3046230
Richard Brill	C-2024-3046111
Josephine Roman	C-2024-3046059
Mildred Decelles	C-2024-3046085

Gerald Smurl	C-2024-3046220
William Roman	C-2024-3046082
Harold Kiefer	C-2024-3046263
James G. Haggerty	C-2024-3046164
Ronald Benke	C-2024-3046112
Jodi Mayer	C-2024-3046291
James Wynder	C-2024-3046294
Billydon Hickson	C-2024-3046079
Elaine F. Campbell	C-2024-3046261
John Borer	C-2024-3046172
Thomas Tomeo	C-2024-3046047
Mary McKenna	C-2024-3046218
Bill Gaughan	C-2024-3046094
Jimmy Allen	C-2024-3046080
Mark Mecca	C-2024-3046055
Chris Casciano	C-2024-3046114
John Laskowski	C-2024-3045814
Colleen M. Gaughan	C-2024-3046044
Sean McAndrew	C-2024-3046252
Brian Cadugan	C-2024-3046169
Timothy Brier	C-2024-3046254
Joseph Baronski	C-2024-3046170
Michael Bussacco	C-2024-3046240
Robert Meyers	C-2024-3046219
Arthur F. Werner, Jr.	C-2024-3045244
Marianne Vergnetti	C-2024-3046108
Edmund Moroney	C-2024-3046061
Alice Lord	C-2024-3046043
Giselle Rutchford	C-2024-3046095
Ann McDermott	C-2024-3046046
Patricia Shultz	C-2024-3046050
Frank S. Sislo	C-2024-3046087
Linda Kiefer	C-2024-3046265
Dominic Cuchara	C-2024-3046109
Anthony Palmere, Jr.	C-2024-3046243
Debbie Wilson	C-2024-3046276
Gerard Dombroski	C-2024-3046259
Roberta Brentano	C-2024-3046098
William Seeger	C-2024-3046057
Elizabeth Zangardi	C-2024-3046226
Paul DelRossso	C-2024-3046217
Joseph Guerra	C-2024-3046168
Michael Shafer	C-2024-3046215

Marty Flynn	C-2024-3046257
Patrick H. Brentano	C-2024-3046099
Gary Shiner	C-2024-3046166
David F. Sevensky	C-2024-3046267
Susan Gilday	C-2024-3046238
Bernadette Bussacco	C-2024-3046221
Theodore Parchinski	C-2024-3046053
John Blackledge	C-2024-3046274
John Kulick	C-2024-3046353
Richard & Carmella Zaleski	C-2024-3046482
Nadine Simms	C-2024-3046351
James P. McDermott	C-2024-3046301
Lucy Jason	C-2024-3046302
Lynn King	C-2024-3046249
John McAuliffe	C-2024-3046392
Laura Virtue-Delayo	C-2024-3046397
Jessica Libassi	C-2024-3045805
David A. Grecco	C-2024-3046096
Leroy James Watters	C-2024-3046404
James Metzer	C-2024-3046411
Lorraine Perry	C-2024-3046408
Stephen Marr	C-2024-3046410
Brian A. McDonald	C-2024-3046741
Patricia A. Perri	C-2024-3046970
Patricia Barbuti	C-2024-3046810
Ryan & Leslie Ferguson	C-2024-3046467
Natalie Davis	C-2024-3046744
Patricia A. Perri	C-2024-3046745
Gary Graziano	C-2024-3046736
Joseph & Erin Kreis	C-2024-3046470
Caesar Bordo	C-2024-3046870
Ann McDonald	C-2024-3046746
Janice M. Mcdonald	C-2024-3046874
Jennifer Comparetta	C-2024-3046471
Sharon Cuff	C-2024-3046477
Karen Schuster	C-2024-3046742
Valerie Mendicino	C-2024-3046737
William J. O'Malley, III	C-2024-3046734
Louis Guzzi, Jr.	C-2024-3046406
Francis Kranick, Jr.	C-2024-3046811
Tara & Tom Schuster	C-2024-3046738
Colleen Demuro	C-2024-3046867
Charlotte DeRosier	C-2024-3046466

Albert Denunzio	C-2024-3046871
Mary C. Jennings	C-2024-3046743
James F. McCormick	C-2024-3046873
Laura A. O'Malley	C-2024-3046405
Mary & David Dobrzyn	C-2024-3046875
Gene Stanavitch	C-2024-3046403
Pat Stanavitch	C-2024-3046402
Robert Barry	C-2024-3046399
John Borgia	C-2024-3047073
Domenic P. Cafarella	C-2024-3046878
Michael D. Brooks	C-2024-3046880
Daniel E. Skvarla	C-2024-3046881
Donna Antonelli	C-2024-3046882
Michael Dempsey	C-2024-3046884
Marianne Brown	C-2024-3046886
Sharon Soudas	C-2024-3046885
Gina McCarthy	C-2024-3047515
Gerald Fabricatore	C-2024-3047312
Gerald R. Fabricatore	C-2024-3047375
Laura Wisniewski	C-2024-3047521
Julie Janosy	C-2024-3047695
Lackawanna County	C-2024-3048333
Vincent Ennis	C-2024-3048341
Clyde H. Morgan	C-2024-3045569
Colleen Adams	C-2024-3045573
Mark J. Mazurkiewicz	C-2024-3045579
Linda Culbertson	C-2024-3045650
Larry Wise	C-2024-3045668
James Lyband Jackson	C-2024-3045674
Gail Y. Gayeski	C-2024-3045666
Veronica A. Hannevig	C-2024-3045667
Theresa Skobel	C-2024-3045670
Jordan Henning	C-2024-3045678
Kyle & Lori Rompella	C-2024-3045681
Stefanie Adams	C-2024-3045685
Deborah & Robert May	C-2024-3045687
David & Lynn Griffith	C-2024-3045686
Paul Krammes	C-2024-3045690
Thomas Campisano	C-2024-3045691
Nelson Moeller	C-2024-3045703
Paulette Knott	C-2024-3045741
Gene & Patricia Malaspina	C-2024-3045750
Stephanie Sienkel	C-2024-3045767

Robert Boni	C-2024-3045765
Janice M. Reynolds	C-2024-3045768
Bilal Salaam	C-2024-3045812
Michael Troutman	C-2024-3045835
Kendra Robinson	C-2024-3045838
Gertrude Terrell	C-2024-3045842

Complainant(s)	Docket Number (Wastewater)
Office of Consumer Advocate	C-2023-3044292
Office of Small Business Advocate	C-2023-3044377
Mark Henderson	C-2023-3044159
Brian Gottschall	C-2023-3044170
Leroy Bumbarger	C-2023-3044169
Kathleen Schwartz	C-2023-3044193
Amanda Johnsen	C-2023-3044187
Adam Nemchick	C-2023-3044192
Anne Lockwood & Michael Haehnel	C-2023-3044168
Keith Sauer	C-2023-3044219
Natalie Rarick	C-2023-3044239
Darlene Hamilton	C-2023-3044170
Tracy M. Rutherford	C-2023-3044333
David Ross	C-2023-3044349
Alecia M. Lilley	C-2023-3044367
Lynn DeAcosta	C-2023-3044401
Nicole Glimp	C-2023-3044564
William H. Rissmiller	C-2023-3044569
Michelle White	C-2023-3044371
Jennifer Dianna	C-2023-3044395
Thomas J. Hollenbach	C-2023-3044685
Mallory Kercher	C-2023-3044681
Devon Landis	C-2023-3044448
Morgan Wengert	C-2023-3044427
Jeff Henry	C-2023-3044407
John Miller	C-2023-3044413
Angelica Alvarez	C-2023-3044566
Andrew Kulp	C-2023-3044468
Sharon Winter	C-2023-3044615
Paul Brown	C-2023-3044616
Charles L. Heydt	C-2023-3044618
William R. Thomas	C-2023-3044604
Linda Allison	C-2023-3044595
Chirstopher Blake	C-2023-3044444
Richard Peal	C-2023-3044620

Tracy Cosgrove	C-2023-3044667
Donald D. Dickerson	C-2023-3044662
Patricia A. Finley	C-2023-3044505
Jennifer Cohen	C-2023-3044671
Michael D. Fletcher	C-2023-3044688
Mary Tanealian	C-2023-3044577
Tao Lu	C-2023-3044573
Amy E. Dalton	C-2023-3044678
Mark Coogan	C-2023-3044704
Carla Seidel	C-2023-3044732
Anh Duong	C-2023-3044353
Borough of St. Lawrence	C-2023-3044757
Debora A. Sokol	C-2023-3044767
Audrey Gerold	C-2023-3044786
Matthew Jordan	C-2023-3044814
Laura Semel	C-2023-3044821
Lynn Mugno	C-2023-3044366
Pennsylvania-American Water Large Users Group	C-2023-3044873
Joel Hernandez	C-2023-3044877
Mary Chibatar	C-2023-3044879
Dennis McConnell	C-2023-3044880
Marie T. Ratchford-Demkosky	C-2023-3044881
Cindy Cabrera	C-2023-3044916
Thalia Karalis	C-2023-3044915
Richard Matijasich	C-2023-3044982
Daniel B. Fletcher	C-2023-3045056
James Lingwall	C-2023-3045065
Donald Jones	C-2023-3045066
Marie Dougherty	C-2023-3045067
Jay Phillips	C-2023-3045069
Carl W. Tunall, Jr.	C-2023-3045070
Catharine Anderson	C-2023-3045074
Kathleen Donell	C-2023-3045075
Paul & Eileen Miller	C-2023-3045077
Norman T. Carpenter	C-2023-3045079
David Duquette	C-2023-3045091
Wesley Hartman	C-2023-3045092
Shaun Keperling	C-2023-3044802
Cindy Murphy	C-2023-3045125
Patrick O’Donnell	C-2023-3045140
Kathryn Wilson	C-2023-3045153
Keith Pinkerton	C-2023-3045164
Nancy and Charles Wilson	C-2023-3045160

Dayna Gardecki	C-2023-3045167
Kelly Knapp	C-2023-3045186
Alicia W. Shussett	C-2024-3045188
Patrick F. Boyle	C-2024-3045191
Juan F. Ramos	C-2024-3045206
Kyle Donahue	C-2024-3045211
Angela Gilmore	C-2024-3045213
John Erbicella	C-2024-3045255
Vicki DiArchangelo	C-2024-3045279
Alena Trently	C-2024-3045259
Andrea Devlin	C-2024-3045296
Thomas C. Kidwell	C-2024-3045316
Lloyd Simmers	C-2024-3045332
Anne-Marie Trace	C-2024-3045331
Borough of Port Vue	C-2024-3045334
Christopher Nicholson	C-2024-3045337
Priscilla T. Gentry	C-2024-3045342
Ruth & Craig Benderoth	C-2024-3045346
Matthew & Heather Heliger	C-2024-3045344
Barbara Stettenbauer	C-2024-3045362
Elizabeth Clark	C-2024-3045367
Catherine & Kenneth Green	C-2023-3045441
Naomi Conte	C-2024-3045464
Clyde H. Morgan	C-2024-3045571
Colleen Adams	C-2024-3045572
Mark Pezone	C-2024-3045574
Mark J. Mazurkiewicz	C-2024-3045582
Larry Wise	C-2024-3045669
James Lyband Jackson	C-2024-3045673
Janice M. Reynolds	C-2024-3045684
Veronica A. Hannevig	C-2024-3045694
Theresa Skobel	C-2024-3045695
David & Lynn Griffith	C-2024-3045696
Thomas Campisano	C-2024-3045723
Paulette Knott	C-2024-3045734
Gene & Patricia Malaspina	C-2024-3045747
Jordan Henning	C-2024-3045773
Kyle & Lori Rompella	C-2024-3045779
Richard Hamilton	C-2024-3045806
Kenneth Stoudt Jr.	C-2024-3045811
Bilal Salaam	C-2024-3045826
Ashley Sanchez	C-2024-3045815
Kendra Robinson	C-2024-3045839

David Breitegam	C-2024-3045873
Anita Sakevich	C-2024-3045902
George M. Kamage, Jr.	C-2024-3045967
Michael W. Knoll	C-2024-3045984
Joseph Koza	C-2024-3045989
Ruth McMullan	C-2024-3045994
Thomas Tomeo	C-2024-3046051
David A. Grecco	C-2024-3046052
Theodore Parchinski	C-2024-3046054
Mark Mecca	C-2024-3046056
William Seeger	C-2024-3046058
Josephine Roman	C-2024-3046060
Edmond Maroney	C-2024-3046062
Nereida Colon-Gonzalez	C-2024-3046072
William Roman	C-2024-3046081
Frank S. Sislo	C-2024-3046088
Patrick H. Brentano	C-2024-3046083
Bill Gaughan	C-2024-3046089
Giselle Rutchford	C-2024-3046091
Roberta Brentano	C-2024-3046093
Brian Cadugan	C-2024-3046119
John Fletcher	C-2024-3046121
Marianne Vergnetti	C-2024-3046126
Dominic Cuchara	C-2024-3046128
Richard Brill	C-2024-3046130
Ronald & Lucy Benke	C-2024-3046133
Gary Shiner	C-2024-3046134
Suzanne Horishny	C-2024-3046145
Chris Casciano	C-2024-3046150
James G. Haggerty	C-2024-3046152
Joseph Baronski	C-2024-3046154
Joseph Guerra	C-2024-3046156
John Borer	C-2024-3046159
Michael Shafer	C-2024-3046160
Joel Hoffman	C-2024-3046185
Paul DelRosso	C-2024-3046193
Ferentz Irrevocable Grantor Trust c/o Joseph Surenko	C-2024-3046197
Robert Meyers	C-2024-3046198
Bernadette Bussacco	C-2024-3046222
Susan Gilday	C-2024-3046223
Arthur F. Werner, Jr.	C-2024-3046242
Timothy Brier	C-2024-3046239
Frances S. Kearney	C-2024-3046251

Sean McAndrew	C-2024-3046255
Elaine F. Campbell	C-2024-3046256
Marty Flynn	C-2024-3046258
Gerard Dombroski	C-2024-3046260
Harold Kiefer	C-2024-3046264
Linda Kiefer	C-2024-3046266
David F. Sevensky	C-2024-3046268
John Blackledge	C-2024-3046273
John Mayer	C-2024-3046280
Lucy Jason	C-2024-3046247
Lynn King	C-2024-3046248
Ernest & Kathy Mayer	C-2024-3046293
James & Marie Wynder	C-2024-3046295
Kathleen Nole	C-2024-3046297
James P. McDermott	C-2024-3046300
Nadine Simms	C-2024-3046350
David A. Grecco	C-2024-3046352
John Kulick	C-2024-3046354
Richard & Carmella Zaleski	C-2024-3046355
John McAuliffe	C-2024-3046393
Laura Virtue-Delayo	C-2024-3046398
Robert Barry	C-2024-3046400
Mark Perry	C-2024-3046407
Rebecca Pesyna	C-2024-3046409
Louis Guzzi, Jr.	C-2024-3046472
Maureen Guzzi	C-2024-3046473
David Dobrzyn	C-2024-3046474
Albert Denunzio	C-2024-3046475
Caesar Bordo	C-2024-3046476
Gary & Beth Graziano	C-2024-3046739
Valerie Mendicino	C-2024-3046740
Tara & Tom Schuster	C-2024-3046752
Karen Schuster	C-2024-3046807
Mary C. Jennings	C-2024-3046808
Patricia Barbuti	C-2024-3046809
Francis Kranick, Jr.	C-2024-3046812
Natalie Davis	C-2024-3046863
Sharon Cuff	C-2024-3046869
Colleen Demuro	C-2024-3046868
Domenic P. Cafarella	C-2024-3046879
Michael Dempsey	C-2024-3046883
Marianne Brown	C-2024-3046887
Gerald Fabricatore	C-2024-3047362

30. That a copy of this Opinion and Order be served on the Commission's Bureau of Consumer Services, Division of Policy; the Bureau of Investigation and Enforcement; the Bureau of Audits, and the Bureau of Technical Utility Services, Finance/Tariff Division for monitoring and compliance.

BY THE COMMISSION,

Rosemary Chiavetta
Secretary

(SEAL)

ORDER ADOPTED: July 11, 2024

ORDER ENTERED: July 22, 2024

LIST OF ABBREVIATIONS

AIA	Affiliated Interest Agreement
ALJ	Administrative Law Judge
AMP	Arrearage Management Plan
APP	Annual Performance Plan
ASC 715	Accounting Standard Codification Topic 715
Audits	Bureau of Audits
AWK	American Water Works Company, Inc.
AWR	American Water Resources
AWWA	American Water Works Association
BASA	Butler Area Sewer Authority
BCS	Bureau of Consumer Services
BDP	Bill Discount Program
BEC	Base-Extra Capacity
BTI	Bill-to-Income
CAAG	Customer Assistance Advisory Group
CAPM	Capital Asset Pricing Model
CAUSE-PA	Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania
CCA	Customer Care Agent
CEO	Commission on Economic Opportunity
Code	Pennsylvania Public Utility Code
COSS	Cost-of-Service Study
CSR	Customer Service Representative
CSS	Combined Sewer System
DCF	Discounted Cash Flow
DCP	Defined Contribution Plan
DEF	Dollar Energy Fund
DIS	Demand Industrial Sales
DRS	Demand Resale Sales
DSIC	Distribution System Improvement Charge
DSLPA	Discontinuance of Services to Lease Premises Act
ECAPM	Empirical Capital Asset Pricing Model
ECIC	Environmental Compliance Investment Charge
ECP	Environmental Compliance Plan
EDC	Electric Distribution Company
EDWA	East Dunkard Water Authority
EE&C	Energy Efficiency and Conservation

EPS	Earnings Per Share
ERP	Equity Risk Premium
ESPP	Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FPFTY	Fully Projected Future Test Year
FPL	Federal Poverty Level
FTY	Future Test Year
FY	Fiscal Year
GDP	Gross Domestic Product
GIS	Geographic Information System
H2O	Help to Others
HTY	Historic Test Year
I&E	Bureau of Investigation and Enforcement
I&I	Inflow and Infiltration
IOTG	Insurance Other Than Group
JTMA	Jefferson Township Municipal Authority
LIAG	Low Income Advocacy Groups
LIHWAP	Low-Income Household Water Assistance Program
LIURP	Low-Income Usage Reduction Program
LTIIP	Long Term Infrastructure Investment Plan
LTPP	Long-Term Performance Plan
MCLGs	Maximum Contaminant Level Goals
MCLs	Maximum Contaminant Levels
MHI	Median Household Income
MHI-HO	Median Household Income Data From Homeowners
NAWC	National Association of Water Companies
NGDC	Natural Gas Distribution Company
NSF	National Science Foundation
O&M	Operating and Maintenance
OALJ	Office of Administrative Law Judge
OCA	Office of Consumer Advocate
OPEB	Other Post-Employment Benefits
OSBA	Office of Small Business Advocate
PADEP	Pennsylvania Department of Environmental Protection
PAWC	Pennsylvania-American Water Company
PAWLUG	Pennsylvania-American Water Large Users Group
PFAS	Polyfluoroalkyl Substances
PGW	Philadelphia Gas Works

PIP	Percentage of Income Program
PRV	Pressure Reducing Valve
psi	Pounds Per Square Inch
PSU	Performance Stock Units
R.D.	Recommended Decision
RDM	Revenue Decoupling Mechanism
ROE	Return on Equity
RROR	Relative Rate of Return
RSU	Restricted Stock Units
RZ-1	Rate Zone 1
RZ-2	Rate Zone 2
RZ-3	Rate Zone 3
RZ-4	Rate Zone 4
RZ-5	Rate Zone 5
RZ-6	Rate Zone 6
RZ-7	Rate Zone 7
RZ-8	Rate Zone 8
RZ-9	Rate Zone 9
S&P	Standard & Poor's
SBC	Stock-based Compensation
SCADA	Supervisory Control and Data Acquisition
SCERP	Service Company Executive Retirement Plan
SLIBCO	Scranton Lackawanna Industrial Building Company
SSS	Sanitary Sewer System
STAS	State Tax Adjustment Surcharge
STMA	Sadsbury Township Municipal Authority
SVF	Straight Fixed Variable
TUS	Bureau of Technical Utility Services
USEPA	United States Environmental Protection Agency
USP	Universal Service Program
USTRA	Utility Services Tenants Rights Act
VA	VA Medical Center
WACC	Weighted Average Cost of Capital
WB	West Brandywine
WSA	Water Services Act
WWTP	Wastewater Treatment Plant
YBCs	York Bulk Customers

Pennsylvania Public Utility Commission, *et. al.*

v.

Pennsylvania-American Water Company
Pennsylvania-American Water Company-Wastewater Division
Docket Nos. R-2023-3043189
R-2023-3043190

Commission Tables Calculating Allowed Revenue Increase

<u>Wastewater-CSS Tables</u>

Table I	**Income Summary**
Table IA	**Rate of Return**
Table IB	**Revenue Factor**
Table II	**Summary of Commission Adjustments**
Table III	**Interest Synchronization**
Table IV	**Cash Working Capital: Interest and Dividends**
Table V	**Cash Working Capital: Taxes**
Table VI	**Cash Working Capital: O&M Expense**

Commission Final Allowance
TABLE ACT 11
PENNSYLVANIA-AMERICAN WATER COMPANY
WATER AND WASTEWATER REVENUE REQUIREMENT SUMMARY
R-2023-3043189, R-2023-3043190

Line No.	Description	Total Company $	Water Operations $	Wastewater SSS Operations $	Wastewater CSS Operations $
1	Present Rate Revenue	$ 994,178,484	$ 820,869,547	$ 94,672,721	$ 78,636,216
2	Additional Revenue Requirement [1]	99,329,012	64,799,685	24,226,880	10,302,448
3	Act 11 - Wastewater Allocation	-	23,321,384	(18,170,160)	(5,151,224)
4	Proposed Revenues	$ 1,093,507,496	$ 908,990,615	$ 100,729,441	$ 83,787,440
5	Rate Increase/(Decrease) $	$ 99,329,012	$ 88,121,069	$ 6,056,720	$ 5,151,224
6	Rate Increase/(Decrease) %	9.99%	10.74%	6.40%	6.55%
7	Rate Increase/(Decrease) $ - Total Wastewater Operations			$ 11,207,944	
8	Rate Increase/(Decrease) % - Total Wastewater Operations			6.47%	

Notes:
[1] Excludes revenue requirement associated with the BASA and Brentwood acquisitions.

Commission Final Allowance
TABLE I WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
INCOME SUMMARY
R-2023-3043189, R-2023-3043190

		Pro Forma Present Rates (1)	Company Adjustments (2)	Pro Forma Present Rates (Revised (3))	Commission Adjustments	Commission Pro Forma Present Rates	Commission Revenue Increase	Total Allowable Revenues
		$	$	$	$	$	$	$
		(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) + (4)	(6)	(7) = (5) + (6)
1.	Operating Revenue	$ 824,117,186	$ -	$ 824,117,186	$ (3,247,639)	$ 820,869,547	$ 64,799,685	$ 885,669,232
2.	Expenses:							
3.	O & M Expense	256,824,574	(720,938)	256,103,636	(10,032,096)	246,071,540	762,044	246,833,584
4.	Depreciation	210,700,336	1,660,367	212,360,703	(1,174,154)	211,186,549	0	211,186,549
5.	Taxes, Other	14,398,232	(62,322)	14,335,910	(48,401)	14,287,509	412,868	14,700,377
6.	Income Taxes:							
7.	State	13,347,020	67,799	13,414,819	658,374	14,073,193	5,083,619	19,156,812
8.	Federal	33,635,358	163,955	33,799,313	1,592,133	35,391,446	12,293,642	47,685,088
9.	Total Expenses	528,905,520	1,108,861	530,014,381	(9,004,144)	521,010,237	18,552,173	539,562,410
10.	Net Income Available for Return	295,211,666	(1,108,861)	294,102,805	5,756,504	299,859,309	46,247,511	346,106,821
11.	Rate Base	4,704,067,656	(3,127,277)	4,700,940,379	(11,146,058)	4,689,794,321		4,689,794,321
12.	Rate of Return	6.28%		6.26%		6.39%		7.38%

Notes and Sources:
(1) PAWC Exh. 3-A Initial.
(2) Difference between PAWC Exh. 3-A Initial and Exh. 3-A Revised.
(3) PAWC Exh. 3-A Revised.

Pre-Act 11 Allocation Revenue Change (%):	7.89%
Pre-Act 11 Allocation % of requested Increase	50.10%

Commission Final Allowance
TABLE I(A) WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
RATE OF RETURN
R-2023-3043189, R-2023-3043190

		Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
		(1)	(2)	[(3)=(1)x(2)]	(4)	[(5)=(3)x(4)]
1.	Total Cost of Debt			2.09%		2.09%
2.	Long-term Debt[1]	44.01%	4.76%	2.09%		2.09%
3.	Short-term Debt	0.00%	0	0.00%		0.00%
4.	Preferred Stock	0.00%	0	0.00%	0.726879	0.00%
5.	Common Equity[1]	55.99%	9.45%	5.29%	0.726879	7.28%
6.	Rate of Return[1]	100.00%		7.38%		9.3700%
7.	Pre-Tax Interest Coverage	4.48				
8.	After-Tax Interest Coverage	3.53				
9.	Tax Rate Complement (1-(21%+(7.99% X (1-21%))	72.68790%				

Notes and Sources:
[1]See Section IX - Fair Rate of Return

Commission Final Allowance
TABLE I(B) WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
REVENUE FACTOR
R-2023-3043189, R-2023-3043190

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

Notes and Sources:
[1] PAWC Exh. 3-A Revised

Commission Final Adjustments
TABLE II WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
SUMMARY OF ADJUSTMENTS
R-2023-3043189, R-2023-3043190

	Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		$	$	$	$	$	$	$
1.	RATE BASE:							
	CWC:							
2.	Int. & Div. (Table IV)	19,785						
3.	Taxes (Table V)	146,442						
4.	O & M (Table VI)	(1,157,109)						
5.	Farmington (water) Plant	(2,502,811)						
6.	Audubon Plant	(360,229)						
7.	Farmington (water) Acq Adj.	(135,736)						
	Audubon Acq Adj.	(6,939,459)						
8.	Farmington (water) Trans. Cost	(49,799)						
9.	Audubon Trans. Cost	(107,142)						
10.								
	REVENUES:							
11.	Audubon Revenue [1] [4]		(2,965,024)	(34,869)		(18,891)	(232,610)	(562,517)
12.	Farmington (water) Revenue [1] [4]		(266,371)	(3,133)		(1,697)	(20,897)	(50,535)
13.							0	0
14.	Concomitant Revenue [1] [4]		(16,244)	(191)		(103)	(1,274)	(3,082)
15.							0	0
16.	EXPENSES:						0	0
17.	Audubon O&M & Taxes-Other [2]			(1,557,863)		(27,709)	126,687	306,366
18.	Farmington (water) Expenses [3]			(152,385)			12,176	29,444
19.	Pension Expense [5]			(4,771,807)			381,267	922,013
20.	OPEB Expense [5]			(1,664,016)			132,955	321,523
21.	AMP [4]			(1,847,832)			147,642	357,040
22.							0	0
23.	Audubon Depreciation				(269,599)		21,541	52,092
24.	Farmington (water) Depreciation				(101,751)		8,130	19,660
25.	Audubon Acq Amort. [6]				(775,772)		61,984	149,895
26.	Farmington (water) Acq Amort. [7]				(27,032)		2,160	5,223
27.					0		0	0
	TAXES:							
28.								
29.	Interest Synchronization (Table III)						18,613	45,011
30.	TOTALS	(11,146,058)	(3,247,639)	(10,032,096)	(1,174,154)	(48,401)	658,374	1,592,133

Notes to Accompany Table II – Water

(1) Revenue adjustments require concomitant adjustments for bad debt & general assessment expenses (Table IB-Water) & forfeited discounts / late payment fee revenues (PAWC Exh. 3-A Revised at 24R) that are determined as a percentage of revenues. Concomitant revenue is then subject to the same adjustment.

(2) See PAWC Exh. 3-A Revised at 63R and PAWC Exh. 3-B at 304. Taxes-Other includes only property taxes.

(3) See PAWC Exh. 3-A Revised at 63R and PAWC Exh. 3-B at 303.

(4) No cash working capital adjustment is provided for non-cash adjustments, including for bad debt/AMP and depreciation. Tax adjustments are in Table V-Water.

(5) *See*, I&E M.B. at 24.

(6) Reduction of $775,772 to remove PAWC's claims related to Audubon. This includes an acquisition adjustment amortization expense of $763,977 and associated transaction costs of $11,795. [$763,977 + $11,795=$775,772]. See Section VII. M of this Opinion and Order.

(7) Reduction of $27,032 to remove PAWC's claims related to Farmington (water). This includes an acquisition adjustment amortization expense of $21,549 and associated transaction costs of $5,483. [$21,549 + $5,483]. See Section VII.M of this Opinion and Order.

Commission Final Allowance
TABLE III WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
INTEREST SYNCHRONIZATION
R-2023-3043189, R-2023-3043190

		Amount $
1.	Company Rate Base Claim [1]	4,700,940,379
2.	Commission Rate Base Adjustments (From Table II)	(11,146,058)
3.	Commission Rate Base (Line 1 - Line 2)	4,689,794,321
4.	Weighted Cost of Debt (From Table IA)	2.09000000%
5.	Commission Interest Expense - (Line 3 x Line 4)	98,016,701
6.	Company Claim [1]	98,249,654
7.	Total Commission Adjustment	232,953
8.	Company Adjustment	0
9.	Net Commission Interest Adjustment (Line 7 - Line 8)	232,953
10.	State Income Tax Rate	7.99%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	18,613
12.	Net Commission Interest Adjustment (Line 9)	232,953
13.	State Income Tax Adjustment (Line 11)	18,613
14.	Net Commission Adjustment for F.I.T. (Line 12 - Line 13)	214,340
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 14 x Line 15) (Flow to Table II)	45,011

Notes and Sources:

[1] Company Main Brief

Commission Final Allowance
TABLE IV WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - Interest and Dividends
R-2023-3043189, R-2023-3043190

	Accrued Interest			Preferred Stock Dividends	
		Long-Term Debt	Short-Term Debt		
	(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$4,700,940,379	$4,700,940,379	Company Rate Base Claim	$4,700,940,379
2.	Commission Rate Base Adjustments	($11,146,058)	($11,146,058)	Commission Rate Base Adju	($11,146,058)
3.	Commission Rate Base	$4,689,794,321	$4,689,794,321	Commission Rate Base	$4,689,794,321
4.	Weighted Cost of Debt	2.09%	0.00%	Weighted Cost Pref. Stock	0.00%
5.	Commission Annual Interest Exp.	$98,016,701	$0	Commission Preferred Divid	$0
6.	Average Revenue Lag Days [1]	50.6	50.6	Average Revenue Lag Days	50.6
7.	Average Expense Lag Days [1]	81.6	15.0	Average Expense Lag Days	46.4
8.	Net Lag Days	-31.0	35.6	Net Lag Days	4.2
9.	Working Capital Adjustment				
10.	Commission Daily Interest Exp.	$268,539	$0	Commission Daily Dividends	$0
11.	Net Lag Days	-31.0	35.6	Net Lag Days	4.2
12.	Commission Working Capital	($8,327,394)	$0		$0
13.	Company Claim [1]	($8,347,179)	$0	Company Claim [1]	$0
14.	Commission Adjustment	$19,785	$0		$0
15.	Total Interest & Dividend Adj.	$19,785			

Notes and Sources:
[1] Company Main Brief.

Commission Final Allowance
TABLE V WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL -TAXES
R-2023-3043189, R-2023-3043190

	Description	Company Proforma Tax Expense Present Rates	Commission Adjustments	Commission Pro forma Tax Expense Present Rates	Commission Allowance	Commission Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days [1]	Accrued Tax Adjustment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	Assessments	$5,164,137	($20,692)	$5,143,445	$412,868	$5,556,313	$15,222.77	190.20	$2,895,371
2.	Public Utility Realty	$2,126,732	$0	$2,126,732		$2,126,732	$5,826.66	47.35	$275,892
3.	Local Property Tax	$2,073,365	($27,709)	$2,045,656		$2,045,656	$5,604.54	64.56	$361,855
		$0	$0	$0		$0	$0.00	0.00	$0
		$0	$0	$0		$0	$0.00	0.00	$0
4.	State Income Tax	$13,414,819	$658,374	$14,073,193	$5,083,619	$19,156,812	$52,484.42	13.60	$713,788
5.	Federal Income Tax	$34,032,905	$1,592,133	$35,625,038	$12,293,642	$47,918,680	$131,284.05	-18.40	($2,415,627)
6.		$56,811,958	$2,202,106	$59,014,064	$17,790,129	$76,804,193	$210,422	8.70	$1,831,279
7.							Commission Allowance		$ 1,831,279
8.							Company Claim [1]		$ 1,684,837
9.							Commission Adjustment		$ 146,442

Notes and Sources:
[1] Company Main Brief

Commission Final Allowance
TABLE VI WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL -- O & M EXPENSE
R-2023-3043189, R-2023-3043190

	Description	Company Pro forma Expense	Commission	Commission Pro forma Expenses	Lag Days[3]	Lag Dollars
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Service Company [1]	$60,897,948	($302,738)	$60,595,210	12.05	$730,426,780
2.	Chemicals [1]	$23,528,121	($96,468)	$23,431,653	47.20	$1,106,012,803
3.	Group Insurance [1]	$11,220,476	($95,992)	$11,124,484	11.00	$122,369,324
4.	Insurance, Other [1]	$14,893,805	($71,451)	$14,822,354	-69.48	($1,029,789,524)
5.	Labor [1]	$68,588,923	($504,647)	$68,084,276	12.05	$820,701,480
6.	Leased Equip./Rent	$105,375	$0	$105,375	-13.36	($1,407,511)
7.	Leased Vehicles	$5,043,012	$0	$5,043,012	54.08	$272,747,715
8.	Miscellaneous [1]	$39,139,084	($485,598)	$38,653,486	30.46	$1,177,398,731
9.	Natural Gas	$1,232,626	$0	$1,232,626	33.33	$41,087,081
10.	Power [1]	$15,812,740	($150,641)	$15,662,099	31.00	$485,590,492
11.	Purchased Water	$3,099,741	$0	$3,099,741	35.22	$109,173,435
12.	Telephone	$4,996,974	$0	$4,996,974	3.88	$19,398,219
13.	Waste Disposal [1]	$3,337,122	($2,349)	$3,334,773	41.96	$139,928,434
14.	Post Retirement Benefits/VEBA [2]	($6,496,737)	($1,664,379)	($8,161,116)	0.00	$0
15.	Pensions [2]	$971,072	($4,771,807)	($3,800,735)	-6.41	$24,381,605
16.	Totals	$246,370,282	($8,146,070)	$238,224,212	16.90	$4,018,019,064

17.	Commission Average Revenue Lag	50.6	
18.	Less: Commission Avg. Expense Lag	16.9	
19.	Net Difference	33.7	Days
20.	Commission Pro forma		
22.	O & M Expense per Day	$652,669	
23.	Commission CWC for O & M	$21,994,945	
24.	Less: Company Claim [3]	$23,152,054	
25.	Commission Adjustment	($1,157,109)	

Notes and Sources:
[1] See Table II-Water, Notes 2 & 3. In PAWC Ex. 3-B at 303-304, "Labor", "401K", "DCP", & "Payroll Taxes" are assigned to Labor above. "Contracted Services", "Rents", "General Office", "Miscellaneous", & "Maintenance" are assigned to Miscellanous above. Other O&M Expenses are assigned to a description above that matches the expense.
[2] See Table II-Water, Note 5. The OPEB adjustment is assigned to Post Retirement Benefits/VEBA above, and the Pensions adjustment is assigned to Pensions above.
[3] Company Main Brief

Commission Final Allowance
TABLE I WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
INCOME SUMMARY
R-2023-3043189, R-2023-3043190

		Pro Forma Present Rates [1]	Company Adjustments [2]	Pro Forma Present Rates (Revised [3])	Commission Adjustments	Commission Pro Forma Present Rates	Commission Revenue Increase	Total Allowable Revenues
		$	$	$	$	$	$	$
		(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) + (4)	(6)	(7) = (5) + (6)
1.	Operating Revenue	$95,470,867	$ -	$ 95,470,867	$ (798,146)	$ 94,672,721	$24,226,880	$ 118,899,600
2.	Expenses:							
3.	O & M Expense	26,009,252	57,140	26,066,392	(670,027)	25,396,365	284,908	25,681,273
4.	Depreciation	27,406,489	0	27,406,489	(110,119)	27,296,370	0	27,296,370
5.	Taxes, Other	3,217,927	3,124	3,221,051	(8,632)	3,212,419	154,360	3,366,779
6.	Income Taxes:							
7.	State	2,906,503	(4,825)	2,901,678	7,665	2,909,343	1,900,630	4,809,973
8.	Federal	7,064,720	(11,668)	7,053,052	18,536	7,071,588	4,596,266	11,667,854
10.	Total Expenses	66,604,891	43,771	66,648,662	(762,578)	65,886,084	6,936,164	72,822,248
11.	Net Income Available for Return	28,865,976	(43,771)	28,822,205	(35,568)	28,786,637	17,290,715	46,077,352
12.	Rate Base	649,330,622	5,483	649,336,105	(4,897,620)	644,438,485		644,438,485
13.	Rate of Return	4.45%		4.44%		4.47%		7.15%

Notes and Sources:
[1] PAWC Exh. 3-A Initial.
[2] Difference between PAWC Exh. 3-A Initial and Exh. 3-A Revised.
[3] PAWC Exh. 3-A Revised.

Pre-Act 11 Allocation Revenue Change (%):	25.59%
Pre-Act 11 Allocation % of requested Increase	76.05%

Commission Final Allowance
TABLE I(A) WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
RATE OF RETURN
R-2023-3043189, R-2023-3043190

		Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
		(1)	(2)	[(3)=(1)x(2)]	(4)	[(5)=(3)x(4)]
1.	Total Cost of Debt			2.15%		2.15%
2.	Long-term Debt [1]	42.73%	4.76%	2.03%		2.03%
3.	Wastewater Specific Long-term Debt [1]	4.40%	2.67%	0.12%		0.12%
4.	Preferred Stock	0.00%	0	0.00%	0.726879	0.00%
5.	Common Equity [1]	52.87%	9.45%	5.00%	0.726879	6.88%
6.	Rate of Return[1]	100.00%		7.15%		9.0300%
7.	Pre-Tax Interest Coverage	4.45				
8.	After-Tax Interest Coverage	3.52				
9.	Tax Rate Complement (1-(21%+(7.99% X (1-21%))	72.68790%				

Notes and Sources:
[1]See Section IX - Fair Rate of Return

Commission Final Allowance
TABLE I(B) WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
REVENUE FACTOR
R-2023-3043189, R-2023-3043190

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

Notes and Sources:
[1] PAWC Exh. 3-A Revised

Commission Final Adjustments
TABLE II WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
SUMMARY OF ADJUSTMENTS
R-2023-3043189, R-2023-3043190

	Adjustments (1)	Rate Base (2) $	Revenues (3) $	Expenses (4) $	Depreciation (5) $	Taxes-Other (6) $	State Income Tax (7) $	Federal Income Tax (8) $
1.	RATE BASE:							
	CWC:							
2.	Int. & Div. (Table IV)	8,962						
3.	Taxes (Table V)	21,955						
4.	O & M (Table VI)	(31,379)						
5.	STMA Plant (7)	(2,018,697)						
6.	Farmington (wastewater) Plant (8)	(2,878,461)						
7.								
	REVENUES:							
8.	STMA Revenue (1) (4)		(471,228)	(5,542)		(3,002)	(36,968)	(89,400)
9.	Farmington (wastewater) Revenue (1) (4)		(322,926)	(3,798)		(2,058)	(25,334)	(61,265)
10.								0
	Concomitant Revenue (1)		(3,992)	(47)		(25)	(313)	(757)
11.								
12.	EXPENSES:							
13.	STMA O&M & Taxes-Other (2)			(245,741)		(3,547)	19,918	48,168
14.	Farmington (wastewater) O&M (3)			(264,176)			21,108	51,044
15.	AMP (4)			(150,724)			12,043	29,123
16.								0
17.	STMA Depreciation				(51,847)		4,143	10,018
18.	Farmington (wastewater) Depreciation				(137,987)		11,025	26,662
19.	STMA Acq. Amort. (5)				85,414		(6,825)	(16,504)
20.	Farmington (wastewater) Acq. Amort. (6)				(5,699)		455	1,101
28.	TAXES:							
29.	Interest Synchronization (Table III)						8,413	20,346
30.	TOTALS	(4,897,620)	(798,146)	(670,027)	(110,119)	(8,632)	7,665	18,536

Notes to Accompany Table II – Wastewater SSS

(1) Revenue adjustments require concomitant adjustments for bad debt & general assessment expenses (Table IB-Wastewater SSS) & forfeited discounts / late payment fee revenues (PAWC Exh. 3-A Revised, at 95R) that are determined as a percentage of revenues. Concomitant revenue is then subject to the same adjustment.

(2) See PAWC Exh. 3-A Initial at 126 & PAWC Exh. 3-B at 306. Taxes-Other includes only property taxes.

(3) See PAWC Exh. 3-A Initial at 126 & PAWC Exh. 3-B at 305.

(4) No cash working capital adjustment is provided for non-cash adjustments, including for bad debt/AMP and depreciation. Tax adjustments are in Table V-Wastewater SSS.

(5) Addition of $85,414 to remove PAWC's claimed negative acquisition amortization expense related to STMA. This includes a negative acquisition amortization of $94,561 and associated transaction costs of $9,147. [($94.561)+$9,147=($85,414)]. See Section VII.M of this Opinion and Order.

(6) Reduction of $5,699 to remove the transaction costs associated with Farmington (wastewater). See Section VII.M of this Opinion and Order.

(7) Amount includes removal of claimed $1,935,612 in Net Utility Plant in Service and $83,085 of transaction costs related to the STMA system. [$1,935,612+$83,085=$2,018,697].

(8) Amount includes removal of claimed $2,826,700 in Net Utility Plant in Service and $81,761 of transaction costs related to the Farmington (wastewater) system. [$2,826,700+$51,761=$2,878,461].

Commission Final Allowance
TABLE III WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
INTEREST SYNCHRONIZATION
R-2023-3043189, R-2023-3043190

		Amount $
1.	Company Rate Base Claim [1]	649,336,105
2.	Commission Rate Base Adjustments (From Table II)	(4,897,620)
3.	Commission Rate Base (Line 1 - Line 2)	644,438,485
4.	Weighted Cost of Debt (From Table IA)	2.15%
5.	Commission Interest Expense - (Line 3 x Line 4)	13,855,427
6.	Company Claim [1]	13,960,726
7.	Total Commission Adjustment	105,299
8.	Company Adjustment	0
9.	Net Commission Interest Adjustment (Line 7 - Line 8)	105,299
10.	State Income Tax Rate	7.99%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	8,413
12.	Net Commission Interest Adjustment (Line 9)	105,299
13.	State Income Tax Adjustment (Line 11)	8,413
14.	Net Commission Adjustment for F.I.T. (Line 12 - Line 13)	96,886
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 14 x Line 15) (Flow to Table II)	20,346

Notes and Sources:

[1] Company Main Brief

Commission Final Allowance
TABLE IV WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - Interest and Dividends
R-2023-3043189, R-2023-3043190

	Accrued Interest			Preferred Stock Dividends	
		Long-Term Debt	Wastewater Specific Long-Term Debt		
	(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$649,336,105	$649,336,105	Company Rate Base Claim	$649,336,105
2.	Commission Rate Base Adjustments	($4,897,620)	($4,897,620)	Commission Rate Base Adjustments	($4,897,620)
3.	Commission Rate Base	$644,438,485	$644,438,485	Commission Rate Base	$644,438,485
4.	Weighted Cost of Debt	2.03%	0.12%	Weighted Cost Pref. Stock	0.00%
5.	Commission Annual Interest Exp.	$13,082,101	$773,326	Commission Preferred Dividends	$0
6.	Average Revenue Lag Days [1]	50.6	50.6	Average Revenue Lag Days [1]	50.6
7.	Average Expense Lag Days [1]	81.6	81.6	Average Expense Lag Days	46.4
8.	Net Lag Days	-31.0	-31.0	Net Lag Days	4.2
9.	Working Capital Adjustment				
10.	Commission Daily Interest Exp.	$35,841	$2,119	Commission Daily Dividends	$0
11.	Net Lag Days	-31.0	-31.0	Net Lag Days	4.2
12.	Commission Working Capital	($1,111,429)	($65,710)		$0
13.	Company Claim [1]	($1,119,895)	($66,206)	Company Claim [1]	$0
14.	Commission Adjustment	$8,466	$496		$0
15.	Total Interest & Dividend Adj.	$8,962			

Notes and Sources:
[1] Company Main Brief.

Commission Final Allowance
TABLE V WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL -TAXES
R-2023-3043189, R-2023-3043190

	Description	Company Proforma Tax Expense Present Rates	Commission Adjustments	Commission Pro forma Tax Expense Present Rates	Commission Allowance	Commission Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days [1]	Accrued Tax Adjustment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	Assessments	$598,699	($5,085)	$593,614	$154,360	$747,974	$2,049.24	190.20	$389,765
2.	Public Utility Realty	$0	$0	$0		$0	$0.00	47.35	$0
3.	Local Property Tax	$2,227,703	($3,547)	$2,224,156		$2,224,156	$6,093.58	64.56	$393,430
		$0	$0	$0		$0	$0.00	0.00	$0
		$0	$0	$0		$0	$0.00	0.00	$0
4.	State Income Tax	$2,901,678	$7,665	$2,909,343	$1,900,630	$4,809,973	$13,178.01	13.60	$179,221
5.	Federal Income Tax	$7,053,052	$18,536	$7,071,588	$4,596,266	$11,667,854	$31,966.72	-18.40	($588,188)
6.		$12,781,132	$17,569	$12,798,701	$6,651,256	$19,449,957	$ 53,287.55	7.02	$374,228
7.							Commission Allowance		$ 374,228
8.							Company Claim [1]		$ 352,273
9.							Commission Adjustment		$ 21,955

Notes and Sources:
[1] Company Main Brief

Commission Final Allowance
TABLE VI WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL -- O & M EXPENSE
R-2023-3043189, R-2023-3043190

	Description	Company Pro forma Expense	Commission	Commission Pro forma Expenses	Lag Days	Lag Dollars
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Service Company [1]	$1,903,699	($63,607)	$1,840,092	12.05	$22,180,837
2.	Chemicals [1]	$1,827,234	($7,500)	$1,819,734	47.20	$85,894,457
3.	Group Insurance [1]	$1,070,958	($15,709)	$1,055,249	11.00	$11,607,739
4.	Insurance, Other [1]	$2,098,237	($12,770)	$2,085,467	-69.48	($144,888,732)
5.	Labor [1]	$5,286,389	($75,958)	$5,210,431	12.05	$62,807,577
6.	Leased Equip./Rent	$50,345	$0	$50,345	-13.36	($672,466)
7.	Leased Vehicles	$176,055	$0	$176,055	54.08	$9,521,809
8.	Miscellaneous [1]	$5,595,997	($106,873)	$5,489,124	30.46	$167,200,642
9.	Natural Gas	$431,432	$0	$431,432	33.33	$14,380,908
10.	Power [1]	$3,372,968	($37,500)	$3,335,468	31.00	$103,413,441
11.	Purchased Water	$0	$0	$0	35.22	$0
12.	Telephone	$211,445	$0	$211,445	3.88	$820,828
13.	Waste Disposal [1]	$3,087,197	($190,000)	$2,897,197	41.96	$121,567,566
14.	Post Retirement Benefits	$9,810	$0	$9,810	0.00	$0
15.	Pensions	$216,538	$0	$216,538	-6.41	($1,389,085)
16.	Totals	$25,338,304	($509,917)	$24,828,387	18.20	$452,445,521

17.	Commission Average Revenue Lag	50.6	
18.	Less: Commission Avg. Expense Lag	18.2	
19.	Net Difference	32.4	Days
20.	Commission Pro forma		
22.	O & M Expense per Day	$68,023	
23.	Commission CWC for O & M	$2,203,945	
24.	Less: Company Claim [2]	$2,235,324	
25.	Commission Adjustment	($31,379)	

Notes and Sources:

[1] See Table II-Wastewater SSS, Notes 2 & 3. In PAWC Ex. 3-B at 305-306, "Labor", "401K", "DCP", & "Payroll Taxes" are assigned to Labor above. "Contracted Services", "Rents", "General Office", "Miscellaneous", & "Maintenance" are assigned to Miscellanous above. Other O&M Expenses are assigned to a description above that matches the expense.

[2] Company Main Brief

Commission Final Allowance
TABLE I WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
INCOME SUMMARY
R-2023-3043189, R-2023-3043190

		Pro Forma Present Rates [1]	Company Adjustments [2]	Pro Forma Present Rates (Revised [3])	Commission Adjustments	Commission Pro Forma Present Rates	Commission Revenue Increase	Total Allowable Revenues
		$	$	$	$	$	$	$
		(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) + (4)	(6)	(7) = (5) + (6)
1.	Operating Revenue	$ 78,636,216	$ -	$ 78,636,216	$ -	$ 78,636,216	$ 10,302,448	$ 88,938,664
2.	Expenses:							
3.	O & M Expense	21,438,527	20,813	21,459,340	(113,746)	21,345,594	121,157	21,466,751
4.	Depreciation	20,497,016	0	20,497,016	0	20,497,016	0	20,497,016
5.	Taxes, Other	2,231,143	892	2,232,035	0	2,232,035	65,642	2,297,677
6.	Income Taxes:							
7.	State	1,984,048	(2,279)	1,981,769	9,058	1,990,827	808,240	2,799,067
8.	Federal	4,906,577	(5,513)	4,901,064	21,905	4,922,969	1,954,556	6,877,525
10.	Total Expenses	51,057,311	13,913	51,071,224	(82,783)	50,988,441	2,949,595	53,938,036
11.	Net Income Available for Return	27,578,905	(13,913)	27,564,992	82,783	27,647,775	7,352,853	35,000,628
12.	Rate Base	483,184,280	6,317,381	489,501,661	17,613	489,519,274		489,519,274
13.	Rate of Return	5.71%		5.63%		5.65%		7.15%

Notes and Sources:
[1] PAWC Exh. 3-A Initial.
[2] Difference between PAWC Exh. 3-A Initial and Exh. 3-A Revised.
[3] PAWC Exh. 3-A Revised.

Pre-Act 11 Allocation Revenue Change (%):	13.10%
Pre-Act 11 Allocation % of requested Increase	65.06%

Commission Final Allowance
TABLE I(A) WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
RATE OF RETURN
R-2023-3043189, R-2023-3043190

		Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
		(1)	(2)	[(3)=(1)x(2)]	(4)	[(5)=(3)x(4)]
1.	Total Cost of Debt			2.15%		2.15%
2.	Long-term Debt [(1)]	42.73%	4.76%	2.03%		2.03%
3.	Wastewater Specific Long term Debt[(1)]	4.40%	2.67%	0.12%		0.12%
4.	Preferred Stock	0.00%	0	0.00%	0.726879	0.00%
5.	Common Equity [(1)]	52.87%	9.45%	5.00%	0.726879	6.88%
6.	Rate of Return[(1)]	100.00%		7.15%		9.0300%
7.	Pre-Tax Interest Coverage	4.45				
8.	After-Tax Interest Coverage	3.52				
9.	Tax Rate Complement (1-(21%+(7.99% X (1-21%))	72.68790%				

Notes and Sources:
[(1)]See Section IX - Fair Rate of Return

Commission Final Allowance
TABLE I(B) WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
REVENUE FACTOR
R-2023-3043189, R-2023-3043190

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

Notes and Sources:
[(1)] PAWC Exh. 3-A Revised

Commission Final Adjustments
TABLE II WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
SUMMARY OF ADJUSTMENTS
R-2023-3043189, R-2023-3043190

	Adjustments (1)	Rate Base (2)	Revenues (3)	Expenses (4)	Depreciation (5)	Taxes-Other (6)	State Income Tax (7)	Federal Income Tax (8)
1.	RATE BASE:							
	CWC:							
2.	Int. & Div. (Table IV)	(31)						
3.	Taxes (Table V)	17,644						
4.	O & M (Table VI)	0						
8.	REVENUES:							
9.								
10.	Concomitant Revenue [1]		0	0		0	0	0
11.								
12.	EXPENSES:							
13.	AMP [2]			(113,746)			9,088	21,978
14.								
28.	TAXES:							
29.	Interest Synchronization (Table III)						(30)	(73)
30.	TOTALS	17,613	0	(113,746)	0	0	9,058	21,905

Notes and Sources:
[1] Revenue adjustments require concomitant adjustments for bad debt & general assessment expenses (Table IB-Wastewater CSS) & forfeited discounts / late payment fee revenues (PAWC Exh. 3-A Revised at 216R) that are determined as a percentage of revenues. Concomitant revenue is then subject to the same adjustment.
[2] No cash working capital adjustment is provided for non-cash adjustments, including for bad debt/AMP and depreciation. Tax adjustments are in Table V.

Commission Final Allowance
TABLE III WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
INTEREST SYNCHRONIZATION
R-2023-3043189, R-2023-3043190

		Amount $
1.	Company Rate Base Claim [1]	489,501,661
2.	Commission Rate Base Adjustments (From Table II)	17,613
3.	Commission Rate Base (Line 1 - Line 2)	489,519,274
4.	Weighted Cost of Debt (From Table IA)	2.15%
5.	Commission Interest Expense - (Line 3 x Line 4)	10,524,664
6.	Company Claim [1]	10,524,286
7.	Total Commission Adjustment	(378)
8.	Company Adjustment	0
9.	Net Commission Interest Adjustment (Line 7 - Line 8)	(378)
10.	State Income Tax Rate	7.99%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	(30)
12.	Net Commission Interest Adjustment (Line 9)	(378)
13.	State Income Tax Adjustment (Line 11)	(30)
14.	Net Commission Adjustment for F.I.T. (Line 12 - Line 13)	(348)
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 14 x Line 15) (Flow to Table II)	(73)

Notes and Sources:

[1] Company Main Brief

Commission Final Allowance
TABLE IV WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - Interest and Dividends
R-2023-3043189, R-2023-3043190

	Accrued Interest	Long-Term Debt	Wastewater Specific Long-Term Debt	Preferred Stock Dividends	
	(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$489,501,661	$489,501,661	Company Rate Base Claim	$489,501,661
2.	Commission Rate Base Adjustments	$17,613	$17,613	Commission Rate Base Adjustments	$17,613
3.	Commission Rate Base	$489,519,274	$489,519,274	Commission Rate Base	$489,519,274
4.	Weighted Cost of Debt	2.03%	0.12%	Weighted Cost Pref. Stock	0.00%
5.	Commission Annual Interest Exp.	$9,937,241	$587,423	Commission Preferred Dividends	$0
6.	Average Revenue Lag Days [1]	50.6	50.6	Average Revenue Lag Days [1]	50.6
7.	Average Expense Lag Days [1]	81.6	81.6	Average Expense Lag Days	46.4
8.	Net Lag Days	-31.0	-31.0	Net Lag Days	4.2
9.	Working Capital Adjustment				
10.	Commission Daily Interest Exp.	$27,225	$1,609	Commission Daily Dividends	$0
11.	Net Lag Days	-31.0	-31.0	Net Lag Days	4.2
12.	Commission Working Capital	($844,247)	($49,895)		$0
13.	Company Claim [1]	($844,216)	($49,895)	Company Claim [1]	$0
14.	Commission Adjustment	($31)	$0		$0
15.	Total Interest & Dividend Adj.	($31)			

Notes and Sources:
[1] Company Main Brief.

Commission Final Allowance
TABLE V WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - TAXES
R-2023-3043189, R-2023-3043190

	Description	Company Proforma Tax Expense Present Rates	Commission Adjustments	Commission Pro forma Tax Expense Present Rates	Commission Allowance	Commission Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days (1)	Accrued Tax Adjustment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	Assessments	$497,495	$0	$497,495	$65,642	$563,137	$1,542.84	190.20	$293,448
2.	Public Utility Realty	$0	$0	$0		$0	$0.00	47.35	$0
3.	Local Property Tax	$1,198,060	$0	$1,198,060		$1,198,060	$3,282.36	64.56	$211,924
		$0	$0	$0		$0	$0.00	0.00	$0
		$0	$0	$0		$0	$0.00	0.00	$0
4.	State Income Tax	$1,981,769	$9,058	$1,990,827	$808,240	$2,799,067	$7,668.68	13.60	$104,294
5.	Federal Income Tax	$4,901,064	$21,905	$4,922,969	$1,954,556	$6,877,525	$18,842.53	-18.40	($346,703)
6.		$8,578,388	$30,963	$8,609,351	$2,828,438	$11,437,789	$31,336	8.3916	$262,963
7.							Commission Allowance		262,963
8.							Company Claim (1)		245,319
9.							Commission Adjustment		17,644

Notes and Sources:
(1) Company Main Brief

Commission Final Allowance
TABLE VI WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL -- O & M EXPENSE
R-2023-3043189, R-2023-3043190

	Description	Company Pro forma Expense	Commission	Commission Pro forma Expenses	Lag Days	Lag Dollars
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Service Company	$1,038,033	$0	$1,038,033	12.05	$12,512,657
2.	Chemicals	$2,129,667	$0	$2,129,667	47.20	$100,523,807
3.	Group Insurance	$1,327,139	$0	$1,327,139	11.00	$14,598,529
4.	Insurance, Other	$1,434,260	$0	$1,434,260	-69.48	($99,645,841)
5.	Labor	$7,280,640	$0	$7,280,640	12.05	$87,762,291
6.	Leased Equip./Rent	$16,425	$0	$16,425	-13.36	($219,391)
7.	Leased Vehicles	$690,475	$0	$690,475	54.08	$37,343,849
8.	Miscellaneous	$3,209,124	$0	$3,209,124	30.46	$97,751,042
9.	Natural Gas	$150,057	$0	$150,057	33.33	$5,001,845
10.	Power	$1,691,208	$0	$1,691,208	31.00	$52,434,512
11.	Purchased Water	$0	$0	$0	35.22	$0
12.	Telephone	$120,976	$0	$120,976	3.88	$469,628
13.	Waste Disposal	$1,704,931	$0	$1,704,931	41.96	$71,539,599
14.	Post Retirement Benefits	$32,234	$0	$32,234	0.00	$0
15.	Pensions	$245,439	$0	$245,439	-6.41	($1,574,484)
16.	Totals	$21,070,608	$0	$21,070,608	18.00	$378,498,043
17.	Commission Average Revenue Lag	50.6				
18.	Less: Commission Avg. Expense Lag	18.0				
19.	Net Difference	32.6	Days			
20.	Commission Pro forma					
22.	O & M Expense per Day	$57,728				
23.	Commission CWC for O & M	$1,881,933				
24.	Less: Company Claim [1]	$1,881,933				
25.	Commission Adjustment	$0				

Notes and Sources:
[1] Company Main Brief