

COMMONWEALTH OF PENNSYLVANIA



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January 10, 2025

Via Electronic Filing

Secretary Rosemary Chiavetta
Pennsylvania Public Utility Commission
Office of Administrative Law Judge
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Pa. PUC v. Newtown Artesian Water Co.
Docket No. R-2024-3050208

Dear Secretary Chiavetta:

Enclosed for electronic filing please find the Office of Consumer Advocate's Pre-Served Testimony, Exhibits, and Verification Statements in the above-captioned proceeding. The following documents were admitted into the record via the Order Granting Joint Stipulation for Admission of Evidence filed on January 7, 2025:

Jennifer L. Rogers	OCA Statement No. 1
Morgan N. DeAngelo	OCA Statement No. 2
Jennifer L. Rogers	OCA Statement 1SR
Morgan N. DeAngelo	OCA Statement 2SR

Copies of this letter will be served, as indicated, on the enclosed Certificate of Service.

Respectfully submitted,

/s/ Katherine M. Kennedy
Katherine M. Kennedy
Assistant Consumer Advocate
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Enclosures

cc: The Honorable Eranda Vero (*Via Email Only*)
Certificate of Service

CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission :
v. : Docket No. R-2024-3050208
Newtown Artesian Water Company :
:

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

Dated this 10th day of January 2025.

SERVICE BY E-MAIL ONLY

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission)
v.) **Docket No. R-2024-3050208**
Newtown Artesian Water Company)

DIRECT TESTIMONY

OF

JENNIFER L. ROGERS

ON BEHALF OF THE

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

October 10, 2024

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Schedules Accompanying Direct

Appendix A – Resume of Jennifer L. Rogers

Schedules JLR-1 Through JLR-14

1 **I. INTRODUCTION**

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

3 A. My name is Jennifer L. Rogers. My business address is 10480 Little Patuxent Parkway,
4 Suite 300, Columbia, Maryland, 21044. I am the Lead Economist working with Exeter
5 Associates, Inc. (“Exeter”). Exeter is a consulting firm specializing in issues pertaining
6 to public utilities.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
8 **QUALIFICATIONS.**

9 A. I received a Master of Arts degree in Economics from Northeastern University. I also
10 have a Bachelor of Arts degree in Economics with a minor in Environmental Studies
11 from St. Mary’s College of Maryland.

12 I attended the 42nd Eastern National Association of Regulatory Utility
13 Commissioners (“NARUC”) Utility Rate School. I have also completed the Institute of
14 Public Utilities Accounting and Ratemaking Course and the Advanced Course:
15 Regulatory Accounting and Auditing, as well as EUCI’s Electric Cost-of-Service
16 Course.

17 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

18 A. I have been employed with Exeter since 2009, initially as a Research Assistant before
19 being promoted to Economist and then Senior Economist. I am now Lead Economist
20 for the firm. At Exeter, I review utility rate filings and provide analysis of revenue
21 requirement issues. I also evaluate and forecast power supply requirements, costs, and
22 renewable energy needs; provide bill and rate analysis; and review energy use,
23 scheduling, and scheduling deviation data for clients. In addition, I conduct utility

1 service assessments to identify areas for potential utility cost savings, providing
2 detailed analysis of supply contracts, energy use, and a review of billing practices.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY**
4 **PROCEEDINGS ON UTILITY RATES?**

5 A. Yes. I have previously presented testimony before the Pennsylvania Public Utility
6 Commission; the Philadelphia Water, Sewer, and Storm Water Rate Board; the
7 Maryland Public Service Commission; the Public Utility Commission of Texas; the
8 Maine Public Utilities Commission; and the State Corporation Commission of the State
9 of Kansas. My resume is attached as Appendix A.

10 **Q. ON WHOSE BEHALF ARE YOU APPEARING?**

11 A. I am presenting testimony on behalf of the Pennsylvania Office of Consumer Advocate
12 (“OCA”).

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
14 **PROCEEDING?**

15 A. Exeter has been retained by the OCA to assist in the evaluation of the application of
16 the Newtown Artesian Water Company (“NAWC” or “Company”) to increase base
17 rates for water service. My direct testimony presents my findings with respect to
18 NAWC’s revenue requirements and its proposed rate increases. I calculate NAWC’s
19 rate base, pro forma operating income under present rates, and overall revenue
20 deficiency based upon my recommended adjustments. Additionally, Morgan DeAngelo
21 will present the OCA’s recommendations regarding rate of return (OCA Statement 2).

1 **II. SUMMARY AND RECOMMENDATIONS**

2 **Q. PLEASE SUMMARIZE THE RATE RELIEF REQUESTED BY NAWC**
3 **IN ITS FILING.**

4 A. On July 29, 2024, NAWC filed an application with the Pennsylvania Public Utility
5 Commission (“Commission”) to increase its base rates for water service. NAWC is
6 requesting an overall rate increase of \$922,419. The Company’s proposed rate increase
7 is based upon the fully projected future test year (“FPFTY”) ending March 31, 2026.¹
8 The Company’s requested rate increase reflects an overall rate of return (“ROR”) of
9 8.03%.² According to the Company, this rate increase is primarily to seek recovery of
10 infrastructure investments, and to reflect increased expenses and decreasing customer
11 usage.³

12 **Q. PLEASE SUMMARIZE YOUR FINDINGS AND**
13 **RECOMMENDATIONS.**

14 A. As shown on Schedule JLR-1, I have determined that NAWC’s proposed revenue
15 increase should be reduced to reflect an increase of no more than \$416,487 for the
16 FPFTY. This is \$505,932 less than the Company’s requested increase of \$922,419.
17 This is the amount by which revenues exceed those required to generate an overall rate
18 of return on rate base of 6.29%, which is per the recommendation detailed in the Direct
19 Testimony of Morgan DeAngelo, after accounting for the OCA’s adjustments to
20 NAWC’s claimed rate base and operating income. The ROR recommendation is shown
21 on Schedule JLR-14 and explained in detail in OCA Witness DeAngelo’s Direct
22 Testimony.

¹ Reference Direct Testimony Angove, 5: 2-4.

² Reference Direct Testimony Herbert, 9: 3-5.

³ Reference Direct Testimony Angove, 4: 15-20.

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Q. WHAT PERIOD HAVE YOU USED IN MAKING YOUR DETERMINATION OF NAWC’S REVENUE REQUIREMENT?

A. I have determined my revenue requirement recommendations based on the fully projected future test year ending March 31, 2026. This is the same period used by the Company to develop its revenue requirement.

Q. IN CONNECTION WITH THIS CASE, WHAT DOCUMENTS HAVE YOU EXAMINED AND REVIEWED IN MAKING YOUR RECOMMENDATIONS?

A. I have reviewed NAWC’s rate filing, testimony, and exhibits. I also reviewed the Company’s responses to data requests propounded by the OCA, the Bureau of Technical Utility Services (“TUS”), and the Bureau of Investigation and Enforcement (“I&E”).

Q. HAVE YOU PREPARED SCHEDULES TO ACCOMPANY YOUR TESTIMONY?

A. Yes. I have prepared Schedules JLR-1 through JLR-14. Schedule JLR-1 provides a summary of the calculation of the increase in revenues after reflecting the adjustments proposed by the OCA. Schedule JLR-2 provides my recommended rate base. Schedule JLR-3 presents the summary of the cost of service (revenues and operating expenses) adjustments. My adjustments to NAWC’s claimed revenues and operating expenses are presented on Schedules JLR-4 through JLR-14.

Q. PLEASE EXPLAIN HOW THE REMAINING SECTIONS OF YOUR TESTIMONY ARE ORGANIZED.

1 A. The discussion of my findings and recommendations is presented in the following
2 section, Section III. In that section, I address the revenue requirement issues (rate base
3 and operating income) that I identified in this proceeding. Where I recommend an
4 adjustment to a particular component of the rate base, revenues, or expenses, I
5 document and explain the reason for the adjustment and note the related schedule in
6 which the detailed calculations can be found. An outline of the topics within the section
7 is set forth in the Table of Contents of my testimony.

8 **III. ADJUSTMENTS**

9 **A. Allowance for Cash Working Capital**

10 **Q. HOW DO YOU DEFINE CASH WORKING CAPITAL?**

11 A. For ratemaking purposes, cash working capital is the investment that a utility needs to
12 have on hand to fund its day-to-day operations. Positive cash working capital represents
13 funds provided by investors that should be included in rate base so that the utility earns
14 a return on it. Negative cash working capital represents funds supplied by ratepayers
15 that should be recognized as a rate base offset to reflect funds advanced for operations
16 by ratepayers.

17 **Q. HOW DID THE COMPANY REFLECT CASH WORKING CAPITAL**
18 **IN ITS FILING?**

19 A. The Company's cash working capital allowance is calculated based upon the Federal
20 Energy Regulatory Commission's ("FERC's") 1/8th of Operations and Maintenance
21 ("O&M") expense formula (also referred to as the 45-Day Rule). Under this approach,
22 an average net lag of 45 days is assumed and applied to O&M expense less non-cash
23 expenses to derive the cash working capital component of rate base.

1 **Q. WHAT CHANGES HAVE YOU MADE TO THE ALLOWANCE FOR**
2 **CASH WORKING CAPITAL?**

3 A. Since O&M expenses serve as the basis upon which the cash working capital is
4 calculated, I have incorporated the adjustments to O&M expenses that I am
5 recommending below. I have therefore made an adjustment to cash working capital to
6 reduce rate base by \$17,643 on Schedule JLR-4.

7 **B. Rate Case Expense**

8 **Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING TO RATE**
9 **CASE EXPENSE?**

10 A. The Company presented a total rate case expense of \$485,000, normalized over three
11 years, resulting in an annual recovery of \$161,667 for the FPPTY rate case expense.⁴ I
12 recommend that the normalization period be increased to five years because the
13 recovery of rate case expense should be spread over the period that benefits from
14 incurring the rate case expense. The benefit period is typically measured as the period
15 between rate cases. As explained in *A Guide to Utility Ratemaking*, “The Commission’s
16 practice is to recognize all prudently-incurred rate case expense and set a normalization
17 period based upon historic filing frequency.”⁵ The Company’s last three filings prior
18 to this 2024 filing were in 2019, 2011, and 2008.⁶ The average length of time between
19 filings is five years, and therefore is the basis of my recommendation, which is shown
20 on Schedule JLR-5, and decreases O&M expenses by \$64,667.

⁴ Reference Company Exhibit GRH-1, page 30.

⁵ James H. Cawley and Norman J. Kennard, *A Guide to Utility Ratemaking* (2018 Edition), Pennsylvania Public Utility Commission, 1983, p. 112.

⁶ Reference Company response to interrogatory I&E-RE-10-D.

1 C. **Source of Supply DEP Fees Expense**

2 Q. **PLEASE EXPLAIN THE COMPANY’S PROPOSED SOURCE OF**
3 **SUPPLY DEP FEES EXPENSE.**

4 A. The Company has based its Source of Supply DEP Fees expense on the per-books value
5 for the year ended March 31, 2024, which totals of \$45,360.⁷ In response to OCA-II-
6 5.d, however, NAWC explained that the monthly payments in 2024 were actually the
7 same as the prior two years (which totaled \$26,787 in 2022 and \$26,418 in 2023). The
8 2024 value is higher in total because the Company required additional Engineering
9 Consulting services to complete additional DEP applications that year.⁸

10 Q. **DO YOU AGREE WITH THE COMPANY’S PROPOSED SOURCE OF**
11 **SUPPLY DEP FEES EXPENSE?**

12 A. No, I do not. The per-books value for the year ended March 31, 2024 is abnormally
13 high. The Company explained that monthly payments have been stable at the same
14 level for three years now, and the variance in 2024 resulted from an expense for
15 additional DEP applications and resulting Engineering Consulting services occurring
16 during the historic test year (“HTY”). I believe it is therefore necessary for this portion
17 of the expense to be normalized over a period of time to prevent rates from being set to
18 recover costs that are not incurred annually.

19 Q. **WHAT ADJUSTMENT ARE YOU RECOMMENDING TO THE**
20 **SOURCE OF SUPPLY DEP FEES EXPENSE?**

21 A. For the reasons discussed above, I recommend normalizing the portion of the expense
22 associated with additional DEP applications and the resulting Engineering Consulting

⁷ Reference Company Exhibit GRH-1, page 17.

⁸ Reference Company response to interrogatory OCA-II-5.d.

1 services over a period of five years. Per Company response to OCA-II-5.d, the 2024
2 monthly DEP payments were the same as the prior two years, and so I calculate the
3 difference between the 2023 and 2024 values to be the portion not associated with the
4 recurring monthly payments. I propose a normalization of this portion over five years
5 to maintain consistency with the historical average time between rate case filings, as
6 discussed in the “Rate Case Expense” section of my testimony. This adjustment reduces
7 O&M expense by \$15,153, as shown on Schedule JLR-6.

8 **D. Chemical Expense**

9 **Q. PLEASE EXPLAIN THE COMPANY’S ADJUSTMENTS TO**
10 **CHEMICAL EXPENSE.**

11 A. The Company has calculated the pro forma HTY chemical expenses to reflect
12 forecasted annual usage and unit cost values, totaling \$55,742.⁹ NAWC has then
13 applied further adjustments to reach the future test year (“FTY”) and FPFTY values,
14 reflecting declining usage forecasts, which total \$128 for the FTY and \$325 for the
15 FPFTY.¹⁰

16 **Q. PLEASE EXPLAIN YOUR RECOMMENDATION REGARDING THE**
17 **COMPANY’S HTY ADJUSTMENT.**

18 A. The Company has applied an adjustment to the HTY chemical expenses that was
19 calculated, in part, on Sodium Hypochlorite usage totaling 11,498 gallons.¹¹ Per
20 Company response to TUS R-7, this is incorrect, with some values being double-
21 counted.¹² I recommend applying the correct usage value of 9,217 gallons to the
22 calculation. This reduces O&M expense by \$7,331, as shown on Schedule JLR-7.

⁹ Reference Company Exhibit GRH-1, page 28.

¹⁰ Reference Company Exhibit GRH-1, page 32.

¹¹ Reference Company Exhibit GRH-1, page 28, Adjustment E-3.

¹² Reference Company response to interrogatory, TUS R-7.

1 **Q. PLEASE EXPLAIN YOUR RECOMMENDATION REGARDING THE**
2 **COMPANY'S ADJUSTMENTS TO CHEMICAL EXPENSE FOR**
3 **DECLINING USAGE.**

4 A. The Company has proposed an adjustment to reduce chemicals due to declining usage,
5 applying a negative 0.2% rate to the pro forma HTY expense value to reach the FTY
6 value, and negative 0.6% to the pro forma FTY value to reach FPFTY pro forma
7 value.¹³ The Company has applied an adjustment of positive \$128 to reach the FTY
8 value of chemical expense, and \$325 to reach the FPFTY value. Per Company response
9 to I&E-RE-13-D, however, the signs were inadvertently reversed on these adjustments,
10 and the values should be negative.¹⁴

11 I therefore recommend adjusting to correct for the sign value error. This portion
12 of the adjustment further reduces the O&M expenses by a further \$846. Note that
13 because this calculation is based on the pro forma HTY value, my previously discussed
14 change to the HTY value flows through to this calculation.

15 **Q. WHAT IS THE TOTAL ADJUSTMENT YOU RECOMMEND TO**
16 **CHEMICAL EXPENSES?**

17 A. As described in more detail above, I have recommended adjustments to chemical
18 expense to correct usage values and for sign errors in the declining usage adjustment,
19 revising the Company's proposed adjustments to the HTY, FTY, and FPFTY. In total,
20 my recommended adjustments explained above reduce O&M expenses by \$8,177, as
21 shown on Schedule JLR-7.

¹³ Reference Company Exhibit GRH-1, page 32, Adjustment E-14.

¹⁴ Reference Company response to interrogatory, I&E-RE-13-D.

1 **E. Purchased Water Expense**

2 **Q. PLEASE EXPLAIN THE COMPANY'S ADJUSTMENTS TO**
3 **PURCHASED WATER EXPENSE.**

4 A. The Company has applied an adjustment of \$20,573 to the HTY purchased water
5 expenses to reflect forecasted unit cost values.¹⁵ NAWC then applied further
6 adjustments to reach the FTY and FPFTY values to reflect declining usage forecasts,
7 which total \$3,539 for the FTY and \$8,687 for the FPFTY.¹⁶

8 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PURCHASED WATER**
9 **EXPENSE RELATED TO THE RATE.**

10 A. In discovery, the Company explained that per agreement with PA American Water, the
11 rate for purchased water is increased annually by an escalation factor.¹⁷ The escalation
12 factor used to project the rate for the cost of service was a forecast, however, since rates
13 increase on July 1st each year and at time of filing, the most recent monthly CPI data
14 available was April 2024.¹⁸ July 1st has since passed, and I am therefore recommending
15 updating the calculation of the rate and the subsequent adjustment to reflect the actual
16 escalation value agreed upon with PA American Water. Given that the rates increase
17 on July 1st, I infer that the June 2024 CPI annual change is utilized. In rebuttal, the
18 Company should confirm this or state the actual escalation factor set on July 1, 2024.
19 Pending this information, I may revise my calculation in Surrebuttal as needed.

20 The annual change in CPI in June 2024 was 2.97 percent, resulting in a rate of
21 \$3.527 per thousand gallons. This results in a reduction to O&M expenses by \$2,120
22 as shown in Schedule JLR-8.

¹⁵ Reference Company Exhibit GRH-1, page 28.

¹⁶ Reference Company Exhibit GRH-1, page 32.

¹⁷ Reference Company response to interrogatory I&E-RE-3-D.

¹⁸ Reference Company response to interrogatory OCA-IV-6.

1 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PURCHASED WATER**
2 **EXPENSE RELATED TO DECLINING USAGE.**

3 A. The Company has proposed an adjustment to reduce purchased water due to declining
4 usage, applying a negative 0.2% rate to the pro forma HTY expense value to reach the
5 FTY value, and negative 0.6% to the pro forma FTY value to reach FPFTY pro forma
6 values.¹⁹ The Company has applied an adjustment of positive \$3,539 to reach the FTY
7 value of purchased water expense, and \$8,687 to reach the FPFTY value. Per Company
8 response to I&E-RE-13-D, the signs were inadvertently reversed on these adjustments,
9 and the values should be negative.²⁰ I therefore have applied an adjustment to correct
10 this error, which results in a further reduction to O&M expenses of \$24,680. Note that
11 because this calculation is based on the pro forma HTY value, my previously discussed
12 change to the pro forma HTY value flows through to this calculation.

13 **Q. WHAT IS YOUR TOTAL RECOMMENDED ADJUSTMENT TO**
14 **PURCHASED WATER EXPENSE?**

15 A. For the reasons described above, I have recommended adjustments to purchased water
16 expense to revise the purchased water rate and to correct for sign errors in the declining
17 usage adjustment, revising the Company's proposed adjustments to the HTY, FTY, and
18 FPFTY. In total, my recommended adjustments explained above reduce O&M
19 expenses by \$26,800, as shown on Schedule JLR-8.

¹⁹ Reference Company Exhibit GRH-1, page 32, Adjustment E-14.

²⁰ Reference Company response to interrogatory, I&E-RE-13-D.

1 **F. Purchased Power Expense**

2 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PURCHASED POWER**
3 **EXPENSE.**

4 A. The Company has proposed an adjustment to reduce purchased power due to declining
5 usage, applying a negative 0.2% rate to the pro forma HTY expense value to reach the
6 FTY value, and negative 0.6% to the pro forma FTY value to reach FPFTY pro forma
7 values.²¹ The Company has applied an adjustment of positive \$82 to the FTY value of
8 purchased power expense, and \$158 to the FPFTY value. Per Company response to
9 I&E-RE-13-D, the signs were inadvertently reversed on these adjustments, and the
10 values should be negative.²² I therefore have applied an adjustment to correct this error.
11 This adjustment results in a reduction to O&M expenses of \$479, as shown on Schedule
12 JLR-9.

13 **G. Employee Benefits**

14 **Q. PLEASE ADDRESS THE COMPANY'S ADJUSTMENT TO**
15 **EMPLOYEE BENEFITS.**

16 A. The Company has applied a five percent increase to employee benefits in the FTY and
17 FPFTY and added an additional flat value of \$50,000 to employee welfare. The
18 Company stated the basis of the \$50,000 adder was to account for changing health care
19 providers.²³ With respect to the 5 percent increase, NAWC stated the basis is an
20 anticipated change to its health insurance provider and increased coverage for its
21 employees. The Company, however, did not provide any backup documentation or data
22 to substantiate this 5 percent projection.²⁴ Per my review of historical data, it is apparent

²¹ Reference Company Exhibit GRH-1, page 32, Adjustment E-14.

²² Reference Company response to interrogatory, I&E-RE-13-D.

²³ Reference Company response to interrogatory I&E-RE-25-D and I&E-RE-6-D.

²⁴ Reference Company response to interrogatories OCA-IV-4.f.

1 that employee benefits have not shown 5 percent increases annually, as shown in the
2 table below.
3

	Year Ended 03/31/2022	Year Ended 03/31/2023	Year Ended 03/31/2024
Benefits Expenses ²⁵	\$156,465	\$156,465	\$155,392

4
5 A proposed blanket 5 percent escalation to benefits is a significant change from
6 what has been seen in actual benefits expenses in recent years, and the Company has
7 not provided any evidence to support the derivation of the 5 percent projection.
8 Furthermore, life/disability insurance expenses are typically driven by the claims in a
9 given year and there is no basis to automatically assume an increase will occur over
10 HTY values. I therefore recommend disallowing the 5 percent increase to benefits. This
11 adjustment results in a reduction to O&M expenses of \$19,298, as shown on Schedule
12 JLR-10.

13 **H. Miscellaneous Expense**

14 **Q. WHAT ADJUSTMENTS HAVE YOU MADE TO MISCELLANEOUS**
15 **EXPENSE?**

16 A. In determining the FPFTY Miscellaneous Expense, the Company has assumed that the
17 year ended 03/31/2024 Miscellaneous Expense per books represented a normal level
18 of expense. During my review of the historical level of expenses, I discovered that
19 Miscellaneous Expenses were as follows in the last three years:
20

²⁵ Reference Company response to interrogatories I&E-RE-25-D.

	12 mos. Ended 3/31/2022	12 mos. Ended 3/31/2023	12 mos. Ended 3/31/2024
675.1 Miscellaneous Expense ²⁶	\$613	\$2,473	\$7,827

1 In its response to OCA-II-6, the Company stated that the variance was due to “the
2 Company booking costs in this account that are unrelated from year to year.”²⁷ It is
3 therefore apparent that one twelve-month period is not representative of actual expected
4 expenses going forward, as this account is based on specific activity each year that does
5 not correspond to the prior year. The 2024 period is abnormally high compared to prior
6 years, and using this year as the basis for future expenses could result in an
7 overcollection from customers.

8 I am therefore recommending normalizing the annual expense level using the
9 average of the most recent three years rather than the per books value for the year ended
10 03/31/2024. This adjustment is presented on Schedule JLR-11, and results in a decrease
11 to O&M expenses of \$4,189.

12 **I. Uniforms Expense**

13 **Q. WHAT ADJUSTMENTS HAVE YOU MADE TO UNIFORMS**
14 **EXPENSE?**

15 A. In determining the FPFTY Uniforms Expense, the Company has assumed that the year
16 ended 03/31/2024 Uniforms Expense per books represented a normal level of expense.
17 Per Company response to OCA-II-5.e, however, the HTY was unusually high as more
18 employees required replacement uniforms due to the Company rebranding its logos.²⁸

19 As the HTY is not representative of actual expected expenses going forward, given this

²⁶ Reference Company response to interrogatory, I&E-RE-1-D Attachment.

²⁷ Reference Company response to interrogatory, OCA-II-6.

²⁸ Reference Company response to interrogatory, OCA-II-5.

1 out of the ordinary activity, using this year as the basis for future expenses could result
2 in an overcollection from customers.

3 I am therefore recommending normalizing the annual expense level using the
4 average of the most recent three years rather than the per books value for the year ended
5 03/31/2024. This adjustment is presented on Schedule JLR-12, and results in a decrease
6 to O&M expenses of \$2,377.

7 **J. Interest Synchronization**

8 **Q. PLEASE EXPLAIN YOUR INTEREST SYNCHRONIZATION**
9 **ADJUSTMENT.**

10 A. To determine the tax-deductible interest for ratemaking, I multiplied the OCA's
11 recommended rate base by the weighted cost of debt included in the capital structure.
12 This procedure synchronizes the interest deduction for tax purposes with the interest
13 component of the return on rate base to be recovered from ratepayers. As shown on
14 Schedule JLR-13, this decreases state income taxes by \$2,633 and federal income taxes
15 by \$6,368.

16 **Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

17 A. Yes, it does.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission)
)
v.) **Docket No. R-2024-3050208**
)
Newtown Artesian Water Company)

**SCHEDULES ACCOMPANYING THE
DIRECT TESTIMONY
OF
JENNIFER L. ROGERS**

**ON BEHALF OF THE
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE**

October 10, 2024

APPENDIX A – Resume of Jennifer L. Rogers

JENNIFER L. ROGERS

Ms. Rogers is a Lead Economist at Exeter Associates, Inc, with over fifteen years of experience in the energy industry. At Exeter, Ms. Rogers reviews and analyzes utility rate filings, and presents testimony focusing primarily on revenue requirements determination. She also evaluates and forecasts power supply requirements, costs, and renewable energy needs; provides bill and rate analysis; and reviews energy use, scheduling, and scheduling deviation data for clients. In addition, Ms. Rogers conducts utility service assessments to identify areas for potential utility cost savings, providing detailed analysis of supply contracts, energy use, and a review of billing practices.

Education

B.A. (Economics) – Saint Mary’s College of Maryland, 2007

M.A. (Economics) – Northeastern University, Boston, MA, 2009

Previous Employment

2009-Current Exeter Associates, Inc.
Columbia, MD

- | | |
|----------------------|--------------|
| • Lead Economist | 2023-Current |
| • Senior Economist | 2018-2022 |
| • Economist | 2011-2017 |
| • Research Assistant | 2009-2010 |

2007-2008 Economics Research and Teaching Assistant
Northeastern University
Boston, MA

Professional Experience

Ms. Rogers’ work at Exeter is primarily related to analysis of revenue requirement issues in utility rate filings, analysis power supply acquisition, bill and rate analysis and forecasting, and utility service assessment. Ms. Rogers provides support to the U.S. Department of Energy’s Northern California national laboratories, generating cost simulations and power procurement models to forecast future power supply requirements and costs. In addition, Ms. Rogers reviews and tracks the Laboratories’ billing, energy use, scheduling, and scheduling deviation data. Ms. Rogers works with the U.S. Air Force Civil Engineer Center to complete utility service assessments to identify areas for potential utility cost savings, providing detailed analysis of energy usage, supply contracts, and a review of billing practices. Ms. Rogers also assists clients in reviewing utility rate filings, providing analysis on revenue requirement issues. Ms. Rogers’ work at Exeter has also included assisting in studies of variable generation forecasting, feed-in tariffs for renewable energy generation, and transmission cost allocation methodologies.

As a Research Assistant at Northeastern University, Ms. Rogers worked in the fields of industrial organization and labor economics, while her studies focused on economic modeling and policy analysis. Ms. Rogers developed surveys to be used in a longitudinal labor economics study, tutored undergraduate economics students, and provided research on a variety of economics-related topics.

Expert Testimony

Before the Maryland Public Utility Commission, Case No. 9744, Hagerstown Light Department, 2024, on behalf of the Maryland Office of People’s Counsel. Testimony addressed revenue requirement issues.

Before the Maryland Public Utility Commission, Case No. 9719, Easton Utilities Commission, 2024, on behalf of the Maryland Office of People’s Counsel. Testimony addressed revenue requirement issues.

Before the Pennsylvania Public Utility Commission, Docket Nos. R-2023-3042804 and R-2023-3042805, Community Utilities of Pennsylvania Inc., 2024, on behalf of the Pennsylvania Office of Consumer Advocate. Testimony addressed revenue requirement issues.

Before the State Corporation Commission of the State of Kansas; Docket No. 23-EKCE-775-RTS; Evergy Kansas Central, Inc., Evergy Kansas South, Inc. and Evergy Metro, Inc.; 2023; on behalf of the United States Department of Defense and all other Federal Executive Agencies. Testimony addressed revenue requirement issues.

Before the Pennsylvania Public Utility Commission, Docket No. R-2023-3040258, Columbia Water Company, 2023, on behalf of the Pennsylvania Office of Consumer Advocate. Testimony addressed revenue requirement issues.

Before the Maine Public Utilities Commission, Docket No. 2023-00065, Maine Water Company – Biddeford & Saco Division, 2023, on behalf of the Maine Office of the Public Advocate. Testimony addressed revenue requirement issues.

Before the Philadelphia Water, Sewer, and Storm Water Rate Board, Fiscal Years 2024-2025 Rate Proceeding, Philadelphia Water Department, 2023, on behalf of the Public Advocate. Testimony addressed revenue requirement issues.

Before the Pennsylvania Public Utility Commission, Docket No. R-2022-3032764, Leatherstocking Gas Company, LLC., 2022, on behalf of the Pennsylvania Office of Consumer Advocate. Testimony addressed revenue requirement issues.

Before the Public Utility Commission of Texas, Docket No. 53601, Oncor Electric Delivery Company LLC, 2022, on behalf of the United States Department of Defense and the Federal Executive Agencies. Testimony addressed revenue requirement issues.

Before the Maryland Public Service Commission, Case No. 9680, Columbia Gas of Maryland, Inc., 2022, on behalf of the Maryland Office of People's Counsel. Testimony addressed revenue requirement issues.

Before the Pennsylvania Public Utility Commission, Docket No. R-2015-2462723, United Water Pennsylvania, Inc., 2015, on behalf of the Pennsylvania Office of Consumer Advocate. Testimony addressed revenue requirement issues.

Publications and Consulting Reports

A Survey of Variable Generation Integration Charges, National Renewable Energy Laboratory, NREL Report No. NREL/TP-5500-57583, March 2013 (with Kevin Porter, Sari Fink, and Michael Buckley of Exeter Associates, and with B.-M. Hodge of NREL)

Survey of Variable Generation Forecasting in the West, National Renewable Energy Laboratory, NREL Report No. NREL/SR-5500-54457, April 2012 (with Kevin Porter).

Summary of Time Period-Based and Other Approximation Methods for Determining the Capacity Value of Wind and Solar in the United States, National Renewable Energy Laboratory, NREL Report No. NREL/SR-5500-54338, March 2012 (with Kevin Porter).

Long-Term Electricity Report for Maryland, prepared for the Maryland Department of Natural Resources Power Plant Research Program Pursuant to Executive Order 01.01.2010.16, December 2011, (with Steven Estomin, Kevin Porter, Christina Mudd, Emma Nicholson, Sari Fink, Michael Buckley, and Krista Ozarowski).

Alternative Energy Resource Market Assessment, National Association of Regulatory Utility Commissioners, A report for the Public Utility Commission of Ohio, September 2011 (with Kevin Porter of Exeter Associates, Inc., Ed Holt & Associates, Inc., and Sustainable Energy Advantage LLC)

Central Wind Power Forecasting Programs in North America by Regional Transmission Organizations and Electric Utilities: Revised Edition, National Renewable Energy Laboratory, NREL Report No. NREL/SR-5500-51263, March 2011 (with Kevin Porter).

A Survey of Transmission Cost Allocation Methodologies for Regional Transmission Organizations, National Renewable Energy Laboratory, NREL Report No. SR-5500-49880, February 2011 (with Kevin Porter, Sari Fink, and Christina Mudd).

The Relationship between Wind Generation and Balancing-Energy Market Prices in ERCOT: 2007–2009, National Renewable Energy Laboratory, NREL Report No. NREL/SR-5500-49415, November 2010 (with Kevin Porter and Emma Nicholson).

The Relevance of Generation Interconnection Procedures to Feed-in Tariffs in the United States, National Renewable Energy Laboratory, NREL Report No. NREL/SR-6A20-48987, October 2010 (with Kevin Porter and Sari Fink).

Transmission Cost Allocation Methodologies for Regional Transmission Organizations, National Renewable Energy Laboratory, NREL Report No. NREL/SR-550-48738, July 2010 (with Kevin Porter and Sari Fink).

Examples of Wind Energy Curtailment Practices, National Renewable Energy Laboratory, NREL Report No. NREL/SR-550-48737, July 2010 (with Kevin Porter and Sari Fink).

Status of Centralized Wind Power Forecasting in North America, National Renewable Energy Laboratory, NREL/SR-550-47853, April 2010 (with Kevin Porter).

“Bi-Monthly Transmission Updates,” of the National Wind Coordinating Collaborative, Prepared for National Renewable Energy Lab, August 2009 - June 2010 (with Kevin Porter).

“Maryland Power Plants and the Environment: A Review of the Impacts of Power Plants and Transmission Lines on Maryland’s Natural Resources, Maryland Power Plant Research Program, PPRP-CEIR-15,” January 2010 (with Steven Estomin, Christina Mudd, and Sari Fink of Exeter Associates, Inc. and contributing authors from Versar, Inc. and Environmental Resources Management).

“Wind Power and Electricity Markets,” Compiled for the Utility Wind Interest Group, August 2009 (with Kevin Porter and Sari Fink).

The Newtown Artesian Water Company

Cost of Service
For the Fully Projected Future Test Year Ending March 31, 2026

Line No.	Description	Company Amounts at Present Rates ^{1/}	OCA Adjustments	Amounts After OCA Adjustments	Pro Forma Change in Revenues	Amounts After Change in Revenues
1						
2	<u>Operating Revenues</u>	6,594,988		6,594,988	416,487	7,011,475
3						
4	Total Operating Revenues	<u>\$ 6,594,988</u>	<u>\$ -</u>	<u>\$ 6,594,988</u>	<u>\$ 416,487</u>	<u>\$ 7,011,475</u>
5						
6	<u>Operating Revenue Deductions:</u>					
7	O&M Expenses	4,605,898	(141,140)	4,464,757		4,464,757
8	Depreciation	817,790		817,790		817,790
9	Taxes, Other Than Income	503,594		503,594	2,653	506,247
10	Amortization of Regulatory Liability	(30,363)		(30,363)		(30,363)
11	Income Taxes	199,133	29,547	228,680	113,027	341,707
12	Total Operating Revenue Deductions	<u>6,096,053</u>	<u>(111,593)</u>	<u>5,984,458</u>	<u>115,680</u>	<u>6,100,138</u>
13						
14						
15	Net Operating Income	<u>\$ 498,935</u>		<u>\$ 610,529</u>		<u>\$ 911,336</u>
16						
17	Rate Base	<u>\$ 14,506,299</u>		<u>\$ 14,488,656</u>		<u>\$ 14,488,656</u>
18						
19	Rate of Return	<u>3.44%</u>		<u>4.21%</u>		<u>6.29%</u>

Note:

^{1/} Company Exhibit GRH-1, page 11.

The Newtown Artesian Water Company

Summary of Revenue Increase at OCA Rate of Return
 For the Twelve Months Ending March 31, 2026

Line No.	Description	Amount	Source
1	Adjusted Rate Base	\$ 14,488,656	Schedule JLR-2, Page 1
2	Required Rate of Return	6.29%	Schedule JLR-14
3			
4	Net Operating Income Required	\$ 911,336	
5	Net Operating Income at Present Rates	610,529	Schedule JLR-1, Page 1
6			
7	Income Deficiency/(Surplus)	\$ 300,807	
8	Revenue Multiplier	1.384565	
9			
10	Required Change in Company Revenue	\$ 416,487	
11			
12	Proposed Revenue Change	\$ 416,487	
13	Less: Uncollectibles	0.00% \$ -	
14	Net of Uncollectibles	\$ 416,487	
15	Less: PSC Assessment Ratio	0.637% \$ 2,653	
16	Net PSC Assessment	\$ 413,834	
17	Less: State Income Tax @ 7.99%	7.99% \$ 33,065	
18			
19	Income Before Federal Taxes	\$ 380,768	
20	Federal Income Tax @ 21.0%	21.00% 79,961	
21			
22	Net Income (Surplus)/Deficiency	300,807	

The Newtown Artesian Water Company

Summary of Rate Base
For the Twelve Months Ending March 31, 2026

Line No.	Description	Amount per Company Filing	OCA Adjustments	Amount After OCA Adjustments
1				
2	Original Cost of Utility Plant in Service	57,572,131		57,572,131
3	Less: Accumulated Depreciation (Net of CIAC)	13,324,764		13,324,764
4	Subtotal	<u>\$ 44,247,367</u>	<u>\$ -</u>	<u>\$ 44,247,367</u>
5				
6	<u>Less:</u>			
7	Contributions in Aid of Construction			
8	Customer Advances for Construction	24,983,770		24,983,770
9		1,321,725		1,321,725
10	Subtotal	<u>\$ 26,305,495</u>	<u>\$ -</u>	<u>\$ 26,305,495</u>
11				-
12	Net Plant	17,941,872	-	17,941,872
13				
14	<u>Add:</u>			
15	Materials & Supplies	273,723		273,723
16	Cash Working Capital	642,579	\$ (17,643)	624,936
17				
18	Less: Deferred Taxes	4,351,876		4,351,876
19	Subtotal	<u>\$ (3,435,574)</u>	<u>\$ (17,643)</u>	<u>\$ (3,453,216)</u>
20				
21				
22	<u>Rate Base</u>	<u>\$ 14,506,299</u>	<u>\$ (17,643)</u>	<u>\$ 14,488,656</u>

The Newtown Artesian Water Company

Summary of Rate Base Adjustments
For the Twelve Months Ending March 31, 2026

<u>Line No.</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>
1	Rate Base per Company Filing	Schedule JLR-2, Page 1	<u>\$ 14,506,299</u>
2			
3	<u>OCA Adjustments:</u>		
4	Adjustment to Cash Working Capital	Schedule JLR- 4	(17,643)
5			
6	Total Ratemaking Adjustments		<u>\$ (17,643)</u>
7			
8	Adjusted Rate Base per OCA		<u><u>\$ 14,488,656</u></u>

The Newtown Artesian Water Company

Summary of Adjustments to Income Before Income Taxes
For the Twelve Months Ending March 31, 2026

Line No.	Description	Amount	Source
1	Operating Income per Company	\$ 498,935	Schedule JLR- 1
2			
3	<u>OCA Adjustments:</u>		
4	Adjustment to Revise Normalization Period of Rate Case Expense	\$ 47,005	Schedule JLR- 5
5	Adjustment to Revise Chemical Expense	\$ 5,944	Schedule JLR- 7
6	Adjustment to Revise Purchased Water Expense	\$ 19,481	Schedule JLR- 8
7	AAAdjustment to Revise Purchased PowerExpense	\$ 348	Schedule JLR- 9
8	Adjustment to Employee Benefits Expense	\$ 14,027	Schedule JLR- 10
9	Adjustment to Source of Supply DEP Fees Expense	\$ 11,014	Schedule JLR- 6
10	Adjustment to Miscellaneous Expenses	\$ 3,045	Schedule JLR- 11
11	Adjustment to Uniforms Expenses	\$ 1,728	Schedule JLR- 12
12	Interest Synchronization	\$ 9,001	Schedule JLR- 13
13	Total OCA Adjustments	<u>111,593</u>	
14			
15	Total OCA Adjustments	<u>\$ 610,528</u>	

The Newtown Artesian Water Company

Summary of Adjustments to Operating Income
For the Twelve Months Ending March 31, 2026

Line No.	Description	Operating Revenues	O&M Expenses	Depreciation	Amortization of Regulatory Liability	Taxes Other Than Income	Income Taxes	Operating Income
1	Amount per Company	\$ 6,594,988	\$ 4,605,898	\$ 817,790	\$ (30,363)	\$ 503,594	\$ 199,133	\$ 498,936
2								
3	<u>OCA Adjustments:</u>							
4	Adjustment to Revise Normalization Period of Rate Case Expense	\$ -	\$ (64,667)	\$ -	\$ -	\$ -	\$ 17,662	\$ 47,005
5	Adjustment to Revise Chemical Expense	-	(8,177)	-	-	-	2,233	5,944
6	Adjustment to Revise Purchased Water Expense	-	(26,800)	-	-	-	7,319	19,481
7	AAadjustment to Revise Purchased PowerExpense	-	(479)	-	-	-	131	348
8	Adjustment to Employee Benefits Expense	-	(19,298)	-	-	-	5,271	14,027
9	Adjustment to Source of Supply DEP Fees Expense	-	(15,153)	-	-	-	4,139	11,014
10	Adjustment to Miscellaneous Expenses	-	(4,189)	-	-	-	1,144	3,045
11	Adjustment to Uniforms Expenses	-	(2,377)	-	-	-	649	1,728
12	Interest Synchronization	-	-	-	-	-	(9,001)	9,001
13								
14	Total OCA Adjustments	\$ -	\$ (141,140)	\$ -	\$ -	\$ -	\$ 29,547	\$ 111,593
15								
16	Total Adjusted Income Before Income Taxes	\$ 6,594,988	\$ 4,464,757	\$ 817,790	\$ (30,363)	\$ 503,594	\$ 228,680	\$ 610,529

The Newtown Artesian Water Company

Adjustment to Cash Working Capital
For the Twelve Months Ending March 31, 2026

Line No.	Description	Amount
1	Company Proposed Cash Working Capital	\$ 642,579 ^{1/}
2		
3	OCA Recommended Adjustments to O&M	(141,140) ^{2/}
4	Multiplier (45 days/360 days = 12.5%)	<u>12.5%</u>
5		
6	Subtotal	<u>\$ (17,643)</u>
7		
8	OCA Recommended Cash Working Capital	\$ 624,936
9		
10	OCA Adjustment to CWC	<u>\$ (17,643)</u>

Note:

^{1/} Company Exhibit GRH-1, page 13.

^{2/} Schedule JLR-3, page 2.

The Newtown Artesian Water Company

Adjustment to Revise Normalization Period of Rate Case Expense
For the Twelve Months Ending March 31, 2026

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	Total Rate Case Costs to be Recovered	<u>\$ 485,000</u> ^{1/}
2		
3	Company Proposed Normalization Period (Years)	3 ^{1/}
4	OCA Recommended Normalization Period (Years)	5
5		
6	Company Proposed FPFTY Expense	161,667 ^{1/}
7	OCA Recommended FPFTY Expense	97,000
8		
9	Adjustment to O&M Expenses	<u>(64,667)</u>

Note:

^{1/} Company Exhibit GRH-1, page 30.

The Newtown Artesian Water Company

Adjustment to Source of Supply DEP Fees Expense
For the Twelve Months Ending March 31, 2026

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	Source of Supply DEP Fees Per Books, 12 mos ended 3/31/2023	\$ 26,418 ^{1/}
2	Source of Supply DEP Fees Per Books, 12 mos ended 3/31/2024	\$ 45,360 ^{1/}
3	Difference (Line No. 2-1)	\$ 18,942
4		
5	OCA Recommended Normalization Period (Years)	5
6	Portion Normalized Over 5 Years	\$ 3,788
7		
8	Total OCA Recommended Source of Supply DEP Fees Expense	\$ 30,206
9		
10	Adjustment to O&M Expenses	<u><u>(15,153)</u></u>

Note:

^{1/} Company response to I&E-RE-1-D Attachment.

The Newtown Artesian Water Company

Adjustment to Revise Chemical Expense
For the Twelve Months Ending March 31, 2026

Line No.	Description	NAWC Projected Quantity (Gallons)	NAWC Proposed Unit Cost	Amount
1	<u>Chemical</u>			
2	Sodium Hypochlorite	11,498	\$ 3.2136	36,951 ^{1/}
3	Phosphate Usage	1,660	\$ 11.3200	18,791 ^{1/}
4	Total			55,742 ^{1/}
5				
6	NAWC Revised Usage: Sodium Hypochlorite	9,217		29,620 ^{2/}
7				
8	Difference			<u>(7,331)</u>
9				
10	Company Proposed Declining Usage Percentage - FTY			-0.2% ^{3/}
11	Company Proposed Declining Usage Percentage - FPFTY			-0.6% ^{3/}
12				
13	Company Proposed FTY adjustment			\$ 128 ^{3/}
14	Company Proposed FPFTY adjustment			\$ 325 ^{3/}
15				
16	HTY Chemical Expense per Filing			\$ 46,033 ^{4/}
17	Company Proposed Pro Forma HTY Chemical Expense			\$ 55,742 ^{4/}
18	Company Proposed Pro Forma FTY Chemical Expense			\$ 55,870 ^{4/}
19	Company Proposed Pro Forma FPFTY Chemical Expense			\$ 56,195 ^{4/}
20				
21	OCA Proposed Pro Forma HTY Chemical Expense			\$ 48,411
22				
23	OCA Recommended FTY Adjustment			\$ (111)
24	OCA Recommended Pro Forma FTY Expense			\$ 48,299
25				
26	OCA Recommended FPFTY Adjustment			\$ (281)
27	OCA Recommended Pro Forma FPFTY Expense			\$ 48,018
28				
29	Adjustment to O&M Expenses			<u>(8,177)</u>

Note:

^{1/} Company Exhibit GRH-1, page 28.

^{2/} Company response to TUS R-7

^{3/} Company Exhibit GRH-1, page 32.

^{4/} Company Exhibit GRH-1, page 16.

The Newtown Artesian Water Company

Adjustment to Revise Purchased Water Expense
For the Twelve Months Ending March 31, 2026

Line No.	Description	HTY Volumes (thousands)	Rate Per Month or Thousand	Amount
1	PAWC	74,054 ^{1/}		
2	Company proposed rate		\$ 3.5552 ^{1/}	263,278 ^{1/}
3	<u>OCA Recommended Rate</u>		\$ 3.5266	<u>261,158</u>
4				
5	Difference			<u>(2,120)</u>
6				
7	Company Proposed Declining Usage Percentage - FTY			-0.2% ^{2/}
8	Company Proposed Declining Usage Percentage - FPFTY			-0.6% ^{2/}
9				
10	Company Proposed FTY adjustment			\$ 3,539 ^{2/}
11	Company Proposed FPFTY adjustment			\$ 8,687 ^{2/}
12				
13	HTY Purchased Expense per Filing			\$ 1,516,905 ^{3/}
14	Company Proposed Pro Forma HTY Purchased Water Expense			\$ 1,537,478 ^{3/}
15	Company Proposed Pro Forma FTY Purchased Water Expense			\$ 1,541,017 ^{3/}
16	Company Proposed Pro Forma FPFTY Purchased Water Expense			\$ 1,549,704 ^{3/}
17				
18	OCA Proposed Pro Forma HTY Purchased Water Expense			\$ 1,535,358
19				
20	OCA Recommended FTY Adjustment			\$ (3,534)
21	OCA Recommended Pro Forma FTY Expense			\$ 1,531,825
22				
23	OCA Recommended FPFTY Adjustment			\$ (8,920)
24	OCA Recommended Pro Forma FPFTY Expense			\$ 1,522,904
25				
26	Adjustment to O&M Expenses			<u>(26,800)</u>

Note:

^{1/} Company Exhibit GRH-1, page 28.

^{2/} Company Exhibit GRH-1, page 32.

^{3/} Company Exhibit GRH-1, page 16.

The Newtown Artesian Water Company

Adjustment to Revise Purchased PowerExpense
 For the Twelve Months Ending March 31, 2026

Line No.	Description	Amount
1	Company Proposed Declining Usage Percentage - FTY	-0.2% ^{1/}
2	Company Proposed Declining Usage Percentage - FPFTY	-0.6% ^{1/}
3		
4	Company Proposed FTY adjustment	\$ 82 ^{1/}
5	Company Proposed FPFTY adjustment	\$ 158 ^{1/}
6		
7	HTY Purchased Expense per Filing	\$ 35,550 ^{2/}
8	Company Proposed Pro Forma HTY Purchased Water Expense	\$ 35,550 ^{2/}
9	Company Proposed Pro Forma FTY Purchased Water Expense	\$ 27,204 ^{2/}
10	Company Proposed Pro Forma FPFTY Purchased Water Expense	\$ 27,362 ^{2/}
11		
12	OCA Recommended FTY Adjustment	\$ (82)
13	OCA Recommended Pro Forma FTY Expense	\$ 27,040
14		
15	OCA Recommended FPFTY Adjustment	\$ (157)
16	OCA Recommended Pro Forma FPFTY Expense	\$ 26,882
17		
18	Adjustment to O&M Expenses	<u>(479)</u>

Note:

^{1/} Company Exhibit GRH-1, page 32.

^{2/} Company Exhibit GRH-1, page 16.

The Newtown Artesian Water Company

Adjustment to Benefits Expenses
For the Twelve Months Ending March 31, 2026

Line No.	Description	Amount
1	HTY Benefits perCompany	\$ 198,932 ^{1/}
2		
3	Company Proposed Percentage Increase	5% ^{1/}
4	OCA Proposed Percentage Increase	0%
5		
6	Value Removed in FTY and FPFTY per Company	10,664 ^{1/}
7	Company Proposed FTY Benefits Expenses	197,682 ^{1/}
8	Company Proposed FPFTY Benefits Expenses	207,566 ^{1/}
9		
10	Company Proposed FTY Benefits Expenses	188,268
11	Company Proposed FPFTY Benefits Expenses	188,268
12		
13		
14	Adjustment to O&M Expenses	<u>\$ (19,298)</u>

Note:

^{1/} Company response to I&E-RE-25-D Attachment, page 2.

The Newtown Artesian Water Company

Adjustment to Miscellaneous Expenses
For the Twelve Months Ending March 31, 2026

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	Company Proposed FPFTY Miscellaneous Expense	\$ 7,827 ^{1/}
2		
3	2022 Miscellaneous Expenses	613 ^{1/}
4	2023 Miscellaneous Expenses	2,473 ^{1/}
5	2024 Miscellaneous Expenses	7,827 ^{1/}
6	Average	3,638
7		
8	Adjustment to O&M Expenses	\$ (4,189)

Note:

^{1/} Company response to I&E-RE-1-D Attachment.

The Newtown Artesian Water Company

Adjustment to Uniforms Expenses
For the Twelve Months Ending March 31, 2026

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	Company Proposed FPFTY Uniforms Expense	\$ 5,747 ^{1/}
2		
3	2022 Uniforms Expenses	2,008 ^{1/}
4	2023 Uniforms Expenses	2,353 ^{1/}
5	<u>2024 Uniforms Expenses</u>	<u>5,747 ^{1/}</u>
6	Average	3,369
7		
8	Adjustment to O&M Expenses	<u><u>\$ (2,377)</u></u>

Note:

^{1/} Company response to I&E-RE-1-D Attachment.

The Newtown Artesian Water Company

Interest Synchronization Adjustment
 For the Twelve Months Ending March 31, 2026

Line No.	Description	Amount
1	Adjusted Rate Base	\$ 14,488,656 ^{1/}
2	Weighted Cost of Debt	<u>2.32% ^{2/}</u>
3	Adjusted Interest Deduction	\$ 336,137
4	Interest Deduction Per Company	303,182 ^{3/}
5	Adjustment to Synchronize Interest Expense	\$ 32,955
6	Effective State Income Tax Rate	<u>7.99%</u>
7	Adjustment to State Income Taxes	<u>\$ (2,633)</u>
8	Federal Income Tax Base	\$ 30,322
9	Federal Income Tax Rate	<u>21.00%</u>
10	Adjustment to Federal Income Taxes	<u>\$ (6,368)</u>

Notes:

^{1/} Schedule JLR-2, Page 1.

^{2/} Schedule JLR-14

^{3/} Company Exhibit GRH-1, page 35.

The Newtown Artesian Water Company

Calculation of Rate of Return
For the Twelve Months Ending March 31, 2026

<u>Line No.</u>	<u>Description</u>	<u>Capitalization Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
1	Long-Term Debt	50.00%	4.64%	2.32%
2				
3	Total Debt	50.00%		2.32%
4				
5	Common Equity	50.00%	7.94%	3.97%
6				
7	Total	<u>100.00%</u>		<u>6.29%</u>

Source:

Direct Testimony of OCA Witness Morgan DeAngelo.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

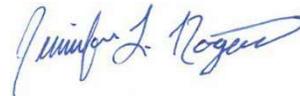
Pennsylvania Public Utility Commission :
v. : Docket No. R-2024-3050208
Newtown Artesian Water Company :

VERIFICATION

I, Jennifer Rogers, hereby state that the facts set forth in my Direct Testimony, OCA Statement 1, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: October 10, 2024
*4888-8956-5084

Signature:



Jennifer Rogers

Consultant Address: 10480 Little Patuxent Parkway,
Suite 300, Columbia, MD 21044

Table of Contents

Introduction..... 1
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 Capital Asset Pricing Model 10
Capital Structure 15
Conclusion 18

1 **Introduction**

2 **Q. Please state your name, business address and occupation.**

3 A. My name is Morgan N. DeAngelo. My business address is 555 Walnut Street, 5th Floor,
4 Forum Place, Harrisburg, Pennsylvania 17101. I was hired as a Regulatory Analyst by
5 the Pennsylvania Office of Consumer Advocate (OCA), in June 2020 through the end of
6 September 2024. In October 2024, I transitioned to be an Administrative Officer within
7 the OCA; however I will remain responsible in my capacity as my regulatory analyst on
8 this case throughout my transition.

9 **Q. Please describe your educational background and qualifications to provide**
10 **testimony in this case.**

11 A. I have a Master's degree in Business Administration and a Bachelor of Business
12 Administration Degree, with a concentration in Finance and a minor in Accounting from
13 Wilkes University. My education background and qualifications are described in
14 Appendix A.

15 **Q. On whose behalf are you testifying in this proceeding?**

16 A. I am testifying on behalf of the OCA.

17 **Q. Have you previously testified before the Pennsylvania Public Utility Commission?**

18 A. Yes. I have provided written testimony in rate cases concerning rate case normalization,
19 cash working capital and operation and maintenance expenses, rate of return, the impact
20 the COVID-19 Pandemic has had on consumers in Pennsylvania, acquisition adjustments,
21 and various provisions to the utility's tariff, as well as petitions for a smaller utility to be
22 acquired by a capable utility concerning adequate and reasonable service, and
23 applications regarding the acquisition of municipal utilities under fair market value,

1 concerning affirmative public benefits. A list of cases for which I have provided
2 testimony is contained within Appendix A.

3 **Purpose of Direct Testimony**

4 **Q. What is the purpose of your direct testimony in this proceeding?**

5 A. The purpose of my direct testimony is to provide my recommendation for the appropriate
6 overall rate of return to the Pennsylvania Public Utility Commission (Commission) for
7 The Newtown Artesian Water Company (NAWC or the Company).

8 **Summary of Findings**

9 **Q. What was the recommendation of the Companies’ witness Harold Walker, III**
10 **regarding the rate of return and its components?**

11 A. In NAWC Statement No. 3, Mr. Walker first applied several costs of common equity
12 models, specifically the Discounted Case Flow (DCF) model, the Capital Asset Pricing
13 Model (CAPM), and the Risk Premium Model (RP), to the market data of a comparable
14 group of utility companies Water Utility Proxy Group.

15 Mr. Walker recommended a rate of return (ROR) of 8.03%, based on a 10.80%
16 return on equity (ROE). This, along with the recommended capital structure can be found
17 on pages 2 and 12 of NAWC Statement No. 3 and is reproduced below:

18 **NAWC’s Recommended Capital Structure**

	<u>Percent Total Capital</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-Term Debt	45.00%	4.64%	2.09%
Common Equity	55.00%	10.80%	5.94%
Total	100.00%		8.03%%

1 **Q. Do you agree with Mr. Walker’s recommended rates of return, including his**
2 **recommended return on equity?**

3 A. No. As outlined more fully below, adjustments are needed to NAWC’s proposed capital
4 structure and return on equity to ensure that the returns generated are just and reasonable.
5 The ROE calculated by Mr. Walker would result in customers overpaying, at rates that
6 are significantly in excess of what is required to generate sufficient capital for NAWC.
7 This would effectively be a transfer of wealth from customers to the owners of NAWC
8 that would be unjust and unreasonable.

9 Furthermore, the focus on needs of customers to receive safe and reliable drinking water
10 at just and reasonable rates is imperative. While the need to attract capital is important,
11 the regulators must fairly balance the interests of all parties including, in particular, the
12 customers who have no choice but to receive water and wastewater service from
13 NAWC.¹ On pages 29-32 of his testimony, Mr. Walker addressed the Federal Reserve
14 (FED) and the impact of interest rates on inflation. He concluded by saying,
15 “Prospectively the capital markets will be affected by the upcoming unprecedented large
16 Treasury financings coupled with increased interest rates. Investors provide capital based
17 upon risk and return opportunities and investors will not provide common equity capital
18 when higher risk-adjusted returns are available.” (NAWC Statement No. 3, p. 32, ln. 16-
19 19) While inflation may have an impact on the expenses of utility companies, the impact
20 on ratepayers needs to be considered as well. High inflation in recent years remains a
21 significant impact on affordability for many customers.

¹ For example, in *Market Street Railway Co. v. Railroad Commission*, 324 U.S. 548, 566 (1945) the Court refused to overturn a rate reduction for a failing street railway company noting that *Hope* recognized that “regulation does not assure that the regulated business make a profit”.

1 **Q. Mr. Walker discussed his analysis concerning the relative size of NAWC on pages**
2 **20-22 of his testimony. Please respond.**

3 A. Mr. Walker stated, “The size of a company can be likened to ships on the ocean, since a
4 large ship has a much better chance of weathering the storm than a small ship. The loss of
5 a large customer will impact a small company much more than a large company because
6 a large customer of a small company usually counts for a larger percentage of a small
7 company’s sales.” (NAWC Statement No. 3, p. 19, ln. 15-18)

8 A “size effect” situation was created in a 1981 study conducted by Banz, which found
9 that “in the 1936 – 1975 period, the common stock of small firms has, on average, higher
10 risk-adjusted returns than the common stock of large firms.”² However, after 1983, U.S.
11 small-cap stocks actually underperformed relative to large-cap stocks, or in other words,
12 the size effect essentially reversed. The “size effect” is an artificial inflation of the cost of
13 equity with a size premium that bears no relation to reality. It is important to understand
14 that size is a diversifiable risk and investors are surely taking this into account when
15 making decisions. Mr. Walker fails to recognize that investors can purchase the shares of
16 small companies and receive the type of risk protection experienced by investing in one
17 large company. For example, if a few small companies in a portfolio underperform, the
18 others may still perform well, therefore mitigating the potential losses.

19 **Q. What are the standards that govern the calculation of the Rate of Return?**

20 A. The purpose of a rate of return analysis is to provide a recommendation of the fair rate of
21 return for NAWC. The standards for the fair rate of return are governed by the standards

² Rolf W. Banz, The Relationship Between Return and Market Value of Common Stocks 3-18 (Journal of Financial Economics 9 (1981))

1 established in the cases of *Hope* and *Bluefield*³, which conclude that a fair rate of return
 2 provides an opportunity for the utility to earn a return sufficient for financial integrity and
 3 to attract capital under efficient management and that satisfies the comparable earnings
 4 standard. The United States Supreme Court reviewed the issue of fair rate of return
 5 in *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944)
 6 (*Hope*). In *Hope*, the Court held that a fair rate of return “should be commensurate with
 7 returns on investments in other enterprises having corresponding risks” while being
 8 sufficient “to assure confidence in the financial integrity of the enterprise, so as to
 9 maintain its credit and attract capital.”⁴ The Court also noted, however, that:

10 The rate-making process under the Act, i.e., the fixing of ‘just and reasonable’
 11 rates, involves a balancing of the investor and consumer interests . . . and does not
 12 insure that the business shall produce revenues.”⁵

13 The Supreme Court added that consumers are obliged to rely upon regulatory
 14 commissions to protect them from excessive rates and charges.⁶ The Court also set forth
 15 the standards by which public utilities are allowed to earn a return on capital investment.
 16 First, in *Bluefield Water Works & Improvement Co. v. Public Service Commission of West*
 17 *Virginia*, the Court held:

18 A public utility is entitled to such rates as will permit it to earn a return on the
 19 value of the property which it employs for the convenience of the public . . . but it
 20 has no constitutional right to profits such as are realized or anticipated in highly
 21 profitable enterprises or speculative ventures. The return should be reasonably
 22 sufficient to assure confidence in the financial soundness of the utility and should
 23 be adequate, under efficient and economical management, to maintain and support

³ *Bluefield Water Works and Improvement Company v. Public Service Commission of the State of West Virginia*, 262 U.S. (1923)(*Bluefield*). *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. (1944)(*Hope*).

⁴ *Hope* at 603.

⁵ *Id.*

⁶ *See Permian Basin Area Rate Case*, 390 U.S. 747, 794-95 (1968) (citing *Atlantic Refining Co. v. Public Serv. Comm’n*, 360 U.S. 378, 388 (1981)).

1 its credit and enable it to raise the money necessary for the proper discharge of its
2 public duties.⁷

3 Then, in *Federal Power Commission v. Hope Natural Gas Company*, the Court expanded
4 on the guidelines set forth in *Bluefield* and stated:

5 From the investor or company point of view it is important that there be enough
6 revenue not only for operating expenses but also for the capital costs of the
7 business. These include service on the debt and dividends on the stock. By that
8 standard the return to the equity owner should be commensurate with returns on
9 investments in other enterprises having corresponding risks. That return,
10 moreover, should be sufficient to assure confidence in the financial integrity of
11 the enterprise, so as to maintain its credit and to attract capital.⁸

12 The cost of capital models I have employed in this case, as outlined more fully below, are
13 designed to be in accordance with the foregoing legal standards.

14 Return on Equity

15 **Q. What models have you used to calculate the cost of equity?**

16 A. I calculated the cost rate of equity for ratemaking purposes using the constant growth
17 Discounted Cash Flow Model, with the Capital Asset Pricing Model as a check on
18 reasonableness for NAWC's allowed rate of return. All inputs were derived from a proxy
19 group of seven water companies, including: American States Water Company (AWR),
20 American Water Works (AWK), Essential Utilities, Inc. (WTRG), California Water
21 Services Group (CWT), Middlesex Water Company (MSEX), SJW Group (SJW), and
22 York Water Company (YORW).

23 **Q. Did Mr. Walker use all seven of these water companies in his proxy group?**

24 A. Yes. Mr. Walker used all seven of the mentioned water companies in his proxy group.

⁷ *Bluefield* at 692–93.

⁸ *Hope* at 603.

1 **Discounted Cash Flow**

2 **Q. Please explain what process led you to your DCF recommendation?**

3 A. I used the constant Growth DCF Model, which is a model that maintains that the value of
4 a security is equal to the present value of the future cash flows it generates. There are
5 three primary inputs in the DCF Model: (1) stock price; (2) dividend; and (3) the long-
6 term growth rate. I chose the DCF Model in the interest of reasonableness, as it produces
7 the most precise estimates. It is also my understanding that the Commission has
8 historically relied on the result of the DCF model in establishing an ROE.

9 **Q. What inputs did you use for your DCF model?**

10 A. For the DCF, the common equity cost rate is explained as the dividend yield plus the
11 expected growth rate. I first calculated a dividend yield. To calculate dividend yields, I
12 used a method which estimated growth in earnings per share (EPS) of the proxy group.
13 These EPS growth rates were extracted from Value Line, Zack's Investment Research
14 and Yahoo! Finance. The most recent dividends of each utility, along with the 90-day
15 closing price of their respective stocks from May 21, 2024, to September 27, 2024, were
16 used to derive the dividend yield for my model. The dividend yields that I calculated are
17 found on Sch. MND-7 and are reproduced below:

Dividend Yield					
	Date of Dividend	Dividend	Yearly Dividend	Price*	Yield
AWR	9/3/2024	0.4655	1.862	78.11	2.38%
AWK	9/4/2024	0.765	3.06	138.08	2.22%
WTRG	9/3/2024	0.3255	1.302	38.72	3.36%
CWT	8/23/2024	0.28	1.12	51.78	2.16%
MSEX	9/3/2024	0.325	1.3	59.18	2.20%
SJW	9/3/2024	0.4	1.6	57.10	2.80%
YORW	7/15/2024	0.2108	0.8432	38.16	2.21%

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I next estimated the growth rate by averaging the EPS from Value Line, Zack’s Investment Research and Yahoo! Finance.

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Then, the dividend yields were adjusted to accommodate growth, so they were multiplied by one half the estimated average growth rate for each individual company.

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This is done so the dividend yield is not overstated. It is a reasonable assumption, given that the utilities in the proxy group increase their quarterly dividend at various times during the year.

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Q. What were the results of your DCF analysis?

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A. The results of my DCF analysis, which ultimately informed my conclusion on the

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appropriate ROE for NAWC are on Schedule MND-2 and are reproduced below:

Newtown Artesian Water Company							
DCF Calculation using Analyst Forecasts							
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Proxy Group of Seven Water Companies	Average Dividend Yield (1)	Value Line Projected 5 Year Growth in EPS	Zack's 3-5 Year Projected Growth in EPS	Yahoo! Finance Projected 5 Year Growth	Average Projected 5 Year Growth in EPS(2)	Adjusted Dividend Yield (3)	Indicated Common Equity Cost Rate (4)
American States Water Company	2.38%	3.90%	6.30%	4.40%	4.87%	2.44%	7.31%
American Water Works Company, Inc.	2.22%	7.00%	7.89%	7.50%	7.46%	2.30%	9.76%
Essential Utilities, Inc.	3.36%	2.65%	5.79%	5.20%	4.55%	3.44%	7.99%
California Water Service Group	2.16%	3.25%	N/A	10.80%	7.03%	2.24%	9.26%
Middlesex Water Company	2.20%	3.15%	N/A	2.70%	2.93%	2.23%	5.15%
SJW Group	2.80%	3.55%	6.01%	7.50%	5.69%	2.88%	8.57%
York Water Company	2.21%	n/a	N/A	4.90%	4.90%	2.26%	7.16%
						Average	7.89%
						Median	7.99%
						Average of Mean and Median	7.94%

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Q. What inputs did Mr. Walker use in his DCF analysis?

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A. Mr. Walker reviewed both historical and projected growth rates for the companies in the proxy group, using the sources of First Call, S&P, Zacks Investment Research and Value Line, in addition to reviewing industry specific average projected growth rates that are published by Zacks. Mr. Walker stated, “No single method is necessarily the correct method of estimating share value growth.” (NAWC Statement No. 3, p. 37, ln. 4) He also stated, “Moreover, while some rate of return practitioners would advocate that mathematical precision should be followed when selecting a growth rate, the fact is that investors do not behave in the same manner when establishing the market price for a stock.” (NAWC Statement No. 3, p. 37, ln. 10-12) I disagree with this because the DCF formula is a mathematical equation. While individual investors may use approximations

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1 to help them determine how and when they invest their money, the Commission should
2 be guided by math in looking at growth rates absent all other things being equal.

3 **Capital Asset Pricing Model**

4 **Q. What is the Capital Asset Pricing Model?**

5 A. The Capital Asset Pricing Model describes the relationship between a security's
6 investment risk and its market rate of return. Investors use this to identify the rate of
7 return they should expect for security of similar risk. The model uses the market risk
8 premium, risk free rate, and the financial metric Beta to calculate the return on an asset
9 with respect to its risk. Generally, the CAPM is designed to measure the firm specific
10 risk to determine the return needed to attract capital commensurate with the risk involved.
11 The riskier the investment the higher the return. The safer the investment the lower the
12 return.

13 **Q. Please define each of the components of the CAPM: market risk premium, risk free 14 rate, and the financial metric Beta.**

15 A. Market risk premium: The level of return investors expect to receive from holding a risky
16 market portfolio instead of risk-free assets.⁹

17 Risk free rate: interest rate an investor can expect to earn on an investment that carries
18 zero risk.¹⁰

19 Beta: Represents the measurement of an investment security's volatility of returns
20 relative to the entire market.¹¹

⁹ <https://corporatefinanceinstitute.com/resources/knowledge/finance/market-risk-premium/>

¹⁰ <https://corporatefinanceinstitute.com/resources/knowledge/finance/risk-free-rate/>

¹¹ <https://corporatefinanceinstitute.com/resources/knowledge/valuation/what-is-beta-guide/>

1 **Q. What inputs did you use in your CAPM model?**

2 **A.** To calculate the Risk-free rate, I used the 90-day average of yields on 30-year treasury
3 securities. I used a 90-day average so as not to give too much weight to any particular
4 day's rates.

5 I used 30-year treasury yields to represent the long-term nature of investment decisions,
6 found on Sch. MND-6. I chose to only use the historical, 90-day average of yields to
7 create a more accurate reflection of the current data as the further projections reach out,
8 the less accurate they tend to be.

9 **Q. How did you calculate Beta for use in your CAPM analysis?**

10 **A.** Beta represents the sensitivity of a given security to movements in the overall market. A
11 Beta works by taking the covariance of the returns on the specific stock and the market as
12 a whole and dividing by the variance of the market. This provides a figure that attempts
13 to represent the stock's volatility in relation to the market. Generally, Betas that are less
14 than 1.0 are less risky than the market as a whole – and thus require a lower ROE to
15 attract capital – and Betas that are higher than 1.0 are riskier than the market as a whole –
16 and thus require a higher ROE to attract capital. I used Betas recently published by Value
17 Line. The results can be found on Schedule MND-4. They are also presented below:

Newtown Artesian Water Company
Beta

Stock	Ticker	Beta
American States Water Company	AWR	0.70
American Water Works Company, Inc.	AWK	1.00
Essential Utilities, Inc.	WTRG	1.00
California Water Service Group	CWT	0.80
Middlesex Water Company	MSEX	0.80
SJW Group	SJW	0.90
York Water Company	YORW	0.90
Average		0.87

1 As I stated above, Betas that are less than 1.0 are less risky than the market as a whole.
 2 The Betas used for five out of the seven proxy utilities are less than 1.0. Ultimately
 3 showing that utility stocks are less risky than the average stock in the market.

4 **Q. How did you calculate the market risk premium?**

5 A. The market risk premium is the difference between the expected return on a market
 6 portfolio and the risk-free rate. In order to evaluate, I first calculated the historical market
 7 risk premium of the S&P 500 using the closing price of each year from 1977-2023. I used
 8 a geometric mean of the yearly returns of the S&P 500 to do this, with the resulting return
 9 being 11.41%. Using a geometric mean is more useful when analyzing growth rates over
 10 time. It gives equal weights to each value which better represents results of the data set.

11 The risk-free rate is a theoretical rate of return of an investment with zero risk. To
 12 calculate the risk-free rate of the historical CAPM, I used 30-year treasury returns, and
 13 again calculated the geometric mean, leading to a 6.21% historical risk-free rate. This
 14 resulted in a Market Risk Premium of 5.20%.¹² I then used analyst forecasts of the

¹² 11.41% - 6.21% = 5.20%

1 Market Risk Premium for the next 10 years. The analysts and firms utilized were Duff &
 2 Phelps, Schwab and Vanguard and their individual forecasts can be found on Schedule
 3 MND-5 or presented below.

<u>Forecasted Market Risk Premiums</u>	
Duff & Phelps Report (Kroll) (1)	5.0%
Schwab (2)	6.3%
Vanguard (3)	5.6%
Average	5.6%
Highest	6.3%

4
 5 In my CAPM analysis, I chose to use a Market Risk Premium of 6.3%. I chose this
 6 because it is the highest number out of the results. A higher Market Risk Premium used
 7 in the CAPM will result in a higher cost of equity estimate. Even when choosing the
 8 highest value, I still arrived at a CAPM result that is much lower than the company's
 9 CAPM result.

10 **Q. What were the results of your CAPM analysis?**

11 A. The result of my CAPM analysis is 9.80% and can be found in Sch. MND-3.

12 **Q. What purpose does the CAPM serve in your analysis?**

13 A. The Commission has historically used the DCF method as the primary determinant of
 14 estimating cost of equity. I utilized the CAPM, however, to serve as a check on
 15 reasonableness of my DCF calculation. Despite my DCF calculation result being 186

1 basis points lower than my CAPM result, I believe it is appropriate to use the DCF.

2 Utilizing the DCF will eliminate the burden ratepayers would experience due to the
3 CAPM method being 186 basis points higher.

4 For the purpose of my CAPM calculation, I chose the highest risk premium out of the
5 range. Choosing the highest risk premium significantly affects the result. While a higher
6 risk premium can lead to a higher expected return on equity, it also means taking on more
7 risk.

8 The CAPM and DCF methods are two different mathematical formulas used to project
9 potential gains, or losses, for a company. Both use inputs and assumptions, where the
10 CAPM directly measures risk and acts as a benchmark to determine the reasonableness of
11 an expected return, and the DCF directly considers the time value of money, providing an
12 intrinsic value of the company, allowing for a more precise evaluation.

13 **Q. What inputs does Mr. Walker use to arrive at his CAPM result?**

14 A. Mr. Walker used the average beta of 0.83 for the proxy group, which is what I used and
15 arrived at an average of 0.87. He developed an average projected market premium of
16 7.40%, based upon his review of projected market returns from Value Line and S&P
17 Global Market Intelligence, as well as market premiums from Ibbotson Associates. Mr.
18 Walker then reduced the size premium ratio by the proxy group's beta to their respective
19 quartile's beta and estimated credit spreads for the comparison companies and the
20 quartile companies. Mr. Walker adjusts for the impact of size, indicating "This
21 adjustment is necessary because beta (systematic risk) does not capture or reflect the
22 Comparable Group's small size." (NAWC Statement No. 3, p. 49, ln. 23-24, p. 50, ln. 1) I
23 disagree with this because if size was meant to be captured, it would be built in the

1 equation, but it is not. Furthermore, investors are able to diversify their portfolio to
 2 account for both small and large utilities, and utilities are not meant to be rewarded based
 3 on size.

4 **Capital Structure**

5 **Q. What capital structure does Mr. Walker propose for the Company?**

6 A. Mr. Walker proposes a capital structure consisting of 45% debt and 55% equity (NAWC
 7 Statement No. 3, p. 12, ln. 7-8).

8 **Q. Do you agree with Mr. Walker's propose capital structure?**

9 A. No. I performed an analysis of the capital structures for each of the seven companies in
 10 the proxy group, using the available Value Line date from July 2024. As of 2023, the
 11 average debt ratio of the proxy group is 48.5%. The results of my analysis are
 12 summarized below:

Stock	Ticker	LT Debt	Preferred Stock	Common Equity
American States Water Company	AWR	42.6	0.0	57.4
American Water Works Company, Inc.	AWK	54.5	0.0	45.5
Essential Utilities, Inc.	WTRG	53.7	0.0	46.3
California Water Service Group	CWT	42.5	0.0	57.5
Middlesex Water Company	MSEX	45.7	0.3	54.0
SJW Group	SJW	55.3	0.0	44.7
York Water Company	YORW	44.9	0.0	55.1
Average		48.5	0.0	51.5
NAWC Proposal		45.0	0.0	55.0
OCA Proposal		50.0	0.0	50.0

13
 14 Based on this, NAWC's proposed debt ratio is too low. This could result in high capital
 15 costs and utility rates due to the fact that the cost of equity is higher than the cost of debt.

1 In my view, a more reasonable capital structure is one that more closely resembles the
2 proxy group used for comparison and, thus, an imputed debt ratio of 50% in this case
3 would (1) be more comparable to the proxy group average and (2) lower the overall
4 weighted average cost of capital for NAWC. Mr. Walker stated, “NAWC’s small size
5 justifies the use of more equity capital than the Comparison Group in order to
6 counterbalance some of the risk associated with its size.” (NAWC Statement No. 3, p. 15,
7 ln. 4-6). As I discussed earlier in my testimony, size is a diversifiable risk and therefore
8 should not impact the cost of equity. Mr. Walker also stated, “Once the cost of equity for
9 the proxy companies is determined, thereby establishing a range of reasonable returns,
10 Public Utility Commissions should determine where to set the utility’s return in that
11 range based upon how the utility’s risk compares with that of other utilities that operate in
12 the same industry.” (NAWC Statement No. 3, p.14, ln. 7-10). He also indicated that it is
13 generally preferable to use a utility’s actual capital structure in developing its rate of
14 return. (NAWC Statement No. 3, p. 12, ln. 15-16).

15 **Q. Do you agree with Mr. Walker?**

16 A. The job of the Public Utility Commission is to ensure that a utility has a reasonable
17 opportunity to earn a fair rate of return. Where, as here, the capital structure chosen by
18 the utility bears no reasonable relationship to comparable utilities in the proxy group, the
19 Commission should consider whether an imputed capital structure that resembles the
20 proxy group would produce more reasonable rates for consumers while at the same time
21 allowing the utility the opportunity to earn a fair return. I believe that is the case here and
22 submit that the Commission should impute a capital structure for ratemaking purposes.

1 **Q. What is your recommended capital structure and costs of debt and equity for**
 2 **ratemaking purposes?**

3 A. I recommend that the Commission impute a capital structure consisting of 50% debt and
 4 50% equity, which is reflective of the average capital structures of the proxy group. My
 5 return on equity estimate, using the DCF, is 7.94%, with an overall rate of return of
 6 6.29% and can be found on Sch. MND-1, seen below:

7 **OCA Recommended Capital Structure**

	<u>Percent Total Capital</u>	<u>Cost Rate</u>	<u>Cost of Money</u>
Long Term Debt	50.00%	4.64%	2.32%
Common Equity	50.00%	7.94%	3.97%
Total	100.00%		6.29%

8

9 By comparison, Mr. Walker arrived at a ROE of 10.80% based upon the results of the
 10 models he employed, and the proxy group’s common equity cost range of 9.80% to
 11 11.70%. (NAWC Statement No. 3, p. 56, ln. 3-4) He checked the reasonableness of this
 12 recommended common equity, indicating “10.80% is reasonable, if not conservative”.
 13 (NAWC Statement No. 3, p. 57, ln. 8) Mr. Walker’s recommendation is 100-basis points
 14 higher than his DCF result, in which the Commission has historically relied upon when
 15 determining the estimated cost of equity.

1 **Conclusion**

2 **Q. Please summarize your analysis of Mr. Walker's testimony.**

3 A. Mr. Walker recommends the Company be allowed a ROE of 10.80%, relying on multiple
4 methods. He testified that, "While any single investor may rely solely upon one model,
5 different investors rely on different models and many investors use multiple models.

6 Therefore, because the price of common stock reflects a number of valuation models, it is
7 appropriate to estimate the market-required common equity cost rate by applying a broad
8 range of analytical models." (NAWC Statement No. 3, p. 2, ln. 15-18) Mr. Walker's
9 justification for using more than one model is invalid. It is not possible to know or make
10 a determination on (1) what different models and multiple models investors use and (2)
11 the modifications made to any of the standard models (i.e. DCF, CAPM, RP).

12 **Q. Please summarize your recommendations.**

13 A. I recommend an ROE of 7.94%. In calculating the final rate of return for ratemaking
14 purposes, my recommended rate of return is 6.29%.

15 **Q. Does that conclude your direct testimony?**

16 A. Yes, it does. However, I reserve the right to modify or supplement my testimony if
17 necessary.

Appendix A

Qualifications of Morgan N. DeAngelo

**QUALIFICATIONS OF
MORGAN N. DEANGELO**

Education:

2020 M.B.A., Wilkes University

2018 B.B.A. concentration in Finance, minor in Accounting, Wilkes University

Positions:

9/2024 – Present Administrative Officer, Pennsylvania Office of Consumer Advocate

6/2020 – 9/2024 Regulatory Analyst, Pennsylvania Office of Consumer Advocate

7/2018 – 5/2020 Graduate Assistant, Office of Student Development, Wilkes University

Experience:

I am currently employed by the Pennsylvania Office of Attorney General, Office of Consumer Advocate (OCA) as an Administrative Officer. In this position, my responsibilities include reviewing and verifying proposal amounts, bids, invoices, contracts and purchase orders. Additionally, I am tasked with performing Human Resources / Administrative tasks involving staff, travel and office functions. As well as, preparing monthly reports and assisting with the Budget and Annual Report.

I was previously employed by the OCA as a Regulatory Analyst. In this position, my responsibilities included reviewing utility company filings with the Pennsylvania Public Utility Commission (Commission) and analyzing the financial, economic, rate of return, and policy issues that are relevant to the filings. Additionally, I was tasked with preparing recommendations for the OCA's involvement in utility filings with the PA PUC, writing testimony and presenting oral testimony on behalf of the OCA.

Relevant Training:

IPU Regulatory Studies - Intermediate Course, August 2020

IPU Accounting and Ratemaking Course, February 2021

SURFA Cost of Capital Workshop, April 2024

Previous Cases where testimony was submitted:

- Petition of Twin Lakes Utilities, Inc., P-2020-3020914
- Application of Pennsylvania American Water Company, A-2020-3019634
- PaPUC v. UGI Utilities, Inc. – Electric Division, R-2021-3023618
- PaPUC v. Pittsburgh Water and Sewer Authority, R-2021-3024773, R-2021,3024774, R-2021-3024779
- PaPUC v. Aqua Pennsylvania, Inc., Aqua Pennsylvania Wastewater, Inc., R-2021-3027285, R-2021-3027186
- PaPUC v. City of Lancaster – Water Department, R-2021-3026682
- Application of Aqua Pennsylvania Wastewater, Inc., A-2021-3027268
- PaPUC v. Borough of Ambler – Water, R-2022-3031704
- PaPUC v. Citizens' Electric Company of Lewisburg, PA, R-2022-3032369, C-2022-3032529
- PaPUC v. Valley Energy, R-2022-3032300, C-2022-3032533
- PaPUC v. Pennsylvania American Water Company, R-2022-3031672, C-2022-3032485, R-2022-3031673, C-2022-3032487
- PaPUC v. The York Water Company, R-2022-3031340, C-2022-3032868, C-2022-3032902, R-2022-3032806, C-2022-3032869, C-2022-3033016
- Application of Aqua Pennsylvania, Inc., A-2022-3034143
- PaPUC v. UGI Utilities, Inc. - Electric Division, R-2022-3037368
- Application of Pennsylvania American Water Company, A-2022-3037047

- PaPUC, Bureau of Investigation and Enforcement v. Planet Energy (Pennsylvania) Corporation d/b/a RiteRate Energy d/b/a Value Plus Energy, C-2023-3041126
- PaPUC v. Community Utilities of Pennsylvania, Inc., R-2023-3042804, R-2023-3042805
- Joint Application of Pennsylvania American Water Company and Audubon Water Company, A-2023-3043194, A-2023-3043196
- Joint Application of Pennsylvania American Water Company and Appalachian Utilities, Inc., A-2024-3046084, A-2024-3046092
- Section 529 Investigation of Venango Water Company and The Blain E. Rhodes Utilities, M-2023-3042180, I-2023-3042312, P-2024-3045205

Appendix B

Sch. MND-1
Sch. MND-2
Sch. MND-3
Sch. MND-4
Sch. MND-5
Sch. MND-6
Sch. MND-7

Docket No. R-2024-3050208

Sch. MND-1

October 10, 2024

Newtown Artesian Water Company Rate of Return
--

	<u>Percent Total</u> <u>Capital</u>	<u>Cost Rate</u>	<u>Cost of Money</u>
Long Term Debt	50.00%	4.64%	2.32%
Common Equity	50.00%	7.94%	3.97%
Total	100.00%		6.29%

Newtown Artesian Water Company							
DCF Calculation using Analyst Forecasts							
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Proxy Group of Seven Water Companies	Average Dividend Yield (1)	Value Line Projected 5 Year Growth in EPS	Zack's 3-5 Year Projected Growth in EPS	Finance Projected 5 Year Growth in EPS	Average Projected 5 Year Growth in EPS(2)	Adjusted Dividend Yield (3)	Indicated Common Equity Cost Rate (4)
American States Water Company	2.38%	3.90%	6.30%	4.40%	4.87%	2.44%	7.31%
American Water Works Company, Inc.	2.22%	7.00%	7.89%	7.50%	7.46%	2.30%	9.76%
Essential Utilities, Inc.	3.36%	2.65%	5.79%	5.20%	4.55%	3.44%	7.99%
California Water Service Group	2.16%	3.25%	N/A	10.80%	7.03%	2.24%	9.26%
Middlesex Water Company	2.20%	3.15%	N/A	2.70%	2.93%	2.23%	5.15%
SJW Group	2.80%	3.55%	6.01%	7.50%	5.69%	2.88%	8.57%
York Water Company	2.21%	n/a	N/A	4.90%	4.90%	2.26%	7.16%
						Average	7.89%
						Median	7.99%
						Average of Mean and Median	7.94%

N/A= Not Available

Notes:

- (1) Most recent dividend divided by the 90 day average price ended 9/27/2024.
- (2) Average of columns 2 through 4
- (3) This reflects a growth rate component equal to one-half the conclusion of growth rate x column 1 to reflect the periodic payment of dividends (Gordon Model) as opposed to the continuous payment.
Thus, for American States Water Company, $2.38\% \times (1 + (1/2 \times 4.87\%)) = 2.44\%$.
- (4) Column 5 + Column 6.

Source of Information:

www.valueline.com Downloaded on 9/27/2024

www.zacks.com Downloaded on 9/27/2024

www.yahoo.com Downloaded on 9/27/2024

Newtown Artesian Water Company
Calculation of CAPM

CAPM (4) = Rf (1) + Beta (2) * Risk Premium (3)

9.80% = 4.31% + 0.87 * 6.30%

- (1) From MND-6, Average Return on 30 Year Treasury Rate
- (2) From MND-4, Average beta
- (3) From MND-5, Equity Risk Premium Exhibit
- (4) = (1) + (2) * (3)

Docket No. R-2024-3050208

Sch. MND-4

October 10, 2024

Newtown Artesian Water Company

Beta

Stock	Ticker	Beta
American States Water Company	AWR	0.70
American Water Works Company, Inc.	AWK	1.00
Essential Utilities, Inc.	WTRG	1.00
California Water Service Group	CWT	0.80
Middlesex Water Company	MSEX	0.80
SJW Group	SJW	0.90
York Water Company	YORW	0.90
Average		0.87

Data pulled on 9/27/2024 from Value Line

<u>Forecasted Market Risk Premiums</u>	
Duff & Phelps Report (Kroll) (1)	5.0%
Schwab (2)	6.3%
Vanguard (3)	5.6%
Average	5.6%
Highest	6.3%

(1) <https://media-cdn.kroll.com>

(2) <https://www.schwab.com/learn/story/schwabs-long-term-capital-market-expectations>

(3) <https://advisors.vanguard.com/insights/article/series/market-perspectives#projected-returns>

Docket No. R-2024-3050208

Sch. MND-6

October 10, 2024

Risk Free Rate

Date	30 Year	Date	30 Year	Date	30 Year
9/27/2024	4.10%	8/15/2024	4.18%	7/3/2024	4.53%
9/26/2024	4.12%	8/14/2024	4.12%	7/2/2024	4.60%
9/25/2024	4.14%	8/13/2024	4.16%	7/1/2024	4.64%
9/24/2024	4.09%	8/12/2024	4.19%	6/28/2024	4.51%
9/23/2024	4.09%	8/9/2024	4.23%	6/27/2024	4.43%
9/20/2024	4.07%	8/8/2024	4.28%	6/26/2024	4.45%
9/19/2024	4.06%	8/7/2024	4.26%	6/25/2024	4.36%
9/18/2024	4.03%	8/6/2024	4.18%	6/24/2024	4.38%
9/17/2024	3.96%	8/5/2024	4.06%	6/21/2024	4.39%
9/16/2024	3.94%	8/2/2024	4.11%	6/20/2024	4.39%
9/13/2024	3.98%	8/1/2024	4.27%	6/18/2024	4.36%
9/12/2024	4.00%	7/31/2024	4.35%	6/17/2024	4.40%
9/11/2024	3.96%	7/30/2024	4.40%	6/14/2024	4.34%
9/10/2024	3.97%	7/29/2024	4.42%	6/13/2024	4.40%
9/9/2024	4.00%	7/26/2024	4.45%	6/12/2024	4.47%
9/6/2024	4.03%	7/25/2024	4.50%	6/11/2024	4.53%
9/5/2024	4.02%	7/24/2024	4.54%	6/10/2024	4.59%
9/4/2024	4.06%	7/23/2024	4.48%	6/7/2024	4.55%
9/3/2024	4.13%	7/22/2024	4.48%	6/6/2024	4.43%
8/30/2024	4.20%	7/19/2024	4.45%	6/5/2024	4.44%
8/29/2024	4.15%	7/18/2024	4.41%	6/4/2024	4.48%
8/28/2024	4.13%	7/17/2024	4.37%	6/3/2024	4.55%
8/27/2024	4.13%	7/16/2024	4.38%	5/31/2024	4.65%
8/26/2024	4.11%	7/15/2024	4.46%	5/30/2024	4.69%
8/23/2024	4.10%	7/12/2024	4.39%	5/29/2024	4.74%
8/22/2024	4.13%	7/11/2024	4.41%	5/28/2024	4.66%
8/21/2024	4.06%	7/10/2024	4.47%	5/24/2024	4.57%
8/20/2024	4.07%	7/9/2024	4.49%	5/23/2024	4.58%
8/19/2024	4.11%	7/8/2024	4.46%	5/22/2024	4.55%
8/16/2024	4.15%	7/5/2024	4.47%	5/21/2024	4.55%
			Average		4.31%

Dividend Yield					
	Date of Dividend	Dividend	Yearly Dividend	Price*	Yield
AWR	9/3/2024	0.4655	1.862	78.11	2.38%
AWK	9/4/2024	0.765	3.06	138.08	2.22%
WTRG	9/3/2024	0.3255	1.302	38.72	3.36%
CWT	8/23/2024	0.28	1.12	51.78	2.16%
MSEX	9/3/2024	0.325	1.3	59.18	2.20%
SJW	9/3/2024	0.4	1.6	57.10	2.80%
YORW	7/15/2024	0.2108	0.8432	38.16	2.21%

*90 day period from 5/21/2024 through 9/27/2024

Data pulled on 9/27/2024 from Nasdaq

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission)
v.)
Newtown Artesian Water Company) **Docket No. R-2024-3050208**

**SURREBUTTAL TESTIMONY
OF
JENNIFER L. ROGERS**

**ON BEHALF OF THE
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE**

November 15, 2024

EXETER

ASSOCIATES, INC.

10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

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Schedules Accompanying Surrebuttal

Surrebuttal Schedules JLR-1 through JLR-16

1 **I. INTRODUCTION**

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

4 A. My name is Jennifer L. Rogers. My business address is 10480 Little Patuxent Parkway,
5 Suite 300, Columbia, Maryland, 21044. I am the Lead Economist working with Exeter
6 Associates, Inc. (“Exeter”). Exeter is a consulting firm specializing in issues pertaining
7 to public utilities.

8 **Q. ARE YOU THE SAME JENNIFER L. ROGERS WHO SUBMITTED DIRECT**
9 **TESTIMONY ON OCTOBER 10, 2024 IN THIS PROCEEDING?**

10 A. Yes, I am.

11 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

12 A. The purpose of my Surrebuttal Testimony is to address issues discussed in the Rebuttal
13 Testimony of Newtown Artesian Water Company (“NAWC” or “Company”) witness
14 Gregory R. Herbert which was filed on November 1, 2024.

15 **Q. ARE YOU INCLUDING UPDATED SCHEDULES SUMMARIZING THE**
16 **OCA’S CURRENT REVENUE REQUIREMENT POSITION IN THIS**
17 **PROCEEDING?**

18 A. Yes. I have attached Surrebuttal Schedules JLR-1 to JLR-16 to this testimony which
19 present the OCA’s updated position after taking the Company’s rebuttal position into
20 account. My Surrebuttal Schedules utilize the Company’s Rebuttal Filing Schedules as
21 the basis of Company data, as these reflect the Company’s updated position in this case.

22 **Q. PLEASE SUMMARIZE THE OCA’S UPDATED RECOMMENDATION AS A**
23 **RESULT OF THE CHANGES DISCUSSED IN THIS TESTIMONY.**

24 A. In this testimony, I respond to NAWC witnesses’ Rebuttal Testimonies on various
25 adjustments I recommended in my Direct Testimony. I have considered the issues
26 addressed in their Rebuttal Testimonies and, in some instances, I have modified my
27 adjustments where necessary. I have also updated my calculations to reflect an overall
28 rate of return on rate base of 6.85 percent, which is per the updated recommendation

1 detailed in the Surrebuttal Testimony of OCA Witness Morgan DeAngelo. As a result
2 of these changes, I have determined my revised recommendation that NAWC's
3 proposed revenue increase should be reduced to reflect an increase of no more than
4 \$557,999 for the FPFTY. As discussed in Section A, "Rebuttal Position" below, the
5 Company's rebuttal position is unclear, and is also higher than the noticed amount. I
6 am advised by counsel that the Company is limited in its rate request to the amount
7 identified in its notice of filing.

8 To the extent that a Company witness's Rebuttal Testimony has addressed my
9 position on an issue developed in my Direct Testimony, but I do not address it in this
10 Surrebuttal Testimony, it should not be construed that I agree with the Company.

11 **II. ADJUSTMENTS**

12 **A. Rebuttal Position**

13 **Q. IS IT CLEAR WHAT THE COMPANY'S REBUTTAL POSITION IS?**

14 A. No, it is not. In his Rebuttal Testimony, Mr. Herbert has seemingly proposed a new
15 position requesting an increase of \$923,418 per Exhibit GRH-1R, page 2. This,
16 however, is based on an ROR of 7.68%.¹ Per the Rebuttal Testimony of Harold Walker,
17 my understanding is that the Company continues to recommend an ROR of 8.03
18 percent, which I calculate would result in an actual requested increase of \$994,284.²
19 Note that the excel file version of the Company's Rebuttal position calculations,
20 provided by the Company in response to OCA discovery V-1, is not usable to determine
21 the Company's calculations for its revised position, as the file largely does not
22 correspond to the Exhibit GRH-1R provided with Mr. Herbert's Rebuttal and also

¹ Reference Company Exhibit GRH-1R, page 2.

² Reference Workpapers of OCA Witness Rogers, "Workpaper_ Company Rebuttal Position."

1 included numerous cells that did not calculate through at all, but rather showed error
2 messages of “#DIV/0”.³

3 **Q. DO YOU HAVE A RECOMMENDED ADJUSTMENT RELATED TO THE**
4 **COMPANY’S INITIAL REBUTTAL POSITION?**

5 A. Yes, I do. In either case - \$923,418 or \$994,284 - the Company’s rebuttal position is
6 higher than the noticed amount of \$922,419. I am advised by counsel that the Company
7 is limited in its rate request to the amount identified in its notice of filing. I therefore
8 recommend an adjustment to reduce the Company’s total request to bring it in line with
9 the noticed amount. Given Mr. Walker’s Rebuttal Testimony going into great detail
10 regarding the Company’s continued recommendation of an overall ROR of 8.03
11 percent, I believe it is prudent to assume an initial rebuttal position of \$994,284, which
12 I calculate from Mr. Herbert’s Exhibit GRH-1R data regarding Company revenues and
13 expenses, combined with Mr. Walker’s recommended ROR of 8.03 percent.⁴ This
14 adjustment reduces O&M expenses by \$71,865, as shown on Surrebuttal Schedule
15 JLR-13, to bring the initial rebuttal position in line with the noticed amount. If this is
16 incorrect, and the Company is in fact requesting an increase of \$923,418 and a lower
17 ROR, the Company should clarify this in the Rejoinder and the adjustment may be
18 updated accordingly.

19 **B. Allowance for Cash Working Capital**

20 **Q. PLEASE ADDRESS MR. HERBERT’S REBUTTAL TESTIMONY RELATED**
21 **TO ALLOWANCE FOR CASH WORKING CAPITAL.**

22 A. As Mr. Herbert notes in Rebuttal (page 10, lines 11-14), we agree on the
23 methodology used to calculate the cash working capital. However, since O&M

³ Reference Company response to interrogatory OCA-V-1 Attachment.

⁴ Reference Workpapers of OCA Witness Rogers, “Company Rebuttal Position”.

1 expenses serve as the basis upon which the cash working capital is calculated, we
2 continue to differ on the final calculated amount. I have incorporated the adjustments
3 to O&M expenses that I am recommending in this Surrebuttal. I have therefore made
4 an adjustment to cash working capital to reduce the Company's rebuttal position rate
5 base by \$22,867, as shown on Surrebuttal Schedule JLR-4.

6 **C. Rate Case Expense**

7 **Q. PLEASE EXPLAIN MR. HERBERT'S REBUTTAL TESTIMONY RELATED**
8 **TO RATE CASE EXPENSE.**

9 A. The Company proposed in its filing to normalize rate case expenses over three years.⁵
10 In my Direct Testimony, I recommended normalizing rate case expense over five years,
11 consistent with Commission practice to normalize rate case expense based on historic
12 filing frequency.⁶ In his Rebuttal, Mr. Hebert disagrees with this recommendation,
13 asserting three years is reasonable and that a longer timeline penalizes the Company
14 for delaying a subsequent rate case.⁷

15 **Q. DO YOU AGREE WITH MR. HERBERT'S RECOMMENDATION TO USE A**
16 **NORMALIZATION PERIOD THAT IS LESS THAN THE AVERAGE TIME**
17 **BETWEEN RATE CASES?**

18 A. No, I do not. While Mr. Herbert states that the Company foresees filing its next case
19 sooner than five years⁸, timelines for a Company's rate case filings are subject to any
20 number of factors and variabilities. Mr. Herbert himself explains that rate case filings
21 may be delayed "due to costs, requirements from the previous case, limited resources,
22 or any other number of reasons that could cause the Company to file a rate case over
23 a period longer than planned."⁹ He goes on to enumerate several examples of such

⁵ Reference Company Exhibit GRH-1, page 30.

⁶ Reference Direct Testimony Rogers, 6: 11-20.

⁷ Reference Rebuttal Testimony Herbert, 6: 6-11.

⁸ Reference Rebuttal Testimony Herbert, 7: 7-10.

⁹ Reference Rebuttal Testimony Herbert, 6: 8-11.

1 occurrences in NAWC’s own experience that caused recent filings to occur eight and
2 five years apart rather than his recommended normalization period of three.¹⁰

3 The recovery of rate case expense should be spread over the period that
4 benefits from incurring the rate case expense, which would be typically measured as
5 the historical period between rate cases. To use the historical filing frequency of
6 recent cases to determine the normalization period is not a penalty to the Company, as
7 Mr. Herbert asserts, but rather the method to base costs applied to ratepayers on
8 actual data and evidence rather than a Company’s supposition on their general
9 intended timing which, as I mentioned, Mr. Herbert agrees would be unreliable. It is
10 also, as I explained in my Direct Testimony, the method in line with established
11 Commission practice.¹¹ I therefore continue to recommend that the normalization
12 period be increased to five years which results in a decrease to O&M expenses of
13 \$64,667, as shown in Surrebuttal Schedule JLR-5.

14 **D. Source of Supply DEP Fees Expense**

15 **Q. PLEASE ADDRESS MR. HERBERT’S REBUTTAL TESTIMONY RELATED**
16 **TO SOURCE OF SUPPLY DEP FEES EXPENSE.**

17 A. In Mr. Herbert’s Rebuttal Testimony, he explains that while he agrees with my
18 recommendation to normalize the non-recurring portion of costs, he disagrees with
19 normalizing these costs over a five-year period. He recommends a three-year period
20 consistent with his recommendation for the normalization period of rate case
21 expenses.¹² As discussed in more detail in the “Rate Case Expense” section of my
22 Surrebuttal Testimony, I continue to recommend normalizing these costs over five
23 years, to maintain consistency with the historical average time between rate case

¹⁰ Reference Rebuttal Testimony Herbert, 6: 13-23 and 7: 1-7.

¹¹ Reference Direct Testimony Rogers, 6: 14-17.

¹² Reference Rebuttal Testimony Herbert, 9: 5-12.

1 filings. This results in an adjustment to the Company's rebuttal position reducing
2 O&M by \$2,526, as shown on Surrebuttal Schedule JLR-6.

3 **E. Chemical Expense**

4 **Q. PLEASE ADDRESS MR. HERBERT'S REBUTTAL TESTIMONY RELATED**
5 **TO CHEMICALS EXPENSE.**

6 A. In my Direct Testimony, I recommended that the chemical expenses be updated to
7 reflect correct usage values and to correct a sign error in NAWC's calculations.¹³ In
8 his Rebuttal, Mr. Herbert has incorporated these adjustments, which reduced O&M
9 expenses by a total of \$8,177.¹⁴ The OCA and the Company are now in agreement on
10 this issue.

11 **F. Purchased Water Expense**

12 **Q. PLEASE ADDRESS MR. HERBERT'S REBUTTAL TESTIMONY RELATED**
13 **TO PURCHASED WATER EXPENSE.**

14 A. In my Direct Testimony, I recommended updating the calculation of the rate for
15 purchased water from PA American Water and the subsequent adjustment to reflect
16 the actual escalation value agreed upon in the new contract with PA American Water.
17 While I calculated what I believed the updated rate was likely to be based on best
18 available information, I requested that the Company provide the actual values in
19 Rebuttal and noted that I may subsequently update my recommendation.¹⁵ In his
20 Rebuttal Testimony, Mr. Herbert made an adjustment to update the calculation based
21 on the actual values utilized in the new contract, which I do not oppose.¹⁶ I further
22 recommended a correction for sign error, which Mr. Herbert has also incorporated

¹³ Reference Direct Testimony Rogers, Section D "Chemical Expense," beginning on page 8, line 8.

¹⁴ Reference Rebuttal Testimony Herbert, 3: 11-24 and 4: 1-4.

¹⁵ Reference Direct Testimony Rogers, Section E "Purchased Water Expense," beginning on page 10, line 1.

¹⁶ Reference Rebuttal Testimony Herbert, 2: 12-23 and 3: 1-2.

1 into his rebuttal position.¹⁷ These adjustments reduced O&M expenses by \$25,802.¹⁸
2 The OCA and the Company are now in agreement on this issue.

3 **G. Purchased Power Expense**

4 **Q. PLEASE ADDRESS MR. HERBERT’S REBUTTAL TESTIMONY RELATED**
5 **TO PURCHASED POWER EXPENSE.**

6 A. In my Direct Testimony, I recommended that the purchased power expenses be updated
7 to correct a sign error in NAWC’s calculations.¹⁹ In his Rebuttal, Mr. Herbert has
8 incorporated the same adjustment, reducing O&M expenses by \$479.²⁰ The OCA and
9 the Company are now in agreement on this issue.

10 **H. Employee Benefits**

11 **Q. PLEASE EXPLAIN MR. HERBERT’S REBUTTAL TESTIMONY RELATED**
12 **TO EMPLOYEE BENEFITS.**

13 A. The Company proposed an adjustment of two parts to employee benefits – a five
14 percent increase in the FTY and FPFTY, and an additional flat fee of \$50,000 to
15 employee welfare. In my Direct Testimony, I explained that the Company did not
16 provide any backup documentation to support the 5 percent projected increase to
17 employee benefits, which was a significant deviation from actual historic increases
18 seen in the past three years, and that further, some employee benefits are driven by
19 claims and therefore there is no basis to automatically assume an increase will occur
20 over HTY values.²¹ In Mr. Herbert’s Rebuttal Testimony, he agrees with an
21 adjustment made by Bureau of Investigation and Enforcement (“I&E”) Witness

¹⁷ Reference Rebuttal Testimony Herbert, 3: 20-24 and 4: 1-4.

¹⁸ Reference Company Exhibit GRH-1R pages 19 and 23.

¹⁹ Reference Direct Testimony Rogers, 12: 4-12.

²⁰ Reference Rebuttal Testimony Herbert, 3: 20-24 and 4: 1-4.

²¹ Reference Direct Testimony Rogers, Section G “Employee Benefits,” beginning on page 12, line 13.

1 Okum to remove the flat fee, as it represented duplicate values. He disagreed with my
2 recommended adjustment to disallow the 5 percent increase to employee benefits.²²

3 **Q. HAS MR. HERBERT'S REBUTTAL TESTIMONY ADEQUATELY**
4 **RESOLVED YOUR CONCERNS RELATED TO NAWC'S PROJECTED**
5 **EMPLOYEE BENEFITS INCREASE?**

6 A. No, it has not. Mr. Herbert has still failed to explain the 5 percent increase to total
7 employee benefits that is addressed in my Direct Testimony. As I explained, the
8 Company has not provided any backup data or calculations to show how they reached
9 the actual five percent projected annual growth value used in the calculations.²³ In
10 response to discovery, NAWC stated generally that the five percent growth factor is
11 due to an anticipated change to its health insurance provider and increased coverage
12 for its employees.²⁴ The percentage increase, however, has been applied to the total
13 employee benefits in the HTY, not only health insurance expenses. Employee benefits
14 include, among other things, life/disability insurance expenses, which as I explain in
15 my Direct Testimony are typically driven by the claims in a given year and there is no
16 basis to automatically assume an increase will occur over HTY values.²⁵ Mr. Herbert
17 did not address this argument in his Rebuttal.

18 **Q. PLEASE EXPLAIN YOUR RECOMMENDATION RELATED TO**
19 **EMPLOYEE BENEFITS.**

20 A. For the reasons explained above, I continue to recommend disallowing the five percent
21 increase to benefits. This adjustment results in a reduction to O&M expenses of
22 \$19,298, as shown on Surrebuttal Schedule JLR-10.

²² Reference Rebuttal Testimony Herbert, 8: 3-13.

²³ Reference Direct Testimony Rogers, 12: 21-22.

²⁴ Reference Company response to interrogatories OCA-IV-4.f.

²⁵ Reference Direct Testimony Rogers, 13: 8-10.

1 **I. Miscellaneous Expense**

2 **Q. PLEASE ADDRESS MR. HERBERT’S REBUTTAL TESTIMONY RELATED**
3 **TO THE MISCELLANEOUS EXPENSE.**

4 A. In my Direct Testimony, I recommended that the miscellaneous expense be normalized
5 using the average of the most recent three years rather than the per books value for the
6 year ended 03/31/2024.²⁶ In his Rebuttal, Mr. Herbert has accepted this
7 recommendation, reducing O&M expenses by \$4,189.²⁷ The OCA and the Company
8 are now in agreement on this issue.

9 **J. Uniforms Expense**

10 **Q. PLEASE ADDRESS MR. HERBERT’S REBUTTAL TESTIMONY RELATED**
11 **TO THE UNIFORMS EXPENSE.**

12 A. In my Direct Testimony, I recommended that the uniforms expense be normalized
13 using the average of the most recent three years rather than the per books value for the
14 year ended 03/31/2024.²⁸ In his Rebuttal, Mr. Herbert has accepted this
15 recommendation, reducing O&M expenses by \$2,377.²⁹ The OCA and the Company
16 are now in agreement on this issue.

17 **K. Labor Expenses**

18 **Q. PLEASE EXPLAIN MR. HERBERT’S REBUTTAL TESTIMONY RELATED**
19 **TO LABOR EXPENSES.**

20 A. In Mr. Herbert’s Rebuttal Testimony, Mr. Herbert has made a new adjustment to the
21 proposed labor expenses presented in his direct testimony. This adjustment reflects the
22 hiring of a new position and adds year-end bonuses paid to employees in the FPPTY

²⁶ Reference Direct Testimony Rogers, 14: 8-10.

²⁷ Reference Rebuttal Testimony Herbert, 10: 1-6.

²⁸ Reference Direct Testimony Rogers, 15: 3-5.

²⁹ Reference Rebuttal Testimony Herbert, 10: 1-6.

1 which he states were inadvertently excluded from the as-filed labor expense claim. His
2 adjustment increases O&M expenses by \$99,704.³⁰

3 **Q. DO YOU AGREE WITH MR. HERBERT’S ADJUSTMENT TO LABOR**
4 **EXPENSE?**

5 A. No, I do not. While I do not oppose the inclusion of the recent hire in the labor expense,
6 I partially disagree with NAWC’s inclusion of the year-end bonuses paid to employees
7 in the FPFTY. In response to discovery regarding how these projected values for
8 bonuses were determined, the Company stated that per Company policy, full-time
9 customer service positions, inspectors, and field technicians receive a bonus calculated
10 at two percent of their salary.³¹ I do not oppose these bonuses being included in the
11 cost of service. Management and CEO positions, however, receive a higher bonus for
12 performance in addition to the 2 percent value.³² I have multiple concerns with these
13 higher bonus values the Company has projected.

14 First, when asked to detail the basis of these projected numbers for the
15 management and CEO positions, the Company replied that they have projected the
16 values in the FPFTY “based on the level of bonuses that each management level
17 position received over the prior historical three years.”³³ The data, however, does not
18 bear out these calculations. It is unclear if the Company is referring to averaging total
19 bonus dollar values or salary-percentage values from the historical years in their
20 response, as they did not provide the actual calculations of the projected bonus values
21 for these positions with formulae intact, as was requested in OCA-V-2.b. In either case,
22 however, the historical average does not result in the values the Company is using in
23 the FPFTY. For example, from a percentage standpoint, the Company is projecting a

³⁰ Reference Rebuttal Testimony Herbert, 4: 5-13.

³¹ Reference Company response to interrogatory OCA-V-2.a.

³² Ibid.

³³ Ibid.

1 bonus totaling ten percent of the CEO’s projected salary for the FPPTY, while the
2 actual average of the three historical years ending March 31, 2022, 2023, and 2024 is
3 8 percent. From a total dollar standpoint, the Company has projected a bonus of
4 \$20,000 for the CEO position, while the average for the three historical years totals
5 \$13,133. The Office Manager position, for which the Company is projecting a 4 percent
6 bonus in the FPPTY, does not appear in the historical data at all in years ended March
7 31, 2022 or 2023, and in 2024 did not receive a bonus, meaning it is unclear just what
8 historical data was supposed to have been averaged to reach the projected bonus value
9 used in the FPPTY.³⁴ The Company has not provided sufficient evidence for how the
10 higher bonus values were determined for the CEO and management positions, and these
11 values therefore remain unsupported.

12 Second, in addition to the unexplained calculation methodology of the
13 projections, there is also an issue with how the bonus values are determined more
14 generally. Per Company response to OCA data request V-2.a, the Company stated that
15 Management and CEO positions receive a higher bonus “for performance”. The
16 Company did not, however, explain how they define or measure performance.
17 Commonly, CEO and management position bonuses are based on a metric such as
18 income that reflect benefits to shareholders rather than ratepayers. If year-end bonuses
19 are based on metrics that incentivize shareholder benefits rather than services to the
20 ratepayers, ratepayers should not bear the burden of those costs.

- 21 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO LABOR EXPENSES.**
22 A. For the reasons explained above, I am therefore recommending that the higher bonuses
23 for CEO and management positions be disallowed, and replaced instead with a bonus
24 totaling two percent of the projected annual salary that the Company has stated reflects

³⁴ Reference Company response to interrogatory OCA-IV-4 Attachment.

1 the baseline company policy for all employees. This adjustment reduces O&M by
2 \$24,580, as shown in Surrebuttal Schedule JLR-14.

3 **Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?**

4 A. Yes, it does.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission)
v.)
Newtown Artesian Water Company) **Docket No. R-2024-3050208**

**SCHEDULES ACCOMPANYING THE
SURREBUTTAL TESTIMONY
OF
JENNIFER L. ROGERS**

**ON BEHALF OF THE
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE**

November 15, 2024

The Newtown Artesian Water Company

Cost of Service
For the Fully Projected Future Test Year Ending March 31, 2026

Line No.	Description	Company Rebuttal Amounts at Present Rates ^{1/}	OCA Adjustments	Amounts After OCA Adjustments	Pro Forma Change in Revenues	Amounts After Change in Revenues
1						
2	<u>Operating Revenues</u>	6,593,991		6,593,991	557,999	7,151,990
3						
4	Total Operating Revenues	<u>\$ 6,593,991</u>	<u>\$ -</u>	<u>\$ 6,593,991</u>	<u>\$ 557,999</u>	<u>\$ 7,151,990</u>
5						
6	<u>Operating Revenue Deductions:</u>					
7	O&M Expenses	4,667,645	(182,935)	4,484,710		4,484,710
8	Depreciation	817,790		817,790		817,790
9	Taxes, Other Than Income	511,216		511,216	3,555	514,771
10	Amortization of Regulatory Liability	(30,363)		(30,363)		(30,363)
11	Income Taxes	179,857	40,990	220,847	151,430	372,277
12	Total Operating Revenue Deductions	<u>6,146,146</u>	<u>(141,945)</u>	<u>6,004,200</u>	<u>154,985</u>	<u>6,159,185</u>
13						
14						
15	Net Operating Income	<u>\$ 447,845</u>	<u></u>	<u>\$ 589,791</u>	<u></u>	<u>\$ 992,805</u>
16						
17	Rate Base	<u>\$ 14,516,370</u>	<u></u>	<u>\$ 14,493,503</u>	<u></u>	<u>\$ 14,493,503</u>
18						
19	Rate of Return	<u>3.09%</u>	<u></u>	<u>4.07%</u>	<u></u>	<u>6.85%</u>

Note:

^{1/} Company Exhibit GRH-1R, page 2.

The Newtown Artesian Water Company

Summary of Revenue Increase at OCA Rate of Return
 For the Twelve Months Ending March 31, 2026

Line No.	Description	Amount	Source
1	Adjusted Rate Base	\$ 14,493,503	Schedule JLR-2, Page 1
2	Required Rate of Return	6.85%	Schedule JLR-14
3			
4	Net Operating Income Required	\$ 992,805	
5	Net Operating Income at Present Rates	589,791	Schedule JLR-1, Page 1
6			
7	Income Deficiency/(Surplus)	\$ 403,014	
8	Revenue Multiplier	1.385	
9			
10	Required Change in Company Revenue	\$ 557,999	
11			
12	Proposed Revenue Change	\$ 557,999	
13	Less: Uncollectibles 0.00%	\$ -	
14	Net of Uncollectibles	\$ 557,999	
15	Less: PSC Assessment Ratio 0.637%	\$ 3,555	
16	Net PSC Assessment	\$ 554,444	
17	Less: State Income Tax @ 7.99% 7.99%	\$ 44,300	
18			
19	Income Before Federal Taxes	\$ 510,144	
20	Federal Income Tax @ 21.0% 21.00%	107,130	
21			
22	Net Income (Surplus)/Deficiency	403,014	

The Newtown Artesian Water Company

Summary of Rate Base
 For the Twelve Months Ending March 31, 2026

Line No.	Description	Amount per Company Rebuttal	OCA Adjustments	Amount After OCA Adjustments
1				
2	Original Cost of Utility Plant in Service	57,572,131		57,572,131
3	Less: Accumulated Depreciation (Net of CIAC)	13,324,764		13,324,764
4	Subtotal	<u>\$ 44,247,367</u>	<u>\$ -</u>	<u>\$ 44,247,367</u>
5				
6	<u>Less:</u>			
7	Contributions in Aid of Construction			
8	Customer Advances for Construction	24,983,770		24,983,770
9		1,321,725		1,321,725
10	Subtotal	<u>\$ 26,305,495</u>	<u>\$ -</u>	<u>\$ 26,305,495</u>
11				-
12	Net Plant	17,941,872	-	17,941,872
13				
14	<u>Add:</u>			
15	Materials & Supplies	273,723		273,723
16	Cash Working Capital	652,650	\$ (22,867)	629,783
17				
18	Less: Deferred Taxes	4,351,876		4,351,876
19	Subtotal	<u>\$ (3,425,503)</u>	<u>\$ (22,867)</u>	<u>\$ (3,448,370)</u>
20				
21				
22	<u>Rate Base</u>	<u>\$ 14,516,370</u>	<u>\$ (22,867)</u>	<u>\$ 14,493,503</u>

The Newtown Artesian Water Company

Summary of Rate Base Adjustments
For the Twelve Months Ending March 31, 2026

<u>Line No.</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>
1	Rate Base per Company Filing	urributtal Schedule JLR-2, Page 1	<u>\$ 14,516,370</u>
2			
3	<u>OCA Adjustments:</u>		
4	Adjustment to Cash Working Capital	Surrebuttal Schedule JLR- 4	(22,867)
5			
6	Total Ratemaking Adjustments		<u>\$ (22,867)</u>
7			
8	Adjusted Rate Base per OCA		<u><u>\$ 14,493,503</u></u>

The Newtown Artesian Water Company

Summary of Adjustments to Income
For the Twelve Months Ending March 31, 2026

Line No.	Description	Amount	Source
1	Operating Income per Company	\$ 447,845	Surrebuttal Schedule JLR- 1
2			
3	<u>OCA Adjustments:</u>		
4	Adjustment to Revise Normalization Period of Rate Case Expense	\$ 47,005	Surrebuttal Schedule JLR- 5
5	Adjustment to Revise Chemical Expense	\$ -	Surrebuttal Schedule JLR- 7
6	Adjustment to Revise Purchased Water Expense	\$ -	Surrebuttal Schedule JLR- 8
7	AAAdjustment to Revise Purchased PowerExpense	\$ -	Surrebuttal Schedule JLR- 9
8	Adjustment to Employee Benefits Expense	\$ 14,027	Surrebuttal Schedule JLR- 10
9	Adjustment to Source of Supply DEP Fees Expense	\$ 1,836	Surrebuttal Schedule JLR- 6
10	Adjustment to Miscellaneous Expenses	\$ -	Surrebuttal Schedule JLR- 11
11	Adjustment to Uniforms Expenses	\$ -	Surrebuttal Schedule JLR- 12
12	Adjustment to Labor Expenses	\$ 17,867	Surrebuttal Schedule JLR- 14
13	Adjustment to Starting Rebuttal Position Value	\$ 52,237	Surrebuttal Schedule JLR- 13
14	Interest Synchronization	\$ 8,974	Surrebuttal Schedule JLR- 15
15	Total OCA Adjustments	141,945	
16			
17	Total OCA Adjustments	<u>\$ 589,790</u>	

The Newtown Artesian Water Company

Summary of Adjustments to Operating Income
 For the Twelve Months Ending March 31, 2026

Line No.	Description	Operating Revenues	O&M Expenses	Depreciation	Amortization of Regulatory Liability	Taxes Other Than Income	Income Taxes	Operating Income
1	Amount per Company	\$ 6,593,991	\$ 4,667,645	\$ 817,790	\$ (30,363)	\$ 511,216	\$ 179,857	\$ 447,846
2								
3	<u>OCA Adjustments:</u>							
4	Adjustment to Revise Normalization Period of Rate Case Expense	\$ -	\$ (64,667)	\$ -	\$ -	\$ -	\$ 17,662	\$ 47,005
5	Adjustment to Revise Chemical Expense	-	-	-	-	-	-	-
6	Adjustment to Revise Purchased Water Expense	-	-	-	-	-	-	-
7	AAadjustment to Revise Purchased PowerExpense	-	-	-	-	-	-	-
8	Adjustment to Employee Benefits Expense	-	(19,298)	-	-	-	5,271	14,027
9	Adjustment to Source of Supply DEP Fees Expense	-	(2,526)	-	-	-	690	1,836
10	Adjustment to Miscellaneous Expenses	-	-	-	-	-	-	-
11	Adjustment to Uniforms Expenses	-	-	-	-	-	-	-
12	Adjustment to Labor Expenses	-	(24,580)	-	-	-	6,713	17,867
13	Adjustment to Starting Rebuttal Position Value	-	(71,865)	-	-	-	19,628	52,237
14	Interest Synchronization	-	-	-	-	-	(8,974)	8,974
15								
16	Total OCA Adjustments	\$ -	\$ (182,935)	\$ -	\$ -	\$ -	\$ 40,990	\$ 141,945
17								
18	Total Adjusted Income Before Income Taxes	\$ 6,593,991	\$ 4,484,710	\$ 817,790	\$ (30,363)	\$ 511,216	\$ 220,847	\$ 589,791

The Newtown Artesian Water Company

Adjustment to Cash Working Capital
For the Twelve Months Ending March 31, 2026

Line No.	Description	Amount
1	Company Proposed Cash Working Capital	\$ 652,650 ^{1/}
2		
3	OCA Recommended Adjustments to O&M	(182,935) ^{2/}
4	Multiplier (45 days/360 days = 12.5%)	<u>12.5%</u>
5		
6	Subtotal	<u>\$ (22,867)</u>
7		
8	OCA Recommended Cash Working Capital	\$ 629,783
9		
10	OCA Adjustment to CWC	<u>\$ (22,867)</u>

Note:

^{1/} Company Exhibit GRH-1R, page 4.

^{2/} Surrebuttal Schedule JLR-3, page 2.

The Newtown Artesian Water Company

Adjustment to Revise Normalization Period of Rate Case Expense
For the Twelve Months Ending March 31, 2026

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	Total Rate Case Costs to be Recovered	<u>\$ 485,000</u> ^{1/}
2		
3	Company Proposed Normalization Period (Years)	3 ^{1/}
4	OCA Recommended Normalization Period (Years)	5
5		
6	Company Proposed FPFTY Expense	161,667 ^{1/}
7	OCA Recommended FPFTY Expense	97,000
8		
9	Adjustment to O&M Expenses	<u>(64,667)</u>

Note:

^{1/} Company Exhibit GRH-1R, page 21.

The Newtown Artesian Water Company

Adjustment to Source of Supply DEP Fees Expense
 For the Twelve Months Ending March 31, 2026

Line No.	Description	Amount
1	Source of Supply DEP Fees Per Books, 12 mos ended 3/31/2023	\$ 26,418 ^{1/}
2	Source of Supply DEP Fees Per Books, 12 mos ended 3/31/2024	<u>\$ 45,360 ^{1/}</u>
3	Difference (Line No. 2-1)	\$ 18,942
4		
5	Company Rebuttal Proposed Normalization Period (Years)	3 ^{2/}
6	OCA Recommended Normalization Period (Years)	5
7		
8	Portion Normalized Over 3 Years	6,314 ^{2/}
9	Portion Normalized Over 5 Years	\$ 3,788
10		
11	Total Company Rebuttal Recommended Source of Supply DEP Fees Expense	32,732
12	Total OCA Recommended Source of Supply DEP Fees Expense	\$ 30,206
13		
14	Adjustment to O&M Expenses	<u>(2,526)</u>

Note:

^{1/} Company response to I&E-RE-1-D Attachment.

^{2/} Company Rebuttal Exhibit GRH-1R, page 25.

The Newtown Artesian Water Company

Adjustment to Revise Chemical Expense
For the Twelve Months Ending March 31, 2026

Issue resolved in Company's Rebuttal position, as explained OCA Witness
Rogers' Direct Testimony

The Newtown Artesian Water Company

Adjustment to Revise Purchased Water Expense
For the Twelve Months Ending March 31, 2026

Issue resolved in Company's Rebuttal position, as explained OCA Witness
Rogers' Direct Testimony

The Newtown Artesian Water Company

Adjustment to Revise Purchased PowerExpense
For the Twelve Months Ending March 31, 2026

Issue resolved in Company's Rebuttal position, as explained OCA Witness
Rogers' Direct Testimony

The Newtown Artesian Water Company

Adjustment to Benefits Expenses
For the Twelve Months Ending March 31, 2026

Line No.	Description	Amount
1	HTY Benefits perCompany	\$ 198,932 ^{1/}
2		
3	Company Proposed Percentage Increase	5% ^{1/}
4	OCA Proposed Percentage Increase	0%
5		
6	Value Removed in FTY and FPFTY per Company	10,664 ^{1/}
7	Company Proposed FTY Benefits Expenses	197,682 ^{1/}
8	Company Proposed FPFTY Benefits Expenses	207,566 ^{1/}
9		
10	Company Proposed FTY Benefits Expenses	188,268
11	Company Proposed FPFTY Benefits Expenses	188,268
12		
13		
14	Adjustment to O&M Expenses	<u>\$ (19,298)</u>

Note:

^{1/} Company response to I&E-RE-25-D Attachment, page 2.

The Newtown Artesian Water Company

Adjustment to Miscellaneous Expenses
For the Twelve Months Ending March 31, 2026

Issue resolved in Company's Rebuttal position, as explained OCA Witness Rogers'
Direct Testimony

The Newtown Artesian Water Company

Adjustment to Uniforms Expenses
For the Twelve Months Ending March 31, 2026

Issue resolved in Company's Rebuttal position, as explained OCA Witness Rogers'
Direct Testimony

The Newtown Artesian Water Company

Adjustment to Starting Rebuttal Position Value
For the Twelve Months Ending March 31, 2026

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	Company Noticed Position	922,419 ^{1/}
2	Company Rebuttal Position	<u>994,284 ^{2/}</u>
3	Difference	(71,865)
4		
5	Adjustment	<u>\$ (71,865)</u>

Note:

^{1/} Company Exhibit GRH-1 page 11.

^{1/} Workpapers of OCA Witness Rogers, "Workpaper_ Company Rebuttal Position"

The Newtown Artesian Water Company

Adjustment to Labor Expenses
 For the Twelve Months Ending March 31, 2026

Line No.	Description	Amount
1	Per Company Rebuttal:	
2	Total Salaries & Wages HTY	1,126,506 ^{1/}
3	Total Salaries & Wages FTY	1,260,637 ^{2/}
4	Total Salaries & Wages FPFTY	1,307,381 ^{2/}
5		
6	Excluding Year-End Bonus Values:	
7	Total Salaries & Wages HTY	1,126,506 ^{1/}
8	Total Salaries & Wages FTY	1,260,636
9	Total Salaries & Wages FPFTY	1,282,801
10		
11	Adjustment to O&M Expenses	<u>\$ (24,580)</u>

Note:

^{1/} Company Response to I&E-RS-1D Attachment, 'Labor' Tab.

^{2/} Company response to OCA-IV-4.

The Newtown Artesian Water Company

Interest Synchronization Adjustment
 For the Twelve Months Ending March 31, 2026

Line No.	Description	Amount
1	Adjusted Rate Base	\$ 14,493,503 ^{1/}
2	Weighted Cost of Debt	<u>2.32% ^{2/}</u>
3	Adjusted Interest Deduction	\$ 336,249
4	Interest Deduction Per Company	303,392 ^{3/}
5	Adjustment to Synchronize Interest Expense	\$ 32,857
6	Effective State Income Tax Rate	<u>7.99%</u>
7	Adjustment to State Income Taxes	<u>\$ (2,625)</u>
8	Federal Income Tax Base	\$ 30,232
9	Federal Income Tax Rate	<u>21.00%</u>
10	Adjustment to Federal Income Taxes	<u>\$ (6,349)</u>

Notes:

^{1/} Surrebuttal Schedule JLR-2, Page 1.

^{2/} Surrebuttal Schedule JLR-15

^{3/} Company Exhibit GRH-1R, page 26.

The Newtown Artesian Water Company

Calculation of Rate of Return
For the Twelve Months Ending March 31, 2026

<u>Line No.</u>	<u>Description</u>	<u>Capitalization Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
1	Long-Term Debt	50.00%	4.64%	2.32%
2				
3	Total Debt	50.00%		2.32%
4				
5	Common Equity	50.00%	9.06%	4.53%
6				
7	Total	<u>100.00%</u>		<u>6.85%</u>

Source:

Surrebuttal Testimony of OCA Witness Morgan DeAngelo.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
v.	:	Docket Nos. R-2023-3042804 (Water)
Newtown Artesian Water Company	:	R-2023-3042805 (Wastewater)
	:	

SURREBUTTAL TESTIMONY
OF
MORGAN N. DEANGELO

ON BEHALF OF
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

November 15, 2024

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1 **Introduction**

2 **Q. Please state your name, business address and occupation.**

3 A. My name is Morgan N. DeAngelo. My business address is 555 Walnut Street, Forum
4 Place, 5th Floor, Harrisburg, Pennsylvania 17101. I was hired as a Regulatory Analyst by
5 the Pennsylvania Office of Consumer Advocate (OCA), in June 2020 through the end of
6 September 2024. In October 2024, I transitioned to be an Administrative Officer within
7 the OCA; however, I will remain responsible in my capacity as a regulatory analyst on
8 this case throughout my transition.

9 **Q. Have you provided testimony in this case?**

10 A. Yes. I provided Direct Testimony in this case on October 10, 2024, in OCA Statement 2.

11 **Q. What is the purpose of your Surrebuttal Testimony?**

12 A. My Surrebuttal Testimony is in response to the Rebuttal Testimony of Newtown Artesian
13 Water Company (NAWC or the Company) witness, Harold Walker, III. To the extent that
14 a witness has provided Rebuttal Testimony to a position I took in my Direct Testimony,
15 but did not address in my Surrebuttal Testimony, it should not be construed that I agree.

16 **Response to Mr. Walker**

17 ***Proxy Group***

18 **Q. What comments did Mr. Walker have regarding your proxy group?**

19 A. Mr. Walker noted that the proxy group that both I&E witness Patel and I utilized included
20 the same seven water utility comparison companies. Mr. Walker further discussed that he
21 performed a risk analysis of NAWCO and his proxy group and stated, “A risk analysis of
22 NAWCO and the proxy groups is essential in determining a fair rate of return because

1 risk and return counterbalance one another.”. (NAWC Statement No. 3-R, p. 21, ln. 4-6)
2 Mr. Walker then mischaracterized my common equity cost rate recommendation that did
3 not include a size effect adjustment for the proxy group as a “one size fits all” approach.
4 (NAWC Statement No. 3-R, p. 21, ln. 9-10) I disagree with this. As I discussed on page 4
5 of my Direct Testimony, the “size effect” is an artificial inflation of the cost of equity
6 with a size premium that bears no relation to reality. The “size effect” does not imply we
7 should automatically expect a size premium. Utilities, regardless of size, operate in a
8 regulated environment, and typically lack high-growth, high-risk profiles, reducing the
9 need for a premium as compensation for risk.

10 *Capital Structure*

11 **Q. What is your recommended capital structure?**

12 A. I recommend the Commission impute a capital structure consisting of 50% debt and 50%
13 equity, instead of the Company’s proposed capital structure consisting of 45% debt and
14 55% equity.

15 **Q. What did Mr. Walker find problematic with your Direct Testimony regarding your
16 recommended capital structure?**

17 A. Mr. Walker pointed out the average capital structure ratio of the proxy group I used
18 consisted of 48% debt and 52% equity, which is different than my recommendation of
19 50% debt and 50% equity. The burden is on the Company to prove it deserves an equity
20 rich structure, and it has not done so here. A high equity to debt ratio in the capital
21 structure results in a higher cost of capital, and in turn results in higher rates for
22 consumers. As I stated in my Direct Testimony, a more reasonable capital structure is one
23 that closely resembles the proxy group used for comparison. While a 50/50 capital

1 structure deviates slightly from the capital structure of the proxy group, it is consistent
2 with recent statements from the Commission and precedent on these issues. For example,
3 in a statement issued by Vice Chair Kimberly Barrow in the 2023 Peoples Natural Gas
4 Company LLC Base Rate Case, she concluded by stating, “Historically, this Commission
5 has viewed capital structures hewing closer to 50/50 as reasonable.”¹ The use of a 50/50
6 capital structure is appropriate and is consistent with the Commission’s duty to set just
7 and reasonable rates that consider both the utility and its investor’s needs, as well as the
8 needs of ratepayers. The Commission can – and should – consider such factors as
9 affordability and the quality of service provided by the utility requesting a rate increase.
10 *PA PUC v. Twin Lakes Utilities, Inc.*, Docket No. 3010958, 47-48 (Order March 26,
11 2020). Furthermore, since at least 1944 when the Supreme Court decided the *Hope* case,
12 consumer interests have been part of the equation in setting rates, including an ROE. In
13 that case, the Court noted that:

14 The rate-making process under the Act, i.e., the fixing of ‘just and reasonable’
15 rates, involves a **balancing of the investor and consumer interests** and does not
16 insure that the business shall produce revenues.

17 *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944)

18 (emphasis added). The Supreme Court added that **consumers are obliged to rely upon**
19 **regulatory commissions to protect them from excessive rates and charges.** *See*
20 *Permian Basin Area Rate Cases*, 390 U.S. 747, 794-95 (1968) (*Permian Basin*) (citing
21 *Atlantic Refining Co. v. Public Serv. Comm’n*, 360 U.S. 378, 388 (1981)).

¹ Pa. PUC v. Peoples Natural Gas Company LLC; Docket No. R-2023-3044549 (Order Entered September 12, 2024), Statement of Vice Chair Kimberly Barrow at page 2.

1 Thus, I continue to stand by my recommendation that the Commission impute a 50/50
2 capital structure for purposes of ratemaking.

3 **Q. Mr. Walker alleges that “Mr. Patel’s and Ms. DeAngelo’s recommended returns on**
4 **equity are below the returns their own proxy group companies will earn.” Please**
5 **respond.**

6 A. Mr. Walker alleges this based on his disagreement with the articles/studies from Kroll,
7 Schwab and Vanguard I used. This will be discussed later in the CAPM section of my
8 Surrebuttal Testimony.

9 **Q. How does your testimony and analysis to date show that your proposed rate of**
10 **return permits NAWCO to attract incremental capital on reasonable terms and**
11 **conditions?**

12 A. My testimony and analysis are derived from a proxy group which included comparable
13 utilities. In this analysis I used a more reasonable capital structure that was more closely
14 aligned with the capital structure of my proxy group. Using this proxy group, comparable
15 benchmarks permit incremental capital to be attracted to the enterprise on reasonable
16 terms and conditions.

17 **Q. How does your testimony and analysis to date show that your proposed rate of**
18 **return enables the financial integrity of the regulated enterprise to be maintained**
19 **moving forward?**

20 A. My proposed rate of return will allow the Company to attract capital, while ensuring it is
21 meeting operational standards and a fair and reasonable rate, enabling its financial
22 integrity to be maintained moving forward.

1 ***Discounted Cash Flow Model (DCF)***

2 **Q. Mr. Walker indicated your recommended cost of equity is based on the result of only**
3 **the DCF. Do you any comments?**

4 A. Yes. The DCF is a good tool for long-term investment analyses. As stated in my Direct
5 Testimony, while the results of my DCF analysis are ultimately informed my conclusion
6 on the appropriate recommended cost of equity, I utilized the CAPM as a check on
7 reasonableness. The DCF directly considers the time value of money, providing an
8 intrinsic value of the company, allowed for a more precise evaluation (OCA Statement 2,
9 p. 14, ln. 11-12).

10 **Q. Mr. Walker indicated the Value Line Projected 5 Year Growth in EPS shown in**
11 **column 2 of Sch. MND-2 were incorrect. Please respond.**

12 A. The numbers used in column 2 of Sch. MND-2 were incorrectly copied from the source
13 and have now been corrected on Sch. MND-2SR. With these changes, my recommended
14 return on equity (ROE) is 9.06%, compared to 7.94% in my Direct Testimony.

15 **Q. When you input your revised ROE of 9.06% into your recommended capital**
16 **structure, what is your revised, overall Rate of Return (ROR)?**

17 A. When inputting my revised ROE of 9.06% into my recommended capital structure, my
18 recommended ROR is 6.85% and can be found on Schedule MND-1SR, and is
19 reproduced below:

	<u>Percent Total Capital</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-Term Debt	50.00%	4.64%	2.09%
Common Equity	50.00%	9.06%	5.94%
Total	100.00%		6.85%

1

2 **Q. Has Mr. Walker’s recommended ROR changed?**

3 A. No. Mr. Walker’s recommended ROR remains 8.03%, based on a 10.80% ROE, and is
4 reproduced below:

	<u>Percent Total Capital</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-Term Debt	45.00%	4.64%	2.09%
Common Equity	55.00%	10.80%	5.94%
Total	100.00%		8.03%

5

6 **Q. If you used the Company’s proposed Capital Structure of 45%/55% what would
7 your ROR look like?**

8 A. While not endorsing this approach, if I were to do so, my calculation would result in an
9 overall ROR of 7.07%, found on Sch. MND-8SR.

10 **Q. If you used the 48% debt/52% equity average capital structure of the proxy group,
11 what would your ROR look like?**

12 A. While I continue to recommend a 50/50 capital structure, if I were to use the average
13 proxy group structure, my calculation would result in an overall ROR of 6.94%, found in
14 Sch. MND-9SR.

1 **Q. Mr. Walker commented on my use of Middlesex Water Company (Middlesex) in my**
2 **DCF calculation. Please respond.**

3 A. Mr. Walker concluded, “Although Middlesex is also included in my market value DCF
4 result, I ameliorated its impact on my overall recommendation by recognizing the proper
5 leverage adjustment (e.g. Hamada adjustment) and through the use of multiple models to
6 estimate the cost of equity for NAWCO.” (NAWC Statement No. 3-R, p. 35, ln. 1-4) Mr.
7 Walker uses this leverage adjustment to increase utility betas, which in turn, makes the
8 cost of equity results higher. This approach artificially inflates the betas, and it is
9 inappropriate and unreasonable, as it generally leads to a higher cost of common equity.
10 Using an accurate beta can reflect a true risk profile.

11 Mr. Walker also gave credit to using multiple models to estimate the cost of equity.
12 Likewise, I also applied several cost of common equity models. My DCF analysis
13 ultimately informed my conclusion of the appropriate ROE, while utilizing the CAPM as
14 a check on reasonableness. Historically, the Commission’s methodology has been to use
15 the DCF, with a CAPM check on reasonableness.²

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

1 **Q. On page 13 of his Rebuttal Testimony, Mr. Walker testified using the DCF to**
2 **estimate the cost of equity is less reliable the larger the differences between the**
3 **market values and book values are. Please respond.**

4 A. Mr. Walker stated, “The larger the differences between market values and book values,
5 the less reliable the models’ results are since the models provide an estimate of the cost of
6 capital of market value, not book value.” (NAWC Statement No. 3-R, p. 14, ln. 21-23).
7 The market values capture growth expectations based on the market conditions and the
8 current market price. The book value is based on historical data that most likely does not
9 capture the future expectations, which can result in under or over estimation. This does
10 not make the DCF any less reliable.

11 **Q. On page 18 of his Rebuttal Testimony, Mr. Walker said your testimony is misleading**
12 **or vague because systematic risk is the only risk germane under CAPM, and both**
13 **systematic and unsystematic risk are relevant precepts of a fair rate of return.**
14 **Please respond.**

15 A. I agree that both systematic and unsystematic risks are relevant, but I do not believe my
16 testimony is misleading or vague. As I stated in my Direct Testimony, investors can
17 diversify their portfolio to account for both small and large utilities, and utilities are not
18 meant to be rewarded based on size. Size is a diversifiable risk, therefore it does not
19 translate into better performance, nor should it impact the cost of equity.

20 ***Capital Asset Pricing Model (CAPM)***

21 **Q. Mr. Walker disagrees with your use of the geometric mean return instead of the**
22 **arithmetic mean return. Please respond.**

23 A. Mr. Walker concluded, “the expected equity risk premium should always be calculated

1 using the arithmetic mean.” (NAWC Statement No. 3-R, p. 36, ln. 3-4) However, it is
 2 more appropriate to use the geometric mean in utility regulation where the common
 3 equity cost estimate covers an indefinite time in the future. This is consistent with
 4 Professor Aswath Damodran’s observation that if

5 . . . annual returns are uncorrelated over time, and our objective was
 6 to estimate the risk premium for the next year, the arithmetic
 7 average is the best and most unbiased estimate of the [risk]
 8 premium. *There are, however, strong arguments that can be made*
 9 *for the use of geometric averages.* (Emphasis added.) First,
 10 empirical studies seem to indicate that returns on stocks are
 11 negatively correlated over time. Consequently, the arithmetic
 12 average return is likely to overstate the premium. Second, while
 13 asset pricing models may be single period models, the use of these
 14 models to get expected returns over long periods (such as five or ten
 15 years) suggests that the estimation period may be much longer than
 16 a year. In this context, the argument for geometric average
 17 premiums becomes stronger.³

18 Further, the arithmetic mean does take an average of all the yearly returns, but it does so
 19 with each year independent of the rest. This tends to lead to an inaccurate depiction of the
 20 long-term return on an asset. I stand by my use of geometric means in my Direct
 21 Testimony.

22 **Q. In your Direct Testimony, you used forecasts of the market premium based on three**
 23 **articles/studies from Kroll, Schwab and Vanguard. Mr. Walker disagrees with the**
 24 **use of Kroll, Schwab and Vanguard. Please respond.**

25 A. Mr. Walker does not agree with the use of these articles/studies, as he concluded investors
 26 in the market have not relied upon Kroll, Schwab and Vanguard, due to investors’ return

³ Aswath Damodaran, “Equity Risk Premiums (ERP): Determinants, Estimation, and Implications – The 2022 Edition: Updated March 23, 2022.

1 requirements being higher than what is advocated for in the articles.⁴ Each source
 2 provides its own expertise, which helps them make informed perspectives based on in-
 3 depth analyses on market conditions, trends, and investment strategies. Whether used
 4 separately, or combined, these publications are meant to inform investors of what they
 5 should expect their risk premium to be, representative of the entire market. The risk
 6 premium, by definition, is the expected return on the entire market minus the risk-free
 7 rate of return.⁵ After using the expected return, risk free rate, and beta as inputs in the
 8 CAPM, the CAPM calculates the required rate of return to invest in a specific stock. In
 9 this case, the stock is a regulated water company, like the Proxy Group of companies. The
 10 CAPM oversimplifies financial markets by not capturing real-world complexities. Simply
 11 put, the CAPM uses the expected returns on the market, which are influenced only by its
 12 exposure to overall market risk, among other inputs, such as risk-free rates that can
 13 fluctuate, to find the required return to invest in a stock.

14 **Q. On page 37 of his Rebuttal testimony, Mr. Walker concluded his CAPM discussion**
 15 **with, “Finally, accounting for the increased amount of leverage between Ms.**
 16 **DeAngelo’s market value CAPM cost rate and her book value cost rate indicated a**
 17 **book value CAPM cost rate of 10.5% for Ms. DeAngelo.”. Please respond.**

18 A. In calculating CAPM, I determined the Cost of Equity by using the formula Risk-Free
 19 Rate (Rf) + Beta (β) \times (Market Risk Premium). The result of this is 9.80%, not 10.5%.
 20 The calculation is reproduced below, and it can be found on Sch. MND-3SR:

⁴ NAWC Rebuttal Statement No. 3-R, p. 37, ln. 3-4.

⁵Mullins, D. W. (August 1, 2014). Does the capital asset pricing model work? Harvard Business Review.<https://hbr.org/1982/01/does-the-capital-asset-pricing-model-work>.

CAPM (4)	=	Rf (1)	+	Beta (2)	*	Risk Premium (3)
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9.80%	=	4.31%	+	0.87	*	6.30%
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1 **Conclusion**

2 **Q. Please summarize your recommendations, including any changes you made in this**
 3 **Surrebuttal Testimony.**

4 A. I recommend an ROE of 9.06%. In calculating the final rate of return for ratemaking
 5 purposes, my recommended rate of return is 6.85%, based on a capital structure
 6 consisting of 50% debt and 50% equity.

7 Should the Commission decide a 50/50 capital structure is inappropriate and 45/55 be
 8 used in this case, in calculating the final rate of return for ratemaking purposes, I
 9 recommend an ROE of 9.06% and my recommended rate of return is 7.07%.

10 Should the Commission decide a 48/52 capital structure be used in this case; in
 11 calculating the final rate of return for ratemaking purposes, I recommend an ROE of
 12 9.06% and my recommended rate of return is 6.94%.

13 **Q. Does this conclude your Surrebuttal Testimony?**

14 A. Yes, it does. However, I reserve the right to modify if necessary.

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Sch. MND-1SR

November 15, 2024

Newtown Artesian Water Company Rate of Return
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	<u>Percent Total</u> <u>Capital</u>	<u>Cost Rate</u>	<u>Cost of Money</u>
Long Term Debt	50.00%	4.64%	2.32%
Common Equity	50.00%	9.06%	4.53%
Total	100.00%		6.85%

Newtown Artesian Water Company							
DCF Calculation using Analyst Forecasts							
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Proxy Group of Seven Water Companies	Average Dividend Yield (1)	Value Line Projected 5 Year Growth in EPS	Zack's 3-5 Year Projected Growth in EPS	Finance Projected 5 Year Growth in EPS	Average Projected 5 Year Growth in EPS(2)	Adjusted Dividend Yield (3)	Indicated Common Equity Cost Rate (4)
American States Water Company	2.38%	6.50%	6.30%	4.40%	5.73%	2.45%	8.19%
American Water Works Company, Inc.	2.22%	4.50%	7.89%	7.50%	6.63%	2.29%	8.92%
Essential Utilities, Inc.	3.36%	11.50%	5.79%	5.20%	7.50%	3.49%	10.99%
California Water Service Group	2.16%	7.00%	N/A	10.80%	8.90%	2.26%	11.16%
Middlesex Water Company	2.20%	6.50%	N/A	2.70%	4.60%	2.25%	6.85%
SJW Group	2.80%	6.50%	6.01%	7.50%	6.67%	2.90%	9.57%
York Water Company	2.21%	8.00%	N/A	4.90%	6.45%	2.28%	8.73%
						Average	9.20%
						Median	8.92%
						Average of Mean and Median	9.06%

N/A= Not Available

Notes:

- (1) Most recent dividend divided by the 90 day average price ended 9/27/2024.
- (2) Average of columns 2 through 4
- (3) This reflects a growth rate component equal to one-half the conclusion of growth rate x column 1 to reflect the periodic payment of dividends (Gordon Model) as opposed to the continuous payment.
Thus, for American States Water Company, $2.38\% \times (1 + (1/2 \times 4.87\%)) = 2.44\%$.
- (4) Column 5 + Column 6.

Source of Information:

- www.valueline.com Downloaded on 9/27/2024
- www.zacks.com Downloaded on 9/27/2024
- www.yahoo.com Downloaded on 9/27/2024

Newtown Artesian Water Company
Calculation of CAPM

CAPM (4) = Rf (1) + Beta (2) * Risk Premium (3)

9.80% = 4.31% + 0.87 * 6.30%

- (1) From MND-6, Average Return on 30 Year Treasury Rate
- (2) From MND-4, Average beta
- (3) From MND-5, Equity Risk Premium Exhibit
- (4) = (1) + (2) * (3)

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Sch. MND-4SR

November 15, 2024

Newtown Artesian Water Company

Beta

Stock	Ticker	Beta
American States Water Company	AWR	0.70
American Water Works Company, Inc.	AWK	1.00
Essential Utilities, Inc.	WTRG	1.00
California Water Service Group	CWT	0.80
Middlesex Water Company	MSEX	0.80
SJW Group	SJW	0.90
York Water Company	YORW	0.90
Average		0.87

Data pulled on 9/27/2024 from Value Line

<u>Forecasted Market Risk Premiums</u>	
Duff & Phelps Report (Kroll) (1)	5.0%
Schwab (2)	6.3%
Vanguard (3)	5.6%
Average	5.6%
Highest	6.3%

(1) <https://media-cdn.kroll.com>

(2) <https://www.schwab.com/learn/story/schwabs-long-term-capital-market-expectations>

(3) <https://advisors.vanguard.com/insights/article/series/market-perspectives#projected-returns>

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Risk Free Rate

Date	30 Year	Date	30 Year	Date	30 Year
9/27/2024	4.10%	8/15/2024	4.18%	7/3/2024	4.53%
9/26/2024	4.12%	8/14/2024	4.12%	7/2/2024	4.60%
9/25/2024	4.14%	8/13/2024	4.16%	7/1/2024	4.64%
9/24/2024	4.09%	8/12/2024	4.19%	6/28/2024	4.51%
9/23/2024	4.09%	8/9/2024	4.23%	6/27/2024	4.43%
9/20/2024	4.07%	8/8/2024	4.28%	6/26/2024	4.45%
9/19/2024	4.06%	8/7/2024	4.26%	6/25/2024	4.36%
9/18/2024	4.03%	8/6/2024	4.18%	6/24/2024	4.38%
9/17/2024	3.96%	8/5/2024	4.06%	6/21/2024	4.39%
9/16/2024	3.94%	8/2/2024	4.11%	6/20/2024	4.39%
9/13/2024	3.98%	8/1/2024	4.27%	6/18/2024	4.36%
9/12/2024	4.00%	7/31/2024	4.35%	6/17/2024	4.40%
9/11/2024	3.96%	7/30/2024	4.40%	6/14/2024	4.34%
9/10/2024	3.97%	7/29/2024	4.42%	6/13/2024	4.40%
9/9/2024	4.00%	7/26/2024	4.45%	6/12/2024	4.47%
9/6/2024	4.03%	7/25/2024	4.50%	6/11/2024	4.53%
9/5/2024	4.02%	7/24/2024	4.54%	6/10/2024	4.59%
9/4/2024	4.06%	7/23/2024	4.48%	6/7/2024	4.55%
9/3/2024	4.13%	7/22/2024	4.48%	6/6/2024	4.43%
8/30/2024	4.20%	7/19/2024	4.45%	6/5/2024	4.44%
8/29/2024	4.15%	7/18/2024	4.41%	6/4/2024	4.48%
8/28/2024	4.13%	7/17/2024	4.37%	6/3/2024	4.55%
8/27/2024	4.13%	7/16/2024	4.38%	5/31/2024	4.65%
8/26/2024	4.11%	7/15/2024	4.46%	5/30/2024	4.69%
8/23/2024	4.10%	7/12/2024	4.39%	5/29/2024	4.74%
8/22/2024	4.13%	7/11/2024	4.41%	5/28/2024	4.66%
8/21/2024	4.06%	7/10/2024	4.47%	5/24/2024	4.57%
8/20/2024	4.07%	7/9/2024	4.49%	5/23/2024	4.58%
8/19/2024	4.11%	7/8/2024	4.46%	5/22/2024	4.55%
8/16/2024	4.15%	7/5/2024	4.47%	5/21/2024	4.55%
			Average		4.31%

Dividend Yield					
	Date of Dividend	Dividend	Yearly Dividend	Price*	Yield
AWR	9/3/2024	0.4655	1.862	78.11	2.38%
AWK	9/4/2024	0.765	3.06	138.08	2.22%
WTRG	9/3/2024	0.3255	1.302	38.72	3.36%
CWT	8/23/2024	0.28	1.12	51.78	2.16%
MSEX	9/3/2024	0.325	1.3	59.18	2.20%
SJW	9/3/2024	0.4	1.6	57.10	2.80%
YORW	7/15/2024	0.2108	0.8432	38.16	2.21%

*90 day period from 5/21/2024 through 9/27/2024

Data pulled on 9/27/2024 from Nasdaq

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Sch. MND-8SR

November 15, 2024

Newtown Artesian Water Company Rate of Return
--

	<u>Percent Total</u> <u>Capital</u>	<u>Cost Rate</u>	<u>Cost of Money</u>
Long Term Debt	45.00%	4.64%	2.09%
Common Equity	55.00%	9.06%	4.98%
Total	100.00%		7.07%

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Sch. MND-9SR

November 15, 2024

Newtown Artesian Water Company Rate of Return
--

	<u>Percent Total</u> <u>Capital</u>	<u>Cost Rate</u>	<u>Cost of Money</u>
Long Term Debt	48.00%	4.64%	2.23%
Common Equity	52.00%	9.06%	4.71%
Total	100.00%		6.94%

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
v. : Docket No. R-2024-3050208
Newtown Artesian Water Company :

VERIFICATION

I, Morgan N. DeAngelo, hereby state that the facts set forth in my Surrebuttal Testimony, OCA Statement 2, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: November 15, 2024
*4888-8956-5084

Signature:

Morgan N. DeAngelo
Morgan N. DeAngelo

Consultant Address:

Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
v. : Docket No. R-2024-3050208
Newtown Artesian Water Company :

VERIFICATION

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DATED: November 15, 2024
*4888-8956-5084

Signature:

Morgan N. DeAngelo
Morgan N. DeAngelo

Consultant Address:

Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101