Kayleen Herbstritt, v. Pennsylvania-American Water Company Call-In Telephonic Evidentiary Hearings	Docket No.: C-2024-3052370

Pages 1 - 71

Judge's Chambers

Piatt Place

301 5th Avenue

Suite 220

Pittsburgh, PA

May 8, 2025

Commencing at 10:01 a.m.

INDEX TO EXHIBITS

Docket No. C-2024-3052370

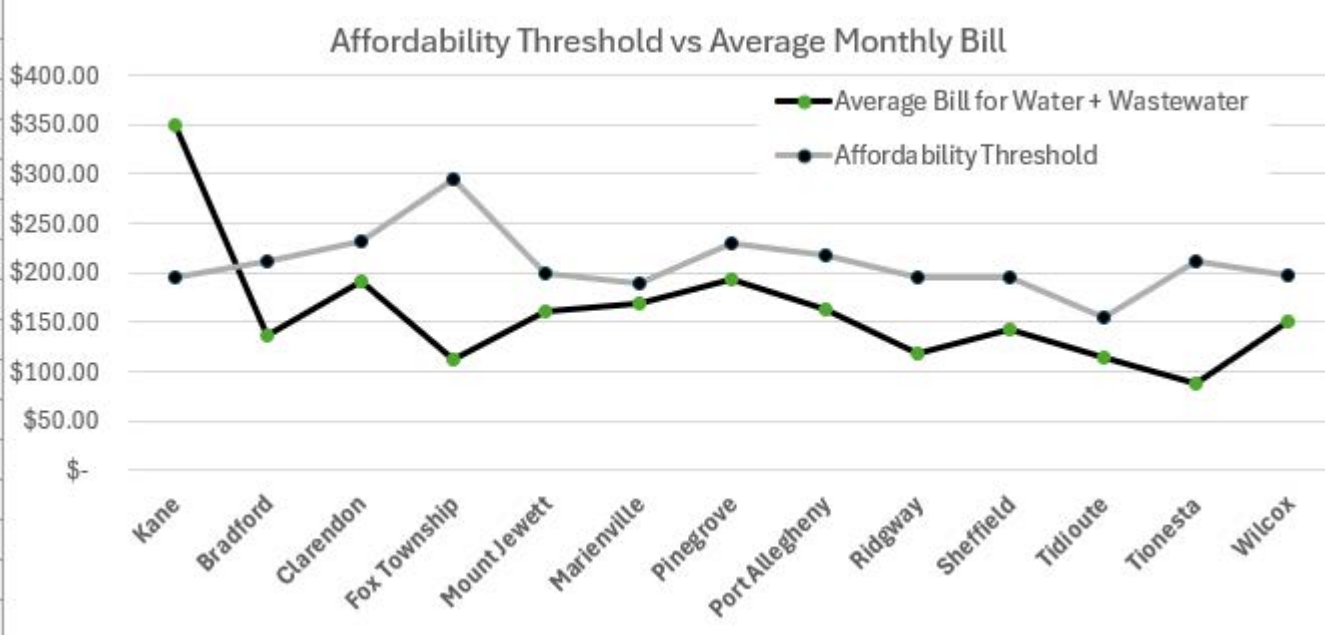
Hearing Date: May 8, 2025

NUMBER		FOR IDENTIFICATION	IN EVIDENCE
Herbstritt Exhibit:			
1	EPA Report	16	21
4	Impact Statement	21	23

PAWC

1	Base Rate Case Final Order	37	60
2	Water Tariff	43	60
3	Wastewater Tariff	43	60
4	Kane Acquisition ID	48	60
5	Counter Analysis	51	60

Town	Median Household	Person	100 gal pe	Water Bill	Wastewater	Average Bill f	Affordability Threshold
Kane	$ 52,093.00	2.3	6,900	$ 148.33	$ 200.21	$ 348.53	$ 195.35
Bradford	$ 56,330.00	2.3	6,900	$ 54.50	$ 82.50	$ 137.00	$ 211.24
Clarendon	$ 61,789.00	2.6	7,800	$ 141.03	$ 50.00	$ 191.03	$ 231.71
Fox Township	$ 78,393.00	2.4	7,200	$ 52.20	$ 61.00	$ 113.20	$ 293.97
Mount Jewett	$ 52,969.00	2.1	6,300	$ 117.85	$ 44.00	$ 161.85	$ 198.63
Marienville	$ 50,675.00	2	6,000	$ 113.22	$ 56.00	$ 169.22	$ 190.03
Pinegrove	$ 61,187.00	2.3	6,900	$ 134.25	$ 59.00	$ 193.25	$ 229.45
Port Allegheny	$ 57,837.00	2.9	8,700	$ 92.15	$ 71.08	$ 163.23	$ 216.89
Ridgway	$ 52,059.00	2.3	6,900	$ 65.62	$ 52.76	$ 118.38	$ 195.22
Sheffield	$ 52,050.00	2.6	7,800	$ 63.32	$ 78.70	$ 142.03	$ 195.19
Tidioute	$ 41,167.00	2.2	6,600	$ 70.00	$ 44.80	$ 114.80	$ 154.38
Tionesta	$ 56,250.00	1.8	5,400	$ 55.06	$ 33.32	$ 88.38	$ 210.94
Wilcox	$ 52,679.00	2.6	7,800	$ 91.33	$ 60.00	$ 151.33	$ 197.55
Pennsylvania	$ 73,824.00	2.4	7,200			0	$ 276.84
National Averages	$ 77,719.00	2.5	7,500			0	$ 291.45


Affordability Threshold vs Average Monthly Bill
$400.00
$350.00
$300.00
$250.00
$200.00
$150.00
$100.00
$50.00
$-
Average Bill for Water + Wastewater
Affordability Threshold
Kane
Bradford
Clarendon
Fox Township
Mount Jewett
Marienville
Pinegrove
Port Allegheny
Ridgway
Sheffield
Tidioute
Tionesta
Wilcox

County	Municipality	Private or Public	Owner	Service Fee for Water	Rate per Gallon
Forest	Jenks Township	Private	Aqua PA	$20.51 to $35.20	Min to 2,000 $0.0130500 per gallon then from 2,001 gallons+ is $0.0154510
McKean	Mount Jewett Borough	Private	Aqua PA	$20.51 to $35.20	Min to 2,000 $0.0130500 per gallon then from 2,001 gallons+ is $0.0154510
McKean	Hamlin Township	Private	Aqua PA	$20.51 to $35.20	Min to 2,000 $0.0130500 per gallon then from 2,001 gallons+ is $0.0154510
Warren	Clarendon Borough	Private	Aqua PA	$20.51 to $35.20	Min to 2,000 $0.0130500 per gallon then from 2,001 gallons+ is $0.0154510
Warren	Mead Township	Private	Aqua PA	$20.51 to $35.20	Min to 2,000 $0.0130500 per gallon then from 2,001 gallons+ is $0.0154510
McKean	Kane Borough	Private	PA American Water	$18.80	$1.8772 per 100 Gallons or $0.018772 per gallon
McKean	Wetmore Township	Private	PA American Water	$18.80	$1.8772 per 100 Gallons or $0.018772 per gallon
Warren	Warren Borough	Private	PA American Water	$18.80	$1.8772 per 100 Gallons or $0.018772 per gallon
Warren	Dunbar Township	Private	PA American Water	$18.80	$1.8772 per 100 Gallons or $0.018772 per gallon
Warren	German Township	Private	PA American Water	$18.80	$1.8772 per 100 Gallons or $0.018772 per gallon
Warren	Menallen Township	Private	PA American Water	$18.80	$1.8772 per 100 Gallons or $0.018772 per gallon
Warren	North Union Township	Private	PA American Water	$18.80	$1.8772 per 100 Gallons or $0.018772 per gallon
Warren	South Union Township	Private	PA American Water	$18.80	$1.8772 per 100 Gallons or $0.018772 per gallon
McKean	Bradford City	Public	Bradford Water	$20.00 to $25.00	$5.00 per 1000 Gallons or $0.005 per gallon
Elk	Johnsonburg Borough	Public	Johnsonburgr Municipal Authority		$55.00 a month for 5,000 gallons and $11.00 for each 1,000 gallons over the allotted 5,000.
Elk	Wilcox	Private	Wilcox Water Company Inc		

Geographic Area Name	Median Income
Stewardson township, Potter County, Pennsylvania	-
Pine Grove township, Warren County, Pennsylvania	$ 98,309
Elk township, Warren County, Pennsylvania	$ 93,750
Annin township, McKean County, Pennsylvania	$ 88,214
Summit township, Potter County, Pennsylvania	$ 84,375
Wetmore township, McKean County, Pennsylvania	$ 81,932
Bradford township, McKean County, Pennsylvania	$ 81,429
Eulalia township, Potter County, Pennsylvania	$ 78,523
Fox township, Elk County, Pennsylvania	$ 78,393
Ridgway township, Elk County, Pennsylvania	$ 76,912
Homer township, Potter County, Pennsylvania	$ 75,000
Pleasant township, Warren County, Pennsylvania	$ 74,375
Keating township, McKean County, Pennsylvania	$ 73,495
Farmington township, Warren County, Pennsylvania	$ 73,162
Eldred township, McKean County, Pennsylvania	$ 73,158
Pittsfield township, Warren County, Pennsylvania	$ 72,708
Lewis Run borough, McKean County, Pennsylvania	$ 72,639
Glade township, Warren County, Pennsylvania	$ 72,244
Columbus township, Warren County, Pennsylvania	$ 71,484
Sugar Grove borough, Warren County, Pennsylvania	$ 71,354
Bingham township, Potter County, Pennsylvania	$ 71,250
Freehold township, Warren County, Pennsylvania	$ 71,250
Genesee township, Potter County, Pennsylvania	$ 70,278
Sharon township, Potter County, Pennsylvania	$ 69,375
Limestone township, Warren County, Pennsylvania	$ 68,611
Norwich township, McKean County, Pennsylvania	$ 68,125
Hebron township, Potter County, Pennsylvania	$ 67,813
Galeton borough, Potter County, Pennsylvania	$ 67,521
Horton township, Elk County, Pennsylvania	$ 67,083
Allegany township, Potter County, Pennsylvania	$ 66,250
Lafayette township, McKean County, Pennsylvania	$ 64,702
St. Marys city, Elk County, Pennsylvania	$ 64,471
Corydon township, McKean County, Pennsylvania	$ 64,167
Millstone township, Elk County, Pennsylvania	$ 64,000
Abbott township, Potter County, Pennsylvania	$ 63,750
Oswayo township, Potter County, Pennsylvania	$ 63,750
Jay township, Elk County, Pennsylvania	$ 63,571
Otto township, McKean County, Pennsylvania	$ 63,462
Sugar Grove township, Warren County, Pennsylvania	$ 63,438
Highland township, Elk County, Pennsylvania	$ 63,000
Hector township, Potter County, Pennsylvania	$ 62,727
Pleasant Valley township, Potter County, Pennsylvania	$ 62,500
Jones township, Elk County, Pennsylvania	$ 62,396

Smethport borough, McKean County, Pennsylvania	$	62,143
Johnsonburg borough, Elk County, Pennsylvania	$	61,926
Foster township, McKean County, Pennsylvania	$	61,797
Clarendon borough, Warren County, Pennsylvania	$	61,786
West Branch township, Potter County, Pennsylvania	$	61,607
Harrison township, Potter County, Pennsylvania	$	59,583
Clara township, Potter County, Pennsylvania	$	59,375
Ulysses township, Potter County, Pennsylvania	$	59,375
Eldred township, Warren County, Pennsylvania	$	59,167
Harmony township, Forest County, Pennsylvania	$	59,107
Roulette township, Potter County, Pennsylvania	$	59,091
Watson township, Warren County, Pennsylvania	$	58,750
Ceres township, McKean County, Pennsylvania	$	58,625
Sweden township, Potter County, Pennsylvania	$	58,125
Tionesta township, Forest County, Pennsylvania	$	58,000
Port Allegany borough, McKean County, Pennsylvania	$	57,837
Portage township, Potter County, Pennsylvania	$	57,361
Cherry Grove township, Warren County, Pennsylvania	$	57,344
Oswayo borough, Potter County, Pennsylvania	$	56,875
Kingsley township, Forest County, Pennsylvania	$	56,375
Bradford city, McKean County, Pennsylvania	$	56,330
Tionesta borough, Forest County, Pennsylvania	$	56,250
Conewango township, Warren County, Pennsylvania	$	56,130
Youngsville borough, Warren County, Pennsylvania	$	55,282
Green township, Forest County, Pennsylvania	$	55,250
Keating township, Potter County, Pennsylvania	$	55,000
Southwest township, Warren County, Pennsylvania	$	55,000
Coudersport borough, Potter County, Pennsylvania	$	54,402
Triumph township, Warren County, Pennsylvania	$	53,333
Spring Creek township, Elk County, Pennsylvania	$	53,250
Mead township, Warren County, Pennsylvania	$	53,224
Mount Jewett borough, McKean County, Pennsylvania	$	52,969
Kane borough, McKean County, Pennsylvania	$	52,093
Sergeant township, McKean County, Pennsylvania	$	52,083
Ridgway borough, Elk County, Pennsylvania	$	52,059
Sheffield township, Warren County, Pennsylvania	$	52,050
Warren city, Warren County, Pennsylvania	$	50,877
Liberty township, McKean County, Pennsylvania	$	50,417
Pike township, Potter County, Pennsylvania	$	50,417
Jenks township, Forest County, Pennsylvania	$	50,119
Spring Creek township, Warren County, Pennsylvania	$	50,000
Hamilton township, McKean County, Pennsylvania	$	49,583
Hamlin township, McKean County, Pennsylvania	$	49,196
Brokenstraw township, Warren County, Pennsylvania	$	48,500

Sylvania township, Potter County, Pennsylvania	$	48,125
Deerfield township, Warren County, Pennsylvania	$	48,000
Wharton township, Potter County, Pennsylvania	$	47,500
Austin borough, Potter County, Pennsylvania	$	47,386
Barnett township, Forest County, Pennsylvania	$	46,563
Eldred borough, McKean County, Pennsylvania	$	45,278
Ulysses borough, Potter County, Pennsylvania	$	45,139
Benezette township, Elk County, Pennsylvania	$	44,545
Hickory township, Forest County, Pennsylvania	$	43,942
Shinglehouse borough, Potter County, Pennsylvania	$	41,250
Tidioute borough, Warren County, Pennsylvania	$	41,167
Howe township, Forest County, Pennsylvania	$	39,583
Bear Lake borough, Warren County, Pennsylvania	$	33,125

Data Source

2023 American Community Survey 5-Year Estimates, U.S. Census Bureau

Water Affordability Needs Assessment: Report to Congress

DECEMBER 2024

EPA 830-R-24-015

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ACRONYMS

ACS	American Community Survey
AR	Affordability Ratio
AWWA	American Water Works Association
C&W	Cardoso and Wichman (2022b) Dataset
CAP	Customer Assistance Program
CBG	Census Block Group
CCF	Centum Cubic Feet
CPI	Consumer Price Index
CSO	Combined Sewer Overflow
CWA	Clean Water Act
CWNS	Clean Watersheds Needs Survey
DWSD	Detroit Water and Sewer Department
eAR	Electronic Annual Report
EFAB	Environmental Financial Advisory Board
EPA	The U.S. Environmental Protection Agency
EPIC	Environmental Policy Innovation Center
FCA	Financial Capability Assessment
FCI	Financial Capability Indicator
HBI	Household Burden Indicator
HHS	U.S. Department of Health and Human Services
HM	Hours of Labor at Minimum Wage
IBT	Increasing Block Tariff
IDWS	Income Dedicated to Water Services
IIJA	Infrastructure Investment and Jobs Act of 2021
LIHEAP	Low-Income Home Energy Assistance Program

LIHWAP	Low-Income Household Water Assistance Program
LQI	Lowest Quintile Income
LQPI	Lowest Quintile Poverty Indicator
MHI	Median Household Income
NACWA	National Association of Clean Water Agencies
NEORSD	Northeast Ohio Regional Sewer District
NRDC	Natural Resources Defense Council
O&M	Operations and Maintenance
PSC	Public Service Commission
PPI	Poverty Prevalence Indicator
PSID	Panel Study of Income Dynamics
RI	Residential Indicator
SAWS	San Antonio Water System
SDWIS	Safe Drinking Water Information System
SNAP	Supplemental Nutrition Assistance Program
SRF	State Revolving Fund
SSI	Supplemental Security Income
SSCT	Small System Compliance Technologies
TANF	Temporary Assistance for Needy Families
UNC EFC	University of North Carolina Environmental Finance Center
U.S.	United States
WaterTA	Water Technical Assistance
WIPSC	Wisconsin Public Service Commission
WRAP	Detroit Water Residential Assistance Program
WSU	Washington State University

1. Executive Summary

Access to safe and affordable drinking water and wastewater services is essential for human health, and a necessity for communities to function and thrive. Yet, unaffordable water bills are a widespread and growing issue, impacting millions of households throughout the nation. Many low-income households are struggling to pay their water bills, leading to economic stress and the potential to lose access to water services or even their homes in certain instances. When households are unable to pay their water bills, service disconnections can have impacts that include public health concerns, economic instability, social inequality, and psychological and psychosocial stress. Water utilities, meanwhile, are working to meet rising costs for operations and maintenance, upgrading aging infrastructure, and protecting public health and the environment, while

The U.S. Environmental Protection Agency (EPA) has prepared this Water Affordability Needs Assessment: Report to Congress in response to the directive in the Infrastructure Investment and Jobs Act of 2021 (IIJA), Section 50108, [42 U.S.C. 300j-19a].

Water Affordability is a widespread and growing issue. EPA estimates that between 12.1 million and 19.2 million households throughout the U.S. lack access to affordable water services. Nationally, the cost of unaffordable water service bills ranges from $5.1 billion to $8.8 billion.

facing difficult decisions about raising rates – often with the possible consequence of taking on substantial financial risk. As a step toward alleviating these challenges, a national water services affordability program could help bring relief to struggling households and communities.

The goal of this Report to Congress is to provide an understanding of the impact of the water[1] affordability burden felt across the United States (U.S.) among households and utilities, as directed in the Infrastructure Investments and Jobs Act (IIJA), Section 50108. The Report summarizes decades of work; highlights utilities, academics, and associations that have been at the forefront of this research; and develops approaches to address water affordability concerns. Peer-reviewed studies are cited where available. However, there are understudied areas of water affordability where data are scarce, and peer-reviewed studies covering the nation are not available. In these instances, the best available data are cited, and are necessary to include to meet direction from Congress, in particular to establish estimates of cost of best methods to reduce the prevalence of a lack of affordable access to water services. Data analysis in this Report includes the number of households in need of assistance as defined by the IIJA, the prevalence of utilities that have a disproportionate percentage of households needing assistance in their service area which may result in systemwide fiscal sustainability challenges, and the cost to address water affordability.

In producing this Report, EPA gathered input from a wide range of interested parties, including utilities, associations, academia, nonprofits, community-based organizations, advocacy groups, and the public. These interested parties included experts who have spent decades working to address water affordability challenges across the U.S. To determine the distribution of percentage of household income required to pay for basic water services in this report, EPA evaluated income and water service rates data from households and utilities across the U.S. Rates captured both drinking water and wastewater charges. EPA estimated a range of the number of households throughout the U.S. experiencing high water burden by using two affordability threshold values, 3% and 4.5% of household income spent on drinking water and wastewater bills combined. Preliminary analysis indicates between **12.1 million** and **19.2 million** households throughout the U.S. lack affordable access to water services. This represents between 9.2% to 14.6% of total households in the U.S. Preliminary analysis also shows that **23% of community water systems** service a disproportionate percentage of households needing assistance. The estimated unaffordable portion of water service bills ranges from **$5.1 billion** to **$8.8 billion nationwide**.

There is no single, universal approach that can address water affordability at a national level. While federal resources, such as the IIJA and the American Rescue Plan Act funds, provide an increased level of funding for water utilities, the need for both capital investment and operations support still outpaces the tools at utilities' disposal. Large-scale, sustainable change requires addressing the systemic challenges in how water utilities are funded, how rates are set, and how assistance programs are established to support rate payers. It also requires continued investment in the nation's aging infrastructure. Within this context, however, a national water services affordability

[1] "Water services" and "water affordability" refer to both drinking water and wastewater throughout this report.

program can serve as a critical tool for alleviating some of the financial stress faced by households and utilities around the country.

This Report provides recommendations based on feedback provided by interested parties, analysis and published literature in Section 9 to reduce unaffordable access to water services. These recommendations fall into three broad categories:

Establishing a Federal Water Assistance Program

Increasing Education, Outreach and Knowledge Around Solutions to Address Affordability

Increasing Ways to Reduce Water Infrastructure Capital and Operating Costs.

These potential options to address water affordability include funding for a federal low-income water assistance program. EPA estimates the range of cost to fund the pilot program authorized in IIJA Section 50109 to be between **$115 million and $185 million** per year. A permanent federal assistance program can bring relief to communities and utilities across the U.S., where efforts to close the affordability gap are falling short.

2. Background and Statement of Purpose

The costs of drinking water and wastewater services[2] have increased significantly across the U.S. in recent decades (Cardoso & Wichman, 2022; Patterson & Doyle, 2021; Patterson et al., 2023; Teodoro & Thiele, 2024). Utilities face rising capital and operating costs due to multiple factors including aging infrastructure, treatment standards, inflation, supply chain disruptions, deferred maintenance, and delayed rate increases. Continued investment in capital programs is required to ensure that water utilities continue to protect health, safety, and the environment. Existing, aging infrastructure needs to be upgraded to maintain dependable performance. System adjustments must be made to account for changing population levels that affect a utility's rate base size, and to respond to pressures from climate change. These are important actions for drinking water and wastewater service providers; however, the costs associated with these actions can pose an increased burden on U.S. households through their water bills.

The ability of households to pay their water bills has critical implications on the well-being of communities across the nation (Sarango et al., 2023; Gaber et al., 2021; Kimutai et al., 2023). Without affordable access to safe drinking water and wastewater services, households may struggle to meet basic needs for daily activities like drinking water, cooking, cleaning, bathing, and flushing toilets. Households with long-term water burden can face financial hardships, which can

[2] "Water services" and "water affordability" refer to both drinking water and wastewater throughout this report.

lead to water shutoffs, disconnections, or even loss of home. Communities can be impacted by unaffordable water in the following ways:

- *Public health.* Lack of access to safe water and sanitation can create obstacles to maintain hygiene and prevent the spread of diseases.
- *Economic instability*. Strained household budgets add to existing financial stress and can even force people to decide which necessities to pay for and which to sacrifice.
- *Social inequality.* High water rates disproportionately impact low-income households and rural and underserved communities.
- *Psychological and psychosocial stress.* Water insecurity and inadequate sanitation contribute to poorer mental health and have been linked to increased depression and anxiety.

In many communities across the U.S., local efforts to close the water affordability gap are falling short. Utilities are burdened with the decision to either increase rates to reliably provide clean and safe water or take on substantial financial risk. Increased rates lead to water affordability challenges for many households. Consequently, utilities are reluctant to raise rates, but failure to raise additional revenue or identify alternative funding sources can put utilities on an unsustainable financial path – leading to failing infrastructure, non-compliance and impaired reliability. Many utilities have revised rate structures to buffer the impact of rate increases to their low-income customers.

2.1 Water Affordability Landscape

Water utilities face significant financial challenges, including aging water infrastructure replacement or rehabilitation, adapting to growing or shrinking populations, climate and environmental challenges, necessary cybersecurity measures, and requirements to protect public health and the environment. Wastewater utilities must make capital investments to protect water quality, conduct necessary infrastructure upgrades, replace and repair existing treatment plant infrastructure, install collection and conveyance systems, install green infrastructure, and invest in combined sewer overflow (CSO) facilities. Drinking water utilities face financial burdens such as treatment plant and pipe replacement, treatment plant upgrades, storage tank replacement, and repair and replacement of other key assets.

Together, EPA estimates the cost to fund utility needs for both clean water and drinking water projects nationwide over the next 20 years will be approximately $1.25 trillion, as reported in EPA's *2022 Clean Watersheds Needs Survey (CWNS) Report to Congress* (EPA, 2024b) and EPA's *7th Drinking Water Infrastructure Needs Survey and Assessment* (EPA, 2023b). This total may underestimate the true nationwide need for the next 20 years of capital investments in clean water and drinking water infrastructure. Most of the projected needs that utilities submitted to the CWNS describe projects that will be completed within 5 to 10 years. The true 20-year planning horizon will likely need to address much more about water infrastructure to protect public health and the environment. Figure 1 shows the change in clean water infrastructure need from 2008 to 2022. Figure 2 shows how drinking water needs have increased over the past 20 years across several categories, including water distribution/transmission, treatment, source, and storage.

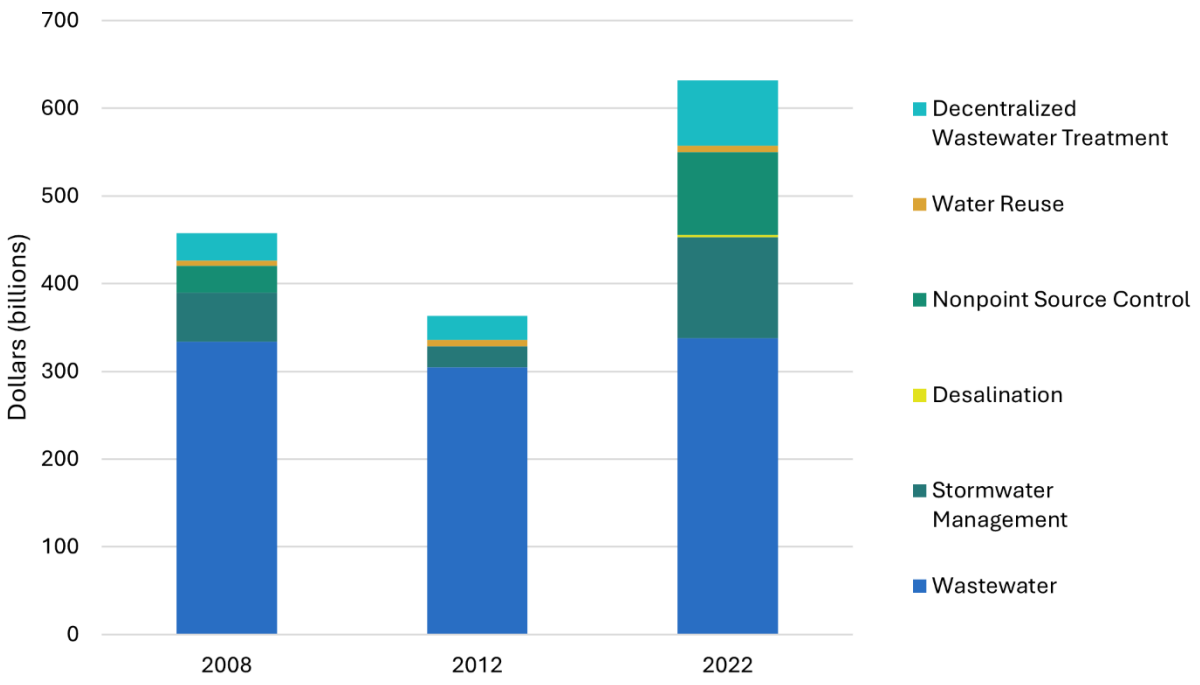


Figure 1: Total Reported Clean Water Infrastructure Needs Nationwide by Category, 2008-2022 (January 2022 Dollars in Billions)

Note: Some needs categories were aggregated for this figure as follows: wastewater refers to secondary wastewater treatment, advanced wastewater treatment, conveyance system repair and replacement, and CSO corrections. The 2012 CWNS indicated that reduced budgets, American Recovery and Reinvestment Act funding, inadequate documentation, a change in CWNS required documentation, and lack of participation in some needs categories were associated with the largest portions of the decrease in infrastructure needs from the 2008 survey to the 2012 survey. Between the 2012 and 2022 surveys, two infrastructure categories were added in the 2022 total needs, the number of planned water quality projects addressing aging infrastructure and climate change adaptation increased, and an improved online portal simplified data collection and led to robust participation. Territories were included in the 2022 CWNS. Projects on Tribal lands and Alaska Native Villages were not included in the CWNS; these needs are documented in a separate survey by the Indian Health Service.

Source: 2022 EPA Clean Watersheds Needs Survey Report to Congress

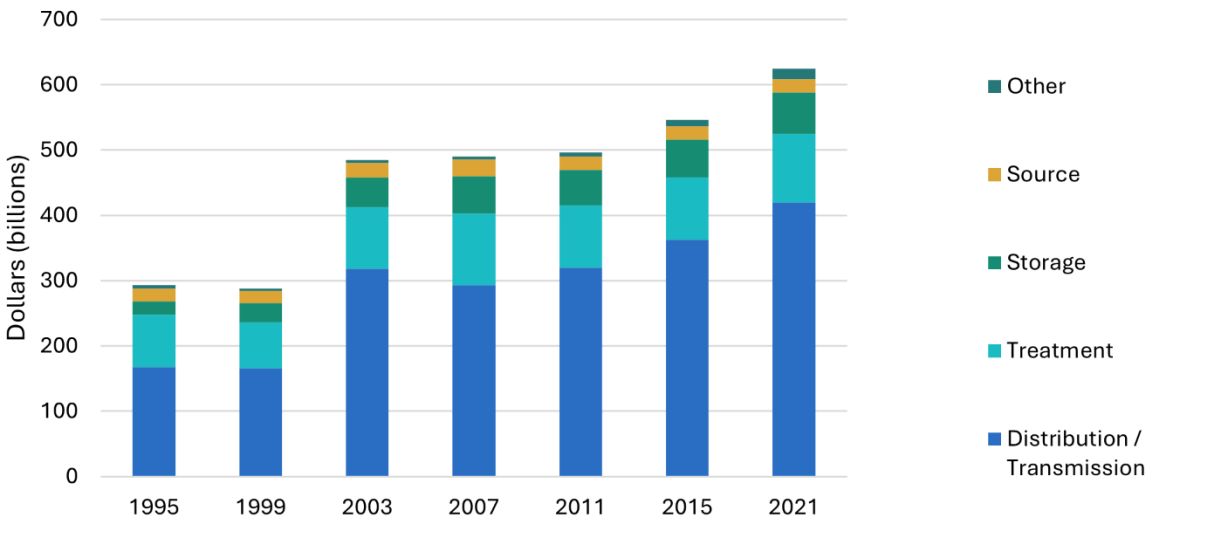


Figure 2: Total State 20-Year Drinking Water Infrastructure Need by Project Category (January 2021 Dollars in Billions)

Note: The assessments differed in scope (small community water systems, American Indian and Alaskan Native Village systems, and not-for-profit non-community water systems were not included in data collection every survey cycle, but where data was not collected the total need for the state was calculated using previously collected data for those categories, converted to that Assessment's year). Puerto Rico and DC were included in the 7th Drinking Water Infrastructure Needs Survey and Assessment. The 7th Drinking Water Infrastructure Needs Survey and Assessment includes capital investment needs of water systems serving American Indian and Alaska Native Village water systems.

Source: 7th Drinking Water Infrastructure Needs Survey and Assessment (2024)

In addition to the increased need for water infrastructure upgrades and improvements, utilities also face increases in capital and operating costs. A recent analysis from Standard and Poor's (S&P) showed an 8% increase in capital and operating costs faced by water and wastewater utilities year-over-year (D'Silva et al., 2023). While federal resources, such as the IIJA and American Rescue Plan funds, are providing increased levels of funding, the need for both capital investment and operations and maintenance (O&M) still outpaces the tools at utilities' disposal. Some utilities are taking resourceful steps to increase efficiencies and reduce costs, including regionalization and partnership with nearby utilities, and outsourcing operational functions like billing. Utilities are also working to address water affordability and efficiency at the household level by changing rate structures, introducing Customer Assistance Programs (CAPs), encouraging use of low water use appliances and strategies, and at the utility level through leak detection and repair programs (EPA, 2021a). Because projected capital and operational costs for water utilities have increased, utilities often need to raise rates to account for the current and future needs. Doing so has increased consumer spending on water bills. A recent report from the National Association of Clean Water Agencies (NACWA) predicted wastewater service rates would increase 4% per year from 2022 through 2026 across the country (NACWA, 2021). The American Water Works Association (AWWA) recently published a study that found rate increases in drinking water and wastewater bills at an average combined monthly price of $79.39 in 2017 to $95.02 in 2023 at 6,200 gallons per month (Teodoro & Thiele, 2024).

The way in which utilities implement rate increases has a significant impact on water affordability. Rate structures affect the burden that water utilities place on low-income customers. For example, Teodoro and Thiele (2024) found water rate structures became more regressive between 2017 and 2023, with utilities collecting less revenue through volumetric charges and more revenue through fixed charges. The study found that this shift in rate structures contributed to worsening water affordability concerns over the six-year period. More information on the impact of rate structures on water affordability can be found in Section 4.6 - Prior Work Evaluating Policy Implications of Water Affordability Study Findings.

To offset the impact to low-income households, some utilities are adopting more equitable rate structures that can help buffer rate increases. Some water affordability rate structures utilize a pricing system for water services designed to make water more accessible to low-income households by implementing tiered rates where the cost per unit of water decreases for lower consumption levels, often including a "lifeline rate" for essential water usage at a significantly lower price, aiming to ensure basic water needs are affordable even for those with limited income. These rate structure approaches can include income-based rate structures, inclining block rates and tax based rates. The AWWA M1 Manual helps utilities design, evaluate and restructure water rates, fees, and charges as well as provide valuable information on affordability programs and the business case for low-income discounts (AWWA, 2016).

Utilities sometimes prefer higher fixed charges because these provide reliable revenue even during times of variable demand, such as decreased seasonal demand or a water-use restricted drought. Significant work has been done to analyze the impact of various rate structures and to create tools that assist utilities in developing more equitable and reliable pricing models. The Natural Resources Defense Council (NRDC) Water Affordability Advocacy Toolkit indicates utilities can implement complementary strategies to lessen revenue variability sometimes associated with lower fixed charges (Levine et al., 2022). Additionally, the NRDC Water Affordability Business Case Tool allows utilities to model the impact of different discount program structures for low-income households (Levine & Osann, 2023).

Figure 3 compares the Consumer Price Index (CPI) of water, sewer, and trash collection services against the CPI of all items for urban consumers from 1998 to 2024. Water, sewer, and trash collection services in U.S. cities nearly tripled in price over this 26-year period. Prices in this category have increased at more than twice the rate of overall consumer prices. While aggregate prices tend to cool during periods of economic recession, water, sewer, and trash collection services show near continual increase.

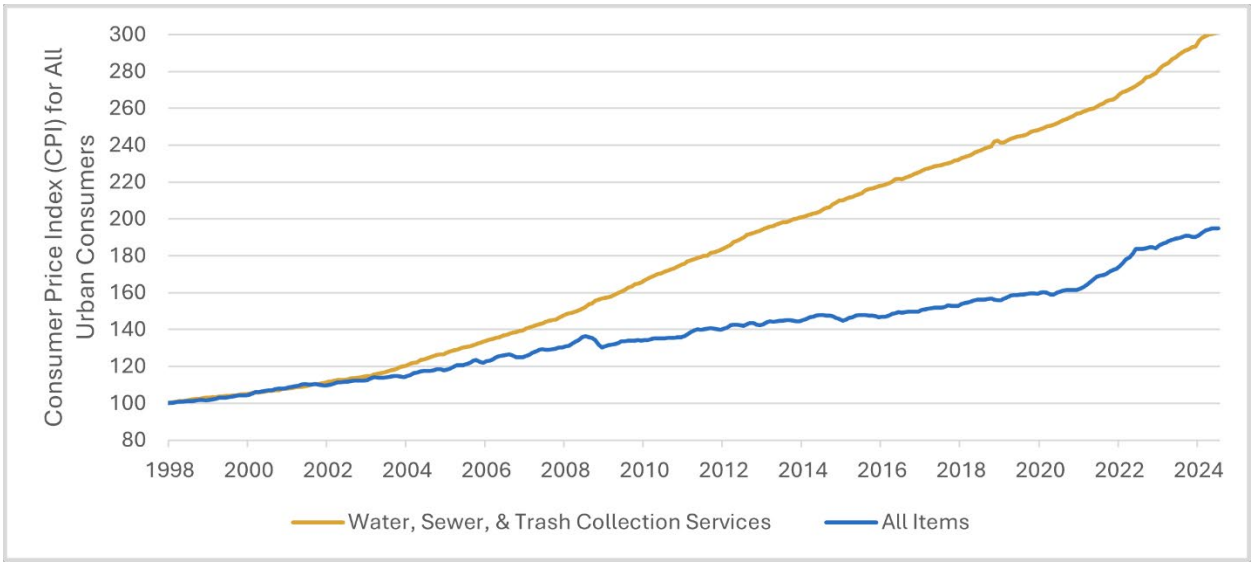


Figure 3: Consumer Price Index for Water, Sewer, and Trash Collection vs. All Items for Urban Consumers, 1998 - 2024

Source: U.S. Bureau of Labor Statistics, 2024a; U.S. Bureau of Labor Statistics, 2024b

2.2 The Impact of Unaffordable Water on Households

Water affordability is a complex issue that affects many people, including lower-income households, senior citizens on fixed incomes, and those who experience short-term disability or job loss. Many low-income households across the U.S. struggle to pay their water bills. Results of a recent survey by the U.S. Department of Health and Human Services (HHS) show that roughly 20% of households had outstanding arrearages or were in debt to their water utility. This percentage can be even higher in some communities; for example, 32% of households in Tribal communities had outstanding balances (HHS, 2024). Duke University found that up to a third of households work more than a day each month to afford water bills (Patterson & Doyle, 2021).

When the cost of water services increases, households face difficult choices that can lead to broader economic impacts. High water bills can force families to cut back on other essential expenses, such as food, healthcare, and education. This can result in health impacts such as underutilization of healthcare and medications, food insecurity, and decline in mental health (Sarango et al., 2023; Gaber et al., 2021; Kimutai et al., 2023). Additionally, access to affordable water is crucial for maintaining public health. Unpaid bills can lead to water disconnections and residential shutoffs, which can force households to rely on unsafe water sources or to forgo essential hygiene practices, a challenge highlighted during engagement sessions for interested parties held by EPA in 2024. Further compounding the impacts of higher water costs, session participants indicated that some low-income households have high water usage due to high home occupancy, old or inefficient appliances and fixtures, and leaky plumbing.

The impacts of unaffordable water fall disproportionately on a subset of the population in a community. Older populations on fixed incomes may struggle with rising rates, putting financial

pressure on their household budgets (Patterson & Doyle, 2021). Communities predominately composed of racial and ethnic minority populations often have a greater burden of inequitable access to clean water infrastructure than other communities. This can lead to water contamination, health crises, and other water equity issues (Hansen & Hammer, 2022). The disproportionate impact to specific residents within a community based on race and age was stated by numerous community advocacy groups during the engagement sessions for interested parties held by EPA in 2024. They emphasized the impact to multigenerational households, minority residents, and elderly customers, as well as unique challenges for those that pay for water and wastewater service indirectly through rent. The relationship between renters and water bills is a complex issue. Advocacy groups have explored this relationship and put forward solutions (Levine et al., 2022). Pathways to provide assistance to renters are explored in Section 9 - EPA Recommendations.

2.3 Water Affordability Challenges Faced by Utilities

Water utilities across the U.S. also face significant water affordability challenges. These costs are driven in part by rising operational costs, the need for substantial investments in maintenance, and upgrades of existing, aging infrastructure. Utilities face the balancing act of funding routine O&M costs and longer-term capital expenditures to replace or upgrade infrastructure. O&M cost increases are often driven by labor and supply costs and the increased maintenance needs of aging plant and pipeline infrastructure. Capital expenditures are often driven by the need to replace or upgrade infrastructure due to age, increased demand from population or industrial growth, and the need for resiliency to climate change.

Another driver of capital expenditures is the need to protect public health and the environment. Some utilities have met these challenges by using innovative funding and financing approaches. During the engagement sessions for interested parties held by EPA in 2024, participants noted that some water utilities, such as mobile home parks, some condos, and those not affiliated with the local municipality, are often unable to access funding programs or generate additional revenue. A federal water assistance program, discussed in Section 9.1 - Establishing a Permanent Federal Water Assistance Program, could help households struggling with unaffordable water, and in turn help utilities to have reliable capital to implement necessary improvements. Water assistance can mitigate rate increases for households, so low-income households feel less of this financial impact. Water assistance to households also helps ensure utilities are receiving adequate bill payments to support necessary infrastructure. Additionally, water assistance can help utilities more equitably implement true cost pricing.

Many cities and utilities have deferred rate increases for various reasons. Deferring rate increases can cause these utilities to need to raise rates significantly in a few short years (“rate shock”), leaving customers with less time to adjust to higher bills than slower rate increases over time. Not implementing necessary rate increases can also cause deferred maintenance, resulting in higher future capital costs.

Customer arrearages further exacerbate financial pressures for water sector utilities. The *2022 Low-Income Household Water Assistance Program (LIHWAP) Survey* showed that very large

utilities, which serve populations of over 100,000 customers, had an average arrearage balance of approximately $15 million per utility. When too many customer accounts fall behind in paying their bills, some utilities find rates and fees inadequate to cover infrastructure needs and treatment costs. The LIHWAP Survey also found that utilities of all sizes faced challenges in setting rates that are affordable for customers while covering necessary costs needed to meet sound financial metrics (HHS, 2024).

2.4 Utility-Led Customer Assistance Programs

Some utilities have developed CAPs that focus on individual customers' ability to pay for drinking water and wastewater services. CAPs can help households that are unable to pay a bill by restoring services, preventing disconnections, and making bills more affordable. Some programs may also offer installment plans to help customers spread out past due balances over time.

> The San Antonio Water System (SAWS) is one example of a successful utility-led CAP. This robust program shifts the burden of access away from customers and connects them with assistance in 14 different areas, including reduced meter fees and discounted monthly bills. Read more about the SAWS CAP in the case study in Appendix A.

Some utilities have designed CAPs that fit their own needs and those of their local communities. These programs use tools such as bill discounts, special rate structures, and other tactics to support customers who are facing challenges in paying their water bills. EPA has developed a compendium of drinking water and wastewater CAPs, which describes examples of these programs throughout the country (EPA, 2016). Many large cities offer CAPs, as well as some small cities and towns. There is extensive, detailed literature documenting key considerations that utilities should account for when developing and implementing CAPs, including lessons learned and tips for success (AWWA, 2022; Cromwell et al., 2010; Levine et al., 2022; UNC EFC, 2017; Ward et al., 2024).

While these programs have been successful in assisting households, there are limitations. Large utilities with bigger rate bases are more likely to have CAPs, yet funding to support them is still limited. For many smaller utilities, developing and implementing a CAP is out of reach given limited staffing and financial resources. In some areas, legal and policy barriers limit the ability of utilities to offer bill discounts or free services to some customers (UNC EFC, 2017).

2.5 Federal Assistance Efforts

During the COVID-19 pandemic, Congress recognized the vital importance of having access to clean, safe water and sanitation to limit the spread of infectious disease. In response, the federal government established the LIHWAP, which provided funds to states, territories, and Tribes to support low-income households with water bills. Grant recipients used LIHWAP funding to pay utilities to reduce arrearages and rates charged to recipient households. The program has

concluded and served a total of 1.7 million households nationwide (Office of Community Services (OCS), 2024b). Specific LIHWAP program information, including information on allocation of funding, is available at the HHS website.

The ability of low-income households to access other essential resources are already supported by federal programs, such as Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), and Low-Income Home Energy Assistance Program (LIHEAP). In FY2023, SNAP provided food benefits to approximately 42.1 million low-income individuals to supplement their grocery budgets (U.S. Department of Agriculture, 2024). LIHEAP received FY2024 appropriations of $4.025 billion and supported an estimated 5.1 million households in FY2023 (OCS, n.d.). LIHWAP was established as a temporary program and has since ended. However, the need to address water affordability, especially for low-income households, remains.

The San Carlos Apache Nation is an example of a community that benefited significantly from LIHWAP. Residents face major challenges, with an unemployment rate of 65%. In 2021, the Tribe was granted $310,510 through LIHWAP, which enabled them to restore service for households whose drinking water and wastewater services had been disconnected due to nonpayment. Many families applied, and program funds were used to pay for water bills and to empty septic tanks. Read more about the San Carlos Apache Nation's experience with LIHWAP in the case study in Appendix A.

2.6 Summary

Water affordability is a growing problem across the country. In many areas, the cost of drinking water and wastewater services has more than doubled since 2000. The estimated need for water infrastructure investments will be over $1.2 trillion over 20 years, which will further increase service costs and require further rate increases. This can disproportionately affect low-income households and communities of color.

3. Defining Water Affordability

There is no single approach to defining or measuring water affordability. Each approach applies a unique lens that explores the different elements of a community, such as demographics, socioeconomic characteristics, and financial capacity constraints. The literature on water affordability definitions and metrics is expansive and represents different viewpoints among interested parties. During EPA's water affordability listening sessions for interested parties held in Spring 2024, participants stressed the importance of looking holistically at affordability challenges and recognizing how needs may vary across communities. Interested parties also emphasized the need to explore both qualitative and quantitative approaches to defining what it means to have access to affordable drinking water and wastewater services.

Both qualitative definitions and quantitative measurements of water affordability can be useful in evaluating the water burden faced by different communities. Qualitative definitions provide context about the economic tradeoffs between basic water services and other essential expenditures. They help frame water affordability as a piece in the larger picture of household and community affordability challenges. Quantitative affordability metrics can help utilities and other interested parties understand the financial capability of households and communities to pay for necessary infrastructure, O&M costs, and improvements, which, in turn, enable utilities to set appropriate rates and support programs to assist customers regardless of ability to pay. In addition to allowing for evaluations of water affordability, these various metrics each tell a different story about the water burden faced by those within a community. The following section describes some of the

most common water affordability definitions and metrics, including comparisons across different approaches.

3.1 Qualitative Definitions of Water Affordability

One widely used qualitative definition of water affordability is the ability of a household to pay for basic water services necessary for drinking, cooking, cleaning, and sanitation without experiencing undue hardship (Patterson & Doyle, 2021; Raucher et al., 2019). The United Nations definition of water affordability further characterizes "undue hardship" by describing water affordability as "essential water and sanitation services available at a price that does not prevent access, nor interfere with other essential expenditures such as food, healthcare, housing, clothing, and education" (United Nations Human Rights Council, 2015). Legal definitions of "undue hardship" refer to the imposition of "significant difficulty or expense" as a result of a lack of adequate accommodation (Cornell Law School, 2024). These definitions also note that while people may successfully pay water bills, they may still be facing undue hardship related to other categories of necessary spending. Therefore, simply examining the rates of customer nonpayment may provide an incomplete view of undue hardship.

The water affordability field is rapidly evolving and expanding to meet growing challenges faced by households throughout the country. Advocacy groups, policymakers, and the academic community continue to refine qualitative definitions of affordability to better characterize water burden and develop tools for addressing the challenge. The NRDC Water Affordability Advocacy Toolkit was developed to provide tools for state and local policymakers to better understand water affordability challenges in their communities. It defines an affordable bill as one that "has a reasonable likelihood of being sustainably paid, as defined by a prescribed 'bill burden' that does not unreasonably impinge on a customer's income" (Levine & Osann, 2023). The Aspen Institute stresses that "no person should be denied essential water services based on ability to pay" and recognizes that the push for water affordability should not be interpreted as free utility services but should rather focus on a commitment from all levels of government to ensure these services are affordable to the entire community (The Aspen Institute & Nicholas Institute for Environmental Policy Solutions, 2022). The U.S. Water Alliance adopts a similar definition, while also emphasizing that affordability means "the costs of water systems are distributed equitably across society" and that it is essential for households to be able to "pay for water and wastewater services without having to forgo or cut back on other necessary expenses like housing, food, medication, transportation, or other utility services" (U.S. Water Alliance, 2023). Other definitions expand water affordability to better capture stormwater, and the needs of decentralized systems (e.g., septic systems) (Maxcy-Brown et al., 2024).

3.2 Quantitative Measures of Water Affordability

Researchers have proposed various metrics to measure and evaluate water affordability. These metrics do not define water affordability, but rather, each metric provides a unique perspective into the overall picture of water affordability within a given community or a single household. Because the financial health of utilities is largely dependent on the economic health of their local

community, utilities rely on metrics that determine the financial ability of households to pay increased water rates within the utility's service area. Other metrics look at water affordability at the household level by determining the financial burden of water bills on individual households or a representative household within the community. This section describes approaches that have been used at both the community level and the household level to quantitatively evaluate water affordability.

Most water affordability metrics compare the cost of a water bill at a given consumption level to a measure of household income. Affordability metrics that have been used in the academic literature look at the amount spent on drinking water and wastewater bills as a percentage of total household income, disposable income, or in terms of hours spent working at minimum wage. Some previous studies have explored affordability using a community-level summary of income. Two common summary statistics used to examine affordability at the community level include the Median Household Income (MHI) and the upper limit of the Lowest Quintile Income (LQI). The individual household level is the most granular level of water affordability measurement.

Aggregate Community-Level Measures

- Median Household Income (MHI) is the midpoint of the distribution of community income or the 50th percentile. Half of the households in the community earn more than the median income, and half of the households earn less than the median income.
- Upper Lowest Quintile Income (LQI) is the upper value of the lowest quintile of income or the 20th percentile. Approximately 20% of households earn less than the upper LQI.

Household-Level Measure

- Estimates of individual household incomes allow researchers to show the full distribution of the percent of income spent on drinking water and wastewater services across the community.

Figure 4 compares community-level summaries of income to the use of individual household-level incomes and highlights the extent to which low-income households are represented in each metric. The teal circles denote which households fall within the grouping (e.g., the two lowest earning households are the lowest quintile of a community of 10 homes). The gold homes denote which household's income would be characterized as a representative household in an affordability calculation. As shown in the graphic, MHI captures information at the community-level, but is not sufficient to describe the water burden for lower-income households because half of the households in the community have incomes below the median. Studies that examine affordability for lower-income households at the community level commonly use the upper LQI as the representative income (Teodoro, 2018; Teodoro, 2019; Teodoro & Saywitz, 2020). While this community-level value provides more information on lower-income households in the community than the MHI, it still is not sufficient to understand the burden for the lowest fifth of households. For this reason, several recent studies have advocated for measuring affordability at the household level (Patterson et al., 2023; Cardoso & Wichman, 2022a).

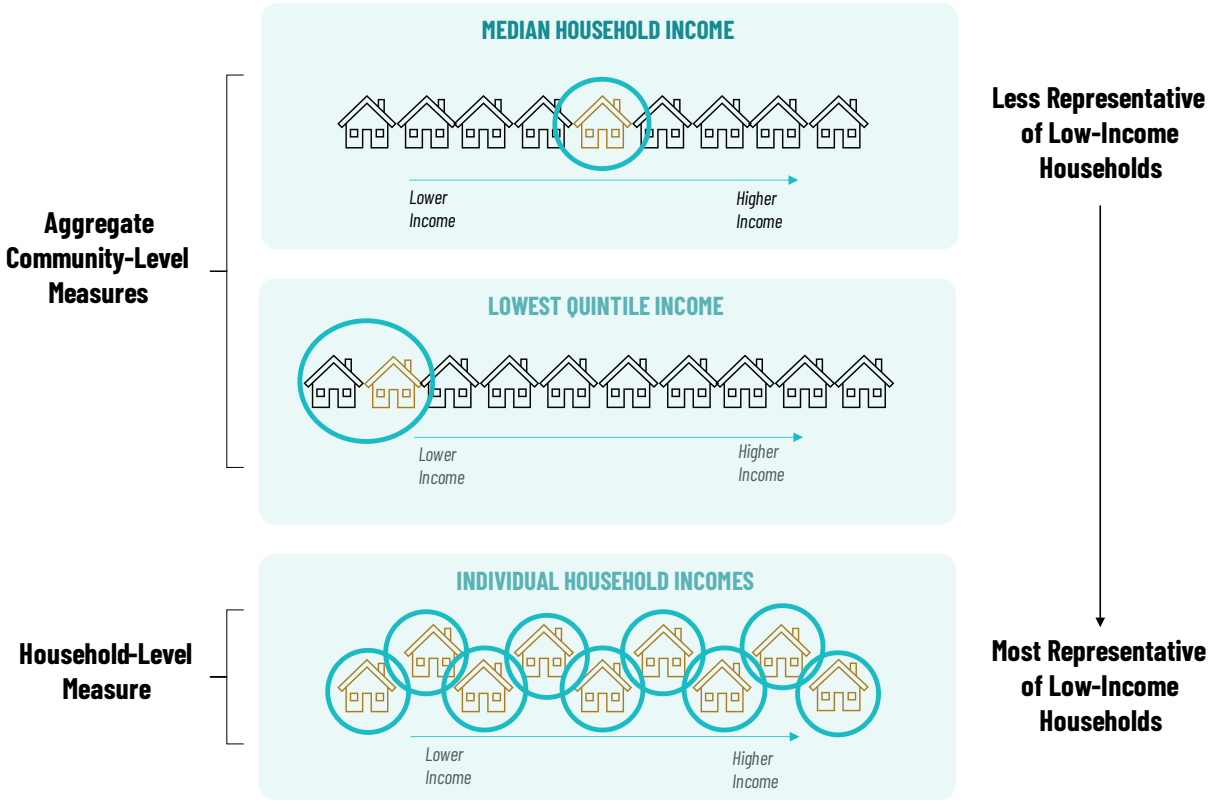


Figure 4: Comparison of MHI, LQI, and Individual Household Income Metrics

3.2.1 Approaches That Measure Affordability in Terms of the Financial Strength of a Community

Utilities, agencies, and other interested parties use several metrics to determine the financial strength of the community. These metrics help utilities gauge the financial impact of rate increases needed to implement necessary infrastructure maintenance and upgrades based on a summary statistic of income within a community. Metrics that use average or median household incomes to indicate the financial capacity of a community do not ensure that rates are affordable for every household in the community (Patterson & Doyle, 2021).

The Poverty Prevalence Indicator (PPI) measures the percentage of households below 200% of the Census Bureau's Federal Poverty Thresholds. This metric is based entirely on U.S. Census Bureau income and household data, but it does not consider the cost of water bills, and therefore measures only the degree to which poverty is prevalent in the community (Raucher et al., 2019). It furthermore does not account for cost of living, which varies between each city, state, and region. When a utility services a community with high poverty levels, there is an increased challenge for households to afford a utility's services, which affects the utility's revenue potential (Patterson & Doyle, 2021).

The MHI metric reflects the annual cost of water services as a percentage of a community's MHI (U.S. EPA, 1997; U.S. EPA, 2024a). It provides a simple measurement of water affordability at the

community level and can be calculated for the entire utility's service population or for separate regions or neighborhoods within the service area. However, MHI does not capture income disparities within a community at the household level and thus cannot inform an understanding of the rising affordability problems for low-income households. Like PPI, the MHI metric does not account for variations in cost of living between cities, states, and regions.

EPA's *Clean Water Act (CWA) Financial Capability Assessment Guidance* (U.S. EPA, 2024a) includes three metrics for evaluating community-level affordability for the cost of wastewater services: the Residential Indicator (RI), the Financial Capability Indicator (FCI), and the Lowest Quintile Poverty Indicator (LQPI). This guidance was developed to evaluate a utility's financial capability to comply with CWA standards, rather than to evaluate household-level affordability for wastewater services. The RI reflects the compliance costs per household as a percentage of MHI for the service area of the utility. The FCI measures a community's ability to implement CWA controls, and incorporates data on debt, socioeconomic, and financial conditions. The FCI is a composite of six variables that measure a community's financial management, socioeconomic condition, and debt burden. These variables are assigned a numeric score and then aggregated and compared to national benchmarks. While the RI and FCI do not account for variability in income distribution across service areas, the LQPI measures the 20th percentile of household income and is more representative of the financial capabilities of lower-income households within the community.

3.2.2 Approaches That Measure Water Burden at the Household Level

Several recent research papers have analyzed water affordability at the individual household level using the full distribution of household income in a given location (Patterson & Doyle, 2021; Cardoso & Wichman, 2022a; Patterson et al., 2023). These papers show the distribution of water burden experienced by households both across and within communities. A common way to measure water burden is through the Income Dedicated to Water Services (IDWS) metric, which is the percentage of income that households spend on drinking water and wastewater bills. Utilities and governments can use this metric to understand the extent of affordability challenges across households within a given community. When combined with threshold value of the percent of income spent on water that is deemed affordable, an estimate of the percentage of households within a service area that need water assistance can be developed as well as an estimated cost to alleviate this water burden for the community.

Several prior approaches have combined multiple metrics to develop a more comprehensive picture of affordability challenges. Teodoro (2018, 2019) and Teodoro and Saywitz (2020) used two complementary affordability metrics: the Affordability Ratio (AR) and Hours of Labor at Minimum Wage (HM). The AR metric calculates the ratio of the price of basic water services to the household's disposable income. The metric assesses water affordability for a household while accounting for the household's other essential needs, such as food, housing, and healthcare; and demonstrates the economic tradeoffs that customers face due to the cost of basic drinking water and wastewater services. While this metric may provide deeper insights into the burden faced by households than the IDWS metric, there are additional data requirements and empirical challenges. In addition to estimating household drinking water and wastewater costs, calculating the AR requires an estimate of both household income and the cost of other essential expenditures

from consumption surveys.[3] The HM metric represents the number of hours a customer would need to work at minimum wage to earn the amount necessary to pay for basic drinking water and wastewater services. HM shows a simple estimate of the impact of water service costs on a single-earning minimum wage household but does not account for essential non-water expenditures. AR and HM can be calculated for an individual household or a representative household. Individual household-level metrics provide a greater understanding of distribution of water burden across the community and allow a greater focus on basic water needs of low-income households rather than average water consumption among median income customers.

In a recently published article, Skerker et al. (2024) suggest three metrics based on water bill delinquency - the frequency, duration, and severity of delinquency - as alternatives to affordability ratios. Using detailed bill data, the authors find that Census blocks with similar affordability ratios may have different delinquency metrics.

3.2.3 Affordability Thresholds and Prior Applications

Most water affordability metrics use a threshold value to assess whether water costs are expected to be manageable on the community-level or for an individual household. Some of these thresholds, such as the Household Burden Indicator (HBI) and PPI, use a range of values to define levels of affordability. Other metrics use a singular cutoff value. For example, 4.5% of MHI is commonly used as a threshold value for evaluating the financial capability of a utility (Cardoso & Wichman, 2022; Berahzer et al., 2023[4]; Mack & Wrase, 2017). Likewise, Teodoro (2018) suggests it is unreasonable for low-income households when their monthly drinking water and wastewater bills exceed 10% of their disposable income (using the AR metric) and/or require more than eight hours of work at the local minimum wage (the HM metric). Appendix C shows the affordability threshold values recommended for the metrics previously discussed in this section. While these thresholds are benchmarks to consider when evaluating affordability, it is important to remember that every community and every household faces unique challenges, and these thresholds may not be appropriate for every situation. For example, communities that have high housing and essential goods costs might struggle to pay water utility bills, as the average household budget is stretched to meet the higher cost of living. Additional analysis on water affordability should evaluate additional socioeconomic metrics and their impact on household water burden.

Other programs and studies have used a variety of affordability metrics, thresholds, and other criteria or indicators to determine eligibility and assess costs associated with assistance programs. For example, to participate in the LIHWAP program, LIHWAP grantees (states, Tribes, or territories) were required to establish eligibility thresholds for households to qualify for benefits. These thresholds were based on total household income (at or below 150% of the federal poverty guidelines, at or below 60% of the state MHI, or measured with another lower poverty threshold) as

[3] In addition to the added data requirements, estimating essential expenditures from self-reported consumption surveys is challenging for two reasons: 1) self-reported data may be biased, and 2) estimating the cost of goods that are truly essential is difficult because households with a greater ability to pay will have greater expenditures in essential goods categories.

[4] Berahzer et al. 2023 is not a peer-reviewed study. The authors are leading economists and experts in the water affordability space. Many of the authors have published peer-reviewed studies.

well as other eligibility criteria required by grantees (OCS, 2023a). LIHWAP allowed for categorical eligibility based on enrollment in other means-tested programs, such as TANF, SNAP, Supplemental Security Income (SSI), and LIHEAP (OCS, 2023a).

The *Low-Income Water Customer Assistance Program Assessment Study* used a multiple threshold approach to evaluate the cost of drinking water and wastewater services as a percent of household income. The study considered six income ranges from <$10,000 to $74,999. Four different thresholds were used to evaluate the cost of bill assistance at each income range. Two fixed thresholds for bill assistance were considered: 4.5% and 3%. Additionally, two variable thresholds were evaluated. The first was a 3% to 8% threshold that increases as income decreases, reflecting that lower income households pay a higher percentage of their income for water services under typical rate structures. The second reflects a progressive threshold ranging from 2% for the lowest income range to 4.5% for the highest (Berahzer et al., 2023), which reflects the fact that lower-income households have less disposable income.

States also have the flexibility to design their own affordability criteria and disadvantaged community definitions in their State Revolving Fund (SRF) Programs. The Clean Water and Drinking Water SRFs were established to assist water utilities with financing infrastructure improvements by providing below-market interest rates and extended loan terms. These criteria and definitions inform the SRF Programs' distribution of additional subsidies to projects in eligible communities. States have broad discretion in developing their affordability criteria and disadvantaged community definitions. Many states use the MHI metric to create their definitions, although each state's methodologies, thresholds, and definitions vary (U.S. EPA, 2024a; U.S. EPA, 2022). The SRF affordability criteria and disadvantaged community definitions are community-level metrics that are not intended to be applied on a household-level.

3.3 EPA's Approach for This Report

The IIJA language directing this Report requires EPA to estimate the prevalence of water utility providers that contain a "disproportionate percentage" of "qualifying households with need." Elsewhere, the IIJA language calls for an estimate of the "prevalence of a lack of affordable access to water services." (See language in Appendix B.) EPA determined that the best approach to meet these requirements is to examine affordability of drinking water and wastewater bills using individual household incomes, as shown in Figure 4. Instead of measuring affordability at the community level, EPA evaluated the distribution of the water burden experienced by households within a community. An estimated water bill for basic use was compared to an estimate of the individual household incomes using the IDWS approach discussed previously (Patterson & Doyle, 2021; Cardoso & Wichman, 2022a; Patterson et al., 2023). This approach most accurately captures the impact of water burden on low-income households.

EPA conducted a thorough literature review of multiple affordability threshold values. EPA selected two thresholds, 3% and 4.5% of household income spent on drinking water and wastewater bills, to estimate a range of the number of households throughout the U.S. experiencing high water burden. The 4.5% threshold is widely used in literature (Cardoso & Wichman, 2022a; Berahzer et al., 2023; Heminger et al., 2023; Mack & Wrase, 2017). Use of the 4.5% threshold is largely consistent with

the HM metric, which suggests a threshold of one day (8 hours), or 4.6% of work hours in a month, assuming a 40-hour work week. The use of a percentage of income metric is also comparable to affordability metrics for other essential services, such as spending on electricity (Brown et al., 2020a; Brown et al., 2020b). In order to generate a range of households throughout the U.S. experiencing high water burden, EPA also selected a 3% threshold, which is the lowest fixed threshold used in the Low-Income Water Customer Assistance Program Assessment report (Berahzer et al., 2023).

EPA selected these threshold values for the purposes of generating an estimated range of household-level water burden for this Report only. During the listening sessions for interested parties held in Spring 2024, participants emphasized the importance of using a multi-pronged approach that can reflect the unique circumstances of different communities. Each community faces unique challenges and there is not a single metric or approach that will be correct for every community. EPA's affordability analysis using this methodology is detailed in Section 5 of this Report.

4. Water Affordability Literature: Summary and Major Findings

The issue of water affordability is not new; decades of research have been conducted to define the scope and extent of water burden in the U.S. and to develop strategies to mitigate its impacts. These studies provide a picture of the national water affordability challenge as well as estimates of the financial burden of water costs across diverse geographic and socioeconomic groups. Several studies have been completed at a national level using data from utilities across multiple states, at an individual state level, and at a local level. This section summarizes the findings of some of these studies and outlines several established approaches to assessing the lack of access to affordable water. This summary of existing literature serves as a foundation for the data analysis presented in Section 5 and helps identify avenues for additional research which the report explores further in Section 7.

4.1 Water Affordability Study Methods and Limitations

Most water affordability studies seek to assess the cost of essential water services in relation to the incomes of the households responsible for paying for those water services. These analyses require water rates data, census data, and the ability to match these two data sources geographically. In addition, researchers must calculate water bills at a particular quantity of water that represents the basic water needs of the household. This relies on key assumptions about household size and daily water use per household member.

Water Rates Data

Drinking water and wastewater rates and services charges are used to calculate the total cost of water services at a specific quantity of water usage for a given household. The primary challenge in evaluating water affordability on a national level is the absence of a comprehensive national database of water rates. Researchers must gather water rates data by searching utility websites or directly contacting utilities. Some databases of drinking water and wastewater rates have been developed including the University of North Carolina Environmental Finance Center (UNC EFC) Utility Rates Dashboards (UNC EFC, n.d.) and the Duke Water Affordability Dashboard (Patterson, 2022). These databases do not include every state or every utility within each state and must be frequently updated as utilities change their rates. Data on water rates are difficult to gather from smaller utilities because there are significantly more of these utilities, and they may be less likely to publish rates online. Even when water rates data are available, utilities may use different rate structures, formats, and terminologies, making it difficult to compare rates across utilities and combine them into one dataset.

Previous studies have used different samples of rates in their analyses. Teodoro (2018) selected utilities from the 25 most populous U.S. cities and Patterson et al. (2023) used rate data from the largest utilities in every state. Teodoro (2019) collected a random sample of water rates from small to large utilities (omitting very small utilities). Patterson and Doyle (2021) selected 1,791 utilities from four states with a variety of population demographics and climates (California, North Carolina, Pennsylvania, and Texas) based on the availability of their statewide service area boundaries. Some studies include drinking water, wastewater, and limited stormwater rates (Patterson & Doyle, 2021), while others use only drinking water and wastewater rates (Teodoro, 2018; Teodoro, 2019; Teodoro & Saywitz, 2020; El-Khattabi et al., 2023; Teodoro & Thiele, 2024). See Appendix E for a description of the utilities represented in the data analysis for the studies discussed here.

Census Data

Detailed geo-located census data at the household level is confidential and not available to the public. Publicly available census data provide tract- or block group-level averages of socioeconomic variables as well as the estimated counts of households that have yearly income within each of 16 income brackets. Aggregate community-level summary statistics of income or estimates of household-level income can be generated from publicly available census data. To estimate income at the household level, researchers can approximate the income distribution for each census tract or block group using the counts of households within each income bracket. Previous approaches include assigning all households in the income bracket to the median value of that bracket (Cardoso & Wichman, 2022a; Berahzer et al., 2023) or randomly generating incomes within the bracket according to a probability density function (Patterson et al., 2023).

Matching Census Data to Water Rates Data

Census boundaries frequently do not align with utility service area boundaries; therefore, matching household-level data to the utility that supplies water is challenging and prone to errors. Several previous studies have used the address of the water utility headquarters to match rates to counties (Cardoso & Wichman 2022a) or cities (Teodoro, 2018; Teodoro, 2019; Teodoro & Saywitz, 2020).

However, this method assumes that every household in the geographical unit faces the same rates, which will not be true when there are multiple utilities located within a geography. Greater geographical specificity of the utility locations and the household locations will minimize errors in matching. There have been some recent efforts to map utility service areas nationwide; for example, the Environmental Policy Innovation Center (EPIC) and EPA have developed datasets of service area boundaries (EPIC, n.d.; U.S. EPA, 2024d). Service area boundary datasets allow researchers to match households from census data more accurately to the utility that supplies water (e.g., Patterson et al., 2023). However, even with accurate service area boundaries, this matching will still be an approximation when utility service areas span multiple census geographies or vice versa. In these cases, an apportionment method is used to generate a weighted average of census data using the proportion of overlap with service areas (e.g., Berahzer et al., 2023; Patterson et al., 2023).

Calculating Drinking Water and Wastewater Bills

Monthly drinking water and wastewater bills are calculated from rate data for a specific quantity that is assumed to be sufficient to meet the basic needs of the household. This will depend critically on the assumptions of the daily water needs per person and the size of the household.

- **Daily Per-Person Water Usage.** Water affordability studies generally seek to evaluate the cost of water used for basic health and cleanliness needs, including drinking water consumption, food preparation, personal hygiene (bathing, handwashing, oral care), sanitation (flushing toilets), and basic cleaning (washing clothes, dishes, etc.). Focusing on a basic hygienic use value implicitly assumes that there are no major leaks within the household. The selection of a per-person water use value has a significant impact on the resulting estimates of a household's total water bill. Patterson et al. (2023) found that the number of households with unaffordable water services was 1.7 times greater when a household of the average size consumes approximately 100 gallons per person per day compared to approximately 50 gallons. Similarly, Cardoso and Wichman (2022a) found that the percent of households with unaffordable bills rose from 8.4% to 14.2% when the assumed water usage increased from 40 gallons per person per day to 75 gallons per person per day, respectively. Appendix D includes information on basic water usage volumes used throughout the literature.
- **Household Size.** The number of people in a household determines the amount of water needed to meet the household's basic needs. Most affordability studies assume that water use scales linearly with the number of household members, thus the per-person value is multiplied by the household size to estimate daily household water needs. Census data with household-level incomes and household sizes, however, is not publicly available, and therefore, researchers rely on a measure of average household size. Patterson et al. (2023) assume all households are the same size, approximately the national average, when calculating water usage. Teodoro (2018, 2019) and Teodoro and Saywitz (2020) calculate water usage for a four-person household, and Cardoso and Wichman (2022a) use the average household size at the census block group (CBG) level to estimate water usage.

Previous water affordability studies have been conducted with water rates and census data from different states and years and using different methods, assumptions about water use, and affordability threshold values. As a result, comparing findings between studies is difficult. Despite the differences in data sources and methods used, the literature shows that water affordability is a significant and growing issue across the U.S., especially for low-income households. While there is much work that remains to be done to create a comprehensive picture of water affordability across the U.S., the following sections outline several key insights from affordability studies that have been completed to date.

4.2 Prior Research Assessing Water Affordability Challenges for Low-Income Households

Studies Measuring Water Affordability Using Household-Level Incomes

Multiple studies have assessed the extent and prevalence of affordability challenges across the U.S. using the full distribution of household-level income. The results are not directly comparable, as each study used different utilities, rate data years, affordability thresholds, and methods. However, the results are generally consistent, with estimates ranging from 5.8% to 17.1% of households experiencing a high water cost burden within the utilities evaluated in the studies, with one study suggesting this range could be as high as 26% based on sensitivity analyses (Patterson et al., 2023). Some of the key findings are highlighted below:

- Patterson and Doyle (2021) found that for the median utility, 16.4% of households spent more than 4% of their income on water services, while 7.7% of households spent more than 7% of their income on water services.
- Cardoso and Wichman (2022a) found that 10% of households face water affordability concerns (pay more than 4.5% of income on water), with households in the lowest income decile paying an average of 6.8% of their annual income on drinking water and wastewater services.
- Patterson et al. (2023) found that 17.1% of households have unaffordable water services (defined as spending more than one day of labor each month paying for services or 4.6% of income). The study also found that this number could vary between 5% and 26% of households, depending on the volume of water used to estimate bills and the level of financial burden determined to be acceptable (Patterson et al., 2023).
- The Low-Income Water Customer Assistance Program Assessment found that between 7.5 to 21.3 million U.S. households (approximately 5.8% to 16.6% of households) are water burdened, as defined by exceeding one of four affordability thresholds described in Section 3.2.3 Affordability Thresholds and Prior Applications. Furthermore, this study estimated that between $2.4 and $7.9 billion in annual water bill assistance would be needed to address the water burden nationwide (Berahzer et al., 2023).

Studies Measuring Water Affordability Using Community-Level LQI

Four studies conducted between 2018 and 2024 (Teodoro, 2018; Teodoro, 2019; Teodoro and Saywitz, 2020; Teodoro and Thiel, 2024), evaluated the impact of water affordability challenges on low-income households at the 20th income percentile, the upper LQI. All four studies compared

drinking water and wastewater bills against the 20th percentile household income using the AR and HM metrics described in Section 3. By assessing the cost of water services in terms of minimum wage hours and as a percentage of disposable income, these studies highlight the impact of water burden on low-income households and provide a view of trends in affordability over a six-year period.

Teodoro (2018) found that in 11 of the largest 25 U.S. cities, a four-person household at the 20th income percentile would pay more than 10% of its disposable income on drinking water and wastewater services. The study also found that in 17 of the 25 largest cities, that same four-person household would need to work more than 8 hours at minimum wage to afford their monthly drinking water and wastewater bill. While the study alone cannot be used to determine which utilities have a water affordability challenge, it does highlight that low-income household affordability cannot be understood by simply evaluating a utility's overall affordability using MHI-based metrics (Teodoro, 2018).

Using a random sample of utilities serving populations of 3,300 and higher, Teodoro (2019) found that low-income households must spend an average of 9.7% of their disposable income and/or work 9.5 hours at minimum wage to pay for basic monthly drinking water and wastewater services, with considerable variation across utilities. The study was repeated by Teodoro and Saywitz (2020) using the same methodology with additional rate data included, serving a combined population of almost 44 million. Results showed that low-income households must spend an average of 12.4% of their disposable income and/or work 10.1 hours at minimum wage to pay for basic monthly drinking water and wastewater services. The authors found that between 2017 and 2019, affordability challenges increased in larger utilities (Teodoro & Saywitz, 2020). Teodoro and Thiele (2024) found that the average monthly household bill in 2023 was 20% higher than it was in 2017. Teodoro and Thiele (2024) also found for households at the 20th percentile income within communities included in this dataset, 19.4% had AR values (AR as described in Section 3.2 representing drinking water and wastewater costs as a ratio of disposable income) greater than 20.0, and 9% had AR values greater than 60.0.

Studies Measuring Water Affordability Using Community-Level MHI

Patterson and Doyle (2021) and Cardoso and Wichman (2022a) compared the results from their household-level income analysis to one using community-level MHI. Patterson and Doyle (2021) showed that 34.2% of utilities included in the study served a community where a low-income household must work more than 8 hours at minimum wage for 4,000 gallons per month of water usage. However, only 1.2% of utilities served a community where more than a day of labor was required for median households to pay that same bill. The financial burden for the median household was typically less than half a day of labor, which increased to 0.5–1.4 days of labor for low-income households, and to 0.8–1.6 days of labor for a single minimum-wage earner (Patterson & Doyle, 2021). Similarly, Cardoso and Wichman (2022a) show that 10% of households have unaffordable water bills while only 0.8% of communities are water burdened when assessing affordability using the community-level MHI.

Most recently, the 2024 LIHWAP Water Utility Affordability Survey report evaluated household-level burden by calculating monthly drinking water and wastewater costs first as a percentage of MHI,

and then as a percentage of income at 75% of the HHS federal poverty guidelines. Based on median household income, the average water burden was 2.7%, with a minimum of less than 1% and a maximum of 15.2%. For households at 75% of the poverty guidelines, the average water burden was 7.3%, with a minimum of 1.8% and a maximum of 40.2% (OCS, 2024a).

4.3 Prior State and Local Level Research on the Extent and Prevalence of Water Affordability Challenges

In addition to the national studies summarized in the previous section, several state-level water affordability assessment reports have been conducted by states, a university, or a nonprofit company. Key findings from state-specific water affordability assessment reports[5] are discussed below:

- The *2023 California Drinking Water Needs Assessment*, which includes a drinking water affordability assessment of community water systems within the state, found that 3% of utilities assessed had a high affordability burden, 12% had medium affordability burden, and 45% had a low affordability burden. High, medium, and low affordability burdens are as defined by the 2023 report (Abhold et al., 2023).[6] A 2024 update of the assessment showed that 3% of utilities had a high affordability burden and 10% had a medium affordability burden. The remaining utilities did not exceed an affordability indicator threshold (Abhold et al., 2024).
- The *Michigan Statewide Water Affordability Assessment Report* released in 2022 found the average cost of water across Michigan rose 188% from 1980 to 2018, after adjusting for inflation. For Michigan's 20th percentile income households, water costs increased over 443% over the 1980 to 2018 period (Read et al., 2022). The 2024 update to the Michigan Statewide Assessment found that 6.07% of households in the state paid combined drinking water and wastewater bills over 5% of household income. This percentage of households varied significantly by county, from 1.43% to 10.66%. The report also found that for those that have a high water burden, 70.8% to 78.1% live below the HHS poverty guidelines and most live below 200% of the poverty guidelines (Read et al., 2024).
- The *2023 Northern Arizona Water Affordability* study found that when measuring water affordability using the household burden indicator, the average score in Northern Arizona is 2.34%, and 3.02% for Tribal households. This means that on average, low-income households must dedicate over 2% of their income to pay monthly water costs. The study

[5] While these state-level water affordability assessment reports were not obtained from peer-reviewed sources, EPA is including them in this report as they provide valuable insight into trends in water affordability at the state-level.

[6] Affordability burden for the 2023 CA Drinking Water Needs Assessment is determined using three affordability indicators: 1. %MHI (residential customer charges for six centum cubic feet (CCF) of water per month that meet or exceed 1.5% of the MHI within a service area), 2. "Extreme Water Bill" ("drinking water customer charges that meet or exceed 150% and 200% of statewide average drinking water customer charges at the six CCF level of consumption"), 3. "Household Socioeconomic Burden" (percent of households that make less than 80% of the Housing and Urban Development Area Median Family Income and pay more than half their income to housing costs). A "low affordability burden" mean the utility exceeds one affordability indicator threshold. A "medium affordability burden" means the household exceeds two affordability indicator thresholds. A "high affordability burden" means the utility exceeds three affordability indicator thresholds (Abhold et al., 2023).

found that, on average, households in the study area are able to pay for 4,000 gallons of monthly water consumption by performing 3.6 hours of labor at minimum wage (Heminger et al., 2023).

- A 2023 nonprofit report on Connecticut households, *Mapping Household Cost Burdens*, assessed the drinking water burden for communities in the state, and found that 37 population tracts, containing over 47,000 households, exceeded the 2% affordability threshold of income dedicated to drinking water services. By 2025, it is estimated that this number may increase to about 50 tracts, assuming an annual 5% increase in rates (Sears & Badger, 2023).

4.4 Prior Work Evaluating Regional Trends

Teodoro (2019) found that drinking water and wastewater bills are, on average, more affordable in the Western U.S. than in other regions. Patterson et al. (2023) found that the Southwest, Mid-South, and Great Plains regions generally had less expensive water services and a lower pervasiveness of unaffordability when compared to Eastern regions. The study showed regional concentrations of unaffordability challenges in the Eastern U.S., particularly within West Virginia, Ohio, and Indiana. Both the cost of water services and pervasiveness of unaffordability were more sensitive to the volume of water used in the Eastern U.S. than in the Western regions (Patterson et al., 2023). This study attributes these findings to both steeper increases in water services costs at higher water usages combined with the relatively high poverty in these same regions.

Patterson et al. (2023) also found that while bills were comparable in the Southeast, Midwest, and Southwest regions, unaffordability in the Southeast and Midwest was higher as a result of lower household incomes in those regions. Both the Pacific Northwest and Mid-Atlantic regions had higher median monthly bills; however, the distribution of water burden differed between those two regions. Many communities in the Mid-Atlantic region had higher bills than other regions, whereas the Pacific Northwest only had a handful of communities with very high water bills. As a result, the Mid-Atlantic region generally experienced higher levels of unaffordability than the Pacific Northwest (Patterson et al., 2023).

Cardoso and Wichman (2022a) found evidence that water affordability concerns are prevalent in the Southwest and Southeast regions. However, this study also found significant concerns within many states and within urban areas across the United States. The authors concluded that affordability concerns are inherently a local issue dictated by the distribution of income within a community (Cardoso & Wichman, 2022a).

4.5 Key Findings on Socioeconomic Trends and Other Factors Impacting Water Affordability

In addition to evaluating the prevalence of water affordability challenges across the U.S., researchers have explored trends that impact water affordability, including socioeconomic characteristics of the community and characteristics of the utility.

Local Income Distribution. Results from multiple studies showed that water affordability challenges increase as income distribution becomes more unequal (Teodoro, 2019; Patterson et al., 2023). The *LIHWAP Water Utility Affordability Survey Report* found that the percentage of the population under 150% of the Federal poverty guidelines was not a significant predictor of drinking water and wastewater rates. This report indicated that rates are set at the level needed to support the utilities' operational costs, and these rates may be unaffordable for low-income households (OCS, 2024a). Furthermore, Patterson and Doyle (2021) argued that widespread poverty is a major contributor to utility financial capability challenges.

Utility Size[7]. Results from multiple studies showed that affordability improves significantly as utility size increases (Teodoro, 2019; Patterson et al., 2023). Another study showed that larger utility service populations are associated with lower bills (El-Khattabi et al., 2023). Similarly, the *2023 California Drinking Water Needs Assessment* found that small community water systems included in the assessment charged an average of $71.31 for 6 CCF (equivalent to 4,488 gallons), while medium and large community water systems included in the assessment charged an average of $45.28 and $41.14, respectively, for 6 CCF in 2021 (Abhold et al., 2023).

Utility Ownership. El-Khattabi et al. (2023) showed that municipally owned utilities often have lower water bills than for-profit utilities. The study also found that higher rates are charged by utilities that use purchased water as a main source (El-Khattabi et al., 2023).

Race and Ethnicity. A 2022 study found that the number of households facing affordability concerns is positively correlated with the proportion of Black or African American residents and negatively correlated with the proportion of Hispanic or Latino residents within a CBG, even after conditioning on prices and poverty levels (Cardoso & Wichman, 2022a).

4.6 Prior Work Evaluating Policy Implications of Water Affordability Study Findings

A key area of the water affordability literature focuses on applying the findings on water burden to develop recommendations for addressing these challenges throughout the United States. Researchers have investigated how current pricing models impact affordability, modeled the potential impacts of policy interventions, and highlighted other considerations for the design of policies.

Rate Structures. Water affordability is not only impacted by levels of water rates but also by the structure of those rates. Water utilities typically price water using a volumetric charge and may also include a fixed service charge that does not depend on the quantity consumed. The volumetric charge may be uniform or, more commonly, tiered and increasing with use, also known as an increasing block tariff (IBT). El-Khattabi et al. (2023) showed that utilities that price water using IBTs have lower rates at a modest level of water usage (4,000 gallons per month).

[7] Non-community water systems generally do not have water rates. As such, they are not typically included in water rates affordability analyses.

Cardoso and Wichman (2022a) found that rate structures that included a fixed service charge fee were positively correlated with the proportion of households with unaffordable water. Teodoro and Thiele (2024) found water rate structures became more regressive between 2017 and 2023, with utilities collecting less revenue through volumetric charges and more revenue through fixed charges.

Self-Funded Customer Assistance Program Benefit Types. Cardoso and Wichman (2022a) simulated the effects of different self-funded assistance programs on the total income share that households allocate to water services. The simulations evaluated two different benefit types (50% rate discount vs. uniform lump-sum rebates) and two different funding mechanisms (uniform water rate increase vs. a local income tax on non-eligible households). The results showed that lump-sum rebates to low-income households funded through local income taxes achieve affordability targets with fewer unintended consequences than policies that operate through lower water rates, as these policies may reduce incentives for water conservation (Cardoso & Wichman, 2022a).

Variation in Rates Across Utilities. El-Khattabi et al. (2023) highlighted the significant variation in rates among utilities within the same metropolitan statistical area and stressed the importance of accounting for this variability in rates between utilities when designing low-income water affordability or assistance programs.

Utilities with High Levels of Poverty. Patterson and Doyle (2021) stated that widespread poverty affects both the prevalence of water unaffordability experienced at the household level as well as the financial capabilities of the utility. The authors argued that CAPs may be insufficient to address these financial capability challenges, and that utilities should pursue a variety of solutions to reduce utility costs, such as increasing economies of scale, improving revenue collection, or hiring locally to stimulate the local economy (Patterson & Doyle, 2021).

4.7 Summary

The water affordability literature reveals many considerations for understanding the scale of water burden across the U.S., from comparing the data and methods used in various studies to factoring in regional and socioeconomic trends and policy implications. The existing research shows that an estimated 5.8% to 17.1% of households in the U.S. face water affordability challenges. Multiple factors contribute to these challenges, including local income distribution, rate structure, utility size, and race. Although estimates vary across regions and socioeconomic factors, several studies showed an increasing prevalence of water affordability issues, revealing significant concerns across many areas of the United States.

5. Water Affordability Analysis

IIJA Section 50108 requires EPA to characterize the extent and prevalence of water affordability challenges faced by households and utilities across the U.S. It requires EPA to examine the "prevalence of a lack of affordable access to water services" throughout the U.S., and to estimate the prevalence of water utilities servicing a "disproportionate percentage" of "qualifying households with need." IIJA Section 50108 is available for reference in Appendix B: Infrastructure Investment and Jobs Act Sections 50108 and 50109. Responsive to the IIJA requirements, EPA's Water Affordability Analysis found the following:

- **Between 12.1 million and 19.2 million U.S. households experience high water burden**. EPA evaluated the distribution of percentage of household income required to pay for basic water services using income and water service rates data from households and utilities across the U.S. EPA then compared the percentage of household income spent on drinking water and wastewater bills against two affordability threshold values, 3% and 4.5%, as discussed in Section 3.3 – EPA's Approach for This Report, to determine the number of households experiencing a high water burden.
- **The total annual cost of unaffordable water service bills is between $5.1 billion and $8.8 billion**. EPA calculated the total dollar amount of water service costs exceeding each selected affordability threshold value to estimate the total national costs of households experiencing high water burden. This represents between 9.2% to 14.6% of total households in the U.S. The cost of unaffordable water service bills only includes the

amount of each bill exceeding an affordability threshold amount, not the entire bill. See Section 5.1.1 and Figure 5 for more details on this calculation.

- **Approximately 10,340 community water systems throughout the U.S. service a disproportionate number of households experiencing high water burden.** EPA evaluated the number of "qualifying households" using the IIJA definition that compared household income to federal poverty guidelines. EPA then calculated the percentage of qualifying households as compared to total households within the drinking water service area boundaries of each utility. EPA considered utilities to have a disproportionate percentage of qualifying households when the percentage of qualifying households exceeded 40% or approximately the 75th percentile of utilities across the U.S.

5.1 Analysis of the Prevalence of Households Lacking Access to Affordable Water Services and Estimated National Costs

EPA's water affordability rates analysis evaluated the distribution of percentage of household income required to pay for basic water services throughout the U.S. Results show that between 12.1 million households (9.2% of all households in the U.S.) and 19.2 million households (14.6% of all households in the U.S.) are estimated to have unaffordable bills. The analysis also showed that more than 75% of households in the lowest quintile of income have unaffordable water bills at the 3% income threshold, and more than 50% of these households have unaffordable water bills at the 4.5% income threshold. This section presents EPA's Water Affordability Analysis data sources, methodology, findings, and data limitations.

5.1.1 Data Sources and Methods

The water rates affordability data analysis conducted in this report combined two primary sources of existing residential drinking water and wastewater rate data: the Duke Nicholas Institute for Energy, Environment & Sustainability Water Affordability Data Dashboard (Duke) and the Cardoso and Wichman (2022b) publication dataset (C&W). Water rate data was also included from the Wisconsin Public Service Commission (WIPSC).

- **Duke:** Data and code for merging drinking water and wastewater rates to CBGs are publicly available from a repository (Patterson, 2022). Combined drinking water and wastewater rates were available at intervals of 1,000 gallons. Rate data in the Duke dataset were matched to the CBG using the percentage of overlap between the CBG and the service area boundaries. That is, a weighted average of utility rates was calculated per CBG using the percentage of overlap of the CBG within each utility boundary. Please note, the data in this repository includes limited stormwater rates. However, stormwater was not included in this analysis due to lack of consistent availability.
- **C&W:** The Cardoso and Wichman (2022b) dataset used in their paper (Cardoso and Wichman, 2022a) is available by subscription. This dataset combined drinking water and wastewater rate data from the UNC EFC dashboard (accessed in July 2017) and the 2016 American Water Works Association (AWWA) Water and Wastewater Rate Survey. Combined drinking water and wastewater rates were available at intervals of 5 CCF (centum cubic feet) or intervals of 0, 3740, 7480, and 11220 gallons. Drinking water and wastewater rate

data were matched to the county level using the county of the utility headquarters. Every household in the county was assumed to face the same rates, equal to the average rates in the county.

- **WIPSC:** State-level water rate data from the Wisconsin Public Service Commission and via University of North Carolina Environmental Finance Center from the year 2020 at intervals of 1,000 gallons are available from the state dashboard webpage (UNC EFC, n.d.). These rates do not include wastewater rates; therefore, average wastewater rates from 2020 (estimated from the Duke data) were added to the reported water bills. Rates were matched to the census tract level using the city name of the water utility.

When combining these three sources of data, rates were matched to CBGs covering 59% of the U.S. population. It is important to note that this does not imply that the underlying rates data had the same coverage. Because rates were aggregated at county level in the C&W data, the census tract level for the WIPSC data, and the CBG level in the Duke data, the coverage of rate data for the households actually subject to those rates is much smaller and potentially different. As discussed previously, primary limitations of conducting a national water affordability study include the shortage of rate data, the lack of a nationally representative sample of rates, and the difficulty in precisely matching rates geographically to census data. When combining the Duke, C&W, and WIPSC datasets, there were no data for the states of Montana, North Dakota, Oklahoma, Tennessee, Vermont, West Virginia, the District of Columbia, or any U.S. territories. To estimate the total number of households in need of water assistance nationwide, rate data were extrapolated for the counties that did not have data using a regional average. Eight regions were defined for the continental U.S. following Patterson et al. (2023), as well as two regions for Hawaii and Alaska.

Drinking water and wastewater rates were adjusted to 2024 dollars using the water and sewer and trash collection services CPI available from the St. Louis Federal Reserve Economic Data (U.S. Bureau of Labor Statistics, 2024b). The drinking water and wastewater rate data were matched to census data from the 2022 5-year American Community Survey (ACS) at the CBG level (U.S Census Bureau, 2024a). Income data from the ACS were adjusted to 2024 dollars using the CPI for all items (U.S. Bureau of Labor Statistics, 2024a). If data were available for a given CBG from both the WIPSC and the C&W datasets, the WIPSC dataset was chosen because the WIPSC data are more recent, available at more refined values, and matched to a smaller geographic area. If data were available for a CBG from both the Duke and C&W datasets, the data from Duke were chosen for that block group. The Duke data were assumed to be the most accurate for several reasons: 1) Rate data in the Duke dataset were matched to the CBG using service area boundaries, 2) the Duke dataset is the most recent, and 3) the combined rates from the Duke data are available at granular intervals of 1,000 gallons, which reduced errors from linearly interpolating rates at other consumption values.

Monthly water use was calculated using a hygienic value of 50 gallons per person per day, multiplied by 30 days per month, and multiplied by the household size. Following Cardoso and Wichman (2022a), the monthly water use was estimated using the average size household of that CBG. That is, every household within the CBG was estimated to have the same size household, which is equal to the average household size of the CBG. Monthly total bills were then estimated using the combined drinking water and wastewater data at the household's estimated monthly hygienic need. Drinking water and wastewater rates were linearly interpolated for consumption

values between the known quantities from each dataset (intervals of 5 CCF for C&W or intervals of 1,000 gallons in Duke and WIPSC). EPA's analysis assumes that renters who may not pay drinking water and wastewater bills directly must pay the full cost of these bills indirectly through their rent payments.

The distribution of household income in the CBG was estimated using the counts of households in each income bracket from the census data. Following Patterson and Doyle (2021) and Patterson et al. (2023), household incomes were randomly generated in each income bracket according to these counts and assuming that incomes were uniformly distributed within each income bracket. Following Cardoso and Wichman (2022a), the assumed minimum possible income was set to $5,000 per year for households in the lowest income bracket, and the maximum possible income was set to $300,000 per year for households in the highest income bracket. Estimates of the percent of household income dedicated to drinking water and wastewater services were generated by dividing the estimated monthly water payments for hygienic household needs by the estimated monthly household income. For households paying more than the affordable threshold, EPA calculated the difference between the monthly amount and the assumed level of affordable water bills.

Households were defined as qualifying for assistance if their income was less than the greater of 60% of state MHI and 150% of the Federal Poverty guidelines. Estimates of the total number of qualifying households in need of assistance were generated by summing up the counts of qualifying households with unaffordable bills in each CBG across the nation and adjusting for the growth of households nationwide between the 2022 5-year ACS and 2024 estimates from the Census Bureau (U.S. Census Bureau, 2024a; U.S. Census Bureau, 2024c). However, not every household within the CBG is connected to utilities, and some may instead use well water or decentralized wastewater treatment. This is more common in rural areas. The percent of households connected to piped water was last surveyed in the 1990 Census. EPA used estimates of the percentage of households connected to piped water that have been extrapolated to 2020 using geographical characteristics and trends in population growth per CBG (U.S. EPA, 2020). To adjust for well water use, estimates of the total number of qualifying households with need and the total cost of a water assistance program per CBG were multiplied by the share of households that are connected to piped water.

EPA calculated the annual cost of the unaffordable portion of water service bills for qualifying households nationwide. The affordable portion of water service bills was calculated by multiplying monthly household incomes by each affordability threshold percentage (3% and 4.5%). EPA calculated the total dollar amount of monthly water service costs exceeding each selected affordability threshold value and summed these to estimate a range for the annual cost of the unaffordable portion of water service bills for qualifying households nationwide. Figure 5 shows this process for an example household (Household A). In this example, Household A's water bill represents 10% of its household income. Using the 3% affordability threshold, the maximum affordable water services bill for Household A would be $30. The amount of the bill that exceeds the affordability threshold, or $70, represents the unaffordable portion of the water services bill. Using the same method and considering a 4.5% affordability threshold, $45 of the bill is affordable to Household A and $55 is unaffordable.

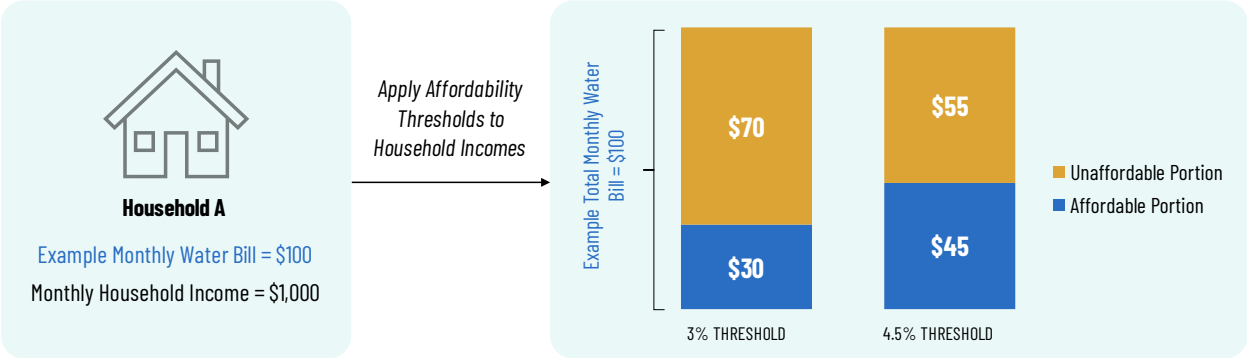


Figure 5. EPA's approach to calculating the unaffordable portion of water service bills

Note: The monthly water bill and monthly household income were chosen only for ease of calculations and are not meant to represent any particular household.

The summation of the unaffordable portion of water service bills (shown in orange in Figure 5) across the U.S. represents the total national assistance need for qualifying households that currently have unaffordable water bills.

5.1.2 Summary of Findings

As summarized above, EPA replicated approaches from similar studies to evaluate water affordability. The section below walks through the detailed analysis and findings used to calculate the affordability cost and extent of households impacted across the country. The Figure summaries provide detailed descriptions of the approach used and findings.

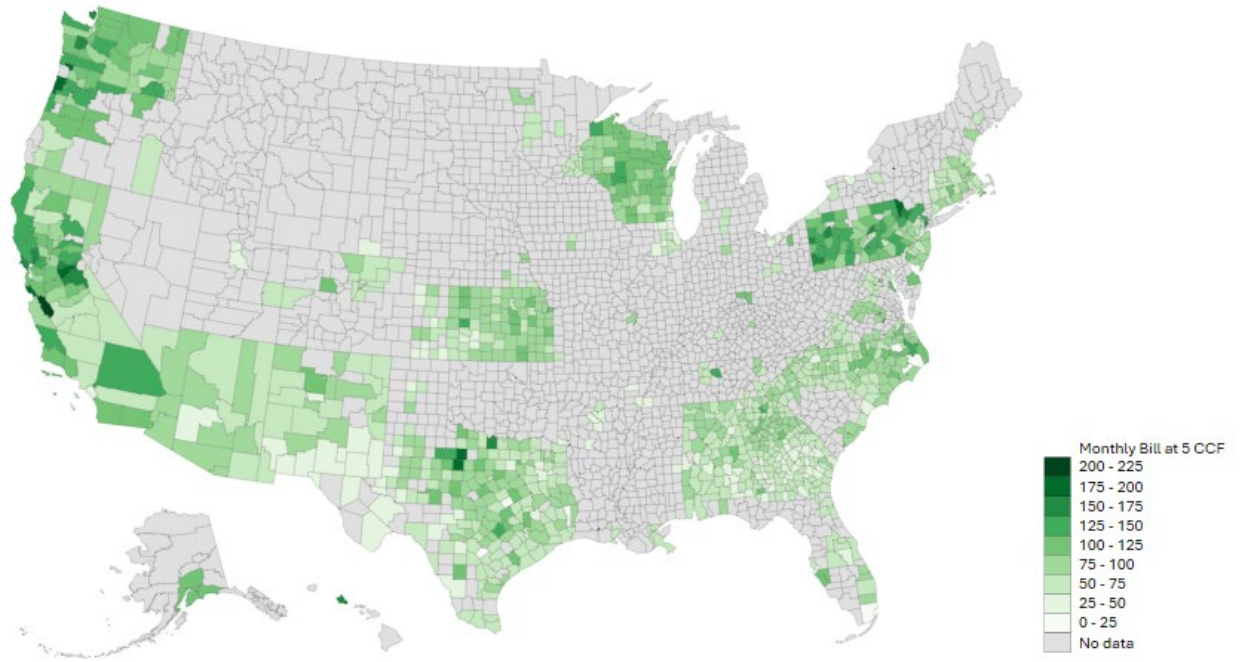


Figure 6: Average Monthly Drinking Water and Wastewater Bills for Consumption at 5 CCF (in dollars)

Figure 6 shows the average monthly drinking water and wastewater bills (in dollars) for consumption at 5 CCF (3,740 gallons) using the combined sample of rates from the Duke, C&W, and WIPSC datasets. This consumption value is approximately equal to the monthly hygienic use for a household that consumes 50 gallons per person per day and has 2.5 members, which is approximately the national average household size in 2022 (U.S. Census Bureau, 2024a). Rates are matched to CBGs for approximately 59% of the population; however, there are significant geographical data gaps. Rate data are particularly limited in the Great Plains region.

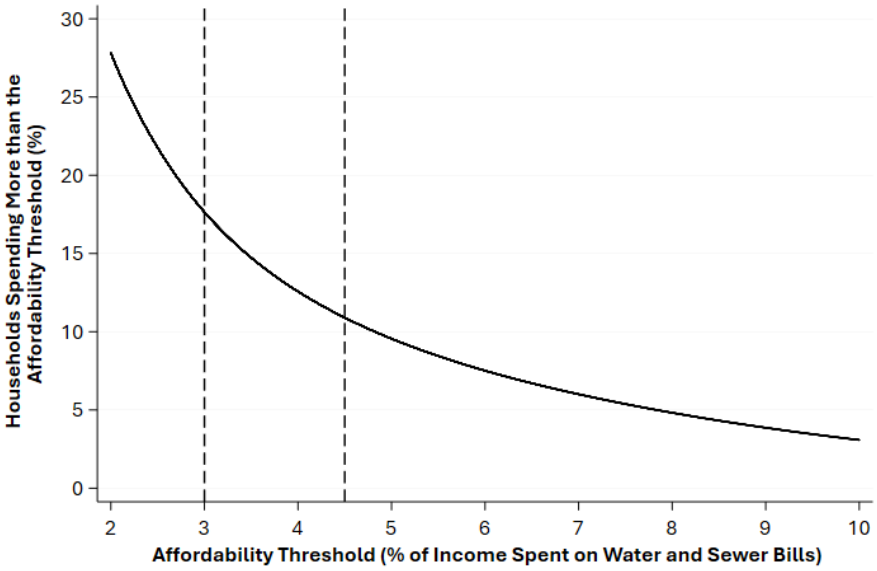


Figure 7: Households Served by Water Utilities Spending More than the Affordability Threshold on Water Bills (All Households)

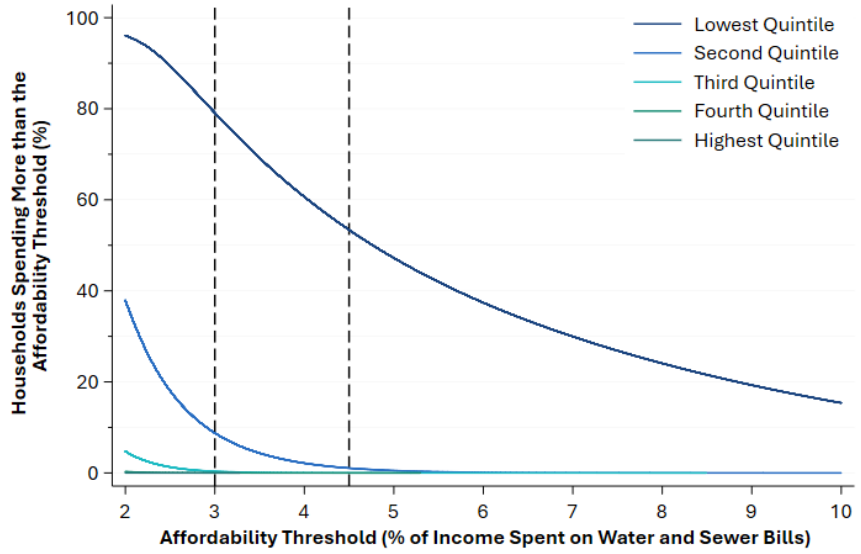


Figure 8: Households Served by Water Utilities Spending More than the Affordability Threshold on Water Bills (by Income Quintile)

Figures 7 and 8 show the percentage of households served by water utilities that spend more than the affordability threshold on the y-axis and the percent of income spent on drinking water and wastewater bills on the x-axis. Figure 7 shows all customers, and Figure 8 shows the results separately by quintile of income. Approximately 11% of households that are supplied by water utilities have unaffordable bills at the 4.5% threshold. At the 3% threshold, this percentage increases to 18% of households supplied by water utilities.

Figure 8 demonstrates that water unaffordability is primarily an issue for households in the lowest quintile of income. More than 75% of households that are supplied by water utilities in the lowest quintile of income have unaffordable water bills at the 3% income threshold, and more than 50% of these households have unaffordable water bills at the 4.5% income threshold. Income thresholds used in this analysis are discussed in detail in Section 3.2.3. Furthermore, approximately 15% of households that are supplied by water utilities in the lowest quintile of income spend more than 10% of their income on drinking water and wastewater services.

Affordability Metric	Affordability Cutoff 3%	Affordability Cutoff 4.5%
Total Qualifying Households with Unaffordable Water (in Millions)	19.21	12.10
Average Yearly Cost of the Unaffordable Portion of Water Service Bills per Household (in dollars)	456.75	421.09
Total Yearly Cost of the Unaffordable Portion of Water Service Bills Nationwide (in Billions of dollars)	8.84	5.13

Table 1: Estimates of the Number of Households with Unaffordable Water and Yearly Assistance Costs

Table 1 shows the estimated number of qualifying households with unaffordable bills, the average yearly household assistance costs for these households, and the total yearly assistance costs. At the 4.5% threshold, 12.1 million qualifying households (9.2% of all households in the U.S.) are estimated to have unaffordable bills. This number increases to 19.2 million qualifying households (14.6% of all households in the U.S.) at the 3% affordability threshold. The second row of Table 1 is an estimate of the average yearly amount of assistance that would be needed for water bills to be affordable for qualifying households that currently have unaffordable water bills. The third row of Table 1 is a nationwide sum of the yearly assistance costs for qualifying households with unaffordable bills. At a 4.5% affordability threshold, the yearly total assistance costs are estimated at $5.1 billion. This total increases to $8.8 billion at the 3% affordability threshold.

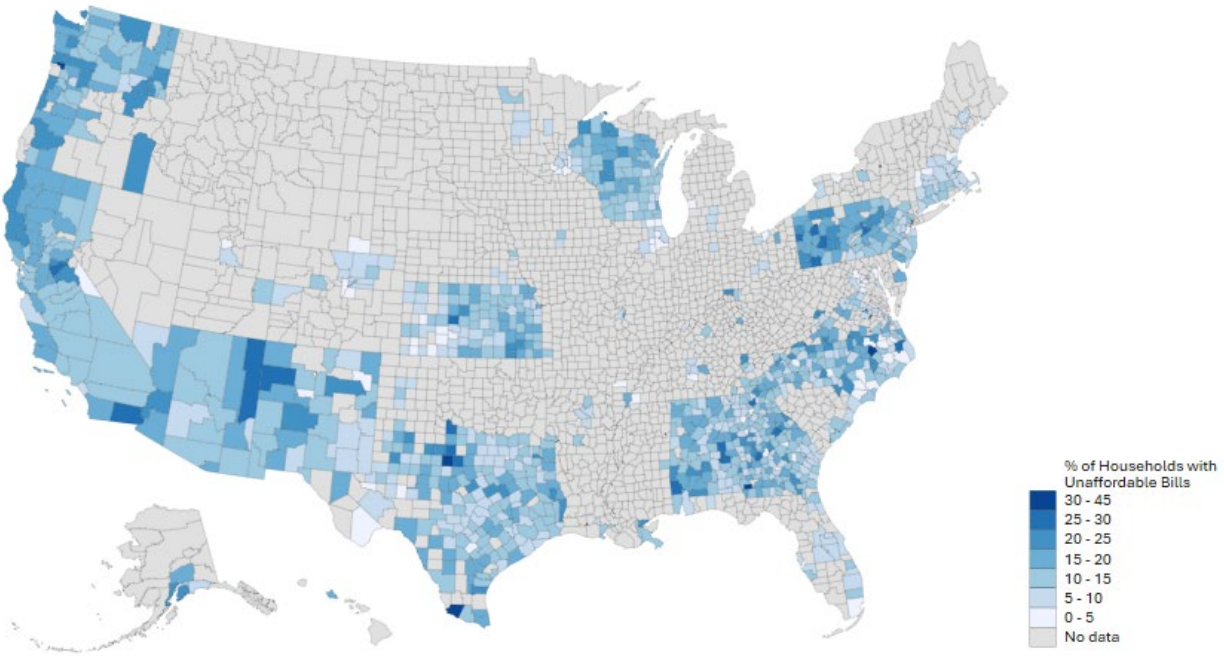


Figure 9: Estimated Percent of Households with Unaffordable Bills at the 4.5% Threshold (Counties with Rate Data)

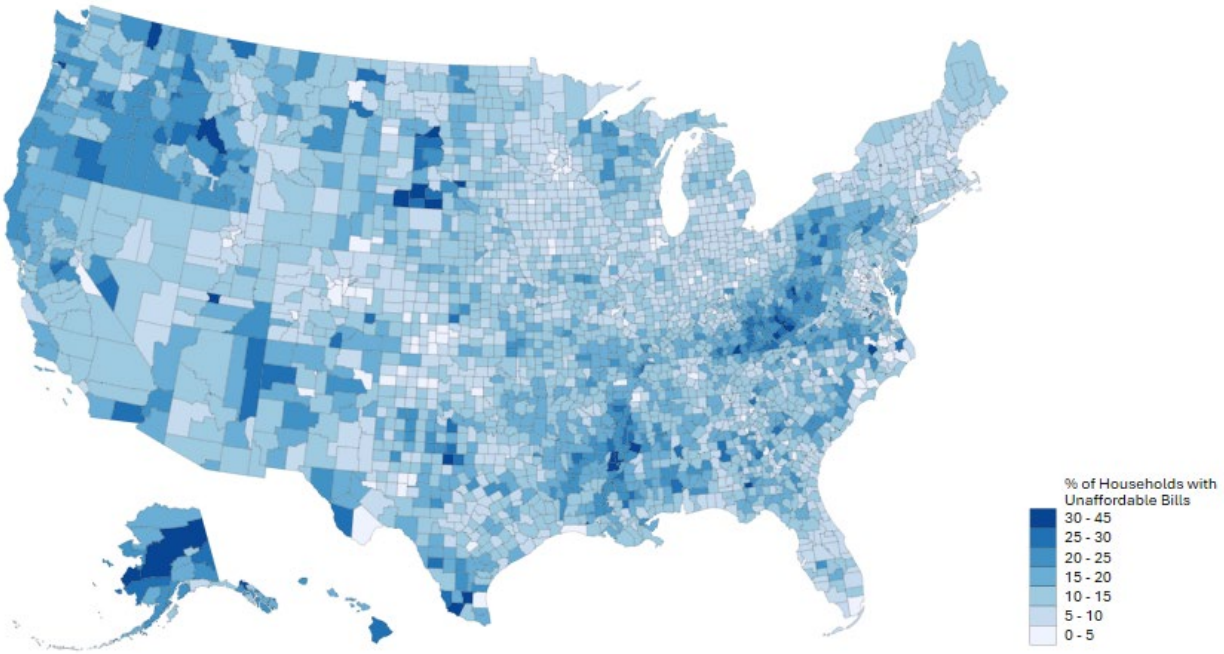


Figure 10: Estimated Percent of Households with Unaffordable Bills at the 4.5% Threshold (All Counties)

Figures 9 and 10 show the estimated percent of households with unaffordable bills at the 4.5% threshold for counties with available rate data (Figure 9) and extrapolated for all counties in the U.S. (Figure 10). For counties with no rate data available, the average rates at 0, 5, 10, and 15 CCF of the region were imputed and used to calculate household-level water bills. That is, all households in the counties with missing data were assumed to face the same drinking water and wastewater rates, equal to the regional average rates. Figure 10 shows significant variation in the percentage of households with unaffordable bills even for counties with imputed rate data. This is due to the variation in average household size and the income distribution within each CBG and highlights the importance of considering the socioeconomic characteristics of the population in an affordability analysis.

In-Depth Analysis: California-Specific Analysis

Water bills are not uniform across the U.S. Some states have much higher needs and any national program should be built to reflect that disparate need. California is one state with acknowledged affordability issues (California State Water Resources Control Board, 2021). To examine household burdens in a high-cost state and to demonstrate how EPA could use more detail in a future report, EPA focused on California, which collects a large amount of data on water systems as part of their Electronic Annual Report (eAR) survey (California State Water Resources Control Board, 2024b). The survey asks systems for a wealth of detailed data, including on rate structures, and then automatically calculates the rates for 6, 9, 12, and 24 CCF.

EPA used the distribution of California household incomes generated in the qualifying household analysis described in Section 5.2 and assigned these households water costs for 50 gallons per person per day. Household size was determined by intersecting the service area boundaries with the 2022 5-year ACS data; one average household size was used for each system.

The results of this analysis are shown in Table 2 below. The total needs (costs of water bills over 4.5% of household income) for qualifying households with need are $859 million. The average need per qualifying household is lowest for the largest systems sizes and generally increases as system size decreases.

Population Served	Number of Households	Number of Qualifying Households	Number Qualifying Households with Need	Total Annual Need	Annual Need per Qualifying Household with Need
>100,000	6,459,019	1,866,485	312,382	$ 406,939,863	$ 1,302.70
10,001-100,000	3,893,940	1,155,710	239,883	$ 359,678,605	$ 1,499.39
3,301-10,000	357,672	126,965	31,380	$ 54,299,402	$ 1,730.38
501-3,300	204,278	76,764	18,559	$ 30,955,042	$ 1,667.93
<=500	59,828	21,948	5,610	$ 9,822,090	$ 1,750.82

Table 2: California Analysis

Please see Appendix F for details.

5.1.3 Discussion of Data Limitations

Drinking Water and Wastewater Rate Data

The primary limitation of this analysis is the minimal availability of drinking water and wastewater rate data. There have been several recent efforts to collect comprehensive rate data (UNC EFC, n.d.; Patterson, 2022; California State Water Resources Control Board, 2024b). Despite these efforts, developing a census of rates remains elusive because gathering rate data from the numerous small and very small utilities is challenging, and rate data must be updated frequently as utilities change their rates. Therefore, current sources of rate data likely underrepresent small and very small utilities because of the difficulty in obtaining rate data for these utilities. Teodoro (2019) omitted utilities serving fewer than 3,300 people from the randomized sample of rates collected, and Patterson and Doyle (2021) note that medium and smaller utilities are underrepresented in their sample of rates due to missing data for these utilities. These utilities may also have higher rates because smaller utilities are less able to take advantage of economies of scale, making certain costs associated with providing drinking water and wastewater services comparatively more expensive. Furthermore, small and very small utilities may be more common in rural and Tribal areas that have disproportionally more qualifying households in need. The rate data in this Report are not geographically representative of the U.S., which may result in variability due to the aforementioned underrepresentation of small and very small utilities, the inclusion of specific areas where affordability issues may be more severe, or other variations between data used and the U.S. as a whole. A nationally representative survey of drinking water and wastewater rates would allow researchers to estimate household income dedicated to water services with greater confidence. EPA intends to conduct further research on drinking water and wastewater affordability using a nationally representative survey of rates.

Additionally, this analysis does not cover decentralized wastewater treatment systems (e.g., septic systems), private drinking water wells, or stormwater costs. These costs are not typically represented on utility bills and are not consistently represented in the national data used for this analysis. Further research on these systems, funding needs, and household affordability impacts related to stormwater, private drinking wells, and decentralized systems will be an area of focus for EPA in subsequent studies

Census Data

EPA was able to estimate the income dedicated to water services using the full distribution of household income. However, the average household size per CBG was applied to every household within the CBG, because data on the variation in household size within each income bin are not publicly available. The percentage of income spent on water services by low-income households in a CBG could be underestimated if average household size decreases with income and overestimated if average household size increases with income in that CBG. On a national level, average household size increases with income (U.S. Census Bureau, 2024b). Census data with household by income size cross-tabulations or individual-level census data would allow researchers to develop a more accurate estimate of both the number of households that would qualify for water assistance and the number of those households with unaffordable drinking water and wastewater bills. In future research on water affordability, EPA intends to develop a dataset

with more detailed census information that is better suited to answering these questions than the publicly available ACS data.

Matching Census Data to Rate Data

Limited geographical refinement of the drinking water and wastewater rate data used in this report restricted EPA's ability to precisely match rate data to CBGs. The C&W data was averaged and matched at the county level, the WIPSC data was averaged and matched at the census tract level, and the Duke data was averaged and matched at the CBG level. Furthermore, rates were imputed using the regional average for CBGs with no rate data. Higher levels of geographical aggregation may obscure the affordability challenges of households that are served by utilities with disproportionally higher rates. Ideally, all rate data should be matched to the exact population of the service area. However, in the absence of geo-located census data, the most accurate method would use service area boundaries to match census data at the CBG level to the utility. Recent efforts to map water utility service area boundaries for drinking water utilities by EPA (U.S. EPA, 2024d) make this approach for matching water rates to census geographies feasible. Wastewater utility service area boundaries have not been completed at the time of this analysis. EPA plans to use nationwide service area boundary datasets for both wastewater and drinking water utilities to more precisely match rates to census data in future research on water affordability.

Poverty Guidelines

Following the IIJA language, one indicator in qualifying household analysis is household income less than 150% of HHS poverty guidelines (See Appendix A for full IIJA language). The poverty guidelines are updated annually.[8] These guidelines are used mainly for determining eligibility for assistance programs and are based on household/family size. The guidelines are the same for all states except Alaska and Hawaii, which have individual state guidelines. In this study, we used a combination of the poverty guidelines (150%) and state MHI (60%) in our qualifying household analysis. The Census Bureau also provides poverty thresholds, which are updated each year. These thresholds are used mainly for statistical purposes and are based on family size and age, but do not vary geographically.

Another difference between the guidelines and thresholds is how the standards are applied. HHS does not set a definition of income for the poverty guidelines. However, programs applying the guidelines choose to include or exclude different categories of income such as non-wage income or cash assistance; these programs may also allow deductions for children or specific expenses (U.S. Government Accountability Office, 2017). The Census Bureau uses a specific definition of income when calculating the prevalence of poverty using the thresholds (U.S. Census Bureau, 2023a).

Caution is warranted when comparing poverty estimates from different sources, such as the studies in the literature that include poverty measures. Further, the calculation of poverty in the analyses in this study by necessity used ACS data to calculate income, which is different from the

[8] HHS notes that 'the poverty guidelines are sometimes loosely referred to as the "federal poverty level," but that phrase is ambiguous and should be avoided, especially in situations (e.g., legislative or administrative) where precision is important.' (https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines)

Census definition of family income used when calculating U.S. poverty rates. The ACS calculates household income from the sum of the responses to questions asking about eight specific categories of income (e.g., wage and tax income, retirement and pension income, etc.) (U.S. Census Bureau, 2023a; U.S. Census Bureau, 2024a). Some of this income data can be negative. For example, self-employment income is reported net after expenses. If these categories are negative, total household income can also be negative. The income measures in the ACS will not correspond to the income used for program eligibility for LIHWAP. [9] The results in the household level analysis in this report assume positive household income and therefore may differ from results using other income measures.

5.1.4 Comparison to other cost-relevant affordability analyses

This report estimates that between 12.1 million and 19.2 million qualifying households may face unaffordable water bills. The total cost of these unaffordable rates nationwide was estimated to be between $5.1 billion and $8.8 billion per year, excluding administrative costs. The average costs per participating household are estimated to be between $421 and $457 per year based on the analysis in this report. These topline numbers align with other estimates that have been developed independently, which relied on different methods and rate data. This section compares results from two recent independent estimates to EPA's findings.

The *Low-Income Water Customer Assistance Program Assessment Report* estimated that 7.5 million to 21.3 million households in the U.S. are water burdened, with a total annual need for water bill assistance between $2.4 billion and $7.9 billion. Like EPA's analysis, this estimate does not include costs associated with private wells and/or septic systems (Berahzer et al., 2023). Cost estimates are reflected in 2022 dollars. These estimates are similar to EPA's estimates[10].

The Washington State University (WSU) Calculator for Nationwide CAPs estimates that approximately 13.5 million to 28 million households in the U.S. are water burdened, with an annual water affordability need ranging from $6.6 billion to $13.7 billion. Table 3 shows the total number of households that would benefit from an assistance program and the annual cost of the program at three different eligibility thresholds based on household income as a percentage of the federal poverty threshold (Kraabel, Randriamaro, & Cook, n.d.). The upper range of the WSU estimates are higher than EPA's estimates for several reasons. The upper estimates use a cutoff of 200% of the federal poverty threshold, while EPA's analysis used a threshold of 150% of the federal poverty guidelines. The WSU Calculator for Nationwide CAPs assumes all income eligible households pay a water provider, even those on private wells. The total cost values also include administrative costs of 18.5% (covering administrative costs to sub-recipients, administrative costs to states, and

[9] As noted earlier in this report, LIHWAP eligibility thresholds were based on total household income (at or below 150% of the federal poverty guidelines, at or below 60% of the state MHI, or measured with another lower poverty threshold) as well as other eligibility criteria required by grantees (OCS, 2023a). LIHWAP allowed for categorical eligibility based on enrollment in other means-tested programs, such as TANF, SNAP, Supplemental Security Income (SSI), and LIHEAP (OCS, 2023a).

[10] Berahzer et al. 2023 is not a peer-reviewed study. The authors are leading economists and experts in the water affordability space. Many of the authors have published peer-reviewed studies. EPA's analysis uses two of the four affordability thresholds used in Berahzer et al. 2023, which could influence the two estimates to be similar. However, Berahzer et al. 2023 applies two additional thresholds, aggregates analysis to different geographies, and uses a different sample of water rates.

outreach and eligibility determinations); whereas EPA's estimates do not include administrative costs.

Assistance Metrics	At or Below 100% Federal Poverty Threshold	At or Below 138% Federal Poverty Threshold	At or Below 200% Federal Poverty Threshold
Annual Cost of Program	$6,590,000,000	$8,740,000,000	$13,709,000,000
Total Number of Households that would Benefit	13,478,000	17,858,000	27,967,000

Table 3. WSU Water Affordability Needs Assessment Model Results by Eligibility Requirement Threshold (% poverty threshold).

Note: Results assume 80% of eligible households participate; 4,500 gallons per month of water usage; and 25% essential use covered, including fixed charges.

Source: Washington State University Water and Sewer Customer Assistance Programs, Nationwide Program Estimator

5.2 Evaluation of Prevalence of Utilities Serving a Disproportionate Percentage of Qualifying Households

EPA calculated the national number of qualifying households using the 2022 ACS 5-year data (U.S Census Bureau, 2024). The ACS provides data tables of the number of households in each of 16 "bins" of annual household income ranges within a CBG. For example, the number of households with annual household income less than $10,000, from $10,000 to $15,000, and so forth, with the highest bin at greater than $200,000 in annual income. EPA then randomly assigned incomes within each bin for every household in that CBG to generate a full distribution of household income.

Using the IIJA qualifying household definitions of having income lower than the greater of 60% of state MHI or 150% of the HHS poverty guidelines, EPA calculated the share of qualifying households among all households in the census geographies. All households were assumed to be the average household size for the census geography when comparing against the poverty guidelines, which vary with household size.

Next, EPA merged census data geographically to utilities using a drinking water utility service area boundary dataset (U.S. EPA, 2024d). A weighted average of the census data was generated based on the proportion of overlap of the CBG with the service area boundary. This allowed EPA to estimate the share of qualifying households and the average household size in each utility's service area. This approach assumes that all households are evenly spread out within the CBG. Another data limitation is that service area boundaries are imprecise and may overlap. Therefore, for each utility, EPA divided the Safe Drinking Water Information System (SDWIS) service population by the estimated household size to calculate the number of households in each service area. EPA then multiplied the estimated number of households by the estimated share of qualifying households in each service area to develop an estimate of the number of qualifying households served by each utility.

The results are presented in Table 4 below by SDWIS population size category. The overall national estimate for the number of qualifying households in U.S. community water system service areas is estimated to be over 36 million households. The highest share of qualifying households is in the next-to-smallest population size category, although the number of households declines by size category. Table 4 also presents the number of utilities with more than 40% of households in their service area being qualifying households. This threshold was determined by EPA to represent water providers servicing a disproportionate percentage of qualifying households. This threshold is approximately equal to the 75th percentile of the distribution of the percentage of qualifying households served by utilities across the U.S.

IIJA Water Service Provider Classification (Population Served)	Average % Qualifying Households Served	Total Number of Qualifying Households Served	Total Number of Utilities	Number of Utilities Servicing more than 40% Qualifying Households
Large (>100,000)	30%	17,368,350	448	65
Medium (10,001-100,000)	30%	12,704,451	3,944	742
Rural (3,301-10,000)	31%	3,404,782	4,893	1,111
Rural (501-3,300)	33%	2,320,929	12,720	3,318
Rural (<=500)	30%	495,194	22,327	5,104
Totals	**31%**	**36,293,709**	**44,332**	**10,340**

Table 4: Number of Qualifying Households and Number of Utilities Servicing a Disproportionate Percentage of Qualifying Households by Utility Size

Note: Analysis was done by CBG. Appendix F includes a comparison of the analysis at the CBG level and at the census tract level.

EPA further examined the percentage of qualifying households served by Tribal utilities (identified as those utilities in SDWIS with Tribal primacy, serving a Tribal area, or having Native American ownership). These utilities have an average percentage of qualifying households of 45% with a median of 44.9%.

6. Arrearages, Disconnections, and Tax Liens

6.1 Impact of Arrearages to Households

Arrearages and water service disconnections can cause catastrophic disruptions to households and communities, including psychological stress (Kimutai et al., 2023) and threats to public health. Arrearages can lead to late fees and other penalties, wage garnishment through debt collection processes, impacts to an individual's credit score, and water service disconnections (Levine et al., 2022). Families need safe drinking water and wastewater access to prepare food, shower, and flush toilets. Shutoffs can pose a threat to public health and human dignity, disrupting people's ability to care for themselves and their dependents. Households that struggle to pay their water bills will often sacrifice other essential needs to maintain access to water services (Levine et al., 2022). Tax liens are also a threat sometimes linked to arrearages that can have potentially devastating impacts on homeownership rates, which have been shown to have greater impacts on communities of color (Montag, 2019).

While there is no comprehensive national source of water service disconnections and arrears, available data show that arrearages affect a large number of customers. For example, the 2023 LIHWAP survey found that, on average, 20% of households were in debt to their water utility. For Tribal communities, this debt figure increases to 32% of households. Average household debt per utility was $285, and $502 among Tribally owned utilities (OCS, 2024a).

Findings from the WIPSC's survey of drinking water utilities were largely consistent, showing the average percent of customer accounts in arrears varied from 11% to almost 20% and the average

debt per customer ranged from $110 to $255, with an inverse trend in utility size (Wisconsin PSC, n.d.). Table 5 shows the percentage of households with arrears and the average amount owed for customers in arrears. These data are specific to the state of Wisconsin, and further analysis is needed for other states.

Arrearage Metric	Very Large	Large	Medium	Small	Very Small
Number of Utilities	2	73	100	271	90
Total Estimated Population Served	841,815	2,098,049	747,175	567,050	26,262
Average % of Customer Accounts with Arrears	11.0%	13.7%	15.7%	19.6%	19.6%
Average Amount Owed Per Customer with Arrears	$109	$114	$215	$137	$254

Table 5. Wisconsin Drinking Water Utilities Arrearage Data for 2023 Quarter 4 PSC by EPA Water Utility Size Category

Another source of state-specific arrearage data comes from the California Water Boards' 2020 surveys, conducted to evaluate the financial impacts and household water debt during the COVID-19 pandemic. The Boards' estimated household water services debt across California totaled $1 billion as of January 2021, with approximately 1.6 million households or 12% of households in the state in arrears (California State Water Resources Control Board, 2021). The average household debt was approximately $500, and over 155,000 households had more than $1,000 in water debt (California State Water Resources Control Board, n.d.).

While arrearage data from Wisconsin and California provide a detailed look into the situation in those states, it should be noted that a wide range of factors can impact arrearages, including state laws. Additionally, utilities with CAPs may report lower levels and lower incidence of arrearages because they are providing assistance before a customer gets into arrears.

Data provided to EPA by the Water Agency Leaders Alliance further highlights the broad variation in arrearages between different utilities. Information from 30 water utilities in May 2024 indicates a wide range of arrearages, with about half of utilities reporting arrearages averaging more than $500 per customer, and nearly one-third (mostly large cities with large low-income populations) reporting arrearages averaging more than $1,000 per customer.

6.2 Impact of Arrearages to Utilities' Capital Budget Planning

Arrearages, or delinquent accounts, can result in significant financial impact to a utility. Utilities rely on rate payer revenue for their operating budget. Delinquent accounts negate a portion of this planned budget, forcing utilities to make up the difference elsewhere or defer necessary repairs and improvements. Additionally, rising numbers of arrearages can harm a utility's bond rating and

access to external lenders. Past due arrearages can affect cash on hand, debt service coverage, and the financial flexibility of the utility. Arrearages are a reoccurring issue, impacting a utility's budget on an ongoing basis.

Data from the Wisconsin PSC's annual survey of drinking water utilities provides a look into the impact of arrearages for utilities in that state. Data indicate that at the end of 2023, arrearages averaged 4.7% of annual operating revenue for the 74 smallest utilities (who serve populations less than 500) and 2.1% to 2.6% of operating revenue for the remaining 400-450 utilities that serve larger populations (Wisconsin PSC, n.d.).

The Detroit Water and Sewer Department (DWSD) is one example of a utility facing affordability challenges. As explored in a case study in Appendix A, 55% of DWSD's residential accounts are 30 days past due, and 35% of accounts are 60 days past due – with approximately 700 shutoff notices distributed per month.

Arrearages can account for hundreds of millions of dollars in some cities. For example, Milwaukee Water Works, Wisconsin's largest water utility, had $4.2 million of accounts in arrears, equal to 4.0% of its annual operating revenue, at the end of 2023 (Wisconsin PSC, n.d.). In New York City, delinquent payments reached $1.2 billion dollars from nearly 200,000 accounts during the COVID-19 pandemic (New York City Official Website, 2024). The LIHWAP survey found that an average of $15 million is owed to each very large utility (serving populations over 100,000) across the U.S. (OCS, 2024a). Arrearages at this level can seriously impact the operations and capital improvements of a utility. More analysis and detailed study of the scale of arrears across the country is recommended to better understand the financial hardship this imposes on utilities.

6.3 Disconnections Data Discussion

Disconnections present an immediate and significant impact to households, restricting access to safe drinking water, impacting hygiene and sanitation, and causing stress and anxiety. While data on the national prevalence of disconnections are limited, estimated disconnection rates from previous studies average around 2% to 5% of households evaluated. Some key findings are highlighted below:

- HHS's 2022 LIHWAP survey found that between 3.2% and 5.3% of households on average experienced disconnections at some point during the 2022 calendar year (OCS, 2024a).

- Results of a 2024 University of Southern California practicum[11] found that disconnections impacted 2.6% of households between 2012 and 2018. The report was prepared for EPA's National Center for Environmental Economics and explores disconnection data for the following seven U.S. cities: Chicago, Detroit, Grand Rapids, Milwaukee, Minneapolis, Seattle, and Washington D.C. Findings showed that most cities reported comparable levels of shutoff rates over time. Data showed a positive correlation between shutoff rates and Black or African American populations, poverty rates, and vacancy rates. Data also showed a negative correlation between shutoff rates and White, Asian, and Hispanic or Latino populations as well as MHI and education level (Gundersen et al., 2024).

Different states, cities, and utilities have different policies and laws on disconnections. For example, Wisconsin law requires utilities to add delinquent water bill amounts to the property tax roll as a tax lien every November. As a result, most water utilities in Wisconsin reported no disconnections in 2023, and of those that reported disconnections, only about 1% of customer accounts had been disconnected at the end of FY 2023. However, between 2% and 7% of Wisconsin customers on average had their delinquent billing amounts added to the property tax roll (Wisconsin PSC, n.d.).

[11] While the 2024 University of Southern California practicum was not obtained from a peer-reviewed source, the report uses a clear and transparent methodology.

7. Additional Recommended Analyses

The data analysis approach for this report addressed the immediate goal of estimating the number of qualifying households with need as described in IIJA 50108, estimating the number of utilities that service a disproportionate number of those households, and providing a national estimate of the total cost for addressing the water affordability challenges. To complete the analysis within a timeframe that reflects the urgency this challenge demands, EPA relied heavily on existing data and methodologies. There is still much work that needs to be done to fully characterize water affordability challenges and to reduce uncertainty of the estimates. In particular, a nationally representative sample of drinking water and wastewater rates and associated rate structures would allow EPA to estimate the prevalence of unaffordability challenges in greater detail, including specific trends analyses. EPA is preparing additional water affordability products to follow this report, including more detailed water affordability analyses, as well as addressing some of the gaps identified in the section below.

During the listening sessions for interested parties hosted by EPA in Spring 2024, participants stressed the importance of exploring numerous perspectives of water affordability and recommended that EPA conduct expanded analyses to explore potential contributors to water affordability challenges. Some of these areas include:

Analysis of water affordability challenges in Racially Ethnically Concentrated Area of Poverty (R/ECAPs) when compared to Non-R/ECAPs.
Analysis of water affordability challenges in Tribal areas compared to non-Tribal areas, as well as an evaluation of unique considerations faced by Tribes.
Evaluating future costs associated with climate change, drought conditions, water availability, aging infrastructure, and regulatory compliance to protect public health and the environment.
Evaluating federal and state compliance data with data on arrearages.
Evaluating the microeconomic impacts of rising water costs (e.g., impacts to local economies from decreased discretionary spending).
Conduct and make public a representative sample of water and wastewater rates and associated rate structures to estimate the prevalence of unaffordability challenges in greater detail, including specific trends analyses
Evaluating the impact of deferred maintenance on rates by analyzing data on age of system, water loss, and main breaks, and how rates coincide with nonpayment and other types of affordability data.
Analyzing the effectiveness and impact of disconnection moratoriums in states that discontinued water shut-offs during COVID-19, including evaluating the impacts, such as revenue impacts on utilities.
Perform a comparative analysis on non-U.S. countries to see if there are case studies or lessons learned on how to tackle growing water affordability challenges.

Two important areas requiring additional analyses and studies are decentralized wastewater systems and private drinking water wells. The 2022 CWNS includes estimates for decentralized costs. In 2022, 82% of the U.S. population was served by centralized wastewater treatment (U.S. EPA, 2024b). This means that 18% of the U.S. in 2022 either used a decentralized system or was unsewered. Further analysis is warranted to evaluate O&M costs for septic systems. This could involve comparing routine O&M costs to what a household might face if they did not maintain their septic system for a long period of time or if a situation occurs that compromises their septic system (e.g., root intrusion). Similarly, more research is recommended on the safety and cost of private drinking water wells. In 2021, EPA estimated that approximately 23 million households across the U.S. use private drinking water wells (U.S. EPA, 2024e). More analysis is needed to understand the scale and impact of these wells in the context of the broader water affordability issue.

These analyses may be beyond the scope of EPA's more comprehensive rates analysis and other affordability work products that EPA plans to produce in the next year. However, these are important areas for future research, and further reflect that water affordability is a multifaceted issue that has broad implications throughout the country.

8. Approach for Engaging Interested Parties

In preparation for this Report and as directed in Section 50108 of the IIJA, EPA gathered input from a diverse group of experts in the water affordability field. In March and April 2024, EPA hosted two series of targeted listening sessions for interested parties, each series consisting of three sessions. One series focused on gaining perspectives from water associations and utilities, while the other focused on feedback from nonprofit and advocacy communities. EPA invited participants from water utilities and associations, including rural advocacy associations, as well as select nonprofits, non-governmental organizations, and community-based organizations, to participate in these sessions. EPA provided the interested parties with background on this Report, solicited feedback on proposed data sources and EPA's data analysis approach, enlisted assistance in case study development and review, and discussed recommendations for addressing affordability challenges nationwide.

In June 2024, EPA hosted a broader-scale public listening session to hear from communities, utilities, and advocacy groups who were not previously involved in the report's development to share their experiences, perspectives, and ideas regarding water affordability challenges and recommendations.

Tribes have unique considerations, different challenges, and different opportunities for water affordability compared to the states. There is one Tribal case study included in the report: San Carlos. Although limited information was presented on this topic during the listening sessions, EPA acknowledges this is an important area for future coordination.

EPA obtained a wealth of information and recommendations from these sessions. Many of these recommendations are discussed in Section 7 - Additional Recommended Analyses. Some recommendations for areas of further analysis were beyond the scope of this report. However, EPA recommends these as areas for further study. Key themes of the sessions are outlined in this section.

8.1 The Impact of Water Affordability and Unique Considerations

Interested parties emphasized that water affordability challenges are not uniform, but rather different across communities, and different groups within each community face unique challenges. Some of these considerations include:

Low-Income Customers. It is important to consider the impact of water affordability challenges on low-income customers, including the need to address residential shutoffs. Session participants indicated that some low-income households have high water usage due to high occupancy, old or inefficient appliances and fixtures, and leaky plumbing. There are examples of successful utility conservation programs that have targeted lower-income households for conservation improvements to drive down the total usage and thus the total cost.

Renters. Session participants shared that in many urban areas, the challenge of affordability is embedded in the lowest income residents renting multi-family housing. It can be difficult or even impossible to know how much of the actual cost of their water bill gets passed on to renters. Utilities and community-based groups shared the challenge of developing assistance programs that meet the need of renters and provide relief directly to those residents who often need it most.

Disproportionately Impacted Communities. Several participants expressed that any new government program must be designed to address consumers that have been disproportionately impacted. For example, low-income communities and minority populations live disproportionately near contaminated water resources and are more impacted by high drinking water and wastewater service rates.

Areas Impacted by Irrigation Needs. Several interested parties shared that there are some cities with reduced access to water due to large scale irrigation and other competing water use demands. Water scarcity issues and the impact on affordability is outside the scope of this Report, but merits additional research.

Public Trust. Interested parties recommended that EPA support additional community engagement to help build trust in public water. Challenges with public trust in water utilities was cited as a reason some households were purchasing bottled water and could lead to non-bill payment. Interested parties shared that in some areas there was a loss of trust in water utilities during the COVID-19 pandemic that resulted in non-payments.

8.2 Water Affordability Challenges Faced by Utilities

Interested parties emphasized several affordability challenges that utilities face. Utilities must fund the effective, safe, and efficient management of water utilities, even if customers are unable to pay enough to cover the cost of service. Interested parties stressed the need to ensure that utilities are able to adequately perform infrastructure maintenance and needed improvements while maintaining affordability for low-income customers. Other challenges include:

Costs Associated with Regulatory Requirements. Compliance costs associated with current and future requirements (both federal and state) essential to protecting public health and the environment will result in utilities needing to raise rates, in some cases. Very small water utilities, such as mobile home parks, some condos, and those not affiliated with the local municipality, are sometimes unable to access funding programs to come into compliance with regulations. For example, some states restrict certain utilities that would otherwise be eligible for federal funding.

Impact of State and Local Laws. Restrictions in state and local laws, capacity issues in staffing, and other obstacles can create challenges for utilities in developing their own customer assistance programs.

Political Barriers. Some utilities must seek rate change approval by governing authorities, such as local city councils, and thus can experience political challenges regarding water affordability policy making.

Projected Increases in Rates. Future costs associated with climate change impacts and adaptation responses and aging infrastructure will impact rates, and thus affordability.

Challenges with Funding and Financing. Several participants shared that utilities have difficulties setting affordable rates while keeping up with the costs of system maintenance. Assessing funding needed for capital improvements and O&M can pose several challenges, including competition for limited grant funds and the risk of high debt burden if too many customers are unable to pay.

Affordable Rate Setting. Two representatives from public utilities stressed that setting rates that are affordable for ratepayers has become more difficult for utilities. The challenge is that setting affordable rates for communities is often outpaced by rising capital and O&M costs. Additionally, unprecedented rate increases are challenging for cities to plan for and ultimately places the burden on water customers.

Infrastructure Updates. An attendee expressed the desire to upgrade aging infrastructure without needing to increase rates for customers. Infrastructure loans are inaccessible without the ability to increase water rates to make up for the costs of the upgrades.

Consolidation Challenges for Small Utilities. The push toward consolidation is one challenge, as small communities lack a clear entity to consolidate into, and intent to consolidate can be an obstacle to accessing financing.

Impact of Customer Nonpayment. Interested parties also provided feedback on how utilities use debt. Debt is not undertaken due to customer nonpayment; it is undertaken to complete needed capital activities, or sometimes O&M activities. Revenues from water bills are then collected to cover the debt repayment and ongoing costs. High levels of customer nonpayment cause cash flow issues, affect bond ratings, and impact utilities' ability to raise capital, jeopardizing both existing and future commitments. Additionally, customer nonpayment can cause other problems, such as unacceptable levels of service and unaffordable rates.

8.3 Defining Affordability

Interested parties generally agreed that it is important to calculate affordability at the individual household level as opposed to community and/or national levels. They referenced the limitations of using median household income as a household affordability metric and stressed that there is movement across the sector to find alternatives that account for cost of living and other socioeconomic factors.

Interested parties noted the importance of using a multi-pronged approach that can reflect the unique circumstances of different communities and include qualitative definitions as well as quantitative ones. From the household perspective, this could be whether the ratepayer is able to pay their water bill without sacrificing the ability to pay for other basic household necessities. From a utility perspective, this could be whether the customers are able to afford what the utility needs to charge to sustain itself.

8.4 Recommendations for Addressing Affordability Challenges Nationwide

Interested parties emphasized the need for a sustainable long-term federal customer assistance program, while stressing the importance of using multiple pathways to achieve affordability. This approach combines complementary strategies, such as water conservation, efficiency, assistance with plumbing repairs, education, paying off arrearages, capping customer costs, and rate discounts. Other key recommendations from interested parties on successful implementation of a permanent federal water assistance program include the following:

Limit Administrative Barriers. Many utilities were unable to participate in LIHWAP because billing systems could not separate out the trash portion of bills from water service or accounting and/or programming changes were made. Utilities need to have the flexibility to include trash and water services in one bill, and/or there must be technical assistance for small utilities that have capacity challenges in altering their billing system to be able to participate in the program.

Consider Unique Needs of Renters. A future federal assistance program should consider renters, as it can be difficult to assess affordability burden among renters whose landlord pays the utility bills. Flexibilities to ensure equitable distribution of funds, including to those who may not have their water bill in their name, should be included in a future federal assistance program.

Direct Payment to Utilities. Direct payment to utilities and guidance to administer assistance to their customers can incentivize smaller utilities to participate, given that there is guaranteed payment.

Categorical Eligibility. Categorical eligibility can be a helpful tool to reduce burden on households and utilities in enrolling customers in an assistance program if they are already enrolled in an analogous program elsewhere. Assistance could be automatically provided to categorically eligible households, without requiring the household to complete additional paperwork. A future federal assistance program could also offer blanket approval for extremely poor communities. This would especially help small utilities, that typically lack staff capacity to register and approve individual household applications for financial assistance.

Marketing and Promotion. Particularly in rural areas and small communities, households can face significant obstacles in accessing information and navigating assistance programs. It is important that future federal assistance programs include a budget for communications and marketing to promote enrollment. Interested parties stressed that states should be required to have a communications strategy to promote the program and saw value in establishing national community outreach guidance for consistency across states.

Partnership with Local Authorities. One successful tactic used to implement LIHWAP was reaching out to local government authorities through direct advocacy and education to get them to sign up and participate in the program.

O&M Costs. Operations and maintenance expenses are frequently not eligible under various funding pathways, such as State Revolving Funds. Direct assistance to utilities to help cover O&M costs would ameliorate rising cost issues.

Disconnection Moratoriums. Interested parties had varying opinions on the use of disconnection moratoriums. Some interested parties indicated that in some cases, disconnections are the primary motivator for households struggling with affordability to sign up for assistance programs. Other interested parties recommended disconnection moratoriums to ensure that the lowest-income households are treated with dignity and respect and referenced the public health risks due to house condemnations. One participant recommended an analysis of the effectiveness of disconnection moratoriums during the COVID-19 pandemic, assessing their economic impacts on communities and water utilities.

9. Recommendations

There is no single approach to addressing water affordability at a national level. Large scale, sustainable change requires addressing the systemic challenges in how water utilities are funded, how rates are set, and how assistance programs are established, particularly to support rate payers facing affordability challenges. Developing solutions to address those challenges will require all levels of government, community advocates, utilities, and other interested parties to work together on long-term approaches. This Section describes potential ways for EPA and its partners to help address water affordability concerns.

IIJA directed EPA to provide recommendations to address affordability. These recommendations were identified during the affordability analysis and from discussions during the engagement sessions for interested parties. They are also found in literature focused on addressing water affordability.

The recommendations fall into three broad categories:

Establishing a Permanent Federal Water Assistance Program

Increasing Education, Outreach and Knowledge Around Solutions to Address Affordability

Increasing Ways to Reduce Water Infrastructure Capital and Operating Costs

9.1 Establishing a Permanent Federal Water Assistance Program

Recommendation 1: Establish a Federal Water Assistance Program

Establishing a long-term federal water assistance program could meaningfully help to reduce affordability challenges for households and utilities. EPA's analysis suggests that a nationwide affordability pilot program could be an important step to establishing and fine-tuning strategies to provide sustainable, sufficient ratepayer assistance. In addition, a water assistance program could help ameliorate the cost of meeting requirements to protect human health and the environment. Assistance provided to households could help utilities to have reliable capital to implement necessary improvements and mitigate potential rate increases to households in need.

Congress could establish a Federal Assistance Program based on the needs, research, and input from interested parties described throughout this report. A pilot program, as described in IIJA Section 50109, could fund up to eight pilots in five water utility categories. Four of these categories represent the various utility sizes that have unique challenges and approaches to establishing and providing customer assistance. The fifth grant category in this pilot is specifically for utilities that service a disadvantaged community, according to the state affordability criteria or disadvantaged community definition, and would provide an understanding of the scope, scale and successful approaches needed in the most stressed communities. See Appendix G Pilot Program Suggested Funding Level for pilot category classifications.

EPA's analysis determined a funding level for the pilot program described in IIJA Section 50109 (found in Appendix B) is a range from $115 million to $185 million per year based on the percentage of qualifying households with need and the estimated national water burden cost of $5.1 to $8.8 billion as discussed in Section 5 – Water Affordability Analysis. Additional assumptions include a variable enrollment rate based on pilot category and that the maximum of 40 pilots would be awarded. The range is generated from different assumptions of enrollment rate. See Appendix G for details.

Recommendation 2: Evaluate Best Practices and Creative Program Structures to Increase Assistance to all Socioeconomic Groups

A key component of a federal water assistance program is to ensure that the most vulnerable households are provided the support they most need. Feedback from interested parties stressed the importance of designing a federal program that served all households facing challenges. Interested parties discussed challenges to assist renters, elderly households on fixed incomes, multi-generational households with high water use, and challenges of enrollment for non-English speaking homes. For example, it is a hurdle for utilities to reach certain residents in their service area, such as renters that do not have a water bill in their name. Renters may pay a separate bill to their landlord, who then passes the payment on to the utility, or their water fees can be estimated and included in their reoccurring rent payment. For example, the Seattle Water Department has a program where they provide water assistance to renters by coordinating with the energy utility and applying the assistance to the eligible customer's energy account. The Northeast Ohio Regional Sewer District (NEORSD) added renters as eligible. NEORSD determines renter eligibility based on preferred criteria, such as income and household size, and collects proof of residence. Assistance

funds are provided to the water account. A permanent federal program could build from these models and explore other ways to provide assistance to all low-income households. Examples of these types of approaches include categorical eligibility, auto-enrollment, and/or direct payment to utilities, further discussed in the recommendations from interested parties in Section 8.4. Additionally, LIHWAP allowed for 15% administrative costs and up to 10% of the award funding to go towards outreach, intake, and eligibility determination activities for the program (OCS, 2023b). This type of flexibility would also aid assistance to all low-income households. This recommendation is also consistent with the requirements of Executive Order 14058, Transforming Federal Customer Experience and Service Delivery to Rebuild Trust in Government, for government agencies to improve service delivery when providing benefits (The White House, 2021).

Recommendation 3: Evaluate the Need for a Federal Household Water Efficiency and Plumbing Repair Grant Program

While a permanent federal assistance program could provide financial relief to households in need, such a program may not solve underlying problems related to high water use caused by leaks or inefficient plumbing products. A household that may receive financial relief will continue to be burdened by high water bills they cannot afford until the household addresses the root problem causing high water use. Some water utilities have developed programs that provide direct installation of efficient fixtures or minor plumbing repairs to homeowners needing assistance on their water bills (EPA, 2021). However, these programs are typically funded out of operating budgets or by coordinating with third party funders. EPA could work with interested parties to evaluate the potential benefits of a household water efficiency and plumbing repair grant program to tackle national affordability needs.

9.2 Increasing Education, Outreach and Knowledge Around Solutions to Address Affordability

Recommendation 4: Promote Tools, Resources, and Best Practices on Water Affordability

As described in detail throughout this Report, many organizations, academics, advocates, and associations have been working on water affordability challenges for decades. Yet, there is still a lack of knowledge to the tools and resources that are available to help communities and utilities in need. Recommendation 4 is for EPA to work in partnership with these interested parties and communities to promote water affordability tools and resources. EPA heard this recommendation on increased education from interested parties as part of a comprehensive affordability strategy. This could include:

- Webinars on best practices to tackle water affordability at the local, state, and federal levels
- Workshops establishing and funding assistance programs
- Encouraging and supporting an evaluation of true cost pricing, rates, rate structures, and approaches to help low-income residents where possible and how the best approach might vary across systems, e.g. large urban areas vs smaller areas
- Promoting success stories of cost-sharing partnerships amongst utilities
- Promoting best practices on water efficiency measures to reduce costs

- Encouraging states to support asset management practices and utilities to engage in intentional asset management planning
- Supporting states that are undertaking initiatives, as required by SDWA Section 1420(c)(2)(f), that promote asset management through their capacity development strategy and through the provision of technical assistance to develop and implement asset management plans
- Promoting partnerships, regionalization, and consolidation and encouraging states to exercise their mandatory assessment authority anticipated after the proposed Water System Restructuring Assessment Rule (WSRAR) goes final to identify feasible and affordable long-term solutions for chronically non-compliant water systems

Recommendation 5: Increase Awareness and Best Practices of Successful Funding Approaches for Utility Supported Customer Assistance Programs (CAPs)

Utility-supported CAPs play a critical role in ensuring that low-income households have access to affordable water services. Many local utilities understand the unique challenges of their customers and are able to tailor CAPs to the specific needs of the communities they serve. It is important to understand which approaches have been successful in terms of funding CAPs and increasing household utilization rates. Increasing awareness of successful utility-supported CAPs can help to increase the effectiveness of these program and encourage knowledge sharing between utilities. Beyond CAPs, where applicable by state and local law, alternative rate structures should be considered to ease burdens across utilities. EPA could develop additional resources and tools to support the development of utility-led CAPs. This includes an update of the 2016 EPA CAP compendium, searchable resource library of best practices, case studies and funding strategies. EPA can also encourage the use of existing resources and innovative approaches to restructuring rates and develop community focused tools to support their implementation.

9.3 Increasing Ways to Reduce Water Infrastructure Capital and Operating Costs

Recommendation 6: Promote the Use of Low-Cost Federal Funding and Financing for Water Infrastructure and Water Technical Assistance to Address Affordability Issues

The Clean Water and Drinking Water State Revolving Funds are important programs for investing in the nation's water infrastructure. They are designed to generate significant and sustainable water quality and public health benefits across the country and improve affordability in communities that are facing challenges across the U.S.

Through the federally capitalized SRF programs, states provide below-market interest rate loans and other financing assistance for infrastructure improvements and other water quality projects. States manage their SRF programs and are required to establish specific eligibility criteria and special funding mechanisms, including loan forgiveness and other grant-like options, for economically disadvantaged communities and those that meet each state's affordability criteria. Since 2021, EPA has invested more than $500 million in EPA Water Technical Assistance (WaterTA), which connects communities to experts who help assess and implement solutions for their drinking water, sewage, and stormwater needs. This program has allowed underserved communities across the country access this low-cost federal funding and reduce their overall project costs.[12]

Martin County Water and Sanitation Districts is an example of a utility that struggles with affordability challenges driven by both widespread poverty and aging infrastructure. The District estimates that a significant volume of water is lost from leaks in its distribution pipelines, meaning that a large portion of its operating costs to produce that water are wasted. This highlights the need for a multi-facetted approach to address water affordability, which includes continued investment in infrastructure. Read more about Martin County in the case study in Appendix A.

Interested parties recommended a continued focus from the SRF programs and WaterTA on ways to expand assistance to economically disadvantaged communities. This recommendation includes:

- Strengthening marketing of and communications about the SRF and other financial assistance programs to increase awareness of funding and financing options like the SRFs to communities facing affordability challenges.

[12] In addition to the SRF and WaterTA programs, continued investment in water workforce development and retention can help to address utility operating costs. For example, EPA's Innovative Water Workforce Development Grant Program awarded $3.8 million in total funding to 10 grant recipients (in 2023) and over $20 million in total funding to 13 grant recipients (in 2024). These workforce development grantees are nationwide, and the funding is helping to increase public awareness of job opportunities in the drinking water and wastewater utility sector and will help address the workforce needs of drinking water and wastewater utilities (U.S. EPA, 2024c).

- Providing substantial and effective technical assistance to the most underserved and economically stressed communities to prepare for, apply for, receive, and invest low-cost federal funding and financing to address their critical water infrastructure needs.
- Promoting technical assistance and SRF funding to help communities consider regionalization or consolidation options that could help to reduce financial burden on communities and customers.
- Promoting appropriate and cost-effective technology and capital projects that address local water service needs and are innately less burdensome on local ratepayers. For example, large-scale water use efficiency measures as an alternative to a more expensive new water supply and treatment project.
- Pursuing ways to implement the provision of the Clean Water SRF program that provides additional subsidization, through rate structures or other mechanisms, to directly benefit ratepayers that would experience a financial hardship because of an increase in rates necessary to fund capital infrastructure projects. This includes examination of the feasibility of EFAB's expected recommendations on options to utilize this provision.

Recommendation 7: Incorporate, Where Appropriate, Recommendations from the Environmental Financial Advisory Board (EFAB) on Water Affordability

EPA has recently charged the Environmental Financial Advisory Board (EFAB) with evaluating approaches to support communities facing water affordability challenges. This includes recommendations relevant to capital projects, CAP barriers, rate structure/design, and SRF subsidies. The charge tasks EFAB to develop new and innovative financing approaches, assess government strategies for implementing public-private partnerships, and develop innovative investment models and market-based approaches that increase the long-term resiliency of infrastructure. Recommendations stemming from the EFAB Water Affordability workgroup will help establish a path of wholistically addressing water affordability and provide a roadmap of recommended approaches. It is recommended that EPA evaluate and, where appropriate, pursue these recommendations.

Recommendation 8: Continued Research and Understanding of Water Affordability

Continued research is crucial to better understand water affordability challenges across the U.S., identify disparities in affordable access to water services, and guide the development of policies and programs to promote equitable access. Ongoing research is also necessary to anticipate future challenges and innovate new solutions in the face of changing environmental and economic conditions. Household-level analysis on the impacts of high water bills, rapid increases in rates ("rate shock"), shutoffs, and customer assistance programs are also areas for further analysis. Section 7 - Additional Recommended Analyses discusses recommendations for completing additional analyses to fill data gaps associated with the water affordability analysis conducted for this report. EPA plans to continue to address these data gaps over the next year and will continue to develop tools, studies and resources to help address water affordability challenges.

Appendix A: Case Studies

The following case studies are examples of utilities, and the communities they serve, that are struggling with the challenges of water affordability. They demonstrate factors that exacerbate affordability concerns, like economic decline and high poverty rates. Some utilities have successfully implemented their own CAPs to provide relief to customers, but many are limited by barriers including staffing, financial resources, and legal and policy limitations. For some, federal assistance programs have provided critical relief for struggling utilities and households. These case studies are a series of snapshots of water affordability challenges across the U.S.

Detroit, MI. Detroit's history of economic challenges has compounded its struggles with household water services affordability, with 55% of residential accounts over 30 days past due. Detroit Water and Sewerage Department (DWSD) has risen to the challenge by launching multiple CAPs, including a Lifeline Program that has 25,000 customers enrolled

Martin County, KY. In rural Kentucky, residents face challenges including high unemployment, water quality issues, and increasing water rates. Failing and aging water infrastructure contributes to the Water District's financial struggles, as does high levels of customer nonpayment. Martin County is not able to support its own CAP due to its small population size and high percentage of low-income customers. This case highlights the need for a multi-faceted approach to address water affordability, which includes continued investment in infrastructure.

San Antonio, TX. The San Antonio Water Systems (SAWS) runs a robust CAP, which shifts the burden of access away from customers and connects them with assistance in 14 different areas, including reduced meter fees and discounted monthly bills. The program is highly utilized by low-income customers, in part due to a streamlined single application that SAWS staff review to determine eligibility for multiple programs at once

San Carlos Apache Tribe. The San Carlos Apache Tribe community faces water affordability challenges, an unemployment rate of 65%, and high poverty levels. LIHWAP funds were used to restore service for households whose water and wastewater services had been disconnected due to nonpayment. Funds were also used to pay water bills, empty septic tanks, and provide bottled water to Tribal members after a water main break and pump failure. After the end of the LIHWAP program, the Tribe continues to face significant need for assistance in accessing water services.

Detroit, MI: Ongoing Challenges from a History of Economic Decline

Detroit, a city in Michigan with a rich industrial history, has faced significant economic challenges over the past decades. Once a hub for the automotive industry, the city experienced severe economic downturn, leading to a decline in population and an increase in poverty rates. Its peak population of 1.8 million in the 1950s shrank to 670,000 by the 2020 Census. The economic crisis peaked in 2013 when the city filed for bankruptcy, becoming the largest municipality in the U.S. to file. Currently, over half of the city's households are considered low-income, with 56% earning less than 200% of the federal poverty guidelines, almost double the level for the U.S. as a whole.

This history of economic decline has profoundly impacted water affordability in the city. Although the Detroit Water and Sewerage Department's (DWSD) standard water rates are generally low in comparison to other water utilities, Detroit's high levels of poverty create challenges with balancing the costs of providing safe and clean drinking water and wastewater services while maintaining rates at a level its customers can afford. Some of the key challenges include:

- **Suburban Migration** – Over the past-half century, the population of the city decreased as residents moved to the surrounding suburbs. New water infrastructure was built to accommodate this suburban growth, rather than reinvest in the city's existing infrastructure. DWSD was left with fewer customers, decreased water revenue, and excess water supply capacity. Residents remaining in Detroit were left to shoulder the expense of maintaining aging water and sewer pipeline infrastructure that was designed to supply a population nearly twice the city's current size.
- **Customer Arrearages** – As of May 2024, 55% of DWSD's residential accounts are 30 days past due, and 35% of accounts are 60 days past due. It is estimated that approximately 700 shutoff notices are sent out per month, of which approximately 100 will be disconnected each month. This is typical of most water utilities, as customers frequently make arrangements to avoid disconnection following a shutoff notice. Understanding that water shutoffs can exacerbate affordability issues, DWSD focuses on conducting outreach and education on available assistance options.
- **Aging Infrastructure** – Critical infrastructure upgrades and repairs need to be completed for the 100-year-old water system. Population loss and the resulting limitation on rate increases caused by customer arrearages have had significant impacts on the utility's ability to generate sufficient revenue for maintenance projects.

Customer Assistance Programs and the Need for Funding

In March of 2015, the city launched the Water Residential Assistance Program (WRAP), a regional assistance program which provided a $25 discount on monthly water bills for low-income customers. WRAP was funded using 0.5% of the water utility revenue. While WRAP helped to return water service to many customers, the cycle of delinquency on water accounts that often led to water service shutoffs continued.

In response to this ongoing need, DWSD launched its Lifeline Plan in 2022. The Lifeline Plan, an income-based water affordability program, erases a customer's past due balances and provides a tiered structure for fixed monthly bill amounts based on income. This benefit provides for up to 1,125 gallons of water usage per household member each month. In addition, the Lifeline Plan provides plumbing assistance of up to $2,000 to fix leaks and improve equipment efficiency based on results from water audits. DWSD currently has about 25,000 customers enrolled in the Lifeline Program and anticipates an additional 3,000 customers will join. The current funding amount is $17.5 million, with a total anticipated need of $26.55 million. Moving forward, additional funding sources will need to be identified.

For additional information on Detroit's Lifeline Program, visit: https://detroitmi.gov/departments/water-and-sewerage-department/dwsd-customer-service/dwsd-here-help-water-assistance-programs/lifeline-plan

Martin County, KY

Martin County is located in far eastern rural Kentucky. The county's economy was historically reliant on the coal industry. As coal use declined, poverty and unemployment rose. As of June 2024, Martin County has the highest unemployment in Kentucky, at 10.7%, which is more than double the state average of 5% and the U.S. average of 4.3% (Workforce Intelligence Branch, Kentucky Center for Statistics, & Kentucky Education and Labor Cabinet, 2024).

The County's median household income is 60% of the national level median household income. In 2022, 36% of Martin County was below the federal poverty threshold, compared to about 11.5% for the U.S. as a whole (U.S. Census Bureau, 2023b).

For decades, the County's Water District and its residents have struggled with loss of water pressure, water quality issues, and increasing water rates. Both water and sewer rates are high on an absolute basis compared to other utilities and are especially high for a low-income population. A 2019 report by the Appalachian Citizens' Law Center & Martin County Concerned Citizens found that water was unaffordable for over 45.8% of Martin County residents, with a 41.5% increase in water service cost since the previous year (Cromer & Draper, 2019).

Nearly 50% of households in Martin County have a combined water and sewer bill that is more than 4.5% of their income.

The water affordability crisis in Martin County has not improved in recent years. According to the Martin County Water and Sanitation District website, the estimated monthly water and sewer bill for 5,000 gallons of water usage is $157.93 (Martin County Water and Sanitation Districts, 2024). This represents 4.2% of income for households at the County's median level of income and a remarkable 14.4% of income for households at the County's 20th percentile of income. Nearly 50% of households have a combined water and sewer bill that is more than 4.5% of their income, which is an affordability level that is typically considered stressful. Having more than 40% of households facing potentially unaffordable bills is a very high level of financial risk for a utility and its service area population to manage. An additional rate increase is expected next year.

Failing and aging drinking water infrastructure is the main contributor to these financial challenges. The Water District estimates that a significant volume of treated water is lost from leaks in its distribution pipelines before the water reaches customers. This means that a large portion of its operating costs to produce that water are wasted. The contractor that operates the Water District's system has exceeded its contracted limit of repairs. The resulting cost overruns will lead to additional rate increases, causing even greater stress on the system and the community.

Despite receiving a grant in 2017 for repairs and improvements to its raw water intake and water treatment plant, the intake pump still does not function correctly due to contracting issues and other delays. As a result, the District rents a duplicate diesel pump that costs $30,000/month to rent and operate. Other key issues for the District include:

- **Arrearages and Disconnections** – The Water District struggles with a high level of arrearages and disconnections as a result of customer nonpayment. In 2023, there were 349 residential water disconnections for nonpayment – about one in ten households. Despite the high disconnection rate, the District is still projecting that they will have to write off approximately $45,000 of unpaid customer debt in 2024. This amount is less than the roughly $60,000–$70,000 of late charge fees received by the District each year. While this amount is a relatively small portion of the District's overall $2.5 million of annual water customer revenue, unpaid customer debt is a problem that has increased steadily over time.
- **Wastewater system** – The Martin County Sanitation District operates two wastewater treatment plants. One was constructed in the late 1980's and struggles with compliance challenges due to its aging infrastructure. A second plant was funded in 2015, however, only about 20% of homes within the service area were required to connect to it. In total, about 870 households are connected to the District's sewer system, compared to the approximately 3,500 households that are connected to the drinking water system. This results in high operation and maintenance costs for the limited population served. That high cost is passed along to the rate payers, which include some of the poorest households in the County.
- **Workforce Challenges** – The District struggles with water workforce turnover. As a small utility, the District is unable to compete with the wages that larger utilities can pay. This turnover results in high costs to train new employees, and lack of consistent knowledge contributes to the community's mistrust of the water utility.

While the District's primary goal is to obtain funding to fully repair its aging infrastructure and fix the leaks in its distribution system, Martin County also recommended two main changes:

- **Federal Customer Assistance for Low-Income Residents** – Martin County is not able to support a local Customer Assistance Program because of its small population size and high percentage of low-income customers. In the absence of more permanent support, a member of the community group, Martin County Concerned Citizens, draws from her background in social work to help connect members of the community with resources for assistance, including LIHEAP for assistance with energy bills and SNAP for assistance with food. However, there is no available program for water assistance. A permanent federal customer assistance program would assist both the community members facing growing arrearages and disconnection and reduce the District's associated customer debt due to nonpayment.
- **Change in Grants** – Funds for ongoing O&M assistance, contractor oversight for infrastructure project grants, and workforce development and retention are needed, especially in the form of grants to small, disadvantaged communities.

San Antonio Water System (SAWS): SAWS Uplift – Helping Neighbors in Need

The San Antonio Water System (SAWS) serves 2 million people in Bexar County, Texas, as well as parts of surrounding counties. The population includes more than 511,300 water customers and 457,600 wastewater customers. Approximately 16% of the population of Bexar County, and 19% of San Antonio, have incomes below the poverty threshold. SAWS has established a robust and highly utilized Customer Assistance Program (CAP) to help low-income customers afford their water service bills. The CAP, referred to as SAWS Uplift – Helping Neighbors in Need, currently consists of 14 touch points which cover a broad range of assistance areas. The program's name reflects the intentional terminology shift from "customers" to "neighbors" as a sign of SAWS's connection and commitment to the communities they serve.

The SAWS Uplift program provides assistance to eligible households in a variety of areas including plumbing services, emergency assistance, reduced meter fees, and discounted monthly bills. One of the innovative programs, Plumbers to People, provides free plumbing services for residential customers to repair plumbing fixtures to decrease their water usage. Another initiative, the Uplift Assistance Program, was recently changed from a monthly discount on water bills to a discounted rate structure with no monthly charges for the first 2,000 gallons of water. The full list of programs and initiatives are shown in the table on the next page.

The SAWS Uplift program uses a streamlined, single application process. SAWS staff review the application to determine the programs for which each applicant qualifies. This shifts the burden of navigating multiple programs, eligibility criteria, and applications away from the residents. Additionally, some applicant information is pre-populated, and SAWS uses a third-party to automatically verify income information. SAWS continues to identify ways to streamline the application process and reduce barriers to accessing assistance. For example, it is exploring ways to automatically enroll households that qualify for other assistance programs, such as the Supplemental Nutrition Assistance Program (SNAP).

The majority of the 14 programs receive funding through a city-approved fee included as a line item on SAWS's water bills. However, Project Agua, which provides emergency payment assistance, is entirely funded through donations. SAWS is proud that the largest portion of donations come from SAWS's employees themselves.

The SAWS team attributes much of their program's success to transitioning CAP implementation into the Community Outreach Department. Working through an external affairs approach, SAWS first determined the total number of potentially eligible customers and identified their needs. This allowed the team to tailor engagement opportunities, better connect with the community, and ultimately increase the number of participants in the program.

SAWS actively conducts outreach in communities, rather than primarily relying on more passive outreach techniques like flyers or advertisements.

This approach has been an important component for SAWS in reaching their neighbors, sustaining the program over time, and making it a success. Additional information on the SAWS Uplift Program can be found here: https://uplift.saws.org/helping-neighbors-in-need/.

SAWS Uplift Programs and Initiatives

Program/Initiative Name	Description
Uplift Assistance Program	Discounted rate structure with no monthly charges for the first 2,000 gallons of water.
WaterSmart	Provides access to an online tool to help save water (e.g., monthly water reports, water use history, customized water saving tips).
Courtesy Hold	Prevents water service from being shut off while the Uplift application is being processed.
Reduced Meter Service Fee	Lowers the fee for sending a technician to a household to disconnect water service because of a non-payment.
SAWS Payment Arrangements	Payment plan for past due account balance.
Reduced Deposit	Reduces the security deposit amount for new qualifying customers.
Agency Referrals	Helps make connections with local agencies to provide various types of assistance (e.g., CPS Energy electric and gas utility, Food Bank, etc.).
Leak Adjustments	Removes charges for "lost" water when a leak is repaired and fixed by a licensed plumber.
Senior Citizen Billing	Waives late payments penalties for customers aged 60+.
Domestic Violence Deposit Waiver	Allows victims to open a new service account without paying a security deposit.
Project Agua	Provides emergency payment assistance up to two times per year.
Plumbers to People	Helps residential customers repair leaking plumbing fixtures in their household.
Laterals to People	Helps residential customers repair sewer lateral from outside household to the property line.
Disability Billing/Disabled Veterans initiative	Provides payment extension to residential customers who receive disability income.

San Carlos Apache Tribe: Impact of HHS LIHWAP Funds

The San Carlos Apache Indian Reservation encompasses 1.8 million acres in Gila, Graham, and Pinal Counties in Southeastern Arizona. The Reservation is home to approximately 16,600 Tribal members, 7,000 of whom are under 18 years old. With an unemployment rate of approximately 65%, both jobs and housing are scarce. The majority of families on the reservation receive benefits through assistance programs for low-income households including Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), and Medicaid.

The vast area and rural setting of the Reservation present challenges to the access of drinking water and wastewater services. Approximately one-third of the estimated 2,510 occupied housing units on the Reservation are served by the centralized water and sewer systems operated by the Water Distribution and Wastewater Treatment Facilities Program (WDWTFP). The remaining two-thirds of the housing units have decentralized water and sewer systems, or no water or sewer infrastructure at all.

In 2021, the Tribe applied for the Low-Income Household Water Assistance Program (LIHWAP) through the U.S. Department of Health and Human Services (HHS). They were granted $310,510 in FY2021 and implementation began in January 2022. The Tribe's assistance program was managed and operated by the Tribal Social Services Department.

The Tribe's initial goal was to use LIHWAP funds to restore service for households whose drinking water and wastewater services had been disconnected due to nonpayment. While the Tribe did not implement water shutoffs during COVID-19, some households had already been disconnected to drinking water and wastewater services for many years and continued to have no access to public drinking water. By the end of 2021, the total arrearage balance for households on the Reservation was approximately $250,000. As COVID-19 programs ended, the San Carlos Water Company informed families that they needed to pay outstanding water bills to avoid disconnection.

Fortunately, LIHWAP funds were available to help households that needed assistance paying their water bills and arrearage balances. households that needed assistance paying their water bills and arrearage balances. everyone on the reservation. San Carlos Water mailed the applications to their customers. The Tribe also advertised the LIHWAP in the local Apache Messenger Newspaper, which has a circulation of about 5,000 copies.

The need was significant, and families came in droves to apply. LIHWAP funds were used to pay for water bills and to empty septic tanks. An overwhelming number of applications were also submitted requesting repairs to water lines, sewer lines, and plumbing fixtures. While these repairs were not eligible under LIHWAP, the Tribal Social Services Department worked to refer families to other resources.

"LIHWAP monies were put to good use and it helped children, elders and families. Then the LIHWAP monies were gone and everyone to this day asks about water bottles."

- Director, Tribal Social Services, San Carlos Apache Tribe

During the period when LIHWAP was available, the Tribe experienced a water main break in the 7 Mile Wash District of the Reservation and pump failure at three locations. While the Tribe worked to repair the equipment, families were left without drinking water. The Tribe coordinated with HHS and received approval to use LIHWAP funds to purchase cases of bottled water. The need was so great that bottled water was backordered at the local supermarket, Bashas', and it had to be ordered from Phoenix, AZ.

The Tribe considers LIHWAP to be a success in restoring access to water services for Tribal members, including providing bottled water, paying arrearages, and reducing rates to prevent disconnection of water services. HHS's Annual LIHWAP Dashboard reports that the program assisted approximately 2,000 households in the San Carlos Apache Indian Reservation.

Beginning October 1, 2023, the Tribe entered the closeout phase for their LIHWAP and could no longer accept additional applications. The need for assistance accessing drinking water services remains.

Appendix B: Infrastructure Investment and Jobs Act Sections 50108 and 50109

SEC. 50108. [42 U.S.C. 300j-19a note] NEEDS ASSESSMENT FOR NATIONWIDE

RURAL AND URBAN LOW-INCOME COMMUNITY WATER ASSISTANCE.

(a) DEFINITIONS.—In this section and section 50109:

(1) COMMUNITY WATER SYSTEM. The term "community water system'' has the meaning given the term in section 1401 of the Safe Drinking Water Act (42 U.S.C. 300f).

(2) LARGE WATER SERVICE PROVIDER.—The term "large water service provider'' means a community water system, treatment works, or municipal separate storm sewer system that serves more than 100,000 people.

(3) MEDIUM WATER SERVICE PROVIDER.—The term "medium water service provider'' means a community water system, treatment works, or municipal separate storm sewer system that serves more than 10,000 people and not more than 100,000 people.

(4) NEED.—The term "need'', with respect to a qualifying household, means the expenditure of a disproportionate amount of household income on access to public drinking water or wastewater services.

(5) QUALIFYING HOUSEHOLD.—The term "qualifying household'' means a household that—

(A) includes an individual who is—

(i) the holder of an account for drinking water or wastewater service that is provided to that household by a large water service provider, a medium water service provider, or a rural water service provider; or

(ii) separately billed by a landlord that holds an account with a large water service provider, a medium water service provider, or a rural water service provider for the cost of drinking water or wastewater service provided to that household by the respective large water service provider, medium water service provider, or rural water service provider; and

(B) is determined—

(i) by a large water service provider, a medium water service provider, or a rural water service provider to be eligible for assistance through a low-income ratepayer assistance program;

(ii) by the Governor of the State in which the household is located to be low-income, based on the affordability criteria established by the State under section 1452(d)(3) of the Safe Drinking Water Act (42 U.S.C. 300j-12(d)(3));

(iii) by the Administrator to experience drinking water and wastewater service costs that exceed the metrics of affordability established in the most recent guidance of the Administrator entitled "Financial Capability

Assessment Guidance''; or

(iv) in the case of a household serviced by a rural water service provider, by the State in which the household is located to have an annual income that does not exceed the greater of—

(I) an amount equal to 150 percent of the poverty level of that State; and

(II) an amount equal to 60 percent of the State median income for that State.

(6) RURAL WATER SERVICE PROVIDER.—The term "rural water service provider'' means a community water system, treatment works, or municipal separate storm sewer system

that serves not more than 10,000 people.

(7) TREATMENT WORKS.—The term "treatment works'' has the meaning given the term in section 212 of the Federal Water Pollution Control Act (33 U.S.C. 1292).

(b) STUDY; REPORT.—

(1) IN GENERAL.—The Administrator shall conduct, and submit to Congress a report describing the results of, a study that examines the prevalence throughout the United States of municipalities, public entities, or Tribal governments that—

(A) are serviced by rural water service providers, medium water service providers, or large water service providers that service a disproportionate percentage, as determined by the Administrator, of qualifying households with need; or

(B) as determined by the Administrator, have taken on an unsustainable level of debt due to customer nonpayment for the services provided by a large water service

provider, a medium water service provider, or a rural water service provider.

(2) AFFORDABILITY INCLUSIONS.—The report under paragraph (1) shall include—

(A) a definition of the term "affordable access to water services'';

(B) a description of the criteria used in defining "affordable access to water services'' under subparagraph (A);

(C) a definition of the term "lack of affordable access to water services'';

(D) a description of the methodology and criteria used in defining "lack of affordable access to water services'' under subparagraph (C);

(E) a determination of the prevalence of a lack of affordable access to water services, as defined under subparagraph (C);

(F) the methodology and criteria used to determine the prevalence of a lack of affordable access to water services under subparagraph (E);

(G) any additional information with respect to the affordable access to water services, as defined under subparagraph(A), provided by rural water service providers, medium water service providers, and large water service providers;

(H) with respect to the development of the report, a consultation with all relevant stakeholders, including rural advocacy associations;

(I) recommendations of the Administrator regarding the best methods to reduce the prevalence of a lack of affordable access to water services, as defined under subparagraph (C); and

(J) a description of the cost of each method described in subparagraph (I).

(3) AGREEMENTS.—The Administrator may enter into an agreement with another Federal agency to carry out the study under paragraph (1).

SEC. 50109. RURAL AND LOW-INCOME WATER ASSISTANCE PILOT PROGRAM.

(a) DEFINITIONS.—In this section:

(1) ELIGIBLE ENTITY.—The term "eligible entity'' means—

(A) a municipality, Tribal government, or other entity that—

(i) owns or operates a community water system, treatment works, or municipal separate storm sewer system; or

(ii) as determined by the Administrator, has taken on an unsustainable level of debt due to customer nonpayment for the services provided by a community water system, treatment works, or municipal separate storm sewer system; and

(B) a State exercising primary enforcement responsibility over a rural water service provider under the Safe Drinking Water Act (42 U.S.C. 300f et seq.) or the Federal

Water Pollution Control Act (33 U.S.C. 1251 et seq.), as applicable.

(2) PILOT PROGRAM.—The term "pilot program'' means the pilot program established by the Administrator under subsection (b)(1).

(3) WATER SERVICES NEEDS ASSESSMENT.—The term "water services needs assessment'' means the report required under section 50108(b)(1).

(b) ESTABLISHMENT.—

(1) IN GENERAL.—Not later than 2 years after the date of enactment of this Act, the Administrator shall establish a pilot program to award grants to eligible entities to develop

and implement programs to assist qualifying households with need in maintaining access to drinking water and wastewater treatment.

(2) REQUIREMENT.—In establishing the pilot program, the Administrator shall ensure that data from the water services needs assessment directly contributes to the structure of the

pilot program by informing the types of assistance and criteria used for priority consideration with the demonstrated need from the study conducted under section 50108(b)(1) and the water services needs assessment.

(3) USE OF FUNDS LIMITATIONS.—A grant under the pilot program—

(A) shall not be used to replace funds for any existing similar program; but

(B) may be used to supplement or enhance an existing program, including a program that receives assistance from other Federal grants.

(4) TERM.—The term of a grant awarded under the pilot program shall be subject to the availability of appropriations.

(5) TYPES OF ASSISTANCE.—In establishing the pilot program, the Administrator may include provisions for—

(A) direct financial assistance;

(B) a lifeline rate;

(C) bill discounting;

(D) special hardship provisions;

(E) a percentage-of-income payment plan; or

(F) debt relief for the eligible entity or the community water system owned by the eligible entity for debt that is due to customer nonpayment for the services provided by the eligible entity or the community water system that is determined by the Administrator to be in the interest of public health.

(6) REQUIREMENT.—The Administrator shall award not more than 40 grants under the pilot program, of which—

(A) not more than 8 shall be to eligible entities that own, operate, or exercise primary enforcement responsibility over a rural water service provider under the Safe Drinking Water Act (42 U.S.C. 300f et seq.) or the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq.), as applicable;

(B) not more than 8 shall be to eligible entities that own or operate a medium water service provider;

(C) not more than 8 shall be to eligible entities that own or operate a large water service provider that serves not more than 500,000 people;

(D) not more than 8 shall be to eligible entities that own or operate a large water service provider that serves more than 500,000 people; and

(E) not more than 8 shall be to eligible entities that own or operate a community water system, treatment works, or municipal separate storm sewer system that

services a disadvantaged community (consistent with the affordability criteria established by the applicable State under section 1452(d)(3) of the Safe Drinking Water Act (42 U.S.C. 300j-12(d)(3)) or section 603(i)(2) of the Federal Water Pollution Control Act (33 U.S.C. 1383(i)(2)), as applicable).

(7) CRITERIA.—In addition to any priority criteria established by the Administrator in response to the findings in the water services needs assessment, in awarding grants under the pilot program, the Administrator shall give priority consideration to eligible entities that—

(A) serve a disproportionate percentage, as determined by the Administrator, of qualifying households with need, as identified in the water services needs assessment;

(B) are subject to State or Federal enforcement actions relating to compliance with the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq.) or the Safe Drinking Water Act (42 U.S.C. 300f et seq.); or

(C) maintain or participate in an existing community assistance program with objectives similar to the objectives of the pilot program, as determined by the Administrator.

(8) REPORTING REQUIREMENTS.—

(A) IN GENERAL.—In addition to any other applicable Federal or agency-specific grant reporting requirements, as a condition of receiving a grant under the pilot program, an eligible entity (or a State, on behalf of an eligible entity) shall submit to the Administrator an annual report that summarizes, in a manner determined by the Administrator, the use of grant funds by the eligible entity, including—

(i) key features of the assistance provided by the eligible entity;

(ii) sources of funding used to supplement Federal funds; and

(iii) eligibility criteria.

(B) PUBLICATION.—The Administrator shall publish each report submitted under subparagraph (A).

(c) TECHNICAL ASSISTANCE.—The Administrator shall provide technical assistance to each eligible entity, and each State, on behalf of an eligible entity, that receives a grant under the pilot program to support implementation of the program.

(d) REPORT.—Not later than 2 years after the date on which grant funds are first disbursed to an eligible entity (or a State, on behalf of an eligible entity) under the program, and every year

thereafter for the duration of the terms of the grants, the Administrator shall submit to Congress a report on the results of the pilot program.

Appendix C: Affordability Metrics Used in Prior Work

Name	Abbreviation	Source	Calculation	Threshold
State Revolving Fund Affordability Criteria and Disadvantaged Community Definitions		CWA and SDWA; State defined	Varies by state. Can be found in DW and CW Intended Use Plans.	Varies by state
Percentage of Lowest Quintile Income or Household Burden Indicator	% LQI or HBI	Raucher et al., 2019	Drinking water, wastewater, and stormwater as a percentage of the community LQI upper limit.	Score determined based on matrix combined with PPI, HBI categories include < 7%, 7% – 10%, and >10%
Poverty Prevalence Indicator	PPI	Raucher et al., 2019	Percent of Households below 200% of the Federal Poverty Limit.	Score determined based on matrix combined with HBI, PPI categories include <20%, 20% - 35%, and >=35%
Income Dedicated to Water Services	IDWS	Patterson & Doyle, 2021	Percent of households in a utility spending x% of income on water services. Measures the prevalence of different financial burdens in the community.	Does not require an affordability threshold
Teodoro Affordability Ratio	AR	Teodoro, 2018	Drinking water and wastewater as a percentage of discretionary income for households at 20th percentile income.	Drinking water and wastewater bill > 10% suggested as relatively high impact
Teodoro Hours of Labor at Minimum Wage	HM	Teodoro, 2018	Hours worked at minimum wage to equal a drinking water and wastewater bill.	8 hours suggested as relatively high impact

Name	Abbreviation	Source	Calculation	Threshold
EPA Expanded Financial Capability Assessment Matrix	Revised FCA	U.S. EPA, 2024	Combines RI and FCI score with LQPI to determine overall impact level.	Matrix of combined scores rates community's overall impact as low, medium, or high
EPA Residential Indicator	RI	U.S. EPA, 1997	Household wastewater and CWA compliance costs as a percentage of MHI.	<1% = Low impact 1% to 2% = Mid-range impact >2% = High Impact
EPA Financial Capability Indicator	FCI	U.S. EPA, 1997	Six financial capability indicators (FCIs) related to debt, socioeconomic, and financial conditions.	< 1.5 =Weak 1.5 – 2.5 = Mid-range >2.5 = Strong
EPA Drinking Water Small System Compliance Technologies – EPA performs this analysis at a national level for three categories of small water systems in accordance with the Safe Drinking Water Act	SSCT	U.S. EPA, 1998 63 FR 42032 88 FR 18638	Comparison of national level estimated household costs of new compliance technology plus existing baseline household cost of drinking water to an affordability threshold value.	2.5% MHI

Appendix D: Water Hygienic Use Values Used in National Affordability Studies

Source	Quantity	Notes
Teodoro, 2018	50 gallons per person per day	Assumes a 4-person household yielding 6,200 gallons per month
Teodoro, 2019	50 gallons per person per day	Assumes a 4-person household yielding 6,200 gallons per month
Teodoro & Saywitz, 2020	50 gallons per person per day	Assumes a 4-person household yielding 6,200 gallons per month
Teodoro & Thiele, 2024	50 gallons per person per day	Assumes a 4-person household yielding 6,200 gallons per month
Patterson & Doyle, 2021	Bills and affordability metrics were calculated for no water use to 16,000 gallons per month at increments of 1000 gallons per month	N/A
Cardoso & Wichman, 2022a	50 gallons per person per day	Sensitivity analysis of 40, 60, and 75 gallons
Patterson, Bryson, & Doyle, 2023	6,000 gallons per month	Assumes 83 gallons per person per day, and a 2.4 person household
El-Khattabi, Gmoser-Daskalakis, & Pierce, 2023	4,000 gallons per month	
LIHWAP Water Utility Affordability Survey Report, 2024	10,000 gallons per month	

Appendix E: Utilities Included in National Affordability Studies

Source	Description of Communities Included in Study	Timeframe of Rates Data Collection	Estimated Population Served by Utilities in Study*
Teodoro, 2018	25 most populous U.S. cities (in 2017)	Spring 2017	Not provided
Teodoro, 2019	329 utilities, selected via stratified sampling based on: 1. Ownership type (public vs. private) and 2. Population served (EPA service population categories excluding utilities serving less than 3,300 persons)	May to July 2017	Not provided
Teodoro & Saywitz, 2020	399 utilities, selected through the stratified sampling method used in Teodoro 2019, and included the same utilities sampled in 2019 plus additional utilities	May to July 2019	44 million
Teodoro & Thiele, 2024	399 utilities, selected from the same utilities included in the Teodoro and Saywitz 2020 study	Both 2021 rates and 2023 rates	44 million
Patterson & Doyle, 2021	1791 utilities located in four states—California, North Carolina, Pennsylvania, and Texas Overall, 44% of the utilities in this study were large or very large, 25% were medium, and 32% were small or very small.	2020 rates data	71.9 million
Cardoso & Wichman, 2022a	1545 utilities	UNC EFC Data, as of July 2017, and the 2016 AWWA Water and Wastewater Rate Survey	145 million

Source	Description of Communities Included in Study	Timeframe of Rates Data Collection	Estimated Population Served by Utilities in Study*
Patterson, Bryson, & Doyle, 2023	787 of the largest drinking water providers located within each state of the United States.	2021	160.9 million
El-Khattabi, Gmoser-Daskalakis, & Pierce, 2023	1,558 utilities located in four states - Arizona, Georgia, New Hampshire and Wisconsin	UNC EFC Data, as of 2021	Not provided
LIHWAP Water Utility Affordability Survey Report, 2024	A random selection of 200 observations that matches the EPA's national distribution of utility sizes	Duke University provided rate information for internal analysis. Rate years were not provided.	Not provided

* *Population Served estimates as reported in the study, when available*

Appendix F: Supplemental Technical Information for EPA's Analysis

By Tract

Population Categories	% Qualifying Households (%)	# Qualifying Households	Total # Utiliities	# Utilities w/ > 40% Qualifying Households
>100,000	30	17,297,152	448	61
10,001-100,000	30	12,584,177	3,944	641
3,301-10,000	31	3,370,038	4,894	984
501-3,300	32	2,284,528	12,725	2,896
<=500	30	481,994	22,330	4,291
Totals	**-**	**36,017,890**	**44,341**	**8,873**

By Block Group

Population Categories	% Qualifying Households (%)	# Qualifying Households	Total # Utilities	# Utilities w/ >40% Qualifying Households
>100,000	30	17,368,350	448	65
10,001-100,000	30	12,704,451	3,944	742
3,301-10,000	31	3,404,782	4,893	1,111
501-3,300	33	2,320,929	12,720	3,318
<=500	30	495,194	22,327	5,104
Totals	**-**	**36,293,709**	**44,332**	**10,340**

Comparison of Analysis of Utilities Servicing a Disproportionate Percentage of Qualifying Household Using Census Tract-Level Data vs. CBG Data

Technical Notes and Assumptions for State-specific California Analysis

The 2022 eAR data has entries for 2,826 community water systems but 810 utilities—mostly utilities service fewer than 500 people—either report not having rates or having rates of zero dollars. These utilities were dropped from this analysis. Also dropped were utilities with no service area boundary in the dataset.

Household rates were determined from the survey data using a linear interpolation method similar to that used in Section 5.1.1 except the imputation was performed with the calculated rates at 6, 9, 12, and 24 CCF. In a future analysis, EPA plans to use the detailed rate structure data. If a utility indicated that wastewater charges were an additional bill component, those charges were added to the household bill. If wastewater charges were not in the eAR bill data, an average value from a 2018 survey of wastewater charges was applied, inflated using the CPI for water and sewer (California State Water Resources Board, 2024a).

The eAR presented the calculated rates at 6, 9, 12, and 24 CCF to respondents and requested that utilities verify the data, however, some rates still appeared to be unlikely or impossibly high (including over $1,000,000 million a month). EPA therefore coded any of the four CCF rates or the wastewater rates in the eAR data above their respective 90th percentile value to that value ($154.36 for 6 CCF of water use and $89.56 for wastewater).

Many of the smallest utilities are omitted from the analysis because they do not report rates in the eAR survey or report zero rates. The overall need could be underestimated because of these missing utilities. Some customers, for example mobile home park residents, pay for water use indirectly.

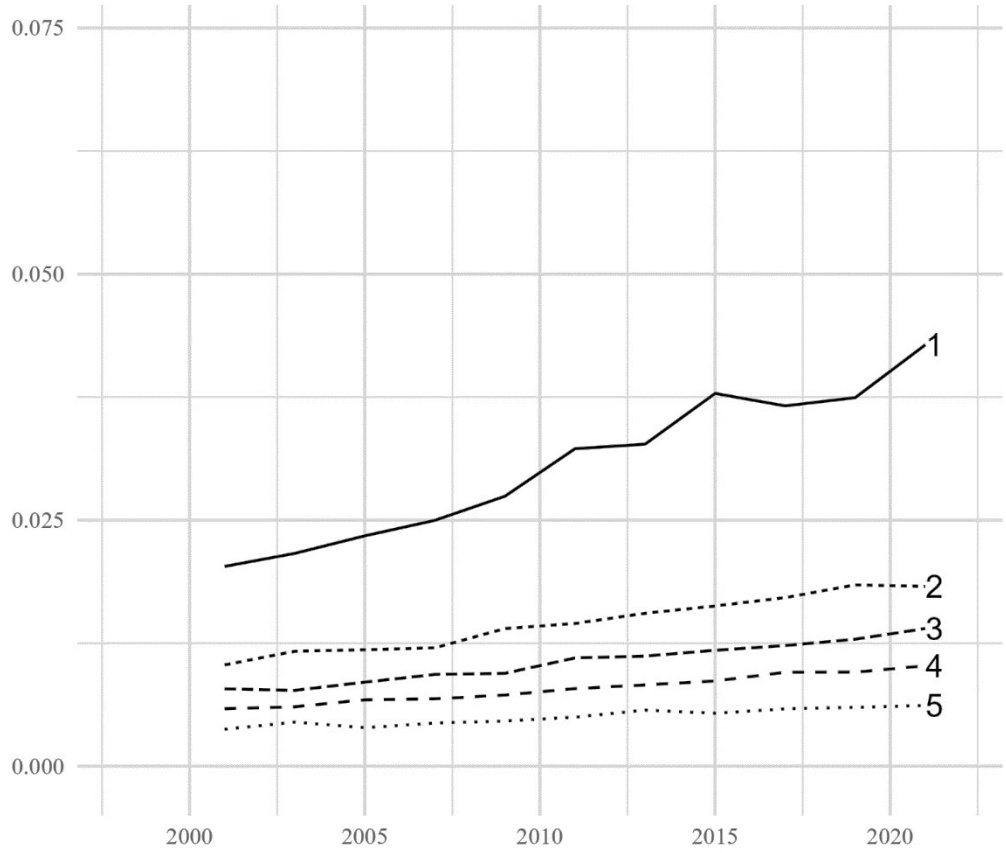
Panel Study of Income Dynamics Data

EPA has identified several national surveys that collect data on household income and spending on water services. EPA did not use these data sets for the primary analysis because the surveys ask about spending on water services, but they do not include prices (rates) or usage amounts. Therefore, reported spending will include water use beyond basic needs for households that are not facing affordability challenges. Further, data confidentiality restrictions prevent linking the data geographically to utilities and thus rates. Nevertheless, EPA believes these data can help illuminate the need for water assistance, particularly for low-income households that may be more likely to consume hygienic quantities of water. These data are also able to show trends in affordability over time, similar to the CPI trends presented in Figure 3 in Section 2.1.

One of these surveys is the Panel Study of Income Dynamics (PSID), which has asked the households in the panel about spending on water services every other year since 2001. EPA cleaned the data to drop zero and negative values and smoothed the income data across years. EPA then calculated the percentage of household income spent on water services for each sample household. The graph below shows the results aggregated for each income quintile in the survey. These data largely agree with the primary analysis conducted in 5.1.1. The average household in the lowest quintile of income spends approximately 4.5% of their income on water and wastewater, which implies that many of these households spend above that threshold. Furthermore, the percentage of income spent on water and wastewater services has steadily increased over time for

households in the first (lowest) quintile of income while the percent of income spent on water has been increasing more slowly for higher quintiles.

EPA identified other surveys that present similar data including the American Community Survey public use microdata and the American Housing Survey. These surveys use different concepts of income (see Section 5.3) and different sampling schemes. Generating comparable results is therefore difficult. EPA intends to further examine these survey data in order to better describe water affordability nationally.



Percentage of Stable Household Income Spent on Annual Water/Sewer Expenditures, Avg. Ratio Within Income Quintiles

Note: The x-axis depicts survey year while the y-axis depicts mean affordability ratio. Annual water/sewer expenditures were manually calculated from PSID responses. Stable household income is the average pre-tax income from the previous survey wave and the current survey wave to control for transitory shocks. EPA furthermore dropped all observations with business asset losses (no negative pre- tax income). Labels indicate quintile.

Source: PSID Data, 1999 – 2021

Appendix G: IIJA 50109 Pilot Program Estimated Funding Level

Key Assumptions to Generate 50109 Pilot Estimate

Selection of Utilities. IIJA Section 50109 directs EPA to make no more than 40 grants. For the estimation, EPA assumed the maximum of 40 grants would be awarded.

Range of Need. The higher cost range of estimated need was utilized for the pilot estimate.

Qualifying Households Rate. For this estimation, the national rate of qualifying households was assumed within each pilot area because the locations of the pilot communities cannot be assumed. This is likely a conservative estimate considering the pilot communities will be purposefully selected. However, the enrollment rate (discussed below) is optimistic, which could offset this assumption.

Enrollment Rate. The enrollment rate among eligible households was assumed based on size of the utility. The lower range of the funding estimate assumes an 80% enrollment rate for rural utilities to a 25% for utilities serving more than 500,000 people. The Disadvantaged Community category was assumed to have 80% enrollment. The upper range of the funding estimate assumes a 90% enrollment rate for smaller utilities to 50% for utilities serving more than 500,000 people. The disadvantaged community category was assumed to have 90% enrollment. The pilot is likely to necessitate significant people power to engage eligible households. Eligible households need to understand the program exists and may need to provide documentation to verify eligibility. The assumed enrollment rates varied by size are optimistic and much higher than real-world CAP enrollment rates. Particularly for large or very large utilities, even a small percentage of their eligible population would represent a significant number of people who would require people power to get them enrolled.

Size of Utilities. The pilot categories are stipulated in IIJA by type of utility. For rural, medium, and 100,001-500,000 utilities, the average population served within each category was assumed, based on a SDWIS data pull of community water systems in all states in April 2024. The >500,000 category assumed the median population served since there is no upper bound. Large outliers would likely push the average population served for the very large category higher than functional for this purpose. The disadvantaged community category was assumed to have 3 rural, 2 medium, and 3 large utilities. About a third of states prioritize water utility size in their disadvantaged community criteria (U.S. EPA, 2022), which was the rationale for assuming 3 rural utilities within the Disadvantaged Community category.

Population Served	IIJA Size Definition Classification	IIJA 50109 Pilot	Assumed Population for Estimate
0 – 10,000	Rural	8	1,189
10,001-100,000	Medium	8	28,928
100,001 -500,000	Large	8	190,737
>500,000	Large	8	822,600
Disadvantaged Community (size unspecified)	–	8	79,204

Administrative Costs. There is a 20% administrative cost (15% grantee, 5% agency) included in the estimation for the pilot.

Inflation. There is a 4% inflation estimate included in the estimation for the pilot. This percentage is higher than the annual inflation rate to reflect the average increase of water and wastewater bills.

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Kayleen Herbstritt

From: Katelyn Bizzak <katebizzak@icloud.com>
Sent: Monday, February 17, 2025 4:41 PM
To: Kayleen Herbstritt
Subject: [EXTERNAL] The Beauty Bar

External Sender: Use caution with links/attachments.

Katelyn Bizzak
Co owner
The Beauty Bar
17 Field St
Kane, PA 16735
2/14/25

Dear Pennsylvania Public Utility Commission,

I am writing on behalf of The Beauty Bar , LLC to express serious concern regarding the recent water rate increases approved for Pennsylvania American Water. These rate hikes have placed a substantial financial burden on our business and are making it increasingly difficult to manage operational costs.

Water is essential to our daily operations, including customer services, proper sanitation, & basic water usage. The increased rates have caused our water expenses to rise adding to the growing financial pressures faced by businesses in our community. If these rates continue to rise, we may be forced to make difficult decisions, such as adjusting prices yet again, reducing staff hours, or limiting services.

As a business invested in the Kane community, we urge the Pennsylvania Public Utility Commission to reconsider these rate increases and explore solutions that would lessen the financial strain on small businesses. Measures such as phased increases, alternative rate structures, or small business relief programs could help ensure that local businesses can continue to operate and support the local economy.

We appreciate your time and consideration of this issue and urge you to take action to address the concerns of businesses in Kane.

Sincerely,

Katelyn Bizzak
The Beauty Bar, LLC
Sent from my iPhone

Gmail **Kayleen Truden <kaytruden@gmail.com>**

Water bills

1 message

jimbo elinski <jimboelinski@gmail.com> Sun, Feb 16, 2025 at 8:22 AM
To: "kaytruden@gmail.com" <kaytruden@gmail.com>

James Elinski / owner/operator of Jimbo's Laundromat at 397 1/2 North Fraley St. , Kane,Pa 16735
814-594-3259
email jimboelinski@gmail.com

February 16,2025

Dear Pennsylvania Public Utility Commission,

I am writing on behalf of my business, Jimbo's Laundromat at 397 1/2 North Fraley St. ,Kane ,Pa 16735 to formally express my concerns regarding the recent water rate increases approved for Pennsylvania American Water and the significant financial burden they have placed on my business. As a laundromat operator in Kane, we depend on water for the proper washing and rinsing of our customers clothes and other belongings and these increases are making it increasingly difficult to sustain our operations.

Since the rate increase took effect, our water expenses have risen to the point that I will need to raise my washing machine prices for the second time in a year, this is making it very hard for my customers to afford to wash their clothes on a regular basis adding to the financial challenges already faced by rural citizens and small business owners. These additional costs may force us to make difficult decisions such as raising prices even more which would not only affect our business. but would financially burden our customers.

We urge the Pennsylvania Public Utility Commission to reconsider the impact these rate increases have on small businesses like ours. We request that the Commission explore possible solutions, such as phased increases, small business relief programs, or alternate rate structures that lessen the burden on local businesses.

I would appreciate the opportunity to further discuss this matter and provide more insight into how these rate increases are affecting our business and community. Please feel free to contact me at email: jimboelinski@gmail.com or 814-5943259. Thank you for your time and consideration.

Sincerely Jim Elinski

The Lutheran Home at Kane

100 High Point Drive
Kane, PA 16735-9673
Phone: 814-837-6706
Fax: 814-837-1051
www.lutheranhomekane.org

February 7, 2025

Dear Pennsylvania Utility Commission

I am writing this letter on behalf of The Lutheran Home at Kane. We are a Continuum of Care Retirement Community with a 90-bed skilled nursing facility, a 33-bed personal care home, and 6 cottages for independent living.

As a small, stand-alone, non-profit facility, we have seen a tremendous increase in our water/sewage bill. In fact, it has more than doubled since January 2024. Our January 2024 bill was $8,605 compared to our September 2024 bill which was $21,632. This increase in utility has caused a significant financial strain on our facility. We budget for all expenses but there was no way to budget for such a horrendous increase. These dollars could be used to purchase much needed capital equipment in our nursing home such as hoyer lifts, sit-to-stand lifts, showers, and therapy equipment. During a challenging time when food prices have increased and reimbursement for healthcare providers has decreased, and now we are being taken advantage of by our water company, could all lead to disaster as senior living facilities all around us continue to close permanently.

We have requested the water company to inspect our water meter to ensure it is working correctly as these bills are absurd. We have worked with PA American Water in the past by donating land for 2 of their large holding tanks which is on LHK property.

I reached out to another nursing facility in Elk County who has a 120-bed nursing home at 80-bed personal care home and spends on average $7,000/month for water and sewage combined. Keep in mind they care for 77 more residents daily than The Lutheran Home at Kane!

Now, more than ever, we need your help! I urge you to investigate PA American Water and their outrageous charges.

Thank you for your attention to this matter.

Sincerely,

Charlotte Floravit

Charlotte Floravit, NHA, PCHA, PHR
Chief Executive Officer

230 Clay Street * Kane, PA 16735

PA American Water
Re: Kane Borough Water Rates

February 7, 2025

To Whom It May Concern:

My husband and I own the Kane Manor Inn in Kane, PA, a historic Bed & Breakfast that was once the residence of Civil War General and town founder, Thomas L. Kane. The Inn comprises a large 18,000 sq ft building and another 3,000 sq ft building. We are also renovating an additional house, which is uninhabited and has only one operational toilet and one sink.

Given its original construction as a large residence, we recognize that our water usage exceeds that of an average household. However, our water costs have escalated significantly, making them one of our highest monthly expenses and threatening our business operations.

For instance, during our peak season (summer), our water/wastewater bill for the larger building amounted to $689.54 and $1,096.26 (June/July 2024), respectively, while the smaller house incurred $766.23 and $188.51 (June/July 2024). This totals $2,740.54 in just two months for water consumption. This is not due to leaks.

Moreover, our uninhabited house with minimal water usage was billed $61.14 and $57.72 during the same period, despite no water use apart from a few toilet flushes.

Given the low per capita income in Kane Borough and McKean County, we cannot adjust our rates to match those of Bed & Breakfast in larger markets. Raising rates is not feasible. The local economy, primarily driven by tourism during the summer and fall, depends on establishments like ours. If we were forced to close, it would negatively impact local restaurants, stores, and the broader town economy.

Please consider how the water rates affect our business, other businesses, and residents of Kane, as it has a strong impact on the economic health of the entire region.

Debra Miller, PhD
Owner, Kane Manor Inn

TEXAS HOT LUNCH

HOME OF THE ORIGINAL 'TEXAS HOT'

&

4 SONS DINING ROOM

24-40 FIELD ST

KANE, PA 16735

web: www.texashotlunch.com -- email: texashot.lunch@verizon.net

PHONE: (814) 837-8122 SERVING THE COMMUNITY SINCE 1914 FAX: (814) 837-6570

February 17, 2025

To whom it may concern:

This is to inform you how much our water bill has gone up since 2020.

2020 - $8,254
2021 - $10,158
2022 - $14,726
2023 - $15,834
2024 - $18,957

As you can see, since 2020 our bill has increased over $10,000. Running a business is hard enough, then we must deal with price gouging from our utility companies.

Sincerely,

Michael J. Bechakas, owner

CUSTOM BUILT LLC

www.custombuiltmfg.com
www.facebook.com/custombuiltm

800.540.5151
814.837.6053

dangeloscustombuilt@icloud.com
PO BOX 160 KANE, PA 16735

700 N ELKAVE KANE, PA 16735

HIGHEST QUALITY HEAVY DUTY WRECKERS

SINCE 2006

To Whom It May Concern:

Custom Built's water bills (4) have been continually rising for a few years. It got so bad at one point, we had the water company come in, check all our meters, and replace meters to try and alleviate some of the costs.

We wash heavy wreckers at our location weekly. Paying the sewage on that I do not feel is right, its literally our money just going down the drain. We like to give back to the community every chance we can, and with these rising water bills, we have had to focus our time and money on ways to accommodate these rising water prices.

Courtney Dangelo

COURTNEY DANGELO

Kayleen Herbstritt

From: Cory Bell <cory.m.bell1982@gmail.com>
Sent: Monday, February 17, 2025 6:25 PM
To: Kayleen Herbstritt
Subject: [EXTERNAL] Water bill

External Sender: Use caution with links/attachments.

Sorry I'm just now seeing this. I also emailed and mailed in my concerns to the state as we believe this is absurd for a public utility to cost as much as it does. I recently retired from the Army after serving 24 years, we decided to move back to be close to family. We closed on our house in October and moved in on the 18th of December. I was scheduled to go back to Texas and close out my army chapter by myself leaving my family here. Well, prior to my departure around the first week of January we received our first water bill for the month of November, mind you no one was living in the house. The bill was still nearly $200. I immediately called after hearing the rumblings around town of the high prices. Their recommendations were to see if I had a water leak, which I gladly took the offer. To no surprise-there was no water leak. There was no reason mine could possibly be $200 with not a sole in the house. It was fixed and credited to the account-that was the first of many issues we've had along the way ever since.
We've had the privilege to live across many states while serving in the Army. North Carolina for over 10 years, two bases in Texas on completely different sides, Louisiana, New York, and Alaska. Of all the places we've lived our water bills were nowhere remotely close to what we're spending now. And yes, before anyone asks, our sewage was also included with most bills. I'm dumbfounded how ridiculously expensive the water bills have gotten in this remote area. How is it feasible for a company to cripple households and expect them to survive, force them to choose between feeding their families or playing simple utilities. Yet here we are in 2025 battling greed for simple water bills because a company has been getting away with it.
Since living here for nearly 14 months now I can honestly say we have not had a water bill below the $200 mark and have surpassed $400 . The simple fact of opening the water bill each month makes me frustrated. Choosing to move back here was our decision, one we made freely and with all intentions of moving back to a close knit community. I certainly wish these utility prices were a bit more forthcoming-it certainly would have swayed my decision.
Extremely disappointed with the financial hardship this places on folks month in and month out. I'd like to believe something can be done and will be shortly.

Please let me know how we can help. Below are the monthly costs for our water bills. I wrote them down and unfortunately I forgot which month was which. I know for a fact $401 was August!
240
315
218
249
227
308
401
372
361

291
249
312

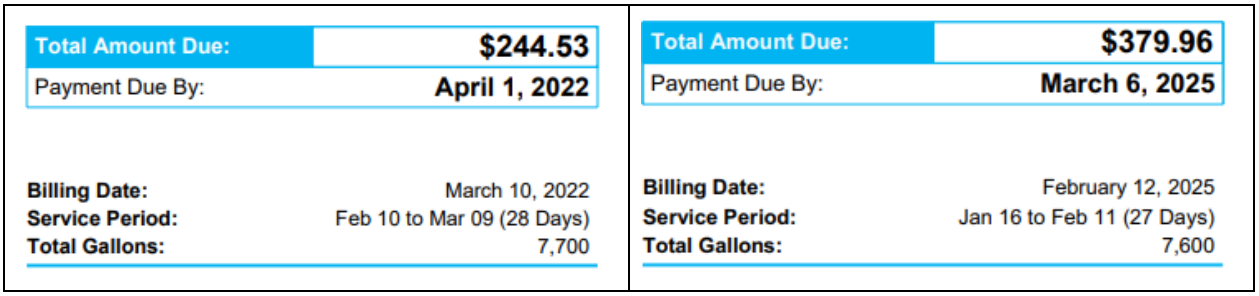
Commonwealth of Pennsylvania
Pennsylvania Public Utility Company
400 North Street
Harrisburg, PA 17120

February 17, 2025

To Whom It May Concern,

I am writing to express my deep concern regarding the excessive water bills my family and others in our rural community are facing. As a household of five, our 12-month average bill is $364.32 a month. These costs are unreasonably high compared to national and state averages for similar-sized households. According to the National Association of Clean Water Agencies, the average American water bill is $50.61 and the average American sewer bill is $71.16, **making our rates three times higher** than the norm.

We have owned our home in Kane since 2011. Since PA American Water took over the system, our water and sewer bill has **nearly quadrupled**. In the three-year lookback available in PA American Water's online system, we can see that we are paying at least $100 more per month, though our family and home size are unchanged.



Total Amount Due:	**$244.53**
Payment Due By:	**April 1, 2022**
Billing Date:	March 10, 2022
Service Period:	Feb 10 to Mar 09 (28 Days)
Total Gallons:	7,700

Total Amount Due:	**$379.96**
Payment Due By:	**March 6, 2025**
Billing Date:	February 12, 2025
Service Period:	Jan 16 to Feb 11 (27 Days)
Total Gallons:	7,600

For families in underserved rural areas like ours, these fees place an undue burden on household budgets, forcing difficult trade-offs between essential needs. We do not have an alternative service provider, which means we are effectively trapped with no recourse but to absorb these costs, which continue to rise.

Water is a basic necessity and pricing should reflect fairness and affordability. I urge the PUC to require Pennsylvania American Water to reassess its fee structure and also consider options like tiered pricing, subsidies for rural customers or expanded financial assistance programs. It is imperative that action be taken to ensure that families and businesses in our community are not forced to choose between water and other basic necessities.

I appreciate your time and attention to this matter and look forward to your response regarding what can be done to address this issue.

Sincerely,
Melanie C. Clabaugh
Borough of Kane Resident and Council Member

22 Pine Avenue, Kane PA 16735
570-490-8773

To Whom It May Concern:

Life is hard! Even with two full-time professionals making a good wage together for their family. Life is hard! Raising kids, paying for college, trying to buy healthy food for your family, paying for at least one car that can take you safely out of town 30 thousand miles or more. Life is hard!

What would make life a little less difficult for all of us as a community is to manage paying a more reasonable water and sewage bill. My parents are lifelong residents of Allegheny County in Pgh, Pa which is 14th out of 67 in property taxes (compared to McKean County at 50). SO, I decided to investigate their water bill. Even with the rate cost that increased by 7% when they merged water and sewage bills, they are still paying considerably less than we are.

I am not sure what the solution is but I sure would be willing to find a viable solution for all. The population is rural, Pennsylvania is already suffering. When I first moved here to teach in 1997, Kane PA had a population of 4,276. Our population is continually dropping despite our best efforts to revitalize. In 2023, our population decreased to 3,499! We cannot continue to have people leave; this area will not be able to flourish.

Life IS hard! Paying our water bill does not and should not have to be!

Thank you,

Deb Szymanski

February 17, 2025

To whom it may concern,

Regarding the water and sewer bills in Kane, and for comparison, we migrated here from Lancaster county in 2021. Water and sewer were billed separately there with each about $30 to $35 a month depending on usage. We had three adults living there with 2 working so we both took showers daily. We moved to Kane upon retirement due to the re reduced housing costs. We were not aware of the huge difference in the cost of water and treatment, but learned quickly as our 2nd summer was spent watering new sod and resulted in several $400+/month bills. We made some changes to reduce consumption including each of us limiting showers to 2 a week. And still, our bills average over $200per month. That is 3 times what we were used to. As retirees on a fixed income, we have learned to be frugal and often seek cheaper options, but in this case there are none. Last month our bill rose unexpectedly to over $300.00 with no reason we could determine.
According to Zillow the average home value in Kane is $103,000. A mortgage with 20% down would be approximately $655 per month so a $200 to $300 a month additional cost makes a significant impact on all residents.

Sincerely,

Mark and Dyan Eisenberger

38 Pine Avenue
Kane, PA 16735

February 17, 2025

To Whom it may concern,

We moved into our home at 29 Pine Avenue, Kane, PA 16735 in October 2024. Our first water bill was $500 dollars. We thought this was a mistake until we heard about the ongoing criminally high water and wastewater bills. Since that time we have endured this problem.

Attached are our most recent bills. We find to be outrageous and illegal. And we want something done to correct this problem.

John Johnston

Dear American Water,

I want to bring to your attention the impact all of the recent increases has had on the families living within the borough of Kane. Not only has it caused people to think twice about moving here and wanting to sell their current homes, but its creating an incredible financial burden on families that were already trying to stay afloat with the low income jobs offered within our area. I also have to question how the figures are being read for billing as there is no way that we, as a community, have used the most water and waste in the month of January compared to other months in the year, including summer months of outdoor play and gardening.

I have several friends that live in bigger cities such as Columbus, Ohio and Toledo, Ohio that pay quarterly what we are expected to pay MONTHLY. Even local cities such as Bradford, PA doesnt see the rates that the Kane residents are forced to pay.

In closing, please consider the income/location of this area when it comes to utility pricing. It is absolutely ridiculous to expect Kane residents, many on fixed income to pay these rates any longer.

Thank you for taking the time to hear this message and the messages of many other concerned citizens.

Sincerely,

Emily Truman

Kayleen Herbstritt

From: heather hallberg <hrhallberg@yahoo.com>
Sent: Tuesday, February 18, 2025 11:59 AM
To: Kayleen Herbstritt
Subject: [EXTERNAL] Water bill statement

External Sender: Use caution with links/attachments.

I am writing this statement about my water bill which I consider to be very high. I have a 2-3 person household and have no washer or dishwasher and use very little water and when I have compared my bill to other people's I have noticed that they are using twice as much water as I am but are only paying around $30-$40 more than I am. I have been told that is because they are on a discount program and they passed the information along to me and when I applied I was denied because I am making sure my bill is being paid and not spending my money on other needs. I feel as though something needs to be done to help everyone in this town not all of us can afford to pay such high bills when most of us don't make enough money to do so.

Heather Hallberg

Kayleen Herbstritt

From: Jami Ellis <jamikukla@gmail.com>
Sent: Monday, February 17, 2025 11:01 AM
To: Kayleen Herbstritt
Subject: [EXTERNAL] Water bill

External Sender: Use caution with links/attachments.

Hello,

I love at 418 Park Ave in Kane, PA.
My water bill has recently jumped from around $200 to my last 2 bills being $550 and $447. This is with a supposed use of 11,000 and 9,500 gallons of water! Pretty much impossible.
When I called the water company, they stated, yeah that seems a bit off… however, nothing was done to investigate the problem. This is absolutely ridiculous in comparison to people that I know that live in Warren who use Pennsylvania American Water whose water bills are between $60 and $75 dollars for the same family size as mine!

I am passing along this information to you for your case with the water company and borough. I hope it helps and thank you for advocating!

Jami Ellis

Kayleen Herbstritt

From: JOE P <upsjoe40@yahoo.com>
Sent: Monday, February 17, 2025 12:05 PM
To: Kayleen Herbstritt
Subject: [EXTERNAL] Water bill price

External Sender: Use caution with links/attachments.

My wife and I have lives at 27 Spruce Ave. for over 30 years and this is the highest we've ever paid for our water with just two of us living here. Even when we had a family of four living in the home, our water/sewage was never this high! We pay over $220 a month, which is absolutely ridiculous because we don't have that much laundry and we do not shower every single day. We don't run the water to waste, especially now with the prices being so high we are really trying to conserve what we use. My brother who lives in Union City only pays $50 a month! And that just got raised because living on a main street where his house is it was an old church and it's pretty big! And my sister who lives in Bradford Pennsylvania she only pays every two months and when I told her what we pay, she said that's absolutely crazy! She said they don't pay more than $95. She said they even put a $25 charge from the city for storm drains and that's included in that price. So I'm writing this to tell you if you could submit this with the rest of the complaints for our town it would be greatly appreciated! If I need to, I can go to the bank and get statements of checks that we have written out. It just discusses me that our water sewage bill is higher than our gas bill! I can remember when we used to pay every three months and it was not even close to this! I do understand that Kane does need to have all of its sewage pipes and waterlines to be removed and reinstalled. How I know this? Is because two years ago our basement got flooded and they were telling us that it was something to do on our side of line and then when the company came in, they told us it was the sewage line. And when they got the contract with the Kane Bureau they did not realize how bad all of Kane is and what needs replaced. And people are complaining all the time of things happening in their home with their either lines breaking their basements being wet. And also, we all know the prices that have gone up! But as a member of this community, I don't think we should be the ones to suffer to pay the price when this should've been kept up with over all the years we have been living here and paying our taxes!
Thank you for taking the time to read this. Appreciate you doing this for our community. And I pray that this gets settled so that the prices can come down for all of us who struggle from paycheck to paycheck. We should not have to worry about whether we can flush the toilet or not or if it's OK to take a long shower or soak in the tub!

Sincerely,

Joseph Proesl
Joanne Proesl

Sent from Yahoo Mail for iPhone

Kayleen Herbstritt

From: jdmteg1997@yahoo.com
Sent: Monday, February 17, 2025 9:23 AM
To: Kayleen Herbstritt
Subject: [EXTERNAL] Pennsylvania American Water Complaint

External Sender: Use caution with links/attachments.

Dear PAPUC,

My name is Justin Cherry, and I am a newer resident to the Borough of Kane, PA. I had moved here from a town about 8 miles away, where my water/sewage bill was around $60 a month. I was exited to move to a town like Kane, which had more to offer, until I received my first sewage/ water bill from American Water. My bill now ranges between $150-$300per month! Only 2 people reside at my single family home, so I thought there was a mistake. I had reached out to other members of the community, who had told me this high bill is normal here. Normal? That's not normal, that is an unacceptable amount. With the amount of inflation we are all already struggling with, a water/sewage bill this high is definitely in no one's budget. Members of our community are forced to put less food on our table, and completely change our financial lives due to these unacceptable bills. I had just purchased my home in Kane in November 2024, and already I want to move due to Pennsylvania American water. It is hard to believe that there is a 400% increase in my water/sewage bill, moving 8 miles away from my hometown. I really hope something can be resolved, for the sake of myself, other members of the community, and especially for the members of the community on a fixed income.

Kayleen Herbstritt

From: Kate Barnard <kbarnard329@gmail.com>
Sent: Monday, February 17, 2025 11:45 AM
To: Kayleen Herbstritt
Subject: Re: [EXTERNAL] PUC Statement

Sure, it's 431 Greeves Street, Kane, PA.

On Mon, Feb 17, 2025, 11:42 AM Kayleen Herbstritt <Kayleen.Herbstritt@halliburton.com> wrote:

> Thanks for your notes Kate! Do you mind stating your service address in this email thread?
>
> **Kayleen (Truden) Herbstritt**
> HR Specialist I, Talent Acquisition – Northeast, GOM
>
> 4999 E. Pointe Dr.
> Zanesville, OH 43701
> Kayleen.Herbstritt@halliburton.com
> +1 432-571-8695
>
> HALLIBURTON
> LinkedIn | Instagram | YouTube | Twitter | Facebook
>
> **From:** Kate Barnard <kbarnard329@gmail.com>
> **Sent:** Monday, February 17, 2025 10:36 AM
> **To:** Kayleen Herbstritt <Kayleen.Herbstritt@halliburton.com>
> **Subject:** [EXTERNAL] PUC Statement
>
> **External Sender: Use caution with links/attachments.**
>
> We moved to Kane from Port Allegany. The utility prices were comparable between the two towns. However, when the sale took place, which the citizens had no say or control over, our bills skyrocketed. Port Allegany water and sewer bills were $275.00 a QUARTER. Now, we pay just under that a MONTH. We did receive the notifications about the price hikes, but what are you supposed to do when you just purchased your first home with 2 medically needy babies? Financially, the option to purchase in another town was not there. I asked a resident what the water and sewage bills are in Port Allegany since we left, and they are approximately $285.00 a quarter. Still, incredibly low and good quality...I might even say better quality.

The price of everything has increased exponentially and it seems this company is another example of the rich getting richer at the expense of "the little people".

This e-mail, including any attached files, may contain confidential and privileged information for the sole use of the intended recipient. Any review, use, distribution, or disclosure by others is strictly prohibited. If you are not the intended recipient (or authorized to receive information for the intended recipient), please contact the sender by reply e-mail and delete all copies of this message.

Kayleen Herbstritt

From: Katie Dase <katiedase@yahoo.com>
Sent: Monday, February 17, 2025 12:56 PM
To: Kayleen Herbstritt
Subject: [EXTERNAL] PUC- water KANE, PA

Categories: Red Category

External Sender: Use caution with links/attachments.

To whom it may concern, I Adam Dase, am fed up with the high-water bills in Kane, PA. I have a family of 5 and we live with a median income. Myself, being the only one working currently while my wife finishes nursing school. Since moving into our home in 2019 we have noticed a drastic increase in our water bill, approx. doubled or more. Water is a necessity for basic human survival. The increase in prices have burdened our financial stability, despite making changes to conserve water. Here a few reasons why the water prices in Kane need to decrease and not increase yet another time.

Water is a fundamental necessity for life, and increasing its price in a rural community would have significant negative consequences. While infrastructure improvements and maintenance costs are important considerations, raising water prices disproportionately affects those who are already economically vulnerable. Below are several compelling reasons why increasing water prices in a rural community is not a viable solution.

1. Economic Hardship for Residents Rural communities often have lower average incomes compared to urban areas. Many residents rely on agriculture, small businesses, or seasonal employment, all of which can be unpredictable sources of income. Increasing water prices would place an undue financial burden on households already struggling to make ends meet, potentially forcing them to choose between water and other essential needs like food, healthcare, and education.

2. Impact on Agriculture and Livelihoods Many rural residents depend on agriculture as their primary source of income. Farming requires significant amounts of water for irrigation, livestock, and processing. Raising water costs would directly affect farmers, leading to higher production expenses and, ultimately, increased prices for consumers. This would create a ripple effect, making local agricultural products less competitive and threatening the sustainability of farming operations.

3. Public Health Concerns When water becomes too expensive, families may be forced to ration their usage, leading to unsanitary conditions and potential health risks. Reduced access to clean water can increase the spread of illnesses, particularly in households with children and the elderly. Safe and affordable water is essential for maintaining hygiene, preventing disease, and ensuring overall community well-being.

4. Hindrance to Economic Growth Affordable water is a key factor in attracting businesses and encouraging local economic development. Small businesses, which form the backbone of many rural economies, rely on water for various operations. Higher water costs could deter potential entrepreneurs from setting up businesses, limit expansion opportunities, and reduce job creation in the community. I know that many local restaurants and business are feeling the increase in cost and therefore have had to increase prices for their consumers as well, again with a ripple effect.

5. Unfair Disproportionate Burden Unlike urban areas, rural communities often lack alternative water sources such as large-scale water recycling or desalination plants. Higher water prices would unfairly target rural residents who already have limited options and fewer resources to adapt. Any financial strain placed on these communities exacerbates existing inequalities and widens the urban-rural divide.

6. Alternative Solutions Exist Rather than raising water prices, local governments and utilities should explore alternative funding mechanisms, such as seeking state and federal grants for infrastructure improvements, implementing water conservation programs, and improving efficiency in water distribution. Encouraging responsible water use through education and incentives can achieve cost-saving goals without placing undue hardship on rural families.

Increasing water prices in a rural community is not just an economic issue—it is a social and ethical one. Water is a fundamental human right, and any policies regarding its cost must prioritize accessibility, affordability, and sustainability. By exploring alternative solutions, local leaders can ensure that communities continue to thrive without placing an unnecessary financial burden on residents.

I think I speak for the entire community when I say that this needs to stop. We all love our town, but these high water costs have many looking outside the borough to live. We want to keep our town thriving and flourishing, not deter people from coming. And we all want an affordable lifestyle without having to worry about the ever-increasing cost of water. Many are being forced to choose between water and food, and that should never be the case.

Thank you,
The Dase family

Bryan and Kayla Morgan

701 Smithfield Ave Kane PA 16735

We are a family of 4. Our water bills usually around $300 a month. In order to pay it we need to split our payment into 2. $150-$160 every 2 weeks. Our kids bathe every other day unless absolutely needed And we try our best to save water. This is absolutely insane for a family of 4.

Even though it appears we are always having left over on the bill that is not the case as we are struggling to pay and keep up. The water bill keeps going UP and UP. PENNSYLVANIA AMERICAN WATER HAS THE MONOPOLY OVER A SMALL TOWN JUST TRYING TO KEEP UP.

Our town can't even use sprinklers for their kids in the summer because their bills go up over $500 a month. For about 20min of sprinkler time.

Please consider lowering the prices for our Small Town.

Thank you

Kayla Morgan

Kayla Morgan

Kayleen Herbstritt

From: Krista Jamerson <kristadk2@yahoo.com>
Sent: Monday, February 17, 2025 12:47 PM
To: Kayleen Herbstritt
Subject: [EXTERNAL] Kane Water Bill- Jamerson

External Sender: Use caution with links/attachments.

Hi Kayleen,

I'm out of town and I am unable to access my water bills for exact numbers right now, but I can tell you that we have seen a huge jump in our bills over the last year. We live at 1023 Jo Jo Rd, Kane PA 16735 and we are a family of five. We know we use more water than the average family so we didn't complain about our $250 water bills. However, our bills are now consistently over $400 and even a couple of them were $500! We haven't changed our habits but the bills have doubled.

We appreciate you gathering information from the community and speaking up on our behalf. Water is a basic necessity and we are being held hostage to these insane prices. Everyone that we know complains about it so we know it's not just us noticing the ridiculous price hike.

Thanks again!

Mike Jamerson
Krista Jamerson

Sent from my iPhone

Kayleen Herbstritt

From: Larry Wise <p_r_wise@yahoo.com>
Sent: Monday, February 17, 2025 10:30 AM
To: Kayleen Herbstritt
Subject: [EXTERNAL] American Water Rates

External Sender: Use caution with links/attachments.

Dear Kayleen,

The American Water sewer and water rates are excessive and are severly limiting the budets of middle and working class people. The rates have seemed to gone up since American Water purchased the sewer system from Kane. Kane was told the sewer system was valued at 17 million dollars. Kane sold the sewer system for 12 illion dollars. This gave American Water five million dollars to do improvements to the sewer system. The rates seemed to strongly go up after American Water started improving the sewer system in the last couple years.

I keep records of my bills and I will show what I have paid in January over the last five years.

2021-$100.33
2022-$142.19
2023-$180.43
2024-$183.67
2025-$292.81

The bill increase from 2021 is almost two hundred percent. The increase over last year was nearly on hundred ten dollars. If American Water could please adjust their rates and fees to something more resonable. They would have less unpaid water and sewer bills. This would also put some relief in the working and middle class strained budgets.

Thank You,
Larry W. Wise

Yahoo Mail - Email Simplified

Kayleen Herbstritt

From: MARLENE RICH <mrrich541@comcast.net>
Sent: Monday, February 17, 2025 2:01 PM
To: Kayleen Herbstritt
Subject: [EXTERNAL] Pennsylvania water letter

External Sender: Use caution with links/attachments.

Pennsylvania American Water,
I am writing this on behalf of myself, my family, my friends and definitely the elderly.
The cost of our water/sewage bills in Kane has become out of hand. I don't understand how our town's bills are so out of line with surrounding areas.
I am a single women, on social security, living alone and my bill states that last February I used 1,500 gallons but this year I used 2,300!? This baffles me.
The cost has doubled for sewage. I am the same person, I don't believe that my habits have changed greatly so I cannot believe that my usage has increased that much.
I am very fearful for my children and their families, my friends and others. If these rates continue to increase I seriously doubt that some will have the resources to pay these bills.
Please consider our community and research these requests. Our town needs your assistance.
Respectfully submitted,
Marlene Rich
541 Hacker Street
Kane PA 16735
Mrrich541@comcast.net
814-331-6064
Xxxx-xxxxxxxx1738

Megan E. Harris

409 Park Ave. Kane, PA 16735

February 5, 2025

To Whom It May Concern:

This letter is written in regards to the telephonic hearing of Kayleen Herbstritt v. Pennsylvania-American Water Company. Like many other Kane residents, I have been greatly impacted by the significant increase in cost of my water and sewage utility bill.

When I first moved into my residence, Pennsylvania-American Water Company had not yet taken over and water was included in my monthly rent payment. A month later, my landlord informed me that water/sewage would no longer be included in my monthly rent as there were upcoming changes with the utility companies.

Since this change, I have seen my water bill reach as high as $200.00/month, for a three person household. A two hundred dollar increase in expenditures for a low-income household can cause dire consequences and force many sacrifices to be made elsewhere monetarily- as water is not a luxury expense, but a life sustaining substance.

My home has adopted all of the “money-saving tips” that PA-American Water Company has suggested to its consumers. I have applied for the assistance program offered by the aforementioned, which has saved me roughly $40-50/month, thankfully. I have also recently enrolled in budget billing in an effort to, at the very least, be certain of the amount I will be billed each month. Even with these changes, the amount per month is still outrageous.

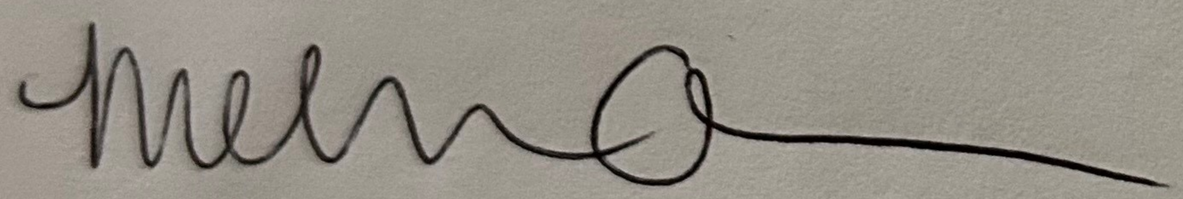
I sincerely hope Mrs. Herbstritt’s efforts will be recognized and that change will be considered. Thank you for your time and attention to this matter.

Regards,

Megan E. Harris

To Whom It May Concern:
Since 2020, our water and sewer bill has been continuously rising with no difference in usage. It is not a slight difference either. After seeing a lot of Kane, PA residents mentioning rising prices, it has made me realize that PA American Water is drastically overcharging us all. I looked up some numbers, and per Google, the average water bill for a family of 5 can range from $40.00 to $100.00 a month, give or take some. So how and why is my family of 5 being charged $324.24 for the month of January. The national average amount of a water bill is $49.00 a month, yet I have seen MANY Kane residents claiming to be paying hundreds of dollars a month. When a giant company is overcharging you for utilities it makes you feel helpless. I truly hope that with this information, and with all of the other information provided to you today, that you do your very best to assist us in this matter. Thank you for taking the time to hear us. It is most appreciated.

Melissa Olson



To whom it may concern,

The water rates in my community of Kane, Pennsylvania, have increased at alarming rates within the most recent 3 years, negatively impacting the financial security within my household. With the significantly increasing rates, my husband and I have had to put other needs-based home repairs and projects on hold to be able to pay for the monthly cost of water. We are a two-person household living and working in rural Pennsylvania, paying over $200 monthly for water. These costs are not sustainable for the middle-class income status of our household. This not only negatively impacts our household, but also our neighbors, business establishments within the Kane community, and local citizen's ability to contribute back to our community through small business engagement.

Sincerely,

Nicole Shrubb and Sean Rugh

501 Bayard St.

Kane, PA 16735

2-17-25

To whom it may concern.

The water bills in Kane Pa are ridiculously high. I moved to Kane several years ago from living in Lake City Pa near Erie. Thinking moving here would be a lot cheaper but I was wrong! Our water bills in a much more large area was only 150.00 <u>quarterly</u> and that included sewage and garbage. How can a town of much cheaper living be much higher! my bills now to American water is over 200 <u>monthly</u>! There is no reason for this. Especially when I dont run a dishwasher and only do laundry once a week. Something needs done about this! Esp. There are towns 15mins away not even paying close to this!

Figure this out!

Nicole Swanson

Month/Year	Water Usage Charge	Sewage Usage Charge	Meter Units	Total Bill
Jan-23	1.31	1.07	51	185.58
Feb-23	1.31/1.61	1.07/2.10	64	241.23
Mar-23	1.61	2.1	50	243.04
April-23	1.61	2.1	47	231.93
May-23	1.61	2.1	51	246.77
June-23	1.61	2.1	65	298.72
July-23	1.61	2.1	52	250.46
August-23	1.61	2.1	40	205.93
Sept-23	1.61	2.1	55	261.59
Oct-23	1.61	2.1	43	217.06
Nov-23	1.61	2.1	69	313.55
Dec-23	1.61	2.1	45	224.49
		2023 Averages =	52.66666667	243.3625
Jan-24	1.61	2.1	76	339.3
Feb-24	1.61	2.1	65	297.85
Mar-24	1.61	2.1	57	268.26
April-24	1.61	2.1	56	265.22
May-24	1.61	2.1	61	283.77
June-24	1.61	2.1	64	294.9
July-24	1.61	2.1	60	281.94
August-24	1.61	2.1	43	218.4
Sept-24	1.61/1.88	2.10/2.61	53	273.4
Oct-24	1.88	2.61	37	204.89
Nov-24	1.88	2.61	43	231.82
Dec-24	1.88	2.61	54	281.2
		2024 Averages =	55.75	270.0791667
Jan-25	1.88	2.61	66	335.07
Feb-25	1.88	2.61	46	245.29
		2025 Averages =	56	290.18
		Total Rate Increase in 26 Months =		Water 43.5%

Rate Increase Water/Sewage

23%, 96%

17%, 24%

Sewage 143.93%

To whom it may concern,

I am writing express my concern with the unsustainable water and sewage rate increases imposed by Pennsylvania American Water in Kane, Pennsylvania. I have composed and attached a spreadsheet documenting the rising costs of my personal PAWC bills. Please note that this information does NOT include any late fees incurred.

In 2 years, my water rates have increased by 43%, and Sewage rates have increased by 144%

A little perspective:

*We are a household of 5 with two incomes (we make just below the **average annual household income of $52,093 in Kane, PA**) *Censusreporter.org*

My household is forced to budget 8% of our monthly income for this ONE utility bill.

Our monthly PA American Water Bill is double our average monthly bill for Natural Gas and Triple our average monthly bill for Electric.

Our mortgage payment for a 3 bed 1 bath single home on a double lot is a mere $300.00 per month. My Water/Sewage bill has averaged $267.87 per month over the last two years, and continues to increase.

Last year in January, my household was billed for 7,600 gallons of water and charged $339.30

This year in January, my household was billed for 6,600 gallons of water and charged $335.07

I used exactly one thousand gallons LESS and my bill was virtually the same.

Conserving water alone does not resolve this problem.

I represent an average family for income/expenses in Kane, PA. As outlined above, and in the attached spreadsheet, the rates that Pennsylvania American Water are charging their consumers in this area are unsustainable. My family, and most other families in my community, cannot afford these astronomical bills and continuing rate increases. I am facing the reality of choosing between buying groceries and paying my water/sewage bill. I implore you to investigate the current rates charged, and block any further requests by Pennsylvania American Water for increases, as it would be devastating to our community.

Sincerely,

Alyse Nystrom

Month/Year	Water Usage Charge	Sewage Usage Charge	Meter Units	Total Bill	Rate Increase Water/Sewage
Jan-23	1.31	1.07	51	185.58	
Feb-23	1.31/1.61	1.07/2.10	64	241.23	
Mar-23	1.61	2.1	50	243.04	23%, 96%
April-23	1.61	2.1	47	231.93	
May-23	1.61	2.1	51	246.77	
June-23	1.61	2.1	65	298.72	
July-23	1.61	2.1	52	250.46	
August-23	1.61	2.1	40	205.93	
Sept-23	1.61	2.1	55	261.59	
Oct-23	1.61	2.1	43	217.06	
Nov-23	1.61	2.1	69	313.55	
Dec-23	1.61	2.1	45	224.49	
		2023 Averages =	52.66666667	243.3625	
Jan-24	1.61	2.1	76	339.3	
Feb-24	1.61	2.1	65	297.85	
Mar-24	1.61	2.1	57	268.26	
April-24	1.61	2.1	56	265.22	
May-24	1.61	2.1	61	283.77	
June-24	1.61	2.1	64	294.9	
July-24	1.61	2.1	60	281.94	
August-24	1.61	2.1	43	218.4	
Sept-24	1.61/1.88	2.10/2.61	53	273.4	
Oct-24	1.88	2.61	37	204.89	17%, 24%
Nov-24	1.88	2.61	43	231.82	
Dec-24	1.88	2.61	54	281.2	
		2024 Averages =	55.75	270.0791667	
Jan-25	1.88	2.61	66	335.07	
Feb-25	1.88	2.61	46	245.29	
		2025 Averages =	56	290.18	
		Total Rate Increase in 26 Months =		Water 43.5%	Sewage 143.93%

Borough of
Kane, Pennsylvania

Office of the Mayor
Brandon R. Schimp

February 6, 2025

Dear Members of the PUC,

I am writing this letter today in support of the further investigations into the PA American Water rates in Kane Borough, led by Kane resident Kayleen Herbstritt.

Located in northwestern rural Pennsylvania along the Route 6 corridor, the Borough of Kane has been making significant progress in the revitalization of the community and region. We believe strongly that an active and attractive community attracts people.

Kane is now home to the first commercial retrofit Passive House in the United States (referred to as "Six and Kane"). We are thrilled to have the PA Wilds Media Labs, the organization's first brick and mortar office space, connecting regional entrepreneurs to a wide variety of resources. We've utilized PA's Special Program Priorities (SPP) to remove blight and improve neighbor properties within our Eastern Gateway Betterment zone. And plans are currently underway for the creation of the "Kane Area Children's Museum," which will be housed in a former school building—a great repurpose of the space.

By nearly all accounts, Kane is moving in the right direction—working to increase population, increase economic development, and increase tourism in our rural area. However, this effort is being hampered by the extremely high water rates we are subject to by PA American Water. After the sale of our sewage system, the rates have increased to levels that are causing significant financial constraints on local citizens and businesses alike.

Please accept this letter as my formal request to further investigate the rates that are impacting our citizens and our local businesses. Thank you for your consideration in helping us work collaboratively to achieve our goal of an active and attractive community.

Sincerely,

Brandon Schimp

Brandon Schimp
Mayor, Borough of Kane

Kayleen Herbstritt

From: joe_sandy@comcast.net
Sent: Monday, February 17, 2025 2:10 PM
To: Kayleen Herbstritt
Subject: [EXTERNAL] Water bill

External Sender: Use caution with links/attachments.

Sent from my iPhone
Hi Kayleen,
My name is Sandra Gentile. I live at 120 Hemlock Ave. I bought my house 8 years ago when I was still living in Nashville,TN.
My water and sewage back then averaged around 60.00 a month and that was based how often we came home from Nashville. I moved back to Kane in 2021 and with 2 people living in my home our water and sewage average about 200.00 a month!! (For 2 people!!!!) I also own a home in Poland Ohio and my average water is 35.00 and sewage 35.00!
I am frustrated that this small town of Kane has such outrageous and ridiculous water and sewage bills! I don't know how our average working families can survive paying these incredibly high water bills!
I certainly hope someone can figure out what is going on with these companies and hopefully find and answer!
I certainly appreciate your time and if there is any thing I can do to help , please let me know!

Sincerely.

Sandra Gentile
joe_sandy@comcast.net

DUE TO THE HIGH COST OF THE PAWC BILLS, WE ARE QUICKLY COMING TO THE POINT OF DIPPING INTO OUR SAVINGS MONTHLY TO PAY THESE BILLS.

SUSAN J GROLEMUND

2-18-2025

February 17, 2025

Re: PA American Water

To whom it may concern:

I am a small business owner in Kane, PA having opened a small bakery, MamaSue's Cookie Jar, LLC in November 2023. This is my first need of public water and sewage in approximately 30 years as I have a well and septic system at my home.

While our local community has been overwhelmingly supportive it is difficult some months to keep it going with the increasing costs I'm facing. My PA American water bill has seemed extremely high ever since I opened. My main use of water is dishwashing using a 3-compartment sink. This gets refilled on average 3 times per day. For this, my bills have always averaged around $200 per month! This seems excessive to me, especially when I see the difference in amounts of communities around us.

I, along with all community members, would appreciate all things that could be done to look into and rectify this situation in Kane. It would be a shame to see businesses as well as individuals not come to or stay in Kane because of excessive water/sewage bills.

Thank you,

Susan Aul

Owner/Operator MamaSue's Cookie Jar, LLC

info@mamasuescookiejar.com

Kayleen Herbstritt

From: Sue Zing <suezing@hotmail.com>
Sent: Monday, February 17, 2025 7:51 PM
To: Kayleen Herbstritt
Subject: [EXTERNAL] Pennsylvania American Water bills

External Sender: Use caution with links/attachments.

Hi Kayleen,

Our water bills have been going up and up over the several years.
According to our records, water and sewage were billed separately up until our payment made on 12/20/2019.
I totaled up the sewage and water that we paid for 2019. The amount was $1956.53 which averages out to 163.00 per month. In 2024, the amount we paid was $2730.78
which averages out to be $228 monthly. Roughly $65 difference.
This year, 2025, the bills will be even higher. For January, February, and March my total bill for three months is a staggering $707.05, monthly average being $236.00.
I truly believe that when they started to bill sewage and water separately, that is when we noticed the change. Now with each year, that number has increased.

I hope this helps!

Thank you for what you are doing!

Susan Huntzinger

Kayleen Herbstritt

From: Suzanne Casamento <scasamento333@gmail.com>
Sent: Tuesday, February 18, 2025 1:44 AM
To: Kayleen Herbstritt
Subject: [EXTERNAL] 319 Greeves St

External Sender: Use caution with links/attachments.

To whom it may concern,

This was the home of my Grandparents and I now own it.
Currently, I spend 2 days a month on average here. I typically take 1 shower, do 1 load of laundry every 3 months and obviously use the bathroom. My water bill for this very conservative usage is higher than the home I live in full time with my daughter. Many people I have encountered in Kane have a $300/month water bill. Based on my bill for 2 days per month, my bill would average about $300 a month if I lived in this home full time. This is cost prohibitively and quite frankly, unacceptable. I'm happy to provide statements if needed.

Regards,

Suzanne Casamento
Sent from my iPhone

Kayleen Herbstritt

From: Tammy Fiscus <tammy.78and@yahoo.com>
Sent: Tuesday, February 18, 2025 5:42 PM
To: Kayleen Herbstritt
Subject: [EXTERNAL] Kane water bill
Attachments: Pawaterbill.pdf

External Sender: Use caution with links/attachments.

The cost of the water/sewage bills in our little town absolutely is sickening. We do not live in a big city. Kane's median household income is $45,481. Nearby towns are not paying the amounts that we are. Johnsonburg has a $10k more median household income and their bills are not as costly.

Last month's bill was a little over $100 more than previous months and I don't understand how. We weren't even home for a week. When looking at neighbors bills, we all noticed we were charged an extra $100.

James City pays their water/sewage bill every 3 months and it isn't even close to what Kane pays for one month! How is that even possible? Nobody sees a problem with what our small town pays?

The wastewater charge is insane! Not every gallon of water a household uses goes down the drain. For example, cooking, baking, drinking, filling a fish tank, etc.

We do not drink the water from the faucet because you can literally smell the chemicals. We use water from a local spring. And there's many households that are doing this now.

When you have to choose between buying food or paying your outrageous water/sewage bill, then there's a problem! I try to budget every month, but that's hard to do when the price fluctuates wildly month to month. But, the PUC keeps allowing them to increase the bill every 3 months.

My grocery bill has more than doubled over the past year. The gas and electric bills have also increased, leaving me to budget more than half of my monthly income for just 3 bills.

My parents and my brother are on a monthly fixed income, as well as a good percentage of our community. You are also making it hard for them to survive month to month.

Enough is enough, our small community cannot afford nor survive with the scandalous price of one utility bill! We are tired of "flushing our money down the toilet "!

The citizens of Kane are begging you to help us and lower the cost of utility bills.

Sincerely,
Tammy Barr (Fiscus)
23 Hemlock Ave

Kane, PA

Sent from Yahoo Mail for iPhone

February 17, 2025

KAYLEEN HERBSTRITT v. PENNSYLVANIA-AMERICAN WATER COMPANY

To Whom It May Concern:

I am writing as a concerned resident of Kane, Pennsylvania and as a concerned customer of PA American Water Company. Since PA American Water took over our sewage, our bill has doubled and some months even tripled in price.

We are a family of four with both parents working full time jobs. I would say for the most part, we have a decent income. Since the take over, my bill has went from $120-$150 a month to $250 -$350 a month. My most recent bill was $344, for a family of four, of which has been trying to cut down on water usage.

My water/sewage bill is by far my highest bill out of everything I pay out monthly and when I say highest, I mean some months it doubles my highest utility bill.

I do understand that repairs need to be done; however, what I don't understand is how they can expect a small rural town to survive this. If something isn't done soon, this town will become a ghost town and you will either see many moving out of town and/or becoming bankrupt. I have already heard of many people who won't move here due to the high water bills.

Please, help the residents in Kane get a fair shake. Before it's too late. Gas bills are higher during certain months so you can have a payment plan if needed - water consumption doesn't ever go up or down much like gas consumption would. It's not feasible for families to keep paying these outragous prices. Not to mention, these prices will never go down now. So even once repairs are made, we are still going to be paying entirely too much.

It's not fair that my kids can't play with the hose during summer months because I am afraid to open up my water bill each month.

Thank you for your time and I really hope you can take this case serious and understand where our resdients are speaking from.

Sincerly,

Tiffany Danielson

Tiffany Danielson

To Whom iT Concerns,

The water bill has double or almost Triple in The Last 4 years. IT's making iT harder and harder to pay The whole bill every month. With all The bills raising we are hardly making iT here in The small Town of Kane, PA. IT would make sense To buy Land and drill for water outside of Town, would be cheaper Than Keep Paying The high water and electric bills. Just for a CHEMICAL smell and CLOUDLY Looking water. 4 years ago our bill was aT most $160 and now iT's over $300 for a family of 3, ThaT's a hundred dollars a person a month.

Thank You,
Tom Petty
Tom Petty

Kristy Avenali

301 Oak St

Kane, PA 16735

2/5/25

Dear Pennsylvania Public Utility Commission,

I am writing as a resident of Kane to express my concern regarding the recent water rate increases approved for Pennsylvania American Water. These rising costs are placing an increasing financial strain on my household and many others in our community.

Water is an essential utility that families depend on for daily needs such as cooking, cleaning, and hygiene. The increased rates have caused my monthly bill to rise significantly, making it harder to balance necessary expenses. For many residents, including seniors and families on fixed incomes, these higher costs create a serious financial hardship.

I urge the Pennsylvania Public Utility Commission to reconsider these rate hikes and explore ways to provide relief for residents. Measures such as phased increases, expanded assistance programs, or alternative rate structures could help reduce the burden on households while ensuring access to this essential service.

Thank you for your time and consideration. I encourage you to take action to address the concerns of Kane residents.

Sincerely,

To: The Pennsylvania Public Utility Commission

We are writing in support of Kayleen Herbstritt's case versus the Pennsylvania American Water Company. For many residents of the Kane community ,the water and wastewater charges billed to them monthly have become financially burdensome.

In reviewing our bills from 2021-2024, we have noticed these significant changes:

- Monthly water use charges increased from $1.2217 to $1.8772. (Rate rose slightly over 50% in four years.)
- Monthly wastewater charges increased from $0.66 to $2.6117. (Rate almost quadrupled in 4 years.)
- Monthly standard water service charge rose from $16.50 to $18.80 (~14% increase)
- Monthly standard wastewater service charges went from $41.11 to $66.84. Although they were reduced to $40 (March 2023) and finally to $20 (October 2024), the wastewater usage charge was then increased to its highest rate - $2.6117 /billing unit.
- 3 times PAWC filed a notice of proposed wastewater acquisition and rate base addition which undoubtedly has impacted rates.

With a household of 2 (occasionally 3), our costs have increased even when our usage has not.
Example: 2022 - 41,200 gal. used / Average bill $144.54. 2024 – 38,200 gal. used/ Average bill $177.53

We urge the PUC to put a stop to these spiraling costs. Salaries, retirement pensions, and Social Security benefits do not rise at these rates! Please help rural Pennsylvanians.

Respectfully,

X James Coppersmith 2-17-2025
James Coppersmith

X Virginia Coppersmith 2-17-2025
Virginia Coppersmith

Mitchell & Tracy Rotar
325 Haines Street
Kane, PA 16735

February 17, 2025

Re. Kane, PA – Pennsylvania American Water Charges

To Whom It May Concern:

It seems rather outrageous to us that a utility company as large as Pennsylvania American Water would have to charge such astronomical rates as compared to the Kane Borough rates we once had.

Looking back to winter of 2020 our Pennsylvania American Water bill has increased from $162 to $234 in the same billing period for 2024. That's an increase of more than 44%! That is ridiculous!

That additional utility cost may mean we have to reduce our grocery bill, eliminate a contribution to the community through dining out or sacrificing heating our home comfortably in the winter in order to be able to pay the gas bill, etc.

It simply feels like the utility monopoly is taking advantage of homeowners & businesses in Kane, PA.

Please take in to consideration reducing the charges in Kane, PA.

Sincerely,

Mitchell Rotar

Tracy Rotar

Kayleen Herbstritt

From: Dannaleaha Flick <dani.rae1216@icloud.com>
Sent: Wednesday, February 19, 2025 5:15 PM
To: Kayleen Herbstritt
Subject: [EXTERNAL] American Water Statement

External Sender: Use caution with links/attachments.

Thank you so much for what you're doing! Here is our statement!

To whom this may concern,

We are writing to express our serious concerns regarding the consistently high water bills we have received for our residence located on Dawson St. in Kane. Our family has lived in multiple surrounding municipalities over the years and Kane, by far, has the highest water and sewage bills in the area. Our son has autism and the pandemic raised a lot of struggles for him. Because of this, Dannaleaha has been a stay at home mom, working diligently to homeschool and help him at home. With our water bill constantly being so high in an already difficult economy, Dannaleaha has had to return to work. Even with 2 incomes and each of us making what used to be considered "decent money", we are still struggling. We have cut usage as much as we can, but the prices are still ridiculous. Something needs to change.

Dannaleaha & Richard Eck
656 Dawson St.
Kane, Pa 16735

Patrick J. Truden

402 Sedgwick St

Kane, PA 16735

2/5/25

Dear Pennsylvania Public Utility Commission,

I am writing as a resident of Kane to express my concern regarding the recent water rate increases approved for Pennsylvania American Water. These rising costs are placing an increasing financial strain on my household and many others in our community.

Water is an essential utility that families depend on for daily needs such as cooking, cleaning, and hygiene. The increased rates have caused my monthly bill to rise significantly, making it harder to balance necessary expenses. For many residents, including seniors and families on fixed incomes, these higher costs create a serious financial hardship.

I urge the Pennsylvania Public Utility Commission to reconsider these rate hikes and explore ways to provide relief for residents. Measures such as phased increases, expanded assistance programs, or alternative rate structures could help reduce the burden on households while ensuring access to this essential service.

Thank you for your time and consideration. I encourage you to take action to address the concerns of Kane residents.

Sincerely,

PAWC EXHIBIT NO. 1

PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17120

Public Meeting held July 11, 2024

Commissioners Present:

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

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

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

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

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

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

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

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

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

v.

Pennsylvania-American Water Company

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

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

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

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

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

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

v.

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BY THE COMMISSION:

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

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

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

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

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

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

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

Table 1: PAWC's Requested Increase

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

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

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

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

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

I. Introduction and Background

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

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

II. History of the Proceeding

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 2: Public Input Hearing Summary[11]

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

R.D. at 35-36.

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

A. Quality of Service[12]

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

Scranton Hearings – January 30th:

- Senator Marty Flynn testified about dirty water issues. Tr. at 400.
- Scranton City Councilmember Jessica Rothchild testified that PAWC is providing dirty water to customers. Tr. at 645-46.
- Scranton School Board Director Sean McAndrew testified that several times throughout the summer he had dirty water or no water at all. Tr. at 670.
- Several PAWC customers complained of having to buy filtered water because their water has rust contaminants, is cloudy, smells funny, tastes like metal, and is not good to drink or use. Tr. at 539, 554-55.
- Several PAWC customers in Scranton claimed their water is dirty, lacking quality, is unpalatable, and smells of excessive chlorine. They noted they were afraid to consume it because of the odor and appearance. Tr. at 677, 726.

Telephonic Hearings:

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

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

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

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

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

Table 3: Comments Regarding Quality of Service

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

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

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

We specifically highlight the following comments and complaints:

Comments

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

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

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

Complaints

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

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

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

B. Disposition

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

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

IV. Legal Standards and Additional Preliminary Matters

A. Legal Standards

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

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

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

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

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

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

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

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

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

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

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

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

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

In general rate increase proceedings, the burden of proof does not shift to parties challenging a requested rate increase. Rather, the utility's burden of establishing the justness and reasonableness of every component of its rate request is an affirmative one, and that burden remains with the public utility throughout the course of the rate

proceeding. There is no similar burden placed on parties to justify a proposed adjustment to the Company's filing. The Pennsylvania Supreme Court has held:

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

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

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

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

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

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

impermissible shifting of the evidentiary burden. *United States Steel Corp. v. Pa. PUC,* 456 A.2d 686 (Pa. Cmwlth. 1983).

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

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

B. The OCA's Motion

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

The OCA Motion was filed pursuant to 66 Pa.C.S. § 334(c) and 52 Pa. Code § 5.103, alleging that PAWC had engaged in ex parte communications with Commission employees, and requesting that the Commission: (1) find that PAWC engaged in prohibited ex parte communications under 66 Pa.C.S. § 334(b)-(c) when it gave a video presentation on May 20, 2024 at the annual meeting of the Pennsylvania Chapter of the NAWC relating to PAWC's receivership of the East Dunkard Water Authority (EDWA); (2) direct PAWC to cure the ex parte communication violation by circulating the video presentation to all the active parties in this proceeding; (3) admonish PAWC for its attempt to proffer extra-record evidence through prohibited ex parte

communications; (4) ensure that the Commission and Commission advisory staff assigned to this proceeding will not consider the extra-record video presentation as it relates to the issue of PAWC's claim for a management performance adder and its receivership of the EDWA system; and (5) consistent with paragraph 19 of the March 11, 2024 Order on Briefs and Closing of the Record issued by the ALJs, assure the parties that the Commission will not consider PAWC's position on its management performance adder claim as it pertains to PAWC's receivership of the EDWA system. OCA Motion at 1-2.

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

With respect to the video presentation on May 20, 2024, the OCA argues that PAWC's video presentation consisted of factual averments and images regarding PAWC's management of the EDWA water system. The OCA submits that evidence of the

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

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

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

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

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

In conclusion, the OCA requests that the Commission grant the Motion and: (1) find that PAWC engaged in prohibited ex parte communications under 66 Pa.C.S. § 334(b)-(c) when it gave its video presentation on May 20, 2024 at the NAWC annual meeting; (2) direct PAWC to cure the ex parte communication violation by circulating the

video presentation to all the active parties in this proceeding; (3) admonish PAWC for its attempt to proffer extra record evidence through strictly prohibited ex parte communications; (4) ensure that the Commission and Commission advisory staff assigned to this proceeding will not consider the extra-record presentation as it relates to the issue of PAWC's claim for a management performance adder and its receivership of the EDWA system; and (5) assure the parties that the Commission will not consider PAWC's position on its management performance adder claim as it pertains to PAWC's receivership of the EDWA system. OCA Motion at 14.

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

PAWC portrays the event in question, at which the video was viewed, as an annual meeting of the Pennsylvania chapter of the NAWC, with chapters spread across the United States. PAWC states that this annual meeting was held on May 20, 2024, from 8:30 a.m. to 1:30 p.m., at which seven presentations were made, including one presentation, which was a 45-minute panel entitled "Executives' Panel Discussion" consisting of executives from regulated utilities and chaired by the NAWC-Pennsylvania Chapter leader. In that session, PAWC avers that the PAWC panelist presented a two-minute and forty-five second video that focused on PAWC's actions as a receiver of the troubled EDWA system, a system that is the subject of a separate and uncontested proceeding. PAWC explains that the panelist from PAWC, Justin Ladner, is President of PAWC and was one of several panelists, including the presidents of Aqua PA, Veolia, the York Water Company, and Columbia Water Company. PAWC emphasizes that the panel

topic was focused on timely issues facing the Commonwealth's regulated water and wastewater utilities, of which PAWC was one, and not this proceeding. Motion Answer at 2.

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

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

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

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

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

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

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

2. Disposition

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

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

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

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

V. Rate Base

Rate base, also known as measure of value, is the depreciated original cost of a utility's investment in plant a utility has in place to serve customers plus other

additions and deductions that the Commission determines to be necessary in order to keep the utility operating and providing safe and reliable service to its customers. I&E St. 3 at 78. Rate base is one part of the financial equation used by the Commission to determine the appropriate revenue that a utility is granted in a rate proceeding.

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

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

Table 5: PAWC's FPFTY Rate Base Claim

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

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

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

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

projected to be completed and in service by the end of the FPFTY is eligible to be reflected in rates.

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

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

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

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

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

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

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

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

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

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

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

A. Utility Plant-in-Service

1. Positions of the Parties

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

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

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

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

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

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

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

* *See* , PAWC Exh. 3-A at 26, 97

** *See* , PAWC Exh. 3-C at 14-15, 21, 23, 28-31

*** *See* , PAWC Exh. 3-A at 36, 106

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

whether the utility will close on the acquisition for reasons other than Commission approval. OCA St. 2 at 19; OCA St. 2-SR at 21.

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

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

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

2. Recommended Decision

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

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

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

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

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

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

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

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

3. PAWC Exception No. 3 and Replies

In its Exception No. 3, PAWC objects to the ALJs' recommendation to deny the two-step rate increase proposal and exclude the BASA acquisition from rates,

contending that BASA is distinguishable from the STMA, Farmington, and Audubon acquisitions, since it has been approved by the Commission and has a separate revenue requirement, such that the rate impact can be implemented conditioned on the transaction closing as approved before the end of the FPFTY.[26] PAWC Exc. at 13.

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

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

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

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

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

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

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

"accuracy" regarding the outcome of the BASA case can be ascertained. OSBA R. Exc. at 2.

4. Disposition

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

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

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

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

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

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

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

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

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

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

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

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

B. Depreciation Reserve

1. Positions of the Parties

The Company's depreciation reserve, based upon the Straight-Line Average Remaining Life Method, was calculated by the Company's witness, Mr. John J. Spanos, and was applied to the original costs of Company plant-in-service on June 30, 2023,

June 30, 2024, and June 30, 2025.[31] *See*, PAWC St. 4 at 21; *see also generally*, PAWC St. 11.

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

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

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

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

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

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

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

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

2. Recommended Decision

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

3. OCA Exception Nos. 3 and 9 and Replies

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

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

4. Disposition

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

plant-in-service, *supra*, depreciation reserve related to Audubon, Farmington, STMA, and BASA should be excluded.

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

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

1. Positions of the Parties

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

- Water Operations – Approximately $23.2 million for O&M expenses and negative $8.35 million for Interest and Dividend expenses;
- Wastewater SSS Operations - $2.2 million for O&M expenses and negative $1.19 million for Interest and Dividend expenses;
- CSS Wastewater Operations - $1.9 million for O&M expenses and negative $894,111 for Interest and Dividend expenses; and

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

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

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

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

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

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

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

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

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

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

2. Recommended Decision

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

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

3. OCA Exception No. 4 and Replies

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

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

4. Disposition

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

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

D. Acquisition Adjustment and Amortization Expense

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

1. Positions of the Parties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Recommended Decision

In their Recommended Decision, the ALJs agreed with I&E and the OCA and recommended that if the disputed acquisitions are removed from rate base, the Commission should also remove the acquisition adjustments, transaction costs, and related amortization expenses, for the Audubon, Farmington (water), Farmington

(wastewater) and STMA systems. The ALJs' recommendation is reflected in Table II Water and Wastewater SSS in the Appendix attached to the Recommended Decision.

3. Disposition

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

E. Annual Depreciation Expense

1. Positions of the Parties

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

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

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

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

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

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

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

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

2. Recommended Decision

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

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

3. OCA Exception Nos. 3 and 9 and Replies

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

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

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

4. Disposition

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

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

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

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

F. Reporting – Utility Plant-in-Service

1. Positions of the Parties

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

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

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

2. Recommended Decision

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

3. Disposition

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

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

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

1. Positions of the Parties

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

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

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

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

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

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

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

2. Recommended Decision

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

3. PAWC Exception No. 3 and Replies

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

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

In its Replies to Exceptions, the OCA argues, *inter alia*, that the ALJs were correct in recommending that BASA and the other not-yet-acquired systems, *supra*,

should be excluded from the Company's claimed rate base and revenues. OCA R. Exc. at 1-6.

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

4. Disposition

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

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

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

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

B. Late Payment Revenue

1. Positions of the Parties

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

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

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

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

2. Recommended Decision

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

3. Disposition

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

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

C. Miscellaneous Revenues

1. Positions of the Parties

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

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

recommended an investigation and a pause on any new customer enrollments until the Commission concludes its investigation. OCA M.B. at 34-35, 106.

2. Recommended Decision

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

3. OCA Exception No. 5 and Replies

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

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

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

4. Disposition

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

D. BASA Mitigation Adjustment

1. Positions of the Parties

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

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

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

2. Recommended Decision

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

3. Disposition

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

E. Revenue Increase and Revenue Requirement

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

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

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

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

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

1. Positions of the Parties

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

(1) A Step 1 revenue requirement of $1,175,257,467, representing a proposed revenue increase of $177,033,198 over *pro forma* revenues at present rates of $998,224,269. After allocating a portion of the wastewater revenue requirement to water customers, this consisted of a proposed water revenue requirement of $1,001,429,829, representing a proposed revenue increase of $177,312,643 over water revenues at present rates of $824,117,186; and a proposed wastewater revenue requirement of $173,827,638, representing a proposed revenue decrease of $279,445 over wastewater revenues at present rates of $174,107,083. PAWC represented that its Step 1 revenue increase did not include any revenue requirement associated with the BASA acquisition, and that it excluded all impacts of the Brentwood acquisition.

(2) PAWC then proposed a Step 2 revenue increase, to be effective on one-day's notice upon the closing of the BASA acquisition. Thus, the Step 2 revenue requirement included the revenue requirement proposed in Step 1, *supra*, plus the addition of the revenue requirement associated with the BASA acquisition. As previously noted, PAWC's proposed Step 2 revenue increase led to a final proposed revenue requirement of $1,213,394,607 on a total company basis, representing a proposed revenue increase of $202,356,145 over *pro forma* revenues at present rates of $1,011,038,462. After allocating a portion of the wastewater revenue requirement to water customers,

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

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

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

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

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

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

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

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

PAWLUG, likewise, did not propose an independent revenue requirement recommendation. However, PAWLUG submitted that the Commission should review the expense adjustments proposed by I&E and the OCA, *infra*, to ensure the Company's

proposed rates are adjusted, as necessary, to protect customer interests, including moderating the impact of the proposed Act 11 allocation. PAWLUG M.B. at 5.

2. Recommended Decision

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

3. Exceptions and Replies

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

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

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

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

b. City of Scranton Exception No. 1 and Replies

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

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

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

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

4. Disposition

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

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

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

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

b. Authorized Revenue Increase and Revenue Requirement for PAWC

Based upon our findings regarding certain inputs to PAWC's rate base, *supra,* to its revenues, as discussed in this section of our Opinion and Order, and to PAWC's expenses, cost of common equity, and overall rate of return, discussed, *infra,* we shall approve an overall revenue requirement of $1,093,507,496, on a total company basis, which will result in a maximum allowed overall distribution revenue increase of $99,329,012, on an annual basis. After allocating a portion of the wastewater revenue requirement to PAWC's water customers, we shall approve: (1) a revenue requirement of $908,990,615 for PAWC's water service, representing a revenue increase of $88,121,069,

or 10.74%, on an annual basis; and (2) a revenue requirement of $184,516,880[51] for PAWC's wastewater service, representing a revenue increase of $11,207,944,[52] or 6.47%, on an annual basis. These amounts are depicted in Table Act 11 Water and Wastewater Revenue Requirement – Summary, which is part of the Commission Tables Calculating Allowed Revenue Increase that are attached to this Opinion and Order.

VII. Expenses

A. Payroll Costs – Vacancy Rate

1. Positions of the Parties

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

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

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

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

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

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

2. Recommended Decision

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

3. Disposition

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

B. Annualized Performance Pay (PAWC)

1. Positions of the Parties

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

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

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

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

2. Recommended Decision

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

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

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

3. Disposition

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

C. Group Insurance Expense

1. Positions of the Parties

PAWC acknowledged that the OCA's proposed adjustments to Group Insurance Expense are concomitant to the OCA's recommended vacancy rate, *supra*. PAWC M.B. at 21-23. The OCA noted that PAWC's acceptance of the OCA's vacancy

rate supports the OCA's adjustment to reduce group insurance expense by $200,623 for water. OCA M.B. at 36 (citing OCA St. 2SR at 2; OCA St. 2 at 60).

2. Recommended Decision

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

3. Disposition

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

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

1. Positions of the Parties

PAWC asserted that the ESPP is available to all active, full- or part-time employees of the Company, and all PAWC employees who become Company

shareholders have additional incentive to establish efficiencies that benefit customers. PAWC M.B. at 24 (citing PAWC St. 5-R at 5; PAWC St. 2-R at 6).

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

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

2. Recommended Decision

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

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

3. Disposition

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

E. Stock-Based Compensation Expense – American Water Executives

1. Positions of the Parties

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

According to PAWC, expenses that are part of the compensation provided to top executives ensure that total compensation is reasonable and market-based. PAWC M.B. at 24. PAWC asserted that no Party has presented evidence that top executives could be attracted or retained with a total compensation level that is substantially below the Company's claim. Further, PAWC averred that top executives, like all other

employees, are necessary to enable the Company to manage the provision of safe and reliable water and wastewater service. Moreover, PAWC submitted that both customers and utility investors benefit from awarding a portion of total compensation as SBC because it: (1) incentivizes utility employees to promote PAWC's efficiency and financial health; and (2) promotes a stable leadership team and mitigates employee turnover costs by vesting over a prospective three-year period. *Id*. at 24-25 (citing PAWC St. 2-R at 3-10). Furthermore, as discussed in Section VII.A, *supra,* PAWC noted that the Commission recently reviewed and approved the Company's total compensation package and, therefore, it is appropriate to do so again here. PAWC M.B. at 21-22, 25. Additionally, PAWC argued that an objective review of the record in this case shows that the Company has provided substantial evidence related to the same customer benefits that were highlighted by the Commission when it approved performance-based compensation in its decision in *Aqua 2022*, including: (1) controlling costs; (2) improving efficiency; (3) promoting retention; and (4) promoting safe and reliable service. PAWC R.B. at 19 (citing PAWC St. 2-R at 2-10; PAWC St. 2 at 39-42).

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

The OCA argued that this adjustment is necessary because ratepayers should not be required to pay for a portion of SBC paid to top executives, where such compensation: (1) is linked to the performance of AWK's stock price; and (2) is primarily to benefit AWK's stockholders and aligns the interests of participants with those of such stockholders. OCA M.B. at 37. Further, the OCA referred to *Aqua 2022*,

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

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

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

revenue requirement by approximately $5,230,156, which includes the estimated impact on payroll tax expense. OSBA M.B. at 12 (citing OSBA St. 1 at 13).

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

2. Recommended Decision

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

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

3. OCA Exception No. 6 and Replies

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

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

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

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

4. Disposition

We agree with the ALJs' recommendation and find merit in the ALJs' reasoning that their recommendation is consistent with the Commission's decisions in *Aqua 2022* and *PAWC 2020* for a similar expense. The ALJs noted that PSUs reflect the Company's financial performance, and improved financial performance can benefit

customers by encouraging operational efficiency. We agree. Additionally, RSUs vest over a three-year period, encouraging employee retention which can benefit ratepayers by maintaining experienced employees.

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

F. Executive Perquisites (AWK Executives Dividend Equivalents)

1. Positions of the Parties

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

The OCA recommended an adjustment to reduce PAWC's FPFTY operating expenses by $31,371, to remove expenses related to the executive perquisites associated with Dividend Equivalents for top AWK executives. OCA M.B. at 38 (citing OCA St. 2 at 70). The OCA referred to AWK's Proxy Statement to aver that Dividend Equivalents

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

2. Recommended Decision

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

3. OCA Exception No. 7 and Replies

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

As PAWC stated in its Replies to the OCA's Exception No. 6, *supra*, PAWC avers that both customers and utility investors benefit from SBC because: (1) it incentivizes utility employees to promote PAWC's efficiency and financial health; and (2) it promotes a stable leadership team and mitigates employee turnover costs by vesting

over a prospective three-year period. PAWC R. Exc. at 13 (citing PAWC St. 2-R at 8-10) (additional citations omitted).

4. Disposition

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

G. Payroll Taxes

1. Positions of the Parties

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

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

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

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

2. Recommended Decision

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

3. Disposition

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

H. Insurance Other than Group

1. Positions of the Parties

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

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

2. Recommended Decision

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

3. Disposition

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

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

1. Positions of the Parties

PAWC provided that outstanding arrearages for the Company's customers stabilized from the increases during the peak of the COVID-19 Pandemic, and the Company's net write-offs have been trending toward pre-pandemic levels since mid-2021. As a result, PAWC continued, the Company calculated its claim for bad debt (uncollectible) expense using a two-year historic average (July 1, 2021 to June 30, 2023)

ratio of net write-offs as a percentage of sales revenues (1.176%), to normalize the rate of uncollectible accounts to pre-pandemic levels and account for the application of Low-Income Household Water Assistance Program (LIHWAP) funds, which reduce unpaid balances. PAWC M.B. at 26 (citing PAWC St. 8 at 3-6).

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

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

The OCA recommended using a three-year historic average ratio of net write-offs to calculate the going level Uncollectibles Expense based on the twelve months ended June 30, 2020; June 30, 2022; and June 30, 2023. According to the OCA, this will

produce an uncollectibles write-off percentage of 1.164%. OCA M.B. at 39 (citing OCA St. 2-SR at 32-34; OCA St. 2 at 54-56). The OCA averred that the period July 1, 2020, through June 30, 2021, should not be used in the calculation of going level Uncollectibles Expense because it is reasonable and prudent to eliminate the impacts of the COVID-19 Pandemic on customer collections. OCA M.B. at 39 (citing OCA St. 2-SR at 33; OCA St. 2 at 55).

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

2. Recommended Decision

The ALJs recommended that the Commission adopt the Company's position and calculate its claim for bad debt (uncollectible) expense using a two-year historic average, *i.e.*, July 1, 2021 to June 30, 2023, ratio of net write-offs as a percentage of sales revenues. R.D. at 113 (citing PAWC M.B. at 26). The ALJs noted PAWC's averment that the Company's net write-offs have been trending back toward pre-pandemic levels since mid-2021. R.D. at 113 (citing PAWC St. 8 at 3-6). The ALJs, therefore, agreed with the Company that its use of a two-year percentage of net write offs "better eliminates" the impacts of the COVID-19 Pandemic on customer collections

activities and Company revenues. R.D. at 113 (citing PAWC M.B. at 26). Further, the ALJs agreed with PAWC that the 12 months ending June 30, 2020, should be excluded because it contains data from March to June 2020, which would reflect impacts from the COVID-19 Pandemic. R.D. at 113 (citing PAWC R.B. at 21; OCA M.B. at 39-40).

3. Disposition

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

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

1. Positions of the Parties

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

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

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

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

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

2. Recommended Decision

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

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

3. Disposition

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

K. Acquisition-Related Expenses

1. Positions of the Parties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Recommended Decision

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

3. PAWC Exception No. 3 and Replies

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

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

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

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

4. Disposition

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

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

L. Interest Synchronization

1. Positions of the Parties

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

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

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

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

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

2. Recommended Decision

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

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

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

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

3. Disposition

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

M. Amortization Expense

1. Positions of the Parties

PAWC submitted that I&E and the OCA's proposed amortization expense adjustments, which are related to the Audubon, BASA, Farmington (water), Farmington

(wastewater) and STMA acquisitions, should be rejected for the reasons set forth in the Rate Base – Utility Plan-In-Service Section of the Company's Main Brief and Reply Brief. PAWC R.B. at 22-23 (citing I&E M.B. at 29; OCA M.B. at 43).

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

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

I&E submitted that if the Commission agrees with I&E's recommendation to remove the plant, revenue, expenses, taxes, and amortizations related to the STMA system, then the Commission should also remove the negative $94,561 annual

amortization expense credit related to the STMA system because the system has not yet been acquired and therefore, PAWC should not be required to credit $94,561 in Annual Amortization expense back to customers. I&E M.B. at 30 (citing PAWC Vol. 3, Exh. 3-A at 130).

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

2. Recommended Decision

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

3. Disposition

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

Additionally, none of the Parties filed Exceptions to the ALJs' recommendation that the Commission remove PAWC's claimed Amortization Expenses associated with its acquisitions of Audubon, Farmington (water), Farmington

(wastewater), and STMA. As these systems are net yet owned by the Company, we concur with the ALJs' recommendation and shall adopt it. As set forth in Table II-Water and Table II-Wastewater SSS in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, we shall make the following adjustments to remove the Company's claimed amortization expenses under the depreciation for "Audubon Acq. Amort.,"[60] "Farmington Acq. Amort.," and "STMA Acq. Amort."

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

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

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

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

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

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

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

N. Call Center Expense

1. Positions of the Parties

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

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

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

2. Recommended Decision

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

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

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

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

3. OCA Exception No. 8 and Replies

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

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

4. Disposition

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

O. Depreciation Expense

1. Positions of the Parties

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

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

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

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

The OCA continued that the Company has not demonstrated the need or reasonableness to use shorter useful lives that increase PAWC's depreciation expense. Further, the OCA noted that the water utility acquisitions that occurred since the 2016 Service Life Study, which supported the prior-approved useful lives, included two Section 1329 acquisitions: Steelton Borough Authority and Valley Township Water. Moreover, the OCA noted that the Company's appraiser in the Valley Township Section 1329 case, at Docket No. A-2020-3019859, used the useful lives that are

recommended by the OCA in this case. OCA M.B. at 44 (citing OCA St. 2-SR at 37-43; PAWC St. 11-R at 1-2, 5).

2. Recommended Decision

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

3. OCA Exception Nos. 3 and 9 and Replies

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

In its Replies, PAWC disagrees with the OCA's recommendation that it should use the results of its 2016 Water Service Life Study rather than its 2021 Water Service Life Study for three of approximately fifty water accounts. PAWC R. Exc. at 11 (citing OCA Exc. at 5-6, 12). PAWC contends that it provided detailed survivor curve information for the three water accounts at issue and showed that, for each account, the

updated information from the 2021 Water Service Life Study was a better statistical fit with the most current historical data than the 2016 Water Service Life Study. PAWC R. Exc. at 11-12 (citing PAWC St. 11-R at 5-10). PAWC avers that the service lives and depreciation expense for all accounts were properly determined utilizing the most current and complete information available. PAWC R. Exc. at 12 (citing PAWC M.B. at 17-19; PAWC St. 11-R at 5-10).

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

4. Disposition

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

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

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

1. Positions of the Parties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Recommended Decision

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

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

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

3. PAWC Exception Nos. 4 and 5 and Replies

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

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

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

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

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

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

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

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

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

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

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

incurred by the Company, not one-time expenses; (2) are part of contractual agreements with past employees and, therefore, not unanticipated; and (3) can be forecasted on an annual basis and, therefore, cannot be categorized as non-recurring. I&E R. Exc. at 9 (citing *Popowsky*). Accordingly, I&E maintains that it is not appropriate for the Commission to grant approval for PAWC to defer these costs because pensions and OPEB costs do not meet the requirements for deferral treatment. I&E R. Exc. at 9-10.

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

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

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

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

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

4. Disposition

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

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

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

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

1. Positions of the Parties

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

PAWC averred that the Company's production expenses can materially increase or decrease based on volatility in the prices charged by suppliers due to market conditions that are outside the control of the Company and its suppliers. PAWC continued that energy prices are higher than they have been in several years and, as a result, the Company's electric generation suppliers have increased contract rates for power supply and are less-willing to lock in prices for 12-month terms. PAWC M.B. at 32-33 (PAWC St. 8 at 17-21). As such, PAWC asserted that the Company's proposed accounting deferral for production expenses would protect both the Company and its

customers against this volatility. Moreover, PAWC averred that pursuant to Section 1307 of the Code, 66 Pa.C.S. § 1307, energy utilities in Pennsylvania are authorized to adjust rates for variations in gas commodity or electric fuel and transmission costs between rate cases and, although no specific statute applies to the Company's production cost recovery, the same ratemaking principles that justify such Section 1307 mechanisms apply to the Company's recovery of production costs. PAWC M.B. at 33 (citing PAWC St. 8-R at 5-6; PAWC St. 8 at 18-19). Therefore, PAWC submitted that the Commission should afford the Company deferred accounting treatment for production expenses. PAWC M.B. at 33.

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

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

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

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

The OSBA submitted that the Company's request for deferred accounting treatment for its production expenses should be denied because utility management

should be expected to handle normal business risks and the operation of economic forces without resorting to single-issue ratemaking, such as the requested deferred accounting treatment, except in circumstances of compelling public interest. OSBA M.B. at 13 (citing OSBA St. 1 at 47-48).

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

2. Recommended Decision

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

3. Disposition

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

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

1. Positions of the Parties

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

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

	BYR Allocation Factor 1: Customers	Future Allocation Factor 2: Customers	Base Yr	12 Mos Jun 2024	12 Mos Jun 2025
Water Operations	95.39%	85.45%	$1,665,018	$1,540,602	$1,545,547
Wastewater SSS General Operations	2.98%	6.97%	52,049	125,664	126,067
Brentwood WW		0.49%	0	8,834	8,863
BASA WW		1.83%	0	32,994	33,099
Wastewater CSS Operations	1.63%	5.26%	28,381	94,834	95,138
Total	100.00%	100.00%	$1,745,448	$1,802,928	$1,808,715

Adjustment 2023	Adjustment 2024	Adjustment 2025
	($124,416)	$4,945
	73,615	403
	8,834	28
	32,994	106
	66,453	304
$0	$57,480	$5,787

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

See, PAWC Exh. LNO-4R.

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

2. Recommended Decision

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

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

3. Disposition

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

S. Service Company Executive Retirement Plan Expense

1. Positions of the Parties

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

2. Recommended Decision

The ALJs recommended that the Commission remove the Company's claim for Supplemental Retirement Plan costs. The ALJs pointed out that PAWC accepted the OSBA's recommendation to remove this expense. R.D. at 136-37 (citing OSBA St. 1 at 15; PAWC St. 5-R at 6). The ALJs noted that because the Company adopted this

adjustment to its initial claims in rebuttal, this adjustment was reflected in the Company Adjustments column in Table I-Water, Table I-Wastewater SSS, and Table I-Wastewater CSS in the Appendix attached to the Recommended Decision. R.D. at 136-37.

3. Disposition

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

T. External Board Expense

1. Positions of the Parties

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

2. Recommended Decision

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

3. Disposition

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

U. Cash Working Capital

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

1. Positions of the Parties

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

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

2. Recommended Decision

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

3. OCA Exception No. 4 and Replies

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

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

4. Disposition

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

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

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

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

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

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

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

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

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

VIII. Taxes

A. Positions of the Parties

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

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

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

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

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

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

B. Recommended Decision

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

C. Disposition

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

IX. Fair Rate of Return

A. Proxy Groups

A proxy group is a group of companies that have similar traits as compared to the subject utility, in this case PAWC. This group of companies acts as a benchmark

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

1. Positions of the Parties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Recommended Decision

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

natural gas utilities are properly included in the proxy group for use in this proceeding. The ALJs were persuaded by I&E's position that companies that are in the water industry are the most representative of the financial and operational risks faced by PAWC, while electric and natural gas utilities are too dissimilar. R.D. at 145.

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

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

In its Exception No. 1.2, PAWC notes that each Party who set forth a proposed proxy group in this proceeding included Middlesex Water in its proxy group. However, PAWC submits that if the Commission chooses to rely on the proxy group proffered by I&E, then it must exclude Middlesex Water from the proxy group. In this regard, PAWC submits that when Middlesex Water's DCF result was calculated, the result was a "remarkably low 5.77%." Therefore, PAWC argues that given the small size

of I&E's proxy group, Middlesex Water was effectively given a 20% weight in I&E's DCF calculation of 8.45%. PAWC reasons that this caused the ALJs' recommended ROE to be artificially low, given the ALJs' finding that PAWC's allowed ROE should be calculated by averaging this DCF result with I&E's capital asset pricing model (CAPM) calculation.[73] PAWC Exc. at 5-6.

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

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

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

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

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

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

4. Disposition

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

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

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

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

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

proxy group should establish a set of companies that are of a similar risk profile to the subject utility. I&E R. Exc. at 2.

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

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

yield an *artificially high* ROE and would defeat the very purpose of using a proxy group. I&E St. 2-SR at 17, 24.

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

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

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

B. Capital Structure

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

1. Positions of the Parties

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

Table 10: PAWC's Proposed Actual Capital Structures

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

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

According to the Company, it is well settled that the use of an actual capital structure represents the utility's decision, in which it has full discretion, on how to capitalize its rate base. Thus, PAWC reasons, a utility's actual capital structure is to be used in rate of return analysis unless that capital structure is atypical or too heavily weighted on either the debt or equity side. PAWC represents that its proposed capital structure recognizes the composition of the financing that the Company is currently using to fund its investments and obligations, and that this capital structure is well within the

range of equity ratios of its Proxy Group of utilities. *Id*. at 41-42; PAWC R.B. at 31 (citing *PPL 2012*, *Aqua 2022*, and *Columbia Water 2024*).

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

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

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

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

2. Recommended Decision

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

3. OCA Exception No. 10 and Replies

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

The OCA remains of the opinion that its own proposed hypothetical capital structure of 51% equity and 49% debt would more closely match the capital structure to

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

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

4. Disposition

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

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

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

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

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

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

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

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

Proxy Group Capital Structure

($ in Millions)

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

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

We also disagree with the assertion of the OCA that the cases it cited in support of its use of a hypothetical structure are not factually different from the proposed

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

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

C. Cost of Debt

1. Positions of the Parties

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

I&E accepted PAWC's claimed cost rate of long-term debt of 4.76% for water and wastewater, as well as its claimed 2.67% cost rate of long-term debt for

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

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

2. Recommended Decision

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

3. Disposition

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

D. Cost of Common Equity

1. Methods for Determining the Cost of Equity

a. Discounted Cash Flow Method (DCF)

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

(1) Positions of the Parties

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

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

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

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

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

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

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

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

projected long-term U.S. growth domestic product (GDP) growth rate (g) of 3.8%. For its analysts' growth rate DCF model, the OCA used projected short-term dividend growth rate estimates published by Value Line. OCA Exh. DJG-6.

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

b. Capital Asset Pricing Model (CAPM)

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

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

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

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

Additionally, the Company believes the Empirical Capital Asset Pricing Model (ECAPM) is an appropriate ROE model due to academic research indicating that

the risk-return relationship is different than estimated by the CAPM. Accordingly, the Company states the ECAPM addresses the tendency of the CAPM to underestimate the cost of equity for companies with low beta coefficients. PAWC St. 13 at 42-43.

(1) Positions of the Parties

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

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

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

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

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

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

c. Recommended Decision

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

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

d. Exceptions and Replies

(1) PAWC Exception No. 1 and Replies

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

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

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

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

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

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

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

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

(3) OCA Exception No. 11 and Replies

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

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

e. Disposition

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

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

R.D. at 168.

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

2. Business Risks and Management Performance

a. Positions of the Parties

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

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

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

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

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

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

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

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

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

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

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

The OCA also claimed that the Company has failed to justify its requested upward adjustment. In this regard, the OCA submitted that while PAWC represented that it took "superior management performance" into consideration in making its proposed 10.95% ROE, the Company's witness, Ms. Bulkley, admitted at the hearing that neither the Company's DCF model, nor its CAPM analysis accounted for managerial performance. OCA M.B. at 57-58 (citing Tr. at 2113). Additionally, the OCA argued

that the Company's specific request for an upward adjustment of twenty-five basis points was arbitrary and unsupported by the record. For this reason, the OCA took the position that it would also be arbitrary for the Commission to award the Company an upward adjustment in this amount. Furthermore, the OCA claimed that the Company has not demonstrated that its managerial performance is exemplary in all areas of service to its customers. Rather, the OCA submitted that PAWC has, at best, demonstrated that it is meeting its obligations under Section 1501 of the Code, and in some instances has demonstrated less than exemplary management. Namely, the OCA asserted that PAWC has failed to respond, and is not responding, to the issues related to long-term arrears that have now been presented in two management audits; and that the Company has demonstrated poor performance in several other areas of customer service. The OCA further pointed to "the unprecedented volume of customer opposition" to this rate proceeding. OCA M.B. at 58-59; OCA R.B. at 36-39.

b. Recommended Decision

The ALJs recommended that the Commission award an upward adjustment of ten basis points to PAWC's cost of common equity in recognition of the Company's business risks and management performance. According to the ALJs, this adjustment is warranted because the Company has completed sixteen acquisitions of very small, less-viable water and wastewater systems over the last ten years. The ALJs stressed that the Company has completed the acquisitions of systems that were not, at the time of acquisition, providing adequate, efficient, safe, and reasonable service, and in some instances where the Company also acted as a receiver prior to acquisition. Specifically, the ALJs pointed to PAWC's acquisitions of Delaware Sewer Company (Delaware Sewer) and Winola Water Company (Winola Water). The ALJs noted that the Commission's Policy Statement regarding incentives for the acquisition of small nonviable water and wastewater systems, set forth in the Commission's Regulations at 52 Pa. Code § 69.711, explicitly contemplates the awarding of upward adjustments to a

utility's rate of return to encourage the acquisition of such systems. The ALJs further stated that PAWC's assertion that it provides service to customers in extraordinary circumstances further supports an upward adjustment. R.D. at 183. The ALJs noted that in *Aqua 2022*, the Commission awarded an upward adjustment to Aqua in recognition of similar efforts. *Id.* (citing *Aqua 2022* at 169).

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

c. Exceptions and Replies

(1) PAWC Exception No. 2 and Replies

In its Exception No. 2, PAWC finds fault with the ALJs' recommendation that the Commission award an upward adjustment of ten basis points, rather than the full

upward adjustment of twenty-five basis points requested by the Company. PAWC notes that in recommending a reduced upward adjustment, the ALJs referenced the Commission's decision in *Aqua 2022*. However, PAWC submits that in *Aqua 2022*, the Commission awarded Aqua an upward adjustment of twenty-five basis points to its ROE. PAWC continues that the Commission awarded this adjustment based solely on Aqua's history of service to troubled communities. PAWC reasons that nowhere in its analysis did the Commission reference any finding of Aqua's extraordinary or exemplary performance "in all areas," nor is any such requirement imposed under Section 523 of the Code. PAWC Exc. at 10-11 (citing *Aqua 2022* at 168-73).

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

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

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

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

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

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

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

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

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

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

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

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[78] This section states, as follows:

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

52 Pa Code § 69.711(b)(1).

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

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

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

52 Pa. Code § 69.711(a).

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

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

Further, PAWC argues that although it did not detail every investment it made in the sixteen systems it acquired, the Company's witness, Mr. Bruce Aiton testified to PAWC's extensive investments in troubled water systems. PAWC R. Exc. at 9 (citing PAWC St. 3-R at 10-11). Based on the above, PAWC submits that the

assertions of I&E and the OCA that any upward adjustment is improper because acquisitions of troubled systems are simply an obligation of a regulated water utility and may increase customers' rates plainly ignore: (1) Section 523 of the Code; (2) Commission precedent; and (3) the Commission's policies explicitly authorizing an upward adjustment to the ROE for water and wastewater utilities to foster the acquisition of small water and wastewater systems. Accordingly, PAWC claims that the Commission should deny the Exceptions of both I&E and the OCA on this issue and should grant PAWC's Exception No. 2, *supra,* by awarding an upward adjustment of twenty-five basis points in recognition of the Company's efforts. PAWC R. Exc. at 10.

d. Disposition

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

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

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

66 Pa.C.S. § 523.

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

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

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

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

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

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

1. Customer Complaints: in 2022, the most recent year for which complete data is available, the Commission's Bureau of Consumer Services (BCS) received 681 consumer complaints from PAWC's customers. Of those complaints, BCS found 25% of these complaints to be "justified.[81]" This rate of justified complaints was 25% higher than Aqua PA, which had a 2022 justified complaint rate of 20%, and nearly two times higher than the justified complaint rate of other Class A water utilities in Pennsylvania. In addition, the 686 PAWC complaints found to be justified in the first three quarters of 2023 represented a 29% increase from the 532 justified complaints in the first three quarters of 2022.

2. Payment Arrangements: In 2022, the last year for which complete data was available, the number of PAWC's justified payment arrangement requests to BCS was more than four times higher than the number of Aqua PA requests, despite PAWC having just over half (53%) of all residential water customers.

3. Verified infractions: Through the first three quarters of 2023, the Company had 191 "verified infractions," which was 50% more than Aqua PA. Of those, 185 (97%) involved infractions of the standards for billing practices for residential public utility service outlined in Chapter 56 of the Commission's Regulations at 52 Pa. Code § 56. Moreover, these verified infractions remained at a level nearly six times higher than prior to the COVID pandemic. More specifically, in the first three quarters of 2019, BCS reported that the Company had a total of 34 verified infractions.

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

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

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

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

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

3. Rate of Return on Common Equity

a. Positions of the Parties

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

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

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

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

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

b. Recommended Decision

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

c. Exceptions and Replies

(1) PAWC Exception No. 1 and Replies

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

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

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

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

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

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

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

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

In its Replies to Exceptions, the OCA agrees with I&E that the ALJs erred by averaging I&E's DCF and CAPM ROE results. The OCA insists the Commission

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

(3) OCA Exception No. 11 and Replies

In its Exception No. 11, the OCA reinforces its claim that the ALJs erred by recommending a 9.45% ROE that used the average of I&E's DCF and CAPM analysis. The OCA avers the ALJs modified I&E's recommendation by averaging I&E's DCF and CAPM results, although I&E did not recommend this method. By picking what parts of I&E's ROE analysis to use, and ignoring other evidence, the OCA argues that the ALJs recommended a ROE that is excessive by thirty-five (35) basis points. The OCA states that its own recommended ROE falls within the zone of reasonableness that protects both consumer and shareholder interests and provides just and reasonable rates. As previously noted, based on DCF and CAPM results, the OCA's ROE recommendation is either 9.1% or 8.7% depending on whether alternative ratemaking requests or the Company's actual capital structure are granted in this proceeding. Since the ALJs recommended granting the Company's actual capital structure, the OCA insists that the Company's ROE should

be no higher than 8.7%. The OCA notes that its proposed ROE is based on the average of its DCF and CAPM results. By using both DCF and CAPM results, the OCA maintains it provided an accurate assessment of PAWC's ROE as it measures market risk and its impact on individual companies. Lastly, the OCA restates that its 9.1% proposed ROE falls within PAWC's DCF ROE range. OCA Exc. at 15-17.

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

d. Disposition

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

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

E. Overall Rate of Return

1. Positions of the Parties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Recommended Decision

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

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

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

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

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

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

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

3. Exceptions and Replies

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

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

4. Disposition

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

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

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

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

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

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

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

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

X. Rate Structure and Rate Design

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

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

A. Cost-of-Service Studies – Water Operations

1. Positions of the Parties

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

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

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

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

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

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

As the OCA averred that PAWC's maximum day demand factor is outdated and not representative of PAWC's actual system-wide experience, it proposed the use of a maximum day factor of 1.2, based on its truncated data set to include data for only the

last twelve years.[88] OCA R.B. at 40. PAWC pointed out that the OCA's proposed maximum day factor of 1.2 was experienced in 2012 and is the highest maximum day factor within the OCA's limited twelve-year window. PAWC St. 12-R at 5.

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

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

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

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

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

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

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

PAWLUG also opposed various proposals advanced by other Parties to adjust PAWC's COSS. PAWLUG disagreed with the OCA, noting that the OCA's proposal to simply include interruptible usage with industrial customer class allocation for extra capacity demand costs does not align with cost causation because the vast majority of PAWC's industrial customers are firm service customers and are already paying rates set in alignment with cost causation for firm service. PAWLUG M.B. at 13. PAWLUG noted the testimony of PAWC's witness, Ms. Constance Heppenstall, that "this adjustment to the cost of service for industrial curtailment customers has been reflected in the Company's cost of service studies since at least the Company's 2007 rate

case and Docket No. R-00072229 and has long been accepted by the Commission and other parties." *Id.* at 17 (citing PAWC St. 12-R at 10). PAWLUG contended that increasing the cost-of-service for PAWC's industrial class to now include interruptible usage creates substantial complications that were not present in *PGW 2023*, including a likelihood of intraclass subsidization of PAWC's sole interruptible industrial customer by the remaining firm industrial customers. PAWLUG M.B. at 13, 17.

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

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

2. Recommended Decision

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

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

found that PAWC's analysis of system wide maximum hour extra capacity should be updated to better reflect demands on PAWC's system. R.D. at 195.

3. Exceptions and Replies

a. PAWC Exception No. 7 and Replies

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

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

b. OCA Exception No. 13 and Replies

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

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

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

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

4. Disposition

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

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

Although curtailment has not occurred for several years, participating customers must be prepared to curtail their usage when requested or face penalties for

failure to curtail. PAWC's tariff provides a reduced rate for customers served on the Industrial Curtailment Rate and it is appropriate to also reflect the value of this demand-side resource in the cost allocation process. Accordingly, we shall deny the OCA's Exception No. 13.

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

B. Cost-of-Service Studies – Wastewater Operations

1. Positions of the Parties

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

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

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

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

2. Recommended Decision

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

3. Disposition

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

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

1. Positions of the Parties

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

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

Specifically, I&E recommended that when PAWC files its next base rate case, should it then own the BASA and/or Brentwood systems, a separate COSS be provided for each system to ensure the rates charged thereto are just, reasonable, non-discriminatory, and in the public interest. I&E R.B. at 27-28. Likewise, the OCA

requested that if the Commission rejects the inclusion of BASA and Brentwood in the current rate case, and PAWC claims them in a future rate case, the Company should be required to provide a separate COSS for each. OCA M.B. at 67.

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

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

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

2. Recommended Decision

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

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

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

reflected revenues from Rider DIS and DRS customers as a credit to the overall cost-of-service. R.D. at 202-03. As such, the ALJs found the OCA's proposal to be reasonable and agreed with the OCA that having cost-of-service information for these two riders in the next base rate case will ensure that the rates charged to these riders are reasonable and in the public interest. R.D. at 203.

Lastly, the ALJs noted that, while they found PAWLUG's proposal to be generally reasonable, they disagree about presenting the feasibility study with PAWC's next base rate filing rather than in between filings. The ALJs reasoned that filing the feasibility study between rate cases will allow more time for review without the many distractions that can be associated with a base rate case. Accordingly, while the ALJs recommended approval of the requested feasibility study, they also recommended that the Commission direct PAWC to file the feasibility study ninety (90) days before its next base rate case so parties will have adequate time for review. R.D. at 203-04.

3. Exceptions and Replies

a. PAWC Exception No. 8 and Replies

In its Exception No. 8, PAWC objects to the ALJs' recommendation that the Company maintain separate COSSs for systems acquired under Section 1329 of the Code *after* the initial base rate case where the acquisition is reflected in the Company's revenue requirement.[92] PAWC Exc. at 26. First, PAWC argues that this would be time-consuming and unnecessary based on PAWC's movement toward single tariff pricing, as well as adding unnecessary complexity to its future base rate cases. PAWC Exc. at 26-27. Second, PAWC argues that it would be unwieldly to provide separate

[92] The Company notes it is not excepting to the ALJs' recommendation that PAWC prepare separate COSSs for Section 1329 acquisitions in the first base rate proceeding where the systems are included in revenue requirement. PAWC Exc. at 26.

COSSs for the ten Section 1329 acquisitions already consolidated with its revenue requirement and COSSs for its water and wastewater SSS operations. PAWC Exc. at 27.

In its Replies, I&E states that no matter how time-consuming and complex for the Company, it is in the public interest that the rates charged to customers are just, reasonable, and based on an appropriate cost to service. I&E R. Exc. at 13.

In its Replies, the OCA explains that PAWC can continue to propose rates that move Section 1329 systems towards consolidation with its wastewater SSS and CSS wastewater divisions; however, the difference is that the information provided in the COSS will enable the Commission and parties to evaluate the reasonableness of the proposed subsidies. The OCA contends that the ALJs properly found this requirement will "allow greater transparency for the system to determine whether an Act 11 reallocation to subsidize a revenue shortfall is actually in the public interest." OCA R. Exc. at 15 (citing R.D. at 203).

Furthermore, the OCA also notes that the ALJs recommended adoption of the OCA's proposal, which provides the option for PAWC to provide separate COSSs for the Section 1329 systems individually or as two groups: (1) CSS wastewater Section 1329 systems; and (2) non-CSS wastewater Section 1329 systems. OCA R. Exc. at 16 (citing R.D. at 201, 203). Therefore, in response to the Company's concerns regarding separate COSSs for each Section 1329 system, the OCA explains that the Company can limit the number of COSSs for Section 1329 systems to those that are included for the first time, and as few as two other studies (CSS and non-CSS).

b. PAWC Exception No. 9, PAWLUG Exception No. 2, and Replies

In their Exceptions, PAWC and PAWLUG each object to the ALJs' recommendation that the Company provide cost-of-service information about Riders DIS

and DRS in future base rate filings as separate customer classes. PAWC Exc. at 27-28; PAWLUG Exc. at 3-4.

PAWC maintains that these Riders are designed to retain or attract industrial and resale load for the benefit of all PAWC customers,[93] and therefore, the revenues derived from Rider DIS and DRS customers are appropriately reflected as a deduction to all classes' cost-of-service. PAWC Exc. at 27-28.

PAWLUG argues that the potential usefulness of such information does not support the Commission's requirement that PAWC modify its COSS. Additionally, PAWLUG suggests that the burden should be on the OCA and other Parties to ask for information about cost-of-service for PAWC's Rider DIS and Rider DRS customers. PAWLUG Exc. at 4.

In its Replies, the OCA explains that the requirement does not change PAWC's ability to continue to negotiate discounted rates; however, the difference is that the information provided in the COSS will enable the Commission and the Parties to evaluate the reasonableness of the negotiated rates. OCA R. Exc. at 14 (citing R.D. at 203).

The OCA additionally contends that PAWLUG's argument, in its Exceptions, should be rejected, given the fact that PAWLUG also requested additional information regarding demand ratios on which PAWC bases its COSS. The OCA points

[93] PAWC explains that Riders DIS and DRS authorize the Company to negotiate contracts at rates, with specified minimum and maximum levels, designed to retain or attract industrial and resale load for which the customer or applicant for service has a viable competitive alternative that the customer intends to select to the detriment of the Company and its other customers. PAWC Exc. at 27 (citing PAWC St. 12-R at 11).

out that in response to PAWLUG's request, the ALJs noted the limited time during a rate case:

> [f]ilings under Section 1308(d) of the Public Utility Code trigger a strict statutory deadline which limits the amount of time available to the parties and the Commission to review the associated filings. However, filing the feasibility study between rate cases will allow more time for review without the many distractions that can be associated with a base rate case.

OCA R. Exc. at 14 (citing R.D. at 203-04). The OCA notes the ALJs finding that the request for PAWC to provide cost-of-service information for the Riders with its filing to be a reasonable one, and providing the information does not prejudge whether negotiated rates for these customers should be discontinued – it simply facilitates review within the limited time available in a base rate case. OCA R. Exc. at 14.

4. Disposition

We agree with the ALJs' recommendation that, not only should PAWC continue to prepare separate COSSs for new Section 1329 acquisitions in the first base rate proceeding where those systems are included in PAWC's revenue requirement, but for Section 1329 acquisitions that are included in the present base rate case, PAWC should continue to prepare separate COSSs either individually for each acquisition or as a group.[94] This requirement is reasonable given the amount of revenue requirement at issue and the principle that rates should be reasonably cost-based.[95] As noted, the OCA's proposal only applies going forward. Therefore, according to the OCA's proposal,

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[94] This group should include only non-CSS wastewater Section 1329 systems. The CSS wastewater systems (whether or not acquired under Section 1329) should be included in the separate COSS for CSS wastewater systems.

[95] PAWC claimed that the full cost-of-service for the two Section 1329 systems (BASA and Brentwood) is $41.9 million. *See*, PAWC Exhs. 12-D and 12-E.

PAWC is not required to provide separate or group COSSs for the ten systems acquired under Section 1329 that have already been consolidated into water operations, wastewater SSS operations, and CSS wastewater operations. We find that this requirement allows for greater transparency of the system in order to determine whether an Act 11 reallocation to subsidize a revenue shortfall is actually in the public interest. Accordingly, we shall deny PAWC's Exception No. 8.

Additionally, we agree with the ALJs' recommendation that in its next base rate proceeding, the Company should include Rider DIS and Rider DRS customers as separate customer classes in its water COSS, rather than simply reflecting the revenues from these Riders as a credit to the overall cost-of-service. Including Rider DIS and DRS customers in the water COSS will not prejudge whether negotiated rates for these customers should be discontinued but will assist in ensuring that the rates charged to Rider DIS and DRS customers are reasonable. PAWLUG's suggestion, that the burden should be on the Parties to ask for information about cost-of-service for PAWC's Rider DIS and Rider DRS customers, rings hollow given PAWLUG's own request for additional information to which the ALJs' response took note of the limited time during a rate case. Therefore, we find the request for PAWC to provide cost-of-service information for the Riders with its filing to be a reasonable one, and providing this information does not prejudge whether negotiated rates for these customers should be discontinued, it simply facilitates review within the limited time available in a base rate case. Accordingly, we shall deny PAWC's Exception No. 9 and PAWLUG's Exception No. 2.

D. Cost-of-Service Studies – Allocation of Arrearage Management Program (AMP) Costs and Administrative Costs for H2O Programs

1. Positions of the Parties

Currently, PAWC offers customer assistance through its Help to Others (H2O) programs, which are administered by the Dollar Energy Fund (DEF) and is expanding its H20 program to assist low-income customers by offering arrearage forgiveness through its AMP.[96] *See*, CAUSE-PA St. 1 at 40; *see also*, PAWC St. 1 at 15-16, 34.

As previously referenced, PAWC presented revised COSSs in its rebuttal testimony. In addition to correcting the aforementioned adjustment to exclude interruptible load from the COSS, PAWC also revised its allocation of low-income program costs by directly allocating those costs to residential customers only, including costs of its AMP and administrative costs for other low-income programs.[97] *See*, PAWC St. 12-R at 10-11.

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[96] Under the AMP, qualifying residential customers will receive $25 of arrearage forgiveness monthly. PAWC St. 1 at 15-16.

[97] PAWC recovered the direct costs of the Company's residential low-income discounts from the residential class in the Company's rate design. However, in its original filing, PAWC allocated $3,180,090 caused by the Company's AMP and administrative costs associated with its low-income residential programs among *both* residential and non-residential customer classes in its COSSs. OSBA M.B. at 18. Initially, PAWC claimed that costs associated with its AMP are recovered in base rates from residential customers. Later, the Company acknowledged that these costs are not directly assigned to the residential class in its COSSs. Therefore, PAWC adopted the OSBA's recommendation, agreeing that its AMP credits are incremental to other uncollectible expense and its customer assistance programs are designed to benefit residential customers, and directly assigned AMP costs and residential low-income program administrative costs to the residential class. *Id.*; PAWC St. 12-R at 10-11.

The OCA contended that the costs for PAWC's AMP and administration of its H2O Grant and Discount programs are properly allocated consistent with the allocation of uncollectible costs generally, *i.e.*, to all customer classes, as the Company did in its initial filing. OCA M.B. at 68-70 (citing OCA St. 5-R at 1-6). The OCA's witness, Mr. Colton, provided data showing that the arrears that would be made subject to arrearage forgiveness are substantial and sufficiently high that PAWC will have already contributed to its reserve for write-offs before these low-income customers enter the arrearage forgiveness program. To the extent that the program succeeds in prompting future in-full payments toward current bills, plus a copayment toward arrears, PAWC will reduce the dollars that will ultimately be found to be uncollectible. There would be no new, and no incremental, arrearage forgiveness program costs to be directly assigned to the residential class. OCA M.B. at 68-69.

The OCA also opposed PAWC's proposal to directly allocate its customer assistance program administrative costs to residential customers only, asserting that the only way to appropriately capture, and to allocate, both the costs and the cost reductions, is to allocate the costs as PAWC initially proposed to do, based on an O&M composite factor. OCA M.B. at 70.

In its Main Brief, CAUSE-PA argued that it "supports PAWC's practice of equitably allocating certain universal service program costs across all ratepayers." CAUSE-PA M.B. at 20. CAUSE-PA cited 52 Pa. Code §§ 69.261-69.267 to support its argument. CAUSE-PA argued that it is unreasonable to review universal services, such as the AMP and the H20 programs, strictly as a benefit for residential customers. CAUSE-PA M.B. at 20-21. As CAUSE-PA's witness, Mr. Geller, stated, the societal impacts of utility insecurity "significantly undermine worker productivity, impacting businesses, non-profits, government entities, schools, and other nonresidential customer groups." *Id.*; CAUSE-PA St. 1-R at 6-7.

PAWC, the OSBA, and PAWLUG objected to the OCA's and CAUSE-PA's positions, maintaining that the programs are designed to benefit residential customers, and, therefore, support the Company's current practice of recovering costs associated with its AMP, and administrative costs associated with the H2O programs and DEF amongst both residential and non-residential customers. PAWC M.B. at 60; OSBA M.B. at 18; PAWLUG M.B. at 22.

PAWLUG concurred with the OSBA that, to the extent the Commission approves recovery of incremental costs of the AMP, such costs are properly allocated to residential customers. Similarly, the administrative costs of other low-income programs are properly allocated to residential customers. Any positive impact on bad debt expense resulting from these programs would benefit the residential class by improving collectibles for residential customers and reducing the class's allocation of bad debt expense. Moreover, CAUSE-PA's reliance on the Commission's policies related to cost recovery for mandatory electric and gas Customer Assistance Programs should be disregarded as irrelevant to PAWC's voluntary low-income programs.[98] Accordingly, PAWLUG argued that the Commission should approve PAWC's COSS revisions allocating any incremental AMP costs and administrative costs for other low-income programs to residential customers. PAWLUG M.B. at 22.

2. Recommended Decision

In their Recommended Decision, the ALJs agreed with the OSBA and PAWLUG that costs for PAWC's AMP and administration of its H2O Grant and Discount programs are appropriately assigned to the residential class. The ALJs reasoned that since these programs are only available to residential customers, the costs of these programs are appropriately assigned to the residential class. Moreover, the ALJs noted

[98] *See*, PAWLUG St. 1-S at 15.

that there is no evidence in the record to demonstrate that the residential class will suffer an undue economic impact by requiring it to be solely responsible for these programs and administrative costs. The ALJs also agreed with PAWLUG that any positive impact on bad debt expense resulting from these programs will benefit the residential class by improving collectibles for residential customers and reducing the class's allocation of bad debt expense. Accordingly, the ALJs recommended that the Commission adopt the OSBA's proposal to assign these costs to the residential class. R.D. at 209.

Separately, the OCA requested that, regardless of what determination is made regarding recovery of AMP costs going forward, the amortization of the regulatory liability for AMP costs in the last base rate case, but never incurred, should be directly credited to the residential class. *See*, OCA M.B. at 69-70. The OCA observed that PAWC directly assigns the administrative expenses associated with these programs without also identifying and directly assigning the administrative savings. The ALJs reasoned that if the costs are assigned to the residential class, any savings should similarly be assigned to the residential class. Accordingly, the ALJs found the OCA's proposal to be reasonable and recommended that it be adopted by the Commission. R.D. at 209-10.

3. OCA Exception No. 14 and Replies

In its Exception No. 14, the OCA contends that the ALJs erred by recommending that AMP costs and the administrative costs of the H2O Grant and Discount programs be directly assigned to the residential class only. The OCA maintains that the costs for PAWC's AMP and administration of its H2O Grant and Discount programs are properly allocated consistent with the allocation of uncollectible costs generally, *i.e.*, to all customer classes. OCA Exc. at 25-26.

In their Replies, the OSBA and PAWLUG maintain that the ALJs were correct in adopting the OSBA's recommendation on this issue because these programs are only available to residential customers, and as such, the costs of these programs are appropriately assigned to the residential class. OSBA R. Exc. at 3-4; PAWLUG R. Exc. at 3. The OSBA pointed out that, in their Recommended Decision, the ALJs recommended that the Commission reduce the incremental AMP costs in the revenue requirement from $2,377,200 as originally proposed by PAWC to $209,746 (excluding BASA and Brentwood), thereby removing the large majority of AMP costs that otherwise would be directly assigned to the residential class as specified by the Recommended Decision. The OSBA asserted that in addition to the remaining $209,746 of AMP costs, the ALJs were correct in recommending that the administrative costs for the H2O Grant and Discount programs (which total $315,390) should be allocated to the residential class only. OSBA R. Exc. at 3.

PAWLUG submits that the OCA has not offered a compelling basis for diverting from the Commission's long-standing adherence to cost-of-service principles regarding recovery of program costs from customers eligible to participate in the program. PAWLUG R. Exc. at 3.

4. Disposition

The direct revenue shortfall from residential low-income discounts is recovered from the residential class in the Company's rate design. As previously indicated, $3,180,090 in AMP costs and administrative costs associated with its H2O Grant and Discount and DEF programs is proposed by PAWC to be allocated among its residential class customers. Specifically, PAWC proposes to allocate $2,031,317 for its proposed AMP and $416,569 in DEF administrative costs among its residential water customers. For wastewater, PAWC proposes to allocate a total of $345,883 in AMP expense and $70,931 in DEF administrative costs among its residential customers within

its four claimed wastewater operations (Wastewater SSS, CSS Wastewater, BASA, and Brentwood). In addition, as shown in Table 17, PAWC allocated $315,390 in administrative costs for its H2O Grant and Discount program among residential water customers.

Table 17: PAWC's Allocation of H20 Grant and Discount Program Administrative Costs

Residential Low-Income Program Costs	
AMP Expense Claim (Water)	$2,031,317
Dollar Energy (Water)	$416,569
AMP Expense Claim (WW)	$345,883
Dollar Energy (WW)	$70,931
H2O Grant and Discount Programs	$315,390
Total	**$3,180,090**

See, PAWC Exh. 3-B at 336; *see also*, PAWC Exhs. 12-A Revised, 12-B Revised, 12-C Revised, 12-D Revised, and 12-E Revised under Proposed Rates.

We agree with the ALJs that costs for PAWC's AMP and administration of its residential low-income programs are appropriately assigned to the residential class. It does not appear that PAWC has adjusted its uncollectible costs downward to account for bad debt that will be "forgiven" through the AMP. PAWC calculates its uncollectible expense by applying the historical two-year average uncollectible percentage of 1.176% to total proposed sales revenue. *See*, PAWC Exh. 3-B at 339. To this amount, PAWC adds $2,377,200 in AMP-related uncollectible expense[99] plus $487,500 in DEF

[99] As described in Section VII.J, *supra*, we have reduced this amount to $209,746, consisting of an allowance of $183,485 for the Company's water operations, $14,967 for the Company's wastewater SSS operations, and $11,295 for the Company's wastewater CSS operations. Additionally, we have excluded all amounts related to BASA and Brentwood.

administrative costs. *See*, PAWC Exh. 3-B at 336. We do not find persuasive the OCA's argument that AMP expense represents a subset of uncollectible expense. Incremental AMP expense appears to represent a new cost that would not otherwise be accounted for as uncollectible expense. Therefore, we agree with the ALJs that these costs should be directly assigned to the residential class, on whose behalf they are incurred. Accordingly, we shall deny the OCA's Exception No. 14.

E. Revenue Allocation and Act 11

1. Positions of the Parties

As Victory Brewing noted in its Main Brief, the purpose of revenue allocation is to establish the responsibility of each customer class for a portion of the revenue requirements that are approved by the Commission. A key factor in determining the appropriate portion of the revenue requirements that is allocated to each class is the COSS. Victory Brewing M.B. at 7 (citing *Lloyd*).[100]

PAWC's proposed revenue allocation is described on pages 60-61 of the Company's Main Brief and is set forth in PAWC Exhibits 10-A Revised, 10-B, 10-C, 10-D and 10-E Revised and is generally based on the Company's COSSs.

As discussed below, the OCA and the OSBA recommended alternative revenue allocations for water service based on their respective COSSs. OCA M.B. at 71; OSBA M.B. at 19. Regarding its water operations, PAWC's proposed allocation of its requested revenue requirement is shown in Table 18, below:

[100] It should be noted that Victory Brewing has not contested the results of costs being allocated to certain customer classes, given that the Company's revenue allocation goals were consistently applied in accordance with prior rate cases. Victory Brewing M.B. at 7-8.

Table 18: PAWC's Proposed Water Operations Revenue Distribution

	Pro Forma FPFTY Cost of Service						
	Cost of Service	Act 11 Re-Allocation	Total COS	Present Rates	Proposed Rates	Proposed Increase	
Residential	$612,997,598	$45,864,399	$658,861,997	$528,290,043	$657,085,231	$128,795,188	24.4%
Commercial	$233,858,828	$17,571,738	$251,430,566	$202,779,636	$254,604,000	$51,824,364	25.6%
Industrial	$44,198,427	$4,547,070	$48,745,497	$37,580,738	$48,143,784	$10,563,046	28.1%
Public Authority	$24,425,618	$2,664,710	$27,090,328	$22,559,539	$26,209,929	$3,650,390	16.2%
Other Water Utilities - Group A	$11,845		$11,845	$51,822	$53,666	$1,844	3.6%
Other Water Utilities - Group B	$628,455		$628,455	$202,436	$277,021	$74,585	36.8%
Private Fire Protection	$5,808,618	$439,468	$6,248,086	$5,301,032	$6,304,285	$1,003,253	18.9%
Public Fire Protection	$11,863,933		$11,863,933	$9,519,368	$11,847,068	$2,327,700	24.5%
Total Sales of Water	**$933,793,321**	**$71,087,384**	**$1,004,880,707**	**$806,284,614**	**$1,004,524,984**	**$198,240,370**	**24.6%**

See, PAWC Exh. 12-A Revised. PAWC objected to the OCA's and the OSBA's proposals for the same reasons the Company rejected the Parties' revisions to its water COSS. PAWC R.B. at 49.

In this filing, PAWC invoked Section 1311(c)[101] of the Code, 66 Pa.C.S. § 1311(c), to mitigate the impact of revenue increases on wastewater customers by recovering a portion of the Company's wastewater revenue requirement from its total water and wastewater customer base. Table 19 outlines PAWC's purported effect on each wastewater operation of allocating a portion of wastewater revenue requirement to water operations:

[101] As previously noted, Section 1311(c) of the Code, 66 Pa.C.S. § 1311(c), provides, in relevant part, that the Commission, "when setting base rates, after notice and an opportunity to be heard, may allocate a portion of the wastewater revenue requirement to the combined water and wastewater customer base if in the public interest."

Table 19: PAWC's Purported Revenue Requirement Allocated from Wastewater to Water Customer Base

Wastewater Operations	**FPFTY June 30, 2025**
Wastewater Sanitary Sewer Systems General Operations	$31,962,411
Butler Wastewater ("WW") Operations	$21,552,699
~~Brentwood WW Operations~~	~~$1,565,232~~
Wastewater Combined Sewer Systems Operations	$16,007,052
Total	**$69,522,162**

See, PAWC St. 1 at 20.[102] Several Parties took issue with PAWC's proposal to use Section 1311(c) to mitigate the impact of rate increases on wastewater customers by recovering a portion of the Company's wastewater revenue requirement from its total water and wastewater customer base. *See*, I&E St. 3 at 12; OCA St. 4 at 22-28; OSBA St. 1 at 33-34; Cleveland-Cliffs St. 1 at 7-8; PAWLUG St. 1 at 23-27. PAWC argued that, while Section 1311(c) allocation plays an important role in mitigating the increases to PAWC's 76,000 wastewater customers, it has a modest effect on water customers' bills – representing an increase of approximately $6 per month to an average residential customer. PAWC M.B. at 60-61 (citing PAWC St. 1 at 20-21; PAWC St. 10 at 51-52).

In addition, PAWC submitted that its proposed rates would properly move the rates of return for all classes closer to the overall system average rate of return,[103] as

[102] As indicated previously, PAWC agreed to exclude Brentwood. *See*, PAWC M.B. at 60. However, this does include revenue associated with Farmington (wastewater), STMA and BASA operations. I&E, the OCA, and the OSBA oppose the shifting of any revenue requirement related to the pending BASA acquisition. I&E M.B. at 71; OCA M.B. at 74; OSBA M.B. at 8-9. Removing BASA reduces PAWC's proposed shift by an additional $21.5 million.

[103] *See*, PAWC St. 1 at 19-20.

demonstrated by the following indexed relative rates of return by customer class at present and proposed rates in Table Nos. 20 and 21, below:

Table 20: PAWC's Relative Rates of Return for its Water Operations

Class	Under Present Rates	Under Proposed Rates
Residential	0.98	0.99
Commercial	1.03	1.03
Industrial	0.98	0.98
Public Authority	1.17	0.93
Other Water Utilities - Group A	8.51	6.57
Other Water Utilities - Group B	(0.17)	0.08
Private Fire Protection	1.16	1.02
Public Fire Protection	0.98	1.00
Total	1.00	1.00

See, PAWC Exh. 12-A Revised.

Table 21: PAWC's Relative Rates of Return for its Wastewater Operations

	Wastewater SSS Operations		CSS Wastewater Operations	
Class	Under Present Rates	Under Proposed Rates	Under Present Rates	Under Proposed Rates
Residential	1.35	1.27	1.10	1.08
Non-Residential	1.00	1.16	0.73	0.79
Industrial	0.79	1.02	0.23	0.45
Bulk	1.36	0.87	1.90	1.65
Total	1.00	1.00	1.00	1.00

See, PAWC Exhs. 12-B Revised and 12-C Revised. Moreover, PAWC averred that denial of the Company's proposal could result in significant rate increases in several wastewater zones, eroding wastewater affordability and posing potential for rate shock to the Company's wastewater customers. PAWC M.B. at 50-51.

The Company proposed allocating the Act 11 wastewater revenue requirement directly to water customers based on wastewater class contributions to the revenue requirement deficiency and, where such contributions are not class specific, allocating to water customers based on relative levels of water cost-of-service. *See*, PAWC Exhs. 10-B through 10-E. The Company contended that its proposal is reasonable since, as its witness, Mr. Rea, explained, there is not a complete match between wastewater and water customer classes. PAWC St. 10-R at 34, 36.

According to I&E, the Commission should not permit the Company to allocate any of its wastewater revenue requirement to water customers. I&E explained that, given that the Company is proposing that its water customers subsidize wastewater customers by $71,087,394, simply removing the BASA and Brentwood systems from this proceeding reduces the Act 11 subsidy to $47,969,463. I&E M.B. at 70-71 (citing PAWC Exh. 3-A); I&E St. 3 at 12. Based upon I&E's proposed wastewater rates, the total subsidy needed to operate the wastewater SSS systems is $357,517. *Id.* This $357,517 is the amount necessary based on PAWC's full requested increase being approved. Therefore, I&E contended that if its proposed increase is adopted, there is no need for a subsidy at all. I&E M.B. at 71.

Other Parties acknowledged that the Commission should permit the Company to allocate some portion of its wastewater revenue requirement to water customers, but not the amount sought by the Company.

The OCA argued that the Company's proposed allocation should be reduced given the Commission's determination in *Aqua 2022* to limit Aqua's proposed allocation. The OCA asserted that shifting 94% of the claimed wastewater revenue deficiency is in no way reasonable. This would recover 27% of the total wastewater revenue requirement through the rates for water service. Allocating such a significant percentage of the total wastewater revenue requirement to water, the OCA reasoned,

moves all customers further from paying rates that reflect their indicated cost-of-service and would result in wastewater rates that have no reasonable relationship to the cost of serving those customers. The OCA asserted that its proposal would move the wastewater SSS and CSS rates closer to their indicated cost-of-service while not disproportionately increasing rates for water customers. OCA M.B. at 72-74.

As noted in Section VI.E of this Opinion and Order, *supra*, the OCA proposed a revenue requirement increase of $45,437,081 for PAWC on a total Company basis. The OCA submitted that it would be reasonable to shift up to 75% of the wastewater SSS revenue requirement increase and up to 50% of the CSS wastewater revenue requirement increase to water customers. OCA St. 4 at 28. Regarding the wastewater revenue requirement, the OCA recommended a Pre-Act 11 Allocation wastewater SSS revenue requirement increase of $20.3 million, and a CSS Wastewater revenue requirement increase of $7.3 million for a combined total increase of $27.6 million at PAWC's claimed revenue requirement. Therefore, the OCA submitted that after the Act 11 wastewater allocation, this would result in an approximate increase in revenue requirement as shown below:

OCA Recommended Revenue Requirement		
Water Operations	Wastewater SSS Operations	Wastewater CSS Operations
4.5%	5.3%	4.7%
$36,690,821	$5,078,655	$3,667,604

See, OCA R.B. at 49. Regarding how to assign wastewater revenue requirement to the water customer base, the OCA contended that the dollars are properly allocated based on the Water COSS adopted by the Commission. OCA M.B. at 74-75.

The OSBA and Cleveland-Cliffs only commented on the method of determining the allocation, not the amount of the allocation. *See*, OSBA M.B. at 19-21;

Cleveland-Cliffs M.B. at 3-4.[104] Cleveland-Cliffs agreed with the OCA that the Act 11 subsidy should be allocated among water classes based on the results of the water COSS. Cleveland-Cliffs M.B. at 3-6. According to Cleveland-Cliffs, the Commission should "require the Company to maintain its current practice of allocating any subsidy approved by the Commission based on the underlying water cost of service percentages from PAWC's COSS."[105] Cleveland-Cliffs M.B. at 5.

The OSBA supported the Company's methodology. Its principal arguments are that allocating the subsidy as the OCA has done treats wastewater costs like water costs and thus violates the plain language of 66 Pa.C.S. § 1311(c) and the cost-causation requirements of *Lloyd*. OSBA M.B. at 20-21. In its Main Brief, the OSBA pointed out the legal problem with the OCA's and Cleveland-Cliffs' methodology- it transforms wastewater costs into water costs, and then those "transformed" wastewater costs are allocated based upon PAWC's water COSS. Such a "transformation" violates the plain language of the statute. Specifically, Section 1311(c) explicitly uses the word "allocate" – not "transform" or "change." The OSBA averred that while it is true that the Commission has latitude in interpreting its statutes, the Commission has no authority to change the words of those statutes. OSBA M.B. at 20-21.

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[104] CAUSE-PA stated that it did not take a position with respect to Act 11 in this proceeding and contended that the Company's proposal be rejected based on arguments raised by others. CAUSE-PA M.B. at 23-24.

[105] In current rates, the wastewater subsidy is recovered from water customers according to the customer class share of water costs. Since the total wastewater subsidy cannot be tracked to specific water service classes, the total wastewater subsidy reallocation is currently based on each water service class's proportionate share of total water service cost responsibility under current rates. Therefore, Cleveland-Cliffs contended that PAWC's new allocation methodology in which wastewater subsidies from wastewater service classes are directly assigned to the corresponding water service classes is not reasonable. Cleveland-Cliffs M.B. at 4.

The OSBA further argued that such a transformation of wastewater costs into water costs so that a water COSS can be applied violates the basic tenets of the *Lloyd* decision. The OSBA contended that if cost-of-service is the polestar, then diluting a water COSS with wastewater costs is forbidden. OSBA M.B. at 21.

PAWLUG recommended that the Commission slightly modify PAWC's allocation of the Act 11 subsidy to reflect cost causation for directly assignable costs:

PAWLUG Brief Table 1[106]
Revised Re-allocation of Wastewater Subsidy
($Millions)

Customer Class	PAWC Proposed Re-allocation		PAWLUG Proposed Re-allocation	
	$	%	$	%
Residential	$45.9	64.5%	$46.0	64.8%
Commercial	$17.6	24.7%	$19.6	27.6%
Large Industrial	$4.5	6.4%	$4.3	6.0%
Municipal	$2.7	3.8%	$1.1	1.5%
Fire	$0.4	0.6%	$0.07	0.1%
Total	$71.1	100.0%	$71.1	100.0%

PAWLUG averred that its revised allocation acknowledges some incongruity between the water and wastewater customer classes, but appropriately aligns a greater portion of the Act 11 allocation on the basis of wastewater cost-of-service. PAWLUG M.B. at 23-25. PAWLUG also recommended that the Commission "moderate" the impact of the proposed Act 11 allocation. PAWLUG M.B. at 23.

[106] PAWLUG St. 1S, p. 7 (originally presented as PAWLUG Surrebuttal Testimony Table 1).

2. Recommended Decision

The ALJs recommended that, in lieu of the Company's proposal, which allocates $71 million of wastewater costs to water customers under Act 11, the OCA's approach to the Act 11 subsidy should be adopted, reasoning as follows:

> The OCA's approach constitutes a reasonable balance that will afford some rate relief to PAWC's wastewater customers while still moving Wastewater SSS and CSS rates closer to their cost of service without excessively burdening PAWC's water customers. We further agree with OCA's recommendation that 75% of the Wastewater SSS revenue requirement increase and 50% of the CSS Wastewater revenue requirement increase be assigned to water customers. While this will result in more substantial rate increases for WW CSS customers like those in Scranton, we agree this is more reasonable than the Company's 0% increase.

R.D. at 227.

3. I&E Exception No. 3 and Replies

In its Exception No. 3, I&E argues that the ALJs erred in recommending that the Commission adopt the OCA's proposed Act 11 shift because "[t]he RD does not persuasively explain why the OCA approach would be more reasonable than the other Act 11 subsidy recommendations proposed in this proceeding." I&E Exc. at 8.

In their Replies, PAWC and the OCA each request that I&E's Exception No. 3 be denied, contending that the Commission should adopt the ALJs' recommendation to use the OCA's proposed methodology to allocate revenue

requirement 66 Pa.C.S. § 1311(c). PAWC R. Exc. at 18; OCA R. Exc. at 16-17.[107] The OCA explained that it was only after an extensive summary and examination of all of the Parties' positions, that the ALJs endorsed the OCA's proposal, which will help mitigate the increase to PAWC's water customers. OCA R. Exc. at 16-17. PAWC notes that, although it proposed a higher Section 1311(c) allocation, the Company does not object to the ALJs' recommendation. PAWC submits that I&E's proposal would result in unaffordable wastewater rates in clear contravention of the purpose of Section 1311(c). PAWC R. Exc. at 18.

4. Disposition

The OCA has proposed: (1) a significantly less overall revenue requirement increase to both water and wastewater customers; and (2) to shift less of the wastewater revenue requirement to water customers. Specifically, the OCA recommended a lower overall revenue requirement increase to the CSS Wastewater operations ($7.3 million or 9.3%), compared to PAWC's proposed revenue increase ($15.8 million or 20.1%). *See*, OCA Exh. LA-1. Second, the OCA recommended a shift of half of its reduced CSS revenue requirement to water customers, which would result in a 4.7% revenue increase remaining for the customers in the CSS Wastewater operations. Therefore, under the OCA's proposal, customers in the CSS Wastewater operations would be paying only 50% of the increase needed to cover their full cost-of-service. We agree with the ALJs that this is more reasonable than the Company's proposed 0% increase.

[107] The OCA notes that its proposed methodology also addresses how the Act 11 allocation is assigned to water classes, specifically that it should be based on the water COSS. OCA R. Exc. at 17 (citing R.D. at 216-19; OCA M.B. at 74-75; OCA R.B. at 50-51). None of the Parties filed an exception on that issue.

The OCA has additionally proposed that 75% of the OCA's recommended revenue deficiency for wastewater SSS operations be allocated to water operations. The OCA recommended a lower overall revenue requirement increase to the wastewater SSS operations ($20.3 million or 21.3%), compared to PAWC's proposed revenue increase ($31.9 million or 33.4%). *See*, OCA Exh. LA-1. The OCA's proposal to shift 75% of its reduced wastewater SSS revenue requirement to water customers would result in a 5.3% revenue increase remaining for the customers in the wastewater SSS operations, resulting in customers in the wastewater SSS operations paying only 25% of the increase needed to cover their full cost-of-service. *Id*.

Therefore, under the OCA's proposal, water customers, most of whom are not wastewater customers, would see an additional revenue requirement increase of $18.9 million, or 2.2%, related solely to the shift of costs that the wastewater SSS ($15.2 million) and CSS wastewater ($3.7 million) customers are not covering for their wastewater service. *See*, OCA Exh. LA-1.

Although the OCA's proposal concerning the Act 11 assignment of the wastewater revenue requirement to water customers is based on its proposed water and wastewater revenue requirement increases, we acknowledge that wastewater cost-of-service is a significant driver of PAWC's rate increase request in this proceeding, and therefore, it would be unreasonable to assign no increase to those customers, as proposed by the Company. Therefore, we agree with the ALJs that the OCA's approach constitutes a reasonable balance that will afford some rate relief to PAWC's wastewater customers while still moving wastewater SSS and CSS rates closer to their cost-of-service without

excessively burdening PAWC's water customers. Accordingly, we shall deny I&E's Exception No. 3.[108]

F. Tariff Structure – Residential Customer Charge

PAWC currently provides water utility service through its water operations in five different rate zones, as follows:

- Rate Zone 1 – General Statewide Rate;
- Rate Zone 2 – Valley;
- Rate Zone 3 – Scranton Lackawanna Industrial Building Company (SLIBCO);
- Rate Zone 4 – Turbotville; and
- Rate Zone 5 – Steelton.

The largest of these rate zones is Rate Zone 1, with over 99% of the Company's total water revenue. OCA St. 4 at 4.

[108] Although we are adopting the OCA's revenue allocation methodology, as noted in Section VI.E of this Opinion and Order, we have authorized the following individual allowed annual revenue requirement increases based upon the record in this proceeding: $92,572,399, or 11.2774%, for the Company's water operations, $6,169,555, or 6.52%, for its wastewater SSS operations, and $5,322,644, or 6.77%, for its CSS wastewater operations. As set forth in Table Act 11-Water and Wastewater Revenue Requirement Summary, which is part of the Commission Table Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, we have authorized a Pre-Act 11 Allocation revenue requirement increase of $68,741,091 for the Company's water operations, $24,678,219 for its wastewater SSS operations, and $10,645,287 for its CSS wastewater operations. We have then employed the OCA's revenue allocation methodology to arrive at the final revenue requirement increase amounts above.

PAWC currently provides SSS wastewater service through its wastewater SSS operations in six different rate zones, as follows:

- Rate Zone 1 – General Statewide Rate;
- Rate Zone 2 – New Cumberland;
- Rate Zone 5 – Valley;
- Rate Zone 7 – York;
- Rate Zone 8 – Foster Township; and
- Rate Zone 9 – Royersford.

The largest of these rate zones is Rate Zone 1, with approximately 60% of the Company's total current SSS wastewater revenue. OCA St. 4 at 4-5.

Currently, PAWC also provides CSS wastewater service through its CSS wastewater operations in three different rate zones, as follows:

- Rate Zone 3 – Scranton;
- Rate Zone 4 – Kane; and
- Rate Zone 6 – McKeesport.

The largest of these rate zones is Rate Zone 3, with approximately 70% of the Company's total current CSS wastewater revenue. OCA St. 4 at 5-6.

1. Water Operations

a. Positions of the Parties

Regarding its water operations, PAWC has proposed to increase the residential 5/8, ¾, 1, and 1½, inch monthly customer charges from $17.50 to $20.00 in the FPFTY. In support, the Company provided two customer cost analyses for the

FPFTY in PAWC Exhibit 12-A Revised, Appendix A, Attachment RS1j.[109] The results of the first cost analysis, shown on page 1, include all costs being allocated to the customer cost function and results in a cost of $25.57 per month in the FPFTY. Additionally, PAWC provided a second customer cost analysis that relied on the allocation of costs more directly applicable to customers. The result of the more direct customer cost analysis is $20.26 per month per 5/8" residential customer in the FPFTY. *See*, PAWC Exh. 12-A Revised, Appendix A, Attachment RS1j at 2. PAWC submitted that its proposed $20.00 per month residential customer charge is fully supported by its witness, Ms. Heppenstall's direct cost analysis. PAWC M.B. at 51-52.

I&E agreed with PAWC's proposed increase to $20.00 for the monthly customer charges for 5/8, ¾, 1, and 1½, inch residential water customers, based on the Company's direct customer cost analysis.[110] I&E M.B. at 74.

Regarding residential customers with meter sizes over 2", commercial, and municipal customers, I&E accepted the Company's proposed customer charges for those customers noting that all of the proposed increases were in the 7% to 8% range, which it deemed to be a reasonable increase for a customer charge. I&E M.B. at 75. In addition, I&E did not make any adjustments to the Company's proposed customer charge for the Industrial and Other Water Utilities Monthly, Groups A and B, because while those classes have a larger percentage increase in their customer charge, the percent increase for an average industrial customer is reasonable. *Id.*

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[109] A customer cost analysis is a part of a COSS that is used to determine the appropriate fixed customer charges for the various classes and meter sizes. It is necessary to perform a customer cost analysis because a fixed customer charge represents the revenue that the Company is guaranteed to receive each month, regardless of the level of usage. As acknowledged in the seventh edition of the AWWA Manual, there is a tradeoff between revenue stability from a high customer charge, and affordability and conservation from a low customer charge and higher usage rates. I&E M.B. at 72.

[110] In the event that less than the full requested increase is granted, I&E proposed that these customer charges be scaled back. I&E M.B. at 74.

The OCA averred that PAWC's monthly residential water customer charges should remain at their current rates, contending that PAWC's analysis includes costs that are not direct customer costs and do not change with the addition or subtraction of a customer, including office building and furniture expenses. OCA M.B. at 78. The OCA adjusted the Company's calculated direct customer charge, at PAWC's filed-for revenue requirement increase, removing the improperly included office building and furniture costs and to reflect the OCA's recommended rate of return. These adjustments, shown on OCA Schedule JDM-4SR, reduce the calculated charge to $18.73. Based on the OCA's overall position on revenue requirement, the OCA recommended the existing $17.50 monthly charge for residential customers should be maintained. OCA M.B. at 77-78.

b. Recommended Decision

In their Recommended Decision, the ALJs agreed with I&E and found that PAWC's proposal to increase the monthly water residential customer charge from $17.50 to $20.00 in the FPFTY is justified. R.D. at 234. The ALJs recommended that the Commission reject the OCA's argument that PAWC's analysis included costs that are not direct customer costs, noting the Company's contention that the OCA sought to exclude similar costs from consideration of the residential customer charge in Aqua's most recent base rate case which the Commission rejected. R.D. at 235 (citing *Aqua 2022* at 268-69). The ALJs noted that in *Aqua 2022*, the Commission indicated that "[w]e find that the OCA proposed limitation of costs excludes customer costs that should be included in a customer charge and is unreasonably narrow." R.D. at 235 (citing *Aqua 2022* at 269). Accordingly, the ALJs recommended that the Commission adopt PAWC's proposal to increase the monthly residential customer charge from $17.50 to $20.00. R.D. at 235.

c. OCA Exception No. 15 and Replies

In its Exception No. 15, the OCA contends that the ALJs erred by recommending that the Commission adopt the Company's direct customer cost analysis for the water customer charge. In support, the OCA reiterates arguments advanced in its Main and Reply Briefs. OCA Exc. at 26-27. The OCA posits that the customer cost analysis is flawed because it includes costs that are not direct customer costs and do not change with the addition or subtraction of a customer, using office building and furniture expenses as an example. Additionally, in support of its proposal that the existing $17.50 monthly residential customer charge should be maintained, the OCA argues that a reduction in the Company's revenue requirement increase would indicate a lesser water customer charge. OCA Exc. at 27-28.

In its Replies, PAWC posits that the OCA's Exception on this matter should be rejected since the arguments presented by the OCA have already been considered by the ALJs, who recommended that the Commission reject such arguments. PAWC R. Exc. at 19.

d. Disposition

A fixed customer charge represents the revenue that the Company is guaranteed to receive each month, regardless of the level of usage. As indicated previously, the latter of the two customer cost analyses provided by the Company relied on the allocation of costs more directly applicable to customers and is used to support PAWC's proposal to increase the residential 5/8, ¾, 1, and 1½, inch monthly customer charges from $17.50 to $20.00. The result of this more direct customer cost analysis is $20.26 per month per 5/8" residential customer in the FPFTY. *See*, PAWC Exh. 12-A Revised.

With regard to the alternative proposal of the OCA, which relies on the OCA's assertion that PAWC's customer cost analysis is flawed because it includes costs that are not direct customer costs and do not change with the addition or subtraction of a customer, we find it to be without merit. Rather, we concur with the ALJs that we have previously rejected such limitations on cost recovery through the fixed customer charge, as proposed by the OCA. *See*, *UGI Electric 2018* at 168-75; *see also*, *Aqua 2022* at 268-69. Therefore, based upon our consideration of the evidence and record herein, we shall adopt the ALJs' recommendation on this issue. Accordingly, we shall deny the OCA's Exception No. 15.

2. Wastewater Operations

a. Positions of the Parties

Regarding PAWC's wastewater SSS operations, most rate zones currently have a monthly wastewater residential customer charge of $14.30. PAWC is proposing to increase that charge to $20.00 per month. In support, the Company provided one COSS for the wastewater SSS operations (Rate Zones 1, 2, 5, 7, 8, and 9). PAWC Exh. 12-B Revised. This COSS included a customer cost analysis that claimed the wastewater SSS operations wastewater customer cost is comprised of $13.43 per month of direct customer costs, and $29.20 per month of inflow and infiltration (I&I) costs for a total cost of $42.63 for a residential customer. *See*, PAWC Exh. 12-B Revised.

I&E supported a monthly wastewater residential customer charge of $15.00, noting that a $15.00 per month customer charge will recover more than the direct customer cost of $13.87[111] per month plus a small portion of the I&I costs identified by

[111] The Company's claimed direct customer costs of $13.87 per month was revised in its rebuttal testimony to $13.43 per month. *See*, PAWC Exh. 12-B Revised.

the Company. In support of limiting the amount of I&I costs to be recovered through the customer charge I&E's witness, Mr. Kubas, provided the following explanation:

> I recognize that I&I costs are a large portion of the cost of operating wastewater systems. However, I&I costs relate to flow, which does not vary with the number of customers, a typical criterion for determining if a cost should be recovered in the customer charge. Therefore, I recommend only a small part of I&I costs be recovered in the customer charge to generate revenue, but I believe it is improper to recover more than a small amount of the cost of I&I in the customer charge.

I&E St. 3 at 19.

Additionally, for wastewater SSS operations commercial customers, I&E recommended a customer charge of $36.70, or an increase of $1.70 from the current $35.00 customer charge. This is a 4.9% increase, which matches the increase I&E recommended for residential customers. I&E M.B. at 76.

The OCA argued that the current customer charges in Rate Zones 1, 2, 5, and 6 should be maintained at $14.30, the current residential customer service charges in Rate Zones 3, 4, 7, and 9 should be reduced to $14.30 for consistency,[112] and any additional revenue to be recovered from residential customers should be recovered through increases in volumetric usage charges. OCA M.B. at 78-79. These

[112] The Company proposed the Rate Zone 3 residential customer charge *increase* from $19.50 per month to $19.71 per month, or by 1.1%. The Company proposed the Rate Zone 4 residential customer charge *decrease* from $40.00 per month to $20.00 per month, or by 50%. The Company proposed the Rate Zone 7 residential customer charge *increase* from $18.00 per month to $20.00 per month, or by 11.1%. The Company proposed the Rate Zone 9 residential customer charge decrease from $48.00 per month to $20.00 per month, or by 58.3%. *See*, PAWC Exhs. 10-C at 3-4, 10-B at 6, 8. In Rate Zone 8 all customers are currently charged a flat rate charge, which PAWC has proposed to *decrease* from $106.00 to $100.00. *See*, PAWC Exh. 10-B at 7.

recommendations are supported by the testimony of the OCA's witness, Mr. Colton, with regard to the impact of higher fixed charges on customers' ability to control their bills. *Id*.

b. Recommended Decision

In their Recommended Decision, the ALJs agreed with I&E that a $15.00 per month wastewater residential customer charge will recover more than the direct customer costs of $13.87 per month but will limit the amount of I&I costs to be recovered through the customer charge. The ALJs also noted their agreement with I&E that its $0.70 increase, which constitutes a 4.9% increase, will provide the Company with sufficient revenue while limiting the increase to low-usage residential customers. R.D. at 235-36.

Although no one else addressed it, the ALJs also noted their agreement with I&E's proposal to increase the monthly wastewater customer charge from $35.00 to $36.70, or by $1.70, for wastewater SSS operations commercial customers. Similar to the residential customer charge, this constitutes an increase of 4.9%, which is a reasonable increase to the monthly wastewater customer charge for wastewater SSS commercial customers. R.D. at 236.

c. OCA Exception No. 16 and Replies

In its Exception No. 16, the OCA states, "[t]he ALJs erred by adopting I&E's $15 proposal because that proposal is not supported by substantial evidence and is the result of I&E witness [Mr.] Kubas arbitrarily assigning a small portion of certain indirect costs – Inflow and Infiltration (I&I) costs – to the customer charge…" OCA Exc. at 28.

The OCA contends that PAWC's wastewater direct customer cost calculation improperly included I&I costs, since these costs do not vary directly with the addition or subtraction of a customer. The OCA argues that I&E's $15 customer charge proposal similarly committed the same error by including a small portion of I&I costs in its calculation. The OCA asserts that, exclusive of I&I costs, the Company's calculation of customer costs would indicate a direct cost of $13.87 at the Company's proposed revenue requirement. Therefore, the OCA maintains that, regarding residential wastewater customers with 5/8, ¾, 1, and 1½, inch meters, in those rate zones with a current monthly residential customer charge of $14.30, the $14.30 customer charge should be maintained, and in those rate zones with a current monthly residential customer charge which exceeds $14.30, the charge should be reduced to $14.30 for consistency. OCA Exc. at 28-29.

In its Replies, PAWC posits that the OCA's Exception on this matter should be rejected since the arguments presented by the OCA have already been considered by the ALJs, who recommended that the Commission reject such arguments. PAWC R. Exc. at 19.

In its Replies, I&E maintains that, since it is appropriate to recover a small portion of I&I costs through the customer charge, I&E's analysis should be adopted. I&E explains that the increase will provide sufficient revenue, while limiting the increase to low-usage residential customers. I&E R. Exc. at 14.

d. Disposition

Before us are three divergent positions regarding the appropriate monthly residential customer charge for wastewater customers. Each Party's respective proposals have been summarized in Table 22, as follows:

Table 22: Comparison of Monthly Residential Customer Charge Proposals

	Current Customer Charge	PAWC Proposed Customer Charge	I&E Proposed Customer Charge	OCA Proposed Customer Charge
Wastewater SSS Operations	**(1)**	**(1)**	**(3), (4)**	**(5)**
Rate Zone 1	$14.30	$20.00	$15.00	$14.30
Rate Zone 2	$14.30	$20.00	$15.00	$14.30
Rate Zone 5	$14.30	$20.00	$15.00	$14.30
Rate Zone 7	$18.00	$20.00	$15.00	$14.30
Rate Zone 8 (Flat Rate)	$106.00	$100.00	$132.00	N/A
Rate Zone 9	$48.00	$20.00	$15.00	$14.30
CSS Wastewater Operations				
Rate Zone 3 **(2)**	$19.50	$19.71	$20.00	$14.30
Rate Zone 4	$40.00	$20.00	$20.00	$14.30
Rate Zone 6	$14.30	$20.00	$20.00	$14.30

(1) *See*, PAWC Exhs. 10-B at 6-7, 10-C at 3-4.

(2) PAWC indicated that it limited the increase in Rate Zone 3 – Scranton in accordance with its agreement with the seller that it is limited to proposing an increase of 1.9% per year. PAWC St. 4 at 40.

(3) *See*, I&E Exh. 3, Schs. 3 and 19.

(4) I&E indicated that its monthly residential flat rate proposal of $132.00 for Rate Zone 8 is based upon the average bill of a Rate Zone 1 customer that uses 3,122 gallons per month. I&E St. 3 at 22.

(5) *See*, OCA St. 4 at 47.

We agree with the ALJs that I&E's proposed 4.9% increase to the current $14.30 per month customer charge will provide the Company with sufficient revenue while limiting the increase to low-usage residential customers, as well as limiting the amount of I&I costs recovered through the customer charge. We recognize that I&I costs are a large portion of the cost of operating wastewater systems. PAWC estimated its costs related to I&I total approximately $25.7 million. *See*, PAWC Exh. 12-B Revised. PAWC included only two-thirds of this amount ($17.1 million) in its customer cost analysis, and I&E's $15 per month customer charge proposal further limits this, recovering only 3.6%[113] of all costs related to I&I in the customer charge.

[113] [586,012 ÷ ($15.00 - $13.43)] / $25,667,991.

Furthermore, under I&E's proposal, the decrease to the present Rate Zone 7 customer charge from $18.00 per month to $15.00 per month will be slightly less than under the OCA's proposal, thus generating more revenue in Rate Zone 7 than reducing the Rate Zone 7 customer charge to $14.30 per month.

In this case, we agree with the ALJs' reasoning and add that revenue stability for the utility must be balanced against the affordability and conservation concerns. I&E's proposal appears to accomplish this objective. Accordingly, we shall deny the OCA's Exception No. 16.

G. Tariff Structure – Water Rate Design

1. Positions of the Parties

PAWC noted that initially, the OSBA's witness, Mr. Higgins, recommended a $5.3 million reduction to the Commercial class offset by a $5.3 million increase to the Municipal class. PAWC M.B. at 62 (citing OSBA St. 1 at 35). Subsequently, Mr. Higgins updated his proposed revenue allocation based on the results of his rebuttal COSS. PAWC M.B. at 62 (citing OSBA St. 1-SR at 19). PAWC further noted that Cleveland-Cliffs' witness, Mr. Richard Baudino, recommended an alternative revenue allocation that results in a higher increase for the Municipal class, and a lower increase for the Residential, Commercial, Industrial, and Private Fire classes. PAWC M.B. at 62 (citing Cleveland-Cliffs St. 1 at 12). PAWC's witness, Mr. Rea, did not oppose the proposals of Mr. Higgins and Mr. Baudino for higher increases for the Municipal class with offsetting decreases to other customer classes. PAWC M.B. at 62-63 (citing PAWC St. 10-R at 43). However, PAWC submitted that the OCA's proposed alternative revenue allocation for water service should be rejected because it is based on the OCA's alternative and deficient COSS. PAWC M.B. at 63 (citing OCA St. 4 at 33-34).

PAWC also submitted that the Company's proposed meter charges are reasonable, and the Commission should reject the alternative proposals of I&E, the OCA, PAWLUG, CEO, and Cleveland-Cliffs. PAWC M.B. at 63 (citing I&E St. 4 at 30-35; OCA St. 4 at 35-36; Cleveland-Cliffs St. 1 at 13-14; PAWLUG St. 1 at 28-29). Specifically, PAWC averred that the proposals of PAWLUG and Cleveland-Cliffs would result in increased meter charges with no cost-basis. More specifically, Mr. Rea stated that PAWC's meter charges for the Industrial and Other Water Utilities classes are already more than double PAWC's proposed meter charges for residential and commercial charges with meter sizes of 4" and above. Mr. Rea continued that the proposal of PAWLUG's witness, Ms. LaConte, would result in the meter charges being more than four times the proposed charges for residential and commercial charges with no apparent basis in cost. PAWC St. 10-R at 45. PAWC also disagreed with the recommendation of I&E's witness, Mr. Ethan Cline, to adopt a Rate Zone 1 (RZ-1) residential customer charge of $19.50 because his calculation is based solely on a cost allocation study restricted to direct customer-related costs. PAWC M.B. at 63 (citing PAWC St. 10-R at 44).

PAWC also submitted that the alternative volumetric rate proposals of I&E, the OCA, PAWLUG, and Cleveland-Cliffs should all be rejected. PAWC M.B. at 63 (citing I&E St. 4 at 36-41; OCA St. 4 at 36-37; PAWLUG St. 1 at 28-29; Cleveland-Cliffs St. 1 at 13-14). PAWC contended that Mr. Cline and the OCA's witness, Mr. Mierzwa, have not demonstrated that the Company's proposed rates for Rate Zone 2 (RZ-2) – Valley and Rate Zone 4 (RZ-4) - Turbotville are unreasonable, and adoption of their recommendations would delay their full integration into RZ-1. PAWC also submitted that the recommendations of PAWLUG and Cleveland-Cliffs conflict with the intent to design industrial rates to collect total revenue allocated to that class less revenues from current industrial meter charges. PAWC M.B. at 63-64 (citing PAWC St. 10-R at 47).

I&E submitted that given its recommendation that Audubon and Farmington be removed from the instant case, I&E recommended that the rate zones for Audubon and Farmington also be removed. Therefore, I&E did not address proposed rate changes for the Audubon and Farmington rate zone customers. I&E M.B. at 76.

I&E's witness, Mr. Cline, opined that except for the proposal to merge RZ-2 – Valley usage rates into RZ-1, the Company's proposed rates, which are based on the Company's proposal to consolidate monthly metered rates for all customer classes in the following rate zones into RZ-1 for the FPFTY, are reasonable: (1) RZ-2 – Valley; (2) Rate Zone 3 (RZ-3) – SLIBCO; (3) RZ-4 – Turbotville; and (4) Rate Zone 5 (RZ-5) – Steelton. I&E M.B. at 76-77 (citing I&E St. 4-SR at 21; PAWC St. 10 at 35). Mr. Cline explained that the proposed usage rates for the RZ-1 residential class, and the usage rates for any rate zones that are being proposed to merge with RZ-1 rates, need to be increased because of the decreased customer charge revenue based on I&E's recommended customer charges compared to PAWC's proposed customer charges under the fully requested revenue increase. I&E St. 4 at 36. Further, Mr. Cline noted that given its recommendations regarding the Act 11 subsidy and the adjustments made by I&E's witnesses, Mr. DC Patel and Ms. Okum, it is more likely that the usage rate will be subject to a scale back rather than an increase. As such, Mr. Cline did not calculate what the increase would be at the fully proposed increase. *Id.*

Mr. Cline recommended adopting PAWC's proposed customer charges for the Commercial, Municipal, Industrial, and Other Water Utilities Monthly – Groups A and B rate classes. I&E M.B. at 77 (citing I&E St. 4 at 34-35).

Regarding RZ-2, I&E averred that: (1) the proposed percentage increase for residential customers is at least double that of the average residential customers in the other rate zones; and (2) for commercial customers, the disparity between the percentage increases for the other rate zones, apart from RZ-4, is more than that of the residential

customers. I&E M.B. at 77-78 (citing PAWC Exh. 10-A at 4, 11, 77, 83). As set forth in Table 23, below, Mr. Cline recommended the following usage rates for RZ-2 Residential and Commercial:

Table 23: I&E's Recommended RZ-2 Residential and Commercial Rates

Rate Zone 2 Residential and Commercial Usage Rates			
Usage Level	Present Rate Per Hundred Gal	I&E Proposed Rate Per Hundred Gal	Revenue Percent Increase
Residential			
First 3,400 Gal	$1.1000	$1.6000	45.5%
Over 3,400 Gal	$1.1000	$1.6000	45.5%
Commercial			
First 16,000 Gal	$1.1000	$1.6500	55%
Over 16,000 Gal	$1.1000	$1.2540	14%

I&E St. 4 at 37-38. Mr. Cline averred that a $1.6 per hundred-gallon usage rate for residential customers will generate a reasonable percent increase on the total residential bill. Mr. Cline continued that for commercial customers, he kept the second block usage rate at approximately 76% of the first block, which is the same ratio as the Company's proposed rates. Accordingly, Mr. Cline submitted that the resulting overall percentage increases for commercial customers is reasonable. I&E St. 4 at 38.

Mr. Cline agreed with PAWC's recommendation to set RZ-3 commercial and municipal usage rates equal to RZ-1. I&E St. 4 at 38-39.

Mr. Cline also submitted that the Company's proposal to set the RZ-4 residential and municipal rates equal to RZ-1 is reasonable. However, Mr. Cline averred that PAWC's proposal to set RZ-4 commercial usage rates equal to RZ-1 would result in a 68.56% increase to the average RZ-4 commercial customer bill. I&E St. 4 at 39-40 (citing PAWC St. 10, Exh. 10-A at 77, 83). Mr. Cline provided that because this represents an unnecessarily large increase when compared to the increase proposed for RZ-1 commercial customers, he set the RZ-4 commercial usage rates equal to those of

RZ-2, thereby allowing RZ-2 and RZ-4 to be merged after this base rate case, and likely merged with RZ-1 after the subsequent base rate case. I&E St. 4 at 40. Accordingly, Mr. Cline submitted that the percentage increases become far more reasonable based on these adjustments. As set forth in Table 24, Mr. Cline recommended the following RZ-4 Residential and Commercial usage rates:

Table 24: I&E's Recommended RZ-4 Residential and Commercial Rates

Rate Zone 4 Residential and Commercial Usage Rates			
Usage Level	Present Rate Per Hundred Gal	I&E Proposed Rate Per Hundred Gal	Revenue Percent Increase
Commercial			
First 16,000 Gal	$1.1000	$1.6500	55%
Over 16,000 Gal	$1.1000	$1.2540	14%

I&E St. 4 at 40.

Finally, Mr. Cline accepted PAWC's proposal to set RZ-5 residential, commercial, municipal, and industrial rates equal to that of RZ-1. I&E St. 4 at 41.

The OCA provided that in addition to its recommendations regarding the residential customer charges, *supra*, it disagreed with the Company's proposed residential Water usage charge for RZ-2 – Valley customers. OCA M.B. at 79 (citing OCA St. 4 at 36-37). The OCA submitted that to allow gradualism and reduce rate shock, the usage charge for RZ-2 – Valley customers should be set at 70% of the RZ-1 usage charge, which will limit the increase for a RZ-2 – Valley residential customer using 3,201 gallons per month to about 1.7x the OCA's proposed system average increase. Further, the OCA added that I&E agreed that PAWC's proposed increase for Valley customers is unnecessarily large and recommended a more moderate increase. OCA M.B. at 80 (citing I&E St. 4-SR at 28; I&E St. 4 at 37-38).

PAWLUG provided that as part of PAWC's justification for proposing the RDM and ECIC, discussed in Section XI.A, *infra*, the Company asserted an interest in reducing revenue volatility. PAWLUG averred that although it opposes approval of the RDM and ECIC, the Company can address revenue stability for industrial customers by increasing the Industrial customer charge for customers with meters that are 6" or larger. PAWLUG M.B. at 26. Specifically, PAWLUG's witness, Ms. LaConte, recommended that the Company decrease the volumetric rate and increase the customer charge for industrial customers because a higher customer charge will reduce revenue volatility and provide a stable and reliable revenue stream. PAWLUG St. 1 at 28 (citing PAWC St. 10 at 90). As such, PAWLUG submitted that adoption of the below modified rate design will ensure more stable revenue from the Industrial customer class:

Table 3
Revised Industrial Rate Design

Description	Current	PAWC	PAWLUG
Customer Charge			
6" Meter	$1,401	$1,401	$2,802
8" Meter	$2,243	$2,243	$4,486
10" Meter	$3,223	$3,223	$6,446

Table 3
Revised Industrial Rate Design

Description	Current	PAWC	PAWLUG
Volumetric Charge			
First 16,000 Gal	$1.4200	$1.9128	$2.8565
Next 584,000 Gal	$1.0804	$1.4824	$1.4083
All Over 600,000 Gal	$0.8499	$1.1477	$1.0329
Above 15,000,000*	$0.5110	$0.6852	$0.6167
*Curtailment rate **Source**: Exhibit 10-A Water Operations.			

PAWLUG St. 1 at 28-29. PAWLUG noted that its revised rate design would recover 17% of the Company's fixed costs through customer charges, compared to the Company's determination that approximately 95% of its costs are fixed. PAWLUG St. 1 at 29.

PAWLUG noted that while PAWC's customer charge analysis provides a cost basis for the 5/8" meter customer charge, it opposed the Company's proposed rate design because it is not cost-based. PAWLUG M.B. at 27 (citing PAWC St. 10-R at 45; PAWC St. 10, Exh. 10-A). Further, PAWLUG argued that the Company has not established the cost-basis for the existing Industrial customer charge. Moreover, PAWLUG contended that under its proposed rate design, the overall revenue requirement allocated to industrial customers would remain unchanged. As such, PAWLUG submitted that its proposal is reasonable and should be approved by the Commission. PAWLUG M.B. at 27.

Cleveland-Cliffs averred that it is "problematic" that the Company did not propose any increase to the existing industrial meter charges but is seeking to collect the entire industrial revenue increase through the volumetric charges. Cleveland-Cliffs M.B. at 6 (citing PAWC St. 10 at 86). In response to the testimony of PAWC's witness, Mr. Rea, that over 95% of the Company's costs are fixed and do not vary with water consumption, Cleveland-Cliffs' witness, Mr. Baudino, provided that volumetric rates collect these costs based on the volumes of water consumed by the water service rate classes. Mr. Baudino continued that as consumption varies by month and year, the Company's collection of fixed costs will also vary, thereby introducing more variability in its revenues and earnings than if more costs, such as meter charges, were collected from fixed charges. Accordingly, Mr. Baudino submitted that to the extent possible, fixed costs should be collected through fixed charges. Mr. Baudino added that under Mr. Rea's proposed rate design, PAWC would collect even more fixed costs through volumetric rates, which moves in the opposite direction from cost-causation. Cleveland-Cliffs St. 1 at 13-14.

Cleveland-Cliffs also addressed Ms. LaConte's proposed rate design for the Industrial class, noting that the industrial meter charges would nearly double and provide for smaller percentage increases to the volumetric charges. According to Cleveland-Cliffs, the Company's description of its variable versus fixed costs would justify an even greater increase in industrial fixed charges. However, Cleveland-Cliffs submitted that Ms. LaConte's proposal would ensure that more of PAWC's fixed costs would be collected through a meter charge. Cleveland-Cliffs M.B. at 6-7 (citing PAWLUG St. 1 at 28). As such, Cleveland-Cliffs submitted that PAWLUG's proposed rate design for the Industrial class should be approved, or alternatively, industrial customer charges should be increased by the same percentage as industrial volumetric charges. Cleveland-Cliffs M.B. at 7.

Victory Brewing agreed with Cleveland-Cliffs' recommendation of higher customer charges and lower volumetric charges for large industrial customers because it allows customers to reduce their bills through conservation when possible. Victory Brewing M.B. at 8 (citing Cleveland-Cliffs St. 1 at 13-14). Victory Brewing averred that this outcome is consistent with prior Commission rulings where, for example, the Commission has recognized that it is appropriate to set a customer charge that ensures the recovery of fixed costs that are more customer-related than usage-related while still allowing some revenue to be recovered through usage-based charges. Victory Brewing M.B. at 6 (citing *PPL 2012*).

The City of Scranton requested that the Commission deny the requested water tariff increase, noting that its residents are already struggling to make ends meet and the additional burden of an increase to water rates would exacerbate that situation. City of Scranton M.B. at 2.

2. Recommended Decision

The ALJs noted that PAWC currently offers water service in: (1) RZ-1 – the largest rate zone, with over 99% of PAWC's total water revenue; (2) RZ-2 – Valley; (3) RZ-3 – SLIBCO; (4) RZ-4 – Turbotville; and (5) RZ-5 – Steelton. The ALJs also noted that PAWC is proposing to consolidate rates for RZ-2 – Valley, RZ 3 – SLIBCO, RZ-4 – Turbotville, and RZ-5 – Steelton, with RZ-1 rates. The ALJs further noted that PAWC's only proposed changes in volumetric rate structure are changes in the steps for volumetric rates necessary to move Steelton, Valley, and SLIBCO rate zones to RZ-1 rates. R.D. at 245-46 (citing PAWC St. 10 at 31, 35).

The ALJs agreed with I&E that PAWC's proposed consolidation of the other rate zones into RZ-1 in the FPFTY is reasonable, with the exception of RZ-2 – Valley. The ALJs noted that this proposed change would cause a 63% rate increase for a residential customer using 3,201 gallons per month, making it twice the system average. As such, the ALJs agreed with I&E's alternate proposal of $1.60 per hundred-gallon usage rate for residential customers, finding that this will generate a reasonable increase on the total bill for a RZ-2 residential customer. Similarly, the ALJs agreed with I&E that its proposed adjustment to the commercial customer rate of $1.6500 for the first 16,000 gallons, and $1.2540 over 16,000 gallons, will generate a reasonable increase for the commercial class and, therefore, should be adopted. R.D. at 246.

The ALJs also agreed with I&E's concerns regarding PAWC's proposed consolidation of RZ-4 – Turbotville into RZ-1. The ALJs noted that I&E's witness, Mr. Cline, agreed with the proposal, insofar as to consolidate residential and municipal rates with RZ-1 is reasonable. However, the ALJs pointed out that Mr. Cline determined that PAWC's proposal, as it relates to commercial usage, would result in a 68.56% average bill increase for a RZ-4 –Turbotville customer, which is excessive when compared to the RZ-1 commercial customer. Accordingly, the ALJs agreed with Mr. Cline's proposal to

set the RZ-4 commercial usage rates equal to the RZ-2 commercial usage rate of $1.6500 for the first 16,000 gallons, and $1.2540 over 16,000 gallons, so that RZ-2 and RZ-4 may be merged after this base rate case, with the goal of merging RZ-4 with RZ-1 after PAWC's next base rate case. The ALJs also agreed that this proposal will result in a far more reasonable increase than proposed by PAWC. R.D. at 246.

Separately, the ALJs agreed with PAWC that PAWLUG's proposed rate design, to increase the Industrial customer charge for customers with meters that are 6" or larger, is not cost based and should be rejected. Further, the ALJs were not persuaded by PAWLUG's counter argument that: (1) PAWC's customer charge analysis only provides a cost basis for the 5/8" meter customer charge; (2) PAWC has not established the cost-basis for the existing Industrial customer charge; and (3) the overall revenue requirement allocated to Industrial customers would not change. Moreover, the ALJs agreed with PAWC's witness, Mr. Rea, that volumetric rates for industrial customers should be designed to collect the total revenue allocated to that class, less revenue from current industrial meter charges. R.D. at 247.

The ALJs also recommended that because the Company does not oppose the higher increases for the Municipal class proposed by the OSBA and Cleveland-Cliffs, the Commission adopt this proposal. R.D. at 247.

3. Exceptions, Replies, and Dispositions

a. PAWLUG Exception No. 1 and Replies

In its Exception No. 1, PAWLUG argues that the ALJs' recommendation that the Commission approve higher increases for the Municipal class proposed by the OSBA and Cleveland-Cliffs: (1) lacks clarity as to which of the proposals would be implemented; (2) conflicts with cost-of-service principles; and (3) would result in unjust

and unreasonable rates for municipal customers, including the public colleges and hospitals in the Company's service territory. PAWLUG Exc. at 2 (citing R.D. at 247; Supplement No. 48 Tariff Water-Pa. P.U.C. No. 5, Rule 26).

PAWLUG notes that the Commonwealth Court and the Commission have repeatedly held that a utility's cost of providing service must be the guiding principle – or polestar – in utility ratemaking. PAWLUG Exc. at 2 (citing *Lloyd*; *see also, i.e.*, *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-2008-2073938 (Order entered March 26, 2009) (*PGW 2008*)). Further, PAWLUG contends that the cost-of-service for the Municipal class was modified substantially due to a correction made by the Company. Specifically, PAWLUG notes that the original rate filing included an overstated allocation factor for the meters and services in the Municipal class, which resulted in the Municipal class cost-of-service considerably below cost-of-service at present revenues, with a Relative Rate of Return (RROR) at present revenues of 0.33. PAWLUG Exc. at 2-3 (citing PAWC St. 10-R at 2; PAWC St. 12, Exh. 12-A, Sch. B). PAWLUG continues that in Rebuttal, PAWC adjusted the Municipal class RROR at present revenues to 1.16. PAWLUG Exc. at 3 (citing Cleveland-Cliffs St. 1-R at 10).

Consequently, PAWLUG contends that the basis for the Parties' proposal, to assign a higher increase for the Municipal class, no longer exists. Further, PAWLUG notes that while both the OSBA and Cleveland-Cliffs acknowledged this correction, they continued to propose that the Municipal class absorb a higher share of revenues than proposed by the Company. PAWLUG notes that the OSBA, to moderate the rate increase for the Residential and Commercial classes, assigned costs to the Municipal class based on the results of its COSS. PAWLUG Exc. at 3 (citing OSBA St. 1-S at 19). PAWLUG further notes that Cleveland-Cliffs retracted its statement that the Municipal class should receive an increase above system average but recommends flat percentage increases for each customer class. PAWLUG Exc. at 3 (citing Cleveland-Cliffs St. 1-R at 10).

PAWLUG avers that the ALJs made no distinction between these two proposals and, while there may have been a basis to adjust the Company's proposed increase to Municipal based on the original 0.33 RROR, such a proposal is now unreasonable and contrary to *Lloyd*. Further, PAWLUG argues that following PAWC's Rebuttal COSS changes, PAWC's revenue allocation for the Municipal class makes reasonable progress towards cost-of-service and should be approved. Moreover, PAWLUG argues that due to the inconsistencies between the recommendations of Cleveland-Cliffs and the OSBA, unintended consequences are likely to result from efforts to incorporate the ALJs' directive to shift additional revenue to the Municipal class. PAWLUG Exc. at 3.

In its Replies, the OCA infers that PAWLUG is proposing that the Company's updated revenue allocation should be adopted without modification. OCA R. Exc. at 17-18 (citing PAWLUG Exc. at 3). The OCA disagrees with this proposal, arguing that contrary to PAWLUG's averment, the record demonstrates that based on the Company's corrected COSS, PAWC's revenue allocation would under-allocate costs to the Municipal class. OCA R. Exc. at 18 (emphasis omitted).

The OCA contends that at proposed rates, the system average increase is 24.6%, and the Company proposed a 16.2% increase for the Municipal class, which would leave that class short of the cost-of-service (cost-of-service is $27.1 million, compared to revenues of $26.2 million). However, the OCA notes that the OSBA proposed to match cost-of-service by increasing Municipal class revenues to $27.83 million, compared to the OSBA's calculated cost-of-service of $27.88 million. The OCA points out that because this is a 23.4% increase at PAWC's proposed revenue requirement, it is still under the system average increase of 24.6%. OCA R. Exc. at 18 (citing OSBA St. 1 at Sch. KCH-12; PAWC Exh. 12-A Revised).

The OCA notes that comparing the different proposals is complicated because different parties have different Water COSS results and proposed different amounts to be shifted under Act 11. OCA R. Exc. at 18 (citing PAWLUG Exc. at 3; PAWC St. 12, Exh. 12-A; OSBA St. 1-R at Sch. KCH-12). Thus, the OCA submits that generally, the ALJs' recommendation to assign additional revenue to the Municipal class, to more closely align cost-of-service and revenues, is reasonable and supported by the record because the resulting increase with the additional revenue would still be less than the system average. OCA R. Exc. at 18.

In its Replies, the OSBA counters that the ALJs properly recommended allocating a higher revenue increase to the Municipal class. OSBA R. Exc. at 4 (citing PAWLUG Exc. at 2-3). The OSBA notes that it took full account of the correction of PAWC's error in its initial cost allocation to the Municipal class and, consequently, recommended a revenue allocation to the Municipal class less than the system average on a percentage basis, but is not as far below the average as the Company initially proposed. OSBA R. Exc. at 4 (citing OSBA St. 1-R at 5-6; PAWLUG Sch. KCH-12 at 1). Further, the OSBA submits that the extent of PAWC's originally proposed, below-average increase to the Municipal class, as set forth in the Company's direct filing, remains unjustified despite the Company's correction. OSBA R. Exc. at 4.

b. Disposition

As noted by the ALJs, PAWC did not oppose higher increases for the Municipal class. R.D. at 247. Specifically, PAWC's witness, Mr. Rea, did not oppose the proposal of the OSBA's witness, Mr. Higgins, who initially recommended a $5.3 million reduction to the Commercial class offset by a $5.3 million increase to the Municipal class, and subsequently, updated his proposed revenue allocation based on the results of his rebuttal COSS. *See*, PAWC St. 10-R at 43; OSBA St. 1-S at 19 (citing OSBA St. 1-R at Sch. KCH-12); OSBA St. 1 at 35. Additionally, Mr. Rea did not oppose the alternative

revenue allocation initially proposed by Cleveland-Cliffs' witness Mr. Baudino, who recommended that at the Company's requested percentage increase of 24.6%, the Municipal (or Public) class receives an increase of 30.8%, and Residential, Commercial, Industrial, and Private Fire classes each receive an increase near the system average of 24.4%. *See*, PAWC St. 10-R at 43; Cleveland-Cliffs St. 1 at 12 (citing Cleveland Cliffs St. 1 at Exh. RAB-8). Subsequently, Mr. Baudino recommended an equal percentage increase for the Residential, Commercial, Industrial, and Municipal (or Public) classes. Cleveland-Cliffs St. 1-R at 10. Notwithstanding, the ALJs recommended that the Commission adopt the proposal of higher increases for the Municipal class, noting that PAWC did not oppose such increases. R.D. at 247.

We agree with the OCA and the OSBA that the ALJs properly recommended allocating a higher revenue increase to the Municipal class. As noted by the OCA, the record evidence supports that PAWC's revenue allocation would under-allocate to the Municipal class based on the Company's corrected COSS. *See*, OCA R. Exc. at 18. The OCA pointed out that with a system average increase of 24.6%, and PAWC proposing a 16.2% increase for the Municipal class, the cost-of-service is $27.1 million, compared to revenues of $26.2 million. However, the OSBA proposed an increase to Municipal (or Public) class revenues of $27.83 million, compared to the OSBA's calculated cost-of-service of $27.88 million, for a 23.4% increase at PAWC's proposed revenue requirement, which is still under the system average increase of 24.6%. *See*, OCA R. Exc. at 18; OSBA St. 1-R at Sch. KCH-12; PAWC St. 12, Exh. 12-A (Revised). Therefore, as noted by the OCA, assigning additional revenues to the Municipal class is reasonable because the resulting increase would be less than the system average and would move the Municipal class closer to its cost-of-service. We agree. Furthermore, we find PAWLUG's argument, that the basis for assigning a higher increase for the Municipal class no longer exists, to be meritless. Accordingly, we shall deny PAWLUG's Exception No. 1.

c. PAWLUG Exception No. 3, Cleveland-Cliffs Exception No. 1 and Replies

In its Exception No. 3, PAWLUG argues that the ALJs erred in declining to increase the industrial customer charge. PAWLUG Exc. at 4 (citing R.D. at 247). PAWLUG contends that the Company's industrial meter charges should be designed to recover the cost-of-service and, contrary to the ALJs' recommendation, the Company's proposal to not increase the industrial customer charge is not cost-based and, therefore, should be rejected. PAWLUG Exc. at 4.

PAWLUG contends that the Industrial customer charge for meters 6" and above should not be increased because such charges are higher than the customer charges applicable to the Company's residential and commercial customers.[114] Further, PAWLUG argues that the cost for the Company's Industrial customer charge is limited to a customer cost analysis of the cost-of-service for 5/8" meters, with larger RZ-1 residential and commercial meter sizes receiving proportional increases based on that analysis. PAWLUG Exc. at 4-5 (citing PAWC St. 12-R at 13; PAWC St. 10 at 35). Accordingly, PAWLUG contends that the Company has not established a cost basis for the larger Industrial meter customer charges. PAWLUG Exc. at 5.

PAWLUG also disagrees with PAWC's position that Industrial customer charges for larger meters should not be increased because those charges are higher than current Residential and Commercial customer charges. According to PAWLUG, PAWC's position lacks a cost basis because the Company has not established a cost basis for the Residential and Commercial customer charge for meters 6" and larger. PAWLUG Exc. at 5. Further, PAWLUG avers that given the absence of a customer cost analysis for the large meter industrial customers, it is more reasonable to assign an increase rather than

[114] We note that more than once in its Exceptions, PAWLUG does not refer to the appropriate abbreviation for inches. *See*, PAWLUG Exc. at 4-5.

leave the customer charge unchanged from the Company's prior rate case. PAWLUG Exc. at 5 (citing PAWLUG St. 1 at 28). Moreover, PAWLUG maintains that increasing the fixed costs would reduce revenue volatility and ensure the recovery of fixed costs. Accordingly, PAWLUG submits that its proposed rate design should be approved or, alternatively the Commission should approve Cleveland-Cliffs' proposal and increase industrial customer charges by the same percentage increase as the industrial volumetric charges. PAWLUG Exc. at 5 (citing PAWLUG M.B. at 26; Cleveland-Cliffs M.B. at 7).

In short, PAWLUG submits that the Company's proposal to preserve the current Industrial customer charge and apply all of the Industrial class revenue increase to volumetric rates should be denied because it is not cost-based and is unsupported and unreasonable. However, PAWLUG notes that if the Commission approves the Company's recommendation to preserve the existing Industrial class customer charges, then the proportional scale back supported by PAWC should be applied solely to the volumetric Industrial rates. PAWLUG Exc. at 5.

In its Exception No. 1, Cleveland-Cliffs argues that the ALJs: (1) incorrectly asserted that the Company's proposal aligns more closely with cost-of-service than the rate design proposals of PAWLUG, Victory Brewing, and Cleveland-Cliffs; (2) did not reasonably address concerns related to the industrial rate design; and (3) incorrectly asserted that PAWC's proposal to not increase the existing industrial meter charges and instead seek to collect the entirety of the industrial revenue increase through the volumetric charges is more reflective of Company's cost-of-service testimony than the proposals of the industrial parties. Cleveland-Cliffs Exc. at 1-2 (citing R.D. at 247). Cleveland-Cliffs maintains that the Company's proposed rate design would collect even more costs through volumetric rates, which moves in the opposite direction of cost-causation. Cleveland-Cliffs Exc. at 2 (citing PAWC St. 10 at 86).

Cleveland-Cliffs argues that its proposal, and the proposals of PAWLUG and Victory Brewing, would result in a modest movement toward the Company's cost-of-service. Specifically, Cleveland-Cliffs maintains that PAWLUG's proposal to approximately double the industrial meter charges and provide for smaller percentage increases to the volumetric charges is a step toward cost-of-service and would ensure that more fixed costs would be collected through a meter charge. Cleveland-Cliffs Exc. at 2-3 (citing PAWLUG St. 1 at 28). Accordingly, Cleveland-Cliffs repeats its position that the Commission should approve PAWLUG's proposed rate design for the Industrial class or increase the customer charges for the Industrial class by the same percentage as the volumetric charges. Cleveland-Cliffs Exc. at 3.

d. Disposition

Both PAWLUG and Cleveland-Cliffs disagree with the ALJs' recommendation that the Commission reject PAWLUG's proposal to increase the meter charge for Industrial customers. PAWLUG Exc. at 4; Cleveland-Cliffs Exc. at 2-3. PAWLUG's witness, Ms. LaConte, proposed to decrease the volumetric rate and increase the Industrial customer charge to reduce revenue volatility and provide a more stable and reliable revenue stream by recovering more costs through a fixed charge, which will reduce the possibility of the Industrial class paying more than its cost to serve if sales are higher than projected. PAWLUG St. 1 at 28-29. Cleveland-Cliffs' witness, Mr. Baudino, argued that fixed costs should be collected through fixed charges, and proposed that an equal percentage increase be applied to both meter charges and volumetric charges for the Industrial class. Cleveland-Cliffs St. 1 at 14. As such, Cleveland-Cliffs recommended that the Commission either increase Industrial customer charges by the same percentage as Industrial volumetric charges or approve Ms. LaConte's rate design proposal for the Industrial class. Cleveland-Cliffs M.B. at 7.

We concur with the ALJs that PAWLUG's proposal, to increase the Industrial customer charge for customers with meters that are 6" or larger, should be rejected. Contrary to the proposals of PAWLUG's witness, Ms. LaConte, and Cleveland Cliffs' witness, Mr. Baudino, PAWC's witness, Mr. Rea, supported the Company's proposal to leave the monthly meter charges for the Industrial class unchanged. As noted by the ALJs, Mr. Rea explained that volumetric rates for industrial customers should be designed to collect the total revenue allocated to the Industrial class less revenue from current Industrial meter charges. PAWC St. 10-R at 47. We agree. Further, Mr. Rea provided that Ms. LaConte's proposal has no apparent basis in cost and would result in Industrial meter charges more than four times the proposed Residential and Commercial meter charges. Mr. Rea also testified that PAWC did not propose any changes to meter charges for the Industrial and Other Water Utilities classes because those charges are already more than double the Company's proposed meter charges for residential and commercial charges for meter sizes 4" and above. PAWC St. 10-R at 45. We find Mr. Rea's testimony persuasive. Moreover, we agree with the ALJs that PAWLUG's argument in response to the Company's position – PAWC's customer charge analysis only provides a cost basis for the 5/8" meter customer charge; PAWC has not established the cost-basis for the existing Industrial customer charge; and PAWC's overall revenue requirement allocated to Industrial customers would remain unchanged – is not persuasive. *See*, R.D. at 247; *see also*, PAWLUG M.B. at 27.

On review, we find that PAWLUG and Cleveland-Cliffs have not provided sufficient analysis to support their position that PAWLUG's proposed rate design for the Industrial class should be approved or that Industrial customer charges should be increased. Thus, as the ALJs observed, PAWLUG's proposal to increase the Industrial customer charge for customers with meters that are 6" or larger should be rejected. Furthermore, to the extent that Cleveland-Cliffs argues that the ALJs did not reasonably address concerns regarding the Industrial rate design, we find this argument is meritless.

Accordingly, we shall deny PAWLUG's Exception No. 3 and Cleveland-Cliffs' Exception No. 1.

H. Tariff Structure – Wastewater Rate Design

1. Positions of the Parties

Regarding wastewater SSS Operations, PAWC submitted that the Commission should reject I&E's and the OCA's proposed increases to wastewater SSS rates, *infra*, which include their COSS recommendations and modifications to the Company's Act 11 allocation, for the reasons set forth in the Rate Structure and Rate Design Section of PAWC's Main Brief, under the Cost-of-Service Studies Section and the Revenue Allocation and Act 11 Section. PAWC M.B. at 64 (citing I&E St. 3, Sch. 3; OCA St. 4 at 39, 46-48). PAWC added that the recommendations of I&E's witness, Mr. Kubas, do not account for the affordability for wastewater SSS customers. As such, PAWC also submitted that the Commission should reject I&E's and the OCA's proposed reduction to the residential service charge, to be consistent with charges to other residential customers. Furthermore, PAWC submitted that the Commission should reject Mr. Kubas' recommended charges for unmetered service and rates for special flat rate customers, to be consistent with the overall increase for the wastewater SSS group. PAWC M.B. at 64 (citing OCA St. 10-R at 58-59).

PAWC submitted that its proposed 9.9% increase in rates over two years (resulting in an annual increase of approximately 4.45%) for seven bulk wastewater customers that are served by the York system, referred to as York Bulk Customers (YBCs), is reasonable and justified because YBCs have viable and competitive alternatives to receiving service from the Company. PAWC noted that the YBCs consist of: (1) The York Water Company, which is the owner of the former West York Borough Collection System; (2) Springettsbury Township; (3) North York Borough; (4) York

Township; (5) Manchester Township; (6) West Manchester Township; and (7) Spring Garden Township. PAWC M.B. at 64 (citing PAWC St. 6-R at 18; PAWC St. 3 at 66-69). According to PAWC, the proposed rate increases will cover the variable costs of bulk treatment service and contribute to the total fixed costs incurred to furnish wastewater service to retail customers in PAWC's wastewater SSS Operations. PAWC M.B. at 64-65 (citing PAWC St. 12 at 9). Further, PAWC averred that the Company presented substantial evidence regarding the competitive alternatives available to YBCs, including affidavits showing that the YBCs had competitive alternatives at the time of the acquisition of the York system and continue to have alternatives to bulk wastewater service. PAWC M.B. at 65 (citing PAWC St. 6-R at 19-22; PAWC Exh. ECA-1R (CONFIDENTIAL); PAWC Exh. ECA-2R). As such, PAWC submitted that the Commission should deny I&E's proposed rate increase for the YBCs. PAWC M.B. at 65.

PAWC added that the YBCs have greater bargaining power because they negotiated as a block and, if the Company had refused to enter into a uniform contract with all of the YBCs, then the Company would have lost all of the bulk customers. PAWC submitted that given these circumstances, it is inappropriate to consider whether the rate charged to one given bulk customer maximizes the amount of revenue that the Company could have received from that particular customer. PAWC M.B. at 66.

With respect to CSS wastewater and BASA operations, PAWC averred that the Commission should accept the Company's proposed rate design for BASA. PAWC M.B. at 67. PAWC further averred that the Commission should reject I&E's and the OCA's below recommendations pertaining to CSS wastewater operations, which include higher rates for City of Scranton than proposed by the Company. PAWC submitted that the Company proposed City of Scranton CSS rates consistent with the purchase agreement for that system, and any increase in rates for City of Scranton customers directed by the Commission should be just, reasonable, and consistent with the concept of gradualism to avoid rate shock. PAWC M.B. at 67-68 (citing PAWC St. 4-R at 12-13).

I&E provided that the goal of its witness, Mr. Kubas, was to reduce the revenue shortfall of $31,962,411, created by PAWC's proposal to decrease present rate revenue by $169,253, or 0.2%, from $95,470,866 to $95,301,613. PAWC M.B. at 80 (citing I&E St. 4 at 15-17). I&E averred that it is unreasonable to subsidize wastewater customers to the extent proposed by the Company because most Company water customers are not wastewater customers. *See*, OCA M.B. at 80 (citing OCA St. 1 at 7). As such, Mr. Kubas recommended a total increase in the wastewater SSS system of $32,265,198, which results in a remaining subsidy in the wastewater SSS Operations of $321,682. Further, Mr. Kubas noted that he used the Company's COSS to develop the various wastewater rates that move the relative rate of return of each class towards 1.0. I&E M.B. at 80 (citing I&E St. 4 at 17).

Regarding Wastewater SSS Operations, I&E posited that customers in the following locations should receive a higher percentage increase than proposed by PAWC: (1) Caln, West Brandywine (WB), the VA Medical Center (VA), and St. Lawrence Borough (St. Lawrence) in RZ-1; and (2) various Bulk contracts in RZ-7. I&E M.B. at 80 (citing PAWC Vol. 9, Exh. 10-B at 31). Further, I&E averred that class rates should be based on cost; however, upon applying the Company's proposed increase, the RROR for these customers is 0.87, which demonstrates they are not paying their cost to serve. I&E M.B. at 80-81 (citing I&E St. 3 at 45). As such, Mr. Kubas recommended rates to move these customers closer to the cost to serve. Specifically, Mr. Kubas recommended a monthly charge of $456.50 and a usage rate of $1.680 per hundred gallons for Caln, West Brandywine, and the VA. Mr. Kubas further recommended that in accordance with the general tariff provision requiring all customers to pay a monthly customer charge, the Company begin to charge St. Lawrence a monthly customer charge of $456.50. I&E M.B. at 81 (citing I&E St. 3 at 46).

I&E submitted that the rates for YBCs must be increased to move these customers close to their cost to serve because PAWC has not provided sufficient evidence

to demonstrate that YBCs have a competitive alternative. As such, Mr. Kubas recommended further increases of approximately 50% to the Company's proposed increases to the YBC usage rates, resulting in a subsidy of $7,999,227. I&E M.B. at 81-82 (citing I&E Exh. 3, Sch. 3 at 2; I&E St. 3 at 49, 53). Mr. Kubas added that this subsidy should continue to be decreased in future cases. I&E M.B. at 82 (citing I&E St. 3 at 53).

Regarding CSS wastewater operations, I&E submitted that the goal of Mr. Kubas was to reduce the subsidy of $16,007,052, created by PAWC's proposal to decrease present rate revenue by $226,926, or 0.3%, from $78,636,222 to $78,409,294. PAWC M.B. at 82 (citing PAWC Vol. 9, Exh. 10-C at 1, 3-38; I&E Exh. 3, Sch. 17 at 1). As such, Mr. Kubas recommended a total increase in the CSS wastewater system of $15,744,287, which reduces the CSS wastewater operations subsidy to $35,835. I&E M.B. at 82 (citing I&E St. 3 at 57-58; I&E Exh. 3, Schs. 1, 16).

I&E submitted that its proposed rates all serve to move customers closer to their cost to serve and represent reasonable increases. Therefore, I&E recommended their rates should be adopted. I&E M.B. at 83.

The OCA's witness, Mr. Mierzwa, provided that the Company's volumetric rate proposals should be proportionately adjusted to recover the cost-of-service approved by the Commission for: (1) each current wastewater SSS and CSS wastewater customer class; and (2) any revenue deficiency resulting from the adoption of his monthly residential customer charge recommendations for wastewater SSS and CSS wastewater residential customers. OCA St. 4 at 48. Further, the OCA agreed with PAWC that if the Commission approves the Company's proposal to delay the effective date for new rates for certain wastewater rate zones, then it should also adopt the Company's proposal to impute revenues by calculating the proof of revenues as if the customers were paying the new rates without any delay. OCA M.B. at 80 (citing PAWC St. 4-R at 12; OCA St. 4

at 49-50). The OCA added that this is necessary to prevent other ratepayers from paying the cost of rate commitments that the Company chose to make in its agreements to purchase those systems. OCA M.B. at 80.

The City of Scranton submitted its opposition to Mr. Kubas' recommendations because, according to the City of Scranton, Mr. Kubas' recommendations include higher rates than PAWC's proposed rates. The City of Scranton agreed with the Company that first, Scranton CSS wastewater rates remain consistent with the purchase agreement for that system. Further, the City of Scranton requested that the Commission refrain from increasing costs for the City of Scranton, particularly given the terms of the Asset Purchase Agreement. Second, if the Commission considers any increase in wastewater rates for Scranton CSS ratepayers, then that increase should be just, reasonable, and consistent with the concept of gradualism and rate shock. City of Scranton M.B. at 1.

2. Recommended Decision

The ALJs summarized that the Company provides the following rate schedules in the following rate zones: (1) SSS, which includes RZ-1 – PAWC Statewide; RZ-2 – New Cumberland; RZ-5 – Valley; RZ-7 – York; Rate Zone 8 (RZ-8) – Foster Township; and Rate Zone 9 (RZ-9) – Royersford; and (2) CSS, which includes RZ-3 – Scranton, RZ-4 – Kane, and Rate Zone 6 (RZ-6) – McKeesport. The ALJs also noted that PAWC proposed the following: (1) under the provisions of Act 11, to reallocate a portion of the wastewater revenue requirement calculated in this case to its water service customers; (2) to move all CSS wastewater customers, with the exception of the Scranton system, to a single tariff with a single set of rates; (3) to move New Cumberland and Valley to wastewater SSS RZ-1; (4) to set fixed charges to be the same for all wastewater customers, unless prohibited by prior agreement; and (5) to move rates in the wastewater SSS group for the York and Royersford system closer to RZ-1 rates.

R.D. at 254 (citing PAWC St. 10 at 36-37, 40-41). The ALJs also summarized PAWC's proposal for wastewater service rate design and tariff consolidation. R.D. at 254-55 (citing PAWC St. 10 at 41-42). Moreover, the ALJs noted that PAWC proposed to change the Company's current methodology of the volumetric component of bills for residential customers from being based on total metered usage for a month to winter averaging. R.D. at 255 (citing PAWC St. 10 at 42).

The ALJs agreed with the testimony of the OCA's witness, Mr. Mierzwa, that the Company's volumetric rate proposals should be proportionately adjusted to recover the cost-of-service approved by the Commission for each current wastewater SSS and CSS wastewater customer class. R.D. at 255-56 (citing OCA St. 4 at 48). Further, the ALJs responded to I&E's proposal to increase YBCs' rates by approximately 50% because, according to I&E, PAWC's argument that competitive alternatives for YBCs is speculative. Specifically, the ALJs found that based on the pertinent testimony of PAWC's witness, Mr. Aiton, it is "more than speculative" to conclude that YBCs do not have competitive alternatives. Accordingly, the ALJs recommended that the Commission reject I&E's proposed rate increase for the YBCs. R.D. at 256-57 (citing PAWC St. 3 at 66-67).

At the same time, however, the ALJs concurred with the recommendation of I&E's witness, Mr. Kubas, that PAWC begin to charge St. Lawrence a monthly customer charge, to ensure that St. Lawrence contributes appropriate revenues to fund the Company's direct and indirect customer costs for service. R.D. at 257 (citing I&E M.B. at 80-81). The ALJs recommended that the Company charge St. Lawrence the same service charge per month that the Commission approves for other Wastewater SSS RZ-1 bulk metered usage customers, including Caln, West Brandywine, and the VA Medical Center, that have special rates for bulk metered usage. R.D. at 257.

3. Exceptions, Replies, and Dispositions

a. I&E Exception No. 4 and Replies

In its Exception No. 4, I&E contends that the ALJs erred in recommending that the Commission reject I&E's proposal to increase the rates for YBCs by approximately 50%. I&E repeats its argument that YBCs should be paying a rate that is closer to the cost to serve because "it is at best speculative that these customers have competitive alternatives." I&E Exc. at 9.

I&E reiterates its position that rates for YBCs must be increased to move those customers close to their cost to serve because PAWC has not provided sufficient evidence to demonstrate that YBCs have a competitive alternative. As such, I&E repeats its recommendation to decrease the subsidy and, after applying Mr. Kubas' proposed rate design, the YBCs continue to receive a $7,999,227 subsidy. I&E Exc. at 9-10 (citing I&E St. 3 at 34, 49).

I&E disagrees with the ALJs claim that the testimony of PAWC's witness, Mr. Aiton, provides assurance that there is a competitive alternative. I&E Exc. at 10 (citing R.D. at 256-57). According to I&E, PAWC's claims concerning the viable competitive alternative are "unsupported" because PAWC failed to describe the alternative and failed to provide the fixed costs or variable costs these customers would incur to utilize the alternative. I&E Exc. at 10 (citing I&E St. 3-SR at 31-32; I&E St. 3 at 48). Further, I&E posits that having an alternative is not the same as having an alternative that is both viable and competitive. I&E Exc. at 10 (citing I&E R.B. at 34).

I&E repeats that PAWC has not provided evidence of the competitive alternative. Instead, I&E avers that PAWC has continued to request that the Commission rely on the customer's threat to leave the system. Further, I&E posits that if a viable

competitive alternative exists, then the Company must demonstrate what that alternative is because the cost to serve YBCs is allocated to other PAWC customers. As such, I&E contends that "something more than an unsubstantiated threat to leave the system should be necessary in order for that subsidy to be imbedded in rates." I&E Exc. at 11. Accordingly, I&E argues that the Commission should reject the ALJs' recommendation and approve the YBCs rates as proposed by Mr. Kubas. I&E Exc. at 10-11.

In its Replies, PAWC counters that I&E's argument was considered and rejected by the ALJs at the hearing because I&E's witness admitted that YBCs have competitive alternatives. PAWC R. Exc. at 19 (citing R.D. at 256-57). PAWC contends that contrary to I&E's assertion, the record fully supports the ALJs' finding that the YBCs have competitive alternatives. Further, PAWC refers to the ALJs' finding that the YBCs are in close geographic proximity, meaning that YBCs could enter, or already have entered, into intermunicipal flow agreements to transmit wastewater flow between themselves and to other surrounding municipalities with existing treatment capacity, instead of sending their flows to the York wastewater treatment plant. PAWC R. Exc. at 19 (citing R.D. at 256; PAWC St. 3 at 66-67). Moreover, PAWC points out that its witness, Mr. Abruzzo, testified that YBCs had competitive alternatives when the Company acquired the York system in 2021, and when the Company litigated its 2022 rate case. PAWC R. Exc. at 19 (citing PAWC St. 6-R at 19-22). Furthermore, PAWC reiterates that the record evidence includes affidavits from the YBCs demonstrating that they had competitive alternatives in the recent past and continue to have alternatives to bulk wastewater service from PAWC today. PAWC R. Exc. at 19-20 (citing PAWC Exh. ECA-2R).

PAWC disputes I&E's argument that the ALJs' finding is speculative because PAWC did not present any evidence on what costs the YBCs would incur to exercise their competitive alternatives. PAWC R. Exc. at 20 (citing I&E Exc. at 10-11). PAWC counters that contrary to I&E's argument otherwise, the Company is only required

to introduce evidence that competitive alternatives exist. Further, PAWC reiterates that the Company's proposed rates for the YBCs cover the variable costs of bulk treatment service and provide a meaningful contribution to the total fixed costs incurred to furnish wastewater service to retail customers. PAWC Exc. at 20 (citing PAWC R.B. at 55; PAWC M.B. at 64-67). Moreover, PAWC contends that because the YBCs contribute about 54% of the treatment flows to the system, the loss of these customers would necessitate a rate increase for retail customers and have an adverse impact on the operation of the wastewater treatment plant. Accordingly, PAWC submits that the ALJs' recommendation to increase rates consistent with the existing agreements between the Company and the YBCs is just and reasonable. PAWC R. Exc. at 20.

b. Disposition

As previously noted, the ALJs were not persuaded by I&E's position that YBC rates should be increased by approximately 50%. According to I&E, PAWC's argument that YBCs have competitive alternatives is speculative at best. R.D. at 256. The ALJs reasoned that it is more than speculative to conclude that YBCs do not have competitive alternatives. We concur with the ALJs' reasoning.

As discussed by the ALJs, PAWC's witness, Mr. Aiton, provided testimony to substantiate its claim that YBCs that have entered into wastewater treatment and conveyance agreements to treat their wastewater flows at the York wastewater treatment plant (WWTP) have competitive alternatives to PAWC service. Specifically, Mr. Aiton provided that:

> The [YBCs] are in close geographic proximity – which means that they could enter into (and have in some circumstances already entered into) intermunicipal flow agreements to transmit wastewater flow between themselves and to other surrounding municipalities with existing treatment capacity, instead of sending their flows to the York WWTP. The

> [YBCs] are sophisticated, knowledgeable, and experienced. Therefore, they could divert flows to alternative treatment providers or develop a new treatment system.
>
> In the proceeding for approval of PAWC's acquisition of the York wastewater system at Docket Nos. A-2021-3024681 et al. ("Acquisition Proceeding"), the [YBCs] opposed the transaction and testified that [they] were planning for a competitive alternative to bulk treatment service from PAWC. As witnesses for the [YBCs] explained in their testimony in the Acquisition Proceeding and discussed in detail by Company witness Bernard D. Grandusky in Statement No. 7-R submitted on August 19, 2022 in PAWC's 2022 rate case, unless PAWC entered into the Bulk Agreements on the terms and rates set forth in those contracts, each of the [YBCs] would leave the York System after PAWC's acquisition and pursue alternative treatment.

PAWC St. 3 at 66-67. Further, the Company's witness, Mr. Abruzzo, provided testimony that PAWC presented evidence demonstrating the competitive alternatives available to YBCs, including affidavits showing that the YBCs had competitive alternatives at the time of the acquisition of the York system. PAWC St. 6-R at 19; PAWC Exh. ECA-2R. Moreover, in the *PAWC 2022* proceeding, I&E proposed to increase the rates for the YBCs by 50% because of the lack of competitive alternatives. However, I&E subsequently withdrew that proposal in response to PAWC's rebuttal testimony. PAWC St. 6-R at 19-22. Thus, we find the ALJs' recommendation to reject I&E's proposed rate increase for the YBCs reasonable. Therefore, I&E's Exception No. 4 is denied.

c. I&E Exception No. 6 and Replies

In its Exception No. 6, I&E argues that the ALJs did not address whether its proposed wastewater rates are adopted in total. According to I&E, the ALJs did not address several aspects of I&E's wastewater rate design, including PAWC's proposal that the Commission reject Mr. Kubas' recommended charges for unmetered rates. I&E Exc.

at 15 (citing R.D. at 247). Accordingly, I&E requests that for clarification and in conjunction with granting I&E's Exceptions related to rate design, the Commission affirmatively adopt I&E's wastewater rate design in total. I&E Exc. at 15 (citing I&E M.B. Appendix B at 2-6). I&E adds that its proposed rates should be adopted because they serve to move customers closer to their cost to serve and represent reasonable increases. I&E Exc. at 15.

In its Replies, PAWC states that to the extent the ALJs did not explicitly approve a proposed modification to the Company's rate design, the Commission should approve the rate design proposed by the Company. PAWC R. Exc. at 17, n. 79.

d. Disposition

At the onset, we will address I&E's claim that the ALJs failed to address "various aspects of the I&E wastewater rate design." I&E Exc. at 15. We note that the ALJs were aware of the position and arguments put forth by I&E; however, it is up to the ALJs to determine whether, and to what extent, further discussion and analysis is warranted. *See, Aqua 2022* at 112-13. Here, it appears that the ALJs did not believe that further consideration of I&E's wastewater rate design proposal was necessary. Accordingly, to the extent that I&E claims that the ALJs overlooked I&E's wastewater rate design, we find that this argument is without merit.

To summarize, and for the purposes of clarity, the ALJs agreed with the OCA that the volumetric rates proposed by PAWC should be proportionately adjusted to recover the cost-of-service approved by the Commission for the wastewater SSS and CSS wastewater customer classes. R.D. at 255. Further, the ALJs recommended that the Commission reject I&E's proposed rate increase for the YBCs. R.D. at 256-57. The ALJs also agreed with I&E that PAWC should be directed to begin charging St. Lawrence a monthly customer charge, to ensure that St. Lawrence contributes appropriate revenues

to fund PAWC's direct and indirect customer costs for service. R.D. at 257. Additionally, the ALJs recommended that PAWC charge St. Lawrence the same service charge per month that the Commission approves for other wastewater SSS Rate Zone 1 bulk metered usage customers that have special rates for bulk metered usage, including Caln, West Brandywine, and the VA Medical Center. *Id.* Based on the forgoing, I&E's Exception No. 6 is denied.

I. Tariff Structure – Winter Averaging Proposal

1. Positions of the Parties

PAWC proposed to change the way that the Company determines the volumetric component of residential customer bills to a winter averaging methodology, to more closely align wastewater bills in the summertime with cost-causation design principles. PAWC explained that winter averaging is a method for determining the volumetric components of wastewater bills that attempts to separate metered water usage that is likely to go through the wastewater system from water usage that is used for outdoor purposes in the summer. PAWC further explained that under winter averaging, a customer's bill in the wintertime is determined by actual metered water usage for the month, and in the summertime the customer's bill is determined by the lesser of the actual metered water usage for the month or the average water consumption for that customer in the winter months of January, February, and March. PAWC noted that the winter averaging calculation will be customized for each individual customer, and the methodology will be the same for all customers, but the calculations will be completed on an individual basis so that each customer will be billed based on their winter average usage and not the average monthly usage for all residential customers. PAWC St. 10 at 42-45.

In response to I&E's below recommendation that winter averaging only be approved as a temporary program, PAWC countered that such an implementation would require "shadow billing," which would require the Company to develop two sets of billing determinants, two sets of rates, and two different bill calculations for each wastewater customer, in order to provide a comparative analysis of bills and revenues with and without winter averaging. PAWC R.B. at 56 (citing Tr. at 2010-11). Further, PAWC provided that although higher-income customers are more likely to benefit more from winter averaging by having greater seasonal water usage in the summertime for which they would no longer be billed for wastewater service, this is a fair result supported by cost causation and does not mean that low-income customers will not benefit from winter averaging. PAWC R.B. at 56-57 (citing PAWC St. 10-R at 54-55). As such, PAWC submitted that winter averaging will benefit all customers and is reflective of cost-causation. PAWC M.B. at 68 (citing PAWC St. 10-R at 55).

According to I&E, wastewater usage is currently based upon actual water usage, but PAWC is proposing a winter averaging plan where the wastewater usage volume for a residential customer be adjusted downward to account for water purchased but not entering the wastewater system. I&E M.B. at 83. Initially, I&E proposed two conditions related to the Company's winter averaging proposal: (1) because the program is designed to help only residential wastewater customers, none of the revenue shortfall from this proposal be recovered from other wastewater customers or water customers; and (2) the Commission determine that the proposal is approved as a temporary program, thereby allowing the resulting revenue impacts to be evaluated in the first rate case following the program's implementation. I&E M.B. at 84 (citing I&E St. 3 at 55-56). Subsequently, I&E recommended that the program not be approved because, according to I&E, the Company does not want to track multiple sets of numbers under a temporary program. I&E M.B. at 85 (citing I&E St. 3-SR at 38). I&E also referred to the arguments of the OCA and CAUSE-PA to aver that this program has the potential to have a disproportionate impact on low-income customers. I&E M.B. at 85-86 (citing OCA

St. 5 at 98, 105; CAUSE-PA St. 1 at 13). As such, I&E submitted that PAWC's proposed winter averaging program should be rejected in its entirety. I&E M.B. at 86 (citing I&E St. 3-SR at 38-39).

The OCA submitted that the Company's proposal to change the way it determines the volumetric component of bills for residential wastewater customers should be rejected because the proposal would disproportionately harm low-income customers. OCA M.B. at 80-81 (citing OCA St. 4-SR at 19-20; OCA St. 4 at 40-44; OCA St. 5-SR at 9-11; OCA St. 5 at 97-109; CAUSE-PA St. 1 at 13-14; I&E St. 3-SR at 38-39). The OCA averred that the record shows that customers who will pay the increase in charges are disproportionately likely to be low-income. Further, the OCA asserted that the Company has failed to demonstrate that its proposed methodology for recognizing outdoor usage would reasonably achieve its stated purpose. OCA M.B. at 81. Specifically, the OCA contended that the Company's data shows there is not a substantial variability in residential water bills (and thus in residential consumption) between the PAWC-defined "winter months" and the remaining nine "non-winter" months. OCA M.B. at 81-82 (citing OCA St. 5 at 97-99; OCA St. 5 at 99-101; OCA St. 4 at 43-44). As such, the OCA submitted that the Company's proposed methodology should be rejected. However, the OCA averred that if PAWC's proposal is adopted, then the volumetric charges should be made subject to the same low-income discounts to which other PAWC volumetric charges are subject. OCA M.B at 82 (citing OCA St. 5 at 109).

CAUSE-PA averred that the Company's proposed winter averaging methodology is inequitable and contrary to the public interest because it improperly favors customers: (1) that reside in larger properties and have greater levels of discretionary water usage in the non-winter months; and (2) with summer vacation homes and swimming pools, which may have low average usage in the winter months. As such, CAUSE-PA submitted that PAWC's proposal to change the way it determines the

volumetric component of bills for residential wastewater customers should be rejected because it would shift costs from higher income customers with greater discretionary usage onto lower income customers. CAUSE-PA M.B. at 25-26 (citing CAUSE-PA St. 1 at 13).

According to CAUSE-PA, the Company's winter averaging methodology is flawed because it assumes that: (1) outdoor water usage does not impact wastewater system costs, without consideration of whether a given system is combined stormwater and wastewater; (2) increased summer water usage is all attributable to outdoor water usage, without consideration of a customer's average winter usage; and (3) customers with a vacation home used primarily in the summer months, families with children returning from college for summer vacation, and other households with higher summer usage would be charged the lower winter rates over the course of 12 months. CAUSE-PA M.B. at 26 (citing CAUSE-PA St. 1 at 13). Further, CAUSE-PA noted the OCA's assertion that the Company has not presented a legitimate basis to overcome concerns related to adverse impacts on low-income customers. CAUSE-PA M.B. at 26-27 (citing OCA St. 5-SR at 11). Moreover, CAUSE-PA noted that the Act 11 equity issues are relevant to this discussion because the Company is proposing to shift wastewater costs from higher income customers to lower income customers while, concurrently, shifting costs from wastewater customers onto water customers. As such, CAUSE-PA submitted that the Company's proposed winter averaging methodology should be rejected because it is unreasonable and contrary to the public interest. CAUSE-PA M.B. at 27 (citing CAUSE-PA St. 1 at 13-14).

2. Recommended Decision

The ALJs agreed with I&E, the OCA, and CAUSE-PA that the Company's winter averaging proposal should be rejected. Specifically, the ALJs agreed with the OCA that PAWC failed to show that its proposed methodology for recognizing outdoor

wastewater usage would reasonably achieve its stated purpose. Further, the ALJs were persuaded by the legitimate concerns raised by both the OCA and CAUSE-PA that the Company's winter averaging proposal might have a disproportionate and adverse impact on low-income customers. R.D. at 264.

The ALJs noted that the Company rejected I&E's suggestion that the winter averaging program be approved on a temporary basis until the Company's next base rate case, to allow interested parties and the Commission an opportunity to evaluate whether this program achieved its stated goals. The ALJs found that PAWC's unwillingness to track the information needed for evaluation of the program during the next base rate case does not instill confidence in the proposal. Accordingly, the ALJs recommended that the Commission reject the Company's winter averaging proposal. R.D. at 264-65.

3. PAWC Exception No. 13 and Replies

In its Exception No. 13, PAWC disagrees with the ALJs' recommendation to deny the Company's winter averaging proposal for wastewater customers. PAWC Exc. at 32 (citing R.D. at 264-65). PAWC repeats that it proposed winter averaging to more closely align wastewater bills with cost-causation, adding that it will address the concern of several customers regarding charges for seasonal outdoor water usage. PAWC Exc. at 32 (citing R.D. at 49-52). Further, PAWC maintains that contrary to criticism and assertions otherwise, winter averaging will benefit customers and more closely align summer wastewater bills with cost-causation rate design principles. PAWC Exc. at 33 (citing R.D. at 259-64; PAWC St. 10 at 43-44). Moreover, PAWC submits that the ALJs failed to address the record evidence that the winter averaging proposal: (1) is statistically supported; (2) will benefit both higher- and lower-income customers; and (3) has been successfully implemented by other utilities, including Company affiliates, in other jurisdictions to the benefit of customers. PAWC Exc. at 33 (citing PAWC R.B. at 56-57; PAWC St. 10 at 43-44).

In its Replies, I&E agrees with the ALJs' recommendation to deny PAWC's winter averaging proposal for wastewater customers. I&E R. Exc. at 14 (citing R.D. at 264-65). I&E argues that PAWC has offered no explanation regarding why the ALJs' analysis is incorrect but instead maintains that winter averaging will more closely align summer wastewater bills with cost causation. Accordingly, I&E submits that the Commission must deny PAWC's winter averaging proposal. I&E R. Exc. at 14.

In its Replies, the OCA agrees with the ALJs' recommendation to reject PAWC's proposal to change the way that it determines the volumetric component of bills for residential wastewater customers because: (1) PAWC failed to demonstrate that it would reasonably achieve its stated purpose; and (2) the methodology would disproportionately and adversely impact low-income customers. OCA R. Exc. at 18-19 (citing R.D. at 264-65).

The OCA disagrees with the Company's argument that the ALJs failed to address the Company's position that the proposed methodology: (1) is statistically supported; (2) will benefit both higher- and lower-income customers; and (3) has been implemented by utilities in other states. OCA R. Exc. at 19 (citing PAWC Exc. at 33). Specifically, the OCA counters that the statistics that the Company based its claim on demonstrate that the difference between residential customers' usage during the winter average period, when compared to their usage during the remaining months, ranged from 100 to 173 gallons per month during the past few years, or approximately 2.4 gallons per day. OCA R. Exc. at 19 (citing OCA St. 4 at 43-44, Table 6). Further, the OCA notes that similarly, the Company's data shows that there is not a substantial variability on a bill basis. For example, the OCA offers that the three-month average median bill of $62.06 during the "winter months," as defined in PAWC's proposal, did not substantially differ from the average of the median bills for the remaining nine months of $63.49. The OCA continues that the median residential bill for January 2023 of $67.43 was identical to the median residential bills in both June 2023 and July 2022, and higher than the median

residential bills in each of the other seven non-winter months. OCA R. Exc. at 19 (citing OCA St. 5 at 98-99). The OCA adds that an extra shower and loads of wash fully account for the Company's historic difference between residential winter and summer water usage, given that the average shower uses 17.2 gallons of water and a standard washing machine uses 20 gallons of water per load. OCA R. Exc. at 19 (citing OCA St. 4 at 43).

The OCA points out that PAWC conceded that higher income customers are more likely to benefit from the winter averaging proposal because they are more likely to be absent from their homes during the winter. Further, the OCA notes that PAWC did not dispute that, where residential customers have higher usage in the summer months not due to outdoor usage but because they are absent from their homes in the winter, PAWC's winter averaging proposal would understate summer months usage that flows through the sewer system. Moreover, the OCA argues that contrary to the Company's averment that the purpose of its winter averaging proposal is to shift costs from higher-income customers to lower-income customers, the unrebutted evidence shows that customers who will pay the increase in charges are disproportionately likely to be low-income. OCA R. Exc. at 19-20 (citing OCA M.B. at 81-82; PAWC St. 10-R at 55).

The OCA also argues that adoption of some form of winter averaging in other jurisdictions does not warrant approval of PAWC's proposed winter averaging methodology and the various assumptions about summer usage on which the methodology is based. Accordingly, the OCA submits that the ALJs' recommendation that the Commission reject PAWC's proposal is supported by the disproportionate harm to the low-income wastewater customers who will bear the burden of foregone revenue created by winter averaging, with little opportunity to be the recipient of any reduced bills. OCA R. Exc. at 20 (citing R.D. at 264-65; OCA M.B. at 80-82; OCA R.B. at 55-56). The OCA adds that if the Company's proposed winter averaging methodology is adopted, then the volumetric charges should be made subject to the same low-income

discounts to which other PAWC volumetric charges are subject. OCA R. Exc. at 20 (citing OCA M.B. at 82; OCA St. 5 at 109).

In its Replies, CAUSE-PA argues that the Commission should affirm the ALJs' recommendation rejecting the Company's proposed winter averaging methodology. CAUSE-PA notes that the Company's proposal allegedly attempts to separate indoor water usage from outdoor water usage (such as landscaping and swimming pools) that is not necessarily passed through wastewater systems. Further, CAUSE-PA explains that under the Company's winter averaging proposal, a customer's wastewater bill in the winter averaging months of January-March, would be determined by actual metered water usage for the month. In non-winter months, a customer's wastewater bill would be based on the lesser of their actual monthly metered water usage or the average water usage for that customer for the winter months. Moreover, CAUSE-PA notes that PAWC acknowledged that the winter averaging method, if approved, would increase volumetric wastewater rates for all customers. CAUSE-PA R. Exc. at 18 (citing CAUSE-PA M.B. at 25; PAWC St. 10 at 43-44). Accordingly, CAUSE-PA reiterates that the Company's proposed winter averaging methodology: (1) is inequitable and contrary to the public interest; and (2) improperly favors customers that reside in larger properties and have greater levels of discretionary water usage in the non-winter months. CAUSE-PA R. Exc. at 18 (citing CAUSE-PA M.B. at 25-26).

CAUSE-PA maintains its position that the Company's proposed winter methodology would inequitably shift costs from higher income customers with greater discretionary usage onto lower income customers that struggle to afford basic home services. Further, CAUSE-PA notes that the Company has conceded that the beneficiaries of the proposed winter averaging methodology are likely higher income customers. Therefore, CAUSE-PA continues, the proposed methodology will disproportionately harm lower income households. CAUSE-PA R. Exc. at 19 (citing CAUSE-PA M.B. at 26-27). Moreover, CAUSE-PA repeats the OCA's assertion that the

Company has not set forth a legitimate basis to overcome concerns related to adverse impacts on low-income customers. CAUSE-PA R. Exc. at 19 (citing CAUSE-PA M.B. at 26-27; OCA St. 5-SR at 11 (PUBLIC)). Furthermore, CAUSE-PA offers that if the Company's winter averaging proposal were implemented, then some families would be able to afford and maintain swimming pools at the expense of other families' ability to maintain drinking water. CAUSE-PA R. Exc. at 19-20 (citing CAUSE-PA M.B. at 25-26). CAUSE-PA contends that this scenario is unreasonable, inequitable, and contrary to the public interest.

CAUSE-PA further maintains that the Company's proposed winter averaging methodology and assumptions for the proposal are flawed because the methodology assumes that: (1) outdoor water usage does not impact wastewater system costs, without consideration of whether a given system is combined stormwater and wastewater, or how the discharge of outdoor water usage may nevertheless impact wastewater systems; (2) increased summer water usage is entirely attributable to outdoor water usage, without any individualized determination of whether a customer's average winter usage is reflective of their average summer usage. CAUSE-PA R. Exc. at 20 (citing CAUSE-PA M.B. at 26).

In summary, CAUSE-PA repeats that the Company's proposed winter averaging methodology is unreasonable, inequitable, and contrary to the public interest. CAUSE-PA R. Exc. at 20 (citing CAUSE-PA M.B. at 25-26). Therefore, CAUSE-PA recommends that the Commission reject PAWC's Exception No. 13. CAUSE-PA R. Exc. at 20.

4. Disposition

At the onset, we will address PAWC's claim that the ALJs failed to address the record evidence pertaining to the Company's winter averaging proposal arguments

and considerations. We note that the ALJs were aware of the position and arguments put forth by PAWC; however, as previously noted, the ALJs have the discretion to determine whether, and to what extent, further discussion and analysis is warranted. Here, it appears that the ALJs did not believe that further consideration of the record evidence pertaining to the winter averaging proposal was necessary. Accordingly, we find PAWC's claim that the ALJs overlooked any of the Company's arguments and considerations is without merit.

We agree with the ALJs that PAWC failed to sufficiently demonstrate that their proposed winter averaging methodology would reasonably achieve its stated purpose for more closely aligning wastewater bills to cost causation. As detailed by the OCA's witness, Mr. Mierzwa, when the average monthly water usage of a residential customer during the months of January through March (*i.e.*, the winter months that PAWC proposes to utilize under its winter averaging methodology), is compared to the average monthly usage for the remaining months of the year, the difference is *de minimis*, with the last two years ranging from 100 to 173 gallons per month. OCA St. 4 at 43. Mr. Mierzwa continued:

> I would expect that during the summer months[,] customers are likely to take more showers and wash clothes more often. The average shower uses 17.2 gallons of water. A standard washing machine uses 20 gallons of water per load. A few extra showers and clothes washing loads per month would totally account for the historic difference between Residential winter and summer water usage. Therefore, it does not necessarily follow that PAWC's Residential customer outdoor water usage during the summer is sufficiently significant to justify adopting winter averaging and the resulting increase in volumetric rates…

Id. We agree with Mr. Mierzwa's reasoning here. Moreover, we agree with the OCA and CAUSE-PA that PAWC's winter averaging proposal might have a disproportionate adverse impact on low-income customers. Indeed, by PAWC's own admission, the

beneficiaries of the winter averaging proposal are likely to be higher income customers because they are the customers more likely to have seasonal water usage during the summer that would no longer be billed for wastewater service. PAWC St. 10-R at 54-55. Furthermore, as pointed out by the ALJs, we find it significant that PAWC did not agree with I&E's suggestion that the winter averaging program be approved on a temporary basis, thereby allowing the Company to track the information needed for evaluation of the program. *See*, R.D. at 264. Indeed, PAWC's unwillingness to undertake the necessary measures to track the winter averaging methodology on a temporary basis for further evaluation does not instill confidence in their proposal. Therefore, for all of the foregoing reasons, PAWC's winter averaging proposal must be rejected. Accordingly, we shall deny PAWC's Exception No. 13.

J. Scale Back of Rates

1. Positions of the Parties

PAWC submitted that if the Commission approves a revenue requirement that is less than that proposed by the Company, then the Company proposes to proportionally reduce the water and wastewater revenue requirements and the proposed amount of reallocation from wastewater to water under Act 11 to be proportional so that the same percentages to the total of water service revenue requirement, wastewater service revenue requirement, and Act 11 reallocation amounts be maintained at proper levels. PAWC asserted that the levels of rates for water service and wastewater service relative to each other should be maintained as proposed in the event that a lower revenue requirement is approved by the Commission. PAWC St. 10-R at 37 (citing PAWC St. 10 at 16-17).

PAWC's witness, Mr. Rea, agreed with I&E's witness, Mr. Cline, that the first step in any scale back determination is to calculate the revenue requirement for

wastewater operations and a scale back for wastewater operations, because that must be set first to determine the revenue requirement amount that must be allocated to water operations. Further, Mr. Rea did not object to Mr. Cline's proposal that if a revenue requirement for water service is approved at levels below PAWC's recommended amount, then both usage rates and fixed charges should be reduced, but usage rates for RZ-2 residential and commercial, and RZ-4 commercial should not be scaled back if they remain lower that the usage rates in RZ-1. Moreover, Mr. Rea noted that he did not object to recommendations that any reductions in water service revenue requirements be "applied ratably" across customer classes. PAWC 10-R at 40. However, Mr. Rea submitted its opposition to the alternative scale back proposals of I&E, the OCA, the OSBA, and PAWLUG, that pursuant to Act 11, any reductions in revenue requirements for wastewater service be applied to the Act 11 reallocation amount first. Mr. Rea countered that this approach would result in a revenue requirement reduction to water service, and wastewater rates would only be reduced due to a reduction in wastewater revenue if that reduction was greater than a proposed Act 11 reallocation amount. PAWC St. 10-R at 40-41.

In summary, PAWC submitted that in the event that the Commission approves a lower revenue requirement, its scale back proposal is designed to maintain, as proposed: (1) the same relative percentages to the total of water service revenue requirement, wastewater service revenue requirement, and Act 11 reallocation amounts; and (2) the levels of rates for water service and wastewater service relative to each other. Accordingly, PAWC submitted that its proposal results in a just and reasonable outcome for all customer classes. PAWC St. 10-R at 41.

Regarding water operations, I&E averred that the Company's proposed rates would be reduced, or scaled back, to produce the revenue requirement allowed by the Commission if the Commission approves a revenue requirement that is less than the Company's requested increase and adopts I&E's proposed customer charges. I&E noted

that the first step in any scale back is to determine the revenue requirements and scale backs of the wastewater operations. According to I&E, to determine the amount of revenue requirement that must be allocated to water operations under Act 11, the wastewater operations revenue requirement must be set first. I&E continued that once the wastewater to water allocation is determined, then the full water operations revenue requirement will be established, and those rates can be scaled back. As such, I&E recommended that any scale back be netted against the subsidy the Commission determines for the wastewater operations. I&E M.B. at 86-87; I&E St. 4 at 41-42.

I&E also recommended that if the Commission grants an increase less than the fully requested increase for Water operations, then the usage rates and customer charges be decreased to produce the revenue level the Commission approves. According to I&E, any reduction in any of the ratemaking inputs by the Commission would reduce the inputs used in the customer cost analysis that was used to determine the $20.00 per month customer charge, which is based upon the direct customer cost. Further, I&E noted that the Commission recently reaffirmed its commitment to including the customer charge in the scale back of rates. I&E M.B. at 87 (citing *PGW 2023* at 157, 166). Moreover, I&E recommended that the usage rates for RZ-2 residential and commercial, and RZ-4 commercial, not be scaled back as long as they remain lower than the usage rates in RZ-1. I&E St. 4-SR at 31 (citing I&E St. 4 at 44); I&E M.B. at 87.

Concerning wastewater operations, I&E also recommended that if the Commission approves less than the full increase for the wastewater SSS operations, then any subsidy from water customers should be eliminated first to prevent water customers from subsidizing any of the SSS operations. I&E provided that the scale back should start with reducing the residential usage rate for RZ-1, RZ-2, and RZ-5, to achieve the desired level of increase, together with a reduction in the non-residential usage rate proportional to the percentage increase proposed for each rate under the full increase, which will keep the total increase in the residential class and non-residential class

relatively proportional. I&E M.B. at 87-88. I&E further provided that the Special Commercial rate of $2.350 per hundred gallons for Cleveland-Cliffs and Victory Brewing should be scaled back based upon a 67.9% increase, and the Special Commercial flat monthly charges should be similarly scaled back. I&E M.B. at 88 (citing I&E Exh. 3, Sch. 3 at 1, lines 11, 13-16, 18). However, I&E averred that the following should not be scaled back: (1) the non-residential flat rate of $150.00 per month, as it is below the average bill for a non-residential customer; (2) the special customer charge of $465.50 per month, as the increase is only 10.0%; (3) the usage rates for Caln, West Brandywine, the VA, and St. Lawrence, because the rates are below the corresponding usage rate in RZ-1; and (4) the customer charge and usage rate paid by Rainbow Washhouse, where the usage rate that I&E proposed is below the present commercial usage rate. I&E M.B. at 88 (citing I&E Exh. 3, Sch. 3 at 1, lines 19-21, 35-38).

I&E also recommended that the following not be scaled back: (1) the RZ-7 and RZ-9 general usage rates, as they are below the RZ-1 usage rate; (2) the flat charge for RZ-8 residential and commercial can be made the same as the corresponding flat charge in RZ-1, but the flat rate charges for Butler Township of $40.00 per month and for RZ-9 of $75.00 should not be scaled back because they are below the $132.00 per month flat rate proposed by I&E in RZ-1; and (3) the Bulk rates for the YBCs and in Royersford, as the revenue received from these classes is far below the cost to provide service to these classes. I&E M.B. at 88-89 (citing I&E Exh. 3, Sch. 3 at 2, lines 1-21).

With respect to CSS wastewater operations, I&E recommended that the customer charges not be scaled back for CSS wastewater operations. I&E averred that in RZ-4, the charge decreased and, therefore, no further decrease is appropriate. Regarding Residential flat rate customers, I&E recommended that the residential flat rate be adjusted downward based upon the final average residential RZ-1 bill established when rates are scaled back. I&E M.B. at 89 (citing I&E Exh. 3 Sch 3 at 1, lines 4-5; I&E St. 3-SR at 27). I&E noted that the scale back should begin with RZ-3, RZ-4,

and RZ-6 residential, reducing the usage rate to achieve the desired level of increase together with a reduction in the non-residential usage rate proportional to the percentage increase that I&E proposed for each rate under the full increase, which will keep the total increase in the residential class and non-residential class relatively proportional. I&E added that the Bulk rates in RZ-6 should not be scaled back because they are not being increased. I&E M.B. at 89 (citing I&E Exh. 3, Sch. 17, lines 2, 5, 22-24).

Regarding water service, the OCA proposed revenue increases for each class at the Company's claimed revenue requirement based on the OCA's COSS, which should be scaled back proportionately to reflect the actual water revenue increase (including revenues reallocated to water service under Act 11) authorized by the Commission in this proceeding. The OCA noted that it accepted the Company's proposed COSS for the direct cost of wastewater service and recommended that any scale back to the revenue increases for each class should be made consistent with the Company's allocation proposal. OCA M.B. at 82 (citing OCA St. 4-SR at 16-17, Table 4-SR).

The OCA submitted that the amount reallocated under Act 11 should be substantially reduced from what the Company proposed. However, the OCA pointed out that it does not recommend that any reduction in the wastewater requirement be applied first to the Act 11 reallocation, as that may not provide an adequate level of relief to wastewater customers. Accordingly, the OCA recommended that although the specific amount of revenues shifted under Act 11 should be determined by the Commission based on the authorized wastewater revenue requirement, an Act 11 reallocation that results in comparable percentage increases for water and wastewater customers would be in the public interest. OCA M.B. at 82-83 (citing OCA St. 4-SR at 17-18, 35; OCA St. 4 at 25-27).

The OSBA recommended that if the Commission approves a lower increase than that requested by the Company, the decrease be applied primarily to water rates. The OSBA also recommended that if the Commission approves a lower revenue requirement increase associated with the Company's wastewater systems than proposed by the Company, then the incremental revenue requirement reduction should not reduce the Company's proposed wastewater rates, so long as the cost-based wastewater revenue requirement is greater than the Company's proposed wastewater rates. The OSBA noted that this means that generally, a lower revenue requirement will reduce Act 11 revenues and the Company's proposed water rates. OSBA M.B. at 21-22 (citing OSBA St. 1 at 36-37).

Regarding water rates at a lower revenue requirement, the OSBA recommended scaling back the revenue allocation to each customer class in proportion to each class's share of the total non-Act 11 revenues. OSBA M.B. at 22 (citing OSBA Sch. KCH-12 at 1). The OSBA also recommended that each water class recover its allocated share of any approved Act 11 subsidy, averring that it: (1) fixes the admitted errors in the Company's originally-filed Water COSS; (2) employs more reasonable and accurate maximum day and hour allocators; and (3) will recover the Act 11 subsidy allocated to each water class. OSBA M.B. at 22.

PAWLUG submitted that with the exception of modifying PAWC's proposed maximum hour demand ratio for the residential customer class, the Commission should accept the Company's revised COSS. PAWLUG averred that the Company's proposal to allocate $71.1 million of the wastewater revenue requirement to water customers pursuant to Act 11 should be modified to adopt PAWLUG's revised allocation method and apply any approved scale back of the wastewater revenue requirement to offset the total $71.1 million allocation. PAWLUG submitted that its proposal to increase the industrial customer charge is consistent with the recommendation of its witness, Ms. LaConte, and should be approved.

PAWLUG also averred that to the extent the Commission approves a lower water revenue requirement than that proposed by the Company, a proportional scale back should be implemented. PAWLUG added that the Commission should scale back only the volumetric rates for the Company's industrial and municipal customer classes for the portion attributable to industrial and municipal customers due to the high proportion of total class revenues recovered through the respective volumetric rates. PAWLUG M.B. at 28 (citing PAWLUG St. 1 at 29-30). PAWLUG noted that although applying any scale back to volumetric rates for both the industrial and municipal classes remains appropriate in conjunction with the Company's proposed increase to the industrial customer charge, it becomes particularly necessary in the event the Commission denies PAWLUG's proposal to increase the industrial customer charge. PAWLUG M.B. at 28.

Victory Brewing submitted that it accepts the Company's scale back proposal. Victory Brewing M.B. at 8 (citing PAWC St. 10 at 45-46).

2. Recommended Decision

The ALJs recommended that the Commission adopt the Company's position on the scale back of rates. R.D. at 271. The ALJs found that the Company's witness, Mr. Rea, explained PAWC's position on the scale back of rates as follows:

> [I]n the event that the Commission approves a revenue requirement that is less than that proposed by the Company, the Company proposes to reduce the revenue requirements for water service and wastewater service, and the proposed amount of reallocation from wastewater to water under Act 11 to be proportional so that the same relative percentages to the total of water service revenue requirement, wastewater service revenue requirement, and Act 11 reallocation amounts be maintained at proposed levels. [PAWC] believes that the levels of rates for water service and wastewater service relative to each other should be maintained as proposed in the

> event that a lower revenue requirement is approved by the Commission in this case.

R.D. at 271 (citing PAWC St. 10-R at 37). The ALJs noted that adopting PAWC's proposal, to proportionately reduce the water and wastewater revenue requirements and the proposed amount of reallocation from wastewater to water under Act 11, would be an equitable scale back while still allowing some rate relief for wastewater customers pursuant to Act 11. R.D. at 272.

3. Exceptions and Replies

a. I&E Exception No. 5 and Replies

In its Exception No. 5, I&E argues that the ALJs failed to explain why PAWC's approach should be adopted and ignores the precedent set in *Aqua 2022*, where the Commission explained that a scale back of water rates should first reduce the Act 11 subsidy. I&E Exc. at 11 (citing *Aqua 2022* at 226). I&E contends that its customer cost analysis, customer charge, and scale back proposals should be adopted because they are based on sound Commission ratemaking policies and precedent. I&E Exc. at 11.

I&E reiterates that the first step in any scale back is to determine the revenue requirements and scale backs of the wastewater operations. I&E continues that to determine the amount of revenue requirement that must be allocated to Water operations under Act 11, the wastewater operations revenue requirement must be set first. I&E Exc. at 11-12. However, I&E disagrees with the revenue requirements recommended by the ALJs for both water and wastewater operations. I&E repeats that once the wastewater to water allocation is determined, the full water operations revenue requirement will be established, at which time those rates can be scaled back. Therefore,

I&E maintains that any scale back be netted against the subsidy the Commission determines for the wastewater operations. I&E Exc. at 12.

I&E also repeats that for water operations, the usage rates and customer charges should be decreased to produce the revenue level the Commission approves. I&E maintains that any reduction in any of the ratemaking inputs by the Commission would reduce the inputs used in the customer cost analysis that was used to determine the $20.00 per month customer charge, which is based on the direct customer cost. Further, I&E again notes that the Commission recently reaffirmed its commitment to including the customer charge in the scale back of rates. I&E Exc. at 12 (citing *PGW 2023* at 157, 166).

Regarding wastewater SSS operations, I&E repeats that any subsidy from water customers should be eliminated first to prevent water customers from subsidizing any of the SSS operations. I&E asserts that the scale back should start with reducing the residential usage rate for RZ-1, RZ-2, and RZ-5, to achieve the desired level of increase and a reduction in the non-residential usage rate proportional to the percentage increase proposed for each rate under the full increase. I&E Exc. at 12. I&E illustrates that if the general residential usage rate is scaled back 50%, the residential usage rate would increase 15.05% (30.1% x 50.0%). Further, I&E states that an increase in the general non-residential usage rate of approximately 24.9% (49.8% x 50.0%) will maintain a proportionate total increase in the residential class and non-residential class. Further, I&E again provides that the Special Commercial rate of $2.350 per hundred gallons for Cleveland-Cliffs and Victory Brewing should be scaled back based upon a 67.9% increase, and the Special Commercial flat monthly charges should be similarly scaled back. I&E Exc. at 12-13 (citing I&E Exh. 3, Sch. 3 at 1, lines 11, 13-16, 18). Moreover, I&E again avers that the following should not be scaled back: (1) the non-residential flat rate of $150.00 per month, because it is below the average bill for a non-residential customer; (2) the special customer charge of $465.50 per month, because the increase is

only 10.0%; (3) the usage rates for Caln, West Brandywine, the VA, and St. Lawrence, as the rates are below the corresponding usage rate in RZ-1; and (4) the customer charge and usage rate paid by Rainbow Washhouse, where the usage rate that I&E proposed is below the present commercial usage rate. I&E Exc. at 13 (citing I&E Exh. 3, Sch. 3 at 1, lines 19-21, 35-38).

I&E also repeats that the following should not be scaled back: (1) the general usage rates in RZ-7 and RZ-9, because they are below the RZ-1 usage rate; (2) the flat charge for RZ-8 residential and commercial can be made the same as the corresponding flat charge in RZ-1, but the flat rate charges for Butler Township of $40.00 per month and for RZ-9 of $75.00 should not be scaled back because they are below the $132.00 per month flat rate proposed by I&E In RZ-1; and (3) the Bulk rates for the YBCs and in Royersford, because the revenue received from these classes is far below the cost to provide service to these classes. I&E Exc. at 13 (citing I&E Exh. 3, Sch. 3 at 2, lines 1-21).

Regarding CSS wastewater operations, I&E reiterates its recommendation that the customer charges should not be scaled back, noting that in RZ-4, the charge decreased and, therefore, no further decrease is appropriate. I&E Exc. at 14. Further, I&E repeats its recommendation that for residential flat rate customers in CSS operations, the residential flat rate be adjusted downward based upon the final average residential RZ-1 bill established when rates are scaled back. I&E maintains that the scale back should begin with RZ-3, RZ-4, and RZ-6 residential, reducing the usage rate to achieve the desired level of increase together with a reduction in the non-residential usage rate proportional to the percentage increase that I&E proposed for each rate under the full increase. I&E illustrates that if the general residential usage rate is scaled back 50%, which would result in the general residential usage rate increasing by 11.7% (23.4% X 50%), the increase in the general non-residential usage rate should be approximately 24.7% (49.4% X 50.32), which will keep the total increase in the

residential class and non-residential class relatively proportional. Moreover, I&E again avers that the Bulk rates in RZ-6 should not be scaled back because they are not being increased. I&E Exc. at 14 (citing I&E Exh. 3, Sch. 17, lines 2, 5, 22-24).

I&E repeats that its scale back recommendation is based on sound rate making principles and Commission precedent that a scale back should first be applied to the Act 11 subsidy. Therefore, I&E asks that the Commission grant this exception and approve the I&E recommended scale back in determining the rate design for PAWC water and wastewater rates. I&E Exc. at 14.

In its Replies, PAWC counters that the scale back of rates should be considered in the broader context of revenue allocation, which in turn, must consider ratemaking policy and gradualism. As such, PAWC submits that the Commission should adopt the ALJs' determination that the Company's proposed scale back of rates is reasonable. Further, PAWC notes that the ALJs considered and rejected I&E's scale back proposals. Moreover, PAWC notes that the Company's system, rates, and proposed rates differ from the circumstances in *Aqua 2022* and, therefore, the Commission should not reach the same result here. Furthermore, PAWC points out that the ALJs recognized that the Company's proposal will still allow for some rate relief for wastewater customers under Act 11, which is consistent with Commission policy and the principle of gradualism. PAWC R. Exc. at 18 (citing R.D. at 271-72).

In its Replies, the OCA maintains that the Commission should adopt an Act 11 reallocation that results in comparable percentage increases for water and wastewater customers. OCA R. Exc. at 20 (citing R.D. at 271-72; OCA R.B. at 56; OCA M.B. at 82-83). The OCA disagrees with I&E's recommendation that "essentially zero relief should be provided to wastewater customers through an Act 11 assignment." OCA R. Exc. at 20 (citing OCA M.B. at 73-74). Therefore, the OCA disagrees with I&E's position on scale back (*i.e.*, that any reduction in the wastewater requirement should be

applied first to the Act 11 reallocation), arguing that this approach may not provide a sufficient level of relief to wastewater customers. OCA R. Exc. at 20 (citing OCA M.B. at 74; I&E Exc. at 11). Further, the OCA avers that the ALJs properly adopted the OCA's proposal for allocation of the Act 11 subsidy, which is to provide some rate relief for the Company's wastewater customers while still moving wastewater SSS and CSS wastewater rates closer to their cost-of-service while not burdening the water customers. OCA R. Exc. at 20-21 (citing R.D. at 227). Moreover, the OCA maintains that although the specific amount of revenues shifted under Act 11 should be determined by the Commission based on the authorized wastewater revenue requirement, an Act 11 reallocation (after scale back) that results in comparable percentage increases for water and wastewater customers would be in the public interest. OCA R. Exc. at 21 (citing OCA R.B. at 47-51; OCA M.B. at 71-74).

b. OCA Exception No. 17 and Replies

In its Exception No. 17, the OCA disagrees with the ALJs' recommendation to the extent that it is construed to mean that the ALJs' recommended adoption of the $20 water customer charge and the $15 wastewater customer charge will not be scaled back or reduced based on the overall revenue requirement authorized by the Commission. OCA Exc. at 29-30 (citing R.D. at 271-72). The OCA notes that the Company's direct customer charge analyses for both water and wastewater were calculated at the Company's filed-for revenue requirement increase and pre-tax rate of return. OCA Exc. at 30 (citing PAWC Exh. 12-B, Sch. RS1 j., Responses at 2). The OCA continues that Commission adjustments to the allowed revenue requirement, including pre-tax rate of return, impact those calculations and should be flowed through to reduce the indicated customer charges. OCA Exc. at 30 (citing; OCA St. 4-SR at 14; OCA St. 4 at 36). Similarly, the OCA notes that I&E's recommendation for the $15 wastewater customer charge was made at PAWC's requested revenue requirement and they should be flowed

through where adjustments to that revenue requirement impact I&E's analysis and calculation. OCA Exc. at 30 (citing OCA St. 4-R at 6).

In its Replies, the PAWC argues that the Commission should approve the ALJs' recommendation regarding the Company's customer charges and proposed scale back for the reasons set forth in their Recommended Decision. PAWC R. Exc. at 19 (citing R.D. at 227-36; 265-75).

4. Disposition

As previously noted, the ALJs found that adopting PAWC's proposal to proportionately reduce the water and wastewater revenue requirements, including the proposed amount of reallocation from wastewater to water under Act 11, would be an equitable scale back while still allowing for some rate relief for wastewater customers under Act 11. R.D. at 271. As discussed above, we agree with the OCA that an Act 11 reallocation that results in comparable percentage increases for water and wastewater customers would be in the public interest. Indeed, as noted by the OCA, the ALJs recommended that the Commission adopt the OCA's proposal to allocate the Act 11 subsidy, which is to provide some rate relief for the Company's wastewater customers while still moving wastewater SSS and CSS rates closer to their cost-of-service without placing a burden on the water customers. OCA R. Exc. at 20-21 (citing R.D. at 227). We concur with the ALJs on this reasoning. However, regarding the issue of how any scale back should be implemented, we disagree with the ALJs' endorsement of the Company's proposal that the Act 11 allocation should be maintained on a proportional basis to the amount of the scale back granted. Rather, we agree with I&E to the extent that a scale back should reduce the Act 11 subsidy first, consistent with the Commission's decision in *Aqua 2022*. I&E Exc. at 11 (citing *Aqua 2022* at 226).

We shall also address I&E's and the OCA's arguments regarding the scale back of the customer charge. Upon review, the Recommended Decision did not address the scale back of the water customer charge and the wastewater customer charge. Notwithstanding, we agree with I&E that customer charges are based upon direct customer costs, meaning any reduction in any of the ratemaking inputs would reduce the inputs used in the customer cost analysis that was used to determine the monthly customer charge. Indeed, as noted by I&E, the Commission included the customer charge in the scale back of rates in *PGW 2023*. I&E Exc. at 12 (citing *PGW 2023* at 157, 166); *see also*, I&E St. 4 at 43-44. Therefore, we agree with I&E's reasoning that any scale back be netted against the subsidy that the Commission determines for the wastewater operations. We are in further agreement with I&E that, regarding water operations, both usage rates and customer charges shall be scaled back proportional to the increase granted.[115] Accordingly, we shall grant I&E's Exception No. 5. In addition, we shall grant the OCA's Exception No. 17, to the extent that a clarification is warranted regarding the scale back applicability to PAWC's residential customer charges.

XI. Alternative Ratemaking Requests

PAWC provided that Section 1330 of the Code, 66 Pa.C.S. § 1330 authorizes public utilities to propose alternative rate mechanisms. PAWC St. 8-R at 8.

[115] Regarding Wastewater operations, the residential customer charge should be excluded from any scale back, given the minimal increase of $0.70 per month and rate decreases for certain wastewater rate zones (RZ-4, RZ-7, and RZ-9). As discussed, *supra*, I&E stated that the following should not be scaled back: (1) the non-residential flat rate of $150.00 per month; (2) the special customer charge of $465.50 per month; (3) the usage rates for Caln, West Brandywine, the VA, and St. Lawrence; (4) the customer charge and usage rate paid by Rainbow Washhouse; (5) the general usage rates in RZ-7 and RZ-9; (6) the flat rate charges for Butler Township of $40.00 per month and for RZ-9 of $75.00; and (7) the Bulk rates for the YBCs and in Royersford. I&E Exc. at 13-14.

Accordingly, in this proceeding, PAWC proposed the RDM and the ECIC, as discussed below.

A. Revenue Decoupling Mechanism

1. Positions of the Parties

PAWC stated that decoupling mechanisms like the RDM are authorized by 66 Pa.C.S. § 1330(b)(2), and that the recovery of fixed costs is a concern for PAWC because 81% of its water and wastewater revenues are collected under volumetric rates and over 95% of its costs are fixed, diminishing PAWC's ability to recover approved costs if water sales are less than anticipated. PAWC cited declining use among certain customers, seasonal weather conditions, and unexpected external events as factors that could result in reduced sales. PAWC M.B. at 69. Furthermore, PAWC argued that its continued non-revenue producing investments for the benefit of customers, along with variability in usage, causes revenues to remain outside of the Company's control. *Id*. at 70.

In requesting approval of the RDM, PAWC stated that the mechanism will compare revenues collected under Commission-approved rates with revenues that would have been collected through Straight Fixed Variable (SFV) pricing. PAWC described that if actual revenues are higher than would have been collected under the RDM formula, the difference is credited to customers in the following year. Conversely, if actual revenues are lower than would have been collected under the RDM formula, the difference will be collected from customers in the following year. PAWC contended that the RDM does not shift risk to or away from customers, as both PAWC and customers continue to share revenue risk because the RDM can result in either a credit or surcharge to customers depending on PAWC's actual results compared to the SFV price components. Also,

PAWC submitted that the RDM does not guarantee recovery of PAWC's authorized return. PAWC M.B. at 70.

PAWC argued that the RDM should not be subject to an earnings test and cap because it would decrease the utility of the RDM and undermine the revenue requirement authorized by the Commission in this proceeding. In addition, PAWC averred that while mechanisms such as declining use adjustment, the use of the FPFTY, and the DSIC are available, they do not address the issue that the RDM is intended to solve, which is revenue volatility resulting from declining consumption and other events that impact forecasted usage. PAWC further stated that the RDM will not discourage conservation or compromise affordability. Further, PAWC argued that the RDM should not be limited to residential customers because revenue volatility is not constrained to the residential class. Finally, PAWC contended that the RDM would not cause rate instability or confusion, but, rather, it would smooth out revenues over a longer term for the benefit of customers and PAWC. PAWC disagreed with the position of the OCA, *infra*, that the RDM does not satisfy the fourteen factors of the Commission's Policy Statement regarding alternative ratemaking at 52 Pa. Code § 69.3302. PAWC M.B. at 71-73.

I&E, the OCA, the OSBA, CAUSE-PA, PAWLUG, Cleveland Cliffs, and Victory Brewing opposed the RDM.

I&E argued that PAWC did not establish a need for revenue stabilization, especially given that it has simultaneously proposed a declining usage adjustment. I&E stated that between the frequent base rate cases filed by PAWC, the FPFTY, and the DSIC, PAWC has not demonstrated a need for further revenue stabilization measures. Also, I&E averred that it does not appear likely that the RDM will lessen the frequency that PAWC files base rate cases. Moreover, I&E argued that PAWC has no history of an inability to attract capital. I&E M.B. at 90-95.

In addition, I&E submitted that in order for the RDM to be approved it should have some benefit to customers; however, the proposed RDM may harm customers. In this regard, I&E contended that the RDM would devalue conservation efforts of customers that can afford efficiency measures and harm customers who cannot afford such measures by assessing an additional charge on all customers. Specifically, I&E submitted that customers who take measures to reduce their water consumption will be forced to share some of their bill savings with PAWC. I&E averred that the RDM would likely cause rate confusion because another surcharge will be added to PAWC's customer bills, and based on how the credit or surcharge is calculated, a customer will be unable to predict whether they will receive a credit or a surcharge. I&E M.B. at 96-98.

The OCA argued that PAWC did not demonstrate a need for the RPM, or that it is just and reasonable. The OCA stated that by proposing the RDM, PAWC improperly seeks to shift risk of under-recovery from the Company to consumers. The OCA averred that the RDM fails to meet the requirements under 66 Pa.C.S. § 1330, violates sound ratemaking principles, and poses a risk to the consumers in the form of unknown rate increases outside of the rate case process. OCA M.B. at 83.

The OCA stated that it is unclear how the RDM will enhance the safety, security, reliability, and availability of infrastructure since PAWC is already meeting its responsibilities under 66 Pa.C.S. § 1501. Accordingly, the OCA insisted that the RDM is not needed. OCA M.B. at 84-85. Also, the OCA averred that the RDM is inconsistent with "efficient consumption of utility service." *Id*. at 84 (citing 66 Pa.C.S. § 1330(a)(2)). The OCA submitted that, in order to benefit from the RDM, PAWC's customers would have to reduce their consumption by more than the reduction in usage by all other customers. Furthermore, the OCA argued that the RDM will not provide for rate stability. *Id*. at 84-85.

In addition, the OCA argued that the RDM will harm customers unless PAWC's ROE is adjusted downward to reflect the shifting of risk from the Company to consumers. The OCA stated that the RDM would produce guaranteed revenue recovery for PAWC where no guarantee has existed in the past, wholly shifting the risk onto consumers without any benefit. To that end, the OCA averred that PAWC's FPFTY consumption projections in this proceeding already reflect declining per-customer water usage, resulting in investors benefitting from the reduction in regulatory lag associated with use of the FPFTY. Moreover, the OCA contended that the RDM will harm low-income customers by transferring costs from higher income customers to lower-income customers. The OCA further claimed that the RDM does not meet the fourteen factors of the Commission's Policy Statement at 52 Pa. Code § 69.3302(a)(1)-(14). OCA M.B. at 86-88.

The OSBA raised a concern that if a large business went out of business or moved, the remaining small businesses would have to pick up the revenue shortfall calculated by the RDM. OSBA M.B. at 23.

CAUSE-PA opposed PAWC's RDM proposal because it would prejudice and disadvantage residential customers who practice conservation to lower their bills and disproportionately impact low-income customers. Namely, CAUSE-PA contended that the RDM would detract from savings that may be achieved through customers' conservation efforts, and customers would be disincentivized from practicing conservation. Furthermore, CAUSE-PA argued that the RDM does not contain adequate consumer protections, specifically because PAWC's low-income customers would have to bear additional costs from the RDM without any mitigation, which would exacerbate increases in unaffordability. CAUSE-PA also averred that the RDM may be difficult for customers to understand. CAUSE-PA also argued that there is no evidence to suggest that implementation of the RDM will lessen the severity or frequency of future rate increases. To the extent the Commission would approve the RDM, CAUSE-PA

submitted that the Company's BDP customers should be exempt from RDM charges. CAUSE-PA M.B. at 30-33.

PAWLUG argued that PAWC's proposed RDM disadvantages customers by creating additional administrative burdens by creating a new annual regulatory filing subject to comments and potential hearings, eroding conservation incentives, and exposing customers to interclass subsidization and conflicting with cost causation by applying a uniform surcharge to all non-residential customers. To the extent the Commission approved the RDM, PAWLUG proposed that Industrial and Municipal customers should be exempt from it. Also, PAWLUG recommended that, at a minimum, the Commission should condition any approval of the RDM on heightened protections, including the implementation of an earnings test and an asymmetrical 3% cap on a surcharge. PAWLUG M.B. at 28-30.

Cleveland Cliffs argued that the implementation of another revenue recovery tracker is unnecessary since PAWC already utilizes a Commission-approved DSIC and has the opportunity to include forecasted costs and investments through the use of an FPFTY, both of which serve to reduce regulatory lag. Furthermore, Cleveland Cliffs averred that a RDM should not include the Industrial Class in the tracker because PAWC failed in its burden to support the implementation of an RDM for industrial water users. Cleveland Cliffs submits that industrial customers have a natural incentive to implement cost-effective investments in efficient use and are unsuitable customers for an RDM tracker. Additionally, Cleveland Cliffs stated that the proposed RDM presents significant problems with interclass allocations of lost revenues because any revenue shortfall would be collected from all customers, even if one customer class was responsible for the decline, which is unreasonable. Also, Cleveland Cliffs noted that if a single industrial customer left PAWC's system, the loss in revenues from that customer would be confined to the rest of the Industrial customers and would have to be picked up by those customers. In Cleveland Cliffs' view, industrial customers should not be placed

in such a risky and potentially damaging position by the operation of an RDM. Cleveland Cliffs M.B. at 7-9.

Victory Brewing agreed that the RDM should be rejected. However, if the proposal is accepted by the Commission, Victory Brewing agreed with the recommendation of Cleveland Cliffs to exclude the Industrial class from the RDM. Victory Brewing M.B. at 9-10.

2. Recommended Decision

The ALJs concluded that approval of PAWC's proposed RDM is not in the public interest. The ALJs found that the RDM will negate consumer conservation efforts, and customers who take measures to conserve water usage will end up giving some of their monetary savings back to PAWC. In addition, the ALJs determined that PAWC has not demonstrated a need for a further revenue stabilization measure since it is already compensated for revenue shortfalls through Act 11, the FPFTY, its DSIC, and frequent rate case filings. Furthermore, the ALJs found that the RDM is not a just and reasonable alternative distribution ratemaking mechanism because it would not provide rate stability to customer bills because the design of the RDM uses adjustments to customers' bills to maintain revenue levels. The ALJs also concluded that the RDM's impact on the frequency of rate case filings is unknown. Finally, the ALJs determined that the RDM would be difficult for customers to understand. Therefore, the ALJs recommended that the RDM be rejected. R.D. at 292-93.

3. PAWC Exception No. 6.2 and Replies

In its Exception No. 6.2, PAWC argues that the ALJs erred by recommending that the Commission reject the proposed RDM. PAWC requests approval to establish a RDM to reduce revenue volatility resulting from declining consumption and

other unanticipated events that can impact forecasted usage. PAWC summarizes the ALJs' recommendation on this matter and states that it addressed each of the concerns raised by the ALJs, as well as the fourteen factors set forth in the Commission's Policy Statement on distribution rate considerations at 52 Pa. Code § 69.3302, in its Main Brief, Reply Brief, and the testimony of its witness, Mr. Rea. PAWC Exc. at 23-24.

Furthermore, PAWC contends that the ALJs did "not meaningfully address the substantial record evidence provided by the Company, which demonstrates that the RDM will not negatively impact conservation efforts since the RDM will not remove any incentive (financial or otherwise) to reduce water consumption; ratemaking tools such as Section 1311(c), the FPFTY, and DSIC do not adequately address revenue volatility; and low-income customers will not be negatively impacted by the RDM." PAWC also argues that the ALJs did not reach findings of fact in support of almost all of their bases for rejecting the RDM. PAWC states that the Commission should find that the RDM is a just and reasonable ratemaking mechanism that will mutually benefit the Company and customers and should be approved. PAWC Exc. at 25.

In reply, I&E argues that the ALJs did not err in recommending denial of the RDM. I&E notes that the way for a water customer to reduce their bill is through conservation efforts; however, the RDM will force customers who take measures to reduce their water consumption to share some of their bill savings with PAWC. Also, I&E avers that revenue stabilization removes the risk of not recovering the full amount of revenue requirement allowed by the Commission due to changes in usage, and PAWC does not need further revenue stabilization measures due to the frequent base rate cases filed by the Company, the FPFTY, and the DSIC. I&E states that PAWC's exception does not demonstrate that the ALJs were incorrect in their reasons for recommending denial of the RDM. I&E R. Exc. at 12-13.

The OCA, in its reply to PAWC's Exception No. 6.2, also argues that the ALJs properly considered and rejected the RDM. In addition to agreeing with the reasoning of the ALJs in rejecting the RDM, the OCA contends that the RDM would resemble a natural unregulated monopoly by shifting risks of declining consumption entirely away from PAWC, which is compensated for risk, to captive ratepayers who would receive no compensation and lose a means to reduce their bill. Further, the OCA avers that the RDM would cause costs to be transferred from higher-income customers to lower-income customers because water usage reduction actions are disproportionately taken by higher-income households. OCA R. Exc. at 21-22.

CAUSE-PA also contends, in its reply, that the Commission should uphold the Recommended Decision's conclusion that the RDM is not just and reasonable and should be rejected. CAUSE-PA remains of the opinion that the proposed RDM should be rejected because it unreasonably prejudices and disadvantages residential customers who practice conservation to lower their monthly bills and will disproportionately impact low-income customers. CAUSE-PA states that the RDM would detract from savings that may be achieved through customers' conservation efforts and would hamper the ability of low-income customers to practice conservation and achieve bill savings. CAUSE-PA also argues that the RDM lacks adequate consumer protections, since PAWC's low-income customers would bear additional costs from the RDM making additional increases unaffordable. Furthermore, CAUSE-PA states that the RDM will not be understandable to consumers due to its highly complex design. Finally, CAUSE-PA notes that there is no indication that implementation of the RDM would impact the frequency of PAWC rate filings. CAUSE-PA R. Exc. at 7-9.

In reply to PAWC's Exception No. 6.2, PAWLUG agrees with the ALJs recommendation that the Commission deny the proposed RDM. PAWLUG contends that PAWC's characterization of the RDM as "commonplace" is misleading; rather, PAWLUG submits that the RDM is extraordinary and broad in scope. PAWLUG argues

that the costs to be recovered through the RDM are not extraordinary, unanticipated, or nonrecurring. Also, PAWLUG states that the RDM would conflict with cost causation principles by applying a uniform surcharge to all non-residential customers, which would impact interclass cost shifting between the various non-residential customer classes. Finally, PAWLUG restates its request that if the Commission approves the RDM, it should exempt Industrial and Municipal customers from the charge, implement certain customer protections, including an earnings test and an asymmetrical cap on any surcharge, and apply a downward adjustment to PAWC's ROE to recognize the operational risk mitigation resulting from approval of the RDM. PAWLUG R. Exc. 4-5.

4. Disposition

Upon review, we agree with the ALJs that approval of PAWC's proposed RDM is not in the public interest. First, PAWC did not establish a need for the RDM as an additional revenue stabilization mechanism. Revenue stabilization mechanisms are implemented to remove the risk of non-recovery of the full amount of any permitted revenue requirement. However, PAWC already utilizes frequent base rate cases, the FPFTY, and the DSIC to address revenue shortfalls. Specifically, the impact of the RDM on the frequency of base rate case filings is unknown and may not lessen the need and frequency of base rate cases. Therefore, PAWC has not proven that the RDM is needed.

In addition, we find that the RDM does not benefit customers. In fact, it appears that the RDM will hinder customer conservation efforts and could cause customers who take measures to reduce their water consumption to share some of their bill savings with PAWC. We agree that charging customers an additional charge through the RDM may act as a disincentive from conservation practices by customers because it will diminish the value of any savings achieved from such conservation efforts.

Furthermore, the RDM is not a just and reasonable alternative distribution ratemaking mechanism. As proposed, the RDM would produce guaranteed rate recovery where no guarantee existed in the past and shift the risk of recovery entirely onto customers without any benefit. Without adequate consumer protections, low-income customers will be placed at risk of bearing additional costs from the RDM, and this potential increase in unaffordability would expose these customers to a greater risk of arrears and termination of service. Moreover, the RDM will likely be confusing and difficult to understand for consumers due to its complex design in determining whether the RDM is a credit or charge. This additional surcharge on customer bills, along with the quarterly rate changes that occur under PAWC's DSIC, would only add to that complexity and confusion.

Therefore, we conclude that it is not in the public interest to approve the proposed RDM, which would provide an additional type of revenue stabilization to PAWC at the risk of eroding customers' conservation savings, which is the only way for water customers to affect a reduction to their water bill. With the PAWC's frequency of filing base rate cases, along with its use of the FPFTY and the DSIC, we further find that PAWC has not demonstrated a need for the proposed RDM. For these reasons, as well as the RDM's negative impact on consumer conservation efforts and its resulting confusion, as discussed above, we shall reject PAWC's proposed RDM. Accordingly, we will deny PAWC Exception No. 6.2.

B. Environmental Compliance Investment Charge

1. Positions of the Parties

PAWC has also proposed a rate adjustment clause to recover, between rate cases, the costs to comply with environmental regulations. PAWC St. 8 at 21. The costs in the ECIC must be consistent with the projects and activities set forth in an annual

environmental compliance plan (ECP) that is subject to Commission review. PAWC St. 8 at 22. PAWC proposes a review process for the ECP similar to the process followed by the Commission when reviewing the electric distribution companies' (EDC) energy efficiency and conservation (EE&C) plans. PAWC St. 8 at 26 (additional citations omitted).

The ECIC will include the fixed costs of the ECP capital investments placed in service after the end of the FPFTY in this case. The fixed costs will be captured quarterly. The ECIC will be updated quarterly, with supporting data filed with the Commission and served upon I&E, Audits, the OCA and the OSBA at least ten days prior to the effective date. The ECIC will be applied to the total amount billed to each customer for service, excluding amounts billed for public fire protection service, the State Tax Adjustment Surcharge (STAS), and the DSIC. The ECIC will be applied equally to all customer classes. PAWC St. 8 at 29.

PAWC provided that its environmental compliance requirements are continuously evolving and the need for and timing of measures to comply with these evolving regulatory requirements are outside the Company's control. According to PAWC, the proposed ECIC will provide a reasonable mechanism to support full and timely rate recognition of PAWC's costs to comply with new and updated environmental mandates. Additionally, the ECIC will mitigate customer exposure to less frequent but more significant rate increases in a base rate case. PAWC R.B. at 62. PAWC explains that costs that are recoverable through the ECIC must be consistent with the set of projects and activities set forth in an annual ECP that will be subject to Commission review and approval. PAWC M.B. at 73 (citing PAWC St. 8 at 25-26).

PAWC cites to the state and federal regulations concerning per- and polyfluoroalkyl substances (PFAS) as an example of rapidly changing environmental mandates. As PAWC witness, Mr. Aiton, explained, on March 14, 2023, the United

States Environmental Protection Agency (USEPA) issued proposed drinking water regulations for six PFAS that will establish maximum contaminant levels (MCLs), maximum contaminant level goals (MCLGs), and monitoring, public notice and treatment requirements. PAWC M.B. at 74 (citing PAWC St. 3 at 5-9). The USEPA is expected to finalize those PFAS standards before the end of 2024 and public water systems will then have three years to comply. PAWC M.B. at 74 (citing PAWC St. 3 at 6-7). The PADEP has promulgated state drinking water standards establishing strict MCLs and MCLGs for two PFAS with compliance monitoring requirements effective January 1, 2024. PAWC estimated compliance costs for the federal and state PFAS requirements in the range of $200 million before the end of 2027. *Id.*

I&E opposed the ECIC for several reasons: (1) the ECIC will be filed outside the parameters of a base rate case; (2) the ECIC will affect efficiency incentives; (3) the Company has not projected any data related to the ECIC; and (4) the ECIC would be premature, as the final regulations have not been formulated, the Commission has not had the opportunity to react to the PFAS issue on a utility-wide basis, and federal and state funding opportunities may become available in the future. I&E M.B. at 98-101 (citing PAWC St. 8, Exh. JCS-1 at 1; I&E St. 1 at 35). I&E reasoned that while it does not dispute that a utility should generally be able to recover costs associated with environmental compliance, an open-ended surcharge such as the ECIC is not the proper way to do so while so many unknowns regarding the ECIC remain. I&E R.B. at 41.

The OCA argued that PAWC has failed to demonstrate by a preponderance of evidence that the ECIC will "enhance the safety, security, reliability or availability of utility infrastructure." OCA M.B. at 88 (citing 66 Pa.C.S. § 1330(a)(2)). While PAWC sought to model the ECIC on the DSIC/LTIIP, the OCA contended that the similarities are superficial. The OCA maintains that the DSIC/LTIIP is "aimed at ***accelerating*** the replacement of aging underground infrastructure ***above and beyond what is required under the law***," while the ECIC is aimed at shifting the risk of recovery of sizable and

wide-ranging environmental capital investments from the Company to its customers. The OCA argued that these environmental capital costs have traditionally been part of the Company's normal business risk of complying with environmental laws. OCA M.B. at 88-89 (citing OCA St. 1 at 49-50) (emphasis in original). According to the OCA, the Company has shown that it can meet its requirements in Section 1501 of providing adequate, safe and reasonable service and facilities without any additional incentive or inducement and has therefore failed to show that the ECIC would "*enhance* the safety, security, or availability of utility infrastructure." OCA M.B. at 89 (emphasis in original).

The OCA argued that the Company has the responsibility and expertise to make decisions regarding environmental compliance infrastructure needs and the ECIC is unnecessary. The OCA provided that the Company needs to remain agile in making decisions on infrastructure capital spending between rate cases and should not endeavor to make the Commission a super board of directors by initiating the ECIC review process between rate cases. OCA R.B. at 58-59. Finally, the OCA averred that if the Commission approved the ECIC, the Company's risk profile would be lowered, and this lower risk would need to be reflected in the approved cost of equity for the Company. OCA R.B. at 59 (citing OCA St. 3 at 19).

The OSBA alleged that the ECIC is the "textbook example of single-issue ratemaking." The OSBA argued that "PAWC has shown a predilection for entering into costly expenditures – the acquisition of [BASA] being a prime example." OSBA M.B. at 23. The OSBA maintained that single-issue ratemaking is not sound regulatory practice. While a traditional rate case allows all parties to balance the expenses of an issue such as the ECIC with possible savings created by a Company's environmental compliance projects, considering the ECIC in isolation would not. OSBA St. 1 at 46.

CAUSE-PA noted that it is impossible to determine the reasonableness of the ECIC, if the ECIC will operate equitably, or if it is in the public interest because of

the lack of details in PAWC's proposal. CAUSE-PA M.B. at 34-35 (citing CAUSE-PA St. 1 at 1-19). CAUSE-PA provided that the ECIC would negatively affect low-income customers – contrary to Section 69.3302(a)(7) and Section 69.3302(a)(8). Additionally, CAUSE-PA contended that the proposed ECIC fails to include appropriate consumer protections for financially vulnerable low-income customers pursuant to Section 69.3302(a)(12). Finally, CAUSE-PA averred that BDP participants will inequitably face heightened bills due to the ECIC and non-BDP low-income customers will face the full impact of ECIC charges. CAUSE-PA M.B. at 38.

PAWLUG contended that while PAWC claims that mechanisms like the ECIC are common, this claim inappropriately conflates the ECIC with a DSIC. PAWLUG M.B. at 30 (citing PAWLUG St. 1 at 16). PAWLUG noted that PAWC has failed to identify any pending environmental costs that would apply to the ECIC. According to PAWLUG, the ECIC is speculative single-issue ratemaking and should not be approved. PAWLUG M.B. at 30. PAWLUG opposed the ECIC, but if it is approved, recommended a 3% cap on total annual revenue recovered through the ECIC. PAWLUG M.B. at 31 (citing PAWLUG St. 1 at 17).

Victory Brewing affirmed the OCA statement regarding the ECIC which noted that PAWC proposes to shift the risk of recovery for a wide range of capital investments and other costs fully onto customers. Victory Brewing also agreed with the OCA statement that PAWC does not need the ECIC as compliance with environmental laws is part of the Company's obligation to provide adequate, safe and reasonable service and facilities under Section 1501. Victory Brewing M.B. at 10-11 (citing OCA St. 1 at 48-51). Victory Brewing agreed with I&E's witness, Ms. Okum, who testified that the Commission would not have the ability to review the ECIC in the context of total impact to ratepayers and with respect to other expenses if the ECIC is modified between rate cases. Victory Brewing M.B. at 11 (citing I&E St. 1 at 34-35). Victory Brewing also noted that PAWLUG, witness Ms. LaConte, provided that PAWC claimed that the

proposed ECIC has become commonplace in utility regulation, but none of the water utilities in its proxy group have such a mechanism. Victory Brewing M.B. at 11 (citing PAWLUG St. 1 at 16).

2. Recommended Decision

The ALJs recommended that the Commission reject the Company's proposed ECIC. The ALJs noted that PAWC advised that its proposed ECIC will provide a mechanism for adjusting PAWC's rates between base rate cases to allow for changes to costs to comply with new and updated environmental regulations as they occur. The ALJs provided that since PAWC would file the proposed environmental compliance plan between rate cases, the Commission will not be able to assess the impact that the ECIC, along with other expenses, will have on PAWC's ratepayers. The ALJs reasoned that the only way to have a full opportunity to review the plan is within the confines of a rate case. The ALJs concluded that PAWC's ECIC proposal is single-issue ratemaking. The ALJs provided that the Commonwealth Court has held that single-issue ratemaking is prohibited if it addresses a matter normally considered in a base rate case. R.D. at 307 (citing *Pa. Industrial Energy Coalition v. Pa. PUC*, 653 A.2d 1336 (Pa. Cmwlth. 1995)).

Additionally, the ALJs determined that it is impossible to evaluate the impact of this proposed charge due to the limited data available. As such, it is impossible to determine the impact of this charge on low-income customers as suggested by the Commission's policy statement on distribution rate considerations. R.D. at 307 (citing 52 Pa. Code § 69.3302(a)(7)). The ALJs concluded that it would be premature to implement a rider recovery mechanism for just one company before any universal Commission action can occur and before any potential government funding has been established to address the problem. R.D. at 307.

3. PAWC Exception No. 6.1 and Replies

In its Exception No. 6.1, PAWC contends that the ALJs erred by recommending that the Commission reject the proposed ECIC. PAWC argues that it faces "environmental compliance costs to the tune of $200 million by 2027..." PAWC Exc. at 21 (citing PAWC St. 3 at 5-7) (additional citations omitted). PAWC maintains that the ECIC is consistent with the policy declaration incorporated into Section 1330, and the ECIC will "provide PAWC a reasonable opportunity to recover the capital costs and expenses incurred after June 30, 2025 to meet the challenges of providing high-quality water and wastewater service." PAWC Exc. at 21.

PAWC contends that the ECIC is not single-issue ratemaking, rather it is an automatic adjustment clause authorized by Section 1330(b)(2). Additionally, PAWC's proposed ECP process provides a reasonable procedure to examine the prudence and reasonableness of the ECIC charges outside of a base rate case. PAWC Exc. at 22.

According to PAWC, if the ECIC is approved, the Commission and interested parties will have ample opportunity to evaluate and challenge PAWC's proposed investments to comply with environmental mandates before they occur. PAWC avers that this constitutes full and fair ratemaking review. PAWC Exc. at 22 (citing PAWC St. 8-R at 11).

PAWC provides that the Code requires utilities to propose alternative rate mechanisms as part of a base rate case, thus the ECIC proposal is not premature as the ALJs stated. In addition, PAWC notes that PAWC Exhibit JCS-1 provides PAWC's analysis of the fourteen factors in the Commission's alternative ratemaking policy statement which means that the Commission has all the information necessary to evaluate the ECIC. PAWC Exc. at 23 (citing 52 Pa. Code § 69.3302).

PAWC contends that BDP participants will receive a discount on ECIC costs so that the impact of PAWC's environmental compliance costs on low-income customers will be the same regardless of whether those costs are recovered through base rates or an alternative ratemaking mechanism. PAWC Exc. at 23.

In Replies to PAWC Exc. No. 6.1, I&E avers that the proposed environmental compliance plan would be filed outside the parameters of a base rate case, disrupting the Commission's ability to review the potential expenses of the plan in context with the other expenses that may be increasing or decreasing between rate cases, which constitutes single-issue ratemaking. I&E R. Exc. at 10.

Further, I&E disagrees with PAWC's argument that the ECIC will not impact efficiency incentives. I&E R. Exc. at 10 (citing PAWC St. 8, Exh. JCS-1 at 1). I&E maintains that changing environmental regulations requiring the Company to make investments or increase spending does not mean the Company should be guaranteed recovery of all environmental compliance projects it undertakes. I&E contends that the ECIC would take away the incentive for the Company to investigate possible alternative options for environmental compliance if cost recovery was guaranteed. Additionally, the Company has not provided cost information for the ECIC, which makes evaluation of the ECIC impossible. I&E R. Exc. at 10-11.

I&E reasons that environmental compliance has always been a normal part of PAWC's expenditures and will continue to be so with or without approval of the ECIC. The new and impending regulations will be faced by water and wastewater utilities nationwide and therefore I&E asserts that a surcharge for one company at this time before potential funding could be identified would be premature. I&E does not dispute that a utility should be able to recover costs associated with environmental compliance, but an open-ended surcharge like the ECIC is not the proper vehicle. I&E R. Exc. at 11-12.

The OCA provides that the ALJs properly found that the ECIC would not allow the Commission to assess the impacts of the ECIC along with other expenses on PAWC ratepayers. OCA R. Exc. at 21 (citing R.D. at 307). The OCA states that the ALJs properly concluded that the ECIC would represent single-issue ratemaking which is prohibited if it addresses a matter normally considered in a base rate case. OCA R. Exc. at 21 (citing R.D. at 307; OCA M.B. at 84-85). According to the OCA, the ECIC attempts to inappropriately shift the risk of recovery of wide-ranging environmental capital investments from the company, who is compensated for risk, to captive ratepayers who under the proposal would be forced to bear the business risk for no compensation. OCA R. Exc. at 22 (OCA M.B. at 89).

The OCA disagrees with PAWC's assertion that the ECIC would allow for "ample opportunity to proactively evaluate and challenge PAWC's proposed investments and measures to comply." OCA R. Exc. at 22 (citing PAWC Exc. at 22). The OCA responds to PAWC's argument by noting that the only way to have a full opportunity to review the plan is within the confines of a rate case. The OCA avers that under PAWC's proposal, quarterly updates would take effect on only ten days' notice. The OCA provides that statutory advocates and consumers have limited resources and cannot realistically be expected to review recurring ECIC plan filings with the same degree of scrutiny as in a base rate case. OCA R. Exc. at 23 (citing OCA St. 4-SR at 28; OCA M.B. at 91).

CAUSE-PA contends that the proposed ECIC fails on several of the factors in 52 Pa. Code § 69.3302 including: the effect on low-income customers and customer assistance programs, impact on energy efficiency programming, alignment with cost causation principals, and the prevention of improper cost shifting. CAUSE-PA R. Exc. at 3-4 (citing 52 Pa. Code § 69.3302(a); CAUSE-PA M.B. at 34).

Based on the information available, CAUSE-PA argues, it is impossible to determine what costs will be included in the ECIC or how those costs will be calculated and allocated across PAWC's customer base. Without this key information, CAUSE-PA asserts, it is impossible to assess the reasonableness and justness of the ECIC, whether the ECIC will operate equitably and consistent with cost causation principles, or whether the ECIC will reduce the need for more frequent or severe base rate filings as PAWC contends. CAUSE-PA R. Exc. at 4.

Next, CAUSE-PA expresses its concerns regarding the filing process for PAWC's proposed environmental compliance plan. While the proposed process would include the filing of answers and comments, CAUSE-PA notes that there is no ability to conduct discovery or otherwise assess the prudency of the plan, the reasonableness of and justness of the expenditures necessitated by the plan, or the reasonableness and justness of the resulting charge on consumers. CAUSE-PA R. Exc. at 4 (citing CAUSE-PA M.B. at 34; PAWC St. 8 at 25-26). Additionally, CAUSE-PA notes that it is unclear what kind of public notice would be provided to permit impacted customers to meaningfully participate in the truncated ECP review process proposed by PAWC. CAUSE-PA R. Exc. at 4-5.

According to CAUSE-PA, the proposed ECIC would improperly and unjustly shift the burden of mitigating PFAS and meeting environmental standards to low-income customers, their households, and their communities. CAUSE-PA R. Exc. at 5 (citing CAUSE-PA M.B. at 35-36). CAUSE-PA provides that the vast majority of PAWC's low-income customers are not enrolled in the BDP and would face the full financial impacts of ECIC charges. CAUSE-PA R. Exc. at 5 (citing CAUSE-PA M.B. at 37-38).

PAWLUG avers that the ALJs correctly denied PAWC's proposed ECIC. PAWLUG argues that PAWC's attempts to characterize its proposed alternative

ratemaking mechanisms including the RDM and ECIC as "commonplace" is misleading. PAWLUG R. Exc. at 4 (citing PAWC Exc. at 20). PAWLUG provides that the mechanisms are quite extraordinary and broad in scope. PAWLUG R. Exc. at 4 (citing PAWLUG M.B. at 10-12, 29-30). According to PAWLUG, PAWC misconstrues Section 1330 of the Code, 66 Pa.C.S. § 1330 as authorizing the implementation of these mechanisms, when the statute merely authorizes the Commission to consider approval of such mechanisms. PAWLUG R. Exc. at 4.

4. Disposition

Regarding the ECIC, we find the ALJs' recommendation reasonable to reject PAWC's proposal to institute an ECIC as an alternative rate mechanism. We agree with the ALJs, the only way to assess the impact of the ECIC, along with other expenses, is to review the costs within a rate case. The proposed review process outside of a base rate case for the ECIC would make the ECIC single-issue ratemaking.

There is insufficient information to evaluate the proposed ECIC. PAWC has provided only a rough estimate "to the tune of $200 million dollars" of potential costs. PAWC Exc. at 21. The record does not show whether PAWC facilities are currently compliant or non-compliant with the PFAS MCLGs or MCLs. Infrastructure costs for treatment of waters with potential compliance needs cannot be determined until PAWC has evaluated current PFAS levels and monitored PFAS levels over time in its treated waters and wastewaters.

The impact on low-income customers cannot be determined, which is contrary to the Commission's policy statement. 52 Pa. Code § 69.3302(a)(7). At this time, we cannot determine what financial assistance will be available from the state and federal government to assist water and wastewater utilities in complying with the new

PFAs regulations. Without detailed cost estimates and evaluation of potential funding sources, we agree with I&E that the ECIC proposal is premature. I&E M.B. at 98-101.

We agree with the OCA's concerns regarding the proposed ECP review process. The ten-day review time for ECP quarterly updates is not sufficient for a meaningful review of the potential impact on consumers.

We disagree with PAWC's likening of the ECIC to the DSIC. The ECIC is not the same as a DSIC. The DSIC recovers costs to accelerate infrastructure replacement that otherwise would take years to complete. The ECIC is to recover the cost of environmental compliance, which is part of the cost of doing business for PAWC. We agree with the OCA that PAWC does not need a mechanism like a DSIC to achieve its environmental compliance goals. It is unreasonable to shift the risk for environmental compliance to consumers. PAWC is being compensated for that risk while customers are not. *See*, OCA R. Exc. at 22.

PAWC avers that mechanisms like the proposed ECIC are commonplace in utility regulation, but we note that none of the water utilities in the proxy group have an environmental cost recovery mechanism. PAWLUG St. 1 at 16 (citing PAWC St. 13 at 51).

We note CAUSE-PA's concerns of the potential impacts of the ECIC on low-income customers and their communities. The discount on ECIC costs for BDP customers that PAWC cites is not adequate to protect low-income customers, especially those not participating in BDP. Low-income customers should not have to pay proportionally higher for environmental compliance costs impacting their communities disproportionately. CAUSE-PA M.B. at 38. For all the reasons above, we shall deny PAWC's Exception No. 6.1.

XII. Low-Income Customer Assistance

A. Affordability Analysis

1. Positions of the Parties

PAWC argued that its witness, Mr. Rea, prepared: (1) an Enterprise-Level Analysis of affordability that considered the affordability of service at a high-level over a multi-year period; and (2) a Community-Level Analysis that focused on affordability of service at the individual customer level under current and proposed rates and current economic conditions. PAWC M.B. at 76 (citing PAWC St. 10 at 5; PAWC St. 10-R at 3-4). Mr. Rea concluded that the Company's water and wastewater service has been and is expected to continue to be affordable for most of its residential customers while also noting the presence of groups of customers for whom affordability of service may be challenging. PAWC M.B. at 76-77 (citing PAWC St. 10 at 22). Specifically, Mr. Rea noted that PAWC's proposed rates are affordable not only because the bill-to-income (BTI) ratio at median household income (MHI) falls below the 2% level, but also because the Company's proposed rate design (including the BDP) provides almost every residential customer the opportunity to obtain "Basic Water Service" and wastewater service at affordable levels. PAWC M.B. at 77 (citing PAWC St. 10-R at 9).

In response to the argument of the OCA's witness, Mr. Colton, that PAWC's witness, Mr. Rea, should not have relied upon MHI data from homeowners (MHI-HO) in his Enterprise-Level Analysis due to the increasing limitation of home ownership to households with higher incomes, the Company argued that MHI is a widely recognized, readily available, and appropriate measure of household income since most PAWC customers are homeowners. PAWC M.B. at 77-78 (citing OCA St. 5 at 10-11; PAWC St. 10-R at 10-12). Further, the Company contended that the multi-year focus of the Enterprise-Level analysis is proper as it focused on customer bills over time, which

account for rates and usage, rather than rates alone. PAWC M.B. at 78-79 (citing PAWC St. 10-R at 13-14).

In response to the critique of the OCA's witness, Mr. Colton, that PAWC's Community-Level analysis does not consider each individual customer to determine affordability for that particular customer, PAWC's witness, Mr. Rea, explained that his analysis looks at data at the customer level, but the Company cannot assess the affordability of each individual customer. PAWC M.B. at 79-80 (citing PAWC St. 10-R at 18-19). Additionally, the Company maintained that its estimate of 40 gallons of water per household member is representative of PAWC customer actual water usage. PAWC M.B. at 80 (citing PAWC St. 10-R at 19-20, 24). Lastly, PAWC asserted that the unavoidable truth is that there will always be customers for whom affordability of service may be challenging, but for the large majority of residential customers, water and wastewater service is affordable and will continue to be affordable under the Company's proposed rates. PAWC M.B. at 80. According to PAWC, it addressed the issue of affordability for lower income customers in a reasonable manner by proposing an expansion to its BDP in this case and noted that it does not oppose the OCA's and CAUSE-PA's proposals to further increase discount levels for existing income tiers. *Id.*; PAWC R.B. at 66-67 (citing PAWC St. 10-R at 31).

I&E contended that PAWC's affordability analysis is flawed and should not be used to establish wastewater rates. I&E M.B. at 102 (citing I&E Statement No. 3 at 13-14). In support of its position, I&E argued that the primary objective should not be making the average bills of water and wastewater customers comparable due to the significant difference in operating costs between water and wastewater systems. According to I&E, cost causation should be the primary factor in determining rates. I&E M.B. at 101. Second, I&E argued that PAWC's analysis disregards the fact that water customers that do not receive wastewater service from PAWC will incur their own wastewater costs that may not be comparable to their PAWC water rates while

subsidizing PAWC wastewater customers to provide them comparable rates. Lastly, I&E asserted that PAWC's analysis further disregards the benefits that the Company claims could or have accrued to customers in acquired systems. *Id*. at 102.

The OCA argued that the Commission has previously considered rate affordability when setting rates. OCA M.B. at 95 (citing *Columbia 2021* at 46-47). The OCA expressed general agreement with PAWC that in determining whether rates are affordable for PAWC's customers, a consumer's water/wastewater burden, or the proportion of income dedicated to paying the consumer's bill for water and wastewater service, or the BTI ratio should not exceed 2%. OCA M.B. at 95 (citing PAWC St. 10 at 4-23; OCA St. 5 at 7-39). The OCA disagreed with the Company on the affordability analysis used to determine those customers that have a water burden exceeding the affordable 2% BTI Ratio. OCA M.B. at 95. According to the OCA, this disagreement is important because the affordability analysis used to identify and determine the number of customers that have water burdens exceeding 2% BTI supports the development and design of low-income customer assistance programs. The OCA argued that PAWC did not meet its burden of proof in showing, with substantial evidence, that its affordability analysis will lead to affordable and just and reasonable rates. *Id*. at 95-96.

In turn, the OCA recommended, at a high level, the following affordability analysis:

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

> *Community level*: First, reject the limitation of any "affordability analysis" to use of a minimal "Basic Water Service." Second, do not examine affordability only for the PAWC population as whole. Third, measure affordability at different income levels. Finally, do not consider only the *breadth* of affordability (*i.e*., the number of customers with BTI Ratios exceeding 2% of income), but also consider the *depth* of affordability (*i.e*., recognizing that a substantial number of the customers with unaffordable bills, do not merely have a BTI Ratio "over 2%," but have a BTI Ratio of over 20%). OCA St. 22-39; OCA St. 5SR at 8-9.

OCA M.B. at 96 (emphasis in original).

CAUSE-PA asserted that its witness, Mr. Harry Geller's, analyses of the affordability of PAWC's rates determined that low-income customers face excessive and unaffordable water/wastewater burdens, which depending on household size and usage, often exceeds 20% of household income. CAUSE-PA M.B. at 40 (citing CAUSE-PA St. 1 at 27-28; CAUSE-PA St. 1, Exh. 1). Further, CAUSE-PA argued that based on the computations presented in CAUSE-PA Exhibit 1, attached to the direct testimony of its witness, Mr. Geller, low-income customers devote significant portions of their incomes each month to basic water/wastewater services. CAUSE-PA M.B. at 40 (citing CAUSE-PA St. 1 at 27-28). CAUSE-PA explained that CAUSE-PA Exhibit 1 offers insight into the water and wastewater burdens faced by low-income customers at current and proposed rates. CAUSE-PA further explained that a utility bill burden is a recognized metric used to determine the affordability of utility service and includes the percentage of income required to cover the cost of the bill. CAUSE-PA M.B. at 40 (citing CAUSE-PA St. 1 at 27). Therefore, CAUSE-PA concluded that PAWC's low-income customers are already struggling to afford and stay connected to water/wastewater services and the Company's proposed rate increases would worsen existing levels of unaffordability for such customers. CAUSE-PA M.B. at 43

In response to PAWC's affordability analyses, Mr. Geller expressed concerns that such analyses obscured critical affordability challenges experienced by PAWC's low-income customers, which, he contended, is neither just, reasonable, nor in the public interest. CAUSE-PA M.B. at 47 (citing CAUSE-PA St. 1 at 38). CAUSE-PA proffered that its Exhibit 1 demonstrates that the breadth and depth of unaffordability for PAWC's low-income customers are excessive at current and proposed rates, particularly when varied usage levels are considered. CAUSE-PA M.B. at 46-47 (citing CAUSE-PA St. 1 at 38). Moreover, CAUSE-PA argued that it is not in the public interest "to shunt the significant numbers of low-income customers aside by concluding that unaffordability for these customers is unavoidable and therefore acceptable." CAUSE-PA R.B. at 16. According to CAUSE-PA, PAWC failed to meet its burden of showing that its rates, both as existing and as proposed, are just, reasonable, and in the public interest. As such, CAUSE-PA requested that the Commission reject PAWC's present rate increase request and require the Company to modify its programs, policies, and procedures to guarantee that PAWC's low-income customers can afford and maintain PAWC's services. *Id*. at 16-17.

2. Recommended Decision

In the Recommended Decision, the ALJs found PAWC's Enterprise-Level Analysis and Community-Level Analysis to be reasonable methods to determine customer affordability. Regarding the Company's Enterprise-Level Analysis, the ALJs agreed that the multi-year focus on customer bills over time is proper because it accounts for rates and usage, which are connected. The ALJs further noted PAWC's consideration of a substantial level of income information and BTI ratios for customers at different levels of household income by increment of the federal poverty level (FPL). As for the Community-Level Analysis, the ALJs expressed agreement with PAWC that the Company cannot assess the affordability of every customer and found the 40-gallon-per-household member metric to be reasonable. R.D. at 315.

Lastly, the ALJs acknowledged the extent of which the public input hearing testimony largely concerned unaffordability of service. The ALJs reasoned that irrespective of any adopted affordability analysis, there will always be customers who will struggle with their bills. The ALJs concluded that such customers will have to utilize PAWC's low-income assistance programs. R.D. at 316.

3. OCA Exception No. 18 and Replies

In its Exception No. 18, the OCA argues that the ALJs erred by not recommending that the Commission adopt the OCA's adjustments to PAWC's affordability analysis. OCA Exc. at 30 (citing R.D. at 315-16; OCA M.B. at 95-96; OCA R.B. at 60). In support, the OCA reiterates the same arguments and recommendation made in its Main Brief, *supra*. OCA Exc. at 30-31; *see*, OCA M.B. at 95-96.

In reply, PAWC agrees with the ALJs that the OCA's proposed modifications to the Company's affordability analysis should be rejected, and with the ALJs' conclusion that PAWC's analysis represents a reasonable way to measure customer affordability. PAWC R. Exc. at 21 (citing R.D. at 315). PAWC argues that the OCA, in its Exception No. 18, simply reiterates the same arguments considered and rejected by the ALJs. PAWC R. Exc. at 22 (citing OCA Exc. at 30-31). In response to the OCA's argument that PAWC's witness, Mr. Rea, did not credibly respond to the recommended affordability analysis of the OCA's witness, Mr. Colton, PAWC asserts that the OCA disregarded the voluminous testimony and data of its own witness, Mr. Rea. PAWC R. Exc. at 22.

4. Disposition

As a preliminary matter, we note, as argued by the OCA, that we have previously considered rate affordability when setting just and reasonable rates. *See*, OCA M.B. at 95 (citing *Columbia 2021* at 48). Most recently, in *Columbia Water 2024*, we considered the principles of cost causation in tandem with second considerations of gradualism and affordability. Here again, we acknowledge that there are several important factors or principles that must be considered and weighed when designing a rate recovery proposal, including the concept of affordability. However, while affordability is permitted to be considered, it is but one of several factors to be considered and weighed by the Commission in determining a utility's rates. The rate increase reflects the business challenges the Company currently faces, including required investments in the repair/replacement or improvement of its distribution systems, including acquired troubled water utilities' distribution system; and the high costs associated with maintaining a distribution system necessary to provide safe and reliable water and wastewater service within the Commonwealth.

Based on our review of the OCA's Exceptions on this issue, we are not persuaded by its arguments that the ALJs erred in their conclusion that PAWC's analyses are reasonable methods to determine customer affordability. Regarding PAWC's Enterprise-Level Analysis, we agree with the Company that focusing on customer bills over time is appropriate as those bills account for rates and usage, which are connected. Furthermore, PAWC considered a large degree of income information and BTI ratios for customers at varying household income levels by increment of the FPL. With respect to the Company's Community-Level Analysis, PAWC's witness, Mr. Rea, testified that the Company cannot assess the affordability of each individual customer in its service territory. We find this testimony persuasive and agree with PAWC that the issue of affordability should be viewed from the perspective of the broader customer base. Additionally, we note the Company's argument that, as a means of addressing the issue of

affordability for lower income customers, it proposed to add a fourth tier of eligibility to expand the offerings of its BDP to customers whose household incomes are between 151% and 200% of the FPL.

Finally, it is important to note that we share the concern regarding the affordability of utility rates expressed by the witnesses that testified at the public input hearings held in this proceeding. We are aware of the difficulties experienced by those living on fixed or low-incomes in paying their bills for all types of utility service. The testimony from the public input hearings presented an overarching theme which described residential ratepayers who live on fixed incomes or minimum wages and cannot afford the proposed increase.

However, we must also recognize that even the most efficient least-cost water service may not be affordable to many people on fixed or low-incomes. This is why we regard low-income customer assistance programs as vital and agree with the ALJs that low-income customers should avail themselves of such programs. Through the testimony of PAWC's witness, Ms. Everette, the Company described its low-income customer assistance programs, including its H2O program, which offers bill discounts for water and wastewater service, hardship grants, and water conservation assistance, an AMP to assist low-income customers with arrearages, a budget billing plan, and installment agreements. *See*, PAWC St. 1 at 12-16. The Company also noted that it has used funding from the LIHWAP program[116] to provide bill assistance for qualifying,

[116] Separately, we note that the Commission has proactively taken steps to help ameliorate the impact of water rate increases on the most vulnerable. In December of 2023, we wrote to the members of the Pennsylvania Congressional Delegation urging the members to continue funding LIHWAP for FY 2024 (FY24) and to create a mechanism to *permanently* fund a low-income program like LIHWAP for water customers. Highlighting the essentialness of water utility service and the program's success, we encouraged those members of the General Assembly to support continued funding for LIHWAP in FY24, including appropriations requests, to assure continued critical federal water assistance to help low-income customers pay for water service.

low-income customers. *See*, PAWC St. 1 at 13-14. Additionally, we note that our BCS is available to assist any customer who is having medical problems or difficulty in arranging reasonable payment agreements which consider a customer's inability to pay.

Moreover, we strongly encourage PAWC to collaborate with BCS to consider the feasibility of implementing other measures which would promote the affordability of water service. The Company and BCS are further encouraged to consider, *inter alia*, combination programs that provide water audits, conservation treatments, education, and payment assistance in exchange for regular payments. We emphasize that this approach is in the best interest of both the shareholders and ratepayers as affordable bills will maximize revenues for the Company and will enable ratepayers to continue to receive an essential service.

Accordingly, the OCA's Exception No. 18 on the issue of PAWC's affordability analysis is denied, and the ALJs' recommendation regarding this issue is adopted.

B. H2O Bill Discount Program Design

1. Positions of the Parties

The Company submitted that its existing BDP provides substantial billing discounts to PAWC customers with annual household incomes falling between 0% and 150% of the FPL. PAWC M.B. at 81 (citing PAWC St. 10 at 23; PAWC St. 10-R at 28). According to PAWC, the current BDP has three-tiers, with the lowest-income customers receiving the highest percentage discounts. This is shown in Table 25, as follows:

Table 25: PAWC'S Current BDP Program Design

BDP Discount Levels	**Water Service Charge Discount**	**Water Service Volumetric Discount**	**Wastewater Total Bill Discount**
0% - 50% FPL	80%	80%	80%
51% - 100% FPL	65%	50%	55%
101% - 150% FPL	40%	25%	30%

PAWC M.B. at 81.

PAWC proposed to keep, without modification, the three existing BDP tiers and to add a fourth tier expanding the program to include customers whose annual household income falls between 151% and 200% of the FPL. This proposed fourth tier of eligibility offered a discount of 30% on the 5/8" meter charge and 15% on the volumetric rate for water service, with wastewater customers receiving a 20% discount on the total wastewater bill. PAWC M.B. at 81. The expanded BDP is an attempt by PAWC to address affordability issues for customers with annual household income between 151% and 200% of the FPL, with PAWC's analysis finding a majority of customers in this income range would have water and/or wastewater service bills greater than 2% of household income. *Id*. at 81-82 (citing PAWC St. 10 at 23-26; PAWC St. 10-R at 28-29).

Responding to suggestions from the OCA and CAUSE-PA, PAWC noted it does not oppose higher discount percentages for the existing three tiers and the proposed fourth tier. PAWC noted the proposed changes and higher discount percentages would provide greater affordability for PAWC customers at the lowest end of the income scale. PAWC M.B. at 82. PAWC stated it would defer to the Commission as to the appropriate level of customer assistance discounts. *Id*. (citing PAWC St. 10-R at 31).

The OCA supported PAWC's proposal to add a fourth BDP eligibility tier for customers whose annual household incomes fall between 151% and 200% of the FPL. OCA M.B. at 97 (citing OCA St. 5 at 49-50). The OCA argued for increased percentage discounts in each eligibility tier and noted the evidence from the OCA and CAUSE-PA showed the need for such increases. OCA M.B. at 98. As a basis for its proposed modifications, the OCA noted the existing BDP did not adequately address customer affordability, averring that: (1) fewer than 10% of customers with an affordable bill have income less than 200% of [the FPL]; (2) 84% of customers with income less than 50% of [the FPL] exceed the 2% burden level; and (3) 80% of customers with income between 50% and 100% of [the FPL], and 82% of customers with income between 100% and 150% of [the FPL], exceed the 2% burden level. Similar impacts arise for PAWC wastewater customers as well. OCA R.B. at 61 (citing OCA St. 5 at 40-41, 45).

As shown in Table 26 below, the OCA proposed the following BDP tiers and percentage discounts:

Table 26: The OCA's proposed BDP Program Design

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

OCA M.B. at 97. The OCA suggested these changes to the BDP program would generate more reasonably affordable bill-to-income ratios for PAWC customers and would result in more affordable rates than existing levels. *Id*. at 97-98 (citing PAWC St. 10-R at 29; OCA St. 5 at 46-48; CAUSE-PA St. 1 at 45-46).

CAUSE-PA made two recommendations regarding PAWC's BDP: (1) increased discounts within existing BDP tiers to increase affordability; and (2) a

requirement that PAWC transition the BDP to a percentage of income program (PIP). CAUSE-PA M.B. at 49-51. As summarized in Table 27 below, CAUSE-PA made the following recommendations regarding BDP discount levels:

Table 27: CAUSE-PA's Recommended BDP Discount Levels

	Water		Wastewater	
	Fixed Charge	**Volumetric Charge**	**Fixed Charge**	**Volumetric Charge**
Tier 1 (0-50% FPL)	90%	80%	85%	85%
Tier 2 (51-100% FPL)	75%	65%	73%	73%
Tier 3 (101-150% FPL)	60%	40%	55%	55%

CAUSE-PA M.B. at 49. CAUSE-PA argued its proposed amendments to the BDP would result in "marked improvements to affordability and reductions in water/wastewater burdens, ensuring a greater number of participants will receive a consistently affordable rate." *Id*.

Next, CAUSE-PA outlined its request that PAWC be required to transition the BDP to a PIP. CAUSE-PA's proposal would require PAWC to file a Petition within six (6) months of a Final Order in this proceeding to pursue a PIP designed to achieve a combined water/wastewater billing burden not exceeding 4% of a BDP participating customer's annual household income. CAUSE-PA averred that a PIP structure is "the optimal way to achieve consistent, equitable, and targeted levels of affordability" by calculating rates based on a customer's verified income level. CAUSE-PA M.B. at 50.

2. Recommended Decision

The ALJs recommended that the Commission approve multiple proposed changes to PAWC's BDP, but ultimately recommended that the Commission reject CAUSE-PA's request that the BDP be converted to a PIP. R.D. at 320.

As to PAWC's proposal to add a fourth eligibility tier to the BDP, the ALJs noted "we are in favor of additional measures to assist PAWC's customers afford their bills." The Recommended Decision also reflected the fact that no Party opposed the proposed expansion of the BDP; therefore, finding the proposal reasonable, the ALJs recommended that the Commission approve PAWC's proposal. R.D. at 320.

The ALJs also found the increases in discount percentages proposed by the OCA and CAUSE-PA to be reasonable, particularly considering the lack of opposition by PAWC. The ALJs recommended approving the proposed increases, with the increases taking effect no later than the effective date of rates resulting from PAWC's next general rate case filed with the Commission, with this time providing the Commission an opportunity to evaluate the financial impacts of customer assistance program changes. R.D. at 320-21.

Finally, the ALJs considered CAUSE-PA's recommendation that PAWC transition its BDP to a PIP structure. The ALJs considered PAWC's opposition to such a change, alongside the facts that the Company's billing system is not configured to allow for a PIP structure and that PAWC does not currently have verified income data for most BDP participants. Based on the lack of feasibility for this proposal and approved alterations to the BDP, the ALJs recommended the Commission reject CAUSE-PA's proposal that PAWC transition the BDP to a PIP structure. R.D. at 321.

3. OCA Exception No. 19[117]

In its Exception No. 19, the OCA states that it agrees with the ALJs' recommendation regarding the increased tiered discount percentages of the BDP.

[117] None of the Parties filed Reply Exceptions to the OCA's Exception No. 19 regarding this issue.

However, the OCA objects to the effective date recommended by the ALJs for PAWC to implement the changes. OCA Exc. at 32.

The OCA argues that "[n]o party advocated for the timeline that the ALJs selected for implementation." Additionally, the OCA believes the timeline established by the ALJs is uncertain because it places the implementation schedule in PAWC's control as PAWC can decide when to file its next rate case. OCA Exc. at 32.

The OCA requests the Commission reject the "uncertain timeline" of the Recommended Decision and require the increased tiered discount percentages of the BDP be implemented at the same time as the addition of the fourth tier, or, in the alternative, within one-year after the effective date of the rates set in this case. OCA Exc. at 32.

4. Disposition

During this proceeding, the OCA and CAUSE-PA made proposals related to PAWC's BDP/H2O programs. Many of these proposals were made to address the affordability concerns summarized above. PAWC did not contest many of the proposed changes and the ALJs recommended that the Commission grant many of the proposed changes.

Given the concerns regarding affordability of rates and the lack of objection from PAWC, we find it appropriate to adopt the recommendations proposed by the OCA and CAUSE-PA regarding the addition of a fourth tier for customers at 151% to 200% of the FPL and increased discount percentages in already existing tiers. In our view, these changes will help PAWC's low-income customers who may struggle with affordability given the increase in rates.

We likewise shall adopt the ALJs' recommendation to reject CAUSE-PA's proposal that PAWC convert its BDP to a PIP program. In doing so, we note the evidence provided by PAWC that such a change would not be reasonable given the Company's current billing software is not configured for a PIP, and PAWC does not currently have verified income information for most BDP participants.

Turning to the OCA's Exception No. 19, we are persuaded by the OCA's arguments. Namely, we shall impose a deadline of one year from the effective date of rates set in this case for the Company to implement these changes. We are of the opinion that the timeline recommended by the ALJs is uncertain and, given the importance of these changes to PAWC's customers and affordability, we find the one-year deadline to be more appropriate. We also note the lack of objection to this proposed timeline by PAWC in either its Exceptions or Reply Exceptions. Accordingly, we shall modify the ALJs' recommendation and shall grant the OCA's Exception No. 19.

C. Hardship Fund

1. Positions of the Parties

PAWC explained, by way of background, that its H2O program provides hardship grants for qualifying customers with annual household incomes at or below 200% of the FPL and that have made a payment of at least $50 over the last 90 days. The Company further explained that a customer may receive a hardship grant equal to their total account balance at the time of issuance of the grant, up to the maximum annual grant amount of $500 for water and wastewater service, respectively. PAWC M.B. at 83. PAWC noted that its hardship grants are funded through an annual shareholder donation as well as employee and customer donations. *Id*. (citing PAWC St. 9 at 13-14; PAWC St. 14-R at 15-16). PAWC stated that upon closing the Commission-approved BASA acquisition, it will expand eligibility to customers with household incomes at or below

250% of the FPL and contribute $3.5 million to the Hardship Fund in addition to its annual contribution of $750,000. PAWC M.B. at 83 (citing PAWC St. 9 at 17-18). The Company clarified that its Hardship Fund administrator, DEF, is working on a software enhancement that is expected to deploy at the beginning of the 2024-2025 program year. PAWC noted that once the enhancement is effective, customers will be able to apply for multiple hardship grants during a program year. PAWC R.B. at 69.

Lastly, PAWC contended that aside from the proposal regarding multiple customer grants per year, which the Company is already working to implement, the proposed operational modifications should be rejected. In support, PAWC contended that its existing statewide funds for water and wastewater are properly designed to ensure that the Hardship Fund dollars reach as many low-income customers across the Company's service territory as possible. Second, PAWC argued that a good-faith payment requirement is necessary to ensure that eligible customers are making a genuine effort to pay their bills. Further, PAWC stated that it is premature to raise the annual Hardship Funds grant amount to $600 for water and wastewater due to the Company's AMP implementation and proposed expansion of BDP. PAWC M.B. at 84. Moreover, the Company asserted that while it does not support expanding eligibility of the Hardship Fund to customers with incomes above 200% of the FPL, when the BASA acquisition closes, the Company has already agreed as part of the settlement in *BASA* to increase the Hardship Fund eligibility threshold to 250% of the FPL. *Id*. (citing PAWC St. 14-R at 15-16).

I&E noted at the outset that its recommendations regarding the Company's low-income customer programs generally relate to how such programs are funded. Specifically, I&E maintained that should funding for the Hardship Fund be increased, as recommended by CAUSE-PA's witness, Mr. Geller, then PAWC shareholders, and not its ratepayers, should be responsible for funding these programs. I&E M.B. at 101-03.

The OCA recommended that the maximum income eligibility for PAWC's hardship grants be increased to 250% of the FPL and that the rules of the Company's program be amended to provide for multiple distributions to a customer in a year up to the existing maximum of $500 per year. OCA M.B. at 98 (citing OCA St. 5 at 64-66). Additionally, the OCA argued that although the Company agreed to "work with its [Customer Assistance Advisory Group (CAAG)] members to develop a solution to allow an eligible customer to receive multiple Hardship Fund grant awards each year, up to the maximum grant amount of $500 for water and $500 for wastewater," as a condition to the rate case settlement in *PAWC 2022*, a solution has not been achieved. OCA M.B. at 98-99 (citing OCA St. 5 at 64). Therefore, the OCA contended that PAWC should be required to develop a method for allowing multiple Hardship Grants up to the maximum allowed amount. OCA M.B. at 99 (citing OCA St. 5 at 64).

Similarly, CAUSE-PA argued that PAWC's Hardship Fund is undersubscribed compared to need among low-income customers. CAUSE-PA M.B. at 52. CAUSE-PA expressed its concerns that the average arrearage level of recipients of hardship funding exceeds the maximum Hardship Fund grant limit of $500 and that the Hardship Fund requires an upfront payment of $50. *Id*. at 53 (citing CAUSE-PA St. 1 at 50-51). CAUSE-PA acknowledged that the settlement in *BASA* comprises certain increases to the Hardship Fund but argued that these commitments predate the instant proceeding and do not contemplate the additional need resulting from any increase in rates. CAUSE-PA M.B. at 54. CAUSE-PA's witness, Mr. Geller, stated that income-eligible customers face burdens affording water and wastewater service, and he testified that PAWC's water and wastewater burden levels for income-eligible customers leave economically vulnerable Pennsylvania families with insufficient funds to pay for housing, energy, food, medicine, childcare, and other basic needs. CAUSE-PA St. 1 at 27-28; CAUSE-PA Exh. 1.

Therefore, CAUSE-PA recommended that PAWC increase annual hardship funding by an additional $1 million over existing funding levels. CAUSE-PA M.B. at 54 (citing CAUSE-PA St. 1 at 52). CAUSE-PA further recommended elimination of the good faith payment arguing that it poses a significant barrier to obtaining Hardship Fund assistance. CAUSE-PA M.B. at 54-55 (citing CAUSE-PA St. 1 at 53). Lastly, CAUSE-PA recommended that the Company increase the maximum amount of its Hardship Fund grant from $500 to $600 for water and wastewater, respectively. CAUSE-PA M.B. at 55.

CEO recommended that PAWC increase its funding for the hardship grant program and distribute its hardship funds based upon the percentage of low-income customers within the service region or county. Specifically, CEO proposed that, should a rate increase be granted in this proceeding, the Company increase its contribution to the Hardship Fund by $300,000. CEO St. 1 at 6-7.

2. Recommended Decision

In the Recommended Decision, the ALJs noted PAWC's indication that the Company was already working to implement multiple customer grants per year, as proposed by the OCA and CAUSE-PA, and that the Company did not reject this proposal. Therefore, the ALJs recommended the adoption of the proposal for the allowance of multiple customer grants per year to take effect no later than the effective date of rates resulting from PAWC's next general rase increase filed with the Commission. The Recommended Decision further recommended that the multiple grants be up to the existing $500 maximum and declined the $600 maximum that CAUSE-PA proposed. R.D. at 327.

Regarding the proposed modifications to the eligibility requirements for the Hardship Fund, the ALJs recommended the Commission adopt the OCA's proposal to

raise the income threshold from 200% to 250% of the FPL and CAUSE-PA's proposal to remove the $50 good faith payment required to receive a Hardship Fund grant. The ALJs reasoned that such changes would open up Hardship Fund assistance to financially stressed customers with somewhat higher household income or with less favorable payment history. The ALJs concluded that both proposals should take effect "no later than the effective date of rates resulting from PAWC's next general rate increase filed with the Commission." R.D. at 327-28.

3. Exceptions and Replies

a. PAWC Exception No. 10 and Replies

In its Exception No. 10, PAWC contends that the Commission should reject the proposed modifications to Hardship Fund eligibility to preserve the Fund's focus on supporting customers with lower incomes and good faith payment behavior. The Company explains that the funds for hardship grants are not unlimited as they are drawn from an annual shareholder donation and employee and customer donations and could be depleted before the end of the program year if the proposed modifications are adopted. PAWC Exc. at 29. According to PAWC, it is reasonable and proper to dedicate funds to lower-income customers and customers that are making a genuine effort to pay their bills. *Id*. (citing PAWC St. 14-R at 15-16). Furthermore, the Company notes that although it separately agreed to raise the FPL threshold to 250% of the FPL as part of the settlement in *BASA*, this adjustment was coupled with increased shareholder funding. PAWC Exc. at 29 (citing Tr. at 2024).

In Reply to PAWC's Exception No. 10, the OCA agrees with the ALJs' recommendation to increase the hardship grant eligibility to include incomes up to 250% of the FPL and eliminate the $50 upfront payment requirement. In response to PAWC's argument that the recommended modifications could deplete the hardship grant before

the end of the program year, the OCA contends that such argument is not supported by the record which reflects that the hardship grant program has been undersubscribed. Accordingly, the OCA argues that the Commission should adopt the ALJs' recommended modifications pertaining to the Hardship Fund. OCA R. Exc. at 23-24.

Similarly, in its Reply, CAUSE-PA argues that the Commission should reject PAWC's Exception No. 10 and adopt the ALJs' recommendation to modify the Company's Hardship Fund so that low-income customers will be eligible for a Hardship Fund grant, regardless of whether they are able to make an upfront payment. In support, CAUSE-PA argues that the Company's Hardship Fund is significantly undersubscribed and that upfront payment requirements do not test a customer's good faith but rather pose significant barriers to receiving Hardship Fund assistance. Lastly, CAUSE-PA urges the Commission to require the Company to make efforts to identify additional sources of funding to support grant assistance. CAUSE-PA R. Exc. at 10-11, 13.

b. OCA Exception No. 20[118]

In its Exception No. 20, the OCA argues that the timeline set forth by the Recommended Decision, for implementation of the proposals, is uncertain as it places the entire schedule within the Company's discretion in terms of determining when to file for its next rate case. OCA Exc. at 33. In the alternative, the OCA proposes a timeline of one year after the effective date of the rates set in this case in light of DEF's work to develop software allowing for multiple hardship grants. *Id*. (citing R.D. at 322, n.1124). According to the OCA, this software is expected to deploy at the beginning of the 2024-2025 grant year, which is within one year of the effective date of the rates set in this case. OCA Exc. at 33.

[118] None of the Parties filed Reply Exceptions to the OCA's Exception No. 20 regarding this issue.

4. Disposition

We have previously noted the issue of affordability raised in the public input testimony in this proceeding and thereby emphasized the importance of low-income customer assistance programs, including hardship funds, encouraging low-income customers to avail themselves of such programs. As a preliminary matter, we find compelling the arguments of the OCA and CAUSE-PA that the Company's Hardship Fund is undersubscribed. We specifically note CAUSE-PA's argument that from January through November 2023, 9,658 confirmed low-income customers were terminated for nonpayment, yet only 3,443 customers received a Hardship Fund grant. CAUSE-PA M.B. at 53 (citing CAUSE-PA St. 1 at 50, Table 14). We agree with CAUSE-PA that the significant number of confirmed low-income customers terminated for nonpayment compared to the number of issued Hardship Fund grants marks a need for increased access to Hardship Fund grants for struggling, low-income customers.

With this in mind, we find that PAWC's upfront $50 payment requirement to receive a Hardship Fund grant contravenes the purpose of a hardship fund, which is to provide financial assistance to low-income, payment-troubled customers to help them pay their utility bills. We agree with CAUSE-PA that this upfront, payment requirement could pose a barrier to obtaining needed grant funding to low-income customers that are already payment-troubled. As such, we concur with the Recommended Decision that such requirement should be eliminated.

Regarding the OCA's proposal to expand Hardship Fund eligibility to 250% of the FPL, we agree with the ALJs that increased eligibility may help those whom the OCA identifies as having a fragile income, especially when facing an unforeseen circumstance. Further, we note that, with respect to PAWC's BDP, the Company has proposed to expand that program's offerings to customers whose household incomes are between 151% and 200% of the FPL. Therefore, while customers whose household

incomes that are between 201% and 250% of the FPL will be ineligible for the Company's BDP, adoption of the proposed expansion of eligibility to the Hardship Fund will provide those customers, as identified by the OCA as having a fragile income, with an alternative means of assistance of which to avail themselves. Accordingly, we will adopt the ALJs' recommendation of expanding Hardship Fund eligibility to 250% of the FPL.

Next, the OCA opposes the Recommended Decision's timeline for implementation of the modifications to PAWC's Hardship Fund, which is no later than the effective date of rates resulting from PAWC's next general rate increase. We agree with the OCA that its proposal of one (1) year after the effective date of the rates set in this proceeding is a more suitable timeline as it provides more certainty regarding the date of implementation of the modifications to the Hardship Fund and coincides with DEF's software deployment to allow for multiple hardship grants. Additionally, the OCA's proposed timeline will logically result in the faster implementation of the necessary modifications to this program which we have previously exhorted eligible, low-income customers to utilize. Moreover, we note that none of the other Parties opposed the OCA's proposed timeline.

Lastly, as PAWC has raised a concern that the proposed modifications to its Hardship Fund could deplete its resources, we encourage the Company to take steps to identify additional funding sources to support grant assistance, as suggested by CAUSE-PA. On the other hand, in light of the issue of undersubscription to this program and the supporting statistics, as presented by the OCA and CAUSE-PA, we believe that the Company should conduct outreach efforts to ensure as many eligible, low-income customers as possible receive this funding. To that end, we find it appropriate to strongly encourage the Company to set a target donation of an additional $1 million into its Hardship Fund. This voluntary payment would be in addition to the Company's annual Hardship Fund contribution of $750,000. These additional dollars, if donated, will serve

to make water and wastewater service more affordable for income-eligible customers in most need of assistance.

Accordingly, PAWC's Exception No. 10 is denied and the ALJs' recommended modifications to the Company's Hardship Fund are adopted with the exception of the recommended timeline for implementation of such modifications. In that regard, we will grant the OCA's Exception No. 20 with respect to the timeline of implementation of the approved modifications and require PAWC to implement the adopted modifications to its Hardship Fund within one (1) year after the effective date of the rates set in this case. In addition to encouraging the Company to set a target donation of an additional $1 million into its Hardship Fund, we direct PAWC to explain, in its next base rate proceeding, the efforts it has taken to provide Hardship Fund assistance to as many eligible, low-income customers as possible.

D. Conservation Assistance

1. Positions of the Parties

PAWC argued that CAUSE-PA's Conservation Assistance proposal, *infra,* attempts to impose a low-income usage reduction program (LIURP) construct on the Company, similar to LIURPs established only for EDCs and natural gas distribution companies NGDCs. PAWC noted that imposition of a LIURP-type program in this proceeding would require the Company to "hire additional staff and manage costs associated with repairing and replacing the leaking lines and infrastructure of low-income customers." These costs, considered alongside the lack of a legal requirement for PAWC to have a LIURP, form the basis for the Company's request that the Commission reject CAUSE-PA's Conservation Assistance proposal. PAWC M.B. at 85-86.

I&E noted two issues with the Conservation Assistance proposal made by CAUSE-PA: (1) the proposal does not specify a funding source; and (2) no cap or budget for the program is included in the proposal. I&E argued that since the program "will focus on water conservation inside individual customers homes and assistance with repairing and replacing service lines on individual customers property" it would be inappropriate to require all ratepayers to fund this program. Therefore, I&E requested that, should the Commission approve CAUSE-PA's Conservation Assistance proposal, the program be funded by PAWC's shareholders rather than ratepayers. I&E M.B. at 103 (citing I&E St. 1-R at 4).

The OCA requested that the Commission order PAWC to "develop a plan to utilize U.S. Department of Energy's Weatherization Assistance Program and the natural gas and/or electric [LIURP] agencies as partners to develop and deliver water conservation investments" to its customers. In support of this request, the OCA averred that PAWC's "failure" to address water conservation needs of low-income customers has the effect of forcing these customers to fund water conservation investments themselves, often in addition to water bill burdens of 6% to nearly 80% of the BTI ratio. OCA M.B. at 99.

CAUSE-PA recommended that the Commission require PAWC to "develop and implement a comprehensive low-income water conservation and leak repair program" no later than six (6) months after a Final Order in this proceeding. CAUSE-PA M.B. at 60. CAUSE-PA argued that PAWC currently offers limited water conservation assistance to low-income customers participating in the H2O programs. This assistance includes water conservation kits containing self-installed basic water-saving devices, a leak detection kit, conservation tips and materials, and a water use calculator. CAUSE-PA submitted this limited assistance was insufficient, hampering the ability of low-income customers to reduce high usage and address repairs and leaks and exacerbating unnecessarily high universal service program (USP) costs. *Id*. at 58.

CAUSE-PA's proposal called for conservation assistance to include comprehensive conservation measures, *i.e*., basic plumbing and service line repair and replacement, with no out-of-pocket or up-front costs for the measures or installation. CAUSE-PA M.B. at 60. The proposal also recommended "annual reporting parameters of water savings and reductions to costs of low-income assistance programs resulting from this program. *Id*. (citing CAUSE-PA St. 1 at 63-64). CAUSE-PA proposed the conservation assistance program set a maximum eligibility cap at 200% of FPL, with a specific target on high usage, low-income customers enrolled in PAWC's BDP. CAUSE-PA M.B. at 60-61.

CAUSE-PA echoed and built upon the suggestions made by the OCA, *supra*, recommending that PAWC "coordinate the delivery of services" with similar programs provided by electric and natural gas utilities in PAWC's service area, and argued that such partnerships "will help to coordinate conservation and repair efforts." CAUSE-PA M.B. at 61.

In response to PAWC's objections to the proposal, CAUSE-PA stated, "[t]he lack of an explicit statutory *requirement* to operate a conservation program does not preclude the Commission from ordering PAWC to implement this important program." CAUSE-PA M.B. at 62 (emphasis in original). CAUSE-PA argued the critical assistance the program offers to low-income customers would also have positive impacts on all ratepayers by reducing uncollectible costs associated with terminations. CAUSE-PA also averred the Commission "has long recognized" that conservation is an essential component of universal service plans, as conservation programs are part of "holistic services" to address unaffordability through bill assistance, debt management, and conservation. CAUSE-PA M.B. at 62-63.

Finally, CAUSE-PA addressed I&E's proposal that costs for such a program, if approved, should be funded by shareholders rather than ratepayers.

CAUSE-PA is not opposed to I&E's proposal but argued that costs for the program could be properly recovered via rates. CAUSE-PA also demurred, stating it is not necessary for the Commission to determine the proper method of cost-recovery in this proceeding. CAUSE-PA M.B. at 63.

2. Recommended Decision

The ALJs recommended that the Commission reject CAUSE-PA's proposal that PAWC be required to design and implement a comprehensive conservation and line repair and replacement plan. R.D. at 334.

While finding that "such a program would certainly be beneficial to PAWC's ratepayers," the ALJs agreed with PAWC that LIURPs (and similar programs) are currently only required under Pennsylvania law for EDCs and NGDCs. R.D. at 334, *see also*, 52 Pa. Code § 58.1. Without statutory authority mandating LIURPs for water companies, the ALJs concluded that it "would be inappropriate to impose such a requirement on PAWC alone." R.D. at 334.

3. CAUSE-PA Exception No. 1 and Replies

CAUSE-PA argues, in its Exception No. 1, that the ALJs erred "as a matter of law and sound public policy" in their conclusion that PAWC should not be ordered by the Commission to establish a comprehensive water conservation program for low-income customers. CAUSE-PA Exc. at 5. CAUSE-PA repeats the arguments outlined in its briefs and submitted testimony, stating the proposal would provide "critical assistance to low-income customers with usage beyond their control, would help to control USP costs, and would reduce uncollectible costs as a result of terminations which affect all ratepayers." CAUSE-PA Exc. at 10 (citing CAUSE-PA St. 1 at 62-63). While CAUSE-PA acknowledges "that there is currently no statutory or regulatory requirement

directing jurisdictional water and wastewater utilities to maintain LIURPS," it also insists that this does not preclude the Commission from ordering PAWC to implement the program. CAUSE-PA compares its proposal to LIURP programs for EDCs and NGDCs, which CAUSE-PA avers were developed and implemented "years before promulgation of the Commission's LIURP regulations." CAUSE-PA Exc. at 9-10.

CAUSE-PA also restates its request that PAWC be ordered by the Commission to work with its CAAG to develop a comprehensive assistance program no later than six (6) months after the final order in this proceeding. CAUSE-PA Exc. at 11-12.

In reply, PAWC requests that the Commission adopt the reasoning of the ALJs in the Recommended Decision, averring "[t]he ALJs properly found that statutory and regulatory obligations related to … low-income conservation assistance apply to electric and natural gas distribution utilities only." PAWC echoes the reasoning of the ALJs, arguing that absent statutory or regulatory obligations, "it would not be appropriate to single out PAWC and mandate the implementation of a Comprehensive Conservation Program…" PAWC R. Exc. at 24-25.

4. Disposition

We agree with the reasoning of the ALJs in the Recommended Decision and shall reject the positions of the OCA and CAUSE-PA that the Company be directed to develop the conservation programs proposed above. In the absence of a regulation that mandates a LIURP for water companies, similar to the regulation that exists for EDCs and NGDCs, we find it inappropriate for the Commission to impose such an obligation on PAWC alone. Therefore, we shall deny Exception No. 1 filed by CAUSE-PA.

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

1. Positions of the Parties

PAWC contended that it utilizes a robust, multi-prong approach to apprise customers of the benefits of its H2O Programs, which include direct customer communication (*i.e.*, bill inserts, social media), participation in PUC consumer education events, and DEF outreach (*i.e.*, public service announcements). PAWC M.B. at 86 (citing PAWC St. 9 at 14-16; PAWC St. 14-R at 7). The Company explained that when accessing its customer portal, customers are presented with information on bill assistance self-service options and a link to information on the Company's H2O Programs, along with instructions on how to apply. PAWC M.B. at 86 (citing PAWC St. 9-R at 11). According to the Company, from December 2020 to November 2023, PAWC increased participation in its BDP by over 30%. PAWC M.B. at 86 (citing PAWC St. 14-R at 8).

In response to the recommendations of the OCA and CAUSE-PA, PAWC agreed that low-income customers should be enrolled in its H2O program as early as possible and explained that when a customer calls seeking payment assistance, the Company's customer care agents (CCAs) are trained to direct customers to call DEF to enroll. PAWC M.B. at 87 (citing PAWC St. 9-R at 11). According to the Company, it complies with the requirements of Chapter 14 of the Code and Chapter 56 of the Commission's Regulations regarding payment arrangements and service terminations, and also places a 30-day collections and termination lock on the account of any customer that mentions they are working with an agency for payment assistance. PAWC M.B. at 87-88 (citing PAWC St. 14-R at 11). On the other hand, PAWC argued that it should not decide on behalf of the customer whether to apply for the H2O program or enter a separate payment arrangement as proposed by the OCA and CAUSE-PA. PAWC M.B. at 88.

The OCA argued that PAWC's low-income customer outreach and intake for its BDP and AMP programs are inadequate. OCA M.B. at 99 (citing OCA St. 5 at 54-63). In support, the OCA asserted that from November 2021 to October 2023, PAWC enrolled 17.7% of the 60,660 confirmed low-income customers and that from January 2021 to October 2023, the Company's disconnection count of confirmed low-income customers was 35,488. OCA M.B. at 99-100 (citing OCA St. 5 at 57). Therefore, the OCA made the following recommendations for PAWC to implement to provide adequate service:

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

OCA M.B. at 100 (citing OCA St. 5 at 54-63). The OCA asserted that these recommendations should be implemented by the Company as a part of any authorized rate increase to ensure adequate service is being provided to customers. OCA M.B. at 100 (citing 66 Pa.C.S. §§ 523, 1501, 1505; *Pa. PUC v. Pa. Gas & Water Co.*,

74 PUR4th 238, 244-45 (Pa. PUC 1986) (*PG&W 1986*); *Pa. PUC v. Philadelphia Gas Works*, 2000 Pa. PUC LEXIS 876, *41-44 (Opinion and Order entered November 22, 2000) (*PGW 2000*).

Similarly, CAUSE-PA argued that PAWC's USPs, including reduced rates available through the Company's BDP, are not reasonably accessible to the Company's low-income customers. CAUSE-PA M.B. at 63 (citing CAUSE-PA St. 1 at 54). In support, CAUSE-PA contended that as of November 2023, only 25% of PAWC's estimated low-income customers and 40% of its confirmed low-income customers were enrolled in BDP. Moreover, CAUSE-PA asserted that while 9,658 confirmed low-income customers were terminated for nonpayment in 2023, only 3,443 Hardship Fund grants were issued during that time. *Id*. According to CAUSE-PA, the Company does not have adequate systems in place to ensure that customers are being timely referred and assisted to enroll in BDP and the Hardship Fund assistance, consistent with Sections 1303 and 1410.1 of the Code and undersubscription of PAWC's low-income assistance programs contravenes those Sections of the Code. CAUSE-PA M.B. at 64-65.

Therefore, CAUSE-PA recommended several modifications so that low-income customers can enroll in available USPs more easily and before such customers accrue unmanageable debts. CAUSE-PA M.B. at 65 (citing CAUSE-PA St. 1 at 56). First, CAUSE-PA proposed that PAWC begin screening all new and moving customers for income level and eligibility at the time their service is established and periodically thereafter during non-emergency calls. CAUSE-PA M.B. at 65 (citing CAUSE-PA St. 1 at 57). Next, CAUSE-PA recommended that the Company develop call scripting and checklists for its Customer Service Representatives (CSRs) to assist in screening customers for eligibility and refer low-income customers to available assistance programs, including BDP and the Hardship Fund, before being placed on a payment arrangement. Further, CAUSE-PA recommended that the Company should be required to refer low-income customers to available assistance programs, including the

Company's BDP and Hardship Fund, before placing such customers on a payment arrangement. CAUSE-PA M.B. at 66.

2. Recommended Decision

In the Recommended Decision, the ALJs noted a public utility's responsibility, when contacted by a customer to make a payment agreement, to provide information about its USPs and to refer the customer to the USP administrator to determine eligibility for enrollment in the program. R.D. at 340-41 (citing 66 Pa.C.S. § 1410.1). The ALJs found that PAWC is following these guidelines since PAWC CCAs are trained to direct customers to call DEF to enroll. The ALJs held that PAWC is meeting its obligations by informing callers about the availability of the Company's customer assistance programs. Accordingly, the ALJs recommended that the proposals of the OCA and CAUSE-PA regarding low-income customer outreach be rejected. R.D. at 341.

3. OCA Exception No. 21, CAUSE-PA Exception No. 3, and Replies

In its Exception No. 21, the OCA argues that while PAWC may be adhering to statutory standards, the OCA's witness, Mr. Colton, presented concerning statistics regarding a low level of low-income customer level enrollment in the Company's BDP. OCA Exc. at 34. In support, the OCA reiterates the same arguments and recommendation made in its Main Brief. *Id*.; *see,* OCA M.B. at 99-100. As such, the OCA asserts that the Commission should consider this evidence of low enrollment and adopt the OCA's recommendations. OCA Exc. at 34 (citing R.D. at 341; OCA M.B. at 99-100; OCA R.B. at 63).

CAUSE-PA argues in its Exception No. 3 that the ALJs made factual and legal errors in its determination that PAWC's existing screening and intake processes are

adequate and consistent with statutory standards. According to CAUSE-PA, the undersubscription in PAWC's low-income assistance programs limits the ability of the Company's low-income customers to access affordable services prior to accruing unmanageable arrears and facing termination. CAUSE-PA Exc. at 20. In support, CAUSE-PA contends that Section 1303 of the Code requires that PAWC ensure customers are enrolled in the most advantageous rate, including rates available through the Company's BDP. *Id.* (citing CAUSE-PA M.B. at 63-64). Similarly, CAUSE-PA contends that under Section 1410.1 of the Code, the Company is required to refer customers to available USPs, including its BDP and Hardship Fund, before placing customers on a payment arrangement. CAUSE-PA maintains its position that the undersubscription in PAWC's low-income assistance programs contravenes Sections 1303 and 1410.1 of the Code. CAUSE-PA Exc. at 20-21.[119]

In further support, CAUSE-PA reiterates the same arguments and recommendation made in its Main Brief. CAUSE-PA Exc. at 21-23; *see*, CAUSE-PA M.B. at 63-69. Additionally, CAUSE-PA disagrees with PAWC's argument that its recommendation regarding screening and intake would deprive customers of the choice of whether to enroll in USPs and expresses its concern that low-income customers are not being adequately referred to assistance programs. CAUSE-PA Exc. at 24.

In its Reply, PAWC agrees with the ALJs that the Company's low-income customer outreach, intake, and screening are appropriate and consistent with statutory

[119] We further note that in its reply to the Company's Exception No. 11, discussed in Section VII.F, *infra*, CAUSE-PA argues that the ALJs' recommendation that the Commission reject CAUSE-PA's proposed modifications to PAWC's screening and intake procedures should not preclude implementation of CAUSE-PA' recommendations to the Company's data collection and reporting. CAUSE-PA R. Exc. at 17. CAUSE-PA notes that while its recommendations regarding screening and intake are aimed at addressing the methods by which PAWC increase enrollment in its USPs, the data collection and reporting recommendations are intended to improve Commission oversight of the Company's USPs. *Id.*

standards. PAWC R. Exc. at 22. The Company reiterates that it offered evidence of its robust, multi-prong approach to inform customers about the benefits of its H2O program. *Id*. at 22-23 (citing PAWC St. 9 at 14-16; PAWC St. 9-R at 11; PAWC St. 14-R at 7). By way of its Reply, PAWC states its desire to address CAUSE-PA's "mischaracterization" of Section 1410.1 of the Code, and CAUSE-PA's allegation that the Company is in violation of Sections 1303 and 1410.1 of the Code. PAWC R. Exc. at 23. According to the Company, CAUSE-PA has misinterpreted Section 1410.1 to prohibit the establishment of a payment arrangement until the customer has completed the referral process and in response, the Company argues that the plain language of Section 1410.1 provides no such prohibition. *Id*. (citing CAUSE-PA Exc. at 20). In response to CAUSE-PA's argument that PAWC's H2O program offerings are undersubscribed and thus, in violation of Sections 1303 and 1410.1 of the Code, the Company argues that neither statute refers to customer enrollment or participation in assistance programs or requires a subscription level. PAWC R. Exc. at 23-24 (citing 66 Pa.C.S. § 1303; CAUSE-PA Exc. at 20). Accordingly, PAWC argues that the ALJs properly examined these processes in making their determination that the Company is following 66 Pa.C.S. §§ 1303 and 1410.1 and requests that the Commission reject the Exceptions of the OCA and CAUSE-PA with respect to this issue. PAWC R. Exc. at 24 (citing R.D. at 340-41).

4. Disposition

As a preliminary matter, we note, again, the concerns expressed by the OCA and CAUSE-PA that PAWC's customer assistance programs are undersubscribed. The OCA and CAUSE-PA each made proposals to address this issue. The focus of the OCA's recommendations is to ensure that customers are receiving adequate service consistent with 66 Pa.C.S. §§ 523, 1501, and 1505 by increasing customer outreach and intake for the Company's BDP and AMP programs. *See*, OCA M.B. at 99-100. CAUSE-PA asserted that its proposals are targeted at ensuring that PAWC's customers are properly referred and assisted to enroll in the Company's USPs, consistent with

Sections 1303 and 1410.1 of the Code, 66 Pa.C.S. §§ 1303, 1410.1. *See*, CAUSE-PA M.B. at 65; CAUSE-PA Exc. at 18-24. As of November 2023, 25% of PAWC's estimated low-income customers and 40% of its confirmed low-income customers were enrolled in BDP. *See,* CAUSE-PA M.B. at 63 (citing CAUSE-PA St. 1 at 54). Such statistics highlight that additional outreach efforts are appropriate.

Accordingly, we agree with a number of the recommendations made by the OCA and CAUSE-PA to address low-income customer outreach. First, we believe PAWC should develop call scripting and checklists for its CSRs to assist in screening customers for eligibility and refer low-income customers to available assistance programs, including BDP and the Hardship Fund, before placing customers on a payment arrangement. *See,* CAUSE-PA St. 1 at 58.

Second, PAWC should make personal contact with any confirmed low-income customer facing termination of service for nonpayment, and these customers should be informed of and given the opportunity to enroll in the BDP and the AMP as an alternative to disconnection. *See* OCA St. 5 at 59. Further, moving forward, customers enrolled in the BDP should also be informed of the AMP and enrolled in it as well if they are eligible and so choose. OCA M.B. at 100.

We shall direct PAWC to implement the above recommendations no later than one year after the effective dates of rates in this proceeding. Lastly, while PAWC noted that its outreach efforts increased participation in its BDP by over 30%, we strongly encourage PAWC to continue taking steps to increase its outreach efforts for all low-income customer assistance programs.

Based on the above discussion, we shall modify the ALJs' recommendation and grant the OCA's Exception No. 21 and CAUSE-PA's Exception No. 3.

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

1. Positions of the Parties

PAWC requested that the Commission reject the below proposals of CAUSE-PA's witness, Mr. Geller, regarding data collection and reporting recommendations. In support of its request, PAWC noted "significant strides in reaching out to customers without formalizing outreach/enrollment benchmarks or quantitative goals." PAWC stated its outreach strategy had resulted in a 30% increase in BDP participation between December 2020 and November 2023. PAWC M.B. at 88.

PAWC also pointed to the proposed changes to its low-income programs. PAWC believed it would be unreasonable to establish benchmarks when enrollment levels may fluctuate based upon new income verification requirements for low-income programs and increased bill discounts. PAWC M.B. at 88-89.

PAWC averred that it already has processes in place to regularly share information with the CAAG via quarterly meetings to discuss methods for enhancing low-income customer outreach. These communications include obtaining feedback on outreach materials. PAWC M.B. at 89.

Finally, PAWC objected to the OCA's below recommendation that it utilize customer satisfaction surveys targeting low-income and at-risk customers. PAWC characterized such recommendations as redundant given PAWC's ongoing transaction surveys and trend tracking. PAWC R.B. at 71-72.

The OCA requested that PAWC be required by the Commission to introduce customer satisfaction surveys targeting the following: (1) customers seeking to enroll in low-income customer billing assistance programs; (2) customers seeking to

enroll in deferred payment arrangements; (3) customers experiencing difficulties or an inability to pay bills timely and fully; and (4) customers responding to disconnection of service for non-payment. OCA M.B. at 101. The OCA stated the compilation of information from these surveys can be used to improve customer satisfaction and collections outcomes, with the knock-on outcome of allowing PAWC to "improve its management control of costs and revenues, improve the stability of its earnings, and thus control the need for future rate relief." *Id*. (citing OCA St. 5 at 123-24).

CAUSE-PA asked the Commission to order improvements to PAWC's low-income program data collection and reporting to ensure access and enrollment in such programs by eligible customers. CAUSE-PA M.B. at 69. According to CAUSE-PA, PAWC's low-income assistance programs are undersubscribed, with approximately "75% of PAWC's estimated low-income customers, and roughly 60% of households *known* to be eligible" not enrolled. CAUSE-PA M.B. at 69 (citing CAUSE-PA St. 1 at 47) (emphasis in original). CAUSE-PA made three assertions and recommendations to address the undersubscription in PAWC's low-income assistance programs.

First, CAUSE-PA argued that the Company should be required to update its estimated low-income customer count on an annual basis, working with the Commission's BCS to ensure any method used is appropriate and accurate. CAUSE-PA M.B. at 69 (citing CAUSE-PA St. 1 at 47-48). Second, CAUSE-PA submitted that the Commission should require PAWC to establish target enrollment benchmarks, with CAUSE-PA recommending enrollment targets of "20% per year of PAWC's estimated low-income customer counts, until the Company reaches at least 75% enrollment of this estimated group." CAUSE-PA M.B. at 69 (citing CAUSE-PA St. 1 at 48). Finally, CAUSE-PA recommended the Commission require PAWC to "establish quantitative and qualitative goals related to affirmative customer outreach," including contacts via phone, mail, and electronic communications via text or email (with customer consent). In tracking implementation of these recommendations, CAUSE-PA also claimed that PAWC

should expand membership of its CAAG to include more diverse community voices. CAUSE-PA M.B. at 70.

2. Recommended Decision

As to the OCA's proposed customer service satisfaction surveys, the ALJs agreed with PAWC that such surveys would be unnecessary and redundant given the Company's existing transaction surveys. Accordingly, the ALJs recommended the Commission reject OCA's proposal. R.D. at 345.

Conversely, the ALJs found that CAUSE-PA's recommendations are made "to better ensure that low-income customers can enroll in the BDP and other available universal service programs." Citing to testimony provided at public input hearings regarding billing affordability, the ALJs stated "ensuring that low-income customers can enroll in these programs is of great importance." Therefore, the ALJs recommended that the Commission adopt CAUSE-PA's data collection and reporting proposals. R.D. at 345-46.

3. Exceptions and Replies

a. PAWC Exception No. 11 and Replies

In its Exception No. 11, PAWC contends that the ALJs "improperly [recommended that the Commission adopt] unreasonable and unnecessary low-income data collection and reporting requirements" as proposed by CAUSE-PA. PAWC argues that the ALJs failed to "explain why enrollment benchmarks or outreach goals are necessary or appropriate" in light of their recommendation that the Commission reject other proposals to modify customer outreach strategies. PAWC also points to upcoming changes in how low-income assistance programs will be operated and possible

fluctuations in enrollment, as well as the meetings and consultation already occurring between PAWC and the CAAG. For these reasons, the Company requests the Commission reject the ALJs' recommendations concerning low-income data collection and reporting. PAWC Exc. at 29-31.

In reply to PAWC's Exception No. 11, CAUSE-PA requests that the Commission reject this exception. CAUSE-PA R. Exc. at 13. CAUSE-PA further asks the Commission to affirm the improvements to PAWC's USP data collection and reporting ordered in the Recommended Decision. CAUSE-PA provides four reasons in support of its reply: (1) the proposed improvements will provide important metrics for measuring success; (2) the recommended improvements will enhance the upcoming changes PAWC plans to implement to its USPs; (3) the changes CAUSE-PA proposed to PAWC's engagement with its CAAG are designed to build upon the existing relationship, not as a critique; and (4) rejection of additional screening and intake proposals made by CAUSE-PA does not preclude implementation of the improved data collection and reporting proposals. *Id*. at 15-17.

b. OCA Exception No. 22 and Replies

In its Exception No. 22, the OCA takes issue with the ALJs' recommendation that the Commission reject the OCA's proposal that PAWC conduct targeted customer satisfaction survey of low-income customers. The OCA notes that it recommended the surveys "with the objective of improving customer satisfaction and collections outcomes" to benefit PAWC's control of costs and revenues. The OCA requests the Commission grant its Exception and approve its customer satisfaction survey proposal. OCA Exc. at 35.

In response to the OCA's Exception No. 22, PAWC reiterates it currently utilizes transaction surveys "immediately after all phone and customer portal

interactions" and works to identify trends from the customer feedback received. PAWC therefore asks the Commission to reject the OCA's Exception No. 22 and adopt the ALJs' reasoning as to the redundancy of the customer satisfaction surveys proposed by the OCA. PAWC R. Exc. at 22.

4. Disposition

At the outset, we note that we shall deny the OCA's Exception No. 22 regarding customer satisfaction surveys. As the record evidence shows, PAWC conducts transaction surveys of its customers that accomplish the goals extolled by the OCA. We find these transaction surveys, coupled with PAWC's tracking of trends in the surveys, to be sufficient; therefore, we reject the OCA's proposal.

With respect to PAWC's Exception No. 11, CAUSE-PA has made several suggested recommendations with the stated goal of improving PAWC's low-income programs and gathering information to track efficacy of the programs. As the ALJs noted in the Recommended Decision, much of the public input testimony referenced concerns over affordability of rates. Based on this testimony, we agree with the ALJs that ensuring that low-income customers can enroll in these programs is of great importance. We find the recommendations from CAUSE-PA to be important in increasing affordability, enhancing the changes PAWC plans to make to low-income assistance programs, and providing metrics for program success. Therefore, we shall reject PAWC's Exception No. 11, and adopt the reasoning of the ALJs granting CAUSE-PA's proposed modifications. Although no Party suggested, nor did the Recommended Decision prescribe, a deadline for the implementation of these changes, we shall order PAWC to file a plan outlining how it proposes to implement CAUSE-PA's recommendations on this matter no later than one year after the effective dates of rates in this proceeding.

G. Comprehensive Written Universal Service Plan

1. Positions of the Parties

PAWC objected to the recommendations from the OCA and CAUSE-PA, *infra,* that it develop a written universal service plan and file the plan with the Commission's BCS. Specifically, PAWC argued the universal service plan policy recommendations advanced by the OCA and CAUSE-PA are attempts to impose a universal service framework on PAWC, similar to such requirements imposed on EDCs and NGDCs. PAWC M.B. at 89-90.

PAWC emphasized arguments in its Main Brief regarding universal service programming, including the lack of required universal service requirements and no cost mechanism for recovery of costs associated with universal service. PAWC also noted the costs, resources, and time associated with developing and maintaining a universal service plan. PAWC M.B. at 89-90. Furthermore, PAWC stated the Commission "should not mandate the development and implementation of a universal service plan in the absence of any universal service requirement (and corresponding full and timely cost recovery) for water and wastewater utilities under Pennsylvania law." *Id*. at 90 (citing PAWC St. 14-R at 12-13).

I&E stated that "only electric and natural gas utilities are required to develop universal service plans." I&E M.B. at 104 (citing 52 Pa. Code § 69.261). Based on this, I&E recommended that rather than imposing the requirement for a universal service plan on PAWC alone, if the Commission believes universal service plans are appropriate for water and wastewater utilities, it should provide "statewide guidance for all water and wastewater utilities as it has done in the gas and electric industries." I&E M.B. at 104-05. In addition, I&E argued that low-income benefits of a universal service plan "flow through base rates," and even if periodic reports were filed by PAWC

regarding its universal service plan, there would be no ability to make changes to base rates. *Id.* (citing I&E St. 1-R at 5-6).

The OCA recommended PAWC be required to develop a comprehensive written universal plan. OCA M.B. at 101. In support, the OCA argued such a plan should be "an element of fundamental prudent and adequate program planning and management of its low-income customer assistance programs." *Id*. (citing OCA St. 5 at 67-72; OCA St. 5-SR at 30-31).

Similarly, CAUSE-PA requested the Commission require PAWC file a "comprehensive Universal Service Plan for periodic Commission review and approval." CAUSE-PA argued that the lack of a written, comprehensive plan "leaves a substantial gap for customers and utility advocates and makes it difficult for the Commission to properly oversee PAWC's administration of Commission-approved universal service programming." In addition to the requirement that PAWC file a comprehensive Universal Service Plan, CAUSE-PA advanced an argument that the Company be required to include a detailed customer education and outreach plan, with measurable goals and metrics, within the plan. CAUSE-PA M.B. at 72-73.

CAUSE-PA countered PAWC's argument regarding the lack of a statutory or regulatory obligation to file a universal service plan and opined that the plan is necessary "to assess whether PAWC's low-income assistance programs are being administered in accordance with PAWC's and the Commission's requirements." CAUSE-PA believed this to be especially true given PAWC's explanation regarding increased staffing needs to implement a universal service plan. CAUSE-PA M.B. at 74.

2. Recommended Decision

In the Recommended Decision, the ALJs referred back to their previous discussion regarding comprehensive conservation and line repair programs and LIURPs for water companies, which was presented in Section XII.D, *supra*. Conducting a similar analysis, the ALJs recommended that the Commission reject the proposals of the OCA and CAUSE-PA that PAWC be required to file a comprehensive universal service plan with the Commission. Specifically, the ALJs noted there is no requirement that water and wastewater utilities develop universal service plans. The ALJs found that imposing such an obligation on PAWC alone would be inappropriate and that if the Commission found a universal service plan to be appropriate for water and wastewater utilities, it should implement such a change on a statewide basis. R.D. at 350.

3. OCA Exception No. 23, CAUSE-PA Exception No. 2 and Replies

The OCA, in its Exception No. 23, argues that "the need to prepare and file such a plan is based on the need for efficient and adequate service to low-income customers and planning of expenditures for related programs." The OCA notes the merit of requiring PAWC to file a comprehensive plan in this proceeding, while also encouraging the Commission to consider statewide action requiring the filing of universal service plans for water and wastewater utilities. OCA Exc. at 36.

CAUSE-PA, in Exception No. 2, takes issue with the ALJs' recommendation that the Commission reject its proposal requiring PAWC to file a comprehensive written universal service plan. CAUSE-PA restates many of the arguments outlined in its briefs and testimony. In addition, PAWC stresses its position that a "[l]ack of statutory or regulatory mandate does not preclude the Commission from making important enhancements in the context of this proceeding which will improve access and affordability of services…" Moreover, in refuting PAWC's assertion that

designing and implementing a universal service plan would require additional time and resources, CAUSE-PA counters that such a plan is "essential" for providing access and determining whether low-income assistance programs are administered in accordance with requirements. CAUSE-PA Exc. at 12-18.

CAUSE-PA also disputes I&E's assertion that it would be inappropriate to require PAWC to submit a universal service plan given that the benefits for low-income assistance programs flow through base rates. CAUSE-PA argues that "the existence of a unified universal service plan would not divorce universal service issues from a rate case" and would instead allow for a "more detailed periodic policy review" of USP issues. CAUSE-PA further requests that the Commission order PAWC to file a universal service plan with a Petition for Commission Review within one year of the final order in this case and include a customer education and outreach plan as part of the filing. CAUSE-PA Exc. at 17-18.

In reply to the OCA's Exception No. 23 and CAUSE-PA's Exception No. 2 regarding the proposed filing of a comprehensive written universal service plan, PAWC states that the ALJs properly found "that statutory and regulatory obligations related to [universal service plans] … apply to electric and natural gas distribution utilities only." Absent statutory or regulatory mandates to the contrary, PAWC echoes the ALJs in arguing that mandating a universal service plan filing on PAWC would not be appropriate. PAWC R. Exc. at 24-25.

4. Disposition

We agree with the reasoning of the ALJs in the Recommended Decision and shall reject the requests for a written universal service plan as proposed by CAUSE-PA and the OCA. Universal Service Plans are required, pursuant to Commission Regulations, for EDCs and NGDCs. *See*, 52 Pa. Code § 54.71-54.78 and 62.1-62.8. To

the contrary, there is no similar statutory or regulatory authority that requires water companies to file such a universal service plan. Therefore, we will not impose such an obligation on PAWC in this proceeding. We also note the Commission has approved enhanced low-income assistance programs and increased collection of data associated with those programs in this proceeding. These steps are expected to address many of the concerns raised by the OCA and CAUSE-PA. Accordingly, we shall deny the OCA's Exception No. 23 and CAUSE-PA's Exception No. 2.

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

1. Positions of the Parties

PAWC contended that the recommendations, *infra,* of CAUSE-PA's witness, Mr. Geller, regarding PAWC exercising greater oversight of its low-income program administrator, DEF, are unnecessary due to the Company's current processes and would result in substantial new administrative costs. PAWC M.B. at 90 (citing CAUSE-PA St. 1 at 64-67). PAWC explained that it meets regularly with DEF regarding administration, has access to all necessary information, and that DEF provides the Company with standard periodic reports on application and grant activities. PAWC M.B. at 91. Further, the Company contended that the third-party auditing proposed by CAUSE-PA is required for EDCs and NGDCs under Pennsylvania law, not water and wastewater utilities. *Id*. (citing 52 Pa. Code §§ 54.76 and 62.6). Therefore, PAWC contended that the Commission should reject the OCA's proposals with respect to this issue. PAWC M.B. at 91.

The OCA expressed that it is generally supportive of Mr. Geller's testimony regarding his recommendations for the administration of PAWC's low-income assistance programs. OCA M.B. at 101.

CAUSE-PA expressed concern that PAWC does not appear to have systems in place to regularly monitor DEF's administration of its programs to ensure that standards are being met so that eligible customers can easily enroll in available assistance programs. CAUSE-PA M.B. at 75 (citing CAUSE-PA St. 1 at 65). Similarly, CAUSE-PA asserted that the Company does not have formal policies, assessments, or audits of DEF's administration of its low-income assistance programs. CAUSE-PA M.B. at 75. Thus, CAUSE-PA proposed that PAWC be required to implement systematic and regular processes for monitoring, screening, and oversight related to its low-income assistance programs with clear metrics for auditing DEF's administration of its programs to be implemented within six months of the entry date of the final order entered in this proceeding. *Id*. at 77.

Additionally, CAUSE-PA proposed that the Company be required to conduct and submit periodic third-party evaluations to the Commission on its low-income assistance programs, consistent with the six-year program evaluation period required of EDCs and NGDCs, with the first evaluation due a year from the entry date of the final order entered in this proceeding. CAUSE-PA M.B. at 78 (citing 52 Pa. Code §§ 54.76 and 62.6). Lastly, CAUSE-PA disagreed with PAWC that any increased costs resulting from enhanced oversight would require a rider recovery mechanism. CAUSE-PA M.B. at 79 (citing CAUSE-PA St. 1-SR at 21). According to CAUSE-PA, DEF's administration of the Company's USPs is already recovered through rates and any costs related to appropriate oversight should be recovered in the same manner as other program costs. CAUSE-PA M.B. at 79-80.

2. Recommended Decision

In the Recommended Decision, the ALJs agreed with PAWC that the recommendations advanced by CAUSE-PA's witness, Mr. Geller, are unnecessary. The ALJs noted the Company's assertion that it meets regularly with DEF regarding

administration and that DEF provides the Company with standard periodic reports. The Recommended Decision further noted PAWC's argument that while such third-party auditing is required by law for EDCs and NGDCs as part of their universal service obligations, it is not required for water and wastewater utilities. Therefore, the ALJs recommended that the Commission reject CAUSE-PA's recommendations for the administration of PAWC's low-income assistance programs. R.D. at 354.

3. Disposition

No Exceptions have been filed to this determination. Finding the ALJs' recommendation to be reasonable, appropriate, and in accordance with the record evidence, it is adopted.

XIII. Service Quality and Customer Service Issues

A. Customer Service Performance

1. Positions of the Parties

PAWC explained that its CSO supports the customer service needs of PAWC and the other AWK utility subsidiaries and provides customers with convenient access to information and responsive, personal service to drive high satisfaction ratings. PAWC M.B. at 92 (citing to PAWC St. 9 at 7-8). Noting the opinion of the OCA's witness, Ms. Alexander, that CSO performance has been poor since 2019, the Company argued that Ms. Alexander's evaluation is narrowly and erroneously centered on wait times and call abandonment rather than the overall customer experience. PAWC M.B. at 93 (citing OCA St. 6 at 19-25; OCA Exh. BA-3). The Company emphasized the testimony of its own witness, Ms. Deborah Degillio, that first contact resolution is the highest driver of customer service that impacts overall satisfaction. PAWC M.B. at 93

(citing PAWC St. 9 at 7-8). Further, the Company argued that Ms. Alexander compared the CSO's performance with data reported to BCS by electric and gas utilities that do not use the same metrics for call center performance as PAWC. PAWC M.B. at 94. According to PAWC, Ms. Alexander's recommendations of additional management oversight of CSO call handling are unfounded, as the performance levels of the CSO and third-party call handling agencies are already monitored daily. *Id*. (citing PAWC St. 9-R at 6-8).

Regarding the OCA's witness, Ms. Alexander's, recommendation requiring, *inter alia*, a "professionally conducted root-cause analysis of complaint trends," PAWC's witness, Ms. Tawana Dean, explained that Ms. Alexander's concerns were without merit due to the Company's robust complaint analysis process. PAWC M.B. at 96 (citing OCA St. 5 at 11-18, 44). In response to the public input hearing testimony that a few PAWC customers either did not receive paper bills for December 2023 or received mailed bills late, the Company asserted that it agreed to credit a late fee charge to any Scranton area customer who did not have any late fees in the last quarter of 2023. PAWC M.B. at 96-97 (citing Tr. at 1976). PAWC further contended that it determined that this issue was caused by postal service delays and not due to the action or in-action of PAWC. PAWC M.B. at 96 (citing PAWC St. 9-R at 18). In response to Ms. Alexander's recommendation that PAWC document, *inter alia*, the frequency of inconsistent billing periods, PAWC argued that there is no basis for the Commission to require additional reporting and documentation because the Company's billing periods are consistent with Commission regulations. PAWC M.B. at 97 (citing OCA St. 6 Supp at 2; OCA St. 6-SR at 26).

The OCA argued that PAWC's call center performance is inadequate due to high call-answer times, high call abandonment rate, and high complaint rates. OCA M.B. at 102 (citing OCA St. 6 at 11-12, 19-24). The OCA asserted that as a result, the Commission should disallow certain call center expenses and reject the Company's

managerial performance adder. OCA M.B. at 102. According to the OCA, the Company's inadequate call center performance was a subject of the Commission's *2023 Management Audit* that documented poor call center performance and found that the Company experienced a sustained decline in call handling performance since 2019. *Id*. at 103 (citing *2023 Management Audit*). The OCA contended that in response, PAWC stated that it would "strive" to achieve a performance of answering 80% of the calls within 60 seconds by the end of 2024. OCA M.B. at 103.

Therefore, OCA's witness, Ms. Alexander, recommended that the Company be required to, *inter alia*, adopt specific performance standards, have a professionally conducted root cause analysis of all customer complaint data, and provide managerial oversight to the Service Company's CSO's call center performance. OCA M.B. at 104. The OCA further referenced the Commission's Order releasing the *2023 Management Audit* where the Commission directed that PAWC file a new or amended affiliated interest agreement (AIA) that reflects the current company structure and the intercompany transactions taking place between PAWC and the Service Company. *Id*. (citing OCA St. 6 at 17). In addition, the OCA recommended that any new or amended AIA should contain arms-length contractual language granting PAWC contractual protection to perform audits of the Service Company's CSO performance based on defined metrics. OCA M.B. at 104. Lastly, the OCA contended that the Commission should require these recommendations be carried out by PAWC as a part of any authorized rate increase to ensure that consumers are receiving adequate service. *Id*. at 102, 105 (citing 66 Pa.C.S. §§ 523, 1501, 1505; *PG&W 1986* at 244-45; *PGW 2000* at *41-44).

CAUSE-PA noted that aside from the issues concerning DEF's administration of PAWC's low-income assistance programs and, in turn, the services provided to low-income customers, it did not take a position with respect to other

customer service performance issues in the context of this proceeding. CAUSE-PA M.B. at 80.

2. Recommended Decision

In the Recommended Decision, the ALJs highlighted that out of the 217 witnesses that offered testimony at the public input hearings in this proceeding, only a handful of witnesses raised customer service issues and that the majority of testimony concerned affordability and water quality. R.D. at 363. The ALJs recognized that PAWC is required by Section 1501 of the Code to provide its customers with adequate and reasonable service but is not required to provide perfect service. *Id*. at 364 (citing 66 Pa.C.S. § 1501). Further, the ALJs found that the testimony of the several customers regarding the issues they experienced when contacting PAWC to report issues did not warrant requiring the Company to modify its call handling procedures. Additionally, the Recommended Decision found that the Company's daily monitoring of the CSO and third-party call handling agencies constitutes sufficient oversight. Therefore, the ALJs recommended that the OCA's proposal be rejected. Regarding the customers that did not receive paper bills for December 2023 and were assessed late fees by PAWC, the ALJs found PAWC's response in crediting the late fees to the customers' accounts to be reasonable, while also noting that this issue arose due to a postal service delay and not due to any action or in-action of PAWC. R.D. at 364.

3. OCA Exception No. 24 and Replies

In its Exception No. 24, the OCA argues that the ALJs erred in recommending that the Commission reject the OCA's proposed measures to improve customer service performance. According to the OCA, the ALJs did not afford enough weight to the OCA's witness, Ms. Alexander's, opinion on customer call handling and focused too much on the lack of public input testimony on customer service issues. In

support, the OCA argues that when consumers are faced with yet another rate increase that threatens affordability, they are unlikely to utilize their limited time permitted for testimony to discuss customer service when they are concerned about affordability and service quality. OCA Exc. at 37-38. Further, the OCA contends that the lack of public input testimony on customer service issues is not determinative where the OCA, as the statutory advocate representing the interest of consumers in this proceeding, provided extensive evidence of the customer service issues by way of its witness, Ms. Alexander. *Id*. (citing OCA St. 6 at 21-23).

In its Reply, PAWC agrees with the ALJs' recommendation that the Commission reject the OCA's proposed service-related conditions and conclusion that the Company provides adequate and reasonable service. According to the Company, the OCA's evaluation of PAWC's customer service narrowly focuses on and misapplies two (2) call handling metrics presented in BCS' annual customer service reports for electric and gas utilities. PAWC R. Exc. at 14-15. PAWC further agrees with the Recommended Decision's finding that the additional managerial oversight proposed by the OCA is unnecessary because the performance levels of the CSO and third-party call handling agencies are already monitored daily. *Id*. at 15 (citing to R.D. at 364).

4. Disposition

Upon consideration of the record, and the arguments of the Parties, we find that there is no basis to condition PAWC's rate increase upon the imposition of the customer service performance standards proposed by the OCA. Importantly, we conclude the present rate case is not akin to the above PG&W case cited by the OCA in support of its position. In that case, the utility's service deficiencies were demonstrated to be so serious as to constitute the failure to provide safe and adequate service in violation of Section 1501 of the Code. To the contrary, in the present case there is no such finding.

Nevertheless, because we have encouraged those struggling to pay their utility bills to avail themselves of PAWC's customer assistance programs, we must stress the importance of call center performance as this is the primary contact point for customer inquiry into these programs and we believe it is best practice to ensure that call centers maintain baseline performance.

As referenced by the OCA, the *2023 Management Audit* noted a sustained decline in PAWC's call handling performance since 2019. Audits explained that the decline in call handling performance was measured against the metrics used for NGDCs and EDCs, including percentage of calls answered within thirty (30) seconds and call abandonment rate. Audits noted that while regulated water and wastewater utilities, like PAWC, are not subjected to the quality of service reporting requirements required of NGDCs and EDCs, these metrics are just as relevant to water and wastewater utilities. *2023 Management Audit* at 81. In addition, it is important to note Audits' finding that the Company did start to make improvements in its call handling performance after 2021. However, these performance levels were still worse than historical performance levels. *Id*. at 83. Accordingly, the *2023 Management Audit* called upon PAWC to "[i]mprove customer service performance at minimum to pre-pandemic levels." *Id*. at 84.

In response to the *2023 Management Audit*, PAWC stated that its customer service performance improved significantly in 2023 and that it would strive to achieve a performance of answering 80% of the calls within 60 seconds or less by December 31, 2024. *PAWC Implementation Plan in Response to the 2022-23 Focused Management and Operations Audit*, Docket No. D-2022-3035217 (*Implementation Plan*) at 38. The Company did not explain in its *Implementation Plan* how it intends to address its call abandonment rate.

We believe it is critical that PAWC not be stagnant in attempts to improve and maintain customer call center performance. For these reasons, we will require

PAWC to prepare and submit plans, within six (6) months of the entry date of the Final Order entered in this matter, demonstrating how it intends to continue to improve its percentage of calls answered in sixty (60) seconds or less and its call abandonment rate. We find this requirement to be a minimal burden on PAWC, especially considering the fact that customer call center performance has improved, albeit not to pre-pandemic levels.

Accordingly, the OCA's Exception No. 24, regarding the imposition of customer service performance standards, is denied and the recommendation of the ALJs on this issue is adopted, as modified, consistent with our above discussion. In addition, PAWC is directed to file a report detailing its plans on improving its percentage of calls answered and call abandonment rate within six (6) months of the entry date of the Final Order entered in this proceeding.

B. Tenant Issues and Protections

1. Positions of the Parties

PAWC asked the Commission to reject the tracking and reporting proposals advanced by CAUSE-PA, outlined below. The Company opined that it already fully complies with the Discontinuance of Services to Lease Premises Act (DSLPA) and its procedures are not incompatible with the Utility Services Tenants Rights Act (USTRA). PAWC also asserted that the DSLPA "places the obligation on the landlord ratepayer to notify the utility whether the premises being served are for rental purposes." PAWC M.B. at 98.

PAWC also averred that the Company implements additional measures to determine whether service addresses should be coded as landlord-ratepayer or tenant occupied. PAWC relies on information from landlords, as well as tenants and field

service representatives to ensure properties are coded correctly. When delinquent, these accounts go through the 37-day notice process prior to service termination as required by DSLPA and USTRA with notice including directions on how to contact PAWC to continue service. PAWC represents that these processes are the same for termination or disconnection requests made by municipal sewer providers. PAWC M.B. at 98.

CAUSE-PA raised concerns regarding whether PAWC has adequate policies and procedures to monitor DSLPA compliance. CAUSE-PA M.B. at 83. According to CAUSE-PA, DSLPA compliance should require PAWC to track and report certain metrics, including: (1) the types of notices provided to tenant occupied accounts before termination for landlord/owner nonpayment; (2) when and how notices are provided; (3) whether tenants asserted their rights to continued service; (4) the number of accounts incorrectly coded as non-tenant accounts; (5) the number of notices of termination or disconnection sent to accounts improperly coded as non-tenant and if the account was terminated or disconnected while coded as non-tenant; and (6) the amount of partial payments made by tenants seeking to continue services pursuant to the DSLPA. *Id*. at 85.

CAUSE-PA's main concern stemmed from a lack of clarity given "PAWC indicates that it does not track and cannot report on the number of tenant-occupied accounts that received notice of an involuntary termination or voluntary disconnection pursuant to DSLPA." CAUSE-PA similarly points to the Company's admission that it does not track issues related to identification and coding of tenant accounts, nor does it regularly track partial payments made by tenants seeking to exercise their DSLPA rights. CAUSE-PA recommended several changes to PAWC's DSLPA policies and procedures, including reporting of the above proposed data quarterly to PAWC's Customer Assistance Advisory Group and inclusion of the data in PAWC's next rate case. CAUSE-PA M.B. at 83-85.

2. Recommended Decision

In the Recommended Decision the ALJs dismissed CAUSE-PA's concerns and found that the Company had "adequate policies and procedures in place to monitor its compliance with DSLPA." The ALJs noted that PAWC: (1) relied on information provided by landlords, tenants, and field service representatives to assist in determining whether properties are reasonably likely to be occupied by tenants and correctly coded; (2) provides the required notice prior to any service termination; and (3) utilizes the same processes prior to service termination at the request of municipal sewer providers. The ALJs found the steps taken by PAWC to determine whether a service address should be coded as landlord-ratepayer or tenant occupied to be sufficient and rejected CAUSE-PA's proposals. R.D. at 369.

3. Disposition

Since none of the Parties excepted to this determination, and finding the ALJs recommendation to be reasonable, appropriate, and in accordance with the record evidence, we agree with the ALJs' recommendation to reject CAUSE-PA's proposal and find that PAWC has sufficient policies to ensure compliance with the DSLPA.

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

1. Positions of the Parties

PAWC averred that its current policies and procedures regarding service termination at the request of a non-Company wastewater provider comply with the Water Services Act (WSA) and address several of the issues raised by the OCA and CAUSE-PA, *infra*. PAWC noted that prior to terminating service under the WSA, a ten-day termination notice must be mailed or posted at the property, and if the person

liable for the unpaid charges delivers a written statement under oath to the municipal wastewater provider raising a just defense, the water service is not to be shut off until judicial investigation is conducted. PAWC also has processes in place to verify a municipal sewer provider has complied with the WSA, including certification from a responsible municipal official and a confirmation that the municipality has not received a medical certification for the relevant premise. PAWC M.B. at 99-100.

PAWC disagreed with the below proposals from the OCA and CAUSE-PA as either inconsistent with the WSA (recommendation that PAWC post their own notice) or unnecessary in light of PAWC's existing verification process (requiring proof of mailing and posting of the termination notice). PAWC M.B. at 100. PAWC also contested proposed modifications to the Company's proposed Tariff Section 12.8. PAWC stated the proposed changes are without supporting statute or regulation and "unreasonably restrictive," with several content requests for termination notices provided by wastewater providers with whom the Company has shut-off agreements. PAWC argues the Commission should not require these requests as: (1) the termination notices provided at shut-off are not required by statute or regulation and are instead provided voluntarily; and (2) PAWC has not been able to consult with the non-Company wastewater providers with whom it has shut-off agreements to ascertain whether the changes are feasible. *Id*. at 100-01.

The Company also responded to the OCA's below proposal to limit Tariff Section 12.8 to municipal entities covered by the WSA and non-Company wastewater providers with a "Commission-approved agreement." PAWC averred that its Joint Services Agreement with Aqua was not approved by the Commission; rather, the Commission directed the parties to seek approval of tariff changes related to the provisions affecting customers. PAWC argued the OCA's proposal shows a misunderstanding of the Joint Services Agreement and its recommendations are

incompatible with the Joint Services Agreement. The Company asked for all the OCA's proposed changes to Tariff Section 12.8 to be rejected. PAWC R.B. at 77-78.

The OCA recommended the Commission adopt the revised Tariff Section 12.8 language because the language, as proposed by PAWC, "posed the risk of harming consumers and creating additional confusion regarding the process." OCA M.B. at 105. The proposed modifications were as follows, with strikeouts representing the OCA's recommended deletions and underlined text representing recommended language:

> 12.8 Termination by Company for Non-Payment of Wastewater Service to a Non-Company Wastewater Provider
>
> ~~The Company may also terminate service in accordance with the terms of any agreement between the Company and a non-Company wastewater provider for non-payment of wastewater service when due upon prior notice by the non-Company wastewater provider.~~ The Company may terminate a customer's water service due to the customer's non-payment of charges owed to a non-Company wastewater provider, provided that: (1) the Company has an effective agreement with the non-Company wastewater provider pursuant to the Water Services Act or Act of April 14, 2006, codified at 53 P.S. §§ 3102.501 – 3102.507, or a Commission-approved agreement with the non-Company wastewater provider; and (2) the customer received prior notice from the non-Company wastewater provider of the past due amounts owed to the non-Company wastewater provider.
>
> Following the issuance of termination notice by the non-Company wastewater provider, the Company will not ~~move forward with termination of~~ terminate the customer's water service upon notification to the Company by the non-Company wastewater provider that the customer does either of the following: (1) disputes the termination for non-payment; or (2) ~~if the customer~~ produces a medical certification.
>
> Upon termination, the Company will post the termination notice at the customer's premises. The Company's termination

> notice shall provide the following information in conspicuous format and plain language: (1) a statement that PAWC terminated the customer's water service due to the customer's non-payment of non-Company wastewater charges; (2) a statement that the termination of service is not the result of customer's non-payment of water charges owed to PAWC; (3) the name and contact number of the non-Company wastewater provider; (4) the contact information for the Company; and (5) a citation to Section 12.8 of PAWC's Water Tariff and the weblink for accessing the Company's tariff webpage.

OCA St. 6-SR at 18-19. The OCA asked the Commission to adopt the proposed language "to ensure that consumers are receiving reasonable service." OCA M.B. at 106.

CAUSE-PA expressed concern that PAWC's current procedures and processes for terminating water service on the request of a non-Company wastewater utility "does not adequately protect tenants." CAUSE-PA asserted that PAWC, as the entity performing service termination, "has an affirmative duty to confirm that the [Water Services] Act has been followed prior to terminating services based on a request of a sewer utility, and should not rely on sewer authorities to monitor their own compliance…" CAUSE-PA M.B. at 87-88.

To ensure that PAWC complies with the WSA and the USTRA, CAUSE-PA recommended the following policy and procedure reforms: (1) PAWC should be required to obtain actual proof of mailing and proof of posting of notice before terminating service at the request of a non-Company wastewater utility; (2) PAWC should consult with its CAAG to revise its policies and procedures to ensure compliance with the WSA and update training materials to reflect revisions; (3) PAWC should review policies and procedures to ensure that tenants are not required to rely on the wastewater utility to act on their behalf to maintain service. CAUSE-PA M.B. at 89-90.

2. Recommended Decision

The ALJs agreed with the OCA that its proposed tariff language should be adopted. The ALJs found the revisions proposed by the OCA "will remove possible confusion" from the original language filed by PAWC. In addition to providing further protections for consumers, the ALJs held the language will "allow the company to uphold its Joint Services Agreement with Aqua PA." In recommending the Commission adopt the OCA's proposed tariff language, the ALJs made a revision to the language and noted the term "a Commission-approved agreement" should be replaced with "an effective agreement" to recognize the Commission does not approve agreements under the WSA or Section 12.1 of PAWC's Water Tariff. R.D. at 374.

Conversely, the ALJs recommended the Commission reject the proposals made by CAUSE-PA regarding revised policies and procedures ensuring compliance with the WSA. After finding "that PAWC's process described by the Commission is sufficient to verify that the sewer provider has complied with all of its obligations under the WSA," the ALJs found CAUSE-PA's recommendations to be unnecessary. R.D. at 375.

3. PAWC Exception No. 12 and Replies

In its Exception No. 12, the Company takes issue with the ALJs' recommendation that the Commission adopt the tariff language proposed by the OCA. PAWC notes that the specific language requires "that notices provided upon termination under Tariff Section 12.8 (Section 12.8 Notices) include, among other things, contact information for the Company and the name and contact number of the non-Company wastewater provider." PAWC Exc. at 31-32.

PAWC accepts the recommendation that the notices provide Company contact information, but it objects to the required inclusion of the name and contact

information for the non-Company wastewater provider. Noting that the Company currently has shut-off agreements with more than 120 non-Company wastewater providers, the Company believes customers are adequately protected by receiving PAWC contact information. PAWC believes the inclusion of contact information for over 120 non-Company wastewater providers would be unduly burdensome. PAWC Exc. at 32.

In reply to PAWC's Exception No. 12, the OCA requests the Commission adopt the ALJs' recommendations regarding Section 12.8 termination notices and require inclusion of the name and contact number for the non-Company wastewater provider. Noting PAWC's "less than exemplary call center performance," the OCA argues it would create an additional burden on customers to have to contact PAWC to inquire regarding the non-Company termination notice. The OCA requests the Commission adopt the recommendation of the ALJs and the OCA's proposed tariff language given that PAWC has not shown inclusion of the additional contact information will create an undue burden and will also aide the Company in upholding its Joint Services Agreement with Aqua. OCA R. Exc. at 24-25.

4. Disposition

We concur with the reasoning outlined in the Recommended Decision and believe the proposed tariff language, as modified by the ALJs' recommendation, is appropriate. The proposed language provides greater clarity to customers, increases customer protection, and also allows PAWC to uphold its Joint Service Agreement with Aqua. In addition, we find the steps taken by PAWC to ensure compliance with the WSA by non-Company wastewater utilities to be sufficient, and, therefore, reject the proposals made by CAUSE-PA.

In concurring with the ALJs, we shall reject Exception No. 12 filed by PAWC. We find the inclusion of non-Company wastewater utility contact information on

termination notices to not be onerous and believe it provides greater clarity to customers. We agree with the OCA that not including the information creates additional burdens on customers who must call PAWC regarding the termination notice and PAWC's call center which must provide contact information for non-Company wastewater utilities.

D. American Water Resources

1. Positions of the Parties

PAWC averred that its relationship with AWR adheres to all Commission regulations and has remained unchanged for over twenty (20) years. PAWC M.B. at 102. Although AWK, parent company of PAWC, sold its interest in AWR in December 2021, ending an affiliate relationship between AWR and PAWC, the relationship between AWR and PAWC remains essentially the same based on a Utility Agreement executed by AWR and PAWC at the time of sale. *Id*. (citing CONFIDENTIAL OCA Exhibit BA-8).

The Company explains that AWR offers optional water line and sewer line protection plans to PAWC customers, with the customer paying a monthly fee that, for convenience, can be either directly billed by AWR or included on the customer's PAWC bill. If the customer experiences an issue, AWR will send a contractor for repairs under the warranty program with minimal up-front cost to the customer. PAWC M.B. at 101.

PAWC insisted its relationship with AWR is standard industry practice and points to the fact that AWR offers similar services to residential water and sewer utility customers "in 42 other states and the District of Columbia." PAWC M.B. at 102 (citing PAWC St. 9-R at 16). PAWC also pointed out that Commission regulations recognize the practice of utilities billing for "charges other than basic service," including "line repair programs and appliance warranty programs." PAWC M.B. at 102 (citing 52 Pa. Code § 56.13). PAWC stated that, consistent with Commission regulations, if a customer opts

to purchase the AWR services, the charges for these services will be included on the PAWC bill, with customer payments first applied to the PAWC portion of the bill. Notably, a failure to pay for AWR's services does not result in a service termination request by PAWC. PAWC M.B. at 102.

PAWC responded to the OCA's contention, *infra,* that PAWC including AWR charges on its bill discriminates against other providers by noting "no other person has sought to include its non-basic products and services on PAWC's bills." PAWC averred its Utility Agreement with AWR does not preclude the Company from offering similar on-bill services to another entity and, since no other entity has sought such access, PAWC is not providing any preference or advantage to AWR. PAWC M.B. at 104.

PAWC also objected to the OCA's request that the Company have some oversight of AWR's pricing, noting that "non-basic products and services are beyond the scope of the Code and not subject to Commission jurisdiction." PAWC passes through AWR's contract pricing as a separate line item and does not terminate customers in the event of non-payment of AWR charges. PAWC M.B. at 105.

Regarding AWR's usage of PAWC's name and logo, PAWC asserted that such agreements are a standard industry practice and has been ongoing for over twenty (20) years. PAWC argued that no investigation was needed as this practice was not misleading based on disclosures "on all marketing materials explaining that AWR is not affiliated with PAWC, its products and services are optional, and AWR's prices are not determined by PAWC." PAWC M.B. at 105-06.

PAWC also addressed concerns raised by the OCA regarding PAWC's relationship with AWR and monitoring conducted by PAWC. *See*, OCA R.B. at 70-72 (Confidential). PAWC argued each of these concerns is unfounded as it is done pursuant to a PUC-approved Service Agreement. PAWC M.B. at 106 (Confidential).

Finally, PAWC objected to the OCA's proposal to "impute" AWR revenues and asserted it was "unreasonable and inconsistent with proper ratemaking" to order PAWC to suspend AWR services but act as if the Company were still receiving revenues from that service. PAWC M.B. at 107.

The OCA advanced that PAWC is "engaging in deceptive and discriminatory billing and marketing practices for non-utility 'protection services.'" The OCA believes this relationship is to the detriment of consumer interests and enabled by: (1) a written billing and marketing agreement between AWR and PAWC; and (2) a licensing agreement between AWK and its ex-subsidiary, AWR, both of which were entered into at or around the time AWK sold off AWR on or around December 9, 2021. As noted in Section VI.C, *supra*, the OCA recommended the Commission investigate the relationship between PAWC and AWR and suspend new customer enrollments pending such investigation. OCA M.B. at 106. As part of the investigation, the OCA recommended the Commission investigate whether the Utility Agreement approved by the Commission in 1989 is still reasonable. *Id*. at 74-75.

The OCA further expanded on its arguments, countering PAWC's assertion that PAWC and AWR's relationship has not changed by noting AWK's sale of its interest in AWR in December of 2021 and the two agreements noted in its Main Brief. OCA R.B. at 70. The OCA also refers to specific portions of the agreements for the assertion that there should be an investigation of the relationship between PAWC and AWR. *Id*. 70-72 (Confidential).

The OCA also argued the "exclusive marketing and billing arrangement" between PAWC and AWR is discriminatory to other providers of similar services in PAWC's service territory and may result in consumers paying more for such services. OCA buttressed this assertion by noting that "AWR stands to benefit from the false impression given to PAWC's customer" by being included on PAWC bills as a line-item

and AWR's use of the Company's name and logo. OCA contested PAWC's argument that its arrangement with AWR is similar to those of other Pennsylvania utilities by noting that the example cited by PAWC is for non-basic utility services that are not included on bills by the utility. OCA R.B. at 72-74.

Lastly, the OCA addressed PAWC's argument regarding revenues from AWR. The OCA restated its position, set forth in Section VI.C, *supra,* that given the uncertainty of a possible investigation and that the revenue PAWC collected from AWR is "fully substantiated and benefits consumers," it should remain included in the revenue requirement for the FPFTY. OCA R.B. at 75 (citing OCA St. 2-SR at 50).

2. Recommended Decision

The ALJs recommended that the Commission reject the OCA's assertion that PAWC's relationship with AWR has resulted in discriminatory billing and marketing practices. The ALJs pointed to the voluntary nature of AWR's services, including the fact that PAWC customers could elect to have the charges appear on their bill or to be billed separately and would not be terminated by PAWC for failure to pay AWR charges. Also compelling to the ALJs were the disclosures included on all marketing materials explaining that AWR is not affiliated with PAWC, the services and products are optional, and PAWC does not determine AWR's pricing. R.D. at 381.

The ALJs also held that PAWC's relationship with AWR has remained unchanged for over 20 years and that the Utility Agreement between the parties provides the business relationship is not exclusive, and there has also not been a request by another entity seeking access to PAWC's bills. R.D. at 382.

Finally, the ALJs agreed with PAWC that the prices of non-basic products and services are beyond the scope of Commission jurisdiction and, therefore, PAWC

should not be required to have monitoring responsibility over AWR's charges. Accordingly, the ALJs recommended the Commission reject the OCA's request for an investigation of the program. R.D. at 382.

3. OCA Exception Nos. 2 and 25 and Replies

The OCA raised two Exceptions to the Recommended Decision regarding PAWC's relationship with AWR. These Exceptions are discussed below.

In Exception No. 2, the OCA argues the ALJs erred in Finding of Fact No. 176, which states, as follows:

> Although [AWK] sold its interest in AWR in December 2021, which ended the affiliate relationship between AWR and PAWC, the day-to-day relationship between PAWC and AWR remains the essentially the same by virtue of a Utility Agreement executed by PAWC and AWR at the time of the sale. PAWC's relationship with AWR as a partner who provides optional warranty products and services to its customers has remained unchanged over the last two decades.

OCA Exc. at 4 (citing R.D. at 32; additional citations omitted). In support of its Exception No. 2, the OCA contends that this finding is not supported by the record when AWR was sold in 2021 and the relationship between AWR and PAWC is now controlled by a Utility Agreement. The OCA believes "[t]hese changes are material and significant and support the recommendation that the OCA made in its case that PAWC should be required to cease it [*sic*] marketing and billing arrangements prospectively and the Commission should open an investigation into the relationship between these companies." OCA Exc. at 4-5.

In its Exception No. 25, the OCA takes issue with the analysis conducted by the ALJs that resulted in their finding that PAWC's relationship with AWR has

remained unchanged for over 20 years and is not deceptive and discriminatory to the detriment of PAWC's customers. The OCA points to the sale of AWR by AWK in December of 2021, which ended the affiliate relationship between AWR and PAWC and necessitated the signing of a Licensing Agreement between AWR and PAWC. The OCA argues that AWR's usage of the AWK name and logo, access to PAWC bills as a line item, and access to PAWC's customers for marketing creates a false impression that the companies are affiliated and that both parties profit from the false impression. OCA Exc. at 38-39. The OCA also insists the ALJs erred by finding the Utility Agreement and PAWC's practice of including AWR charges on customer bills is not discriminatory to other providers and reinforces its request that the Commission order an investigation into the AWR program. OCA Exc. at 39-40 (Confidential).

In reply, PAWC reiterates its argument that the Company's billing is not discriminatory as "PAWC is not providing any preference or advantage to AWR that runs afoul of the Public Utility Code." Additionally, PAWC restates that no other entity is seeking access to PAWC's bills. PAWC also maintains that AWR's use of PAWC's name and logo is reasonable as there are clear disclosures noting PAWC and AWR are not affiliated, AWR's services are optional, and AWR's prices are not determined by PAWC. PAWC states this "long-standing use of PAWC's name and logo for marketing purposes does not provide a basis for" the Commission to grant the OCA's request for an investigation. PAWC R. Exc. at 16-17.

4. Disposition

We agree with the ALJs and reject the OCA's request for an investigation into the relationship between PAWC and AWR. In doing so, we note the record evidence showing the relationship between PAWC and AWR has not materially changed, despite the issues outlined by the OCA. Therefore, we shall reject Exceptions No. 2 and No. 25 filed by the OCA and adopt the ALJs' recommendation on this issue.

In so doing, we first consider the OCA's argument that the relationship between PAWC and AWR has changed based on the December 2021 sale of AWK's interest in AWR and the parties' subsequent entrance into a Utility Agreement. As noted by the ALJs, this agreement maintains essentially the same day-to-day relationship between PAWC and AWR, with PAWC continuing to adhere to Commission regulations related to billing of AWR charges. The essential relationship between PAWC and AWR, a partnership where AWR provides optional warranty products and services to PAWC customers, is unchanged. The usage of PAWC's name and logo for marketing purposes is a longstanding practice as part of this arrangement and does not provide support for the OCA's requested investigation, especially given the clear disclosures that PAWC and AWR are not affiliated and AWR's services are optional.

Additionally, we find the relationship between PAWC and AWR is not discriminatory. The agreement between the parties is not exclusive and PAWC showed that no other companies were seeking access to PAWC's bill at this time. Taking note of the OCA's arguments, we also consider Section 1502 of the Code, 66 Pa.C.S § 1502, which prohibits discrimination or unreasonable preference to "any person, corporation, or municipal corporation." Here, the record does not show any preferential treatment on the part of PAWC towards AWR.

Regarding the OCA's request that PAWC have some oversight of AWR's pricing, we concur with the ALJs and reject this proposal, finding that the prices of non-basic products and services are beyond the scope of Commission jurisdiction and, therefore, PAWC should not be required to have monitoring responsibility over AWR's charges. In light of our findings here, we believe the revenues PAWC receives from AWR are appropriately part of this proceeding. Accordingly, as noted in Section VI.C, *supra*, we have approved PAWC's claim for miscellaneous revenues related to AWR.

E. Main Extensions

1. Positions of the Parties

PAWC explained that the OCA's witness, Mr. Terry Fought, recommended that the Company consider a main extension project that would extend an existing water line along Bethel Ridge Road to the West Virginia state border with spurs to serve Shades of Death Road, Locust and Carter Lanes and Penobscot Road in Jefferson Township. PAWC M.B. at 107. PAWC estimated that the main extension proposed by Mr. Fought and Jefferson Township Municipal Authority (JTMA) would require the Company to invest $5.2 million to install mains at 39 locations along the route presented in OCA Exhibit TLF-4. *Id*. (citing, PAWC St. 3-R at 3-4). PAWC noted that it is still assessing whether the proposed main extension is eligible under Rule 27.1(F) of its tariff, which permits main extensions within its existing service territory to be installed without customer contributions subject to Commission approval to address health and safety concerns. PAWC M.B. at 107.

The OCA explained in its Main Brief that Mr. Phil Choff is part of the JTMA Formal Complaint that requests an extension of water service within PAWC's existing service territory in Avella, Washington County, to at least 39 residents that struggle with quantity and quality of water. OCA M.B. at 106-07 (citing Tr. 1840-41; OCA St. 7-Supp. at 8-9, Exh. TLF-4). The OCA recommended that, as part of the approval of any rate increase in this proceeding, that PAWC be ordered to:

1. Seek grant funding, lower-cost funding, or contributions from other sources to help offset the costs of the project, whether or not the extension is funded under Rule 27.1(F).

2. Meet regularly with the OCA and other interested parties to provide updates on the JTMA project and allow the OCA to ask questions in real time. OCA St. 7-SR at 8-9.

OCA M.B. at 107.

2. Recommended Decision

Noting the absence of any disagreement between the Parties on this issue, the ALJs recommended the adoption of the OCA's proposal that PAWC be ordered to seek funding to offset the costs of the JTMA main extension request and to regularly meet with the OCA and other interested parties to provide updates on the JTMA project. R.D. at 384.

3. Disposition

No Exceptions have been filed to this determination. Finding the ALJs' recommendation to be reasonable, appropriate, and in accordance with the record evidence, it is adopted.

F. Pressure Surveys and Pressure Reducing Valves

1. Positions of the Parties

PAWC explained that Rule 4.7 of the Company's Water Tariff outlines the requirement for customers to install and maintain a pressure reducing valve (PRV) if the pressure at their service location exceeds 100 pounds per square inch (psi). PAWC stated that it largely agrees with the OCA's recommendations regarding this issue except for the OCA's proposed general education campaign. According to PAWC, the Company already records pressure information and reports it to the Commission for pressure

complaints. Additionally, the Company asserted that it agreed to establish a notification process for customers where PAWC's system pressure regularly exceeds 100 psi. PAWC explained that as a part of this notification, the Company will educate the customer on their responsibility of installing a PRV at their service location under PAWC's tariff and encourage the customer to contact a licensed plumber for installation and maintenance of PRVs. PAWC M.B. at 108-09. The Company further explained that it will identify customers in higher pressure areas to receive this notification by using its Geographic Information System (GIS) system. *Id.* at 109 (citing Tr. at 1983-84). Due to the small number of customers affected by the PRV tariff requirement, PAWC's current education efforts, and its agreement to deploy a new, targeted notification process, the Company argued that the Commission should reject the outreach and education program proposed by the OCA's witness, Ms. Alexander. PAWC M.B. at 109.

The OCA noted PAWC's witness, Mr. Runzer's, statement regarding the Company's agreement to establish a notification process for customers where PAWC's system pressure regularly exceeds 100 psi. OCA M.B. at 107 (citing OCA St. 7 at 10; OCA St. 7-SR at 2; OCA St. 6 at 42-43; OCA St. 6-SR at 24-25; Tr. at 1983). The OCA stated that it supports the plan, which includes annual notice and targeted notices for move-ins. OCA M.B. at 107 (citing Tr. at 2055). In addition, the OCA recommended that PAWC also provide notice if, for operational reasons, the Company increases regular operating pressures above 100 psi. OCA M.B. at 107 (citing OCA St. 7-SR at 2). The OCA asserted that the Commission should direct the agreed-upon notification, including the OCA's addition, as a part of any authorized rate increase. OCA M.B. at 107-08 (citing 66 Pa.C.S. §§ 523, 1501, 1505; *PG&W 1986* at 244-45; *PGW 2000* at *41-44).

2. Recommended Decision

In the Recommended Decision, the ALJs recognized the public input hearing testimony from customers that had concerns regarding negative experiences with

excess pressure. R.D. at 386 (citing Tr. at 1472-1523). As a result, the ALJs recommended that the Commission adopt the agreement between PAWC and the OCA that the Company provide notice to customers where systems regularly exceed 100 psi and the OCA's proposal that the Company provide annual notice and targeted notices for move-ins and if the Company increases regular operating pressures above 100 psi. R.D. at 386.

3. Disposition

No Exceptions have been filed to this determination. Finding the ALJs' recommendation to be reasonable, appropriate, and in accordance with the record evidence, it is adopted.

XIV. Miscellaneous Issues

A. Customer Notices Related to Rate Changes

1. Positions of the Parties

PAWC argued that it complied with the Commission's Regulations at 52 Pa. Code § 53.45 when it provided notice to all customers that reflected the Company's proposed Act 11 wastewater-to-water revenue requirement allocation. PAWC contended that the OCA's below proposal, that PAWC be required to mail customers a new notice of approved rates before rates go into effect, should be rejected. PAWC M.B. at 109. PAWC averred that any new notice requirements should be adopted by the Commission and applied to all water and wastewater utilities, and not solely to PAWC. PAWC submitted that its notice here was consistent with each of the notices in its rate cases since the enactment of Act 11, and that it already provides detailed notice of its rate changes once they are approved by the Commission through a bill insert. PAWC

contended that an additional mailing is not feasible given the short time period between when rates are approved and when those rates become effective, and the process of sending a customized direct mail notice to its nearly 800,000 customers takes several weeks and is a considerable expense. *Id*. at 109-10.

The OCA argued that PAWC's notices to customers regarding the contents of its proposed rate changes are deficient and constitute inadequate notice. The OCA averred that the notice is deficient in terms of the accuracy of the bill impact of PAWC's proposed revenue shift under 66 Pa.C.S. § 1311(c), the residential customer usage level, and the Commission's final disposition of PAWC's proposed alternative ratemaking mechanisms under 66 Pa.C.S. § 1330. To remedy this deficiency, the OCA recommended that customer notices provide relevant information about the impact on their bill if PAWC's cost-of-service revenue deficiencies are used to set rates, and that a chart, illustrating three usage levels, be included in the rate case notices for water and wastewater in PAWC's next base rate filing. OCA M.B. at 108.

Furthermore, the OCA proposed that a notice should be directly mailed at the end of this proceeding that shows customers the impact on their bills from the final order, similar to how PAWC used direct mailing for the notices at the time of its filing. The OCA argued that this notice should include a link to the alternative ratemaking information posted on PAWC's website, as required by Commission Regulation or Order, as well as 66 Pa.C.S. § 1330(c)(1) and (2), and the website posting with the alternative ratemaking information could include information about the bill impact of the Commission's final order at three usage levels. The OCA averred that PAWC benefits from the obscurity that is provided by only showing what a typical customer's bill would be. Rather, the OCA contended that PAWC could choose to show usage at multiple levels but has made the choice not to do so. The OCA asserted that this could be accomplished without changing the Commission's Regulation on notice. OCA M.B. at 108-09.

2. Recommended Decision

The ALJs found that there is no need to revise customer notices related to rate changes, and that the notice provided by PAWC to customers in this and recent base rate cases complies with the Commission's Regulations. The ALJs also concluded that any new notice requirements should first be adopted by the Commission and then applied to all Pennsylvania water and wastewater utilities. Therefore, the ALJs recommended that the notice changes proposed by the OCA be rejected. R.D. at 389.

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation and adopt it without further comment.

XV. Conclusion

Based on our review of the record in this proceeding, we shall: (1) grant, in part, and deny, in part, the Exceptions filed by I&E, the OCA, and CAUSE-PA; (2) deny the Exceptions filed by PAWC, PAWLUG, Cleveland-Cliffs, and the City of Scranton; (3) deem the OCA Motion to be moot; and (4) approve an annual revenue increase of $88,121,069 to the Company's *pro forma* revenue at present rates of $820,869,547, or approximately 10.74%, for its water service and an annual revenue increase of $11,207,944 to the Company's *pro forma* revenue at present rates of $173,308,937, or approximately 6.47%, for its wastewater service, consistent with this Opinion and Order; **THEREFORE,**

IT IS ORDERED:

1. That the Exceptions filed by the Commission's Bureau of Investigation and Enforcement on May 17, 2024, are granted, in part, and denied, in part, consistent with this Opinion and Order.

2. That the Exceptions filed by the Office of Consumer Advocate on May 17, 2024, are granted, in part, and denied, in part, consistent with this Opinion and Order.

3. That the Exceptions filed by the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania on May 17, 2024, are granted, in part, and denied, in part, consistent with this Opinion and Order.

4. That the Exceptions filed by Pennsylvania-American Water Company on May 17, 2024, are denied, consistent with this Opinion and Order.

5. That the Exceptions filed by Pennsylvania-American Water Large Users Group on May 17, 2024, are denied, consistent with this Opinion and Order.

6. That the Exceptions filed by Cleveland-Cliffs Steel on May 17, 2024, are denied, consistent with this Opinion and Order.

7. That the Exceptions filed by the City of Scranton on May 17, 2024, are denied, consistent with this Opinion and Order.

8. That the Motion for Relief Regarding Ex Parte Communications filed by the Office of Consumer Advocate on May 22, 2024, is deemed to be moot, consistent with this Opinion and Order.

9. That the Recommended Decision of Deputy Chief Administrative Law Judge Christopher P. Pell and Administrative Law Judge John M. Coogan, issued on May 7, 2024, is adopted, as modified, by this Opinion and Order.

10. That the corrections and modifications directed by this Opinion and Order, reflected in the Pennsylvania-American Water Company and Pennsylvania-American Water Company-Wastewater Division, Docket Nos. R-2023-3043189 and R-2023-3043190 (Commission Tables Calculating Allowed Revenue Increase), attached hereto, are adopted as being in the public interest.

11. That Pennsylvania-American Water Company shall not place into effect the rates contained in Supplement No. 45 to Tariff – Water Pa. P.U.C. No. 5, as filed.

12. That Pennsylvania-American Water Company shall not place into effect the rates contained in Supplement No. 47 to Tariff – Wastewater Pa. P.U.C. No. 16, as filed.

13. That Pennsylvania-American Water Company is authorized to file tariffs, tariff supplements and/or tariff revisions, on at least one day's notice, and pursuant to the provisions of 52 Pa. Code §§ 53.1, *et seq*., and 53.101, designed to produce an annual operating revenue of approximately $908,990,615 for its water operations, representing an annual revenue increase of approximately $88,121,069, to become effective for service rendered on and after August 7, 2024.

14. That Pennsylvania-American Water Company is authorized to file tariffs, tariff supplements and/or tariff revisions, on at least one day's notice, and pursuant to the provisions of 52 Pa. Code §§ 53.1, *et seq*., and 53.101, designed to produce an annual operating revenue of approximately $184,516,880 for its wastewater

operations, representing an annual revenue increase of approximately $11,207,944 , to become effective for service rendered on and after August 7, 2024.

15. That Pennsylvania-American Water Company shall file detailed calculations with its tariff filings, which shall demonstrate to the Commission's satisfaction that the filed tariff adjustments comply with the provisions of this final Opinion and Order.

16. That Pennsylvania-American Water Company shall allocate the authorized increase in water operating revenues and wastewater operating revenues to each service, rate schedule, and customer class, and rate schedule within each rate customer class, in the manner prescribed in this Opinion and Order.

17. That Pennsylvania-American Water Company shall file with the Commission's Secretary's Bureau at these dockets and provide the Commission's Bureaus of Technical Utility Services and Investigation and Enforcement with updates to PAWC Exhibit 3-A, pages 26, 97, 146, 179, and 218 no later than December 1, 2025, which should include actual plant additions and retirements for the twelve months ending June 30, 2024, and for the twelve months ending June 30, 2025, as set forth in Section V.A of this Opinion and Order.

18. That Pennsylvania-American Water Company shall comply with all directives and conclusions contained in this Opinion and Order that are not the subject of individual ordering paragraphs as if they were the subject of specific ordering paragraphs.

19. That the Commission's Law Bureau, in conjunction with the Bureau of Technical Utility Services, shall implement an investigation into the quality-of-service issues in Pennsylvania American Water Company's northeastern service territory, culminating in the issuance of a root cause analysis report exhibiting any key findings,

within nine (9) months after the effective date of rates resulting from this base rate proceeding, *i.e.*, by no later than May 7, 2025, as set forth in Section III of this Opinion and Order.

20. That the Law Bureau, in conjunction with the Bureau of Technical Utility Services, may refer the findings of the investigation described in the previous ordering paragraph to the Commission's Bureau of Investigation and Enforcement and the Pennsylvania Department of Environmental Protection, or both, should it deem such action necessary.

21. That in its next base rate proceeding, Pennsylvania-American Water Company shall include Rider DIS and Rider DRS customers as separate customer classes in its water cost-of-service-study, as set forth in Section X.C of this Opinion and Order.

22. That Pennsylvania-American Water Company shall implement the increased tiered discount percentages of its Bill Discount Program within one (1) year after the effective date of rates resulting from this base rate proceeding, *i.e.*, by no later than August 7, 2025, as set forth in Section XII.B of this Opinion and Order. By this date, the Company shall file an associated report with the Commission's Bureau of Consumer Services.

23. That Pennsylvania-American Water Company shall implement the adoptions to its Hardship Fund, as described in Section XII.C of this Opinion and Order, within one (1) year after the effective date of rates resulting from this base rate proceeding, *i.e.*, by no later than August 7, 2025. By this date, the Company shall file an associated report with the Commission's Bureau of Consumer Services

24. That in its next base rate proceeding, Pennsylvania-American Water Company shall explain the efforts it has undertaken to provide Hardship Fund assistance

to as many eligible, low-income customers as possible, as set forth in Section XII.C of this Opinion and Order.

25. That Pennsylvania American Water Company should strive to set a target donation of an additional $1 million into its Hardship Fund.

26. That within one (1) year after the effective date of the rates resulting from this base rate proceeding, *i.e.*, by no later than August 7, 2025, Pennsylvania American Water Company shall implement the recommendations of the Office of Consumer Advocate and the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania regarding the Company's Low-Income Customer Outreach, Screening, and Intake, as set forth in Section XII.E of this Opinion and Order.

27. That within one (1) year after the effective date of the rates resulting from this base rate proceeding, *i.e.*, by no later than August 7, 2025, Pennsylvania-American Water Company shall file a plan with the Commission's Bureau of Consumer Services outlining how the Company proposes to implement the recommendations of the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania regarding the Company's Data Collection, Reporting, and Monitoring of its Low-Income Programs, as set forth in Section XII.F of this Opinion and Order.

28. That Pennsylvania American Water Company shall prepare and submit plans demonstrating how it intends to continue to improve its call abandonment rate and its percentage of calls answered in sixty (60) seconds or fewer, as set forth in Section XIII.A of this Opinion and Order. Such plans shall be filed with the Commission's Bureau of Consumer Services no later than one-hundred and eighty (180) days from the entry date of a Final Commission Order in this base rate proceeding.

29. That the following Formal Complaints at the respective docket numbers be dismissed and marked closed by the Commission's Secretary's Bureau:

Complainant(s)	Docket Number (Water)
Office of Consumer Advocate	C-2023-3044289
Office of Small Business Advocate	C-2023-3044375
Mark Henderson	C-2023-3044156
Kathleen Schwartz	C-2023-3044190
Amanda Johnsen	C-2023-3044185
Adam Nemchick	C-2023-3044191
Kirk Spencer	C-2023-3044189
Keith Sauer	C-2023-3044218
Andrew Kulp	C-2023-3044225
Jim Davidson	C-2023-3044223
Robert K. Ralls	C-2023-3044220
Richard Tawadros	C-2023-3044244
Natalie Rarick	C-2023-3044234
Tracy M. Rutherford	C-2023-3044293
David Ross	C-2023-3044348
Phyllis Connelly	C-2023-3044352
Thomas J. Hollenbach	C-2023-3044389
Alecia M. Lilley	C-2023-3044359
Lynn Mugno	C-2023-3044365
Michelle White	C-2023-3044369
Dr. Mostafa Easa	C-2023-3044567
Lynn DeAcosta	C-2023-3044380
Jeff Henry	C-2023-3044406
Anh Duong	C-2023-3044354
William Cameron & Linda Long	C-2023-3044355
Nicole Glimp	C-2023-3044565
Anthony McCann	C-2023-3044578
Shanna Weagle	C-2023-3044399
Brian Dugas	C-2023-3044563
Todd Blum	C-2023-3044583
Jennifer Dianna	C-2023-3044394
Mallory & Glenn Kercher	C-2023-3044686
Danielle Gabriel	C-2023-3044683
Devon Landis	C-2023-3044442
Morgan Wengert	C-2023-3044426
Angelica Alvarez	C-2023-3044405
John P. Dolekary	C-2023-3044580
John Miller	C-2023-3044416

Carl & Sharon Winter	C-2023-3044607
Paul & Catherine Brown	C-2023-3044611
Raymond Volsario	C-2023-3044614
Matthew J. Miller	C-2023-3044429
William R. Thomas	C-2023-3044601
Horace R. Battle	C-2023-3044600
Chirstopher Blake	C-2023-3044443
Laura Semel	C-2023-3044461
Robert M. Nowotarski	C-2023-3044676
Matthew & Melissa Mengel	C-2023-3044673
Tracy Cosgrove	C-2023-3044672
Richard Peal	C-2023-3044622
Patricia A. Finley	C-2023-3044504
Joseph Donahue	C-2023-3044524
Robert Bifano	C-2023-3044534
Gary Sirois	C-2023-3044830
Michelle Zebrowski	C-2023-3044868
Mary Ann Maro	C-2023-3044869
Joel Hernandez	C-2023-3044872
Dan Nebeker o/b/o Coldwater Lemoyne Carwash	C-2023-3044874
Mary Chibatar	C-2023-3044876
Mary Tanealian	C-2023-3044576
Tao Lu	C-2023-3044585
Jennifer Cohen	C-2023-3044682
Carla Seidel	C-2023-3044679
Amy E. Dalton	C-2023-3044677
Nicholas Orman	C-2023-3044642
Jay Phillips	C-2023-3044707
Carl W. Tunall, Jr.	C-2023-3044725
Steven Solomon	C-2023-3044733
Debora A. Sokol	C-2023-3044768
Shaun Keperling	C-2023-3044801
Audrey Gerold	C-2023-3044785
Robert Anderson	C-2023-3044799
Carl Kupchunas	C-2023-3044826
Matthew Jordan	C-2023-3044813
Cindy Cabrera	C-2023-3044816
Marie Sweeney	C-2023-3044918
Pennsylvania-American Water Large Users Group	C-2023-3044871
West Norriton Township	C-2023-3044965
John J. Heilenman	C-2023-3044908
Thalia Karalis	C-2023-3044929
Daniel Bergey	C-2023-3044984

Richard Matijasich	C-2023-3044981
Nicholas Collette	C-2023-3045023
Angela P. Kern	C-2023-3045039
Dennis McConnell	C-2023-3045053
James & Peggy Lingwall	C-2023-3045054
Wolfram Milz	C-2023-3045055
Donald Jones	C-2023-3045059
Marie Dougherty	C-2023-3045061
Michael & Mary Weishner	C-2023-3045062
Michelle R. Miller	C-2023-3045063
Carol Patterson	C-2023-3045064
Zachary Sprowls	C-2023-3045072
Elizabeth Sprowls	C-2023-3045073
Catharine Anderson	C-2023-3045082
Kathleen Donell	C-2023-3045083
Paul & Eileen Miller	C-2023-3045084
Norman T. Carpenter	C-2023-3045085
David Duquette	C-2023-3045087
Wesley Hartman	C-2023-3045088
Don Anderson	C-2023-3045089
Melissa Harper	C-2023-3045090
Charles E. Schwering	C-2023-3045093
Beth A. Gandelman	C-2023-3045094
Catherine & Kenneth Green	C-2023-3045095
Violet B. Kern	C-2023-3045105
Paul J. Walaski	C-2023-3045113
Cindy Murphy	C-2023-3045123
Gino Purchiaroni	C-2023-3045124
Christopher Nicholson	C-2023-3045134
Richard Small	C-2023-3045121
Nancy and Charles Wilson	C-2023-3045138
Harry Haas	C-2023-3045137
Jean Ustaszewski	C-2023-3045146
Kathryn Wilson	C-2023-3045152
Thomas McAuliffe	C-2023-3045156
Keith Pinkerton	C-2023-3045159
Kelly Knapp	C-2023-3045185
Alicia W. Shussett	C-2024-3045187
Patrick F. Boyle	C-2024-3045190
Jefferson Township Municipal Authority, c/o Patricia Lawrence, Secretary	C-2024-3045202
Juan F. Ramos	C-2024-3045208
Kyle Donahue	C-2024-3045210

John Erbicella	C-2024-3045209
Angela Gilmore	C-2024-3045212
Tracy L. Duff	C-2024-3045220
Timothy J. Creelman	C-2024-3045249
Frank Cerra	C-2024-3045257
Thomas F. Miller	C-2024-3045261
Mark Schuette	C-2024-3045263
Andrea Devlin	C-2024-3045285
Alena Trently	C-2024-3045258
Vicki DiArchangelo	C-2024-3045278
Thomas C. Kidwell	C-2024-3045315
Barry S. & Ethel Wagner	C-2024-3045320
Priscilla T. Gentry	C-2024-3045341
Matthew & Heather Heliger	C-2024-3045343
Barbara Stettenbauer	C-2024-3045360
Elizabeth Clark	C-2024-3045366
East Norriton Township	C-2024-3045399
Beth A. Gandelman	C-2024-3045422
Naomi Conte	C-2024-3045457
Ryan Gandelman	C-2024-3045467
Priscilla Jovais & Walter Baginski	C-2024-3045871
George M. Kamage, Jr.	C-2024-3045968
Julia Wright	C-2024-3045983
Anita Sakevich	C-2024-3045907
Michael W. Knoll	C-2024-3045985
Joseph Koza	C-2024-3045992
Randy McDaniels	C-2024-3045701
Christine Janiga	C-2024-3045987
Nereida Colon-Gonzalez	C-2024-3045788
Ruth McMullan	C-2024-3045997
Miranda Connors	C-2024-3046001
Deborah Nystrom	C-2024-3046000
Lora Gibb	C-2024-3045999
Ernest & Kathy Mayer	C-2024-3046292
Kathleen & William Nole	C-2024-3046296
Frances S. Kearney	C-2024-3046246
William Stevens	C-2024-3046071
Joe Dominick	C-2024-3046262
Andrea O’Neill-Hoffman	C-2024-3046195
Leslie Spindler	C-2024-3046230
Richard Brill	C-2024-3046111
Josephine Roman	C-2024-3046059
Mildred Decelles	C-2024-3046085

Gerald Smurl	C-2024-3046220
William Roman	C-2024-3046082
Harold Kiefer	C-2024-3046263
James G. Haggerty	C-2024-3046164
Ronald Benke	C-2024-3046112
Jodi Mayer	C-2024-3046291
James Wynder	C-2024-3046294
Billydon Hickson	C-2024-3046079
Elaine F. Campbell	C-2024-3046261
John Borer	C-2024-3046172
Thomas Tomeo	C-2024-3046047
Mary McKenna	C-2024-3046218
Bill Gaughan	C-2024-3046094
Jimmy Allen	C-2024-3046080
Mark Mecca	C-2024-3046055
Chris Casciano	C-2024-3046114
John Laskowski	C-2024-3045814
Colleen M. Gaughan	C-2024-3046044
Sean McAndrew	C-2024-3046252
Brian Cadugan	C-2024-3046169
Timothy Brier	C-2024-3046254
Joseph Baronski	C-2024-3046170
Michael Bussacco	C-2024-3046240
Robert Meyers	C-2024-3046219
Arthur F. Werner, Jr.	C-2024-3045244
Marianne Vergnetti	C-2024-3046108
Edmund Moroney	C-2024-3046061
Alice Lord	C-2024-3046043
Giselle Rutchford	C-2024-3046095
Ann McDermott	C-2024-3046046
Patricia Shultz	C-2024-3046050
Frank S. Sislo	C-2024-3046087
Linda Kiefer	C-2024-3046265
Dominic Cuchara	C-2024-3046109
Anthony Palmere, Jr.	C-2024-3046243
Debbie Wilson	C-2024-3046276
Gerard Dombroski	C-2024-3046259
Roberta Brentano	C-2024-3046098
William Seeger	C-2024-3046057
Elizabeth Zangardi	C-2024-3046226
Paul DelRossso	C-2024-3046217
Joseph Guerra	C-2024-3046168
Michael Shafer	C-2024-3046215

Marty Flynn	C-2024-3046257
Patrick H. Brentano	C-2024-3046099
Gary Shiner	C-2024-3046166
David F. Sevensky	C-2024-3046267
Susan Gilday	C-2024-3046238
Bernadette Bussacco	C-2024-3046221
Theodore Parchinski	C-2024-3046053
John Blackledge	C-2024-3046274
John Kulick	C-2024-3046353
Richard & Carmella Zaleski	C-2024-3046482
Nadine Simms	C-2024-3046351
James P. McDermott	C-2024-3046301
Lucy Jason	C-2024-3046302
Lynn King	C-2024-3046249
John McAuliffe	C-2024-3046392
Laura Virtue-Delayo	C-2024-3046397
Jessica Libassi	C-2024-3045805
David A. Grecco	C-2024-3046096
Leroy James Watters	C-2024-3046404
James Metzer	C-2024-3046411
Lorraine Perry	C-2024-3046408
Stephen Marr	C-2024-3046410
Brian A. McDonald	C-2024-3046741
Patricia A. Perri	C-2024-3046970
Patricia Barbuti	C-2024-3046810
Ryan & Leslie Ferguson	C-2024-3046467
Natalie Davis	C-2024-3046744
Patricia A. Perri	C-2024-3046745
Gary Graziano	C-2024-3046736
Joseph & Erin Kreis	C-2024-3046470
Caesar Bordo	C-2024-3046870
Ann McDonald	C-2024-3046746
Janice M. Mcdonald	C-2024-3046874
Jennifer Comparetta	C-2024-3046471
Sharon Cuff	C-2024-3046477
Karen Schuster	C-2024-3046742
Valerie Mendicino	C-2024-3046737
William J. O'Malley, III	C-2024-3046734
Louis Guzzi, Jr.	C-2024-3046406
Francis Kranick, Jr.	C-2024-3046811
Tara & Tom Schuster	C-2024-3046738
Colleen Demuro	C-2024-3046867
Charlotte DeRosier	C-2024-3046466

Albert Denunzio	C-2024-3046871
Mary C. Jennings	C-2024-3046743
James F. McCormick	C-2024-3046873
Laura A. O'Malley	C-2024-3046405
Mary & David Dobrzyn	C-2024-3046875
Gene Stanavitch	C-2024-3046403
Pat Stanavitch	C-2024-3046402
Robert Barry	C-2024-3046399
John Borgia	C-2024-3047073
Domenic P. Cafarella	C-2024-3046878
Michael D. Brooks	C-2024-3046880
Daniel E. Skvarla	C-2024-3046881
Donna Antonelli	C-2024-3046882
Michael Dempsey	C-2024-3046884
Marianne Brown	C-2024-3046886
Sharon Soudas	C-2024-3046885
Gina McCarthy	C-2024-3047515
Gerald Fabricatore	C-2024-3047312
Gerald R. Fabricatore	C-2024-3047375
Laura Wisniewski	C-2024-3047521
Julie Janosy	C-2024-3047695
Lackawanna County	C-2024-3048333
Vincent Ennis	C-2024-3048341
Clyde H. Morgan	C-2024-3045569
Colleen Adams	C-2024-3045573
Mark J. Mazurkiewicz	C-2024-3045579
Linda Culbertson	C-2024-3045650
Larry Wise	C-2024-3045668
James Lyband Jackson	C-2024-3045674
Gail Y. Gayeski	C-2024-3045666
Veronica A. Hannevig	C-2024-3045667
Theresa Skobel	C-2024-3045670
Jordan Henning	C-2024-3045678
Kyle & Lori Rompella	C-2024-3045681
Stefanie Adams	C-2024-3045685
Deborah & Robert May	C-2024-3045687
David & Lynn Griffith	C-2024-3045686
Paul Krammes	C-2024-3045690
Thomas Campisano	C-2024-3045691
Nelson Moeller	C-2024-3045703
Paulette Knott	C-2024-3045741
Gene & Patricia Malaspina	C-2024-3045750
Stephanie Sienkel	C-2024-3045767

Robert Boni	C-2024-3045765
Janice M. Reynolds	C-2024-3045768
Bilal Salaam	C-2024-3045812
Michael Troutman	C-2024-3045835
Kendra Robinson	C-2024-3045838
Gertrude Terrell	C-2024-3045842

Complainant(s)	Docket Number (Wastewater)
Office of Consumer Advocate	C-2023-3044292
Office of Small Business Advocate	C-2023-3044377
Mark Henderson	C-2023-3044159
Brian Gottschall	C-2023-3044170
Leroy Bumbarger	C-2023-3044169
Kathleen Schwartz	C-2023-3044193
Amanda Johnsen	C-2023-3044187
Adam Nemchick	C-2023-3044192
Anne Lockwood & Michael Haehnel	C-2023-3044168
Keith Sauer	C-2023-3044219
Natalie Rarick	C-2023-3044239
Darlene Hamilton	C-2023-3044170
Tracy M. Rutherford	C-2023-3044333
David Ross	C-2023-3044349
Alecia M. Lilley	C-2023-3044367
Lynn DeAcosta	C-2023-3044401
Nicole Glimp	C-2023-3044564
William H. Rissmiller	C-2023-3044569
Michelle White	C-2023-3044371
Jennifer Dianna	C-2023-3044395
Thomas J. Hollenbach	C-2023-3044685
Mallory Kercher	C-2023-3044681
Devon Landis	C-2023-3044448
Morgan Wengert	C-2023-3044427
Jeff Henry	C-2023-3044407
John Miller	C-2023-3044413
Angelica Alvarez	C-2023-3044566
Andrew Kulp	C-2023-3044468
Sharon Winter	C-2023-3044615
Paul Brown	C-2023-3044616
Charles L. Heydt	C-2023-3044618
William R. Thomas	C-2023-3044604
Linda Allison	C-2023-3044595
Chirstopher Blake	C-2023-3044444
Richard Peal	C-2023-3044620

Tracy Cosgrove	C-2023-3044667
Donald D. Dickerson	C-2023-3044662
Patricia A. Finley	C-2023-3044505
Jennifer Cohen	C-2023-3044671
Michael D. Fletcher	C-2023-3044688
Mary Tanealian	C-2023-3044577
Tao Lu	C-2023-3044573
Amy E. Dalton	C-2023-3044678
Mark Coogan	C-2023-3044704
Carla Seidel	C-2023-3044732
Anh Duong	C-2023-3044353
Borough of St. Lawrence	C-2023-3044757
Debora A. Sokol	C-2023-3044767
Audrey Gerold	C-2023-3044786
Matthew Jordan	C-2023-3044814
Laura Semel	C-2023-3044821
Lynn Mugno	C-2023-3044366
Pennsylvania-American Water Large Users Group	C-2023-3044873
Joel Hernandez	C-2023-3044877
Mary Chibatar	C-2023-3044879
Dennis McConnell	C-2023-3044880
Marie T. Ratchford-Demkosky	C-2023-3044881
Cindy Cabrera	C-2023-3044916
Thalia Karalis	C-2023-3044915
Richard Matijasich	C-2023-3044982
Daniel B. Fletcher	C-2023-3045056
James Lingwall	C-2023-3045065
Donald Jones	C-2023-3045066
Marie Dougherty	C-2023-3045067
Jay Phillips	C-2023-3045069
Carl W. Tunall, Jr.	C-2023-3045070
Catharine Anderson	C-2023-3045074
Kathleen Donell	C-2023-3045075
Paul & Eileen Miller	C-2023-3045077
Norman T. Carpenter	C-2023-3045079
David Duquette	C-2023-3045091
Wesley Hartman	C-2023-3045092
Shaun Keperling	C-2023-3044802
Cindy Murphy	C-2023-3045125
Patrick O’Donnell	C-2023-3045140
Kathryn Wilson	C-2023-3045153
Keith Pinkerton	C-2023-3045164
Nancy and Charles Wilson	C-2023-3045160

Dayna Gardecki	C-2023-3045167
Kelly Knapp	C-2023-3045186
Alicia W. Shussett	C-2024-3045188
Patrick F. Boyle	C-2024-3045191
Juan F. Ramos	C-2024-3045206
Kyle Donahue	C-2024-3045211
Angela Gilmore	C-2024-3045213
John Erbicella	C-2024-3045255
Vicki DiArchangelo	C-2024-3045279
Alena Trently	C-2024-3045259
Andrea Devlin	C-2024-3045296
Thomas C. Kidwell	C-2024-3045316
Lloyd Simmers	C-2024-3045332
Anne-Marie Trace	C-2024-3045331
Borough of Port Vue	C-2024-3045334
Christopher Nicholson	C-2024-3045337
Priscilla T. Gentry	C-2024-3045342
Ruth & Craig Benderoth	C-2024-3045346
Matthew & Heather Heliger	C-2024-3045344
Barbara Stettenbauer	C-2024-3045362
Elizabeth Clark	C-2024-3045367
Catherine & Kenneth Green	C-2023-3045441
Naomi Conte	C-2024-3045464
Clyde H. Morgan	C-2024-3045571
Colleen Adams	C-2024-3045572
Mark Pezone	C-2024-3045574
Mark J. Mazurkiewicz	C-2024-3045582
Larry Wise	C-2024-3045669
James Lyband Jackson	C-2024-3045673
Janice M. Reynolds	C-2024-3045684
Veronica A. Hannevig	C-2024-3045694
Theresa Skobel	C-2024-3045695
David & Lynn Griffith	C-2024-3045696
Thomas Campisano	C-2024-3045723
Paulette Knott	C-2024-3045734
Gene & Patricia Malaspina	C-2024-3045747
Jordan Henning	C-2024-3045773
Kyle & Lori Rompella	C-2024-3045779
Richard Hamilton	C-2024-3045806
Kenneth Stoudt Jr.	C-2024-3045811
Bilal Salaam	C-2024-3045826
Ashley Sanchez	C-2024-3045815
Kendra Robinson	C-2024-3045839

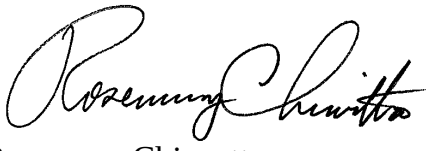
David Breitegam	C-2024-3045873
Anita Sakevich	C-2024-3045902
George M. Kamage, Jr.	C-2024-3045967
Michael W. Knoll	C-2024-3045984
Joseph Koza	C-2024-3045989
Ruth McMullan	C-2024-3045994
Thomas Tomeo	C-2024-3046051
David A. Grecco	C-2024-3046052
Theodore Parchinski	C-2024-3046054
Mark Mecca	C-2024-3046056
William Seeger	C-2024-3046058
Josephine Roman	C-2024-3046060
Edmond Maroney	C-2024-3046062
Nereida Colon-Gonzalez	C-2024-3046072
William Roman	C-2024-3046081
Frank S. Sislo	C-2024-3046088
Patrick H. Brentano	C-2024-3046083
Bill Gaughan	C-2024-3046089
Giselle Rutchford	C-2024-3046091
Roberta Brentano	C-2024-3046093
Brian Cadugan	C-2024-3046119
John Fletcher	C-2024-3046121
Marianne Vergnetti	C-2024-3046126
Dominic Cuchara	C-2024-3046128
Richard Brill	C-2024-3046130
Ronald & Lucy Benke	C-2024-3046133
Gary Shiner	C-2024-3046134
Suzanne Horishny	C-2024-3046145
Chris Casciano	C-2024-3046150
James G. Haggerty	C-2024-3046152
Joseph Baronski	C-2024-3046154
Joseph Guerra	C-2024-3046156
John Borer	C-2024-3046159
Michael Shafer	C-2024-3046160
Joel Hoffman	C-2024-3046185
Paul DelRosso	C-2024-3046193
Ferentz Irrevocable Grantor Trust c/o Joseph Surenko	C-2024-3046197
Robert Meyers	C-2024-3046198
Bernadette Bussacco	C-2024-3046222
Susan Gilday	C-2024-3046223
Arthur F. Werner, Jr.	C-2024-3046242
Timothy Brier	C-2024-3046239
Frances S. Kearney	C-2024-3046251

Sean McAndrew	C-2024-3046255
Elaine F. Campbell	C-2024-3046256
Marty Flynn	C-2024-3046258
Gerard Dombroski	C-2024-3046260
Harold Kiefer	C-2024-3046264
Linda Kiefer	C-2024-3046266
David F. Sevensky	C-2024-3046268
John Blackledge	C-2024-3046273
John Mayer	C-2024-3046280
Lucy Jason	C-2024-3046247
Lynn King	C-2024-3046248
Ernest & Kathy Mayer	C-2024-3046293
James & Marie Wynder	C-2024-3046295
Kathleen Nole	C-2024-3046297
James P. McDermott	C-2024-3046300
Nadine Simms	C-2024-3046350
David A. Grecco	C-2024-3046352
John Kulick	C-2024-3046354
Richard & Carmella Zaleski	C-2024-3046355
John McAuliffe	C-2024-3046393
Laura Virtue-Delayo	C-2024-3046398
Robert Barry	C-2024-3046400
Mark Perry	C-2024-3046407
Rebecca Pesyna	C-2024-3046409
Louis Guzzi, Jr.	C-2024-3046472
Maureen Guzzi	C-2024-3046473
David Dobrzyn	C-2024-3046474
Albert Denunzio	C-2024-3046475
Caesar Bordo	C-2024-3046476
Gary & Beth Graziano	C-2024-3046739
Valerie Mendicino	C-2024-3046740
Tara & Tom Schuster	C-2024-3046752
Karen Schuster	C-2024-3046807
Mary C. Jennings	C-2024-3046808
Patricia Barbuti	C-2024-3046809
Francis Kranick, Jr.	C-2024-3046812
Natalie Davis	C-2024-3046863
Sharon Cuff	C-2024-3046869
Colleen Demuro	C-2024-3046868
Domenic P. Cafarella	C-2024-3046879
Michael Dempsey	C-2024-3046883
Marianne Brown	C-2024-3046887
Gerald Fabricatore	C-2024-3047362

Gerald R. Fabricatore	C-2024-3047371
Gina McCarthy	C-2024-3047533
Julie Janosy	C-2024-3047696

30. That a copy of this Opinion and Order be served on the Commission's Bureau of Consumer Services, Division of Policy; the Bureau of Investigation and Enforcement; the Bureau of Audits, and the Bureau of Technical Utility Services, Finance/Tariff Division for monitoring and compliance.

BY THE COMMISSION,



Rosemary Chiavetta
Secretary

(SEAL)

ORDER ADOPTED: July 11, 2024

ORDER ENTERED: July 22, 2024

LIST OF ABBREVIATIONS

AIA	Affiliated Interest Agreement
ALJ	Administrative Law Judge
AMP	Arrearage Management Plan
APP	Annual Performance Plan
ASC 715	Accounting Standard Codification Topic 715
Audits	Bureau of Audits
AWK	American Water Works Company, Inc.
AWR	American Water Resources
AWWA	American Water Works Association
BASA	Butler Area Sewer Authority
BCS	Bureau of Consumer Services
BDP	Bill Discount Program
BEC	Base-Extra Capacity
BTI	Bill-to-Income
CAAG	Customer Assistance Advisory Group
CAPM	Capital Asset Pricing Model
CAUSE-PA	Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania
CCA	Customer Care Agent
CEO	Commission on Economic Opportunity
Code	Pennsylvania Public Utility Code
COSS	Cost-of-Service Study
CSR	Customer Service Representative
CSS	Combined Sewer System
DCF	Discounted Cash Flow
DCP	Defined Contribution Plan
DEF	Dollar Energy Fund
DIS	Demand Industrial Sales
DRS	Demand Resale Sales
DSIC	Distribution System Improvement Charge
DSLPA	Discontinuance of Services to Lease Premises Act
ECAPM	Empirical Capital Asset Pricing Model
ECIC	Environmental Compliance Investment Charge
ECP	Environmental Compliance Plan
EDC	Electric Distribution Company
EDWA	East Dunkard Water Authority
EE&C	Energy Efficiency and Conservation

EPS	Earnings Per Share
ERP	Equity Risk Premium
ESPP	Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FPFTY	Fully Projected Future Test Year
FPL	Federal Poverty Level
FTY	Future Test Year
FY	Fiscal Year
GDP	Gross Domestic Product
GIS	Geographic Information System
H2O	Help to Others
HTY	Historic Test Year
I&E	Bureau of Investigation and Enforcement
I&I	Inflow and Infiltration
IOTG	Insurance Other Than Group
JTMA	Jefferson Township Municipal Authority
LIAG	Low Income Advocacy Groups
LIHWAP	Low-Income Household Water Assistance Program
LIURP	Low-Income Usage Reduction Program
LTIIP	Long Term Infrastructure Investment Plan
LTPP	Long-Term Performance Plan
MCLGs	Maximum Contaminant Level Goals
MCLs	Maximum Contaminant Levels
MHI	Median Household Income
MHI-HO	Median Household Income Data From Homeowners
NAWC	National Association of Water Companies
NGDC	Natural Gas Distribution Company
NSF	National Science Foundation
O&M	Operating and Maintenance
OALJ	Office of Administrative Law Judge
OCA	Office of Consumer Advocate
OPEB	Other Post-Employment Benefits
OSBA	Office of Small Business Advocate
PADEP	Pennsylvania Department of Environmental Protection
PAWC	Pennsylvania-American Water Company
PAWLUG	Pennsylvania-American Water Large Users Group
PFAS	Polyfluoroalkyl Substances
PGW	Philadelphia Gas Works

PIP	Percentage of Income Program
PRV	Pressure Reducing Valve
psi	Pounds Per Square Inch
PSU	Performance Stock Units
R.D.	Recommended Decision
RDM	Revenue Decoupling Mechanism
ROE	Return on Equity
RROR	Relative Rate of Return
RSU	Restricted Stock Units
RZ-1	Rate Zone 1
RZ-2	Rate Zone 2
RZ-3	Rate Zone 3
RZ-4	Rate Zone 4
RZ-5	Rate Zone 5
RZ-6	Rate Zone 6
RZ-7	Rate Zone 7
RZ-8	Rate Zone 8
RZ-9	Rate Zone 9
S&P	Standard & Poor's
SBC	Stock-based Compensation
SCADA	Supervisory Control and Data Acquisition
SCERP	Service Company Executive Retirement Plan
SLIBCO	Scranton Lackawanna Industrial Building Company
SSS	Sanitary Sewer System
STAS	State Tax Adjustment Surcharge
STMA	Sadsbury Township Municipal Authority
SVF	Straight Fixed Variable
TUS	Bureau of Technical Utility Services
USEPA	United States Environmental Protection Agency
USP	Universal Service Program
USTRA	Utility Services Tenants Rights Act
VA	VA Medical Center
WACC	Weighted Average Cost of Capital
WB	West Brandywine
WSA	Water Services Act
WWTP	Wastewater Treatment Plant
YBCs	York Bulk Customers

Pennsylvania Public Utility Commission, *et. al.*

v.

Pennsylvania-American Water Company
Pennsylvania-American Water Company-Wastewater Division
Docket Nos. R-2023-3043189
R-2023-3043190

Commission Tables Calculating Allowed Revenue Increase

Table Act 11 **Act 11 Water and Wastewater Revenue Requirement Summary**

Water Tables
Table I **Income Summary**
Table IA **Rate of Return**
Table IB **Revenue Factor**
Table II **Summary of Commission Adjustments**
Table III **Interest Synchronization**
Table IV **Cash Working Capital: Interest and Dividends**
Table V **Cash Working Capital: Taxes**
Table VI **Cash Working Capital: O&M Expense**

Wastewater SSS Tables
Table I **Income Summary**
Table IA **Rate of Return**
Table IB **Revenue Factor**
Table II **Summary of Commission Adjustments**
Table III **Interest Synchronization**
Table IV **Cash Working Capital: Interest and Dividends**
Table V **Cash Working Capital: Taxes**
Table VI **Cash Working Capital: O&M Expense**

Wastewater-CSS Tables

Table I	**Income Summary**
Table IA	**Rate of Return**
Table IB	**Revenue Factor**
Table II	**Summary of Commission Adjustments**
Table III	**Interest Synchronization**
Table IV	**Cash Working Capital: Interest and Dividends**
Table V	**Cash Working Capital: Taxes**
Table VI	**Cash Working Capital: O&M Expense**

Commission Final Allowance

TABLE ACT 11
PENNSYLVANIA-AMERICAN WATER COMPANY
WATER AND WASTEWATER REVENUE REQUIREMENT SUMMARY
R-2023-3043189, R-2023-3043190

Line No.	Description	Total Company	Water Operations	Wastewater SSS Operations	Wastewater CSS Operations
		$	$	$	$
1	Present Rate Revenue	$ 994,178,484	$ 820,869,547	$ 94,672,721	$ 78,636,216
2	Additional Revenue Requirement [1]	99,329,012	64,799,685	24,226,880	10,302,448
3	Act 11 - Wastewater Allocation	-	23,321,384	(18,170,160)	(5,151,224)
4	Proposed Revenues	$ 1,093,507,496	$ 908,990,615	$ 100,729,441	$ 83,787,440
5	Rate Increase/(Decrease) $	$ 99,329,012	$ 88,121,069	$ 6,056,720	$ 5,151,224
6	Rate Increase/(Decrease) %	9.99%	10.74%	6.40%	6.55%
7	Rate Increase/(Decrease) $ - Total Wastewater Operations			$ 11,207,944	
8	Rate Increase/(Decrease) % - Total Wastewater Operations			6.47%	

Notes:
[1] Excludes revenue requirement associated with the BASA and Brentwood acquisitions.

Commission Final Allowance
TABLE I WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
INCOME SUMMARY
R-2023-3043189, R-2023-3043190

		Pro Forma Present Rates (1)	Company Adjustments (2)	Pro Forma Present Rates (Revised (3))	Commission Adjustments	Commission Pro Forma Present Rates	Commission Revenue Increase	Total Allowable Revenues
		$	$	$	$	$	$	$
		(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) + (4)	(6)	(7) = (5) + (6)
1.	Operating Revenue	$ 824,117,186	$ -	$ 824,117,186	$ (3,247,639)	$ 820,869,547	$ 64,799,685	$ 885,669,232
2.	Expenses:							
3.	O & M Expense	256,824,574	(720,938)	256,103,636	(10,032,096)	246,071,540	762,044	246,833,584
4.	Depreciation	210,700,336	1,660,367	212,360,703	(1,174,154)	211,186,549	0	211,186,549
5.	Taxes, Other	14,398,232	(62,322)	14,335,910	(48,401)	14,287,509	412,868	14,700,377
6.	Income Taxes:							
7.	State	13,347,020	67,799	13,414,819	658,374	14,073,193	5,083,619	19,156,812
8.	Federal	33,635,358	163,955	33,799,313	1,592,133	35,391,446	12,293,642	47,685,088
9.	Total Expenses	528,905,520	1,108,861	530,014,381	(9,004,144)	521,010,237	18,552,173	539,562,410
10.	Net Income Available for Return	295,211,666	(1,108,861)	294,102,805	5,756,504	299,859,309	46,247,511	346,106,821
11.	Rate Base	4,704,067,656	(3,127,277)	4,700,940,379	(11,146,058)	4,689,794,321		4,689,794,321
12.	Rate of Return	6.28%		6.26%		6.39%		7.38%

Notes and Sources:
(1) PAWC Exh. 3-A Initial.
(2) Difference between PAWC Exh. 3-A Initial and Exh. 3-A Revised.
(3) PAWC Exh. 3-A Revised.

Pre-Act 11 Allocation Revenue Change (%):	7.89%
Pre-Act 11 Allocation % of requested Increase	50.10%

Commission Final Allowance

TABLE I(A) WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
RATE OF RETURN
R-2023-3043189, R-2023-3043190

		Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
		(1)	(2)	[(3)=(1)x(2)]	(4)	[(5)=(3)x(4)]
1.	Total Cost of Debt			2.09%		2.09%
2.	Long-term Debt[1]	44.01%	4.76%	2.09%		2.09%
3.	Short-term Debt	0.00%	0	0.00%		0.00%
4.	Preferred Stock	0.00%	0	0.00%	0.726879	0.00%
5.	Common Equity[1]	55.99%	9.45%	5.29%	0.726879	7.28%
6.	Rate of Return[1]	100.00%		7.38%		9.3700%
7.	Pre-Tax Interest Coverage	4.48				
8.	After-Tax Interest Coverage	3.53				
9.	Tax Rate Complement (1-(21%+(7.99% X (1-21%))	72.68790%				

Notes and Sources:

[1]See Section IX - Fair Rate of Return

Commission Final Allowance
TABLE I(B) WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
REVENUE FACTOR
R-2023-3043189, R-2023-3043190

1.	100%	1.00000000
	Less:	
2.	Uncollectible Accounts Factor [1]	0.01176000
3.	PUC, OCA, OSBA, DPC Assessment Factors [1]	0.00637145
4.	Gross Receipts Tax	0.00000000
5.	Other Tax Factors	0.00000000
6.		0.98186855
7.	State Income Tax Rate [1]	0.07990000
8.	Effective State Income Tax Rate	0.07845130
9.	Factor After Local and State Taxes	0.90341725
10.	Federal Income Tax Rate [1]	0.21000000
11.	Effective Federal Income Tax Rate	0.18971762
12.	Revenue Factor (100% - Effective Tax Rates)	0.71369963

Notes and Sources:
[1] PAWC Exh. 3-A Revised

Commission Final Adjustments

TABLE II WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
SUMMARY OF ADJUSTMENTS
R-2023-3043189, R-2023-3043190

	Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		$	$	$	$	$	$	$
1.	RATE BASE:							
	CWC:							
2.	Int. & Div. (Table IV)	19,785						
3.	Taxes (Table V)	146,442						
4.	O & M (Table VI)	(1,157,109)						
5.	Farmington (water) Plant	(2,502,611)						
6.	Audubon Plant	(360,229)						
7.	Farmington (water) Acq Adj.	(195,736)						
	Audubon Acq Adj.	(6,939,459)						
8.	Farmington (water) Trans. Cost	(43,799)						
9.	Audubon Trans. Cost	(107,142)						
10.								
	REVENUES:							
11.	Audubon Revenue [1] [4]		(2,965,024)	(34,869)		(18,891)	(232,610)	(562,517)
12.	Farmington (water) Revenue [1] [4]		(266,371)	(3,133)		(1,697)	(20,897)	(50,535)
13.							0	0
14.	Concomitant Revenue [1] [4]		(16,244)	(191)		(103)	(1,274)	(3,082)
15.							0	0
16.	EXPENSES:						0	0
17.	Audubon O&M & Taxes-Other [2]			(1,557,863)		(27,709)	126,687	306,366
18.	Farmington (water) Expenses [3]			(152,385)			12,176	29,444
19.	Pension Expense [5]			(4,771,807)			381,267	922,013
20.	OPEB Expense [5]			(1,664,016)			132,955	321,523
21.	AMP [4]			(1,847,832)			147,642	357,040
22.							0	0
23.	Audubon Depreciation				(269,599)		21,541	52,092
24.	Farmington (water) Depreciation				(101,751)		8,130	19,660
25.	Audubon Acq Amort. [6]				(775,772)		61,984	149,895
26.	Farmington (water) Acq Amort. [7]				(27,032)		2,160	5,223
27.					0		0	0
	TAXES:							
28.								
29.	Interest Synchronization (Table III)						18,613	45,011
30.	TOTALS	(11,146,058)	(3,247,639)	(10,032,096)	(1,174,154)	(48,401)	658,374	1,592,133

Notes to Accompany Table II – Water

(1) Revenue adjustments require concomitant adjustments for bad debt & general assessment expenses (Table IB-Water) & forfeited discounts / late payment fee revenues (PAWC Exh. 3-A Revised at 24R) that are determined as a percentage of revenues. Concomitant revenue is then subject to the same adjustment.

(2) See PAWC Exh. 3-A Revised at 63R and PAWC Exh. 3-B at 304. Taxes-Other includes only property taxes.

(3) See PAWC Exh. 3-A Revised at 63R and PAWC Exh. 3-B at 303.

(4) No cash working capital adjustment is provided for non-cash adjustments, including for bad debt/AMP and depreciation. Tax adjustments are in Table V-Water.

(5) *See*, I&E M.B. at 24.

(6) Reduction of $775,772 to remove PAWC's claims related to Audubon. This includes an acquisition adjustment amortization expense of $763,977 and associated transaction costs of $11,795. [$763,977 + $11,795=$775,772]. See Section VII. M of this Opinion and Order.

(7) Reduction of $27,032 to remove PAWC's claims related to Farmington (water). This includes an acquisition adjustment amortization expense of $21,549 and associated transaction costs of $5,483. [$21,549 + $5,483]. See Section VII.M of this Opinion and Order.

Commission Final Allowance
TABLE III WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
INTEREST SYNCHRONIZATION
R-2023-3043189, R-2023-3043190

		Amount $
1.	Company Rate Base Claim [1]	4,700,940,379
2.	Commission Rate Base Adjustments (From Table II)	(11,146,058)
3.	Commission Rate Base (Line 1 - Line 2)	4,689,794,321
4.	Weighted Cost of Debt (From Table IA)	2.09000000%
5.	Commission Interest Expense - (Line 3 x Line 4)	98,016,701
6.	Company Claim [1]	98,249,654
7.	Total Commission Adjustment	232,953
8.	Company Adjustment	0
9.	Net Commission Interest Adjustment (Line 7 - Line 8)	232,953
10.	State Income Tax Rate	7.99%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	18,613
12.	Net Commission Interest Adjustment (Line 9)	232,953
13.	State Income Tax Adjustment (Line 11)	18,613
14.	Net Commission Adjustment for F.I.T. (Line 12 - Line 13)	214,340
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 14 x Line 15) (Flow to Table II)	45,011

Notes and Sources:

[1] Company Main Brief

Commission Final Allowance
TABLE IV WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - Interest and Dividends
R-2023-3043189, R-2023-3043190

		Accrued Interest			Preferred Stock Dividends	
		Long-Term Debt	Short-Term Debt			
	(1)	(2)	(3)		(4)	(5)
1.	Company Rate Base Claim	$4,700,940,379	$4,700,940,379		Company Rate Base Claim	$4,700,940,379
2.	Commission Rate Base Adjustments	($11,146,058)	($11,146,058)		Commission Rate Base Adj.	($11,146,058)
3.	Commission Rate Base	$4,689,794,321	$4,689,794,321		Commission Rate Base	$4,689,794,321
4.	Weighted Cost of Debt	2.09%	0.00%		Weighted Cost Pref. Stock	0.00%
5.	Commission Annual Interest Exp.	$98,016,701	$0		Commission Preferred Divid	$0
6.	Average Revenue Lag Days [1]	50.6	50.6		Average Revenue Lag Days	50.6
7.	Average Expense Lag Days [1]	81.6	15.0		Average Expense Lag Days	46.4
8.	Net Lag Days	-31.0	35.6		Net Lag Days	4.2
9.	Working Capital Adjustment					
10.	Commission Daily Interest Exp.	$268,539	$0		Commission Daily Dividends	$0
11.	Net Lag Days	-31.0	35.6		Net Lag Days	4.2
12.	Commission Working Capital	($8,327,394)	$0			$0
13.	Company Claim [1]	($8,347,179)	$0		Company Claim [1]	$0
14.	Commission Adjustment	$19,785	$0			$0
15.	Total Interest & Dividend Adj.	$19,785				

Notes and Sources:
[1] Company Main Brief.

Commission Final Allowance
TABLE V WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL -TAXES
R-2023-3043189, R-2023-3043190

	Description	Company Proforma Tax Expense Present Rates	Commission Adjustments	Commission Pro forma Tax Expense Present Rates	Commission Allowance	Commission Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days [1]	Accrued Tax Adjustment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	Assessments	$5,164,137	($20,692)	$5,143,445	$412,868	$5,556,313	$15,222.77	190.20	$2,895,371
2.	Public Utility Realty	$2,126,732	$0	$2,126,732		$2,126,732	$5,826.66	47.35	$275,892
3.	Local Property Tax	$2,073,365	($27,709)	$2,045,656		$2,045,656	$5,604.54	64.56	$361,855
		$0	$0	$0		$0	$0.00	0.00	$0
		$0	$0	$0		$0	$0.00	0.00	$0
4.	State Income Tax	$13,414,819	$658,374	$14,073,193	$5,083,619	$19,156,812	$52,484.42	13.60	$713,788
5.	Federal Income Tax	$34,032,905	$1,592,133	$35,625,038	$12,293,642	$47,918,680	$131,284.05	-18.40	($2,415,627)
6.		$56,811,958	$2,202,106	$59,014,064	$17,790,129	$76,804,193	$210,422	8.70	$1,831,279
7.							Commission Allowance		$ 1,831,279
8.							Company Claim [1]		$ 1,684,837
9.							Commission Adjustment		$ 146,442

Notes and Sources:
[1] Company Main Brief

Commission Final Allowance

TABLE VI WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL -- O & M EXPENSE
R-2023-3043189, R-2023-3043190

	Description	Company Pro forma Expense	Commission	Commission Pro forma Expenses	Lag Days[3]	Lag Dollars
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Service Company [1]	$60,897,948	($302,738)	$60,595,210	12.05	$730,426,780
2.	Chemicals [1]	$23,528,121	($96,468)	$23,431,653	47.20	$1,106,012,803
3.	Group Insurance [1]	$11,220,476	($95,992)	$11,124,484	11.00	$122,369,324
4.	Insurance, Other [1]	$14,893,805	($71,451)	$14,822,354	-69.48	($1,029,789,524)
5.	Labor [1]	$68,588,923	($504,647)	$68,084,276	12.05	$820,701,480
6.	Leased Equip./Rent	$105,375	$0	$105,375	-13.36	($1,407,511)
7.	Leased Vehicles	$5,043,012	$0	$5,043,012	54.08	$272,747,715
8.	Miscellaneous [1]	$39,139,084	($485,598)	$38,653,486	30.46	$1,177,398,731
9.	Natural Gas	$1,232,626	$0	$1,232,626	33.33	$41,087,081
10.	Power [1]	$15,812,740	($150,641)	$15,662,099	31.00	$485,590,492
11.	Purchased Water	$3,099,741	$0	$3,099,741	35.22	$109,173,435
12.	Telephone	$4,396,974	$0	$4,396,974	3.88	$13,398,219
13.	Waste Disposal [1]	$3,337,122	($2,349)	$3,334,773	41.96	$139,928,434
14.	Post Retirement Benefits/VEBA [2]	($6,496,737)	($1,664,379)	($8,161,116)	0.00	$0
15.	Pensions [2]	$971,072	($4,771,807)	($3,800,735)	-6.41	$24,381,605
16.	Totals	$246,370,282	($8,146,070)	$238,224,212	16.30	$4,018,019,064
17.	Commission Average Revenue Lag	50.6				
18.	Less: Commission Avg. Expense Lag	16.3				
19.	Net Difference	33.7	Days			
20.	Commission Pro forma					
22.	O & M Expense per Day	$652,669				
23.	Commission CWC for O & M	$21,994,945				
24.	Less: Company Claim [3]	$23,152,054				
25.	Commission Adjustment	($1,157,109)				

Notes and Sources:

[1] See Table II-Water, Notes 2 & 3. In PAWC Ex. 3-B at 303-304, "Labor", "401K", "DCP", & "Payroll Taxes" are assigned to Labor above. "Contracted Services", "Rents", "General Office", "Miscellaneous", & "Maintenance" are assigned to Miscellaneous above. Other O&M Expenses are assigned to a description above that matches the expense.

[2] See Table II-Water, Note 5. The OPEB adjustment is assigned to Post Retirement Benefits/VEBA above, and the Pensions adjustment is assigned to Pensions above.

[3] Company Main Brief

Commission Final Allowance
TABLE I WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
INCOME SUMMARY
R-2023-3043189, R-2023-3043190

		Pro Forma Present Rates (1)	Company Adjustments (2)	Pro Forma Present Rates (Revised (3))	Commission Adjustments	Commission Pro Forma Present Rates	Commission Revenue Increase	Total Allowable Revenues
		$	$	$	$	$	$	$
		(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) + (4)	(6)	(7) = (5) + (6)
1.	Operating Revenue	$95,470,867	$ -	$ 95,470,867	$ (798,146)	$ 94,672,721	$24,226,880	$ 118,899,600
2.	Expenses:							
3.	O & M Expense	26,009,252	57,140	26,066,392	(670,027)	25,396,365	284,908	25,681,273
4.	Depreciation	27,406,489	0	27,406,489	(110,119)	27,296,370	0	27,296,370
5.	Taxes, Other	3,217,927	3,124	3,221,051	(8,632)	3,212,419	154,360	3,366,779
6.	Income Taxes:							
7.	State	2,906,503	(4,825)	2,901,678	7,665	2,909,343	1,900,630	4,809,973
8.	Federal	7,064,720	(11,668)	7,053,052	18,536	7,071,588	4,596,266	11,667,854
10.	Total Expenses	66,604,891	43,771	66,648,662	(762,578)	65,886,084	6,936,164	72,822,248
11.	Net Income Available for Return	28,865,976	(43,771)	28,822,205	(35,568)	28,786,637	17,290,715	46,077,352
12.	Rate Base	649,330,622	5,483	649,336,105	(4,897,620)	644,438,485		644,438,485
13.	Rate of Return	4.45%		4.44%		4.47%		7.15%

Notes and Sources:
(1) PAWC Exh. 3-A Initial.
(2) Difference between PAWC Exh. 3-A Initial and Exh. 3-A Revised.
(3) PAWC Exh. 3-A Revised.

Pre-Act 11 Allocation Revenue Change (%):	25.59%
Pre-Act 11 Allocation % of requested Increase	76.05%

Commission Final Allowance
TABLE I(A) WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
RATE OF RETURN
R-2023-3043189, R-2023-3043190

		Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
		(1)	(2)	[(3)=(1)x(2)]	(4)	[(5)=(3)x(4)]
1.	Total Cost of Debt			2.15%		2.15%
2.	Long-term Debt [(1)]	42.73%	4.76%	2.03%		2.03%
3.	Wastewater Specific Long-term Debt [(1)]	4.40%	2.67%	0.12%		0.12%
4.	Preferred Stock	0.00%	0	0.00%	0.726879	0.00%
5.	Common Equity [(1)]	52.87%	9.45%	5.00%	0.726879	6.88%
6.	Rate of Return[(1)]	100.00%		7.15%		9.0300%
7.	Pre-Tax Interest Coverage	4.45				
8.	After-Tax Interest Coverage	3.52				
9.	Tax Rate Complement (1-(21%+(7.99% X (1-21%))	72.68790%				

Notes and Sources:
[(1)]See Section IX - Fair Rate of Return

Commission Final Allowance
TABLE I(B) WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
REVENUE FACTOR
R-2023-3043189, R-2023-3043190

1.	100%	1.00000000
	Less:	
2.	Uncollectible Accounts Factor [1]	0.01176000
3.	PUC, OCA, OSBA, DPC Assessment Factors [1]	0.00637145
4.	Gross Receipts Tax	0.00000000
5.	Other Tax Factors	0.00000000
6.		0.98186855
7.	State Income Tax Rate [1]	0.07990000
8.	Effective State Income Tax Rate	0.07845130
9.	Factor After Local and State Taxes	0.90341725
10.	Federal Income Tax Rate [1]	0.21000000
11.	Effective Federal Income Tax Rate	0.18971762
12.	Revenue Factor (100% - Effective Tax Rates)	0.71369963

Notes and Sources:
[1] PAWC Exh. 3-A Revised

Commission Final Adjustments
TABLE II WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
SUMMARY OF ADJUSTMENTS
R-2023-3043189, R-2023-3043190

	Adjustments (1)	Rate Base (2) $	Revenues (3) $	Expenses (4) $	Depreciation (5) $	Taxes-Other (6) $	State Income Tax (7) $	Federal Income Tax (8) $
1.	RATE BASE:							
	CWC:							
2.	Int. & Div. (Table IV)	8,962						
3.	Taxes (Table V)	21,955						
4.	O & M (Table VI)	(31,379)						
5.	STMA Plant[7]	(2,018,697)						
6.	Farmington (wastewater) Plant[8]	(2,878,461)						
7.								
	REVENUES:							
8.	STMA Revenue [1][4]		(471,228)	(5,542)		(3,002)	(36,968)	(89,400)
9.	Farmington (wastewater) Revenue [1][4]		(322,926)	(3,798)		(2,058)	(25,334)	(61,265)
10.								0
	Concomitant Revenue [1]		(3,992)	(47)		(25)	(313)	(757)
11.								
12.	EXPENSES:							
13.	STMA O&M & Taxes-Other [2]			(245,741)		(3,547)	19,918	48,168
14.	Farmington (wastewater) O&M [3]			(264,176)			21,108	51,044
15.	AMP [4]			(150,724)			12,043	29,123
16.								0
17.	STMA Depreciation				(51,847)		4,143	10,018
18.	Farmington (wastewater) Depreciation				(137,987)		11,025	26,662
19.	STMA Acq. Amort.[5]				85,414		(6,825)	(16,504)
20.	Farmington (wastewater) Acq. Amort.[6]				(5,699)		455	1,101
28.	TAXES:							
29.	Interest Synchronization (Table III)						8,413	20,346
30.	TOTALS	(4,897,620)	(798,146)	(670,027)	(110,119)	(8,632)	7,665	18,536

Notes to Accompany Table II – Wastewater SSS

(1) Revenue adjustments require concomitant adjustments for bad debt & general assessment expenses (Table IB-Wastewater SSS) & forfeited discounts / late payment fee revenues (PAWC Exh. 3-A Revised, at 95R) that are determined as a percentage of revenues. Concomitant revenue is then subject to the same adjustment.

(2) See PAWC Exh. 3-A Initial at 126 & PAWC Exh. 3-B at 306. Taxes-Other includes only property taxes.

(3) See PAWC Exh. 3-A Initial at 126 & PAWC Exh. 3-B at 305.

(4) No cash working capital adjustment is provided for non-cash adjustments, including for bad debt/AMP and depreciation. Tax adjustments are in Table V-Wastewater SSS.

(5) Addition of $85,414 to remove PAWC's claimed negative acquisition amortization expense related to STMA. This includes a negative acquisition amortization of $94,561 and associated transaction costs of $9,147. [($94.561)+$9,147=($85,414)]. See Section VII.M of this Opinion and Order.

(6) Reduction of $5,699 to remove the transaction costs associated with Farmington (wastewater). See Section VII.M of this Opinion and Order.

(7) Amount includes removal of claimed $1,935,612 in Net Utility Plant in Service and $83,085 of transaction costs related to the STMA system. [$1,935,612+$83,085=$2,018,697].

(8) Amount includes removal of claimed $2,826,700 in Net Utility Plant in Service and $81,761 of transaction costs related to the Farmington (wastewater) system. [$2,826,700+$51,761=$2,878,461].

Commission Final Allowance
TABLE III WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
INTEREST SYNCHRONIZATION
R-2023-3043189, R-2023-3043190

		Amount $
1.	Company Rate Base Claim [1]	649,336,105
2.	Commission Rate Base Adjustments (From Table II)	(4,897,620)
3.	Commission Rate Base (Line 1 - Line 2)	644,438,485
4.	Weighted Cost of Debt (From Table IA)	2.15%
5.	Commission Interest Expense - (Line 3 x Line 4)	13,855,427
6.	Company Claim [1]	13,960,726
7.	Total Commission Adjustment	105,299
8.	Company Adjustment	0
9.	Net Commission Interest Adjustment (Line 7 - Line 8)	105,299
10.	State Income Tax Rate	7.99%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	8,413
12.	Net Commission Interest Adjustment (Line 9)	105,299
13.	State Income Tax Adjustment (Line 11)	8,413
14.	Net Commission Adjustment for F.I.T. (Line 12 - Line 13)	96,886
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 14 x Line 15) (Flow to Table II)	20,346

Notes and Sources:

[1] Company Main Brief

Commission Final Allowance
TABLE IV WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - Interest and Dividends
R-2023-3043189, R-2023-3043190

		Accrued Interest			Preferred Stock Dividends	
		Long-Term Debt	Wastewater Specific Long-Term Debt		
		(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim		$649,336,105	$649,336,105	Company Rate Base Claim	$649,336,105
2.	Commission Rate Base Adjustments		($4,897,620)	($4,897,620)	Commission Rate Base Adjustments	($4,897,620)
3.	Commission Rate Base		$644,438,485	$644,438,485	Commission Rate Base	$644,438,485
4.	Weighted Cost of Debt		2.03%	0.12%	Weighted Cost Pref. Stock	0.00%
5.	Commission Annual Interest Exp.		$13,082,101	$773,326	Commission Preferred Dividends	$0
6.	Average Revenue Lag Days [1]		50.6	50.6	Average Revenue Lag Days [1]	50.6
7.	Average Expense Lag Days [1]		81.6	81.6	Average Expense Lag Days	46.4
8.	Net Lag Days		-31.0	-31.0	Net Lag Days	4.2
9.	Working Capital Adjustment					
10.	Commission Daily Interest Exp.		$35,841	$2,119	Commission Daily Dividends	$0
11.	Net Lag Days		-31.0	-31.0	Net Lag Days	4.2
12.	Commission Working Capital		($1,111,429)	($65,710)		$0
13.	Company Claim [1]		($1,119,895)	($66,206)	Company Claim [1]	$0
14.	Commission Adjustment		$8,466	$496		$0
15.	Total Interest & Dividend Adj.		$8,962			

Notes and Sources:
[1] Company Main Brief.

Commission Final Allowance
TABLE V WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL -TAXES
R-2023-3043189, R-2023-3043190

	Description	Company Proforma Tax Expense Present Rates	Commission Adjustments	Commission Pro forma Tax Expense Present Rates	Commission Allowance	Commission Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days [1]	Accrued Tax Adjustment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	Assessments	$598,699	($5,085)	$593,614	$154,360	$747,974	$2,049.24	190.20	$389,765
2.	Public Utility Realty	$0	$0	$0		$0	$0.00	47.35	$0
3.	Local Property Tax	$2,227,703	($3,547)	$2,224,156		$2,224,156	$6,093.58	64.56	$393,430
		$0	$0	$0		$0	$0.00	0.00	$0
		$0	$0	$0		$0	$0.00	0.00	$0
4.	State Income Tax	$2,901,678	$7,665	$2,909,343	$1,900,630	$4,809,973	$13,178.01	13.60	$179,221
5.	Federal Income Tax	$7,053,052	$18,536	$7,071,588	$4,596,266	$11,667,854	$31,966.72	-18.40	($588,188)
6.		$12,781,132	$17,569	$12,798,701	$6,651,256	$19,449,957	$ 53,287.55	7.02	$374,228
7.							Commission Allowance		$ 374,228
8.							Company Claim [1]		$ 352,273
9.							Commission Adjustment		$ 21,955

Notes and Sources:
[1] Company Main Brief

Commission Final Allowance
TABLE VI WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL -- O & M EXPENSE
R-2023-3043189, R-2023-3043190

	Description	Company Pro forma Expense	Commission	Commission Pro forma Expenses	Lag Days	Lag Dollars
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Service Company [1]	$1,903,699	($63,607)	$1,840,092	12.05	$22,180,837
2.	Chemicals [1]	$1,827,234	($7,500)	$1,819,734	47.20	$85,894,457
3.	Group Insurance [1]	$1,070,958	($15,709)	$1,055,249	11.00	$11,607,739
4.	Insurance, Other [1]	$2,098,237	($12,770)	$2,085,467	-69.48	($144,888,732)
5.	Labor [1]	$5,286,389	($75,958)	$5,210,431	12.05	$62,807,577
6.	Leased Equip./Rent	$50,345	$0	$50,345	-13.36	($672,466)
7.	Leased Vehicles	$176,055	$0	$176,055	54.08	$9,521,809
8.	Miscellaneous [1]	$5,595,997	($106,873)	$5,489,124	30.46	$167,200,642
9.	Natural Gas	$431,432	$0	$431,432	33.33	$14,380,908
10.	Power [1]	$3,372,968	($37,500)	$3,335,468	31.00	$103,413,441
11.	Purchased Water	$0	$0	$0	35.22	$0
12.	Telephone	$211,445	$0	$211,445	3.88	$820,828
13.	Waste Disposal [1]	$3,087,197	($190,000)	$2,897,197	41.96	$121,567,566
14.	Post Retirement Benefits	$9,810	$0	$9,810	0.00	$0
15.	Pensions	$216,538	$0	$216,538	-6.41	($1,389,085)
16.	Totals	$25,338,304	($509,917)	$24,828,387	18.20	$452,445,521
17.	Commission Average Revenue Lag	50.6				
18.	Less: Commission Avg. Expense Lag	18.2				
19.	Net Difference	32.4	Days			
20.	Commission Pro forma					
22.	O & M Expense per Day	$68,023				
23.	Commission CWC for O & M	$2,203,945				
24.	Less: Company Claim [2]	$2,235,324				
25.	Commission Adjustment	($31,379)				

Notes and Sources:

[1] See Table II-Wastewater SSS, Notes 2 & 3. In PAWC Ex. 3-B at 305-306, "Labor", "401K", "DCP", & "Payroll Taxes" are assigned to Labor above. "Contracted Services", "Rents", "General Office", "Miscellaneous", & "Maintenance" are assigned to Miscellaneous above. Other O&M Expenses are assigned to a description above that matches the expense.

[2] Company Main Brief

Commission Final Allowance
TABLE I WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
INCOME SUMMARY
R-2023-3043189, R-2023-3043190

		Pro Forma Present Rates [1]	Company Adjustments [2]	Pro Forma Present Rates (Revised [3])	Commission Adjustments	Commission Pro Forma Present Rates	Commission Revenue Increase	Total Allowable Revenues
		$	$	$	$	$	$	$
		(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) + (4)	(6)	(7) = (5) + (6)
1.	Operating Revenue	$ 78,636,216	$ -	$ 78,636,216	$ -	$ 78,636,216	$ 10,302,448	$ 88,938,664
2.	Expenses:							
3.	O & M Expense	21,438,527	20,813	21,459,340	(113,746)	21,345,594	121,157	21,466,751
4.	Depreciation	20,497,016	0	20,497,016	0	20,497,016	0	20,497,016
5.	Taxes, Other	2,231,143	892	2,232,035	0	2,232,035	65,642	2,297,677
6.	Income Taxes:							
7.	State	1,984,048	(2,279)	1,981,769	9,058	1,990,827	808,240	2,799,067
8.	Federal	4,906,577	(5,513)	4,901,064	21,905	4,922,969	1,954,556	6,877,525
10.	Total Expenses	51,057,311	13,913	51,071,224	(82,783)	50,988,441	2,949,595	53,938,036
11.	Net Income Available for Return	27,578,905	(13,913)	27,564,992	82,783	27,647,775	7,352,853	35,000,628
12.	Rate Base	483,184,280	6,317,381	489,501,661	17,613	489,519,274		489,519,274
13.	Rate of Return	5.71%		5.63%		5.65%		7.15%

Notes and Sources:
[1] PAWC Exh. 3-A Initial.
[2] Difference between PAWC Exh. 3-A Initial and Exh. 3-A Revised.
[3] PAWC Exh. 3-A Revised.

Pre-Act 11 Allocation Revenue Change (%):	13.10%
Pre-Act 11 Allocation % of requested Increase	65.06%

Commission Final Allowance
TABLE I(A) WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
RATE OF RETURN
R-2023-3043189, R-2023-3043190

		Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
		(1)	(2)	[(3)=(1)x(2)]	(4)	[(5)=(3)x(4)]
1.	Total Cost of Debt			2.15%		2.15%
2.	Long-term Debt [(1)]	42.73%	4.76%	2.03%		2.03%
3.	Wastewater Specific Long term Debt[(1)]	4.40%	2.67%	0.12%		0.12%
4.	Preferred Stock	0.00%	0	0.00%	0.726879	0.00%
5.	Common Equity [(1)]	52.87%	9.45%	5.00%	0.726879	6.88%
6.	Rate of Return[(1)]	100.00%		7.15%		9.0300%
7.	Pre-Tax Interest Coverage	4.45				
8.	After-Tax Interest Coverage	3.52				
9.	Tax Rate Complement (1-(21%+(7.99% X (1-21%))	72.68790%				

Notes and Sources:
[(1)]See Section IX - Fair Rate of Return

Commission Final Allowance
TABLE I(B) WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
REVENUE FACTOR
R-2023-3043189, R-2023-3043190

1.	100%	1.00000000
	Less:	
2.	Uncollectible Accounts Factor [1]	0.01176000
3.	PUC, OCA, OSBA, DPC Assessment Factors [1]	0.00637145
4.	Gross Receipts Tax	0.00000000
5.	Other Tax Factors	0.00000000
6.		0.98186855
7.	State Income Tax Rate [1]	0.07990000
8.	Effective State Income Tax Rate	0.07845130
9.	Factor After Local and State Taxes	0.90341725
10.	Federal Income Tax Rate [1]	0.21000000
11.	Effective Federal Income Tax Rate	0.18971762
12.	Revenue Factor (100% - Effective Tax Rates)	0.71369963

Notes and Sources:
[1] PAWC Exh. 3-A Revised

Commission Final Adjustments
TABLE II WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
SUMMARY OF ADJUSTMENTS
R-2023-3043189, R-2023-3043190

	Adjustments (1)	Rate Base (2)	Revenues (3)	Expenses (4)	Depreciation (5)	Taxes-Other (6)	State Income Tax (7)	Federal Income Tax (8)
1.	RATE BASE:							
	CWC:							
2.	Int. & Div. (Table IV)	(31)						
3.	Taxes (Table V)	17,644						
4.	O & M (Table VI)	0						
8.	REVENUES:							
9.								
10.	Concomitant Revenue [1]		0	0		0	0	0
11.								
12.	EXPENSES:							
13.	AMP [2]			(113,746)			9,088	21,978
14.								
28.	TAXES:							
29.	Interest Synchronization (Table III)						(30)	(73)
30.	TOTALS	17,613	0	(113,746)	0	0	9,058	21,905

Notes and Sources:
[1] Revenue adjustments require concomitant adjustments for bad debt & general assessment expenses (Table IB-Wastewater CSS) & forfeited discounts / late payment fee revenues (PAWC Exh. 3-A Revised at 216R) that are determined as a percentage of revenues. Concomitant revenue is then subject to the same adjustment.
[2] No cash working capital adjustment is provided for non-cash adjustments, including for bad debt/AMP and depreciation. Tax adjustments are in Table V.

Commission Final Allowance
TABLE III WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
INTEREST SYNCHRONIZATION
R-2023-3043189, R-2023-3043190

		Amount $
1.	Company Rate Base Claim [1]	489,501,661
2.	Commission Rate Base Adjustments (From Table II)	17,613
3.	Commission Rate Base (Line 1 - Line 2)	489,519,274
4.	Weighted Cost of Debt (From Table IA)	2.15%
5.	Commission Interest Expense - (Line 3 x Line 4)	10,524,664
6.	Company Claim [1]	10,524,286
7.	Total Commission Adjustment	(378)
8.	Company Adjustment	0
9.	Net Commission Interest Adjustment (Line 7 - Line 8)	(378)
10.	State Income Tax Rate	7.99%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	(30)
12.	Net Commission Interest Adjustment (Line 9)	(378)
13.	State Income Tax Adjustment (Line 11)	(30)
14.	Net Commission Adjustment for F.I.T. (Line 12 - Line 13)	(348)
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 14 x Line 15) (Flow to Table II)	(73)

Notes and Sources:

[1] Company Main Brief

Commission Final Allowance
TABLE IV WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - Interest and Dividends
R-2023-3043189, R-2023-3043190

		Accrued Interest		Preferred Stock Dividends	
		Long-Term Debt	Wastewater Specific Long-Term Debt		
		(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$489,501,661	$489,501,661	Company Rate Base Claim	$489,501,661
2.	Commission Rate Base Adjustments	$17,613	$17,613	Commission Rate Base Adjustments	$17,613
3.	Commission Rate Base	$489,519,274	$489,519,274	Commission Rate Base	$489,519,274
4.	Weighted Cost of Debt	2.03%	0.12%	Weighted Cost Pref. Stock	0.00%
5.	Commission Annual Interest Exp.	$9,937,241	$587,423	Commission Preferred Dividends	$0
6.	Average Revenue Lag Days [1]	50.6	50.6	Average Revenue Lag Days [1]	50.6
7.	Average Expense Lag Days [1]	81.6	81.6	Average Expense Lag Days	46.4
8.	Net Lag Days	-31.0	-31.0	Net Lag Days	4.2
9.	Working Capital Adjustment				
10.	Commission Daily Interest Exp.	$27,225	$1,609	Commission Daily Dividends	$0
11.	Net Lag Days	-31.0	-31.0	Net Lag Days	4.2
12.	Commission Working Capital	($844,247)	($49,895)		$0
13.	Company Claim [1]	($844,216)	($49,895)	Company Claim [1]	$0
14.	Commission Adjustment	($31)	$0		$0
15.	Total Interest & Dividend Adj.	($31)			

Notes and Sources:
[1] Company Main Brief.

Commission Final Allowance
TABLE V WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL -TAXES
R-2023-3043189, R-2023-3043190

	Description	Company Proforma Tax Expense Present Rates	Commission Adjustments	Commission Pro forma Tax Expense Present Rates	Commission Allowance	Commission Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days [1]	Accrued Tax Adjustment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	Assessments	$497,495	$0	$497,495	$65,642	$563,137	$1,542.84	190.20	$293,448
2.	Public Utility Realty	$0	$0	$0		$0	$0.00	47.35	$0
3.	Local Property Tax	$1,198,060	$0	$1,198,060		$1,198,060	$3,282.36	64.56	$211,924
		$0	$0	$0		$0	$0.00	0.00	$0
		$0	$0	$0		$0	$0.00	0.00	$0
4.	State Income Tax	$1,981,769	$9,058	$1,990,827	$808,240	$2,799,067	$7,668.68	13.60	$104,294
5.	Federal Income Tax	$4,901,064	$21,905	$4,922,969	$1,954,556	$6,877,525	$18,842.53	-18.40	($346,703)
6.		$8,578,388	$30,963	$8,609,351	$2,828,438	$11,437,789	$31,336	8.3916	$262,963
7.							Commission Allowance		262,963
8.							Company Claim [1]		245,319
9.							Commission Adjustment		17,644

Notes and Sources:
[1] Company Main Brief

Commission Final Allowance
TABLE VI WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL -- O & M EXPENSE
R-2023-3043189, R-2023-3043190

	Description	Company Pro forma Expense	Commission	Commission Pro forma Expenses	Lag Days	Lag Dollars
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Service Company	$1,038,033	$0	$1,038,033	12.05	$12,512,657
2.	Chemicals	$2,129,667	$0	$2,129,667	47.20	$100,523,807
3.	Group Insurance	$1,327,139	$0	$1,327,139	11.00	$14,598,529
4.	Insurance, Other	$1,434,260	$0	$1,434,260	-69.48	($99,645,841)
5.	Labor	$7,280,640	$0	$7,280,640	12.05	$87,762,291
6.	Leased Equip./Rent	$16,425	$0	$16,425	-13.36	($219,391)
7.	Leased Vehicles	$690,475	$0	$690,475	54.08	$37,343,849
8.	Miscellaneous	$3,209,124	$0	$3,209,124	30.46	$97,751,042
9.	Natural Gas	$150,057	$0	$150,057	33.33	$5,001,845
10.	Power	$1,691,208	$0	$1,691,208	31.00	$52,434,512
11.	Purchased Water	$0	$0	$0	35.22	$0
12.	Telephone	$120,976	$0	$120,976	3.88	$469,628
13.	Waste Disposal	$1,704,931	$0	$1,704,931	41.96	$71,539,599
14.	Post Retirement Benefits	$32,234	$0	$32,234	0.00	$0
15.	Pensions	$245,439	$0	$245,439	-6.41	($1,574,484)
16.	Totals	$21,070,608	$0	$21,070,608	18.00	$378,498,043
17.	Commission Average Revenue Lag	50.6				
18.	Less: Commission Avg. Expense Lag	18.0				
19.	Net Difference	32.6	Days			
20.	Commission Pro forma					
22.	O & M Expense per Day	$57,728				
23.	Commission CWC for O & M	$1,881,933				
24.	Less: Company Claim [1]	$1,881,933				
25.	Commission Adjustment	$0				

Notes and Sources:
[1] Company Main Brief

PAWC EXHIBIT NO. 2

Supplement No. 51 to
Tariff Water-PA P.U.C. No. 5

PENNSYLVANIA-AMERICAN WATER COMPANY
(hereinafter referred to as the "Company")
D/B/A
Pennsylvania American Water

RATES, RULES AND REGULATIONS

GOVERNING THE DISTRIBUTION AND SALE OF

WATER SERVICE

IN CERTAIN MUNICIPALITIES AND TERRITORIES LOCATED ADJACENT THERETO IN:

ADAMS, ALLEGHENY, ARMSTRONG, BEAVER, BERKS, BUCKS,

BUTLER, CENTRE, CHESTER, CLARION, CLEARFIELD, CLINTON, COLUMBIA,

CUMBERLAND, DAUPHIN, FAYETTE, INDIANA, JEFFERSON, LACKAWANNA,

LANCASTER, LAWRENCE, LEBANON, LUZERNE, MCKEAN, MONROE, MONTGOMERY,

NORTHAMPTON, NORTHUMBERLAND, PIKE, SCHUYLKILL, SUSQUEHANNA,

UNION, WARREN, WASHINGTON, WAYNE, WYOMING, AND YORK COUNTIES.

Issued: November 21, 2024 **Effective: November 21, 2024**

Issued by:
Justin Ladner, President
Pennsylvania American Water
852 Wesley Drive
Mechanicsburg, PA 17055

https://www.amwater.com/paaw/

NOTICE

This Tariff authorizes Pennsylvania American Water Company to furnish water services to the public in an additional portion of Farmington Township, Clarion County, Pennsylvania.
(Refer to pages 2, 3, 4, 5, 16.6, 35 and 42.)

LIST OF CHANGES

This Tariff supplement authorizes Pennsylvania American Water Company – Water Division to begin to offer or furnish water services to the public in an additional portion of Farmington Township, Clarion County, Pennsylvania, as ordered by the Pennsylvania Public Utility Commission at Docket No. A-2023-3042567 entered September 26, 2024.

LIST OF CHANGES (cont'd)

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(C) means Change

THIS PAGE HELD FOR FUTURE USE

TERRITORIES SERVED

(By State Region and Company Water District)
(All territories are subject to Rate Zone 1 unless otherwise noted)

Central Pennsylvania

Berwick District
Columbia County
The Boroughs of Berwick and Briar Creek and the Township of Briar Creek
Luzerne County
The Borough of Nescopeck and the Township of Salem

Frackville District
Schuylkill County
The Borough of Frackville and adjacent territory in West Mahanoy, Butler, New Castle Townships and portions of Mahanoy and Walker Townships.

Hershey/Palmyra District
Dauphin County
Portions of the Townships of Conewago, Derry (which includes the area commonly referred to as "Hershey"), Londonderry, and West Hanover; adjacent territory in South Hanover,
Lebanon County
The Borough of Palmyra and the Townships of Annville, North Annville, North Londonderry, South Annville and South Londonderry

Lake Heritage District
Adams County
The Townships of Mount Joy, Mount Pleasant and Straban

Mechanicsburg District
Cumberland County
The Boroughs of Camp Hill, Lemoyne, New Cumberland, Shiremanstown, West Fairview and Wormleysburg and the Townships of East Pennsboro, Hampden, Lower Allen, Silver Spring and portions of Middlesex Township and Upper Allen Township
York County
Portions of Townships of Fairview and Newberry

Milton/White Deer District
Northumberland County
The Boroughs of McEwensville, Milton, Northumberland and Watsontown and portions of the Townships of Delaware, East Chillesquaque, Point, Turbot, Upper Augusta and West Chillesquaque
Union County
The Borough of Lewisburg and portions of the Townships of Buffalo, East Buffalo, Gregg, Kelly and White Deer

Steelton District
Dauphin County – [language deleted] **(C)**
The Borough of Steelton and a portion of Swatara Township.

Turbotville District
Northumberland County – Rate Zone 3 **(C)**
The Borough of Turbotville and portions of the Lewis Township.

TERRITORIES SERVED

(By State Region and Company Water District)
(All territories are subject to Rate Zone 1 unless otherwise noted)

Northeastern Pennsylvania

Abington District [language deleted] **(C)**
Lackawanna County
The Boroughs of Clarks Green, Clarks Summit and Dalton and the Townships of Waverly and Glenburn and adjacent territory in South Abington and Abington Townships
Wyoming County
A portion of the Township of Overfield

Bangor Water District
Northampton County
The Boroughs of Bangor and Roseto and the Townships of Plainfield, Upper Mt. Bethel and Washington and portions of the Township of Lower Mt. Bethel.

Blue Mountain Lake District
Monroe County
The Townships of Smithfield and Stroud

Lehman Pike District
Pike County
Portions of the Townships of Delaware, Lehman and West Fall

Mid-Monroe District
Monroe County
Township of Middle Smithfield

Nazareth District
Monroe County
The Townships of Hamilton and Ross
Northampton County
The Boroughs of Nazareth, Pen Argyl, Stockertown, Tatamy and Wind Gap and the Townships of Bushkill, Forks, Lower Nazareth, Palmer, Plainfield and Upper Nazareth

Poconos District
Lackawanna County
Portions of the Township of Jefferson
Monroe County
The Borough of Mount Pocono, the Township of Coolbaugh and the Village of Tobyhanna
Wayne County
Portions of the Township of Salem

TERRITORIES SERVED

(By State Region and Company Water District)
(All territories are subject to Rate Zone 1 unless otherwise noted)

Northeastern Pennsylvania (cont'd)

Scranton District

Lackawanna County – [language deleted] **(C)**

The Cities of Carbondale and Scranton, the Boroughs of Archbald, Blakely, Dickson City, Dunmore, Jermyn, Jessup, Mayfield, Moosic, Old Forge, Olyphant, Taylor, Throop and Vandling and the Townships of Carbondale, North Abington, Scott, South Abington and a portion of the Township of Roaring Brook and Fell

Susquehanna County

The Borough of Forest City

Wayne County

The Village of Browndale (Clinton Township)

Susquehanna District

Susquehanna County

The Boroughs of Great Bend, Hallstead, Lanesboro, Montrose, Susquehanna and Thompson and the Townships of Bridgewater, Great Bend, Harmony and Oakland.

Wilkes-Barre District

Luzerne County

The Cities of Nanticoke, Pittston and Wilkes-Barre, the Boroughs of Ashley, Avoca, Courtdale, Dallas, Dupont, Duryea, Edwardsville, Exeter, Forty Fort, Hughestown, Kingston, Laflin, Larksville, Laurel Run, Luzerne, Plymouth, Pringle, Shickshinny, Sugar Notch, Swoyersville, Warrior Run, West Pittston, West Wyoming, Wyoming and Yatesville and the Townships of Fairview, Hanover, Hunlock, Jenkins, Kingston, Newport, Pittston, Plains, Plymouth, Rice, Wilkes-Barre, Wright, and portions of the Townships of Conyngham, Jackson and Union.

Southeastern Pennsylvania

Coatesville District

Chester County

The City of Coatesville, Parkesburg and South Coatesville and portions of the Townships of Atglen, Caln, East Fallowfield, Highland, Sadsbury, Valley (portions – Rate Zone 2), West Caln and West Sadsbury

Lancaster County

The Borough of Quarryville and the Townships of Bart, Colerain, Eden and Sadsbury**,** and portions of Providence Township.

Glen Alsace District

Berks County

The Borough of St. Lawrence and the Townships of Amity and Exeter and portions of Earl and Ruscombmanor

Norristown District

Montgomery County

The Boroughs of Bridgeport and Norristown and portions of the Townships of East Norriton, East Pikeland, Lower Providence, Perkiomen, Plymouth, Upper Merion, West Norriton, Whitemarsh, Whitpain and Worcester and portions of Skippack

TERRITORIES SERVED

(By State Region and Company Water District)
(All territories are subject to Rate Zone 1 unless otherwise noted)

Southeastern Pennsylvania (cont'd)

Penn Water District (C)
Berks County
The Boroughs of Sinking Spring, West Lawn and Wyomissing Hills and the Townships of Cumru, Lower Heidelberg, South Heidelberg and Spring

Royersford District (C)
Chester County
The Borough of Spring City and the Townships of East Pikeland, East Vincent, Schuylkill and West Vincent and portions of East Coventry
Montgomery County
The Borough of Royersford and the Townships of Limerick, Upper Providence and a portion of the Township of Lower Pottsgrove.

Yardley District
Bucks County
The Borough of Yardley and the Townships of Falls and Lower Makefield

Western Pennsylvania

Brownsville (C)
Fayette County
The Borough of Brownsville and portions of the Townships of Brownsville, Jefferson, Luzerne and Redstone
Washington County
The Boroughs of California, Coal Center and West Brownsville and the Township of East Pike Run

Butler District
Butler County
The City of Butler, the Boroughs of Connoquenessing, East Butler and Saxonburg and the Townships of Butler, Center, Clinton, Connoquenessing, Donegal, Forward, Franklin, Jackson, Jefferson, Lancaster, Oakland, Penn and Summit

Clarion District (C)
Clarion County
The Boroughs of Clarion, Shippenville, Sligo and Strattanville and the Township of Clarion and portions of the Townships of Elk, Farmington, Highland, Knox, Limestone, Monroe, Paint and Piney

Connellsville District (C)
Fayette County
The City of Connellsville, the Borough of South Connellsville and the Township of Connellsville and portions of the Township of Bullskin.

Ellwood District (C)
Beaver County
The Boroughs of Ellwood City, Koppel and portions of the Borough of Big Beaver and the Townships of Franklin and portions of the Township of North Sewickley
Lawrence County
The Boroughs of Ellport and Ellwood City and portions of the Townships of Perry and Wayne

TERRITORIES SERVED

(By State Region and Company Water District)
(All territories are subject to Rate Zone 1 unless otherwise noted)

Western Pennsylvania (cont'd)

Indiana District
Indiana County
The Borough of Indiana and the Township of White

Kane District
McKean County
The Borough of Kane and the Township of Wetmore

Kittanning District
Armstrong County
The Boroughs of Applewold and Kittanning and portions of the Townships of Manor and Rayburn

Mon-Valley District
Allegheny County
The City of Clairton, the Boroughs of Dravosburg, Elizabeth, Glassport, Liberty, Lincoln, Jefferson and West Elizabeth and the Townships of Elizabeth and Forward
Washington County
The City of Monongahela, the Borough of New Eagle and the Township of Carroll

New Castle District
Lawrence County
The City of New Castle and the Boroughs of New Beaver and South New Castle and the Townships of Hickory, Neshannock, Shenango, Taylor and Union; and portions of the Townships of Mahoning and North Beaver

Philipsburg District
Centre County **(C)**
The Boroughs of Philipsburg and South Philipsburg and the portions of Townships of Boggs, Rush and Walker
Clearfield County
The Boroughs of Chester Hill, Osceola Mills and Wallaceton and the Townships of Boggs, Bradford, Graham and Morris and a portion of the Township of Decatur.
Clinton County **(C)**
Portions of the Township of Porter

Pittsburgh District
Allegheny County
The City of Pittsburgh [29th, 30th, 31st and 32nd wards and portions of the 16th, 18th, 19th, 20th and 28th wards], the Boroughs of Baldwin, Bethel Park, Brentwood, Bridgeville, Carnegie, Castle Shannon, Crafton, Dormont, Dravosburg, Green Tree, Heidelburg, Homestead, Ingram, Jefferson, Mount Oliver, Oakdale, Munhall, Pleasant Hills, Rosslyn Farms, Thornburg, West Homestead, West Mifflin, Whitaker and Whitehall and the Townships of Baldwin, Collier, Mt. Lebanon, Scott, South Fayette, South Park, Union and Upper St. Clair and portions of Cecil, Peters, Robinson and Nottingham Townships.
Washington County
The Borough of Finleyville and the Township of Union

TERRITORIES SERVED

(By State Region and Company Water District)
(All territories are subject to Rate Zone 1 unless otherwise noted)

Western Pennsylvania (cont'd)

Punxsutawney District
Jefferson County
The Boroughs of Big Run and Punxsutawney and the Townships of Bell, Gaskill, Henderson, McCalmont and Young

Uniontown District
Fayette County **(C)**
The City of Uniontown and the Townships of Dunbar, German, Menallen, North Union and South Union

Warren District
Warren County
The Borough of Warren and portions of the Townships of Conewango, Glade, Meade and Pleasant

Washington/McDonald
Allegheny County
Portions of the Township of North Fayette
Beaver County
The Borough of Frankfort Springs and the Township of Hanover
Washington County
The City of Washington and the Boroughs of Burgettstown, Canonsburg, Claysville, East Washington, Houston, McDonald, Midway and West Middletown and the Townships of Amwell, Canton, Chartiers, Cross Creek, Hopewell, Independence, Jefferson, Mount Pleasant, North Franklin, North Strabane, South Strabane and portions of the Townships of Buffalo, Cecil, Donegal, East Finley, Fallowfield, Hanover, Morris, Nottingham, Peters, Robinson, Smith, Somerset and South Franklin

PENNSYLVANIA-AMERICAN WATER COMPANY

THIS PAGE HELD FOR FUTURE USE

SCHEDULE OF RATES

RATE ZONE 1 - GENERAL METERED SERVICE FOR RESIDENTIAL RATE CLASS

APPLICABILITY

The rates under this schedule apply throughout the territories, unless otherwise noted on the territories served page, served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

The rates under this schedule are available to customers in the Residential Class.

METERED SERVICE

All water supplied by the Company under this rate schedule for any and all purposes shall be metered. All meters shall be read monthly or bimonthly and the water used shall be paid for in accordance with the following schedule of rates.

RATE

Service Charge For Residential Rate Class

The following monthly service charge shall apply based on the size of meter required to render adequate service, as determined by the Company:

Size of Meter	Service Charge per Month	
5/8 inch	$18.80	**(I)**
3/4 inch	$18.80	**(I)**
1 inch	$18.80	**(I)**
1-1/2 inch	$18.80	**(I)**
2 inch	$127.00	**(I)**
3 inch	$236.80	**(I)**
4 inch	$296.80	**(I)**
6 inch	$444.30	**(I)**
8 inch	$860.40	**(I)**

Consumption Charges For Residential Class:

The following rates shall apply per 100 gallons:

All Usage:	$1.8772	**(I)**

SCHEDULE OF RATES

RATE ZONE 1 - GENERAL METERED SERVICE
FOR COMMERCIAL, MUNICIPAL AND OTHER WATER UTILITY RATE CLASSES

APPLICABILITY

The rates under this schedule apply throughout the territories, unless otherwise noted on the territories served page, served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

The rates under this schedule are available to customers in the **Commercial, Municipal and Other Water Utility Classes**.

METERED SERVICE

All water supplied by the Company under this rate schedule for any and all purposes shall be metered. All meters shall be read monthly or bimonthly and the water used shall be paid for in accordance with the following schedule of rates.

RATE

Service Charge For Commercial, Municipal and Other Water Utility Rate Classes

The following monthly service charge shall apply based on the size of meter required to render adequate service, as determined by the Company:

Size of Meter	Service Charge Per Month Commercial and Municipal		Service Charge Per Month Other Water Utilities Group A & B
5/8 inch	$19.30	(I)	$29.10
3/4 inch	$29.10	(I)	$44.00
1 inch	$48.40	(I)	$73.00
1-1/2 inch	$79.20	(I)	$145.00
2 inch	$127.10	(I)	$232.00
3 inch	$236.90	(I)	$436.00
4 inch	$296.90	(I)	$726.00
6 inch	$444.30	(I)	$1,452.00
8 inch	$860.50	(I)	$2,325.00
10 inch	$1,246.40	(I)	$3,340.00
12 inch	$1,782.20	(I)	$4,793.00
16 inch	$2,423.80	(I)	
18 inch	$2,730.20	(I)	
20 inch	$3,033.50	(I)	

Consumption Charges For Commercial, Municipal and Other Water Utilities Rate Classes:

The following rates shall apply per 100 gallons:

Commercial		
First 16,000 gallons	$1.8033	(I)
All in excess of 16,000 gallons	$1.3523	(I)
Municipal		
First 16,000 gallons	$1.8988	(I)
All in excess of 16,000 gallons	$1.0499	(I)
Other Water Utilities		
Group A All at	$1.0072	(I)
Group B All at	$1.4368	(I)

(I) means Increase

SCHEDULE OF RATES

RATE ZONE 1- GENERAL METERED SERVICE FOR INDUSTRIAL RATE CLASS

APPLICABILITY

The rates under this schedule apply throughout the territories, unless otherwise noted on the territories served page, served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

The rates under this schedule are available to customers in the Industrial Class.

METERED SERVICE

All water supplied by the Company under this rate schedule for any and all purposes shall be metered. All meters shall be read monthly or bimonthly and the water used shall be paid for in accordance with the following schedule of rates.

RATE

Service Charge For Industrial Rate Class

The following monthly service charge shall apply based on the size of meter required to render adequate service, as determined by the Company:

Size of Meter	Service Charge Per Month
5/8 inch	$28.00
3/4 inch	$42.00
1 inch	$70.00
1-1/2 inch	$140.00
2 inch	$224.00
3 inch	$420.00
4 inch	$701.00
6 inch	$1,401.00
8 inch	$2,243.00
10 inch	$3,223.00
12 inch	$4,625.00

Consumption Charges For Industrial Rate Class

The following rates shall apply per 100 gallons per month:

Industrial		
First 16,000	$1.6720	**(I)**
Next 584,000	$1.2860	**(I)**
All In Excess of 600,000	$1.0022	**(I)**
Industrial Curtailment*		
First 16,000	$1.6720	**(I)**
Next 584,000	$1.2860	**(I)**
Next 14,400,000	$1.0022	**(I)**
All In Excess of 15,000,000	$0.6001	**(I)**

***** Subject to the availability criteria and terms and conditions of the Industrial Curtailment Rate of this tariff, the foregoing rates shall apply per 100 gallons per month for service provided under the Industrial Curtailment Rate.

(I) means Increase

SCHEDULE OF RATES

RATE ZONE 1 – GENERAL UNMETERED SERVICE FOR THE RESIDENTIAL CLASS

APPLICABILITY

The rate under this schedule applies throughout the territories, unless otherwise noted on the territories served page, served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

This rate is available to a customer in the Residential Class that is added to the Company's service territory through an acquisition and does not have a meter at the customer's service address on the date of closing of such acquisition.

UNMETERED SERVICE

All water supplied by the Company under this rate schedule will be unmetered. However, the Company may install a meter of appropriate size at the customer's premise based on the Company's meter installation schedule as determined by the Company. Upon installation of a meter at the customer's service address by the Company, a customer will no longer be eligible for this rate schedule and will be charged a service charge based on the size of meter required to render adequate service along with a charge for consumption usage based upon the applicable Rate Zone's metered rates in effect for the residential class.

RATE

The following monthly rate for service shall apply: **$79.00** per month. **(I)**

(I) means Increase

SCHEDULE OF RATES

RATE ZONE 2 – GENERAL METERED SERVCIE
FOR ALL RATE CLASSES

APPLICABILITY
The rates as set forth below apply in the Valley service territories served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY
The rates under this schedule are available to customers in all Customer Classes.

METERED SERVICE
All water supplied by the Company under this rate schedule for any and all purposes, except Qualified Private Fire Hydrants and Public Fire Hydrants, shall be metered. All meters shall be read monthly or bimonthly and the water used shall be paid for in accordance with the following schedule of rates.

RATE

Service Charge for All Rate Classes
The following monthly service charge shall apply based on the size of meter required to render adequate service, as determined by the Company:

Size of Meter	Residential		Commercial/Municipal		Industrial	
5/8 inch	$18.80	(I)	$19.30	(I)	$28.00	(I)
3/4 inch	$18.80	(I)	$29.10	(I)	$42.00	(I)
1 inch	$18.80	(I)	$48.40	(I)	$70.00	(I)
1-1/2 inch	$18.80	(I)	$79.20	(I)	$140.00	(I)
2 inch	$127.00	(I)	$127.10	(I)	$224.00	(I)
3 inch	$236.80	(I)	$236.90	(I)	$420.00	(I)
4 inch	$296.80	(I)	$296.90	(I)	$701.00	(I)
6 inch	$444.30	(I)	$444.30	(I)	$1,401.00	(I)
8 inch	$860.40	(I)	$860.50	(I)	$2,243.00	(I)

Consumption Charges For All Rate Classes:
The following rates shall apply per 100 gallons:

Residential		(C)
All Usage	$1.6276	(I)
Commercial and Municipal		(C)
First 16,000 gallons	$1.5779	(I)
Over 16,000 gallons	$1.3282	(I)
Industrial		(C)
First 16,000	$1.6720	(I)
Next 584,000	$1.2860	(I)
All In Excess of 600,000	$1.0022	(I)

(I) means Increase and (C) means Change

SCHEDULE OF RATES

RATE ZONE 3 - GENERAL METERED SERVICE FOR ALL RATE CLASSES

APPLICABILITY

The rates as set forth below apply in the **Turbotville** service territory served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page. **(C)**

AVAILABILITY

The rates under this schedule are available to customers in all Customer Classes.

METERED SERVICE

All water supplied by the Company under this rate schedule for any and all purposes shall be metered. All meters shall be read monthly or bimonthly and the water used shall be paid for in accordance with the following schedule of rates.

RATE

Service Charge for All Customer Classes

The following monthly service charge shall apply based on the size of meter required to render adequate service, as determined by the Company:

Size of Meter	Residential		Commercial and Municipal	
5/8 inch	$18.80	**(I)**	$19.30	**(I)**
3/4 inch	$18.80	**(I)**	$29.10	**(I)**
1 inch	$18.80	**(I)**	$48.40	**(I)**
1-1/2 inch	$18.80	**(I)**	$79.20	**(I)**
2 inch	$127.00	**(I)**	$127.10	**(I)**
3 inch	$236.80	**(I)**	$236.90	**(I)**
4 inch	$296.80	**(I)**	$296.90	**(I)**
6 inch	$444.30	**(I)**	$444.30	**(I)**
8 inch	$860.40	**(I)**	$860.50	**(I)**
10 inch			$1,246.50	**(I)**
12 inch			$1,782.20	**(I)**

Consumption Charges For Residential, Commercial and Municipal Rate Classes:

The following rates shall apply per 100 gallons:

Residential		
All Usage	$1.8772	**(I)**
Commercial		
First 16,000 gallons	$1.5779	**(I)**
Over 16,000 gallons	$1.3282	**(I)**
Municipal		
First 16,000 gallons	$1.8988	**(I)**
All in excess of 16,000 gallons	$1.0499	**(I)**

SCHEDULE OF RATES

RATE ZONE 4 - METERED (C)

APPLICABILITY

The rates under this schedule apply in the Farmington service territory served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

The rates under this schedule are available to customers in all Customer Classes.

METERED SERVICE

All water supplied by the Company under this rate schedule for any and all purposes shall be metered. All meters shall be read monthly or bimonthly and the water used shall be paid for in accordance with the following schedule of rates.

RATE

Service Charge for All Rate Classes:

All metered customers shall be subject to a monthly service charge of $67.50 per EDU.

Consumption Charges For All Customer Classes:

The following rates shall apply per 100 gallons:

	Usage Charge For All Bill Classes:	
First	5,000 gallons per month per EDU	Service Charge
All over	5,000 gallons per month per EDU	$1.5000

(C) means Change

SCHEDULE OF RATES

[Intentionally blank] **(C)**

SCHEDULE OF RATES

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SCHEDULE OF RATES

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SCHEDULE OF RATES

LOW-INCOME RIDER – ALL RATE ZONES
FOR QUALIFYING RESIDENTIAL CUSTOMERS

APPLICABILITY

This rider applies throughout the territories served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

This rider is available for a customer in the Residential Class that meets the low-income criteria of **200**% based on the Federal Poverty Level ("FPL"). (C)

RATE

The **discount off** the service charge or minimum bill under this tariff will be **as follows**: (C)

Tier 1 (0%-50% of FPL): 90% (C)(D)

Tier 2 (51%-100% of FPL): 75% (C)(D)

Tier 3 (101%-150% of FPL): 60% (C)(D)

Tier 4 (151%-200% of FPL): 30% (C)(D)

The **discount off the** water usage **rate** shall be billed as follows: (C)

Tier 1 (0%-50% of FPL): 80%

Tier 2 (51%-100% of FPL): 65% (C)(D)

Tier 3 (101%-150% of FPL): 40% (C)(D)

Tier 4 (151%-200% of FPL): 20% (C)(D)

SCHEDULE OF RATES

INDUSTRIAL CURTAILMENT RATE

APPLICABILITY

This rate applies throughout the territories served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

This rate is available to a customer that:

(1) purchases water from the Company for industrial purposes;
(2) enters into a Service Agreement for a period of not less than one year;
(3) purchased an average of 15 million gallons of water per month, determined on the basis of metered usage for the twelve months preceding the month in which the Service Agreement becomes effective;
(4) purchases at least 15 million gallons per month each and every month during the term of the Service Agreement;
(5) maintained a maximum hour to average hour ratio of 1.66 or less for the twelve months preceding the billing month; determined on the basis of demand-metered data or such equivalent data as the Company may otherwise agree to accept;
(6) maintains a maximum hour to average hour ratio of 1.66 or less in each billing month during the initial term of the Service Agreement and any renewal terms thereof;
(7) has fully operational non-fire protection water storage capability, available for use during periods of curtailment, equal to ten (10) times the customer's average hourly usage.

RATE

Service Charge

The Service Charges under this rate schedule will be the same as those set forth on the Schedule of Rates Applicable to Rate Zone 1 for Industrial Rate Class.

Consumption Charges

The Consumption Charges for the Industrial Curtailment Rates are shown on the Schedule of Rates Applicable to Rate Zone 1 for Industrial Rate Class and separately identified as applicable only to service under the Industrial Curtailment Rate.

TERMS AND CONDITIONS

Curtailment. The Company may request the customer to curtail its water usage to assist the Company in addressing a system emergency, including insufficiency, for any reason, of the Company's source of supply, treatment/purification, pumping, transmission, storage or distribution capacity to serve customers' demands. However, the maximum continuous period of each requested curtailment may not exceed six (6) hours and the number of curtailments requested may not exceed three (3) in any one calendar month nor exceed a total of six (6) curtailments in any year, measured in twelve-month intervals commencing on the effective date of the Service Agreement. The customer will be provided not less than one hour's notice before a requested curtailment is expected to begin. Notice may be by telephone to the customer contact identified in the Service Agreement.

SCHEDULE OF RATES

INDUSTRIAL CURTAILMENT RATE (CONT'D)

TERMS AND CONDITIONS (CONT'D)

Amount of Curtailment. When a curtailment is requested, the customer shall curtail all usage of Company-supplied water for industrial purposes. Company-supplied water may continue to be used for sanitary purposes, fire suppression and boiler feed-water make-up, provided, however, that such permitted usage shall not exceed, in aggregate, 15% of the customer's average daily usage during the preceding month, prorated for the period of the requested curtailment.

Failure to Curtail When Requested. Failure to comply with the Company's request for curtailment shall result in all usage by the customer during the billing period in which such curtailment was requested being billed at the Company's otherwise applicable Industrial Class Rate plus $0.05 per hundred gallons for all usage in excess of 15 million gallons per month. If the customer fails to comply with the Company's requests for curtailment three times during any one year-period, measured in twelve-month intervals commencing on the effective date of the Service Agreement, the customer shall cease to be eligible for service under the Industrial Curtailment Rate and shall thereafter be billed under the otherwise applicable Industrial Class Rate for service commencing on the first day of the billing period following the billing period in which the event of ineligibility occurred.

Metering. The customer shall pay the Company the cost, including installation, of all metering equipment, including meter interface units, that the Company, in its sole judgement, determines is necessary to properly implement the rate and to monitor the customer's compliance with the availability criteria and the terms and conditions hereof.

Inspection. The customer shall permit Company personnel and the Company's authorized agents, representatives, consultants and experts access to the customer's facilities during regular business hours and upon not less than 24 hours' notice and shall permit inspection thereof including, without limitation, the customer's water storage facilities, as requested by the Company, to determine, to the Company's satisfaction, whether the customer is in compliance with the availability criteria and terms and conditions hereof.

Service Agreement Probation Period. Service Agreements entered into for service under this rate will provide a probation period of 60 days commencing on the effective date of the Service Agreement. Within 15 days of the end of the probation period, the customer may voluntarily terminate the Service Agreement by giving written notice to the Company. Thereafter, the customer will be furnished service under the Company's Industrial Rate. If the Service Agreement is terminated under this provision, then, for the probation period, the customer will be responsible for paying all amounts, if any due to the Company under this rate if the customer failed to curtail when requested.

Voluntary Discontinuance of Service Under This Rate. If a customer at the conclusion of the probation period or of the initial or any renewal term of a Service Agreement entered into under this rate voluntarily, and in accordance with the terms of such Service Agreement, elects not to continue to receive service under this rate such customer may not again request to receive service hereunder for a period of at least twelve months.

SCHEDULE OF RATES

INDUSTRIAL STANDBY RATE

APPLICABILITY

This rate applies throughout the territories served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

This rate is available to a new industrial customer that has an alternative supply source or an existing industrial customer that purchases water from the Company and develops or obtains a new source of supply. In order to obtain service under this rate, the customer must execute a Service Agreement with the Company for a period of not less than two years.

An alternative source of supply for a new customer or a new source of supply for an existing customer, for purposes of this tariff, means any external or internal source of water supply other than the Company, including expansion of, or additions to, an existing source of water supply, that has capacity available to supply the customer with at least 100,000 gallons per day of water on average and, in the case of an existing customer, was added after the effective date of supplement 49 to Tariff Water Pa. P.U.C. No. 4 (August 28, 1998).

NOMINATION OF STANDBY SERVICE

The Service Agreement with the Company will identify the nature and amount of the customer's requirements for Standby Service. Standby Service will be available on a firm basis, an interruptible basis or combinations thereof. Customers electing to receive Standby Service on an interruptible basis will be subject to the same Terms and Conditions of curtailment as set forth in the Industrial Curtailment Rate.

The amounts of Standby Service to be nominated are the customer's requirements to meet Average Day Demand, Maximum Day Demand and Maximum Hour Demand. The sum of the customer's nominated firm and interruptible Maximum Day Demands shall be equal to the maximum day capacity of the new customer's alternative supply or the existing customer's new source of supply or such other reasonable amount agreed to by the Company and the customer.

RATE

Service Charge

The monthly Service Charges under this rate schedule will be the same as those set forth on the Schedule of Rates Applicable to Rate Zone 1 for the industrial rate classification**.**

Demand Charges

The monthly Demand Charges under this rate schedule will be applied to the customer's nominated firm and interruptible standby demands in hundred gallons as set forth in the Service Agreement and are as follows:

	Firm Standby Service		Interruptible Standby Service	
Average Day Demand	$27.7782	**(I)**	$5.1640	**(D)**
Maximum Day Demand	$3.5941	**(I)**	$0.8662	**(D)**
Maximum Hour Demand	$42.5147	**(I)**	$4.7564	**(D)**

(I) means Increase and **(D)** means Decrease

SCHEDULE OF RATES

INDUSTRIAL STANDBY RATE (CONT'D)

RATE (cont'd)

Consumption Charges
In addition to the Service Charges and the Demand Charges, Consumption Charges will be rendered for all water delivered during the standby event in accordance with the following schedule:

Up to Average Daily Deliveries by Company during the seven days preceding the beginning of the standby event multiplied by the days during the standby event	Zone 1 Industrial Rates	
Next gallons - Firm Average Day Demand Nomination multiplied by the days during the standby event	$0.1056 per hundred gallons	(I)
Next gallons - Interruptible Average Day Demand Nomination multiplied by the days during the standby event	$1.3073 per hundred gallons	(I)
All amounts above sum of previously described amounts	$1.9128 per hundred gallons	(I)

TERMS AND CONDITIONS

Initial Notification of Company. Each customer that develops or obtains a new source of supply and retains a connection to the Company's system becomes a Standby Service customer and shall notify the Company within ten (10) days of so doing. The notification shall include the Maximum Day capacity of the source of supply and the customer's nominations of firm and interruptible standby demand requirements. The customer shall within thirty (30) days of developing or obtaining such new source of supply enter into a Service Agreement with the Company for Standby Service.

Each customer that is taking service under a Standby Service Agreement and increases the capacity of its source of supply shall be subject to the same notification requirements with respect to the additional capacity.

Notification of Standby Event. When a customer requires deliveries of water pursuant to this rate schedule, the customer shall notify the Company representative designated in the Service Agreement as soon as practical. The customer shall advise the Company representative of the probable daily quantities and the expected duration of the standby event. The customer also shall provide the Company with a notarized affidavit within thirty (30) days of the beginning of the standby event that describes the cause of the interruption of the customer's alternative supply. When the customer no longer requires deliveries of water pursuant to this rate schedule, the customer shall notify the Company representative. The time between these two notifications shall constitute the duration of the standby event.

SCHEDULE OF RATES

INDUSTRIAL STANDBY RATE (CONT'D)

TERMS AND CONDITIONS (CONT'D)

Use in Excess of Contractual Demands. If and when the actual amounts of Standby Service Demands exceed the nominated amounts set forth in the Service Agreement, the actual demands shall become the nominated demands for the remainder of the term of the Service Agreement. Further, the customer will be billed an additional charge equal to the difference between the actual demand and previously nominated demand multiplied by the applicable demand charge and the number of months since the beginning of the term of the Service Agreement.

Metering Equipment. The customer shall pay the Company the cost, including installation, of all metering equipment, including meter interface units, that the Company, in its sole judgment, determines is necessary to properly implement Standby Service and to monitor the customer's compliance with its terms and conditions.

SCHEDULE OF RATES

RESALE AND ELECTRIC GENERATION STANDBY RATE

APPLICABILITY

This rate applies throughout the territories served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

This rate is available to a new customer that has an alternative supply or an existing customer that develops or obtains a new source of supply. To obtain service under this rate, the customer must purchase water from the Company for resale or electric generation purposes and execute a Service Agreement with the Company for a period of not less than ten years.

An alternative source of supply for a new customer or a new source of supply for an existing customer, for purposes of this tariff, means any external or internal source of water supply other than the Company, including expansion of, or additions to, an existing source of water supply, that has capacity available to supply the customer with at least 100,000 gallons per day of water on average and, in the case of an existing customer, was added after the effective date of supplement 49 to Tariff Water Pa. P.U.C. No. 4 (August 28, 1998).

NOMINATION OF STANDBY SERVICE

The Service Agreement with the Company will identify the nature and amount of the customer's requirements for Standby Service. Standby Service will be available on a firm basis.

The amounts of Standby Service to be nominated are the customer's requirements to meet Average Day Demand, Maximum Day Demand and Maximum Hour Demand. The customer's nominated firm Maximum Day Demand shall be equal to the maximum day capacity of the new customer's alternative supply or the existing customer's new source of supply or such other reasonable amount agreed to by the Company and the customer.

RATE

Service Charge

The monthly Service Charges under this rate schedule will be the same as those set forth on the Schedule of Rates Applicable to Rate Zone 1 for the customer's rate classification**.**

Demand Charges

The monthly Demand Charges under this rate schedule will be applied to the customer's nominated firm standby demands in hundred gallons as set forth in the Service Agreement and are as follows:

	Firm Standby Service	
Average Day Demand	$27.7782	**(I)**
Maximum Day Demand	$3.5941	**(I)**
Maximum Hour Demand	$42.5147	**(I)**

(I) means Increase

SCHEDULE OF RATES

RESALE AND ELECTRIC GENERATION STANDBY RATE (CONT'D)

RATE (cont'd)

Consumption Charges

In addition to the Service Charge and the Demand Charges, Consumption Charges will be rendered for all water delivered during the standby event in accordance with the following schedule:

Up to Average Daily Deliveries by Company during the seven days preceding the beginning of the standby event multiplied by the days during the standby event	Applicable Zone 1 Industrial Rates	
Next gallons - Firm Average Day Demand Nomination multiplied by the days during the standby event	$0.1056 per hundred gallons	(I)
All amounts above sum of previously described amounts	$1.9128 per hundred gallons	(I)

TERMS AND CONDITIONS

Initial Notification of Company. Each customer that develops or obtains a new source of supply and retains a connection to the Company's system becomes a Standby Service customer and shall notify the Company within ten (10) days of so doing. The notification shall include the Maximum Day capacity of the source of supply and the customer's nomination of firm standby demand requirements. The customer shall within thirty (30) days of developing or obtaining such new source of supply enter into a Service Agreement with the Company for Standby Service. Each customer that is taking service under a Standby Service Agreement and increases the capacity of its source of supply shall be subject to the same notification requirements with respect to the additional capacity.

Notification of Standby Event. When a customer requires deliveries of water pursuant to this rate schedule, the customer shall notify the Company representative designated in the Service Agreement as soon as practical. The customer shall advise the Company representative of the probable daily quantities and the expected duration of the standby event. The customer also shall provide the Company with a notarized affidavit within thirty (30) days of the beginning of the standby event that describes the cause of the interruption of the customer's alternative supply. When the customer no longer requires deliveries of water pursuant to this rate schedule, the customer shall notify the Company representative. The time between these two notifications shall constitute the duration of the standby event.

Use in Excess of Contractual Demands. If and when the actual amounts of Standby Service Demands exceed the nominated amounts set forth in the Service Agreement, the actual demands shall become the nominated demands for the remainder of the term of the Service Agreement. Further, the customer will be billed an additional charge equal to the difference between the actual demand and previously nominated demand multiplied by the applicable demand charge and the number of months since the beginning of the term of the Service Agreement.

Metering Equipment. The customer shall pay the Company the cost, including installation, of all metering equipment, including meter interface units, that the Company, in its sole judgment, determines is necessary to properly implement Standby Service and to monitor the customer's compliance with its terms and conditions.

(I) means Increase

SCHEDULE OF RATES

RIDER DIS - DEMAND BASED INDUSTRIAL SERVICE

APPLICABILITY

This rate applies throughout the territories served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

This rider is available to a Customer or Applicant that:

(1) purchases water from the Company for industrial purposes;

(2) enters into a Service Agreement for a term of not less than 2 years;

(3) during the original and any renewal terms of the Service Agreement, agrees to purchase an average of 20 million gallons of water per month at a daily load factor of not less than 0.60; and

(4) has a viable competitive alternative to service from the Company and intends to select that alternative to the detriment of the Company and its other customers.

The Company shall require documentation to establish, to the Company's satisfaction, the existence of a competitive alternative. The Company will require updates of competitive alternatives every five years. Such documentation may include, but is not limited to, an affidavit of the customer or, if the customer is a corporation, an affidavit of one or more of its officers.

RATE

The rate(s) to be charged qualifying customers under this rider will be as set forth in the Service Agreement, provided, however, that such rate(s): (1) shall not exceed the Maximum Rate; (2) shall not be less than the Minimum Rate; and (3) shall be subject to an Escalation Clause, as hereafter defined.

Maximum Rate: The Maximum Rate shall be the charges specified in the Company's Rate Schedule that would otherwise apply to the qualifying customer absent this rider.

Minimum Rate: The Minimum Rate shall be sufficient to recover: (1) the Production Cost of Water; (2) the fixed costs (depreciation and pre-tax return) associated with all new facilities added to serve the customer; and (3) some portion of the fixed costs of the Company's other facilities. For purposes of this rider, the Production Cost of Water shall be the variable cost the Company incurs to produce additional treated water, which consists of expenses for electric power, chemicals and purchased water.

Escalation Clause: The rate set forth in the Service Agreement shall be subject to an Escalation Clause, during the original and any renewal terms of the Service Agreement, based upon changes in published price indices and/or changes in the Company's cost of service, as the Company and the qualifying customer shall agree.

Filing with the Pennsylvania Public Utility Commission/Confidentiality: Service Agreements entered into between the Company and qualifying customers under this rider shall be filed with the Commission on a confidential basis within five (5) days of their execution and shall not be subject to disclosure except by Petition made to and granted by the Commission pursuant to 52 Pa. Code §1.74 and the Commission's Order entered June 6, 1996 at Docket No. R-00943231. However, as required by that Order, the Company shall provide copies of such Service Agreements to the Pennsylvania Office of Consumer Advocate ("OCA") contemporaneously with their filing with the Commission, subject to the OCA's execution of a Confidentiality Agreement.

SCHEDULE OF RATES

RIDER DRS - DEMAND-BASED RESALE SERVICE

APPLICABILITY

This rider applies throughout the territory served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

This rider is available to a Customer or Applicant that:

(1) purchases water from the Company for resale;

(2) enters into a Service Agreement for a term of not less than 10 years;

(3) during the original and any renewal terms of the Service Agreement, agrees to maintain a daily load factor of not less than 0.75; and

(4) has a viable competitive alternative to service from the Company and intends to select that alternative to the detriment of the Company and its other customers.

The Company shall require documentation to establish, to the Company's satisfaction, the existence of a competitive alternative. Such documentation may include, but is not limited to, an affidavit of the customer or, if the customer is a corporation, an affidavit of one or more of its officers.

RATE

The rate(s) to be charged qualifying customers under this rider will be as set forth in the Service Agreement, provided, however, that such rate(s): (1) shall not exceed the Maximum Rate; (2) shall not be less than the Minimum Rate; and (3) shall be subject to an Escalation Clause, as hereafter defined.

Maximum Rate: The Maximum Rate shall be the charges specified in the Company's Rate Schedule that would otherwise apply to the qualifying customer absent this rider.

Minimum Rate: The Minimum Rate shall be sufficient to recover: (1) the Production Cost of Water; (2) the fixed costs (depreciation and pre-tax return) associated with all new facilities added to serve the customer; and (3) some portion of the fixed costs of the Company's other facilities. For purposes of this rider, the Production Cost of Water shall be the variable cost the Company incurs to produce additional treated water, which consists of expenses for electric power, chemicals and purchased water.

Escalation Clause: The rate set forth in the Service Agreement shall be subject to an Escalation Clause, during the original and any renewal terms of the Service Agreement, based upon changes in published price indices and/or changes in the Company's cost of service, as the Company and the qualifying customer shall agree.

Filing with the Pennsylvania Public Utility Commission/ Confidentiality: Service Agreements entered into between the Company and qualifying customers under this rider shall be filed with the Commission on a confidential basis within five (5) days of their execution and shall not be subject to disclosure except by Petition made to and granted by the Commission pursuant to 52 Pa. Code □1.74 and the Commission's Order entered June 6, 1996 at Docket No. R-00943231. However, as required by that Order, the Company shall provide copies of such Service Agreements to the Pennsylvania Office of Consumer Advocate ("OCA") contemporaneously with their filing with the Commission, subject to the OCA's execution of a Confidentiality Agreement.

SCHEDULE OF RATES

RIDER DGS - DEMAND BASED GOVERNMENTAL SERVICE

APPLICABILITY

This rider applies throughout the territories served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

This rider is available to a Customer or Applicant that:

(1) is a department, agency, bureau or instrumentality of the government of the United States or of the Commonwealth of Pennsylvania and agrees to purchase water from the Company;

(2) enters into a Service Agreement for a term of not less than 10 years;

(3) during the original and any renewal terms of the Service Agreement, agrees to purchase an average of 15 million gallons of water per month at a daily load factor of not less than 0.60; and

(4) has a viable competitive alternative to service from the Company and intends to select that alternative to the detriment of the Company and its other customers.

The Company shall require documentation to establish, to the Company's satisfaction, the existence of a competitive alternative. The Company will require updates of competitive alternatives every five years. Such documentation may include, but is not limited to, an affidavit of the customer or, if the customer is a corporation, an affidavit of one or more of its officers.

RATE

The rate(s) to be charged qualifying customers under this rider will be as set forth in the Service Agreement, provided, however, that such rate(s): (1) shall not exceed the Maximum Rate; (2) shall not be less than the Minimum Rate; and (3) shall be subject to an Escalation Clause, as hereafter defined.

Maximum Rate: The Maximum Rate shall be the charges specified in the Company's Rate Schedule that would otherwise apply to the qualifying customer absent this rider.

Minimum Rate: The Minimum Rate shall be sufficient to recover: (1) the Production Cost of Water; (2) the fixed costs (depreciation and pre-tax return) associated with all new facilities added to serve the customer; and (3) some portion of the fixed costs of the Company's other facilities. For purposes of this rider, the Production Cost of Water shall be the variable cost the Company incurs to produce additional treated water, which consists of expenses for electric power, chemicals and purchased water.

Escalation Clause: The rate set forth in the Service Agreement shall be subject to an Escalation Clause, during the original and any renewal terms of the Service Agreement, based upon changes in published price indices and/or changes in the Company's cost of service, as the Company and the qualifying customer shall agree.

Filing with the Pennsylvania Public Utility Commission/Confidentiality: Service Agreements entered into between the Company and qualifying customers under this rider shall be filed with the Commission on a confidential basis within five (5) days of their execution and shall not be subject to disclosure except by Petition made to and granted by the Commission pursuant to 52 Pa. Code § 1.74 and the Commission's Order entered June 6, 1996 at Docket No. R-00943231. However, as required by that Order, the Company shall provide copies of such Service Agreements to the Pennsylvania Office of Consumer Advocate ("OCA") contemporaneously with their filing with the Commission, subject to the OCA's execution of a Confidentiality Agreement.

SCHEDULE OF RATES

RIDER EGS - ELECTRIC GENERATION SERVICE

APPLICABILITY

This rider applies throughout the territories served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

This rider is available to the electric generating facilities of a Customer or Applicant that:

(1) is engaged in the business of generating electric power for sale to the public or to public utilities;

(2) enters into a Service Agreement for a term of not less than 10 years;

(3) agrees to purchase at least 20 million gallons of water per month; and

(4) has a viable competitive alternative to service from the Company and intends to select that alternative to the detriment of the Company and its other customers.

The Company shall require documentation to establish, to the Company's satisfaction, the existence of a competitive alternative. Such documentation may include, but is not limited to, an affidavit of the customer or, if the customer is a corporation, an affidavit of one or more of its officers.

RATE

The rate(s) to be charged qualifying customers under this rider will be as set forth in the Service Agreement, provided, however, that such rate(s): (1) shall not exceed the Maximum Rate; (2) shall not be less than the Minimum Rate; and (3) shall be subject to an Escalation Clause, as hereafter defined.

Maximum Rate: The Maximum Rate shall be the charges specified in the Company's Rate Schedule that would otherwise apply to the qualifying customer absent Rate EGS.

Minimum Rate: The Minimum Rate shall be sufficient to recover: (1) the Production Cost of Water; (2) the fixed costs (depreciation and pre-tax return) associated with all new facilities added to serve the customer; and (3) some portion of the fixed costs of the Company's other facilities. For purposes of this rider, the Production Cost of Water shall be the variable cost the Company incurs to produce additional treated water, which consists of expenses for electric power, chemicals and purchased water.

Escalation Clause: The rate set forth in the Service Agreement shall be subject to an Escalation Clause, during the original and any renewal terms of the Service Agreement, based upon changes in published price indices and/or changes in the Company's cost of service, as the Company and the qualifying customer shall agree.

Filing with the Pennsylvania Public Utility Commission/Confidentiality: Service Agreements entered into between the Company and qualifying customers under this rider shall be filed with the Commission on a confidential basis within five (5) days of their execution and shall not be subject to disclosure except by Petition made to and granted by the Commission pursuant to 52 Pa. Code □1.74 and the Commission's Order entered June 6, 1996 at Docket No. R-00943231. However, as required by that Order, the Company shall provide copies of such Service Agreements to the Pennsylvania Office of Consumer Advocate ("OCA") contemporaneously with their filing with the Commission, subject to the OCA's execution of a Confidentiality Agreement.

SCHEDULE OF RATES

PRIVATE FIRE SERVICE –UNMETERED

APPLICABILITY

The rates under this schedule apply throughout the territories served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page

AVAILABILITY

The rates under this schedule are available to any existing unmetered private fire service customer who continues to utilize the service connection solely for fire prevention purposes in connection with the customer's fire sprinkler system, standpipe connection, or any other emergency or fire protection facilities.

RATE

Service Charge

The following shall apply based on the size of service line connection required to render adequate service, as determined by the Company:

Size of Connection with Main	Service Charge per Month	
1 inch	$5.99	**(I)**
1-1/4 inch	$5.99	**(I)**
1-1/2 inch	$8.63	**(I)**
2 inch	$15.34	**(I)**
3 inch	$34.92	**(I)**
4 inch	$61.49	**(I)**
6 inch	$139.88	**(I)**
8 inch	$248.72	**(I)**
10 inch	$388.48	**(I)**
12 inch	$558.88	**(I)**

Qualified Private Fire Hydrants

Service under this classification is subject to regulations set forth in Section 2.11 "Qualified Private Fire Hydrants".

Qualified Private Fire Hydrants **$26.89** per month **(I)**

[language deleted] **(C)**

(I) means Increase and **(C)** means Change

SCHEDULE OF RATES

PRIVATE FIRE SERVICE –UNMETERED (CONT'D)

TERMS AND CONDITIONS

Billing. Bills for unmetered private fire service and Qualified Private Fire Hydrants will be rendered monthly in arrears.

Inspection. The customer shall permit Company personnel and the Company's authorized agents, representatives, consultants and experts access to the customer's facilities during regular business hours and upon not less than 24 hours' notice and shall permit inspection thereof to determine, to the Company's satisfaction, whether the customer is in compliance with the availability criteria and terms and conditions hereof. The Company shall have the right to install a consumption detection device on the service line or use other investigative measures to determine whether the service line is being utilized for purposes other than fire protection.

Maintenance. Qualified Private Fire Hydrants shall be owned, maintained, and repaired by the customer, at customer's expense, unless otherwise agreed to by the Company. At the Company's discretion, the Company also has the right to maintain and repair Qualified Private Fire Hydrants.

Metering Equipment. Whenever, inspection of consumption detection devices on the service line or other investigative measures, indicate the service connection is being utilized for purposes other than fire protection, the Company will require the installation of a meter of appropriate size, and shall charge for service at the rates set forth under the Company's metered private fire service.

[paragraph deleted] **(C)**

SCHEDULE OF RATES

PRIVATE FIRE SERVICE – METERED

APPLICABILITY

The rates under this schedule apply throughout the territories served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

The rates under this schedule are available to a customer that has existing private fire services that were previously unmetered and subsequently became metered in accordance with the terms and conditions of the rate schedule "Private Fire Service – Unmetered".

RATE

Size of Connection with Main	Minimum per Month	
1 inch	$49.12	(I)
1-1/4 inch	$49.12	(I)
1-1/2 inch	$70.14	(I)
2 inch	$112.26	(I)
3 inch	$210.47	(I)
4 inch	$263.09	(I)
6 inch	$394.62	(I)
8 inch	$605.10	(I)
10 inch	$850.65	(I)
12 inch	$1,137.06	(I)

SPRINKLERED RISK – Minimum charge Including 200 Heads	$73.21	(I)
SPRINKLERED RISK – Over 200 Heads Per Head	$0.19	(I)
STANDPIPE SERVICE	$56.93	(I)

TERMS AND CONDITIONS

Amount of Use. If the service is utilized as a general water service line as indicated by a continuing use of water in excess of 10,000 gallons per month for a period of three or more consecutive months, the customer shall be transferred to the Company's general service rate schedule and the minimum rate by size of meter will apply to this service in addition to the consumption charge.

(I) means Increase

SCHEDULE OF RATES

PUBLIC FIRE SERVICE

APPLICABILITY

The rates under this schedule apply throughout the territories served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

The rates under this schedule are available to customers with applications accepted by the Company under Section 8.5 of this tariff. Service under this classification is subject to regulations set forth in Section No. 8 "Public Fire Hydrants".

RATE

The annual charge for each public fire hydrant **will be billed at 25% of the cost of service which** is **$274.32** per annum or **$22.86** per month except as noted below: **(C)(I)**

Municipalities	Monthly Charge for Each Public Fire Hydrant
Moshannon Valley Area Bradford Township for hydrants contracted prior to February 18, 1988	$6.25

[language deleted] **(C)**

SCHEDULE OF RATES

STATE TAX ADJUSTMENT SURCHARGE

In addition to the net charges provided for in this Tariff, a surcharge **0.00%** will apply to all bills rendered on and after the Effective Date shown on the bottom on this page. **(I)**

The above surcharges will be recomputed, using the elements prescribed by the Commission whenever any of the tax rates used in calculation of the surcharge are changed.

The above recalculations will be submitted to the Commission within 10 days after the occurrence of the event or date which occasioned such recomputations. If the recomputed surcharge is less than the one in effect, the Company will, and if the recomputed surcharge is more than the one in effect the Company may, submit with such recomputation a Tariff or Supplement to reflect such recomputed surcharge, the effective date of which shall be 10 days after filing.

SCHEDULE OF RATES

PENNVEST SURCHARGE

1. In Addition to the charges provided in this tariff, and pursuant to the Commission's Statement of Policy at 52 Pa. Code §§ 69.361 et seq., and Section 1307(a) of the Public Utility Code, a 0.00% surcharge will be uniformly applied to all classes of customers (with the exception of public fire protection customers) for service rendered on or after May 1, 1998. This percentage-based surcharge will be adjusted to conform to the principal and interest amounts payable pursuant to the final PENNVEST amortization schedule. The percentage is determined by:

$$\frac{\text{total yearly PENNVEST principal and interest amounts payable}}{\text{total yearly revenues (less the revenues associated with public fire protection)}}$$

2. The PENNVEST surcharge shall remain in effect if and until included in the general base rates of the Company; provided, however, that the surcharge may be continued or adjusted by the Company as additional PENNVEST loans, which have been approved for other PAWC regionalization projects, are closed.

3. The surcharge will be effective the first billing cycle immediately following final drawdown of a PENNVEST loan. The surcharge is solely designed to begin timely recovery of PENNVEST principal and interest loan obligation(s), and will remain in effect until included by the Company in the general base rates of the Company.

4. The surcharge will be reflected as a separate line item on each customer's bill and will be subject to reconciliation and refund.

5. The Company will segregate all revenues dedicated for PENNVEST repayment so long as the surcharge remains in effect.

SCHEDULE OF RATES

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

EXCEPT PUBLIC FIRE PROTECTION

In addition to the net charges provided for in this Tariff, a charge of 0.00% will apply to all bills rendered with an ending read date on and after the Effective Date shown on the bottom of this page. This charge applies to all Rate Zones **except Rate Zone 4 – Farmington**. (C)

The above charge will be recomputed quarterly using the elements prescribed by the Commission as shown on pages 36, 37 and 38 of this tariff.

SCHEDULE OF RATES

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

1. General Description

Purpose: To recover the fixed costs (depreciation and pre-tax return) of certain non-revenue producing, non-expense reducing distribution system improvement projects completed and placed in service and to be recorded in the individual accounts, as noted below, between base rate case and to provide the Company with the resources to accelerate the replacement of aging water distribution infrastructure, to comply with evolving regulatory requirements imposed by the Safe Drinking Water Act and to develop and implement solutions to regional water supply problems. The costs of extending facilities to serve new customers are not recoverable through the DSIC. Also, Company projects receiving PENNVEST funding are not DSIC-eligible property to the extent that such PENNVEST funding is recovered via a PENNVEST surcharge.

Eligible Property: The DSIC-eligible property will consist of the following:

- services (account 333000), meters (account 334100) and hydrants (account 335000) installed as in-kind replacements for customers:
- mains and valves (account 331800) installed as replacements for existing facilities that have worn out, are in deteriorated condition, or upgraded to meet Chapter 65 regulations of Title 52;
- main extensions (account 331800) installed to eliminate dead ends and to implement solutions to regional water supply problems that have been documented as presenting significant health and safety concern for customers currently receiving service from the Company or the acquired Company;
- main cleaning and relining (account 331800) projects and;
- unreimbursed funds related to capital projects to relocate Company facilities due to highway relocations.

Effective Date: The DSIC will become effective for bills rendered on and after January 1, 1997.

2. Computation of the DSIC

Calculation: The initial charge, effective January 1, 1997, shall be calculated to recover the fixed costs of eligible plant additions that have not previously been reflected in the Company's rate base and will have been placed in service between September 1, 1996, and November 30, 1996. Thereafter, the DSIC will be updated on a quarterly basis to reflect eligible plant addition placed in service during the three-month periods ending one month prior to the effective date of each DSIC update. Thus, changes in the DSIC rate will occur as follows:

Effective Date of Change	Date to which DSIC-Eligible Plant Additions Reflected
April 1	February 28
July 1	May 31
October 1	August 31
January 1	November 30

The fixed costs of eligible distribution system improvements projects will consist of depreciation and pre-tax return, calculated as follows:

Depreciation: The depreciation expense will be calculated by applying to the original cost of DSIC-eligible property the annual accrual rates employed in the Company's last base rate case for the plant accounts in which each retirement unit of DSIC-eligible property is recorded.

SCHEDULE OF RATES

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (CONT'D)

2. Computation of the DSIC (cont'd)

Pre-tax return: The pre-tax return will be calculated using the state and federal income tax rates, the Company's actual capital structure and actual cost rates for long-term debt and preferred stock as of the last day for the three-month period ending one month prior to the effective date of the DSIC and subsequent updates. The cost of equity will be the equity return rate approved in the Company's last fully litigated base rate proceeding for which a final order was entered not more than two years prior to the effective date of the DSIC. If more than two years shall have elapsed between the entry of such a final order and the effective date of the DSIC, then the equity return rate used in the calculation will be the equity return rate calculated by the Commission Staff in the latest Quarterly Report on the Earnings of Jurisdictional Utilities released by the Commission.

DSIC Surcharge Amount: The DSIC will be expressed as a percentage carried to two decimal places and will be applied to the total amount billed to each customer for service under the Company's otherwise applicable rates and charges, excluding amounts billed for public fire protection service and the State Tax Adjustment Surcharge (STAS). To calculate the DSIC, one-fourth of the annual fixed costs associated with all property eligible for cost recovery under the DSIC will be divided by the Company's projected revenue for sales of water (including all applicable clauses and riders) for the quarterly period during which the charge will be collected, exclusive of revenues from public fire protection service and the STAS.

Formula: The formula for calculation of the DSIC surcharge is as follows: (C)

$$DSIC = \frac{(DSI * PTRR + STFT + Dep + e)}{PQR}$$

Where:

DSI = Original cost of eligible distribution system improvement projects net of accrued depreciation and associated accumulated deferred income taxes pertaining to property-related book/tax depreciation timing differences resulting from the use of accelerated depreciation per Internal Revenue Code, 26 U.S. Code § 168.

PTRR = Pre-tax return rate applicable to DSIC-eligible property.

STFT = (State Tax Flow Through) Pre-tax flow through calculated on book-tax timing differences between accelerated tax depreciation and book depreciation net of federal tax.

Dep = Depreciation expense related to DSIC-eligible property.

e = Amount calculated (+/-) under the annual reconciliation feature or Commission Audit as described below.

PQR = Projected quarterly revenues for service (including all applicable clauses and riders) from existing customers plus netted revenue from any customers which will be gained or lost by the beginning of the applicable service period, will be based on the applicable three-month period, including any revenue from acquired companies that are now being charged the rates of the acquiring company.

Quarterly Updates: Supporting data for each quarterly update will be filed with the Commission and served upon the Bureau of Investigation and Enforcement, the Office of Consumer Advocate and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the update.

(C) means Change

SCHEDULE OF RATES
DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (CONT'D)

3. Safeguards

Cap: The DSIC will be capped at 7.50% of the amount billed to customers under otherwise applicable rates and charges.

Audit/Reconciliation: The DSIC will be subject to audit at intervals determined by the Commission. Any cost determined by the Commission not to comply with any of 66 Pa. C.S. sec. 1350, et seq. shall be credited to customer accounts. It will also be subject to annual reconciliation based on a reconciliation period consisting of the twelve months ending December 31 of each year or the utility may elect to subject the DSIC to quarterly reconciliation but only upon request and approval by the Commission. The revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with Section 1307 (e), over a one-year period commencing on April 1 of each year, or in the next quarter if permitted by the Commission. If DSIC revenues exceed DSIC-eligible costs, such over-collections will be refunded with interest. Interest on the over-collections and credits will be calculated at the residential mortgage lending specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. sec. 101, et seq.) and will be refunded in the same manner as an over-collection. The Company is not permitted to accrue interest on under collections.

New Base Rates: The DSIC charge will be reset at zero upon application of new base rates to customer billings that provide for prospective recovery of the annual costs that had theretofore been recovered under the DSIC. Thereafter, only the fixed costs of new eligible plant additions, that have not previously been reflected in the Company's rate base, would be reflected in the quarterly updates of the DSIC.

All Customer Classes: The DSIC shall be applied equally to all customer classes.

Earning Reports: The charge will also be reset at zero if, in any quarter, data filed with the Commission in the Company's then most recent Annual or Quarterly Earnings reports show that the Company will earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the DSIC as described in the Pre-tax return section. The utility shall file a tariff supplement implementing the reset to zero due to overearning on one-days' notice and such supplement shall be filed simultaneously with the filing of the most recent Annual or Quarterly Earnings reports indicating that the Utility has earned a rate of return that would exceed the allowable rate of return used to calculate its fixed cost.

Customer Notice: Customers shall be notified of changes in the DSIC by including appropriate information on the first bill they receive following any change. An explanatory bill insert shall also be included with the first billing.

Residual E-Factor Recovery Upon Reset to Zero: The utility shall file with the Commission interim rate revisions to resolve the residual over/under collection or E-factor amount after the DSIC rate has been reset to zero. The utility can collect or credit the residual over/under collection balance when the DSIC rate is reset to zero. The utility shall refund any over collection to customers and is entitled to recover any under collections as set forth in Section 3 – Audit Reconciliation. Once the utility determines the specific amount of the residual over or under collection amount after the DSIC rate is reset to zero, the utility shall file a tariff supplement with supporting data to address that residual amount. The tariff supplement shall be served upon the Commission's Bureau of Investigation and Enforcement, The Bureau of Audits, the Office of Consumer Advocate, and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the supplement.

Public Fire Protection: The DSIC of a water utility will not apply to public fire protection customers.

SCHEDULE OF RATES

MISCELLANEOUS FEES

Fee Description	Fee Amount	Tariff Reference
1. Service Activation Fee (New Accounts)	$30	See Section 3.4 of Rules and Regulations
2. Turn On Fee (Service Discontinuance or Service Reconnection Fee)	$30	See Section 11.1 of Rules and Regulations
3. Return Check Fee	$20	See Section 10.5 of Rules and Regulations

THIS PAGE HELD FOR FUTURE USE **(C)**

THIS PAGE HELD FOR FUTURE USE **(C)**

RULES AND REGULATIONS

1. The Water Tariff

1.1 Filing and Availability

A copy of this Tariff, which is the rates, rules and regulations under which water service will be supplied by the Company to its Applicants and Customers in Pennsylvania, is on file with the Pennsylvania Public Utility Commission, and is available and open for inspection at the offices of the Company.

1.2 Revisions

This Tariff may be revised, amended, supplemented and otherwise changed from time to time in accordance with the Pennsylvania "Public Utility Code," and such changes, when effective, shall have the same force and effect as the present Tariff.

1.3 Applications of Tariff

The Tariff provisions apply to any party or parties applying for or receiving service from the Company, including Unauthorized Use of Service.

1.4 Amendment of Commission Regulations **(C)**

Whenever Commission regulations in Title 52 of the Pennsylvania Code are duly amended in such a way as would produce a difference between Commission regulations and this tariff, the tariff is deemed to be amended to be consistent with the amendments to the regulations, except that if application of the amendment to Title 52 is discretionary, this tariff will remain unchanged.

RULES AND REGULATIONS

2. Definitions

2.1 Activation of Service Connection: Activation of service connection is the initiation of service in an Applicant's or a Customer's name. It may include, but is not limited to, physically turning water service on at the property, processing the Applicant's or Customer's application or request to transfer service, and an initial service call to the property, if necessary.

2.2 Applicant: An Applicant shall mean any Residential Applicant or Non-Residential Applicant.

2.3 Customer: A Customer shall mean any Residential Customer or Non-Residential Customer.

2.4 Creditworthiness: An assessment of an Applicant's or Customer's ability to meet bill payment obligations for utility services.

2.5 Cross-Connection: A cross-connection is any pipe, valve or other physical connection, or other arrangement or device connecting the pipelines of the Company, or facilities directly or indirectly connected therewith, to and with pipes or fixtures by which any contamination might be admitted or drawn from lines other than the Company's into the distribution system of the Company, or into lines connected therewith.

2.5.1 Equivalent Dwelling Units or EDU: For customers in the service area previously served by Farmington Township, the number of equivalent dwelling units is available at the following link: www.amwater.com/paaw. **(C)**

2.6 Flat Rate Service: Any unmetered customer service connection except public fire service.

2.7 Multiple Premise: A multiple premise is adaptable to subdivision and is used by more than one family or occupant. It shall then be construed to be a double premise, triple premise, etc., depending upon the number of families, occupants, or subdivision.

2.8 Non-Residential Applicant: Any person other than a Residential Applicant who applies for water service. This term shall not include a person, who within sixty (60) days after termination or discontinuance of service, seeks to transfer service within the Company's service territory or to reinstate service at the same address.

2.9 Non-Residential Customer: Any person other than a Residential Customer who is contracting for and/or receiving water service through a meter connection, and who is primarily responsible for the payment of all bills rendered for said service. This term includes a transfer of service from a previous account within the Company's service territory or a reinstitution of service at the same location within sixty (60) days following termination or discontinuance of the previous service.

2.10 Point of Sale: The point of sale of water service or fire protection service contracted for by the customer is the Street Service Connection.

2.11 Qualified Private Fire Hydrant: Any privately-owned fire hydrant located on a Service Line serving said hydrant exclusively. Said hydrant must be located in the open, be visible, and shall not be more than fifty (50) feet from the Company main servicing the hydrant.

RULES AND REGULATIONS

2. Definitions (cont'd)

2.12 Remote Meter Reading Device: A device which by electrical impulse or otherwise transmits readings from a meter, usually located within a residence, to a more accessible location outside of a residence.

2.13 Residential Applicant: A natural person at least 18 years of age not currently receiving service who applies for residential service provided by the Company or any adult occupant whose name appears on the mortgage, deed or lease of the property for which the residential utility service is requested. A Residential Applicant does not include a person who, within 30 days after service termination or discontinuance of service, seeks to have another service reconnected at the same location or transferred to another location within the Company's service territory.

2.14 Residential Customer: A natural person at least 18 years of age in whose name a residential service account is listed and who is primarily responsible for payment of bills rendered for the service or any adult occupant whose name appears on the mortgage, deed or lease of the property for which the residential utility service is requested. A Residential Customer includes a person who, within 30 days after service termination or discontinuance of service, seeks to have service reconnected at the same location or transferred to another location within the Company's service territory.

2.15 Service Line: The Company-owned piping and appurtenances which run between and are connected to the Company's main and its street service connection.

2.16 Service Pipe: That portion of a water line not owned by the Company which transmits water from the Company-owned water main to the Customer's premise. The water service pipe begins at the Company-owned street service connection and continues into the structure on the premise to be supplied.

2.16a Lead Service Pipe: Any Service Pipe constructed with lead or galvanized pipe located downstream from a Service Pipe constructed with lead. **(C)**

2.17 Single Premise: A single premise is herein construed to cover a structure used by one family or occupant or where used by more than one family or occupant not adaptable to subdivision.

2.18 Street Service Connection: A street service connection is hereby understood to include a connection to the main pipe to and including the control valve and control valve box, used to carry water from the main to the curb line. The control valve and box terminates the Company's responsibility for expense of the street service connection.

2.19 Temporary Service: A water service connection which, at the time of application, is anticipated to be in service for less than a 12-month period.

2.20 Unauthorized Use of Service: Unreasonable interference or diversion of service, including meter tampering (any act which affects the proper registration of service through a meter), by-passing unmetered service that flows through a device connected between a main or service line and customer-owned facilities, unauthorized service restoration, or the otherwise taking or receiving of water service without the knowledge or approval of the Company.

RULES AND REGULATIONS

2. Definitions (cont'd)

2.21 Water Use Standards: The maximum water use for certain plumbing fixtures installed in all new construction or renovation to achieve the maximum efficiency of water use which is technologically feasible and economically justified:

Plumbing Fixture	Maximum Water Use	
showerheads	2.5 gallons/minute	(C)
lavatory faucets	2.2 gallons/minute	(C)
kitchen faucets	2.2 gallons/minute	(C)
water closets	1.6 gallons/flush	
urinals	1.0 gallons/flush	(C)

The Company may, at any appropriate time, amend any of the water use standards listed above relevant to technological developments relating to the water use or water efficiency of any of the specified plumbing fixtures. Amendments will also apply only to new construction and renovation.

RULES AND REGULATIONS

3. Application for Service and Street Service Connection

3.1 Application for Service

Any Applicant who wishes to receive water service from the Company under this Tariff must contact the Company and complete an application for service. Applications for service may be made by completing a written application, by telephoning the Company, or through application via the Company's website on the Internet.

Prior to providing utility service, the Company may require the Applicant to provide: (1) information that positively identifies him/her self; (2) the name of any adult occupant whose name appears on the mortgage, deed or lease of the property for which the residential utility service is requested; (3) the names of each adult occupant residing at the location, and proof of their identity; or (4) a cash deposit, as may be required in accordance with Section 7 of this Tariff.

In the case of Residential Applicants, the Company may ask for the combined gross income of all adult occupants at the time the application for service is made; however, the Residential Applicant is not required to provide the information as a condition of receiving water service, unless such applicant is seeking to enroll in the Company's *Help to Others Program*.

3.2 Application for Street Service Connection

Any applicant who wishes to receive street service connection from the company must complete, in writing, an application for service on a form provided by the company. Upon receipt of the proper application, the Company will install a street service connection and will maintain the same at its expense, provided that the property to be served abuts a public highway in which a main pipe of the distribution system of the Company is located at a point at least halfway across the portion of the property abutting said highway. Each applicant shall be entitled to receive one street service connection free of charge. Application for street service connection at a property shall be made in writing. **After the initial street service connection is installed, (C)**
costs for the installation of additional **connections, including if one property is converted into multiple premises, and costs for** replacement connections and for the removal of existing facilities will be the responsibility of the applicant or customer.

3.3 Application for Temporary Service

A Temporary Service will be made after the applicant has paid the entire estimated cost of the installation and abandonment of said Temporary Service. If the actual cost, when determined, differs from the estimate, the Applicant will pay to the Company any excess amount due, or the Company will refund to the Applicant any excess amount paid.

3.4 Activation of Service Connection Whenever an Applicant requests activation of a service connection, the Applicant shall pay a charge as shown on the Miscellaneous Fees rate schedule. The Company may require that the Applicant, or a responsible designee, be present at the time service is activated. For non-regularly-scheduled working hours, the fee is equivalent to the cost incurred by the Company.

3.5 Right to Reject

The Company may limit the amount or character of service it will supply, or may reject applications for service for the following reasons: requested service is not available under a standard rate; requested service may affect service to other customers; for a Non-Residential Applicant's or Non-Residential Customer's failure to establish Creditworthiness; for failure to address prior Company debts; for the Applicant's failure to provide identifying documentation of the Applicant and each adult occupant residing at the location; when identifying documentation cannot be verified; for the reasons set forth in Section 4.1, or for other good and sufficient reasons.

(C) means Change

RULES AND REGULATIONS

4. Service Pipes

3.6 Owner or Landlord Responsibility for Service

If a building is master metered, the Company may, at its discretion, require the building owner or landlord to establish a single account for the building at the master meter in the name of the building owner or landlord even where there are existing meters for individual tenants behind the master meter.

3.7 Acquired Customers

Upon acquisition of a water system where the Company is already the wastewater service provider, the Customer of record for water service shall be the same as the Customer of record for wastewater service.

4.1 Right to Reject **(C)**

The Company may refuse to connect with any piping system or furnish water through one already connected if such system is not properly installed and maintained. The Company may also refuse to connect, **furnish water,** etc., if **service lines beyond the Company's curb stop include a service line made of lead, or where a galvanized service line that was or is downstream of any lead service line or service line is made of an unknown material.** It shall be the Customer's responsibility to provide the Company with **a** certification **regarding the foregoing materials**. **The Company may also refuse to connect, furnish water, etc., if, in the course of executing the Company's Lead Service Pipe replacement plan set forth in Section 4.9.1, a Customer refuses or fails to respond to the Company's request to replace a customer-owned lead service pipe.**

4.2 Stop and Waste Valve

The Customer shall install a stop and waste valve on the service pipe immediately inside of the foundation wall of the building supplied and also on the outlet side of the meter. A double check valve shall also be installed on the outlet side of the meter. Such valves should be so located as to be easily accessible to the occupants and to provide proper drainage for the pipes in the building.

4.3 Service Pipe Limitation

No fixture shall be attached to or any branch made in the service pipe between the meter and the street main. No extension of service shall be made by the Customer to provide water service to another premise.

4.4 Trench Restriction

No service pipe shall be laid in the same trench with gas pipe, sewer pipe, electric cable, telephone cable or any other facility of a public service company, nor within three (3) feet of any open excavation or vault.

4.5 Service Pipe Specifications

The Company may specify the size, kind, quality and depth of the materials which shall be laid between the curb valve and the structure on the premise to be supplied. The Company may also disapprove any plumbing materials used within the premise to be supplied.

RULES AND REGULATIONS

4. Service Pipes (cont'd)

4.6 Check Valve, Backflow Prevention Device and Service Pipe Strainers

A minimum of an approved American Society of Sanitary Engineering 1024 (ASSE 1024) dual check valve shall be installed on all service pipes for residential service. Residential accounts having a lawn irrigation system or fire sprinkler system will be required to install a reduced pressure zone backflow prevention device on the line which services this part of the customer's system. Reduced pressure zone devices are to be tested and/or repaired annually. On service pipes for commercial or industrial service, a backflow prevention device of a type approved by the Company shall be installed. The location of the double check valve or backflow prevention device shall be approved by the Company. Service pipes used for fire protection must in addition have an approved fire service pipe strainer. The double check valve and backflow prevention device shall be owned and maintained by the Customer. Non-residential Customers shall certify annually, in writing to the Company, that these devices have been maintained and are in working order. This is to include a test and /or repairs performed by an inspector who is a certified backflow prevention device tester. They are also subject to Company inspection at reasonable times. A backflow prevention device tester must be certified by an entity that performs training to test and repair Check valves and backflow prevention devices which meet or exceed American Society of Sanitary Engineering (ASSE), American Backflow Prevention Association (ABPA) or equivalent standards and provides certification that such training has been completed in accordance with these requirements.

4.7 Pressure Regulators

When the static pressure is 100 lbs. or more at the Customer's premise, the Customer shall be responsible for the installation and maintenance of a pressure regulator or valve, which shall be installed on the inlet side of the meter.

4.8 Water use Standards for Plumbing Fixtures

The Company may refuse to connect with any piping system or furnish water through one already connected in any new construction or renovation which does not comply with the Company's water use standards for plumbing fixtures.

4.9 Customer Responsibility for Service Pipe

The Customer shall have full responsibility for the installation, repair, replacement, and maintenance of all Service Pipes, including full responsibility for metered water usage attributable to a leak in the Service Pipe; The failure of a Customer to properly install and maintain a Service Pipe, including replacement, shall constitute grounds for the Company to initiate action to terminate service to the Customer and seek recovery for any damage to the Company's facilities caused by an improperly functioning Service Pipe.

Where an undetected, non-surfacing, underground leak is found in a Customer's Service Pipe, the Company shall credit the Customer with a one-time bill adjustment equal to forty percent (40%) of that portion of one month's consumption that exceeds the average monthly usage, based on the prior twelve month period, upon proper verification that the leak has been repaired. The Company **may** require documentation to establish, to the Company's satisfaction, the existence of such repaired leak at the Customer's premises. **(C)**

Such bill adjustment will be provided only to the extent the Customer has not received a bill adjustment for an undetected, non-surfacing, underground leak at the same premises in the past five (5) years.

RULES AND REGULATIONS

4. Service Pipes (cont'd)

4.9.1 Replacement of Lead Service Pipes

4.9.1.1 **(C)**

Notwithstanding Rules 2.11, 2.12, 2.14 and 4.9, the Company shall, provided that the customer consents, replace Lead Service Pipes pursuant to Parts 1 and 2 of its Lead Service Pipe replacement plan (Replacement Plan), subject to **a** budgeted allotment of $**15**.0 million per year for all lead Service Line replacements under its Replacement Plan. [**language deleted**] The Company will replace Lead Service Pipes it encounters when replacing its mains and/or Service Lines up to **5,400** Lead Service Pipe replacements per year within a maximum amount of approximately $**15**.0 million per year. [**language deleted**]The Company will replace a Lead Service Pipe at a Customer's request subject to the following conditions: (1) verification that the Customer has a Lead Service Pipe; (2) the time when the replacement occurs will be determined by the Company based on factors determined by the Company including, without limitation, the number of customer requests for **Lead** Service Pipe replacements in Company-designated geographic areas; (3) the annual cap of **5,400** Lead Service Pipe **replacements**; and (4) availability of funds not used for Part 1 replacements under the Company's budgeted allotment of $**15**.0 million per year. Lead Service Pipe replacements performed pursuant to Replacement Plan – Part 1 will have priority on the use of funds under the annual budget allotment and, therefore, in any year, funds will be used for Lead Service Pipe replacements under Replacement Plan – Part 2 only to the extent that funds are available within the budget allotment and are not allocated to Part 1 replacements planned for that year. Portions of the annual budget allotment of $**15**.0 million that are not expended on Lead Service Pipe replacements under Part 1 or Part 2 of the Replacement Plan in a year will roll-over to the next subsequent year, but use of the roll-over funds will still be subject to the requirement that priority be given to Part 1 replacements. If the Company does not use the excess budgetary allotment in the subsequent year, the excess budgetary allotment will not carry forward into the following year, i.e. excess budgetary allotments will not carryforward on a cumulative basis, subject to the cap on the number of Lead Service Pipe replacements per year. The Company may, but shall not be required, to petition the Commission for approval to modify its annual budget allotment of $**15**.0 million if the Company, in its sole discretion, determines that its annual budget allotment no longer meets the future needs of administering both Parts of the Replacement Plan. However, no change may be made without prior Commission approval. Costs the Company incurs to replace Lead Service Pipes under the Company's Replacement Plan shall be subject to the accounting and rate treatment approved by the Order of the Pennsylvania Public Utility Commission (Commission) entered October 3, 2019 and Settlement at Docket No. P-2017-2606100 (Approval Order). After a Lead Service Pipe is replaced by the Company, the Customer shall own the Service Pipe and shall have full responsibility for the repair, replacement and maintenance of the new Service Pipe, which, upon installation, shall thereafter be subject to the terms of Rules 2.12, 2.14 and 4.9.

4.9.1.2

The Customer shall enter into an Agreement for Replacement of Lead Service Pipe, in a form provided by the Company, prior to the initiation of any work by the Company to replace a Customer's Service Pipe. The Company will provide a two-year warranty on workmanship and materials for any Customer **Lead** Service Pipes it replaces. **(C)**

RULES AND REGULATIONS

4. Service Pipes (cont'd)

4.9.1.3

The Company will verify whether the property for which a Replacement Plan - Part 2 replacement was requested has a **Lead** Service Pipe, and if so, will test water from the tap of the dwelling within four **(C)** weeks after receiving such a request from a Customer or property owner, as applicable. The Company will notify the Customer occupying such property within three days of obtaining the test results.

4.9.1.4

The Company will provide a 10-cup filtered water container to low-income residential Customers who request (or if the Customer occupies a rental property, the property-owner has made, or has authorized the Customer to make, such request) that the Company replace their LSPs under Part 2 of the Company's Replacement Plan, provided that:

1. The Customer's household income is at or below 150% of the Federal Poverty Income Guidelines as determined by the Dollar Energy Fund, which the Company will engage to make this determination based on information available to, or obtained by, Dollar Energy Fund in the same manner Dollar Energy Fund determines a residential Customer's low-income status for other low-income programs of the Company;
2. The Company has verified that the Customer has a **Lead** Service Pipe; and **(C)**
3. The Company's testing of water from the Customer's tap shows that the water has a lead level above the action level established by the Pennsylvania Department of Environmental Protection under the Environmental Protection Agency's Lead and Copper Rule.

4.9.1.5

If the Company, at the request of a Customer or property-owner (as applicable), visits a Customer's site and determines that the Service Pipe has been replaced at or within one-year of the date the Company commenced a project to replace **Lead** Service Pipes and the Customer or property-owner (as applicable) **(C)** provides the Company with a paid invoice, a certification from a certified plumber, and other documentation determined by the Company to be appropriate to verify the replacement, the Company will reimburse the Customer's or property-owner's (as applicable) reasonable costs up to an amount not to exceed 125% of the costs the Company would have incurred to perform the replacement of a similarly-sized Service Pipe in the project area. A **Lead** Service Pipe project will commence on the date the Company begins physical main **(C)** replacement work in the project area that includes the Customer's site or when the Company deploys a contractor crew to the geographic area of a Replacement Plan – Part 2 project to perform grouped work activity, whichever is sooner.

RULES AND REGULATIONS

5. Meters and Meter Installations

5.1 Meter Installations

The Company will furnish and install for each Customer, without charge, a suitable meter and will keep the same in repair. All Company meters will be owned by the Company and remain the property of the Company and shall be accessible to the Company and subject to its control. The Customer, however, shall properly protect the meter from damage by frost or other causes and shall be held responsible for repairs or replacement of the meter made necessary by the negligence or intentional act of the Customer.

5.2 Meter Space and Location

(a) The Customer shall provide a safe, readily-accessible, and protected location for the installation of a meter at such point as will control the entire supply to the premise. The location must be acceptable to the Company as most convenient for its service so that the meter may be easily examined, read, or removed. For new construction, the meter shall be required to be installed outside the building in a meter box/vault unless otherwise approved or specified by the Company. The location of the meter box/vault shall be subject to the express approval of the Company; in most cases, the meter box/vault shall be located inside the property line by the Customer. For existing premises and circumstances, subject to the Company's approval, a meter may be set within the structure to be served, at a location approved by the Company, after the Customer has had the plumbing arranged (including the installation of special devices if required by the Company) to receive the meter at a convenient point inspected and approved by the Company so as to control the entire supply of water to the property.

(b) In addition, at the Company's option, the Customer shall also provide a safe and readily accessible location outside of his residence for the installation of a remote meter reading device. If the Customer does not maintain ready access to the meter and the remote meter reading device, the Company may install an outside meter setting at the Customer's expense.

5.3 Automatic Meter Reading

The Company, without charge to the Customer, may install meters capable of being read automatically from a central location using telephone lines. To install this automatic meter reading equipment, the Company will require access to a telephone line of the premise receiving water service. If installation is denied, the Company may impose a meter reading fee equal to the cost of manually reading the meter or terminate service. If the automatic meter reading equipment can be installed, the Customer must provide the Company with the telephone number of the line to which the equipment will be connected and immediately advise the Company of any changes in the number.

RULES AND REGULATIONS

5. Meters and Meter Installations (cont'd)

5.4 Outside Meter Installations (Meter Box/Vaults)

Meter boxes/vaults shall be owned, furnished, installed and maintained by the Customer which meets the Company's specifications, at Customer's expense, unless otherwise agreed to by the Company. At the Company's discretion, the Company has the right to install **or relocate** a meter box/vault for a Customer's property. The meter box or vault shall be placed immediately inside the Customer's property line or at such other location as may be ordered by the Company. The size and dimensions of the meter box or vault shall be as approved by the Company, give adequate access to the meter, and permit its installation or removal. When a concrete vault is used, a 10 foot wide (minimum) paved surface from the road to the vault, including curb depression, must be provided and maintained for vehicle access. **(C)**

The Company has the authority to require a Customer or property owner, at their expense, to install a meter box/vault prior to restoration of service where there has been a termination of service by Company due to Unauthorized Use of Service.

5.5 Meter Service

All service provided by the Company except public fire and qualified private hydrant protection shall be metered.

5.6 Meter Installations for Flat-Rate Accounts and Unmetered Private Fire Services

Within 45 calendar days of notification by the Company, a flat-rate or unmetered private fire service Customer will provide a suitable meter setting at his own expense. The Company will provide the Customer with standard specifications for the meter setting. Any Customer who does not provide a suitable meter setting within the 45-day period will be subject to termination of service; or, at the option of the Company in the case of an unmetered fire service Customer, the installation will be made by the Company and a surcharge applied to the Customer's bill. The surcharge will be an annual fee equal to 17% of the total actual cost of installation.

5.7 Tampering with Meters or other Utility Equipment

When a meter or other utility equipment on a Customer's premises has been tampered with and the customer enjoys the use of or receives benefit from the water service intended to be metered, it may be reasonably inferred that the Customer tampered with the meter or other utility equipment. The penalties for tampering include but, are not limited to, termination of service, recovery by the Company of all costs related to the tampering, including payment for such water service as the Company may estimate from available information has been used but not registered by the Company's meter, and criminal sanctions pursuant to the laws of the Commonwealth. In addition, the Company has the authority to require a Customer or property owner, at their expense, to install a meter box/vault prior to restoration of service where there has been a termination of service by Company due to tampering with a meter or other utility equipment.

RULES AND REGULATIONS

6. Meter Tests

6.1 Meter Tests

The Company may at any time remove any meter for routine tests, repairs or replacement and may, at its option and expense, test any meter when it has reason to believe that the meter is registering inaccurately.

6.2 Request Tests

Any Customer may request the Company to make a special test of the accuracy of a meter, which test will be made in accordance with 52 Pa. Code § 65.8. The test of a meter requested by a Customer may be witnessed by the Customer or his duly authorized representative.

6.3 Meter Test Fees **(C)**

When the Company makes a special test of the accuracy of a meter at the Customer's request and the meter is found upon said test to be inaccurate according to the standard percentage variable set forth in 52 Pa. Code § 65.8, there shall be no meter test fee paid by the Customer and the Customer's bill shall be adjusted in accordance with 52 Pa. Code § 65.9. When for the Company makes a special test of the accuracy of a meter at the Customer's request and the meter is found upon said test to be accurate according to the standard percentage variable set forth in 52 Pa. Code § 65.8, the following meter fees shall apply in accordance with 52 Pa. Code § 65.8.

Size of Meter	Fee for Test
5/8" to 1" inclusive	As currently in effect
1-1/4" to 2"	As currently in effect
Larger than 2"	As currently in effect

RULES AND REGULATIONS

7. Credit

7.1 Customer's Liability for Charges

The Customer who has made application for water service to any premise shall be held liable for all water service furnished to such premise until such time as the Customer properly notifies the Company to discontinue the service for this account.

7.2 Prior Company Debts

(a) Service will not be furnished to former Customers until any indebtedness to the Company for previous service of the same or similar classification has been satisfied or a payment arrangement has been made on the debt. This rule does not apply to the disputed portion of disputed bills under investigation. The Company will apply this rule to the disputed portion of disputed bills, if, and only if: (1) the Company has made diligent and reasonable efforts to investigate and resolve the dispute; (2) the result of the investigation is that the Company determines that the customer's claims are unwarranted or invalid; and (3) the Commission and/or the Bureau of Consumer Services has decided a formal or informal complaint in the Company's favor and no timely appeal is filed. **The Company will inform the Applicant or Customer of any information (C) relied upon by the Company to determine their responsibility for prior unpaid debt. The Company will also inform the Applicant or Customer of their right to dispute that information, as well as the Applicant or Customer's right to obtain service while a dispute is pending. The Company will not deny service to a Customer or Applicant who has a protection from abuse, or other similar order evidencing domestic violence, on the basis that a prior debt was incurred in the name of someone other than the Customer or Applicant.**

(b) The Company may utilize means in accordance with applicable law of determining an Applicant's or **(C)** Customer's liability for any indebtedness to the Company for previous service, including, but not limited to, the following: (1) use of Company records that containing confidential information previously provided to the Company for service; (2) **a copy of** a valid mortgage, lease or deed, **which the Applicant or Customer is obligated to provide upon Company request**; (3) other information contained in the Company's records that indicate that the Applicant **or Customer** was an adult occupant during the time the prior debt accrued; (4) use of commercially available skip tracing software that contains records of names and addresses; (5) use of information contained in credit reporting data utilized by the Company; **or (6) a web based tool such as "LexisNexis" to research the Applicant's or Customer's information**.

7.3 Customer's Deposit

(a) Non-Residential: The Company may charge deposits to Non-Residential Applicants and Non-Residential Customers if they have bad credit, lack Creditworthiness, or for other reasonable grounds determined by the Company, and as permitted by Federal Bankruptcy Law.

(c) Residential: The Company may charge deposits to Residential Applicants and Residential Customers as permitted by Commission statutes, rules regulations, and as permitted by Federal Bankruptcy Law. **The Company will not charge a security deposit to a Customer or Applicant for service if the Customer or Applicant for service is confirmed to be income eligible for the Company's bill discount program.** **(C)**

(1) Deposits may be required from a Residential Applicant who is unable to establish Creditworthiness to the satisfaction of the Company through the use of a generally accepted credit scoring methodology which employs standards for using the methodology that falls within the range of general industry practice and specifically assess the risk of public utility bill payment.

(2) Deposits may be required from a Residential Customer who fails to comply with the material terms or conditions of a settlement or payment arrangement or is delinquent in the payment of two consecutive bills, or three or more bills within the preceding twelve months.

(C) means Change

RULES AND REGULATIONS

7. Credit (cont'd)

7.3 Customer's Deposit (cont'd):

(c) Residential (cont'd):

(3) Prior to reconnection of service, deposits may be required from a Residential Applicant or Residential Customer whose service was terminated for any of the following reasons: (a) nonpayment of an undisputed delinquent account; (b) failure to complete payment of a deposit, providing a guarantee or establish credit; (c) failure to permit access to meters, service connections or other property of Company for the purpose of replacement, maintenance, repair or meter reading; (d) Unauthorized Use of Service on or about the affected
dwelling; (e) failure to comply with the material terms of a settlement or payment arrangement; (f) fraud or material misrepresentation of identity for the purposes of obtaining utility service; (g) tampering with meters, including, but not limited to, bypassing a meter or removal of an automatic meter reading device or other Company equipment; or (h) violating tariff provisions on file with the Commission so as to endanger the safety of a person or the integrity of the Company's water distribution system.

7.4 Deposit Amount

For Residential Applicants or Customers, the cash deposit required shall be in an amount equal to 1/6 of an Applicant's or Customer's estimated annual bill at the time the Company determines the deposit is required. For Non-Residential Applicants or Customers, the amount of the deposit shall be the Company's projection of the sum of the Company charges in the customer's two highest monthly bills in the 12 months following the deposit. The provisions of 11 U.S.C. §366(b) of the Federal Bankruptcy Code, or any successor statute or provision, shall, if inconsistent, supersede the provisions of this rule.

7.5 Return of Deposit for Current Service

Deposits secured from Non-Residential Customers will be returned when the Customer discontinues service and has no unpaid bills or at the Company's discretion. Deposits secured from Residential Customers shall be returned to the depositor when the Customer has paid all bills for service in full and on time for twelve (12) consecutive months.

7.6 Interest on Deposits for Current Service

Interest on deposits will be accrued until is returned to the Customer. Interest for all Customer deposits shall be computed at the rate governed by 66 Pa. C.S. §1404(c)(6). On deposits held for more than a year, the Company will pay to the depositor, at the end of each calendar year, the interest accrued thereon. Deposits shall cease to bear interest upon termination or discontinuance of the service covered by the deposit.

7.7 Payment Period for Deposits

Any Non-Residential Applicant or Customer shall pay the required deposit in full prior to the provision of service. Any Residential Applicant or Customer shall have up to 90 days to pay the deposit in full and may elect to pay the required deposit in three installments: 50% billed upon the determination that the deposit is required; 25% billed 30 days after the determination; and 25% billed 60 days after the determination. The Residential Applicant or Customer may elect to pay the deposit in full before the due date.

7.8 Landlord Assumption of Responsibility **(C)**

If an Applicant for service, who is a landlord, assumes responsibility for rates and charges related to water or wastewater service provided to tenants and is billed for such service, the landlord must assume responsibility and be billed for both water and wastewater service, if such service is provided or billed by the Company.

RULES AND REGULATIONS

7. Credit (cont'd)

7.9 Denial of Service to Residential Customers (C)

(a) If the Company denies service **to a residential customer**, the Company will inform the Applicant in (C) writing of the reasons for the denial within 3 business days of the denial. With the Applicant's consent, the Company may provide to the Applicant the information electronically. The written denial statement will include the reason for the denial and information on the Applicant's ability to challenge the denial. If the Company is requiring payment of an unpaid balance, the Company will specify in writing the amount of the unpaid balance, the dates during which the balance accrued and the location and customer name at which the balance accrued. The statement will inform the Applicant of the right to furnish a third-party guarantor in accordance with Commission regulations and the Applicant's right to contact the Commission.

(b) The written denial statement will inform the Applicant that if he or she is, based upon household income, confirmed to be eligible for a customer assistance program a deposit is not required. The Company will inform the Applicant of the procedures and documentation necessary to qualify for an exemption from a security deposit requirement.

(c) The written denial statement will include information informing victims of domestic violence with a protection from abuse order, or a court order issued by a court of competent jurisdiction in this Commonwealth which provides clear evidence of domestic violence, that there are special protections available. The Company will not shut off your water service during the winter without PUC permission. Depending on your income, a special payment arrangement may be available. Your service may not be terminated on a Friday. You may not be held responsible for a bill in someone else's name. You may not be required to pay a security deposit. If you are required to pay a security deposit, you may be able to pay it over three payments. You will receive additional 48-hour notice prior to termination.

8. Public Fire Hydrants

8.1 Ownership and Maintenance

All public fire hydrants furnished, installed, and paid for by the Company shall be inspected and maintained by the Company.

8.2 Use Restricted

The use of fire hydrants, whether owned by the Company or by the Customer, will be restricted to the taking of water for the extinguishing of above-ground fires. Water shall not be taken from any fire hydrant for construction purposes, extinguishing underground fires, sprinkling streets, flushing sewers or gutters or for any other use unless specifically permitted by the Company for the particular time and occasion. If the Company grants permission to use fire hydrants for purposes other than the extinguishment of fires, such use will be applied only if an approved backflow prevention device is attached to the hydrant. Said device shall be furnished by the Customer.

8.3 Change in Location

Whenever a change in location of a fire hydrant is ordered by a municipality, such change will be made at the expense of the municipality.

8.4 Public Hydrants Installed on Main Lines Installed After December 31, 1988

Whenever a hydrant is ordered subsequent to the completed installation of a new main installed after December 31, 1988, a NON REFUNDABLE charge of $1000 per hydrant along with any applicable state and federal tax liabilities, plus any local permit/occupancy fees will be required with the application. The fee for any hydrant installed on mains installed prior to January 1, 1989 or installed during construction of new mains installed after December 31, 1988 will be limited to only the pertinent local permit or occupancy costs imposed by the ordering party.

RULES AND REGULATIONS

8. Public Fire Hydrants (cont'd)

8.5 Application for Public Fire Hydrant Service

WBS Element No. _____ **(C)**

Project Description_____ **(C)**

This Application made in triplicate this _____ day of _____, 20____, by _____ (Applicant) (a Municipal corporation of the Commonwealth of Pennsylvania), hereinafter called the "Applicant", to the **Pennsylvania-American Water Company** (a corporation of the Commonwealth of Pennsylvania), doing business in the of _____, hereinafter called the "Water Company."

The Applicant, upon the terms and conditions hereinafter set forth, hereby applies to the Water Company for the installation of (a) public fire hydrant(s) to be located at:

_____

_____

_____

In consideration for which the Applicant agrees to be bound by all the terms and conditions of this application, and the Water Company's tariff as amended from time to time, and to pay the Water Company for service at the schedule of rates in effect from time to time during the rendition of such service.

The further terms and conditions upon which this application may be accepted by the Water Company are as follows:

First: The public fire hydrant shall be furnished, installed, inspected, and maintained by the Water Company.

Second: The use of the public fire hydrant will be restricted to the taking of water for the extinguishing of above-ground fires. Water shall not be taken from any fire hydrant for construction purposes, extinguishing underground fires, sprinkling streets, flushing sewers or gutters, or for any other use unless specifically permitted by the Water Company for the particular time and occasion. If the Water Company grants permission to use the fire hydrant for purposes other than the extinguishment of fires, such use will be applied only if an approved backflow prevention device is attached to the hydrant. Said device shall be furnished by the Applicant.

RULES AND REGULATIONS

8. Public Fire Hydrants (cont'd)

8.5 Application for Public Fire Hydrant Service (cont'd)

Third: Whenever a change in location of a fire hydrant is ordered by the Applicant, such change will be made at the expense of the Applicant.

Fourth: The Water Company will undertake to use reasonable care and diligence in order to prevent and avoid interruptions and fluctuations in service, but it cannot and does not guarantee that such will not occur. The extent of the rights of the Applicant under this application is to receive, but only at times of fire, such supply of water as shall then be available and no other or greater. The Applicant agrees that the Water Company shall not be considered in any manner an insurer of property or persons, or to have undertaken to extinguish fires or to protect any persons or property against loss or damage by fire, or otherwise. The extent of the Company's liability for any and all claims for damages on account of any injury to property or persons by reason of fire, water, failure to supply water or pressure, or for any other cause whatsoever, shall be subject to the limitations set forth in Section 15.1 of its Tariff.

Fifth: The Applicant will indemnify, save harmless, and defend the Water Company from all claims, loss, costs, or damage on account of injury to persons or property occurring as a result of its use or operation, or the existence of said public fire hydrant(s) including but not limited to injury or damage to persons or property by reason of fire, water, failure to supply water or pressure, or for any other cause whatsoever, to the extent that the injury to persons or property is the result of the intentional acts or negligence of the Applicant, its employees or agents, and only to the extent that the Applicant could be held directly liable under the Pennsylvania Political Subdivision Tort Claims Act set forth in 42 Pa.C.S. § 8541 et seq. Nothing in this paragraph shall be deemed a waiver, contractual or otherwise, of the protections afforded the Applicant at 42 Pa. C.S. § 8541 et seq.

Sixth: The Applicant will notify the Water Company of each occasion on which a public fire hydrant is used so that the Company may be able to make a follow-up inspection.

Seventh: The rights and obligations of the Applicant hereunder shall be further subject at all times to the rates, rules and regulations of the Water Company that now exist or which may hereafter be adopted.

RULES AND REGULATIONS

8. Public Fire Hydrants (cont'd)

8.5 Application for Public Fire Hydrant Service (cont'd)

Eighth: The Applicant agrees to provide any permits required by the Applicant relative to this application for public fire hydrant(s) contracted for or its future replacement.

IN WITNESS WHEREOF the Applicant through a duly authorized official has hereunto signed this Application the day and year first above written.

WITNESS APPLICANT

_____ By_____

_____ **(C)**
Print Name

_____ **(C)**
Title

IN WITNESS WHEREOF the Water Company hereby accepts the foregoing Application this day of

_____, 20__.

WITNESS PENNSYLVANIA-AMERICAN WATER COMPANY

_____ By_____
Authorized Representative

[End of Application]

(C) means Change

RULES AND REGULATIONS

9. Sales for Resale

9.1 Water Supply Agreement

When the Company enters into an agreement with another public water supply agency to sell water to said agency pursuant to the Company's metered rates as filed and effective from time to time, any condition of said agreement with respect to service thereunder shall be incorporated by reference to these rules and regulations. Said water supply agreement must be filed with the Public Utility Commission pursuant to the Public Utility Code (66 C.S.A. § 507) when the public water supply agency is a municipal corporation, as defined in said Code.

RULES AND REGULATIONS

10. Payment Terms

10.1 Billing Period

The Company shall render a bill once every billing period to every Customer in accordance with approved rate schedules. The due date for payment of a bill for service to Residential and Non-Residential Customers shall be no less than twenty (20) days from the date of transmittal. Payment received by the Company more than five (5) days after the due date will be charged a penalty of 1.50%, and such penalty will be calculated monthly thereafter only on the overdue portion of the bill. In no event shall the penalty charged exceed 18% annually.

10.2 Service Termination

If a bill is not paid on or before its due date, service will be terminated. If a bill for service to a Qualified Private Fire Hydrant is not paid on or before its due date, service will be terminated upon written notice given fifteen (15) days in advance by the Company to the Customer.

10.3 Consumption not Combined

The use of water by the same Customer in different premises or localities will not be combined, and each installation shall stand by itself.

10.4 Disputed Bills

In the event of a dispute between the Customer and the Company respecting any bill, the Company will forthwith make such investigation as may be required by the particular case and report the result thereof to the Customer. When the Company has made such a report to the Customer sustaining the bill as rendered, the Customer shall have fifteen (15) days from the date of such report in which to pay the bill. If the Company determines that the bill originally rendered is incorrect, it will issue a corrected bill with a new due date for payment. Any amounts received by the Company in excess of the amount disclosed to be due by the Company's investigation of the dispute shall be returned to the Customer if the error arose from any cause other than the incorrect estimating of a Customer's consumption for the period in dispute.

10.5 Return Check Fee

The Customer will pay a fee as shown on the Miscellaneous Fees rate schedule, per incident where a check or automatic transfer of funds, which has been presented to the Company or its agent for payment of any bill, is returned by the bank for any reason including, but not limited to, non-sufficient funds, account closed, payment stopped, two signatures required, postdated, stale date, no account, drawn against uncollected funds, and unauthorized signature. This fee is in addition to any and all charges assessed by the bank.

10.6 Residential Customer Payment Arrangement **(C)**

A **residential** Customer must first contact the Company to request a payment arrangement. The **(C)** Company will take into consideration the size of the unpaid balance, the ability of the Customer to pay, the payment history of the Customer and the length of time over which the bill accumulated. A Customer has the right to decline the Company’s payment arrangement. If a Customer breaks a Company payment arrangement, the Commission may establish a payment arrangement.

RULES AND REGULATIONS

11. Turn-On Fee

11.1 Turn On Fee

A Turn On Fee shall be paid by the Customer prior to the reconnection of service to any premise at which service has been terminated due to non-payment of a bill or other violation of the tariff or discontinued at the Customer's request. For reconnection of service performed during regularly-scheduled working hours, the fee is as shown on the Miscellaneous Fees rate schedule. For restoration of service performed during non-regularly-scheduled working hours, the Company reserves the right to bill the Customer for the cost incurred by the Company (relating to overtime and holiday hours) in addition to the Turn On Fee shown on the Miscellaneous Fees rate schedule. If the Company incurs out of the ordinary expense to affect termination of service for non-payment of bills or due to lack of access to the Company's facilities, the Customer must reimburse the Company for those expenses in addition to the Turn On Fee on prior to service reconnection.

RULES AND REGULATIONS

12. Termination and Discontinuance of Water Service

12.1 Termination by Company

The Company may terminate service upon prior notice for any of the following reasons:

(A) For willful or indifferent waste of water due to any cause;

(B) For failure to protect from injury or damage the meter and connections or for failure to protect and properly maintain the service pipe or fixtures on the property of the Customer;

(C) For molesting or tampering by the Customer, or others with the knowledge of the Customer, with any meter, connections, service pipe, curb valve, seal or any other property of the Company controlling or regulating the Customer's water supply;

(D) Failure to permit access to meters, service connection or other property of the Company for the purpose of replacements, maintenance, operation or repair after proper notice.

(E) For non-payment of water service when due;

(F) For termination of wastewater service by Company in accordance with the Company's wastewater tariff on file with the Commission;

(G) For violation of any rule of the Company except as covered in Section 12.2 below.

12.2 Grounds for Immediate Termination by Company

The Company may terminate service immediately and without prior notice for any of the following reasons:

(A) Unauthorized Use of Service delivered on or about the affected dwelling;

(B) Fraud or material misrepresentation of the Customer's identity for the purpose of obtaining service;

(C) Tampering with meters or other Company equipment;

(D) Violating tariff provisions on file with the Commission so as to endanger the safety of a person or the integrity of the Company's delivery system;

(E) For existence of a cross connection in violation of Rule 22;

(F) For Customer's tendering payment for reconnection of service that is subsequently dishonored, revoked, canceled or otherwise not authorized and which has not been cured or otherwise made in full payment within three business days of the Company's notice; or

(G) After receiving a written termination notice from the Company, for Customer's tendering payment which is subsequently dishonored under 13 Pa. C.S. § 3502, or, in the case of an electronic payment, that is subsequently dishonored, revoked, canceled or otherwise not authorized and which has not been cured or otherwise made in full payment within three business days of the Company's notice.

RULES AND REGULATIONS

12. Termination and Discontinuance of Water Service (cont'd)

12.3 Service Restoration Following Termination of Service

When water service to any premise has been terminated by Company for any reason, it will be restored only after the conditions, circumstances, or practices which caused the water service to be terminated are corrected and all applicable prior debts, deposits and fees paid.

12.4 Discontinuance of Service by Customer

A Customer who wishes to have service discontinued shall give at least three (3) days' notice to the Company, specifying the date on which service is to be discontinued. In the absence of proper notice, the Customer shall be responsible for all service rendered until the time that the Company shall have actual or constructive notice of the Customer's intent to discontinue service. The Customer shall not begin to use nor cease to use water service without the prior consent of the Company.

12.5 Termination of Residential Service for Nonpayment of Bills **(C)**

Before termination of **residential** service, the Company will take the following steps: **(C)**

(A) Provide a written notice of termination to the Customer at least 10 days prior to the scheduled shut off and the notice shall be in the form required by the Commission;

(B) Attempt to make personal contact with the Customer at least three days prior to the shut off date;

(C) During winter months (December 1 through March 31), if the Company cannot reach the Customer at the time of termination, the Company will leave a 48-hour notice at the residence;

(D) After complying with paragraphs (B) and (C), the Company will attempt to make personal contact with the Customer or responsible adult at the time service is terminated. Termination of service will not be delayed for failure to make personal contact;

(E) Upon termination, the Company will make a good faith attempt to provide a post termination notice.

12.6 Landlord Ratepayer Termination of Service for Nonpayment of Bills

Before termination of service to a Landlord Ratepayer that has tenants, the Company will take the following steps:

(A) Provide a written notice of termination to the Landlord Ratepayer at least 37 days prior to the scheduled shut off;

(B) Provide written notice of termination to each dwelling unit reasonably likely to be occupied by affected tenant at least 30 days prior to the scheduled shut off;

(C) Upon termination, the Company will post the termination notice at the dwelling, including common areas when possible.

12.7 Protection from Abuse Order

If you are a **residential Customer who is a** victim of domestic violence and have a Protection from Abuse **(C)** Order or other court order that shows clear evidence of domestic violence, there are special protections available. The Company will not shut off your water service during the winter months (December 1 through March 31), without PUC permission. Depending on your income, a special payment arrangement may be available. Your service may not be terminated on a Friday. You may not be held responsible for a bill in someone else's name. You may not be required to pay a security deposit. If you are required to pay a security deposit, you may be able to pay it over three payments. You will receive additional 48-hour notice prior to termination.

RULES AND REGULATIONS

12. Termination and Discontinuance of Water Service (cont'd) **(C)**

12.8 Termination by Company For Non-Payment of Wastewater Service to a Non-Company Wastewater Provider **(C)**

The Company may terminate a customer's water service due to the customer's non-payment of charges owed to a non-Company wastewater provider, provided that: (1) the Company has an effective agreement with the non-Company wastewater provider pursuant to the Water Services Act or Act of April 14, 2006, codified at 53 P.S. §§ 3102.501 – 3102.507, or an effective agreement with the non-Company wastewater provider; and (2) the customer received prior notice from the non-Company wastewater provider of the past due amounts owed to the non-Company wastewater provider.

Following the issuance of termination notice by the non-Company wastewater provider, the Company will not terminate the customer's water service upon notification to the Company by the non-Company wastewater provider that the customer does either of the following: (1) disputes the termination for non-payment; or (2) produces a medical certification.

Upon termination, the Company will post the termination notice at the customer's premises. The Company's termination notice shall provide the following information in conspicuous format and plain language: (1) a statement that PAWC terminated the customer's water service due to the customer's non-payment of non-Company wastewater charges; (2) a statement that the termination of service is not the result of a customer's non-payment of water charges owed to PAWC; (3) the name and contact number of the non-Company wastewater provider; (4) the contact information for the Company; and (5) a citation to Section 12.8 of PAWC's Water Tariff and the weblink for accessing the Company's tariff webpage.

RULES AND REGULATIONS

13. Abatements and Refunds [Moved from Prior Page] (C)

13.1 Meter Registration

The quantity of water recorded by the meter shall be accepted as correct by both the Customer and the Company except when the meter has been found to be registering inaccurately or has ceased to register. If a meter is found not to have registered for a period or not to have fully measured the entire flow due to meter interference, the Company shall compute the water used by taking the average of the water used for the nearest meter reading period immediately preceding and the meter reading period immediately following the date when the meter was found to be not registering or interfered with. This amount shall be the amount of water used by the Customer during the billing period in which the meter was found not to have registered. Exceptions may be made only if the facts clearly show that the stated method does not give the correct consumption for the period.

14. Service Continuity

14.1 Regularity of Supply

The Company may, at any time, shut off the water in the mains in case of accident, or for the purpose of making connections, alterations, repairs, changes or for other reasons, and may restrict the use of water to reserve a sufficient supply for public fire service or other emergencies whenever the public welfare may require it. The Company will, so far as circumstances permit, notify Customers to be affected by any interruptions in the water service.

RULES AND REGULATIONS

15. Liability of Company

15.1 Liability for Damages

The liability of the Company for any loss or damages due to any negligent act of omission or commission, by the Company, shall be limited to and in no event exceed an amount equivalent to 1/4 the average charge of 4 billing periods to the Customer for the period of service during which such deficiency has occurred. Such average shall be determined by reference to the billed charges to the Customer for the four billing periods immediately prior to the billing period during which the loss or damage occurred.

The Company has limited liability for a service termination performed at the request of a municipality or municipal authority conducted pursuant to 53 P.S. § 3102.501 et seq. or any agreement executed thereunder; all such requests shall be deemed reasonable and proper by the Company without further inquiry. If the Company is found liable for any damages caused by terminating service pursuant to an agreement executed under the law, liability shall be limited to the customer charge for the period in question.

In any legal action where a court does not recognize, or is being asked to interfere with or hamper, the jurisdiction of the Commission to authorize limitations of liability or to exclusively determine whether the service and facilities of the Company are in conformity with the regulation and Order of the Commission, the Company may certify to the Commission the question of the appropriateness of such court action by filing a petition for declaratory judgment with the Commission.

The Company shall not be liable in any action where the loss or damage involves an act of God or does not involve a duty of the Company, including breaks or leaks on facilities that are not owned by the Company, such as breaks, leaks, defects or condition in the Customer’s own service line, meter vault, pressure reducing valve, back flow prevention device, check valve, pressure relief valve, or any other control valve, internal plumbing or fixture, or due to the materials out of which those facilities are made. Further, the Company shall not be liable in any action where the loss or damage does not involve a breach of a duty of the Company, including where the Company does not receive actual notice, either written or oral, that a Company facility (located within the public right-of-way, in a sidewalk or on a Customer’s property) is in need of repair, such as the condition or elevation of a curb box or valve box that is not proven to have been in that condition at the time of installation or that is caused by a plumber, developer, or other person or event.

15.2 Defect in Customer's Service or Customer-Owned Meter

The Company shall in no event be liable for any loss or damage caused by reasons of any break, leak or defect in the Customer's own service pipe, line or fixtures or Customer-owned meter not caused by any negligent act of omission or commission of the Company.

15.3 Responsibility for Repair and Replacement of Private Water Service Pipe

The maintenance, repair or replacement of a private water service pipe is the responsibility of the Customer served by the pipe. The Company reserves the right to require the Customer served by a private water service pipe to repair or replace the pipe, or enter into a main extension deposit agreement, at the Customer's option, if the pipe is leaking, can no longer be used for whatever reason, or is otherwise endangering the public's safety. The Customer must perform such repair or replacement, at the Customer's own expense. The Customer must perform such repair or enter into said main extension deposit agreement immediately after receiving notice from the Company that the private water service pipe is endangering the public safety or within ten days after receiving notice from the Company that the pipe is leaking or can no longer be used. The Company reserves the right to terminate water service to the Customer after legal notice if such required action is not taken within the time indicated above.

RULES AND REGULATIONS

16. General

16.1 Interference with Facilities

No person shall turn the water on or off at any street valve, corporation stop, curb valve or other street connection or disconnect or remove any meter without the consent of the Company. The control of the water supply by the Customer shall be by means of a separate stop and waste valve.

16.2 Inspection of Premises

All service pipes, meters and fixtures, including any and all fixtures within the premise receiving the supply of water, shall, at all reasonable hours, be subject to inspection by any duly authorized employee of the Company.

16.3 Construction of Company Facilities

Water used for construction of Company Facilities (for example flushing a new water main installation), where water service is temporarily furnished or utilized for the construction of Company facilities, shall wherever practical, be supplied through a meter at a rate equal to the production cost of water established in the most recent rate filing of the Company.

16.4 Company Right of Access

The Company's authorized representatives shall have the right of access at all reasonable times to all parts of any premises connected with the system, including meters, service connections and other property owned by it on the premises of the Customer, for the purpose of examining and inspecting connections and fixtures, including the water and/or wastewater metering arrangement, for disconnecting service for any proper cause, or for purposes of replacement, maintenance, operation or repair thereof.

RULES AND REGULATIONS

17. Multiple Meters

17.1 Meters Treated Separately

When more than one meter is installed upon a Customer's premise at the request of a Customer or due to conditions existing upon the premise of the Customer, then each meter shall be treated separately as if it belonged to a separate Customer.

17.2 Registration Combined

In all other instances where more than one meter is installed on a Customer's premise that supplies through a battery metering station, then the registration of all meters shall be combined (other than residential use), and the minimum/service charge shall be the sum of the individual minimum/service charges for all such meters.

18. Separate Meter and Service Line

18.1 Independent Service

Each meter serving a premise or multiple premise shall be supplied through an independent service pipe from a separate control valve or valve box unless specifically approved and authorized by the Company.

RULES AND REGULATIONS

19. Lawn Sprinkler System

19.1 Special Service Connection

Upon request of the Customer, the Company may install a service connection, meter tile and meter to supply an underground lawn sprinkler system. The Customer will be responsible for the entire cost including taxes of this installation, excluding the cost of the meter. Should it be necessary to remove or reinstall the meter on a lawn sprinkler system on a seasonal basis, the cost for this service shall be paid for by the Customer. Upon request of the Customer to turn the water on or off for a lawn sprinkler system on a seasonal basis, the cost of this service shall be paid for by the Customer. The Customer shall be charged $30.00 each time he requests the meter to be set or removed, or the water to be turned on or off.

RULES AND REGULATIONS

20.Termination of Free Service Under Certain Contracts and Other Instruments

20.1 Terms and Conditions

Notwithstanding any contrary provision contained in any deed, grant, contract, franchise, permit, consent or other instrument (other than an instrument expressly set forth in and constituting a part of this tariff) made, executed or delivered between the Company or any predecessor in interest and a Customer of the Company or any predecessor in interest:

(A) Every person who takes water shall pay for all water taken as provided in the applicable schedule of rates set forth herein and subject to the Rules and Regulations of the Company.

(B) No credit, off-set or other allowance shall be allowed by the Company against any water bill on account of the making, execution, or delivery of, or pursuant to any provisions of, any such instrument.

RULES AND REGULATIONS

21. Qualified Private Fire Hydrant

21.1 Terms and Conditions

Qualified Private Fire Hydrants will be installed under the terms and conditions of the Application for Qualified Private Fire Hydrant.

21.2 Application for Qualified Private Fire Hydrant

WBS Element: _____ **(C)**
Project Description: _____ **(C)**
Premise Number: _____ **(C)**
Premise Description: _____ **(C)**
Business Partner Number: _____ **(C)**

This Application made in triplicate this __ day of ____, 20__, by _____ (a corporation of (Applicant) the State of _____), hereinafter called the "Applicant," to the Pennsylvania-American Water Company (a corporation of the Commonwealth of Pennsylvania), doing business in the _____ of _____, hereinafter called the "Water Company."

The Applicant, upon the terms and conditions hereinafter set forth, hereby applies to the Water Company for a __ inch service line connected to the street main of the Water Company on Street between _____ Street and _____Street in the _____ of _____, for the purpose of attaching to said service line the following Qualified Private Fire Hydrant:

_____

_____

such hydrant to be located within or upon the premise of the Applicant abutting the street on which the said main of the Water Company is located.

In consideration for which, the Applicant agrees to be bound by all the terms and conditions of this application, and the Water Company's tariff as amended from time to time, and to pay the Water Company for service at the schedule of rates in effect from time to time during the rendition of such service.

The further terms and conditions upon which this application may be accepted by the Water Company are as follows:

RULES AND REGULATIONS

21. Qualified Private Fire Hydrant (cont'd)

21.2 Application for Qualified Private Fire Hydrant (cont'd)

First: The service connection from the street main to the curbline shall be installed by the Water Company following its receipt of a deposit from the applicant and compliance with such further terms and conditions as set forth hereafter in this paragraph. The Applicant shall deposit with the Water Company, upon notice from the Water Company that it is prepared and able to go forward with work requested by the Applicant, an amount in cash equal to the Estimated Cost. The Estimated Cost shall be all costs to install the service connection, as such costs are determined by the Water Company.

Upon such written notice as described above, a Preliminary Memorandum in the form attached shall be prepared and signed by both parties showing the deposit required in accordance with foregoing provisions. Upon completion of the installation of the service connection, a Final Memorandum in the form attached shall be prepared and signed by both parties showing the deposit required based on the same calculation as set forth above but by using the actual cost of the service connection, including the actual installation cost of the service and other facilities, for the Estimated Cost. If the payment shown to be due on the Final Memorandum differs from that shown on the Preliminary Memorandum, the Applicant will deposit any additional amount shown to be due or the Water Company will refund to the Applicant any excess amount shown to have been deposited. The amount held by the Water Company in accordance with the Final Memorandum shall be the property of the Water Company. The service connection will be maintained by the Water Company at its expense.

Second: The service control valve shall be under the control of the Water Company, except during times of fire, when it shall be under the control of the Chief of the Fire Department of said municipality and the Applicant agrees to obtain approval of said Chief of this application.

Third: All fixtures and openings (other than control valves) shall be kept closed and sealed, and not opened or used except during time of fire or for test of the system by Fire or Insurance Inspector. Applicant shall notify the Company, prior to conducting all tests and immediately upon extinguishing each fire or on completion of the test so said fixtures and openings can again be closed and sealed.

RULES AND REGULATIONS

21. Qualified Private Fire Hydrant (cont'd)

21.2 Application for Qualified Private Fire Hydrant (cont'd)

Fourth: The Water Company will undertake to use reasonable care and diligence in order to prevent and avoid interruptions and fluctuations in service, but it cannot and does not guarantee that such will not occur. The extent of the rights of the Applicant under this application is to receive, but only at times of fire on said premises, such supply of water as shall then be available and no other or greater. The Applicant agrees the Water Company shall not be considered in any manner an insurer of property or persons, or to have undertaken to extinguish fire or to protect any persons or property against loss or damage by fire, or otherwise, and that the extent of the Water Company's liability for any and all claims for damages on account of any injury to property or persons by reason of fire, water, failure to supply water or pressure, or for any other cause whatsoever, shall be subject to the limitations set forth in Section 15.1 of its Tariff as may be amended from time to time.

Fifth: The Applicant will indemnify, save harmless, and defend the Water Company from all claims, loss, costs, or damage on account of injury to persons or property occurring as a result of the installation, operation, performance, or existence of said fire hydrant(s) including but not limited to injury or damage to persons or property by reason of fire, water, failure to supply water or pressure, or for any other cause whatsoever, to the extent that the injury to persons or property is the result of the intentional acts or negligence of the Applicant, its employees or agents.

Sixth: This application does not contemplate uses of fixtures other than herein stated. If a supply of water for use other than extinguishment of fire is desired by the Applicant, then same shall be taken only through a service pipe, separately connected with the street main of the Water Company and not connected directly or indirectly with the service line contemplated by this application. Any waste of water or use of water for purposes other than the extinguishment of fire through this connection shall be deemed a violation of the terms and conditions of this application and the rules and regulations of the Water Company.

Seventh: The Applicant shall furnish, attach and make a part hereof, an accurate sketch showing the pipes, valves, hydrant, and appurtenances contemplated in this application. Such sketch must also show any other water supply system and pipe lines and appurtenances which may exist on the premises.

RULES AND REGULATIONS

21. Qualified Private Fire Hydrant (cont'd)

21.2 Application for Qualified Private Fire Hydrant (cont'd)

Eighth: The rights and obligations of the Applicant hereunder shall be further subject at all times to the rates, rules and regulations of the Water Company that now exist or which may hereafter be adopted.

Ninth: The Applicant agrees to obtain in advance the approval of the Water Company for any change or alteration.

Tenth: Upon acceptance by the Water Company and the completion of the service connection herein contemplated, this application shall be in force as a contract and shall continue as such until the hydrant is removed by the Applicant and this application is cancelled by written notice fifteen (15) days in advance, given by the Applicant, to the Water Company.

Eleventh: The Water Company has the right to discontinue or disconnect said service line and terminate this application, upon written notice given fifteen (15) days in advance by the Water Company to the Applicant for failure to pay any bill when due, or for any violation of any of the terms and conditions of this application, or for any violation of the Water Company's rules. In emergencies, the Water Company also has the right, without notice, to shut off all or any part of its facilities and discontinue the service when deemed necessary.

Twelfth: The acceptance of this application by the Water Company must be executed by its Manager and/or Operations or Business Manager before same becomes effective as a contract.

RULES AND REGULATIONS

21. Qualified Private Fire Hydrant (cont'd)

21.2 Application for Qualified Private Fire Hydrant (cont'd)

IN WITNESS WHEREOF the Applicant _____ has _____ hereunto signed name _____ the day and year first above written.

WITNESS:

_____

_____

_____

(Applicant)

_____ **(C)**
Print Name

_____ **(C)**
Title

APPROVED

WITNESS:

_____
(Chief of Fire Department)
_____ of _____

IN WITNESS WHEREOF the Water Company hereby accepts the foregoing application this day of _____, 20__.

WITNESS: PENNSYLVANIA-AMERICAN WATER COMPANY

_____ **Authorized Representative (C)**

[End of Application]

RULES AND REGULATIONS

21. Qualified Private Fire Hydrant (cont'd)

21.2 Application for Qualified Private Fire Hydrant (cont'd)

PRELIMINARY MEMORANDUM

This Preliminary Memorandum is executed by the parties hereto under and pursuant to the provisions of Paragraph FIRST of a certain agreement in writing between the parties entered into on the ___ day of _____, 20 ___, for the installation by the WATER COMPANY of a certain service line therein described. It is, therefore, agreed and stipulated:

(a) Estimated Cost of Service Line $_____

(b) Estimated cost of other facilities $ _____

(c) Total Amount of Deposit $_____

This Preliminary Memorandum shall be attached to the original agreement in accordance with the provisions of Paragraph FIRST thereof.

Dated _____ PENNSYLVANIA-AMERICAN WATER COMPANY
Date of Deposit

WITNESS:

_____BY _____ Title

WITNESS: APPLICANT

_____ _____

[End of Preliminary Memorandum]

RULES AND REGULATIONS

21. Qualified Private Fire Hydrant (cont'd)

21.2 Application for Qualified Private Fire Hydrant (cont'd)

FINAL MEMORANDUM

This Final Memorandum is executed by the parties hereto under and pursuant to the provisions of Paragraph FIRST of a certain agreement in writing between the parties entered into on the ___ day of _____, 20 ___, for the installation by the WATER COMPANY of a certain service line therein described. It is, therefore, agreed and stipulated:

(a) Actual cost of Service Line $_____

(b) Actual cost of other facilities $ _____

(c) Total amount of deposit $_____

This Final Memorandum shall be attached to the original agreement in accordance with the provisions of Paragraph FIRST thereof.

Dated _____PENNSYLVANIA-AMERICAN WATER COMPANY
Date of Deposit

WITNESS:

_____ BY _____
Title

WITNESS: APPLICANT

_____ _____

[End of Final Memorandum]

RULES AND REGULATIONS

22. Cross-Connections

22. Prohibition of Cross-Connection

No cross-connection shall be installed or continued. A cross-connection shall be considered to be eliminated if the method of backflow prevention is approved in writing by the Company. The cost of installation, material, and maintenance of the backflow prevention device shall be paid for by the Customer. Thereafter, it is the responsibility of the Customer to have an annual test and/or repairs of the device performed by an inspector who is a certified backflow prevention device tester. A backflow prevention device tester must be certified by an entity that performs training to test and repair Check valves and backflow prevention devices which meet or exceed American Society of Sanitary Engineering (ASSE), American Backflow Prevention Association (ABPA) or equivalent standards and provides certification that such training has been completed in accordance with these requirements.

22.2 Right of Company to Terminate Water Service

The Company shall have the right to terminate water service under any of the following circumstances:

(A) Violation by a Customer or by a property owner or occupant of these Rules and Regulations regarding Cross-Connections;

(B) Failure to have the annual test and /or repairs of the backflow prevention device performed.

(C) Receipt by the Company of an order from DER, health authorities, plumbing inspectors or another similar agency to discontinue service to premises on the grounds of violation of any federal, state or local law, ordinance, rule or regulation or of these Rules and Regulations regarding Cross-Connections, or because of danger to health because of the existence of Cross-Connections, or upon notice to the Company from any such agency that it has ordered a Cross-Connection existing on the premises to be discontinued and that such order has not been complied with.

RULES AND REGULATIONS

23. MAIN EXTENSIONS FOR NON BONA FIDE SERVICE APPLICANTS

23.1 General Provisions

(A) When an extension to serve an applicant other than a Bona Fide Service Applicant (i.e Non Bona Fide Applicant) is required or requested, such extension will be made under the terms of an "Water Facilities Line Extension Agreement" which can be viewed on the Company's website at www.pennsylvaniaamwater.com.

(B) The Company shall have exclusive right to determine the type and size of mains to be installed and the other facilities required to render adequate service. Should it be necessary, in the Company's opinion, to extend beyond the last lot in a street to connect to an existing main thus to provide more adequate and reliable service, this additional extension shall be part of the total main extension whenever the last lot in the street does not exceed 150 feet to make such connection. All estimated or actual cost figures referred to in the "Water Facilities Line Extension Agreement" shall include a reasonable allowance for overhead costs.

(C) In determining the length of and necessity for any extension required pursuant hereto, the terminal point of such extension shall, in all cases, be at the point in the curb line which is equidistant from the side property lines of the last lot for which water service is requested, except as provided in Paragraph B above wherein it may be necessary to extend beyond the last lot and connect to an existing main to provide for more adequate and reliable water service. A street service connection will be provided only when Customer service lines from the curb to the premises to be served are laid in a straight line at right angles to the curb line.

(D) For the purposes of this rule:

"Bona Fide Service Applicant" shall mean a person or entity applying for General Water Service to an existing structure for which a valid occupancy permit has been issued if such structure is within the Company's certificated service territory and is either: (1) a primary residence of the Applicant; or (2) a place of business. An Applicant shall be deemed a "**Non Bona Fide Service Applicant"** if such Applicant is requesting water service to: (1) a building lot or subdivision; or (2) a primary residence if such primary residence was constructed, or the request for water service was made, as part of a plan for the development of a residential subdivision. To become an Applicant, a person or entity must file a signed application for a new Street Service Connection to qualifying premises and request water service to begin immediately following installation of the Street Service Connection. If the Company shall be delayed or prevented from installing the Street Service Connection for a period of one (1) year or more from the date of application, the Bona Fide Service Applicant shall have the right to withdraw the Application for Service.

"Street Service Connection" shall mean a pipe with appurtenances used to conduct water from a distribution main of the Company to the curb line of the premises.

RULES AND REGULATIONS

23. MAIN EXTENSIONS FOR NON BONA FIDE SERVICE APPLICANTS (cont'd)

23.1 General Provisions (cont'd)

(E) If there is no other way in which service can be provided, the prospective residential Customer may obtain a recorded easement or right-of-way that runs with the land, of at least fifteen (15) feet in width connecting the property to be served to the street wherein the Company's main is located. Such easement or right-of-way shall not cross multiple properties. The prospective residential Customer shall present the Company with a certified copy of a duly recorded instrument which (a) describes the easement or right-of-way by metes and bounds, (b) gives the easement in perpetuity to the heirs, successors and assigns of said prospective Customer, (c) grants access to the service pipe for purposes of repair and replacement, and (d) is recorded in the County Office of the Recorder of Deeds.

(F) The Non Bona fide Service Applicant shall be required to install water mains, service lines, hydrants and appurtenances thru a Company pre–qualified contractor retained by the applicant and to pay all costs associated related thereto. The Company has the sole right to accept or reject the proposed contractor. Additionally, the Company may undertake construction of all or part of the facilities otherwise subject to this section, in which event the Non Bona Fide Service Applicant will retain financial responsibility for the installation of mains, services, hydrants and appurtenances as specified in an Offsite Marketing Agreement.

(G) All costs related to construction, materials, installations, permits, engineering, franchise applications, legal fees, inspections, relocations of facilities as required, and overheads, whether initially incurred by the Applicant or the Company, related to the water main shall be the responsibility of the Non Bona Fide Applicant.

(H) The Non Bona Fide Service Applicant shall provide an estimate of the cost of construction to the Company, which must be acceptable to the Company. Estimates which appear to be inaccurate may be rejected by the Company.

(I) The Non Bona Fide Service Applicant shall obtain all necessary permits from federal, state, and local authorities. If any of these authorities require the Company to obtain such permits, the Applicant shall provide all engineering, design, research and complete the application for the Company's signature and submission.

RULES AND REGULATIONS

23. MAIN EXTENSIONS FOR NON BONA FIDE SERVICE APPLICANTS (cont'd)

23.1 General Provisions (cont'd)

(J) **Customer Refunds:** The cost of design, construction, and installation of the Water facilities shall be advances in aid of construction subject to refunds by the Company to the Applicant. The Company hereby agrees to refund to the Applicant, during the period of ten years from the execution date of the Agreement, a per customer refund amount for each additional customer for whom a street service connection shall be directly connected to the Water Facilities. The per customer refund, for a residential customer, shall be determined as follows: for each street service connection made for a residential customer, the refund will be three times the average annual revenue of a residential customer. The average annual revenue for residential customers will be based upon the calculation set forth in the Company's last approved base rate case. For non-residential customers, the refund shall be equal to the actual revenue the Company receives for the first twelve months of water sales to that specific customer. In order to be entitled to refunds, Applicant must be in compliance with the terms and conditions of this Water Facilities Line Extension Agreement. The Company may refuse to provide earned refunds where Applicant owes additional dollars to the Company for the project in this Agreement or any other Water Facilities Extension Agreement. Notwithstanding the foregoing, however, the total amount refunded shall not exceed the final construction costs of the Water Facilities. The Applicant may request refunds once in each calendar quarter, furnishing the Company, at such time, a listing of additional customers. However, the failure on the part of the Applicant to make such a request shall not constitute a waiver of any rights hereunder to relieve the Company of the obligation to make refunds with reasonable promptness.

(K) Additional terms and conditions pertaining to transfer of ownership of facilities, "as built" information, etc. are contained in the "Water Facilities Line Extension Agreement" as indicated in section 23.1 (A).

RULES AND REGULATIONS

23. MAIN EXTENSIONS FOR NON BONA FIDE SERVICE APPLICANTS (cont'd)

23.2 Offsite Development Marketing Contracts

Where it is prudent, reasonable and in the public interest, the Company may, at its option enter into offsite development marketing contracts which depart from the standard terms of the extension deposit agreement. These marketing agreements shall become effective thirty (30) days after the Company has filed a copy thereof with the Pennsylvania Public Utility Commission, or in the event that the Commission institutes an investigation, at such time as the Commission grants its approval thereof.

RULES AND REGULATIONS

24. Water Conservation Contingency Plan

24.1 Conservation Measures

(a) General

If the Company is experiencing a short term supply shortage, the Company may request general conservation of inside water uses and may impose mandatory conservation measures to reduce or eliminate nonessential uses of water.

(b) Voluntary Conservation

The Company shall first request voluntary curtailment of all nonessential uses of water.

(c) Mandatory Conservation

If voluntary cooperation does not achieve satisfactory results, mandatory compliance will be imposed. If any Customer refuses to comply with such mandatory measures, the Company may either adjust the outside water valve connection in a manner which will restrict water flow or otherwise restrict flow such as by the insertion of a plug device. Prior to taking such action, an authorized Company employee shall make a bona fide attempt to deliver notice of the valve adjustment or other flow restriction to a responsible person at the affected premise and fully explain the reason for the proposed flow restriction and the means by which the Customer may eliminate the grounds for such flow restriction. Actual cost associated with restricting, terminating and restoring said service shall be paid by the Customer.

RULES AND REGULATIONS

24. Water Conservation Contingency Plan (cont'd)

(d) Nonessential uses of water include

(1) The use of hoses, sprinklers, or other means for sprinkling or watering of shrubbery, trees, lawns, grass, plants, vines, gardens, vegetables, flowers, or other vegetation.

(2) The use of water for washing automobiles, trucks, trailers, trailer houses, or any other type of mobile equipment.

(3) The washing of streets, driveways, parking lots, service station aprons, office buildings, exteriors of homes, sidewalks, apartments, or other outdoor surfaces.

(4) The operation of any ornamental fountain or other structures making a similar use of water.

(5) The use of water for filling swimming or wading pools.

(6) The operation of any water-cooled comfort air conditioning which does not have water-conserving equipment.

(7) The use of water from fire hydrants shall be restricted to extinguishing of fires only.

(8) The use of water from fire hydrants to flush a sewer line or sewer manhole.

(9) The use of water for commercial farms and nurseries other than a bare minimum to preserve plants, crops, and livestock.

24.2 Drought Emergency

In the event of a drought emergency, as declared by a Basin Commission and by a proclamation of executive order issued by the Governor, the Company is authorized to collect fines set forth in its Local Water Rationing Plan as filed with and approved by the Pennsylvania Emergency Management Agency.

RULES AND REGULATIONS

25. Residential Structures Equipped with Automatic Fire Protection Systems

25.1 Prohibition

The Company will not impose a standby charge upon owners of residential structures solely because said structure is equipped with an automatic fire protection system. After installing the necessary metering equipment as set forth in 25.2, the customer will be billed at rates applicable to any residential customer with a 5/8" meter. Customers whose service was supplied through meters larger than 5/8" prior to installing metering equipment necessary to equip an automatic fire protection system, will continue to be billed at the rate for the meter that existed prior to the installation.

25.2 Definitions

For purposes of this section, a "residential structure" is any building which contains only individually metered dwelling units intended for human habitation. "Standby charges" are charges for the availability of water supply during fire emergency in addition to the regular rates, but do not include costs for the upsizing of company-owned service lines and meters, costs for the installation of additional lines, or the cost of backflow prevention devices for purposes of residential sprinkler systems. Any such charges, together with any and all applicable taxes, shall be borne by the owner of a residential structure on a one-time basis.

RULES AND REGULATIONS

26.Classification of Revenue (Classes of Service)

26.1 Residential

Sales to single premises residences or to multiple premises residences, including apartment houses, apartment buildings, detached houses, rowhouses, townhouses, condominiums and mobile homes, where each unit or premises is served through a separate meter.

26.2 Commercial

A. Sales to multiple premises residence served through a single meter or battery of meters.

B. Sales to all private institutions and organizations.

C. Sales to manufacturing or processing establishments where the water is not used principally in the manufacturing or processing functions.

D. Include sales to residences such as apartment and boarding houses, hotels, offices, office buildings, retail and wholesale commercial establishments, laundries, churches, private schools and colleges, private hospitals, private cemeteries, etc., where water is not used primarily for industrial purposes.

26.3 Industrial

A. Sales to manufacturing or processing establishments where the water is used principally in the manufacturing or processing functions.

B. Sales of water to manufacturing and industrial consumers such as steel works, automobile manufacturers, breweries, public utilities (other than sales to Other Water Utilities), stock yards, packing houses, grain elevators, bottling works.

26.4 Municipal

A. Sales to governmental agencies (other than sales of water for resale).

B. Sales of water for municipal and other public purposes, other than public fire protection. Include sales for sewer and street flushing, also for street and sidewalk construction when done by the municipality. Also include sales such as the filling of public swimming pools, drinking and display fountains, parks, **public** schools **and colleges**, hospitals, cemeteries, buildings. Sales of water for City, County, State and Federal uses are to be included in this classification. **(C)**

(C) means Change

RULES AND REGULATIONS

26.Classification of Revenue (Classes of Service) (cont'd)

26.5 Other Water Utilities (Sales for Resale)

Sales to private or public water utilities, municipal corporation or water authority where the water is to be resold to customers of the utilities.

Group A: Customers purchasing water as a primary source of supply as evidenced by their relationship of maximum day use to average day use.

Group B: Customers purchasing water for emergency or peak shaving purposes as evidenced by their relationship of maximum day use to average day use.

26.6 Private Fire Protection

Covers all unmetered and metered charges for private fire protection service, including Qualified Private Fire Hydrants.

26.7 Public Fire Protection

Charges rendered to municipalities for public fire hydrant (rental) stand-by charges.

RULES AND REGULATIONS

27. MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS

27.1 General Provisions

(A) (1) The Company will extend existing distribution mains for a Bona Fide Service Applicant making application for water service, other than temporary or seasonal service, under, and pursuant to, these Rules and Regulations, to commence immediately upon installation of the Street Service Connection.

(2) When the costs of the main extension exceed the Company Contribution as defined in Subsection (D), then such extension will be made under and pursuant to the terms of an Extension Deposit Agreement for Bona Fide Service Applicant, as hereinafter set forth, and subject to the applicable provisions of these Rules and Regulations. The construction of facilities to serve such Bona Fide Service Applicant will not commence until an Extension Deposit Agreement for Bona Fide Service Applicant has been executed and all applicable terms and conditions therein have been satisfied by the Applicant.

(3) When an extension is requested or required to serve a Bona Fide Service Applicant requiring Special Utility Service, construction of the extension or of any facilities needed to provide such Special Utility Service will not commence until a Special Utility Service Agreement has been executed and all applicable terms and conditions therein have been satisfied by the Applicant including, but not limited to, paying the requisite sum of money for construction of the facilities needed to furnish Special Utility Service, in accordance with the Preliminary Memorandum to such Special Utility Service Agreement.

(B) The Company shall have exclusive right to determine the type and size mains to be installed and the other facilities required to render adequate service. If a Bona Fide Service Applicant desires any facilities other than those facilities determined by the Company to be required to render adequate service, those other facilities will be installed by, owned by, maintained by, and will become the sole responsibility of the Bona Fide Service Applicant.

(C) In determining the length of and necessity for any extension required pursuant hereto, the terminal point of such extension shall, in all cases, be at the point in the curb line which is equidistant from the side property lines of the last lot for which water service is requested, except as provided in Paragraph B above wherein it may be necessary to extend beyond the last lot and connect to an existing main to provide adequate and reliable water service. A street service connection will be provided only when Customer service lines from the curb to the premises to be served are laid in a straight line at right angles to the curb line.

RULES AND REGULATIONS

27. MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS (cont'd)

27.1 General Provisions (cont'd)

(D) For the purposes of this rule:

1) "Bona Fide Service Applicant" shall mean a person or entity applying for General Water Service to an existing structure for which a valid occupancy permit has been issued or lot for which a building permit has been issued if such structure or lot is within the Company's certificated service territory and is either: (1) a primary residence of the Applicant; or (2) a place of business. An Applicant shall not be deemed a Bona Fide Service Applicant if such Applicant is requesting water service to: (1) a building lot or subdivision; or (2) a primary residence if such primary residence was constructed, or the request for water service was made, as part of a plan for the development of a residential subdivision; or (3) water service for temporary or seasonal services. To become a Bona Fide Service Applicant, a person or entity must file a signed application for a new Street Service Connection to qualifying premises, extend the necessary service line to the curb line of premises, agree to separate any existing private well system from the public water system in accordance with the Cross Connection provisions of the Company's tariff, and request water service to begin immediately following installation of the Street Service Connection. If the Company shall be delayed or prevented from installing the Street Service Connection for a period of one (1) year or more from the date of application, the Bona Fide Service Applicant shall have the right to withdraw the Application for Service.

2) "Company Contribution" shall mean that portion of the main extension costs which the Company will fund based upon the following formula:

Average Annual Revenue	$_____
Minus	
Operation and Maintenance Expenses	$_____
Subtotal	$_____
Divided by	
Depreciation Rate and Weighted Cost of Debt	_____%
Company Investment	$_____

The Bona Fide Service Applicant will be required to pay one-third of the Customer Contribution prior to the commencement of any work by the Company. The Customer Contribution will be an amount equal to the difference between the Company Contribution and the cost of the main extension and applicable interest charges. After the initial payment any remainder will be amortized over thirty-six (36) equal monthly installments beginning with the Bona Fide Service Applicant's first bill for water service. The Company will also provide information to the applicant on financial institutions that may offer financing to the Bona Fide Service Applicant for the line extension.

(a) The Average Annual Revenue for residential customers with a 5/8" meter shall be calculated based upon the average residential consumption for customers with a 5/8" meter used to determine rates approved by the Pennsylvania Public Utility Commission in the Company's last approved general rate increase. Consumption for residential customers with larger meters will be determined by selecting up to twenty (20) existing customers with similar meter sizes, as available, which have received service for at least twelve (12) months prior to the date of application, and applying the Company's latest approved rates to the annual average consumption of those customers.

RULES AND REGULATIONS

27. MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS (cont'd)

27.1 General Provisions (cont'd)

(b) The Average Annual Revenue for Commercial and Municipal customers shall be calculated by selecting up to twenty (20) existing, similar commercial or municipal ratepayers, as available, which have received service for at least twelve (12) months prior to the date of application, to determine the average consumption to be used in calculating the Company Contribution.

(c) Operation and Maintenance Expenses shall be the Company's average annual operation and maintenance costs associated with serving an additional customer.

(d) The depreciation rate shall be the Company's depreciation rate for the facilities to be installed as determined in the Company's last approved general rate increase filing.)

(e) The weighted cost of debt shall be the Company's long-term debt costs as determined in the Company's last approved general rate increase.

3) "General Water Service" shall mean basic residential water service or water service for general commercial or municipal purposes but excluding, without limitation, water service for seasonal or temporary uses and water service solely for sprinkler systems or for any other fire protection use.

4) "Special Utility Service" shall mean any residential or business service which exceeds that required for ordinary residential purposes. By way of illustration but not limitation, Special Utility Service shall include: the installation of facilities such as oversized mains, booster pumps and storage tanks as necessary to provide adequate flows or to meet specific pressure criteria, or service to large water consuming commercial and industrial facilities. An otherwise Bona fide applicant requesting service which includes a □special utility service□ component is entitled to a Bona fide applicant status, including the corresponding contribution toward the costs of the line extension which do not meet the special utility service criteria.

5) "Street Service Connection" shall mean a pipe with appurtenances used to conduct water from a distribution main of the Company to the curb line of the premises.

(E) (1) Street service supplying a premises shall not pass through or across any premises or property other than that to be supplied, except as provided in (E) (2). No water pipes or plumbing in any premises shall be extended therefrom to adjacent or other premises. Street service connections shall not be connected to hydrant branch lines and they will not be permitted to cross intervening properties unless there is no other way in which service can be provided and appropriate easements are obtained. Only service applicant(s) owning property in fee which directly abuts a street wherein there is an existing main of the Company will be permitted to attach a street-service connection to the Company's main for the purpose of receiving water service therefrom, unless appropriate easements are obtained pursuant to Subsection (2) below. It is understood that such property owned in fee by the said service applicant(s) shall be a complete standard building lot which complies with the existing zoning laws and regulations of the municipality in which such property is located. It is further understood that if such property owned in fee by a service applicant(s) is subsequently sold, the purchaser of such property will be entitled to receive water service upon compliance with all of the provisions of this tariff, but that the seller of such property shall only be entitled to continue to receive service if such seller complies with all of the provisions of this tariff.

RULES AND REGULATIONS

27. MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS (cont'd)

27.1 General Provisions (cont'd)

(2) A service applicant(s) may obtain a recorded easement or right-of-way that runs with the land, of at least fifteen (15) feet in width connecting the property to be served to the street wherein the Company's main is located. Such easement or right-of-way shall not cross multiple properties. The service applicant(s) shall present the Company with a certified copy of a duly recorded instrument which (a) describes the easement or right-of-way by metes and bounds, (b) gives the easement in perpetuity to the heirs, successors and assigns of said service applicant(s), (c) grants access to the service pipe for purposes of repair and replacement, and (d) is recorded in the County Office of the Recorder of Deeds. **(C)**

(F) Where substantial public need exists and the public health and safety may be compromised by the absence of a public water supply in a portion of the Company's authorized service territory, the Company, subject to the Commission's prior approval, may install main extensions and Special Utility Service facilities without the payment of the Customer Contribution that would otherwise be required under subparagraphs (A)(3) and (D)(2), respectively of the Rule 27.1.

PENNSYLVANIA-AMERICAN WATER COMPANY

Calculation of Company Funded Portion of Main Extensions
(For Illustrative Purposes Only)

Average Annual Revenue	$340
minus	
Operation and Maintenance Expenses	$102
Subtotal	$238
Divided by	
Depreciation Rate (Mains Only) and Weighted Debt Costs	6.08%
Total	$3,914

(C) means Change

RULES AND REGULATIONS

27. MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS (cont'd)

27.2 EXTENSION DEPOSIT AGREEMENT FOR BONA FIDE SERVICE APPLICANT

THIS AGREEMENT entered into this _____ day of_____,20___, by and between Pennsylvania-American Water Company hereinafter called the "COMPANY," and_____ hereinafter called the "BONA FIDE SERVICE APPLICANT."

WHEREAS, the BONA FIDE SERVICE APPLICANT desires extension of the water mains of the COMPANY, as hereinafter described;

NOW, THEREFORE, this agreement WITNESSETH:

FIRST: THE COMPANY contracts and agrees to lay the water main(s) (and other facilities, if any) as shown in red on the diagram hereto attached and made a part hereof described and located as follows:

(LEAVE SPACE FOR DESCRIPTION)

SECOND: It is expressly understood and agreed that if the COMPANY shall be delayed or prevented from installing the water main (s) (and other facilities, if any) hereinabove described because of its failure to secure pipe or other construction materials, or for any other causes beyond its control, such failure or delay in performance shall be excused; provided, however, if such failure or delay in performance shall extend for a period of more than one (1) year from the date thereof, the BONA FIDE SERVICE APPLICANT shall have the right to cancel and terminate this agreement on thirty (30) days' written notice to the COMPANY, and thereafter both parties shall be relieved of all duties and obligations arising hereunder. But this right to cancel and terminate by the BONA FIDE SERVICE APPLICANT shall not be invoked if the COMPANY has received the construction material, in which event the COMPANY shall have the obligation to prosecute the work diligently to its completion.

RULES AND REGULATIONS

27. MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS (cont'd)

27.2 EXTENSION DEPOSIT AGREEMENT FOR BONA FIDE SERVICE APPLICANT (cont'd)

THIRD: The BONA FIDE SERVICE APPLICANT hereby agrees, upon notice from the COMPANY that it is prepared and able to go forward with the work provided in Paragraph FIRST hereof, to pay for the actual costs of extending the facilities as provided in Paragraph FIRST hereof, by depositing an amount in cash equal to (1) the Estimated Cost less (2) the Company Contribution. Items (1) and (2) are to be determined as follows:

(1) The Estimated Cost shall be the estimated cost of the extension, including the estimated cost of said main(s) and the estimated cost of any other facilities which the COMPANY shall have determined are required to render adequate service.

(2) The Company Contribution shall be a credit as determined by the following formula:

Average Annual Revenue	$_____
Minus	
Operation and Maintenance Expenses	$_____
Subtotal	$_____
Divided by	
Depreciation Rate and Weighted Cost of Debt	_____%
Company Investment	$_____

multiplied by the number of bona fide service applicants who will be directly served by the extension.

The BONA FIDE SERVICE APPLICANT agrees to pay at least one-third of the deposit prior to the commencement of construction of the extension, and the remainder of the deposit plus applicable interest charges in thirty-six (36) equal monthly installments beginning with BONA FIDE SERVICE APPLICANT'S first bill for water service. Interest will be charged on the unpaid portion each month, equal to the monthly portion of the embedded cost of long-term debt recognized in the Company's last approved general rate increase.

RULES AND REGULATIONS

27. MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS (cont'd)

27.2 EXTENSION DEPOSIT AGREEMENT FOR BONA FIDE SERVICE APPLICANT (cont'd)

Upon such written notice, a Preliminary Memorandum in the form attached shall be prepared and signed by both parties showing the deposit required in accordance with foregoing provisions. Upon completion of the installation of the extension, a Final Memorandum in the form attached shall be prepared and signed by both parties showing the deposit required based on the same calculations as set forth above but by using the actual cost of the extension, including the actual installation costs of the mains and other facilities, for the Estimated Cost and calculating the Applicable Credit. If the deposit shown to be due on the Final Memorandum differs from that shown on the Preliminary Memorandum, the APPLICANT will deposit any additional amount shown to be due or the COMPANY will refund to the APPLICANT any excess amount shown to have been deposited. Any additional amount of required deposit must be made by the APPLICANT to the COMPANY before the granting of refunds to the APPLICANT.

FOURTH: The COMPANY hereby agrees to refund to the BONA FIDE SERVICE APPLICANT during the period of ten (10) years from actual date of deposit as shown on the Preliminary Memorandum a Per-Customer Refund Amount for each additional BONA FIDE SERVICE APPLICANT for whom a street service connection shall be directly attached to such main extension, as distinguished from extensions or branches thereof; provided however, that the total amount refunded shall not exceed the amount of the original deposit by the BONA FIDE SERVICE APPLICANT to the COMPANY as of the date of the refund, and further provided that, if there is an unpaid balance owed then the Per-Customer Refund Amount shall first be deducted from the unpaid balance. All or any part of the deposit not refunded within said 10-year period shall become the property of the COMPANY. The Customer Refund Amount shall be the Company contribution divided by the number of customers connected to the initial main extension.

FIFTH: The BONA FIDE SERVICE APPLICANT may request refunds under Paragraph FOURTH, once in each Calendar quarter, furnishing the COMPANY, at such time, a listing of additional bona fide service applicants; however, failure on the part of the BONA FIDE SERVICE APPLICANT to make such request shall not constitute a waiver of any rights hereunder or relieve the COMPANY of the obligation to make refunds with reasonable promptness.

SIXTH: The ownership of the water main(s) and other facilities installed hereunder shall at all times be with the COMPANY, its successors and assigns.

RULES AND REGULATIONS

27. MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS (cont'd)

27.2 EXTENSION DEPOSIT AGREEMENT FOR BONA FIDE SERVICE APPLICANT (cont'd)

SEVENTH: This agreement shall be valid and binding on the COMPANY only when executed by its duly authorized representative.

EIGHTH: This agreement shall be binding upon the heirs, executors, administrators, successors and assigns of the respective parties.

NINTH: Any notice given hereunder shall be deemed sufficient if in writing and sent by registered mail to the COMPANY at

_____

(Address of COMPANY)

and to the BONA FIDE SERVICE APPLICANT at

_____

(Address of BONA FIDE SERVICE APPLICANT)

TENTH: This agreement is entered into pursuant to the legally established Rules and Regulations of the COMPANY, and the words, phrases, and terms hereof are to be understood and interpreted in conformity with said Rules and Regulations, which are hereby incorporated herein by reference.

Executed in triplicate by the parties hereto on the date first above written.

PENNSYLVANIA-AMERICAN WATER COMPANY

WITNESS:

_____ BY:_____

Title:_____

WITNESS: BONA FIDE SERVICE APPLICANT:

_____ _____

RULES AND REGULATIONS

27. MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS (cont'd)

27.2 EXTENSION DEPOSIT AGREEMENT FOR BONA FIDE SERVICE APPLICANT (cont'd)

PRELIMINARY MEMORANDUM

This Preliminary Memorandum is executed by the parties hereto under and pursuant to the provisions of Paragraph THIRD of a certain agreement in writing between the parties entered into on the ___ day of _____, 20__, for the installation by the COMPANY of certain water main(s) and other facilities therein described. It is, therefore, agreed and stipulated:

(a) Estimated Cost Main(s) $_____

(b) Estimated Cost of Other Facilities $_____

(c) Total $_____

(d) Company Contribution $_____

(e) Amount of Deposit $_____ (c) minus (d)

This Preliminary Memorandum shall be attached to the original agreement in accordance with the provisions of Paragraph THIRD thereof.

Dated: _____
Date of Payment

PENNSYLVANIA-AMERICAN WATER COMPANY

WITNESS:

_____ BY: _____

Title: _____

WITNESS: BONA FIDE SERVICE APPLICANT:

_____ _____

RULES AND REGULATIONS

27. MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS (cont'd)

27.2 EXTENSION DEPOSIT AGREEMENT FOR BONA FIDE SERVICE APPLICANT (cont'd)

FINAL MEMORANDUM

This Final Memorandum is executed by the parties hereto under and pursuant to the provisions of Paragraph THIRD of a certain agreement in writing between the parties entered into on the ___ day of _____, 20 ___ , for the installation by the COMPANY of certain water main(s) and other facilities therein described. It is, therefore, agreed and stipulated:

(a) Actual Cost of Main(s) $_____

(b) Actual Cost of Other Facilities $_____

(c) Total _____

(d) Company Contribution $_____

(e) Amount of Deposit $_____ (c) minus (d)

This Final Memorandum shall be attached to the original agreement in accordance with the provisions of Paragraph THIRD thereof.

Dated:_____
Date of Payment

PENNSYLVANIA-AMERICAN WATER COMPANY

WITNESS:

_____ BY:_____

Title:_____

WITNESS: BONA FIDE SERVICE APPLICANT:

_____ _____

RULES AND REGULATIONS

27. MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS (cont'd)

27.3 SPECIAL UTILITY SERVICE

THIS AGREEMENT entered into this ____ day of _____, 20____, by and between Pennsylvania-American Water Company hereinafter called the "COMPANY," and _____ hereinafter called the "APPLICANT."

WHEREAS, the APPLICANT desires Special Utility Service, as defined in Section 27.1D(4) of the Company's tariff and as hereinafter described;

NOW, THEREFORE, this agreement WITNESSETH:

FIRST: THE COMPANY contracts and agrees to construct the facilities needed to furnish Special Utility Service shown in red on the diagram hereto attached and made a part hereof and described and located as follow:

(LEAVE SPACE FOR DESCRIPTION)

SECOND: It is expressly understood and agreed that if the COMPANY shall be delayed or prevented from installing facilities hereinabove described because of its failure to secure construction materials, or for any other causes beyond its control, such failure or delay in performance shall be excused; provided, however, if such failure or delay in performance shall extend for a period of more than one (1) year from the date thereof, the APPLICANT shall have the right to cancel and terminate this agreement on thirty (30) days' written notice to the COMPANY, and thereafter both parties shall be relieved of all duties and obligations arising hereunder. But this right to cancel and terminate by the APPLICANT shall not be invoked if the COMPANY has received the construction material and the APPLICANT has made the deposit as hereinafter required, in which event the COMPANY shall have the obligation to prosecute the work diligently to its completion.

27. MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS (cont'd)

27.3 SPECIAL UTILITY SERVICE (cont'd)

THIRD: The APPLICANT hereby agrees to pay to the COMPANY, upon notice from the COMPANY that it is prepared and able to go forward with the work provided in Paragraph First hereof, an amount in cash equal to the Estimated Cost. The Estimated Cost shall be the estimated cost including material, labor and overheads of the facilities hereinabove described for providing Special Utility Service.

Upon such written notice, a Preliminary Memorandum in the form attached shall be prepared and signed by both parties showing the payment required in accordance with foregoing provisions. Upon completion of the installation of the facilities, a Final Memorandum in the form attached shall be prepared and signed by both parties showing the payment required based on the same calculation as set forth above but by using the actual installation cost of the facilities, for the Estimated Cost. If the payment shown to be due on the Final Memorandum differs from that shown on the Preliminary Memorandum, the APPLICANT shall pay any additional amount shown to be due or the COMPANY will refund to the APPLICANT, without interest, any excess amount shown to have been paid, it being the intent of this agreement that the payment required shall be based on actual installation cost. If the actual installation cost exceeds the payment required as shown on the Preliminary Memorandum, the additional amount of required payment must be made by the APPLICANT to the COMPANY before service to the APPLICANT commences.

FOURTH: The ownership of the facilities installed hereunder shall at all times be with the COMPANY, its successors and assigns.

FIFTH: This agreement shall be valid and binding on the COMPANY only when executed by its duly authorized representative.

SIXTH: This agreement shall be binding upon the heirs, executors, administrators, successors and assigns of the respective parties.

RULES AND REGULATIONS

27. MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS (cont'd)

27.3 SPECIAL UTILITY SERVICE (cont'd)

SEVENTH: Any notice given hereunder shall be deemed sufficient if in writing and sent by registered mail to the COMPANY at

_____

(Address of Company)

and to the Applicant at_____

(Address of APPLICANT)

EIGHTH: This agreement is entered into pursuant to the legally established Rules and Regulations of the COMPANY, and the words, phrases, and terms thereof are to be understood and interpreted in conformity with said Rules and Regulations, which are hereby incorporated herein by reference.

Executed in triplicate by the parties hereto on the date first above written.

PENNSYLVANIA-AMERICAN WATER COMPANY

WITNESS:

_____ BY:_____

Title:_____

WITNESS: APPLICANT:

_____ _____

RULES AND REGULATIONS

27. MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS (cont'd)

27.3 SPECIAL UTILITY SERVICE (cont'd)

PRELIMINARY MEMORANDUM

This Preliminary Memorandum is executed by the parties hereto under and pursuant to the provisions of Paragraph THIRD of a certain agreement in writing between the parties entered into on the _____ day of _____, 20____, for the installation by the COMPANY of certain facilities therein described. It is, therefore, agreed and stipulated:

(a) Estimated Cost of Facilities for Special Utility Service (exclusive of the cost of the main and appurtenances, street service connection and meter) $_____

This Preliminary Memorandum shall be attached to the original agreement in accordance with the provisions of Paragraph THIRD thereof.

Dated:_____
Date of Payment

PENNSYLVANIA-AMERICAN WATER COMPANY

WITNESS:

_____ BY:_____

Title:_____

WITNESS: APPLICANT:

_____ _____

RULES AND REGULATIONS

27. MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS (cont'd)

27.3 SPECIAL UTILITY SERVICE (cont'd)

FINAL MEMORANDUM

This Final Memorandum is executed by the parties hereto under and pursuant to the provisions of Paragraph THIRD of a certain agreement in writing between the parties entered into on the _____ day of _____, 20____, for the installation by the COMPANY of certain facilities therein described. It is, therefore, agreed and stipulated:

(a) Actual Cost of Facilities for Special Utility Service (exclusive of the cost of the main and appurtenances, street service connection and meter) $_____

This Final Memorandum shall be attached to the original agreement in accordance with the provisions of Paragraph THIRD thereof.

Dated:_____
Date of Payment on
Preliminary Memorandum

PENNSYLVANIA-AMERICAN WATER COMPANY

WITNESS:

_____ BY:_____

Title:_____

WITNESS: APPLICANT:

_____ _____

RULES AND REGULATIONS

28. FLAT RATE SERVICE

28.1 Every Individual Dwelling, Apartment, Flat, Store, Shop, Office, etc. either in the same building or otherwise, occupied as a dwelling or business place either by the same party or different parties, shall be considered a separate occupancy and shall be charged for accordingly, for flat rate service.

28.2 No addition to or alteration of any pipe or fixture changing or affecting the use of water by flat rate consumer shall be made by any person without notice in writing to the Water Company.

28.3 The use of the hose or pave wash, except where metered, either from a pave wash or screw nozzle or spigot for sprinkling street, pavements, lawns and gardens or for window and porch washing, shall be permitted upon payment of the specified rate, for the season from the first of April to the first of November only and between the hours from **6 A.M. to 8 A.M.** and **6 P.M. to 8 P.M.** and must be confined to the premises on which it is located, and one-half of the width of the street in front thereof. Sprinkling without a nozzle will not be permitted. A screw nozzle or spigot on any hydrant or fixture located on any premises or on the ground floor in any building, except as a drain on a hot water boiler, will be considered a pave wash unless a pave wash is charged to the premises.

The charges for the use of the hose are for one season and no allowance or rebate will be made for portions of a season. The rate is based on a frontage of fifty (50) feet or less.

All hose must be held in the hand. AUTOMATIC sprinklers are subject to a special agreement. Setting hose in a stationary position or letting it run shall be considered AUTOMATIC SPRINKLING.

28.4 Where no meter is used, every fixture, whether used or not, will be deemed and held as used, and will be charged for at the established rate so long as it shall remain connected with the service pipes. Parties desiring to discontinue the use of any fixture must have the same disconnected, so that it cannot be used again without the aid of a plumber, and then the charge for their use (except for hose used for sprinkling, which is charged for by the season) will cease from the time when written notice of the same is left at the Company's office.

28.5 Flat rate consumers desiring a reduction from water bills for vacancies shall report in writing at the Offices of the Company at the beginning of and again at the end of each vacancy. Then an allowance may be made for the period reported, provided this period is continuous and not less than 30 days. A vacancy is defined to be premises from which the household goods, stock, equipment, etc., have been removed.

29. TAXES ON DEPOSITS FOR CONSTRUCTION, CUSTOMER ADVANCES AND CONTRIBUTIONS IN AID OF CONSTRUCTION (C)

29.1 The Company will pay income taxes on any deposit, advance, contribution or other like amounts received from an applicant which shall constitute taxable income to the Company as defined by the Internal Revenue Service. Such income taxes shall be segregated in a deferred account for inclusion in rate base in a future rate case proceeding. Such income tax associated with a deposit, advance or contribution will not be charged to the specific depositor / contributor of the capital.

PAWC EXHIBIT NO. 3

PENNSYLVANIA-AMERICAN WATER COMPANYS
Wastewater Division
(hereinafter referred to as the "Company")
D/B/A
Pennsylvania American Water

RATES, RULES AND REGULATIONS

GOVERNING THE FURNISHINGS OF

WASTEWATER COLLECTION AND DISPOSAL SERVICE

IN CERTAIN MUNICIPALITES AND TERRITORIES LOCATED IN:

ADAMS COUNTY, ALLEGHENY COUNTY, BEAVER COUNTY, BERKS COUNTY,

BUTLER COUNTY, CHESTER COUNTY, CLARION COUNTY, CUMBERLAND COUNTY,

LACKAWANNA COUNTY, LANCASTER COUNTY, LUZERNE COUNTY, MCKEAN COUNTY,

MONROE COUNTY, MONTGOMERY COUNTY, NORTHUMBERLAND COUNTY,

PIKE COUNTY, WASHINGTON COUNTY AND YORK COUNTY

ALL IN THE COMMONWEALTH OF PENNSYLVANIA

Issued: March 20, 2025 **Effective: April 1, 2025**

Issued by:
Justin Ladner, President
Pennsylvania American Water
852 Wesley Drive
Mechanicsburg, PA 17055

https://www.amwater.com/paaw/

NOTICE

This tariff supplement increases the Distribution System Improvement Charge.
(Refer to pages 2, 4, 5 and 18.1.)

LIST OF CHANGES

This tariff supplement increases the Wastewater Distribution System Improvement Charge (DSIC) on page 18.1 (30th Revision) of the Company's tariff from 0.00% to 0.16%, effective April 1, 2025, in accordance with the Pennsylvania Public Utility Commission Order at Docket No. P-2014-2431005.

LIST OF CHANGES

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(C) means Change

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(I) means Increase

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(C) means Change

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(C) means Change and **(I)** means Increase

TERRITORIES SERVED
(By State Region and Company Wastewater System District)
(All territories are subject to Rate Zone 1 unless otherwise noted)

Central Pennsylvania

Fairview District
York County. Portions of Fairview and Newberry Townships.

Foster District – Rate Zone 1c **(C)**
Luzerne County. Portions of Foster Township (and related points of bulk service interconnection).

Franklin District
Adams County. Portions of the Townships of Franklin, Hamiltonban and Highland.

McEwensville District
Northumberland County. McEwensville Borough.

New Cumberland District [language deleted] **(C)**
Cumberland County. The Borough of New Cumberland.

Turbotville District
Northumberland County. Portions of The Borough of Turbotville.

York District – Rate Zone 1b **(C)**
York County. The City of York and portions of West Manchester Township; and related points of bulk service interconnection. Portions of Manchester Township, West Manchester Township, and Spring Garden Township, limited to the administration of the Industrial Pretreatment Program.

Northeastern Pennsylvania

Northeast District – Lehman Pike, Blue Mountain Lakes, Clean Treatment, and Delaware
Monroe County. Portions of the Townships of Middle Smithfield, Smithfield and Stroud.
Pike County. Portions of Delaware and Lehman Townships.

Pocono District
Monroe County. A portion of Coolbaugh Township.

Scranton Sewer District – Rate Zone 2a **(C)**
Lackawanna County. The City of Scranton and the Borough of Dunmore.

TERRITORIES SERVED (CONT'D)
(By State Region and Company Wastewater System District)
(All territories are subject to Rate Zone 1 unless otherwise noted)

Southeastern Pennsylvania

Coatesville District
Chester County. The City of Coatesville, the Borough of Parkesburg and portions of the Borough of South Coatesville and portions of the Townships of Caln, East Fallowfield, Highland, Sadsbury, Valley, West Caln and West Sadsbury.
Lancaster County. Portions of Sadsbury Township (Rate Zone 1e).

Exeter Sewer District
Berks County. Portions of the Townships of Exeter, Alsace and Lower Alsace (and related points of bulk service interconnection).

Royersford District – Rate Zone 1a
Montgomery County. Royersford Borough and portions of Upper Providence Township.

Upper Pottsgrove District
Montgomery County. Portions of Upper Pottsgrove Township.
Berks County. A portion of Douglass Township.

Western Pennsylvania

Butler District – Rate Zone 1d
Butler County. City of Butler, portions of the Borough of East Butler, and portions of the Townships of Butler, Center, Connoquenessing, Oakland and Summit.

Clarion District
Clarion County. Clarion Borough and portions of the Townships of Clarion and Monroe **and Farmington (Rate Zone 1f)**. **(C)**

Claysville District
Washington County. Claysville Borough and portions of the Townships of Donegal.

Kane District – Rate Zone 2
McKean County. Kane Borough and portions of Wetmore Township.

Koppel District
Beaver County. Koppel Borough.

McKeesport District – Rate Zone 2
Allegheny County. The City of McKeesport, the City of Duquesne, Port Vue Borough, the Borough of Dravosburg, and a portion of West Mifflin Borough (and related points of bulk service interconnection).

Paint-Elk District
Clarion County. Shippenville Borough and portions of the Townships of Elk and Paint.

THIS PAGE RESERVED FOR FUTURE USE

SCHEDULE OF RATES

RATE ZONE 1 – SANITARY SEWER SYSTEM ("SSS") METERED AND UNMETERED (C)

APPLICABILITY

The rates under this schedule apply throughout the territories served under this tariff, unless otherwise noted on the territories served page, for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

The rates under this schedule are available to customers in the Residential, Commercial, Municipal and Industrial classes.

METERED CHARGES (Based on Water Usage or Sewage Flows, determined at PAWC's discretion)

All metered customers shall be subject to a monthly service per equivalent dwelling unit (EDU).

A. Residential		
Service Charge per month:	$15.00	(I)
Usage Charge per 100 gallons:	$2.9539	(I)
B. Commercial		
Service Charge per month:	$36.70	(I)
Usage Charge per 100 gallons:	$2.1986	(I)
C. Industrial		
Service Charge per month:	$36.70	(I)
Usage Charge per 100 gallons:	$2.1986	(I)
D. Municipal		
Service Charge per month:	$36.70	(I)
Usage Charge per 100 gallons:	$2.1986	(I)
E. Special Rate Charges		
Bulk Metered Usage – Caln Twp., V.A. Hospital and West Brandywine Twp.		
Service Charge per month:	$456.50	(I)
Usage Charge per 100 gallons:	$1.4900	(I)
Cleveland-Cliffs Plate and Victory Brewing Company		
Service Charge per month:	$456.50	
Usage Charge per 100 gallons:	$1.4800	(I)
Borough of Saint Lawrence		
Service Charge per month:	$456.50	(I)/ (C)
Usage Charge per 100 gallons:	$0.4120	(I)

Township of Alsace – The bulk metered charge will be based on PUC approved rates for the direct customers of the Exeter sewer district shown above.

(I) means Increase and (C) means Change

SCHEDULE OF RATES

RATE ZONE 1 – SANITARY SEWER SYSTEM ("SSS") METERED AND UNMETERED (C)

METERED CHARGES (cont'd)

Metered rates are available to customers in the Upper Pottsgrove Sewer service territory, served under this tariff in Rate Zone 1, that request metered rates and are 1) metered commercial, industrial, or multiple EDU in a single structure, 2) have an existing EDU allocation and 3) currently discharge to the collection system.

Special rate for Upper Pottsgrove customers who elect the metered option: (C)

[language deleted] (C)

Service charge per month, per EDU:	$36.70	**(D)(C)**
Usage Charge per 100 gallons:	$2.1986	**(I)(C)**

Special Rate for Rainbow Washhouse, Inc.

Service charge per month	$75.00	**(I)**
Usage Charge per 100 gallons:	$0.2226	**(I)**

UNMETERED CHARGES -This charge is a flat rate fee for customers not metered for water consumption.

A. Flat rate per month, per EDU:		(C)
Residential	$110.00	(I)
Commercial	$150.00	(I)/(C)

B. Special Rate Charges

Knouse Foods, flat rate per month:	$8,683.00	(I)
Strattanville Borough, flat rate per month:	$6,426.00	(I)
Penn State Special Metals, flat rate per month:	$2,988.00	(I)
PSC Metals, flat rate per month:	$1,156.00	(I)
Ipsco Koppel Tubilers, flat rate per month:	$17,948.00	(I)

SCHEDULE OF RATES

RATE ZONE 1a – METERED AND UNMETERED

APPLICABILITY

The rates as set forth below will apply in the Royersford service territory (former territory served by the Borough of Royersford) served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

The rates under this schedule are available to customers in all classes.

METERED CHARGES (Based on Water Usage or Sewage Flows, determined at PAWC's discretion)

All metered customers shall be subject to a minimum charge per meter.

Residential			**(C)**
Service Charge per month:	$15.00	**(D)**	
Usage Charge per 100 gallons	$1.4150	**(I)**	
Non-Residential			**(C)**
Service Charge per month:	$36.70	**(D)**	
Usage Charge per 100 gallons	$0.7500	**(I)**	

Special Provision for Public Laundromats: metered flow shall be calculated on the basis of 75% of the volume of water usage.

UNMETERED CHARGES

This charge is a flat rate fee for customers not metered for water consumption.

Residential		
Flat Rate per Month, per EDU:	$75.00	**(I)**
Non-Residential		
Flat Rate per Month, per EDU:	$113.00	**(I)**

Special Provision for Aqua Pennsylvania Wastewater customers in Limerick Township: the metered and unmetered rates above apply for "each user" in Limerick Township.

SCHEDULE OF RATES

RATE ZONE 1b – METERED

APPLICABILITY

The rates as set forth below will apply in the York service territory (former territory served by the York City Sewer Authority) served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

The rates under this schedule are available to customers in all classes.

METERED CHARGES (Based on Water Usage or Sewage Flows, determined at PAWC's discretion, except as described below for industrial wastes.)

		Effective 5/27/2022	Effective 5/27/2025	
A. Residential				
Minimum Charge per month		$18.00	$15.00	**(D)**
Usage Charge per 100 gallons	0-2,000 gallons per month	$0.00	$0.7500	**(I)**
Usage Charge per 100 gallons	All over 2,000 gallons/month	$0.9370	$2.9539	**(I)**
B. Commercial/Municipal				
Minimum Charge per month		$18.00	$36.70	**(I)**
Usage Charge per 100 gallons	0-2,000 gallons per month	$0.00	$0.4000	**(I)**
Usage Charge per 100 gallons	All over 2,000 gallons/month	$0.9370	$2.1986	**(I)**
C. Industrial				
Usage Charge per 100 gallons		$0.9370	$2.1986	**(I)**

Whenever a customer with metered water usage who discharges industrial waste to the sewer system also discharges uncontaminated water to either a separate storm sewer or other outlet, an allowance for the amount of water so discharged shall be made in computing the sewer charges; provided that the customer so discharging uncontaminated water shall at their own expense install a meter or meters, as required, to indicate accurately to the satisfaction of the Company the amount of water claimed as a credit.

D. **Special Rate Charges** **(C)**

The following bulk wastewater customers in Rate Zone 1b are subject to the rates set forth in their respective contracts with the Company:

Manchester Borough

North York Borough

Spring Garden Township

Springettsbury Township

West Manchester Township

West York Borough/The York Water Company

York Township

SCHEDULE OF RATES

RATE ZONE 1c – UNMETERED (C)

APPLICABILITY

The rates as set forth below will apply in the Foster Township Sewer service territory served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

The rates under this schedule are available to customers in all rate classes.

UNMETERED CHARGES

This charge is a flat fee for customers not metered for water consumption.

A Flat Rate per month shall be billed to each unmetered customer as follows:

	Effective Through 12/31/2024	Effective 1/01/2025	
Residential:	$85.00 per EDU	$110.00 per EDU	(I)(C)
Non-Residential:	$85.00 per EDU	$150.00 per EDU	(I)(C)

Special conveyance-only rate for Butler Township: **$40** per EDU per month (I)

SCHEDULE OF RATES

RATE ZONE 1d – UNMETERED (C)

APPLICABILITY

The rates as set forth below will apply in the service territory formerly served by the Butler Area Sewer Authority served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

The rates under this schedule are available to all customers classes.

UNMETERED CHARGES

This charge is a flat rate fee for customers previously billed a flat rate by the Butler Area Sewer Authority.

Flat rate per month, per EDU:	$45.50

Special Rate for Multi-Family Dwelling Units	Flat Rate per month, per EDU
For the first 25 Units or any part thereof	$45.50
For the next 25 Units or any part thereof	$44.60
For the next 25 Units or any part thereof	$43.70
For the next 25 Units or any part thereof	$42.80
For the next 25 Units or any part thereof	$41.90
For the next 25 Units or any part thereof	$41.00
For all Units over 150 or any part thereof	$40.10

Special Rate for VA Hospital	Flat Rate per month, per EDU
	$0.00

(C) means Change

SCHEDULE OF RATES

RATE ZONE 1e – UNMETERED (C)

APPLICABILITY

The rates as set forth below will apply in the Sadsbury Township, Lancaster County service territory (territory formerly served by Sadsbury Township Municipal Authority) served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

The rates under this schedule are available to customers in all rate classes.

UNMETERED CHARGES

This charge is a flat fee for customers not metered for water consumption.

A Flat Rate per month shall be billed to each unmetered customer as follows:

$128.33 per EDU

SCHEDULE OF RATES

RATE ZONE 1f – UNMETERED (C)

APPLICABILITY

The rates under this schedule apply in the Farmington service area for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

The rates under this schedule are available to customers in all Customer Classes.

UNMETERED CHARGES - A Flat Rate per EDU, per month shall be billed to each customer.

Flat rate per month, per EDU:	$53.50

SCHEDULE OF RATES

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SCHEDULE OF RATES

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SCHEDULE OF RATES

[Miscellaneous Fees and Charges moved to subsequent page] **(C)**

RATE ZONE 2 – COMBINED SEWER SYSTEM ("CSS") METERED AND UNMETERED (C)

APPLICABILITY

The rates as set forth below will be in effect for all former customers of the Municipal Authority of the City of McKeesport and Kane service territory (former territory served by the Borough of Kane Authority).

AVAILABILITY

The rates under this schedule are available to customers in the Residential, Commercial, Industrial, Municipal and Bulk classes.

METERED CHARGES (Based on Water Usage or Sewage Flows, determined at PAWC's discretion)

All metered customers shall be subject to a monthly or quarterly service charge.

A. Residential

Service Charge per month:	$20.00	**(I)/(D)**
Usage Charge per 100 gallons:	$2.6117	**(I)/(D)**

B. Commercial

Service Charge per month:	$40.00	**(I)/(D)**
Usage Charge per 100 gallons:	$2.1320	**(I)/(D)**

C. Industrial

Service Charge per month:	$40.00	**(I)/(D)**
Usage Charge per 100 gallons:	$2.1320	**(I)/(D)**

D. Municipal

Service Charge per month:	$40.00	**(I)/(D)**
Usage Charge per 100 gallons:	$2.1320	**(I)/(D)**

E. Special Rate Charges

Bulk Customers – Versailles, Elizabeth, Liberty, Glassport, Lincoln, North Versailles, White Oak and East McKeesport

Usage Charge per 100 gallons:	$1.6680
Flat Rate Account	
Per month, based on 6,000 gallons per month:	$86.00
Per quarter, based on 18,000 gallons per quarter:	$258.00

Provided sewage flow meters are installed, on or after January 1, 2018, during any billing period in which the gross volume of sewage from the municipality exceeds 350% of the aggregate quantity of water used by the municipality's water users, the municipality shall pay PAWC's prevailing rates for handling the excess, in addition to the sewage charges set forth above.

UNMETERED CHARGES

This charge is a flat fee of **$104.00** per month for all customers not metered for water consumption. All flat rates will be billed monthly. **(D)**

(I) means Increase, **(D)** means Decrease, and **(C)** means Change

SCHEDULE OF RATES

RATE ZONE 2a – COMBINED SEWER SYSTEM ("CSS") METERED AND UNMETERED (C)

APPLICABILITY

The rates as set forth below will apply in the Scranton Sewer service territory served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

The rates under this schedule are available to customers in the Residential, Commercial, Industrial and Municipal classes.

METERED CHARGES (Based on Water Usage or Sewage Flows, determined at PAWC's discretion)

All metered customers shall be subject to a monthly service charge per equivalent dwelling unit (EDU).

A. Residential

Service Charge per month:	$20.00	(I)
Usage Charge per 100 gallons:	$2.6117	(I)
Flat Rate	$104.00	(I)

B. Non-Residential (C)

Service Charge per month:	$40.00	(I)
Usage Charge per 100 gallons:	$2.1320	(I)

SCHEDULE OF RATES

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[Miscellaneous Fees and Charges moved to subsequent page] **(C)**

SCHEDULE OF RATES

Miscellaneous Fees and Charges (C)

The following defines the application of the capacity reservation fee within the Company's service territory:

A. Capacity Reservation Fee: A fee per EDU charged by the Company for the allocation of treatment, pumping, and transmission, trunk and interceptor main capacity.

1. Shared Service Lines: Each residential unit will be treated separately for purposes of determining an applicable capacity reservation fee -- whether such residential unit is served by a single service line or shares a common service line with one or more other residential units.

2. Within the Company's service territory, no capacity reservation fee will be charged for any applicant for wastewater service that meets the criteria of a Bona Fide Service Applicant, as defined in 52 Pa. Code Section 65.1 if "wastewater" were substituted for "water".

3. Within the Company's service territory or for any future development, a capacity fee of $4,000 per EDU will be charged, and payable at the time the Planning Module is fully executed by the Company, the relevant municipality, and the Pennsylvania Department of Environmental Protection.

4. For commercial and industrial customers, the EDUs per customer will be those set forth in the Planning Module that includes such customer, as approved by the Company, the relevant municipality and the Pennsylvania Department of Environmental Protection. If, after a commercial or industrial customer's EDUs are established, in the manner previously described, and the associated capacity reservation fees are paid, changes in the customer's facilities or mode of operation result in an increase in the number of EDUs or an increase in the customer's estimated wastewater flow above the levels set forth in the Planning Module previously used to determine the customer's EDUs, the customer must update the applicable Planning Module and submit it for approval by the Company, the relevant municipality and the Pennsylvania Department of Environmental Protection, and the customer will be required to pay any additional capacity reservation fees that are due based upon the calculation of capacity reservation fees using the EDUs reflected in the revised, approved Planning Module. The Company may at its discretion re-calculate the number of EDUs utilized by analyzing the actual wastewater flow, **or water usage**, over a period of one year. If the EDUs are greater than previously reserved and **(C)**
paid for by the Capacity Reservation Fee, the customer will be required to pay any additional capacity reservation fees.

5. Notwithstanding the foregoing, where is it prudent, reasonable and in the public interest, the Company may, at its option, enter into a negotiated Service Agreement that limits the application of the capacity reservation fee for flow stabilization reasons or to attract and retain bulk customers which have a viable competitive alternative to service by the Company. These Service Agreements with qualifying bulk customers shall become effective thirty (30) days after the Company has filed a copy thereof with the Pennsylvania Public Utility Commission, or if the Commission institutes an investigation, at such time as the Commission grants its approval thereof. For purposes of this provision only, "bulk customer" shall mean a municipal entity under agreement with the Company to provide wastewater flows from their owned collection system into the Company's system for treatment and disposal.

SCHEDULE OF RATES

Miscellaneous Fees and Charges (cont'd) (C)

The following defines the application of the capacity reservation fee for the Company's bulk customers who are members of the Municipal Sewer Group (MSG) in the Company's Coatesville wastewater service territory:

1. Within the service area of an MSG member, no capacity reservation fee will be charged for an applicant for wastewater service that meets the criteria of a Bona Fide Service Applicant, as defined in 52 Pa. Code Section 65.1 if "wastewater" were substituted for "water" and "bulk customer's service area" were substituted for "the utility's certificated service territory" in the definition of a Bona Fide Applicant.

2. A capacity reservation fee of $525 per EDU will be used for determining the payments for capacity available prior to the expansion of the Company's wastewater treatment plant under existing agreements between the Company and its bulk customers.

3. A capacity reservation fee of $4,000 per EDU will be used for determining payments for capacity available after the expansion of the Company's wastewater treatment plant under existing agreements except as follows:

a. West Brandywine Township will be charged $525 per EDU for 188,100 gallons per day of capacity under the Second Addendum dated December 11, 2008, to its sewage treatment agreement with the Company.

4. A capacity reservation fee of $4,000 per EDU will be used for all new agreements (including amendments to existing agreements) with bulk customers. The capacity reservation fees will be paid at the time Planning Modules are fully executed by the Company, the relevant municipality, and the Pennsylvania Department of Environmental Protection, although a bulk customer will have the option to pay earlier, if it so chooses.

SCHEDULE OF RATES

Miscellaneous Fees and Charges (cont'd) (C)

B. Service Line Inspection Fee

Charge for the Company's time involved in the inspection of a Service Line tie-in to the Company's wastewater system.

Size of Water Meter	
5/8" and 3/4"	$50.00
1"	$50.00
1 1/2"	$50.00
2"	$50.00
3"	$50.00
4"	$50.00
6"	$50.00
8"	$50.00

C. Service Reconnection and Discontinuance Fee

A fee will be charged for the shut-off and turn-on of any service. The fee for service performed during regularly scheduled hours shall be $30.00. For non-regularly-scheduled working hours, the fee is equivalent to the cost incurred by the Company. The Service Reconnection and Discontinuance Fee will apply only once if the customer is both a water and wastewater customer of the Company.

D. Return Check Fee

The customer will be responsible for the payment of a $20.00 charge for each time a check presented to the Company for payment on that customer's utility bill is returned by the payer bank for any reason including, but not limited to, insufficient funds, account closed, payment stopped, two signatures required, post-dated, stale date, account garnished, or unauthorized signature. This fee is in addition to any charge which may be assessed against the Customer by the bank. The Return Check Fee will apply only once if the customer is both a water and wastewater customer of the Company.

SCHEDULE OF RATES
Miscellaneous Fees and Charges (cont'd) **(C)**

E. Wastewater Plant, Residential Septage and Commercial Waste Disposal Fee.

The Fee to be paid by private contractors to the Company to dispose of private residential septage and commercial Wastes at the Company's wastewater treatment plant.

The following rates shall be charged to haulers of residential septic waste who deliver waste:

All Rate Zones (excluding Exeter Township) **(C)**

%Solids	% Solids	Cost Per Gallon
	< = 0.5%	$0.0450
	< = 1%	$0.0450
> 1%	< = 2%	$0.0450
> 2%	< = 3%	$0.0450
> 3%	< = 4%	$0.0550
> 4%	< = 5%	$0.0600
> 5%	< = 6%	$0.0650
> 6%	< = 7%	$0.0710
> 7%	< = 8%	$0.1000

[language deleted] **(C)**

Rate Zone 1 (Exeter Township)

Holding Tanks waste delivered and discharged (including sampling and lab work), per gallon	$0.022
Septage waste delivered and discharged (including sampling end lab work), per gallon	$0.032
Wash waters - coolant or rinse, per gallon	$0.020
Leachate delivered and discharged (including sampling and lab work), per gallon	$0.018
Extra Strength Leachate, per gallon	$0.022
Industrial Wastewater- per gallon To be determined by characteristics of the waste stream	$0.022 minimal
Portable Toilets, per gallon	$0.032

(C) means Change

SCHEDULE OF RATES
Miscellaneous Fees and Charges (cont'd) **(C)**

Rate Zone 1 (Exeter Township) – cont'd

Sludge Discharge Fees, per gallon	
0.0% to 2.5%	$0.045
2.6% to 4.0%	$0.055
4.1% to 5.0%	$0.060
5.1% lo 6.0%	$0.065
6.1% 10 7.0%	$0.071
7.1% to 8.0%	$0.080
8.1% to 9.0%	$0.092
9.1% to 10.0%	$0.105
Above **10**%	Priced upon request **(D)**
Grease, per gallon	$0.11
Car Wash, per gallon	$0.04
Permit Fee (renewed in December for the following calendar year)	N/A

1. The Company reserves the right to limit the total amount of residential septage received in a day and /or the total numbers of loads received from a single hauler on a per day basis based on maintaining proper operation of the Company's wastewater treatment plant.

2. At the discretion of the Company, the Company reserves the right to accept or reject commercially generated waste based on the amount and constituents in the waste or for other good reason as determined by the Company. The cost, as determined by the Company, for testing and disposal will be a multiple of the residential septage fee based on the type and strength of the waste.

[Miscellaneous Fees and Charges moved to prior page] **(C)**

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SCHEDULE OF RATES

LOW-INCOME RIDER – ALL RATE ZONES
FOR QUALIFYING RESIDENTIAL CUSTOMERS

APPLICABILITY

This rider applies throughout the territories served under this tariff for service rendered on and after the Effective Date shown at the bottom of this page.

AVAILABILITY

This rider is available for a customer in the Residential Class that meets the low-income criteria of **200**% **(C)** based on the Federal Poverty Level.

RATE

Customers under this rate schedule will receive a discount off their total wastewater bill as follows:

Tier 1 (0%-50% of FPL):	**85%**	**(D)**
Tier 2 (51%-100% of FPL):	**73%**	**(D)**
Tier 3 (101%-150% of FPL):	**55%**	**(D)**
Tier 4 (151%-200% of FPL):	**37%**	**(C)/(D)**

SCHEDULE OF RATES

STATE TAX ADJUSTMENT SURCHARGE

In addition to the net charges provided for in this Tariff, a surcharge of **0.00%** will apply **(I)**
bills rendered on and after the Effective Date shown on the bottom of this page.

The above surcharges will be recomputed; using the elements prescribed by the Commission whenever any of the tax rates used in calculation of the surcharge are changed.

The above recalculations will be submitted to the Commission within 10 days after the occurrence of the event or date which occasioned such recomputations. If the recomputed surcharge is less than the one in effect, the Company will, and if the recomputed surcharge is more than the one in effect the Company may, submit with such recomputation a Tariff or Supplement to reflect such recomputed surcharge, the effective date of which shall be 10 days after filing.

SCHEDULE OF RATES

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

In addition to the net charges provided for in this Tariff, a charge of **0.16**% will apply to bills rendered on or after the Effective Date shown on the bottom of this page. **(I)**

This charge applies to all Rate Zones except Rate Zone 1e – Sadsbury (Lancaster County), and Rate Zone 1f – Farmington.

The above charge will be recomputed quarterly using the elements prescribed by the Commission as shown on pages 18.2,18.3 and 18.4 of this tariff.

SCHEDULE OF RATES

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

1. General Description

Purpose: To recover the reasonable and prudent costs incurred to repair, improve, or replace eligible property which is completed and placed in service and recorded in the individual accounts, as noted below, between base rate cases and to provide the Utility with the resources to accelerate the replacement of aging infrastructure, to comply with evolving regulatory requirements and to develop and implement solutions to regional wastewater problems. The costs of extending facilities to serve new customers are not recoverable through the DSIC. Utility projects receiving PENNVEST funding or using PENNVEST surcharges are not DSIC eligible property to the extent of the PENNVEST funding or surcharge.

Eligible Property: The DSIC-eligible property will consist of the following:

- Collection sewers, collecting mains and service laterals, including sewer taps, curb stops and lateral cleanouts installed as in-kind replacements for customers; Accounts (360, 361 and 363)

- Collection mains and valves for gravity and pressure systems and related facilities such as manholes, grinder pumps, air and vacuum release chambers, cleanouts, main line flow meters, valve vaults and lift stations installed as replacements or upgrades for existing facilities that have worn out, are in deteriorated condition or are required to be upgraded by law, regulation or order; Accounts (360, 361, 364 and 365)

- Collection main extensions installed to implement solutions to wastewater problems that present a significant health and safety concern for customers currently receiving service from the wastewater utility; Accounts (360, 361 and 363)

- Collection main rehabilitation including inflow and infiltration projects; Accounts (360, 361 and 363)

- Unreimbursed costs related to highway relocation projects where a wastewater utility must relocate its facilities; and

- Other related capitalized costs.

Effective Date: The DSIC will become effective for bills rendered on or after January 1, 2015.

2. Computation of the DSIC

Calculation: The initial non-zero DSIC, effective April 1, 2015, shall be calculated to recover the fixed costs of eligible plant additions that have not previously been reflected in the Company's rates or rate base and will have been placed in service between January 1, 2015 through February 28, 2015. Thereafter, the DSIC will be updated on a quarterly basis to reflect eligible plant additions placed in service during the three-month periods ending one month prior to the effective date of each DSIC update. Thus, changes in the DSIC rate will occur as follows:

Effective Date of Change	Date to which DSIC-Eligible Plant Additions Reflected
April 1	February 28
July 1	May 31
October 1	August 31
January 1	November 30

SCHEDULE OF RATES

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

2. Computation of the DSIC (cont'd)

Determination of Fixed Costs: The fixed costs of eligible distribution system improvements projects will consist of depreciation and pre-tax return, calculated as follows:

Depreciation: The depreciation expense shall be calculated by applying the annual accrual rates employed in the Utility's most recent base rate case for the plant accounts in which each retirement unit of DSIC-eligible property is recorded to the original cost of DSIC eligible property.

Pre-tax return: The pre-tax return shall be calculated using the statutory state and federal income tax rates, the Company's actual capital structure and actual cost rates for long-term debt and preferred stock as of the last day for the three-month period ending one month prior to the effective date of the DSIC and subsequent updates. The cost of equity will be the equity return rate approved in the Company's last fully litigated base rate proceeding for which a final order was entered not more than two years prior to the effective date of the DSIC. If more than two years shall have elapsed between the entry of such a final order and the effective date of the DSIC, then the equity return rate used in the calculation will be the equity return rate calculated by the Commission in the most recent Quarterly Report on the Earnings of Jurisdictional Utilities released by the Commission.

Application of DSIC: The DSIC will be expressed as a percentage carried to two decimal places and will be applied to the total amount billed to each customer for distribution service under the Company's otherwise applicable rates and charges, excluding amounts billed for the State Tax Adjustment Surcharge (STAS). To calculate the DSIC, one-fourth of the annual fixed costs associated with all property eligible for cost recovery under the DSIC will be divided by the Company's projected wastewater revenue (including all applicable clauses and riders) for the quarterly period during which the charge will be collected, exclusive of revenues from the STAS.

Formula: The formula for calculation of the DSIC surcharge is as follows: **(C)**

$$DSIC = \frac{(DSI * PTRR + STFT + Dep + e)}{PQR}$$

Where:

DSI = Original cost of eligible distribution system improvement projects net of accrued depreciation and associated accumulated deferred income taxes pertaining to property-related book/tax depreciation timing differences resulting from the use of accelerated depreciation per Internal Revenue Code, 26 U.S. Code § 168.

PTRR = Pre-tax return rate applicable to DSIC-eligible property.

STFT = (State Tax Flow Through) Pre-tax flow through calculated on book-tax timing differences between accelerated tax depreciation and book depreciation net of federal tax.

Dep = Depreciation expense related to DSIC-eligible property.

e = Amount calculated (+/-) under the annual reconciliation feature or Commission Audit as described below.

PQR = Projected quarterly revenues for wastewater service will be based on the applicable three-month period, (including all applicable clauses and riders) from existing customers plus netted revenue from any customers which will be gained or lost by the beginning of the applicable service period.

Quarterly Updates: Supporting data for each quarterly update will be filed with the Commission and served upon the Commission's Bureau of Investigation and Enforcement, Commission's Bureau of Audits, the Office of Consumer Advocate, and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the update.

(C) means Change

SCHEDULE OF RATES

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

3. Customer Safeguards

Cap: The DSIC is capped at 5% of the amount billed to customers for distribution service (including all applicable clauses and riders) as determined on an annualized basis.

Audit/Reconciliation: The DSIC is subject to audit at intervals determined by the Commission. Any cost determined by the Commission not to comply with any provision of 66 Pa C.S. §§ 1350, *et seq*., shall be credited to customer accounts. The DSIC is subject to annual reconciliation based on a reconciliation period consisting of the twelve months ending December 31 of each year or the utility may elect to subject the DSIC to quarterly reconciliation but only upon request and approval by the Commission. The revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with Section 1307 (e), over a one year period commencing on April 1 of each year, or in the next quarter if permitted by the Commission. If DSIC revenues exceed DSIC-eligible costs, such over-collections will be refunded with interest. Interest on the over-collections and credits will be calculated at the residential mortgage lending specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101, *et seq*.) and will be refunded in the same manner as an over-collection. The utility is not permitted to accrue interest on under collections.

New Base Rates: The DSIC will be reset at zero upon application of new base rates to customer billings that provide for prospective recovery of the annual costs that had previously been recovered under the DSIC. Thereafter, only the fixed costs of new eligible plant additions that have not previously been reflected in the Company's rates or rate base will be reflected in the quarterly updates of the DSIC.

Customer Notice: Customers shall be notified of changes in the DSIC by including appropriate information on the first bill they receive following any change. An explanatory bill insert shall also be included with the first billing.

All customer classes: The DSIC shall be applied equally to all customer classes.

Earning Reports: The DSIC will also be reset at zero if, in any quarter, data filed with the Commission in the Company's then most recent Annual or Quarterly Earnings reports show that the Company will earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the DSIC as described in the Pre-tax return section. The utility shall file a tariff supplement implementing the reset to zero due to overearning on one-days' notice and such supplement shall be filed simultaneously with the filing of the most recent Annual or Quarterly Earnings reports indicating that the Utility has earned a rate of return that would exceed the allowable rate of return used to calculate its fixed cost.

Residual E-Factor Recovery Upon Reset to Zero: The utility shall file with the Commission interim rate revisions to resolve the residual over/under collection or E-factor amount after the DSIC rate has been reset to zero. The utility can collect or credit the residual over/under collection balance when the DSIC rate is reset to zero. The utility shall refund any over collection to customers and is entitled to recover any under collections as set forth in Section 3 – Audit Reconciliation. Once the utility determines thespecific amount of the residual over or under collection amount after the DSIC rate is reset to zero, the utility shall file a tariff supplement with supporting data to address that residual amount. The tariff supplement shall be served upon the Commission's Bureau of Investigation and Enforcement, The Bureau of Audits, the Office of Consumer Advocate, and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the supplement.

SCHEDULE OF RATES

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RULES AND REGULATIONS

Section A – DEFINITIONS

The following words and phrases, when used in this tariff, shall have the meanings assigned below unless the context clearly indicates otherwise:

1. Act. The Federal Water Pollution Control Act, also known as the Clean Water Act, as amended, 33 U.S.C. section 1251 et seq. **(C)**

2. Allowable Headworks Loading or AHL. The estimated maximum loading of a pollutant that can be received at the headworks of a treatment plant and not cause the treatment plant to violate a particular treatment plant or environmental criterion. AHLs are developed to prevent pass through and interference. **(C)**

3. **Applicant:** A person, association, partnership, corporation, municipality, authority, state or federal governmental agency or other entity who applies to become a customer of the Company in accordance with Section C, of this tariff.

4. **Authorized Representative of the User.** **(C)**

(1) If the user is a corporation:

(a) The president, secretary, treasurer, or a vice-president of the corporation in charge of a principal business function, or any other person who performs similar policy or decision-making functions for the corporation; or

(b)The manager of one or more manufacturing, production, or operating facilities, provided the manager is authorized to make management decisions that govern the operation of the regulated facility including having the explicit or implicit duty of making major capital investment recommendations, and can initiate and direct other comprehensive measures to assure long-term environmental compliance with environmental laws and regulations; can ensure that the necessary systems are established or actions taken to gather complete and accurate information for wastewater discharge permit requirements; and where authority to sign documents has been assigned or delegated to the manager in accordance with corporate procedures.

(2) If the user is a partnership or sole proprietorship: a general partner or proprietor, respectively.

(3) If the user is a federal, state, or local government facility: a director or highest official appointed or designated to oversee the operation and performance of the activities of a government facility, or their designee.

(4) A duly authorized representative designated by one of the individuals described in paragraphs 1 through 3, above, provided that the authorization is in writing, the authorization specifies the individual or position responsible for the overall operation of the facility from which the discharge originates or the individual or position with overall responsibility for environmental matters, and the written authorization is submitted to the Company.

5. **Biochemical Oxygen Demand or BOD5**: The quantity of oxygen [language deleted] utilized in the biochemical oxidation of organic matter under standard laboratory procedures for five (5) days at twenty (20) degrees Centigrade**, usually expressed as a concentration (e.g., mg/l) and determined in accordance with EPA test methods referenced in 40 CFR 136**. [language deleted] **(C)**

(C) means Change

RULES AND REGULATIONS

Section A – DEFINITIONS (cont'd)

6. Best Management Practices or BMPs. Schedules of activities, prohibitions of practices, maintenance procedures, and other management practices to implement the prohibitions listed in subsection 2.1 of Section T of this tariff. BMPs include treatment requirements, operating procedures, and practices to control plant site runoff, spillage or leaks, sludge or waste disposal, or drainage from raw materials storage.

7. Bypass. The intentional diversion of wastewater from any portion of an industrial user's pretreatment facility through which the wastewater normally passes.

8. **Capacity Reservation Fee:** A fee charged by the Company for the allocation of capacity on a per EDU basis.

9. Categorical Industrial User or CIU. An industrial user who, if it were discharging to a POTW, would be subject to a categorical pretreatment standard or categorical standard.

10. Categorical Pretreatment Standard or Categorical Standard. Any regulation containing pollutant discharge limits promulgated by EPA in accordance with sections 307(b) and (c) of the Act (33 U.S.C. § 1317) that apply to a specific category of users and that appear in 40 CFR Chapter I, Subchapter N, Parts 405-471.

11. Chemical Oxygen Demand or COD. A measure of the oxygen required to oxidize all compounds, both organic and inorganic, in water, expressed as a concentration (mg/l) and determined in accordance with EPA test methods referenced in 40 CFR Part 136.

12. **Combined Sewer System or CSS:** A sewage collection system which conveys both sanitary sewage and storm water flow. **(C)**

13. **Commission**: The Pennsylvania Public Utility Commission.

14. **Company**: Pennsylvania-American Water Company and its duly authorized officers, agents and employees, acting within the scope of their authority and employment.

15. **Company Service Line**: Company owned wastewater service line from the sewer main of the Company which connects to the Customer Service Line at the edge of the right-of-way or actual property line.

16. Composite Sample. A sample that is collected over time, formed either by continuous sampling or by mixing discrete samples. A sample may be composited either as a time composite sample, composed of discrete sample aliquots collected in one container at constant time intervals providing representative samples irrespective of flow, or as a flow proportional composite sample collected either as a constant sample volume at time intervals proportional to flow or by increasing the volume of each aliquot as flow increases while maintaining a constant time interval between the aliquots. As provided in these rules, grab samples for certain parameters may be composited prior to analysis.

RULES AND REGULATIONS

Section A – DEFINITIONS (cont'd)

17. Cooling Water. Noncontact cooling water or contact cooling water, as follows: (C)
(a) "Noncontact Cooling Water" means water used for cooling purposes only, which has no direct contact with any raw material, intermediate, or final product and which does not contain a level of contaminants detectably higher than that of the source of the water.
(b) "Contact Cooling Water" means water used for cooling purposes only, which may become contaminated either through the use of water treatment chemicals used for corrosion inhibitors or biocides, or by direct contact with process materials and/or wastewater.

18. **Customer**: A person or entity who is an owner, occupant or who contracts with the Company for or who takes or receives wastewater collection, treatment and/or disposal service.

19. **Customer Service Line**: Customer owned wastewater service line extending from the end of the Company Service Line or connection to and within the customer's premise.

20. Daily Maximum. The arithmetic average of all effluent samples for a pollutant collected during a calendar day or other 24-hour period as allowed by the Company. (C)

21. Daily Maximum Limit. The maximum allowable discharge limit of a pollutant during a calendar day. (C) Where daily maximum limits are expressed in units of mass, the daily discharge is the total mass discharged over the course of the day. Where daily maximum limits are expressed in terms of a concentration, the daily discharge is the arithmetic average measurement of the pollutant concentration derived from all measurements taken that day.

22. DEP. The Pennsylvania Department of Environmental Protection or any successor agency. (C)

23. **Domestic Sewage**: Liquid or **water-carried** waste **that is generated (C) from sanitary conveniences and from household activities such as bathing, washing, cooking, dishwashing and laundry, but that does not contain industrial waste**. [language deleted]

24. **Dwelling Unit:** A structure or dwelling intended to be occupied as a whole by one family.

25. Environmental Protection Agency or EPA. The U.S. Environmental Protection Agency or any successor agency. (C)

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RULES AND REGULATIONS

Section A – DEFINITIONS (cont'd)

26. **Equivalent Dwelling Units or EDU**: Except for existing customers acquired by the Company through a purchase or acquisition**,** the EDU is a measure based upon the estimated average daily wastewater flow for the type of business, as calculated by the PaDEP Regulation at 25 Pa Code: 73.17 divided by the typical estimated average daily wastewater flow from a current single-family unit.

For existing customers without a predetermined EDU allocation, the EDU is a measure based upon the estimated average daily wastewater flow for the type of business based on water usage, divided by the typical estimated average daily wastewater flow from a current single-family unit. **(C)**

For **other** existing customers acquired by the Company through a purchase or acquisition, the number of equivalent dwelling units is available at the following link: www.amwater.com/paaw **(C)**

Any new customers, or existing customers who modify their properties in a manner that impacts the EDU calculation, in areas previously acquired by the Company, will be subject to the EDU definition described above. [language deleted] **(C)**

27. **Excess Loading Fee.** The fee applicable to discharges with loadings that exceed a local limit or IWDP limit, as defined in subsection 7.2(b) of Section T and Section U of this tariff.

28. Existing Source. Any source of discharge that is not a "New Source."

RULES AND REGULATIONS

Section A – DEFINITIONS (cont'd)

29. **Garbage:** Solid waste from domestic **and commercial preparation**, cooking and dispensing of food, and from handling, storage, and sale of produce. **(C)**

30. **Garbage Properly Shredded:** [language removed] **(C)**
Wastes from the preparation, cooking, and dispensing of food that have been shredded to such degree that all particles will be carried freely under the flow conditions normally prevailing in public sewers, with no particle greater than one-half inch in dimension.

31. Grab Sample. A sample that is taken from a wastestream without regard to the flow in the wastestream and over a period of time not to exceed fifteen (15) minutes. (C)

32. **Grinder Pump:** Any mechanical or powered device, owned by the Customer, used to grind, macerate or fluidize garbage so that it can be discharged into the Sanitary Sewer.

[paragraph removed] **(C)**

33. Holding Tank Waste. Any sewage from holding tanks. (C)

34. Indirect Discharge. The discharge or the introduction of pollutants from any non-domestic source into the treatment works. (C)

35. Individual Wastewater Discharge Permit or IWDP. A permit as set forth in subsections 4 and 5 of Section T of this tariff, issued by the Company to a user. (C)

36. Industrial Loading Fee. The fee applicable to discharges with loadings above typical domestic sewage loadings up to but not exceeding any applicable local limit or IWDP limit, as defined in subsection 7.2(a) of Section T and Section U of this tariff. (C)

37. Industrial Pretreatment Program or IPP. The program established by the Company that includes these rules and applicable local limits for individual service areas. (C)

38. Industrial Pretreatment Program (IPP) Coordinator. The person designated by the Company to supervise the implementation of these rules and the operation of its Industrial Pretreatment Program. (C)

39. Industrial User. See definition of user, below. (C)

40. Industrial Waste. Solid, liquid or gaseous waste discharged by a user, including commercial wastewater, but not domestic sewage. (C)

[language deleted] **(C)**
[language deleted] **(C)**

RULES AND REGULATIONS

Section A – DEFINITIONS (cont'd)

41. Inhibition. The impact of a pollutant or discharge that inhibits or disrupts the treatment plant or its performance, its treatment processes or operations, or its sludge processes, use or disposal. Sometimes considered a category of interference, inhibition may also be specifically defined as any pollutant which might impair, effectively reduce, or terminate the biological process and/or biological operation of the treatment (wastewater treatment or sludge stabilization), on either a chronic or acute basis. (C)

42. Instantaneous Limit. The maximum concentration of a pollutant allowed to be discharged at any time, determined from the analysis of any discrete or composited sample collected, independent of the industrial flow rate and the duration of the sampling event. (C)

43. Interference. A discharge that, alone or in conjunction with a discharge or discharges from other sources, inhibits or disrupts the treatment works, its treatment processes or operations, or its sludge processes, use or disposal; and therefore, is a cause of a violation of the Company's NPDES permit or of the prevention of sewage sludge use or disposal in compliance with any of the following statutory/regulatory provisions or permits issued thereunder, or any more stringent State or local regulations: section 405 of the Act; the Solid Waste Disposal Act, including Title II commonly referred to as the Resource Conservation and Recovery Act or RCRA; any State regulations contained in any State sludge management plan prepared pursuant to subtitle D of the Solid Waste Disposal Act; the Clean Air Act; the Toxic Substances Control Act; and the Marine Protection, Research, and Sanctuaries Act. Also refer to Inhibition and Toxicity definitions, which may be causes of interference. (C)

44. **Line extension (for line extension purposes**): An addition to the Company's main line which is necessary to serve the premises of a Customer. Refer to Section H **of this tariff**. **(C)**

45. Local Limit. Specific pollutant discharge limits developed and enforced by the Company upon users to implement the general and specific discharge prohibitions identified herein. Applicable Local Limits are specified in an IPP submitted to DEP and published on the Company's website. (C)

46. **Main:** The Company's pipe, excluding service connections, located in a public highway, street, alley or private right-of-way which pipe is used in transporting wastewater.

47. Maximum Allowable Headworks Loading or MAHL. The estimated maximum loading of a pollutant that can be received at the headworks of a treatment plant without causing pass through or interference. The most protective (lowest) of the AHLs estimated for a pollutant. (C)

48. Maximum Allowable Industrial Loading or MAIL. The estimated maximum loading of a pollutant that can be received at the headworks of a treatment plant from all permitted industrial users and other controlled sources without causing pass through or interference. The MAIL is usually calculated by applying a safety factor to the MAHL and discounting for uncontrolled sources, hauled waste and growth allowance. (C)

49. Medical Waste. Isolation wastes, infectious agents, human blood and blood products, pathological wastes, sharps, body parts, contaminated bedding, surgical wastes, potentially contaminated laboratory wastes, and dialysis wastes. (C)

RULES AND REGULATIONS

Section A – DEFINITIONS (cont'd)

50. **Meter:** Any device supplied by the Company or other for the purpose of measuring water consumption or wastewater discharge.

51. Monthly Average. The sum of all "daily discharges" measured during a calendar month divided by the number of "daily discharges" measured during that month. (C)

52. Monthly Average Limit. The highest allowable average of "daily discharges" over a calendar month, calculated as the sum of all "daily discharges" measured during a calendar month divided by the number of "daily discharges" measured during that month. (C)

53. National Pollutant Discharge Elimination System or NPDES. A system of discharge permits issued pursuant to Section 402 of the Act (33 USC § 1342). (C)

54. New Source. (C)

(1) Any building, structure, facility, or installation from which there is (or may be) a discharge of pollutants, the construction of which commenced after the publication of proposed pretreatment standards under section 307(c) of the Act that will be applicable to such source if such standards are thereafter promulgated in accordance with that section and if such source were to discharge to a POTW, provided that:

a. The building, structure, facility, or installation is constructed at a site at which no other source is located: or

b. The building, structure, facility, or installation totally replaces the process or production equipment that causes the discharge of pollutants at an existing source; or

c. The production or wastewater-generating processes of the building, structure, facility, or installation are substantially independent of an existing source at the same site. In determining whether these are substantially independent, factors such as the extent to which the new facility is integrated with the existing plant, and the extent to which the new facility is engaged in the same general type of activity as the existing source, should be considered.

(2) Construction on a site at which an existing source is located results in a modification rather than a new source if the construction does not create a new building, structure, facility, or installation meeting the criteria of new source section (1)(b) or (c) above but otherwise alters, replaces, or adds to existing process or production equipment.

(3) Construction of a new source as defined under this paragraph has commenced if the owner or operator has:

a. Begun, or caused to begin, as part of a continuous onsite construction program

(i) any placement, assembly, or installation of facilities or equipment; or

(ii) significant site preparation work including clearing, excavation, or removal of existing buildings, structures, or facilities which is necessary for the placement, assembly, or installation of new source facilities or equipment; or

b. Entered into a binding contractual obligation for the purchase of facilities or equipment which is intended to be used in its operation within a reasonable time. Options to purchase or contracts which can be terminated or modified without substantial loss, and contracts for feasibility, engineering, and design studies do not constitute a contractual obligation under this paragraph.

RULES AND REGULATIONS

Section A – DEFINITIONS (cont'd)

55. **Nonresidential Service:** Wastewater service supplied to a commercial or industrial building, including a hotel or motel, or to a master-metered trailer park or multi-tenant apartment building, or to any customer who purchases wastewater service from the Company for the purpose of resale.

56. Non-Significant Categorical Industrial User or NSCIU. A categorical industrial user that meets the following conditions as determined by the Company: 1) never discharges more than 100 gpd of total categorical wastewater (excluding sanitary, non-contact cooling and boiler blowdown wastewater, unless specifically included in the pretreatment standard), 2) has consistently complied with all applicable pretreatment standards and requirements, 3) never discharges any untreated concentrated wastewater, and 4) annually submits the certification statement in subsection 6.13 of Section T of this tariff stating that the facility met the definition of an NSCIU together with any additional information necessary to support the certification statement. (C)

57. Operator. Any person having charge, care, management or control of a tank truck(s) or treatment system(s) used in the removal, transportation, disposal, or treatment of sewage or industrial wastes. (C)

58. Owner. Any person vested with ownership, legal or equitable, sole or partial, of an improved property. (C)

59. Pass Through. A discharge which exits the treatment works into waters of the United States in quantities or concentrations which, alone or in conjunction with a discharge or discharges from other sources, is a cause of a violation of any requirement of the Company's NPDES permit, including an increase in the magnitude or duration of a violation. (C)

60. Person. Any individual, partnership, co-partnership, firm, company, corporation, association, joint stock company, trust, estate, governmental entity, or any other legal entity, or their legal representatives, agents or assigns. This definition includes all federal, state, and local governmental entities. (C)

61. pH. A measure of the acidity or alkalinity of a solution, expressed in standard units and determined in accordance with the EPA test methods referenced in 40 CFR Part 136. (C)

62. Pollutant. Dredged spoil, solid waste, incinerator residue, filter backwash, sewage, garbage, sewage sludge, munitions, medical wastes, chemical wastes, biological materials, radioactive materials, heat, wrecked or discarded equipment, rock, sand, cellar dirt, municipal, agricultural and industrial wastes, and certain characteristics of wastewater (e.g., pH, temperature, TSS, turbidity, color, BOD5, COD, toxicity, or odor). (C)

63. Pretreatment: The **reduction of the amount of pollutants, the elimination of pollutants, or the alteration of the nature of pollutant properties in wastewater prior to, or in lieu of, introducing such pollutants into the treatment works. This reduction or alteration can be obtained by physical, chemical, or biological processes; by process changes; or by other means except by diluting the concentration of the pollutants unless allowed by an applicable pretreatment standard**.[language deleted]. (C)

64. Pretreatment Requirements. Any substantive or procedural requirement related to pretreatment imposed on a user, other than a pretreatment standard. (C)

RULES AND REGULATIONS

Section A – DEFINITIONS (cont'd)

65. Pretreatment Standards or Standards. Pretreatment standards shall mean prohibited discharge standards, categorical pretreatment standards, and local limits.

66. Process Wastewater: Any water which, during manufacturing or processing, comes into direct contact with or results from the production or use of any raw material, intermediate product, finished product, byproduct, or waste product.

67. Prohibited Discharge Standards or Prohibited Discharges. Absolute prohibitions against the discharge of certain substances; these prohibitions appear in subsection 2.1 of the Section T of this tariff.

68. Publicly Owned Treatment Works or POTW. A treatment works as defined by EPA in 40 CFR §403.3(q).

69. **Public Utility:** Persons or corporations owning or operating equipment or facilities in this Commonwealth for water, electric or wastewater collection, treatment, or disposal for the public for compensation.

70. **Residential Applicant**: A natural person at least 18 years of age not currently receiving service who applies for residential service provided by the Company or any adult occupant whose name appears on the mortgage, deed or lease of the property for which the residential utility service is requested. A Residential Applicant does not include a person who, within 30 days after service termination or discontinuance of service, seeks to have another service reconnected at the same location or transferred to another location within the Company's service territory.

71. **Residential Customer**: A natural person at least 18 years of age in whose name a residential service account is listed and who is primarily responsible for payment of bills rendered for the service or any adult occupant whose name appears on the mortgage, deed or lease of the property for which the residential utility service is requested. A Residential Customer includes a person who, within 30 days after service termination or discontinuance of service, seeks to have service reconnected at the same location or transferred to another location within the Company's service territory.

72. **Residential Service:** Wastewater service supplied to an individual single-family residential dwelling unit.

73. **Sanitary Sewer System or SSS:** A sewer **system** which primarily carries sanitary wastewater, together with such storm, surface and ground water as may be present. **(C)**

74. Septic Tank Waste. Partially-treated liquid and solid material pumped from a septic tank, cesspool, or similar domestic sewage treatment system that maintains a downstream effluent disposal method (e.g., a leach field). Septic tank waste is also known as septage and is to be distinguished from holding tank waste, dilute or otherwise.

RULES AND REGULATIONS

Section A – DEFINITIONS (cont'd)

75. Sewage. See definition of Domestic Sewage above. (C)

76. Significant Industrial User or SIU. (C)

Except as provided in paragraphs (3) and (4) of this definition, a significant industrial user is:

(1) An industrial user that would be subject to categorical pretreatment standards if it were discharging to a POTW; or

(2) An industrial user that:

a. Discharges an average of twenty-five thousand (25,000) gpd or more of process wastewater to the treatment works (excluding sanitary, noncontact cooling water and boiler blowdown wastewater).

b. Contributes a process wastestream which makes up five (5) percent or more of the average dry weather hydraulic or organic capacity of the treatment plant; or

c. Is designated as such by the Company on the basis that it has a reasonable potential for adversely affecting the treatment work's operation or for violating any pretreatment standard or requirement.

(3) The Company may determine that an industrial user that would be subject to categorical pretreatment standards if it were discharging to a POTW is a NSCIU rather than an SIU as provided in paragraph (1) of this definition, provided that the Company finds that the industrial user never discharges more than 100 gallons per day (gpd) of total categorical wastewater (excluding sanitary, noncontact cooling and boiler blowdown wastewater, unless specifically included in the pretreatment standard) and the following conditions are met:

a. The industrial user, prior to the Company's finding, has consistently complied with all applicable pretreatment standards and requirements;

b. The industrial user annually submits the certification statement required in subsection 6.13 of Section T of this tariff, together with any additional information necessary to support the certification statement; and

c. The industrial user never discharges any untreated concentrated wastewater.

(4) The Company, on its own initiative or in response to a request from the industrial user, may determine that an industrial user meeting the criteria of paragraph (2) of this definition should not be considered an SIU, provided that the Company finds that the industrial user has no reasonable potential to adversely affect the operation of the treatment works or to violate any pretreatment standard or requirement.

77. Significant Wastewater Modification. Any change to a user's operations or system, or to the quantity or quality of a user's wastewater discharge, that involves any of the following: (C)

a. the introduction of new pollutants that were not previously disclosed to and approved by the Company;

b. any increase in the maximum loading (measured in pounds per day) of any previously disclosed Pollutant which would exceed the loading limitations established under subsection 2.5 of Section T of this tariff or set forth in the applicable IWDP;

c. any cumulative increase in the maximum loading (measured in pounds per day) of any previously disclosed pollutant;

d. any change in the loadings of any pollutant or in the physical or chemical characteristics of the wastewater that could cause pass through or interference; or

e. any cumulative and sustained increase in volume of flow in excess of the maximum anticipated flow previously disclosed to and approved by the Company.

RULES AND REGULATIONS

Section A – DEFINITIONS (cont'd)

78. Slug Load or Slug Discharge. Any discharge at a flow rate or concentration, which could cause a violation of the prohibited discharge standards in subsection 2.1 of Section T of this tariff. A slug discharge is any discharge of a non-routine, episodic nature, including but not limited to an accidental spill or a non-customary batch discharge, which has a reasonable potential to cause interference or pass through or in any other way violate these rules, local limits or permit conditions. (C)

79. Special Discharge Fee. The fee applicable to discharges with loadings or concentrations that exceed a local limit or IWDP limit and that impact sludge handling or disposal methods and costs, necessitate acquisition of nutrient credits, result in damages to the facility, or require extraordinary measures, as defined in subsection 7.2(c) of Section T of this tariff. (C)

80. Specific Pollutant Discharge Limitation. See definition of Local Limit, above. (C)

81. Standard Industrial Classification or SIC. A classification pursuant to the Standard Industrial Classification Manual issued by the Executive Office of the President, Office of Management and Budget, 1972. (C)

82. **Storm Sewer:** A sewer which carries surface, ground water, or storm water from the buildings, ground, streets, or other areas.

83. **Storm Water or Storm Water Flow:** Any flow occurring during or following any form of natural precipitation, and resulting from such precipitation, including snowmelt. **(C)**
[paragraph removed] **(C)**

84. **Tariff:** All of the service rates, rules and regulations issued by the Company, together with any supplements or revisions thereto, officially approved by the Commission and contained in this document.

[paragraph removed] **(C)**

85. Total Suspended Solids or Suspended Solids. The total suspended matter that floats on the surface of, or is suspended in, water, wastewater, or other liquid, and that is removable by laboratory filtering, expressed in terms of concentration (mg/L). (C)

86. Toxicity. The effect of wastewater containing toxic pollutants or pollutants that result in the presence of toxic gases, vapors, or fumes, in sufficient quantity, either singly or by interaction with other pollutants, to injure or interfere with any wastewater treatment process, cause injury or worker health and safety problems, constitute a hazard to humans or animals, create a toxic effect in the receiving waters of the treatment plant, or exceed the limitation set forth in a categorical pretreatment standard. Toxic pollutants include any pollutant or combination of pollutants listed as toxic in regulations promulgated by the EPA or DEP under the provisions of the Clean Water Act 307(a) or other Acts. The Company may impose biomonitoring or other toxicity testing to assess an industrial user discharge. (C)

RULES AND REGULATIONS

Section A – DEFINITIONS (cont'd)

87. Treatment Plant. That portion of the treatment works which is designed to provide treatment of domestic sewage and industrial waste. (C)

88. Treatment Works. All of the facilities and works owned by the Company and used in the collection, storage, treatment, recycling or reclamation of domestic or industrial wastewater and any conveyances which convey wastewater to a treatment plant. (C)

89. **Unauthorized Use of Service**: Unreasonable interference or diversion of service, including meter tampering (any act which affects the proper registration of service through a meter), by-passing unmetered service that flows through a device connected between a main or service line and customer-owned facilities, unauthorized service restoration, unauthorized stormwater/groundwater connection to Sanitary or Combined Sewer, or the otherwise taking or receiving of wastewater service without the knowledge or approval of the Company.

90. User. Any person that introduces or has the potential to introduce an indirect discharge to the treatment works. (C)

91. **Wastes:** Any liquid, gaseous, or solid substances or combination thereof which are discarded, leached, or spilled substances or combination thereof including sanitary wastewater **and domestic sewage** but excluding stormwater. **(C)**

92. **Wastewater:** Liquid and water-carried wastes from dwellings, commercial facilities, industrial facilities and institutions, together with any groundwater, surface water, and storm water that may be present, whether treated or untreated, in the Company's sewer system. **(C)**

93. Wastewater Treatment Plant. See definition of Treatment Plant, above. (C)

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RULES AND REGULATIONS

Section B – The Wastewater Tariff

1. Filing and Availability

A copy of this Tariff, which is the rates, rules and regulations under which wastewater service will be supplied by the Company to its Applicants and Customers in Pennsylvania, is on file with the Pennsylvania Public Utility Commission, and is available and open for inspection at the offices of the Company.

2. Revisions

This Tariff may be revised, amended, supplemented and otherwise changed from time to time in accordance with the Pennsylvania "Public Utility Code," and such changes, when effective, shall have the same force and effect as the present Tariff.

3. Applications of Tariff

The Tariff provisions apply to any party or parties applying for or receiving service from the Company, including Unauthorized Use of Service.

4. Amendment of Commission Regulations **(C)**

Whenever Commission regulations in Title 52 of the Pennsylvania Code are duly amended in such a way as would produce a difference between Commission regulations and this tariff, the tariff is deemed to be amended to be consistent with the amendments to the regulations, except that if application of the amendment to Title 52 is discretionary, this tariff will remain unchanged.

RULES AND REGULATIONS

Section C - Applications for Service

1. **Service Application Required:** Any Applicant who wishes to receive wastewater service from the Company under this Tariff must contact the Company and complete an application for service. Applications for service may be made by completing a written application, by telephoning the Company, or through application via the Company's website on the Internet. All applications for service must signed by the owner or owners of the property to which wastewater collection service will be provided; except that where a lessee of property occupies or uses the property under a lease having a fixed term of more than six (6) months, the lessee may request service as an applicant. If Company is not the provider of water service to the property to which wastewater collection service will be provided, the Company may require the Applicant to be the same person or entity who is the account holder for water service. **Where the water provider of the service location notifies the Company pursuant to a usage data agreement that the customer of the service location has changed, the customer of the service location does not need to complete an application for wastewater service**. The Company may, at its sole discretion, require that a separate contract for service be signed by the Applicant. **(C)**

   Prior to providing utility service, the Company may require the Applicant to provide: (1) information that positively identifies him/her self; (2) the name of any adult occupant whose name appears on the mortgage, deed or lease of the property for which the residential utility service is requested; (3) the names of each adult occupant residing at the location, and proof of their identity; or (4) a cash deposit, as may be required in accordance with Section G of this Tariff.

   In the case of Residential Applicants, the Company may ask for the combined gross income of all adult occupants at the time the application for service is made; however, the Residential Applicant is not required to provide the information as a condition of receiving wastewater service, unless such applicant is seeking to enroll in the Company's *Help to Others Program.*

   Nonresidential service customers which desire to discharge Industrial[deleted] Waste into the Sanitary Sewer or existing industrial[deleted] users which desire to commence operations of a new facility or a new or different process that will affect the characteristics of the wastewater discharging into the Sanitary Sewer, shall notify the Company prior to the commencement of the new or different operations at the facility and provide such other information regarding the proposed discharge as the Company may request, including an application for an Individual Wastewater Discharge Permit when deemed necessary.

2. **Change in Ownership or Tenancy:** A new application must be made to the Company upon any change in ownership where the owner of the property is the Customer, or upon any change in the identity of a lessee where the lessee of the property is the Customer. The Company shall have the right to discontinue or otherwise interrupt wastewater collection service upon three (3) days notice if a new application has not been made and approved for the new customer.

RULES AND REGULATIONS

Section C - Applications for Service (cont'd)

3. **Acceptance of Application and Right to Reject:** An application for service shall be considered accepted by the Company only upon written approval by the Company. All regulatory requirements shall be met before Company can provide approval. The Company may limit the amount or character of service it will supply, or may reject applications for service for the following reasons: requested service is not available under a standard rate; requested service may affect service to other customers; for a non-Residential Applicant's or non-Residential Customer's failure to establish Creditworthiness; for failure to address prior Company debts; for the Applicant's failure to provide identifying documentation of the Applicant and each adult occupant residing at the location; when identifying documentation cannot be verified; for the reasons set forth in Section D, paragraph 5, or for other good and sufficient reasons.

4. **Temporary Service:** In the case of temporary service for less than a 12-month period, the Company may require the Customer to pay all costs of making the service connection and for its removal after the service has been discontinued, or to pay a fixed amount in advance to cover such expenses. If the actual costs differ from the estimate, the Applicant will pay to the Company any excess amount due or the Company will refund to the Applicant any excess amount paid.

5. **Owner or Landlord Responsibility for Service:** If a building is master metered, the Company may, at its discretion, require the building owner or landlord to establish a single account for the building at the master meter in the name of the building owner or landlord even where there are existing meters for individual tenants behind the master meter.

6. **Acquired Customers**: Upon acquisition of a wastewater system where the Company is already the water service provider, the Customer of record for wastewater service shall be the same as the Customer of record for water service.

7. **Meter Installations: The Company will furnish and install for each Customer who receives water service from a private well, upon the Customer's request, and without charge, a suitable meter and will keep the same in repair, except to the extent Customer is responsible for the meter pursuant to this Rule C.8. All Company meters will be owned by the Company and remain the property of the Company and shall be accessible to the Company and subject to its control. The Customer, however, shall properly protect the meter from damage by frost or other causes and shall be responsible for repairs or replacement of the meter resulting from the negligence or intentional act of the Customer. (C)**

8. **Meter Space and Location: The Customer shall provide a safe, readily-accessible and protected location for the installation of a meter. The location must be acceptable to the Company so that the meter may be easily examined, read, or removed. (C)**

9. **Meter Removal: The Company shall not remove meters except as required by Commission regulation. (C)**

(C) means Change

RULES AND REGULATIONS

Section D - Construction and Maintenance of Facilities

1. **Customer Service Line:** The Customer service line shall be furnished, installed, maintained and/or replaced, when necessary, by and at the sole expense of the Customer. The Company reserves the right to determine the size, type, quality, depth, and connection location of the customer service lines. Prior to connection to the Company service line, the Customer, at their sole cost, shall have the Customer service line air pressure tested and checked for alignment by a Company approved qualified person under the supervision of a Company representative.

2. **Separate Trench:** The customer wastewater service line shall not be laid in the same trench with drain or water pipe, the facilities of any other public utility or of any municipality or municipal authority that provides a public utility service.

3. **Customer's Responsibilities:** All service lines, connections and fixtures furnished by the customer shall be maintained by the Customer in good working order. All valves, meters and appliances furnished by the Company and on property owned or leased by the Customer shall be protected properly by the customer. All leaks in the Customer service line or any pipe or fixtures in or upon the customer's premises must be repaired immediately by the Customer as determined solely by the Company. The failure of a Customer to properly install and maintain a service line, including replacement, shall constitute grounds for the Company to initiate action to terminate service to the customer and seek recovery for any damage to the Company's facilities caused by an improperly functioning service line. For Customers who also receive water service from the Company, where an undetected, non-surfacing, underground leak is found in a Customer's Water Service Pipe, the Company shall credit the Customer with a one-time bill adjustment for wastewater service equal to forty percent (40%) of that portion of one month's consumption that exceeds the average monthly usage, based on the prior twelve month period, upon proper verification that the Water Service Pipe leak has been repaired. The Company shall require documentation to establish, to the Company's satisfaction, the existence of such repaired leak at the Customer's premises. Such bill adjustment will be provided only to the extent the Customer has not received a bill adjustment for an undetected, non-surfacing, underground leak at the same premises in the past five (5) years.

4. **Customer Grinder Pump:** In areas of the collection system where the Company has installed a pressure sewage collection system or where required as determined by the Company, the Customer, in conjunction with the construction of their service line, shall install, own, operate, and maintain and replace a grinder pump and holding tank at the Customer's expense as specified by the Company prior to connection and shall maintain such facilities in good order and repair. The pump shall meet specifications as provided by the Company. The failure of a customer to properly install and maintain a grinder pump, including replacement, shall constitute grounds for the Company to initiate action to terminate service to the customer and seek recovery for any damage to the Company's facilities caused by an improperly functioning grinder pump.

5. **Right to Reject:** The Company may refuse to connect with any customer service line or furnish wastewater collection, treatment and/or disposal through a service already connected if such system or service is not properly installed or maintained.

RULES AND REGULATIONS

Section D – Construction and Maintenance of Facilities (cont'd)

6. **Water Use Standards for Certain Plumbing Fixtures:** This rule establishes maximum water use criteria for certain plumbing fixtures installed in all new construction or renovation. Such standards have been implemented to achieve maximum efficiency of water use which the Commission has determined is technologically feasible and economically justified.

(a) Maximum permitted water usage levels shall be as follows:

Plumbing Fixture	Maximum Water Use
water closets	1.6 gallons/flush
urinals	1.5 gallons/flush

(b) The Company may exempt particular customers, or classes of customers, when it is determined that the water use standards for plumbing fixtures listed above are unreasonable, cannot be accommodated by existing technology or are otherwise inappropriate.

7. **Individual Service Lines:** Except as otherwise expressly authorized by the Company, each individual customer shall be served only through a separate service line connected directly to the Company Service Line, and that Customer Service Line shall not cross over the property of or serve any other customer or premise. The maximum service line length shall be two hundred and fifty (250) feet from the point of connections with clean-outs every 50 feet. The Company shall have the right to waive this maximum length requirement at its sole discretion. No additional attachment may be made to any Customer Service Line for any purpose without the express written approval of the Company.

8. **Connection to Company Mains:** No connection shall be made to the Company's main, nor detachment from it, except under the direction and control of the Company. All such connections shall be property of the Company and shall be accessible to it and under its control. The Company will furnish, install and maintain all service lines from the main to the property line or right-of-way.

RULES AND REGULATIONS

Section E - Discontinuance, Termination and Restoration of Service

1. **Discontinuance by Customer:** Where a customer requests the Company to discontinue service, the following rules shall apply:

(a) A customer who wishes to have service discontinued shall give at least three (3) days notice to the Company, specifying the date on which service is to be discontinued. In the absence of proper notice, the Customer shall be responsible for all service rendered until the time that the Company shall have actual or constructive notice of the Customer's intent to discontinue service. The Customer shall not begin to use nor cease to use wastewater service without the prior consent of the Company.

2. **Termination by Company:** Wastewater and/or water service to the Customer may be terminated for good cause, including, but not limited to, the following:

(a) making an application for wastewater service that contains material misrepresentations;

(b) failure to repair leaks in sewer pipes or fixtures;

(c) Unauthorized Use of Service, tampering with any Company Service Line, or installing or maintaining any unauthorized connection;

(d) theft of sewer service, which shall include taking service without having made a proper application for service under Section C;

(e) failure to pay, when due, any charges accruing under this tariff;

(f) discharge of any prohibited substance listed in Section R into the wastewater system;

(g) receipt by the Company of an order or notice from the Department of Environmental Protection, a health agency, local plumbing inspector or other similar authority, to terminate service to the property served on the grounds of violation of any law or ordinance, or upon notice to the Company from any such authority that has ordered an existing violation on the property to be corrected and that such order has not been complied with or

(h) material violation of any provisions of the tariff;

(i) failure to permit access to meters, service connection or other property of the Company for the purpose of replacements, maintenance, operation or repair of meter reading device after proper notice;

(j) failure to properly install and maintain a grinder pump, including its replacement when improperly functioning as solely determined by the Company;

RULES AND REGULATIONS

Section E - Discontinuance, Termination and Restoration of Service (cont'd)

2. **Termination by Company (cont'd)**

(k) any unauthorized, un-inspected, or improper connection, as herein defined, found to exist will be required to be disconnected within ten (10) days. The Company may require a plumber's sworn statement or certificate as evidence that the connection has been discontinued;

(l) Not abiding by the provisions of the Company's **IPP** [language deleted]; **(C)**

(m) Failure to remove direct connections to the Customer Service Line that allow surface, subsurface, storm water, or roof run off water into the Sanitary Sewer;

(n) Not complying with any part of this tariff;

(o) Supplying sewer service to other units, buildings or premises when Capacity Reservation Fees have not been paid for in accordance with tariff;

(p) For termination of water service by Company in accordance with the Company's water tariff on file with the Commission;

(q) For Customer's tendering payment for reconnection of service that is subsequently dishonored, revoked, canceled or otherwise not authorized and which has not been cured or otherwise made in full payment within three business days of the Company's notice; or

(r) After receiving a written termination notice from the Company, for Customer's tendering payment which is subsequently dishonored under 13 Pa. C.S. § 3502, or, in the case of an electronic payment, that is subsequently dishonored, revoked, canceled or otherwise not authorized and which has not been cured or otherwise made in full payment within three business days of the Company's notice.

In order to terminate wastewater service, the Company can at its discretion install a shut off valve on the Company's Service Line to terminate service. The cost for the installation of the shut off valve and all the other charges accruing under this tariff shall be paid to the Company before service is restored.

3. **Turn-on Charge:** Whenever service is discontinued or terminated pursuant to Rule 1 or Rule 2 of this Section, service shall be permitted by the Company only upon the payment by the Customer of a turn-on fee and the curing of the problem that gave rise to the terminations if under Rule 2. Refer to Schedule of Miscellaneous Fees and Charges; section C for Service Reconnection and Discontinuance Fee.

4. **Service Restoration Following Termination of Service**: When wastewater service to any premise has been terminated by Company for any reason, it will be restored only after the conditions, circumstances, or practices which caused the wastewater service to be terminated are corrected and all applicable arrearages, deposits and fees paid.

RULES AND REGULATIONS

Section E - Discontinuance, Termination and Restoration of Service (cont'd)

5. Termination of Residential Service for Nonpayment of Bills **(C)**

Before termination of **residential** service, the Company will take the following steps: **(C)**

(a) Provide a written notice of termination to the Customer at least 10 days prior to the scheduled shut off and the notice shall be in the form required by the Commission;

(b) Attempt to make personal contact with the Customer at least three days prior to the shut off date;

(c) During winter months (December 1 through March 31), if the Company cannot reach the Customer at the time of termination, the Company will leave a 48-hour notice at the residence;

(d) After complying with paragraphs (B) and (C), the Company will attempt to make personal contact with the Customer or responsible adult at the time service is terminated. Termination of service will not be delayed for failure to make personal contact;

(e) Upon termination, the Company will make a good faith attempt to provide a post termination notice.

6. Landlord Ratepayer Termination of Service for Nonpayment of Bills

Before termination of service to a Landlord Ratepayer that has tenants, the Company will take the following steps:

(a) Provide a written notice of termination to the Landlord Ratepayer at least 37 days prior to the scheduled shut off;

(b) Provide written notice of termination to each dwelling unit reasonably likely to be occupied by affected tenant at least 30 days prior to the scheduled shut off;

(c) Upon termination, the Company will post the termination notice at the dwelling, including common areas when possible.

7. Protection from Abuse Order

If you are a **residential Customer who is a** victim of domestic violence and have a Protection from Abuse Order or other court order that shows clear evidence of domestic violence, there are special protections available. The Company will not shut off your wastewater service during the winter months (December 1 through March 31), without PUC permission. Depending on your income, a special payment arrangement may be available. Your service may not be terminated on a Friday. You may not be held responsible for a bill in someone else's name. You may not be required to pay a security deposit. If you are required to pay a security deposit, you may be able to pay it over three payments. You will receive additional 48-hour notice prior to termination. **(C)**

RULES AND REGULATIONS

Section F - Billing and Collection

8. **Billing Period:** The Company shall render a bill once every billing period to every Customer in accordance with approved rate schedules. The due date for payment of a bill for Residential and Non-Residential service shall be no less than twenty (20) days from the date of transmittal. If the last day for payment falls on a Saturday, Sunday or bank holiday, or on any day when the offices of the Company are not open to the general public, the due date shall be extended to the next business day. The Company may not impose a late-payment charge unless payment is received more than five (5) days after the stated due date.

9. **Late-Payment Charge:** All amounts not paid when due shall accrue a late-payment charge at the rate not to exceed one and fifty one-hundredths percent (1.50%) per billing period, not to exceed eighteen percent (18%) per year when not paid as prescribed in Rule 1 of this Section.

10. **Change in Billing Address:** Where a customer fails to notify the Company of a change in billing address, the Customer shall remain responsible to remit payment by the billing due date.

11. **Application of Payment:** Utility bills rendered by the Company shall include only the amount due for utility service. Where a customer remittance to the Company includes payment for any non-utility services, proceeds will be applied first to pay all outstanding regulated utility charges.

12. **Return Check Fee:** The customer will be responsible for return check fee as provided in the Schedule of Miscellaneous Fees and Charges section of the tariff, per incident where a check or automatic transfer of funds, which has been presented to the Company or its agent for payment of any bill, is returned by the bank for any reason including, but not limited to, non-sufficient funds, account closed, payment stopped, two signatures required, postdated, stale date, no account, drawn against uncollected funds, and unauthorized signature. This fee is in addition to any and all charges assessed by the bank.

13. **Disputed Bills:** In the event of a dispute between the Customer and the Company with respect to any bill, the Company will promptly make such investigation as may be required by the particular case and report the result to the Customer. The Customer is not obligated to pay the disputed amount during the pendency of the Company's investigation. When the Company has made a report to the Customer sustaining the bill as rendered, the Customer shall have fifteen (15) days from the date of such report in which to pay the bill. If the Company determines that the bill originally rendered is incorrect, the Company will issue a corrected bill with a new due date for payment. Any amount received by the Company in excess of the amount determined to be due by the Company's investigation of the dispute shall be refunded to the Customer.

14. **Residential Customer Payment Arrangement:** **(C)**
A **residential** Customer must first contact the Company to request a payment arrangement. The Company will take into consideration the size of the unpaid balance, the ability of the Customer to pay, the payment history of the Customer and the length of time over which the bill accumulated. A Customer has the right to decline the Company's payment arrangement. If a Customer breaks a Company payment arrangement, the Commission may establish a payment arrangement. **(C)**

RULES AND REGULATIONS

Section F - Billing and Collection (cont'd)

15. **Termination of Free Service Under Certain Contracts and Other Instruments:** Notwithstanding any contrary provision contained in any deed, grant, contract, franchise, permit, consent or other instrument (other than an instrument expressly set forth in and constituting a part of this tariff) made, executed or delivered between the Company or any predecessor in interest and a Customer of the Company or any predecessor in interest: **(C)**

(A) Every person who takes wastewater service shall pay for all wastewater service taken as provided in the applicable schedule of rates set forth herein and subject to the Rules and Regulations of the Company.

(B) No credit, off-set or other allowance shall be allowed by the Company against any wastewater bill on account of the making, execution, or delivery of, or pursuant to any provisions of, any such instrument.

RULES AND REGULATIONS

Section G – Credit/Deposits

1. **Customer's Liability for Charges:**
The Customer who has made application for wastewater service to any premise shall be held liable for all wastewater service furnished to such premise until such time as the Customer properly notifies the Company to discontinue the service for this account.

2. **Prior Company Debts:**
(a) Service will not be furnished to former Customers until any indebtedness to the Company for previous service of the same or similar classification has been satisfied or a payment arrangement has been made on the debt. This rule does not apply to the disputed portion of disputed bills under investigation. The Company will apply this rule to the disputed portion of disputed bills, if, and only if: (1) the Company has made diligent and reasonable efforts to investigate and resolve the dispute; (2) the result of the investigation is that the Company determines that the customer's claims are unwarranted or invalid; and (3) the Commission and/or the Bureau of Consumer Services has decided a formal or informal complaint in the Company's favor and no timely appeal is filed. **The Company will inform the Applicant or Customer of any information relied upon by the Company to determine their responsibility for prior unpaid debt. The Company will also inform the Applicant or Customer of their right to dispute that information, as well as the Applicant or Customer's right to obtain service while a dispute is pending. The Company will not deny service to a Customer or Applicant who has a protection from abuse, or other similar order evidencing domestic violence, on the basis that a prior debt was incurred in the name of someone other than the Customer or Applicant.** (C)

(b) The Company may utilize means in accordance with applicable law of determining an Applicant's or Customer's liability for any indebtedness to the Company for previous service, including, but not limited to, the following: (1) use of Company records that containing confidential information previously provided to the Company for service; (2) [deleted] **a copy of** a valid mortgage, lease or deed**, which the Applicant or Customer is obligated to provide upon Company request**; (3) other information contained in the Company's records that indicate that the Applicant **or Customer** was an adult occupant during the time the prior debt accrued; (4) use of commercially available skip tracing software that contains records of names and addresses; (5) use of information contained in credit reporting data utilized by the Company**; or (6) a web-based tool such as "LexisNexis" to research the Applicant's or Customer's information**. (C) (C) (C) (C)

3. **Residential Customers' Deposits:** The Company may charge deposits to Residential Applicants and Residential Customers as permitted by Commission statutes, rules regulations, and as permitted by Federal Bankruptcy Law. **The Company will not charge a security deposit to a Customer or Applicant for service if the Customer or Applicant for service is confirmed to be income eligible for the Company's bill discount program.** (C)

(a) Deposits may be required from a Residential Applicant who is unable to establish Creditworthiness to the satisfaction of the Company through the use of a generally accepted credit scoring methodology which employs standards for using the methodology that falls within the range of general industry practice and specifically assess the risk of public utility bill payment.

(b) Deposits may be required from a Residential Customer who fails to comply with the material terms or conditions of a settlement or payment arrangement or is delinquent in the payment of two consecutive bills, or three or more bills within the preceding twelve months.

RULES AND REGULATIONS

Section G – Credit/Deposits (cont'd)

3. **Residential Customers' Deposits (cont'd):**

(c) Prior to reconnection of service, deposits may be required from a Residential Applicant or Residential Customer whose service was terminated for any of the following reasons: (a) nonpayment of an undisputed delinquent account; (b) failure to complete payment of a deposit, providing a guarantee or establish credit; (c) failure to permit access to meters, service connections or other property of Company for the purpose of replacement, maintenance, repair or meter reading; (d) Unauthorized Use of Service on or about the affected dwelling; (e) failure to comply with the material terms of a settlement or payment arrangement; (f) fraud or material misrepresentation of identity for the purposes of obtaining utility service; (g) tampering with meters, including, but not limited to, bypassing a meter or removal of an automatic meter reading device or other Company equipment; or (h) violating tariff provisions on file with the Commission so as to endanger the safety of a person or the integrity of the Company's water distribution system.

(d) Deposit Amount and Payment Period - For Residential Applicants or Customers, the cash deposit required shall be in an amount equal to 1/6 of an Applicant's or Customer's estimated annual bill at the time the Company determines the deposit is required. Any Residential Applicant or Customer shall have up to 90 days to pay the deposit in full and may elect to pay the required deposit in three installments: 50% bill upon the determination that the deposit is required; 25% billed 30 days after the determination; and 25% billed 60 days after the determination. The Residential Applicant or Customer may elect to pay the deposit in full before the due date.

(e) Deposit Refunds and Interest—A deposit will be refunded if service is discontinued and the final bill is paid or if the customer has paid the bills for the prior 12-month period without having been late on more than two (2) occasions and is not currently delinquent. Interest on deposits will be accrued until is returned to the Customer or upon termination or discontinuance of the service covered by the deposit. Deposits from residential customers shall bear simple interest at the rate determined by the Secretary of Revenue for interest on the underpayment of tax under section 806 of The Fiscal Code (72 P.S. § 806). The applicable interest rate for each year shall be determined as of January 1 of that year.

4. **Nonresidential Customers' Deposits:**

(a) The Company may charge deposits to Non-Residential Applicants and Non-Residential Customers if they have bad credit, lack Creditworthiness, or for other reasonable grounds determined by the Company, and as permitted by Federal Bankruptcy Law.

(b) The amount of the deposit will not be greater than an estimated average bill for one (1) billing period plus the estimated bill for one (1) additional month's service.

(c) Deposit Refunds and Interest— A deposit will be refunded if the customer pays all bills on time over a 12-month period or if service is disconnected and the final bill has been paid. There will be no interest paid on deposits for nonresidential accounts.

5. **Landlord Assumption of Responsibility**
(C)
If an Applicant for service, who is a landlord, assumes responsibility for rates and charges related to water or wastewater service provided to tenants and is billed for such service, the landlord must assume responsibility and be billed for both water and wastewater service, if such service is provided or billed by the Company.

(C) means Change

RULES AND REGULATIONS

Section G – Credit/Deposits (cont'd)

6. Denial of Residential Service **(C)**

(a) If the Company denies service **to a residential customer**, the Company will inform the Applicant in writing of the reasons for the denial within 3 business days of the denial. With the Applicant's consent, the Company may provide to the Applicant the information electronically. The written denial statement will include the reason for the denial and information on the Applicant's ability to challenge the denial. If the Company is requiring payment of an unpaid balance, the Company will specify in writing the amount of the unpaid balance, the dates during which the balance accrued and the location and customer name at which the balance accrued. The statement will inform the Applicant of the right to furnish a third-party guarantor in accordance with Commission regulations and the Applicant's right to contact the Commission. **(C)**

(b) The written denial statement will inform the Applicant that if he or she is, based upon household income, confirmed to be eligible for a customer assistance program a deposit is not required. The Company will inform the Applicant of the procedures and documentation necessary to qualify for an exemption from a security deposit requirement.

(c) The written denial statement will include information informing victims of domestic violence with a protection from abuse order, or a court order issued by a court of competent jurisdiction in this Commonwealth which provides clear evidence of domestic violence, that there are special protections available. The Company will not shut off your wastewater service during the winter without PUC permission. Depending on your income, a special payment arrangement may be available. Your service may not be terminated on a Friday. You may not be held responsible for a bill in someone else's name. You may not be required to pay a security deposit. If you are required to pay a security deposit, you may be able to pay it over three payments. You will receive additional 48-hour notice prior to termination.

RULES AND REGULATIONS

Section H - Line Extensions for Applicants other than Bona Fide Service Applicants

1. When an extension to serve a Customer is required or requested, such extension will be made under the terms of a "Sewer Main Extension Agreement" or a "Sewer Main Extension Deposit Agreement".

2. Customer shall contribute all facilities required for the Company to directly connect the Customer to the Sanitary Sewer. This includes pumping stations, vaults, manholes, mains or any other apparatuses where applicable. The Company shall have the right to locate the facilities as required to meet the long term system needs of the Customers.

3. Customer shall also pay a capacity reservation fee to the Company for each proposed equivalent dwelling unit.

4. **Size of Main and Other Facilities:** The Company shall have the exclusive right to determine the type and size of mains and the other facilities required to render adequate service. However, where the Company decides to install a pipe larger than necessary to render extension of adequate service to the applicant, estimated or actual cost figures in the Sewer Main Extension Agreement or Sewer Main Extension Deposit Agreement shall include only the material and installation cost for a pipe the size of which is necessary to provide adequate service to the applicant. Any incremental costs of a larger pipe will be the responsibility of the Company. All estimated or actual cost figures referred to in the Sewer Main Extension Agreement or Sewer Main Extension Deposit Agreement shall include a reasonable allowance for overhead costs and taxes as appropriate.

6. **Length of Extension:** In determining the necessary length of an extension, the terminal point of such extension shall be at that point in the property line or right-of-way, which is equidistant from the side property lines of the last lot for which service was requested except where the Company, in its sole opinion, determines that it is necessary to extend beyond the last lot and connect to an existing main to provide adequate and reliable wastewater service. A street service connection will be provided only for customer service lines that extend at right angles from the curb line in a straight line to the premises to be served.

7. **Offsite Development Marketing Contracts:** Where it is prudent, reasonable and in the public interest, the Company may, at its option enter into offsite development marketing contracts which depart from the standard terms of the "Sewer Main Extension Agreement" or "Sewer Main Extension Deposit Agreement". These marketing agreements shall become effective 30 days after the Company has filed a copy thereof with the Pennsylvania Public Utility Commission, or in the event that the Commission institutes an investigation, at such time as the Commission grants its approval thereof.

RULES AND REGULATIONS

Section I- Service Continuity

1. **Regularity of Service:** The Company may, at any time, shut off service in case of accident or for the purpose of making connections, alterations, repairs or changes, or for other reasons. The Company will, pursuant to Commission regulations at 52 Pa. Code '67.1 and as circumstances permit, notify customers to be affected by service interruptions.

[paragraph deleted] **(C)**

RULES AND REGULATIONS

Section J– Waivers

The Company may, at its sole discretion, waive any of the Rules contained herein that operate for the benefit of the Company; provided, that no such waiver will be valid unless in writing and signed by an authorized representative of the Company, and provided that no waiver will be allowed where the waiver would constitute a violation of the Public Utility Code, the regulations of the Commission or of any other applicable statute, law or regulation.

Section K– Amendment of Commission Regulations

Whenever Commission regulations in Title 52 of the Pennsylvania Code are duly amended in such a way as would produce a difference between Commission regulations and this tariff, this tariff is deemed to be amended so as to be consistent with the amendments to the regulations, except that if application of the amendment to Title 52 is discretionary, this tariff will remain unchanged.

RULES AND REGULATIONS

Section L. Privilege to Investigate/Right of Access

The Company's authorized representatives shall have the right of access at all reasonable times to all parts of any premises connected with the system, including meters, service connections and other property owned by it on the premises of the Customer, for the purpose of examining and inspecting connections and fixtures, including the water and/or wastewater metering arrangement, for disconnecting service for any proper cause, or for purposes of replacement, maintenance, operation or repair thereof.

RULES AND REGULATIONS

Section M – MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS

General Provisions

(A)(1) The Company will extend existing sewer mains for a Bona Fide Service Applicant making application for sewer service, other than temporary or seasonal service, under, and pursuant to, these Rules and Regulations, to commence immediately upon installation of the Street Service Connection.

(2) When the costs of the main extension exceed the Company Contribution as defined in Subsection (D), then such extension will be made under and pursuant to the terms of an Extension Deposit Agreement for Bona Fide Service Applicant, as hereinafter set forth, and subject to the applicable provisions of these Rules and Regulations. The construction of facilities to serve such Bona Fide Service Applicant will not commence until an Extension Deposit Agreement for Bona Fide Service Applicant has been executed and all applicable terms and conditions therein have been satisfied by the Applicant.

(3) When an extension is requested or required to serve a Bona Fide Service Applicant requiring Special Utility Service, construction of the extension or of any facilities needed to provide such Special Utility Service will not commence until a Special Utility Service Agreement has been executed and all applicable terms and conditions therein have been satisfied by the Applicant including, but not limited to, paying the requisite sum of money for construction of the facilities needed to furnish Special Utility Service, in accordance with the Preliminary Memorandum to such Special Utility Service Agreement.

(B) The Company shall have exclusive right to determine the type and size mains to be installed and the other facilities required to render adequate service. If a Bona Fide Service Applicant desires any facilities other than those facilities determined by the Company to be required to render adequate service, those other facilities will be installed by, owned by, maintained by, and will become the sole responsibility of the Bona Fide Service Applicant.

(C) In determining the length of and necessity for any extension required pursuant hereto, the terminal point of such extension shall, in all cases, be at the point in the curb line which is equidistant from the side property lines of the last lot for which sewer service is requested, except as provided in Paragraph B above wherein it may be necessary to extend beyond the last lot and connect to an existing main to provide adequate and reliable sewer service. A street service connection will be provided only when Customer service lines from the curb to the premises to be served are laid in a straight line at right angles to the curb line.

RULES AND REGULATIONS

Section M –MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS (cont'd)

(D) For the purposes of this rule:

(1) "Bona Fide Service Applicant" shall mean a person or entity applying for General Sewer Service to an existing structure for which a valid occupancy permit has been issued if such structure is within the Company's certificated service territory and is either: (1) a primary residence of the Applicant; or (2) a place of business. An Applicant shall not be deemed a Bona Fide Service Applicant if such Applicant is requesting sewer service to: (1) a building lot or subdivision; or (2) a primary residence if such primary residence was constructed, or the request for sewer service was made, as part of a plan for the development of a residential subdivision; or (3) sewer service for temporary or seasonal services. To become a Bona Fide Service Applicant, a person or entity must file a signed application for a new Street Service Connection to qualifying premises, extend the necessary customer service line to the curb line of premises, and request sewer service to begin immediately following installation of the Street Service Connection. If the Company shall be delayed or prevented from installing the Street Service Connection for a period of one (1) year or more from the date of application, the Bona Fide Service Applicant shall have the right to withdraw the Application for Service.

(2) "Company Contribution" shall mean that portion of the main extension costs which the Company will fund based upon the following
formula:

Average Annual Revenue	$_____
Minus	
Operation and Maintenance Expenses	$_____
Subtotal	$_____
Divided by	
Depreciation Rate and Weighted Cost of Debt	_____%
Company Investment	$_____

The Bona Fide Service Applicant will be required to pay one-third of the Customer Contribution prior to the commencement of any work by the Company. The Customer Contribution will be an amount equal to the difference between the Company Contribution and the cost of the main extension and applicable interest charges. After the initial payment any remainder will be amortized over thirty-six (36) equal monthly installments beginning with the Bona Fide Service Applicant's first bill for sewer service. The Company will also provide information to the applicant on financial institutions that may offer financing to the Bona Fide Service Applicant for the line extension.

(a) The Average Annual Revenue for residential customers with a 5/8" water meter shall be calculated based upon the average residential consumption for customers with a 5/8" water meter used to determine rates approved by the Pennsylvania Public Utility Commission in the Company's last approved general rate increase. Consumption for residential customers with larger water meters will be determined by selecting up to twenty (20) existing customers with similar water meter sizes, as available, which have received service for at least twelve (12) months prior to the date of application, and applying the Company's latest approved rates to the annual average consumption of those customers.

RULES AND REGULATIONS

Section M – MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS (cont'd)

(b) The Average Annual Revenue for Commercial, Industrial and Municipal customers shall be calculated by selecting up to twenty (20) existing, similar commercial, industrial or municipal ratepayers, as available, which have received service for at least twelve (12) months prior to the date of application, to determine the average consumption to be used in calculating the Company Contribution.

(c) Operation and Maintenance Expenses shall be the Company's average annual operation and maintenance costs associated with serving an additional customer.

(d) The depreciation rate shall be the Company's depreciation rate for the facilities to be installed as determined in the Company's last approved general rate increase filing.

(e) The weighted cost of debt shall be the Company's long-term debt costs as determined in the Company's last approved general rate increase.

(3) "General Sewer Service" shall mean basic residential sewer service or sewer service for general commercial or municipal purposes but excluding, without limitation, sewer service for seasonal or temporary uses and sewer service solely for sprinkler systems or for any other fire protection use.

(4) "Special Utility Service" shall mean any residential or business service which exceeds that required for ordinary residential purposes. By way of illustration but not limitation, Special Utility Service shall include: the installation of facilities such as oversized mains, lift stations, additional plant capacity or pretreatment facilities required as necessary to adequately treat or convey flows, or service to large sewer producing commercial and industrial applicants. An otherwise Bona fide applicant requesting service which includes a special utility service component is entitled to a Bona fide applicant status, including the corresponding contribution toward the costs of the line extension which do not meet the special utility service criteria.

(5) "Street Service Connection" shall mean a pipe with appurtenances used to conduct sewer from a collection main of the Company to the curb line of the premises.

(E) (1) Street service supplying a premise shall not pass through or across any premises or property other than that to be supplied, except as provided in (E) (2). No sewer pipes or plumbing in any premises shall be extended therefrom to adjacent or other premises. Street service connections will not be permitted to cross intervening properties unless there is no other way in which service can be provided and appropriate easements are obtained. Only service applicant(s) owning property in fee which directly abuts a street wherein there is an existing main of the Company will be permitted to attach to the Company's service line for the purpose of receiving sewer service therefrom, unless appropriate easements are obtained pursuant to Subsection(2) below. It is understood that such property owned in fee by the said service applicant(s) shall be a complete standard building lot which complies with the existing zoning laws and regulations of the municipality in which such property is located. It is further understood that if such property owned in fee by a service applicant(s) is subsequently sold, the purchaser of such property will be entitled to receive sewer service upon compliance with all of the provisions of this tariff, but that the seller of such property shall only be entitled to continue to receive service if such seller complies with all of the provisions of this tariff.

RULES AND REGULATIONS

Section M – MAIN EXTENSIONS FOR BONA FIDE SERVICE APPLICANTS (cont'd)

(2) A service applicant(s) may obtain a recorded easement or right-of-way that runs with the land, of at least fifteen (15) feet in width connecting the property to be served to the street wherein the Company's main is located. Such easement or right-of-way shall not cross multiple properties. The service applicant(s) shall present the Company with a certified copy of a duly recorded instrument which (a) describes the easement or right-of-way by metes and bounds, (b) gives the easement in perpetuity to the heirs, successors and assigns of said service applicant(s), (c) grants access to the customer or company service line for purposes of repair and replacement, and (d) is recorded in the County Office of the Recorder of Deeds. **(C)**

(F) Where substantial public need exists and the public health and safety may be compromised by the absence of a public sewer supply in a portion of the Company's authorized service territory, the Company, subject to the Commission's prior approval, may install main extensions and Special Utility Service facilities without the payment of the Customer Contribution that would otherwise be required under subparagraphs (A)(3) and (D)(2), respectively of Section M.

PENNSYLVANIA-AMERICAN WATER COMPANY

Calculation of Company Funded Portion of Main Extensions
(For Illustrative Purposes Only)

Average Annual Revenue	$340
minus	
Operation and Maintenance Expenses	$102
Subtotal	$238
Divided by	
Depreciation Rate (Mains Only) and Weighted Debt Costs	6.08%
Total	$3,914

RULES AND REGULATIONS

Section N – EXTENSION DEPOSIT AGREEMENT FOR BONA FIDE SERVICE APPLICANT

THIS AGREEMENT entered into this_____ day of_____,20___ , by and between Pennsylvania-American Water Company hereinafter called the "COMPANY," and _____ hereinafter called the "BONA FIDE SERVICE APPLICANT."

WHEREAS, the BONA FIDE SERVICE APPLICANT desires extension of the sewer mains of the COMPANY, as hereinafter described;

NOW, THEREFORE, this agreement WITNESSETH:

FIRST: THE COMPANY contracts and agrees to lay the sewer main(s) (and other facilities, if any) as shown in red on the diagram hereto attached and made a part hereof described and located as follows:

(LEAVE SPACE FOR DESCRIPTION)

SECOND: It is expressly understood and agreed that if the COMPANY shall be delayed or prevented from installing the sewer main (s) (and other facilities, if any) hereinabove described because of its failure to secure pipe or other construction materials, or for any other causes beyond its control, such failure or delay in performance shall be excused; provided, however, if such failure or delay in performance shall extend for a period of more than one (1) year from the date thereof, the BONA FIDE SERVICE APPLICANT shall have the right to cancel and terminate this agreement on thirty (30) days' written notice to the COMPANY, and thereafter both parties shall be relieved of all duties and obligations arising hereunder. But this right to cancel and terminate by the BONA FIDE SERVICE APPLICANT shall not be invoked if the COMPANY has received the construction material, in which event the COMPANY shall have the obligation to prosecute the work diligently to its completion.

THIRD: The BONA FIDE SERVICE APPLICANT hereby agrees, upon notice from the COMPANY that it is prepared and able to go forward with the work provided in Paragraph FIRST hereof, to pay for the actual costs of extending the facilities as provided in Paragraph FIRST hereof, by depositing an amount in cash equal to (1) the Estimated Cost less (2) the Company Contribution. Items (1) and (2) are to be determined as follows:

(1) The Estimated Cost shall be the estimated cost of the extension, including the estimated cost of said main(s) and the estimated cost of any other facilities which the COMPANY shall have determined are required to render adequate service.

RULES AND REGULATIONS

Section N – EXTENSION DEPOSIT AGREEMENT FOR BONA FIDE SERVICE APPLICANT (cont'd)

(2) The Company Contribution shall be a credit as determined by the following formula:

Average Annual Revenue	$_____
Minus	
Operation and Maintenance Expenses	$_____
Subtotal	$_____
Divided by	
Depreciation Rate and Weighted Cost of Debt	_____%
Total	$_____

multiplied by the number of bona fide service applicants who will be directly served by the extension.

The BONA FIDE SERVICE APPLICANT agrees to pay at least one-third of the deposit prior to the commencement of construction of the extension, and the remainder of the deposit plus applicable interest charges in thirty-six (36) equal monthly installments beginning with BONA FIDE SERVICE APPLICANT'S first bill for sewer service. Interest will be charged on the unpaid portion each month, equal to the monthly portion of the embedded cost of long-term debt recognized in the Company's last approved general rate increase.

Upon such written notice, a Preliminary Memorandum in the form attached shall be prepared and signed by both parties showing the deposit required in accordance with foregoing provisions. Upon completion of the installation of the extension, a Final Memorandum in the form attached shall be prepared and signed by both parties showing the deposit required based on the same calculations as set forth above but by using the actual cost of the extension, including the actual installation costs of the mains and other facilities, for the Estimated Cost and calculating the Applicable Credit. If the deposit shown to be due on the Final Memorandum differs from that shown on the Preliminary Memorandum, the APPLICANT will deposit any additional amount shown to be due or the COMPANY will refund to the APPLICANT any excess amount shown to have been deposited. Any additional amount of required deposit must be made by the APPLICANT to the COMPANY before the granting of refunds to the APPLICANT.

FOURTH: The COMPANY hereby agrees to refund to the BONA FIDE SERVICE APPLICANT during the period of ten (10) years from actual date of deposit as shown on the Preliminary Memorandum a Per-Customer Refund Amount for each additional BONA FIDE SERVICE APPLICANT for whom a street service connection shall be directly attached to such main extension, as distinguished from extensions or branches thereof; provided however, that the total amount refunded shall not exceed the amount of the original deposit by the BONA FIDE SERVICE APPLICANT to the COMPANY as of the date of the refund, and further provided that, if there is an unpaid balance owed then the Per-Customer Refund Amount shall first be deducted from the unpaid balance. All or any part of the deposit not refunded within said 10-year period shall become the property of the COMPANY. The Customer Refund Amount shall be the Company contribution divided by the number of customers connected to the initial main extension.

FIFTH: The BONA FIDE SERVICE APPLICANT may request refunds under Paragraph FOURTH, once in each Calendar quarter, furnishing the COMPANY, at such time, a listing of additional bona fide service applicants; however, failure on the part of the BONA FIDE SERVICE APPLICANT to make such request shall not constitute a waiver of any rights hereunder or relieve the COMPANY of the obligation to make refunds with reasonable promptness.

RULES AND REGULATIONS

Section N – EXTENSION DEPOSIT AGREEMENT FOR BONA FIDE SERVICE APPLICANT (cont'd)

SIXTH: The ownership of the sewer main(s) and other facilities installed hereunder shall at all times be with the COMPANY, its successors and assigns.

SEVENTH: This agreement shall be valid and binding on the COMPANY only when executed by its duly authorized representative.

EIGHTH: This agreement shall be binding upon the heirs, executors, administrators, successors and assigns of the respective parties.

NINTH: Any notice given hereunder shall be deemed sufficient if in writing and sent by registered mail to the COMPANY at

_____
(Address of COMPANY)

and to the BONA FIDE SERVICE APPLICANT at

_____
(Address of BONA FIDE SERVICE APPLICANT)

Issued: **Effective:**

TENTH: This agreement is entered into pursuant to the legally established Rules and Regulations of the COMPANY, and the words, phrases, and terms hereof are to be understood and interpreted in conformity with said Rules and Regulations, which are hereby incorporated herein by reference.

Executed in triplicate by the parties hereto on the date first above written.

PENNSYLVANIA-AMERICAN WATER COMPANY

WITNESS:

_____ BY: _____

Title: _____

WITNESS: BONA FIDE SERVICE APPLICANT:

_____ _____

RULES AND REGULATIONS

Section N – EXTENSION DEPOSIT AGREEMENT FOR BONA FIDE SERVICE APPLICANT (cont'd)

PRELIMINARY MEMORANDUM

This Preliminary Memorandum is executed by the parties hereto under and pursuant to the provisions of Paragraph THIRD of a certain agreement in writing between the parties entered into on the __ day of_____, 20__ , for the installation by the COMPANY of certain sewer main(s) and other facilities therein described. It is, therefore, agreed and stipulated:

(a) Estimated Cost Main(s) $_____

(b) Estimated Cost of Other Facilities $_____

(c) Total $_____

(d) Company Contribution $_____

(e) Amount of Deposit $_____ (c) minus (d)

This Preliminary Memorandum shall be attached to the original agreement in accordance with the provisions of Paragraph THIRD thereof.

Dated:_____
Date

PENNSYLVANIA-AMERICAN WATER COMPANY

WITNESS:

_____ BY:_____

Title:_____

WITNESS: BONA FIDE SERVICE APPLICANT:

_____ _____

RULES AND REGULATIONS

Section N– EXTENSION DEPOSIT AGREEMENT FOR BONA FIDE SERVICE APPLICANT (cont'd)

FINAL MEMORANDUM

This Final Memorandum is executed by the parties hereto under and pursuant to the provisions of Paragraph THIRD of a certain agreement in writing between the parties entered into on the ___ day of_____ , 20___ , for the installation by the COMPANY of certain sewer main(s) and other facilities therein described. It is, therefore, agreed and stipulated:

(a) Actual Cost of Main(s) $_____

(b) Actual Cost of Other Facilities $_____

(c) Total _____

(d) Company Contribution $_____

(e) Amount of Deposit $_____ (c) minus (d)

This Final Memorandum shall be attached to the original agreement in accordance with the provisions of Paragraph THIRD thereof.

Dated:_____
Date

PENNSYLVANIA-AMERICAN WATER COMPANY

WITNESS:

_____ BY:_____

Title:_____

WITNESS: BONA FIDE SERVICE APPLICANT:

_____ _____

RULES AND REGULATIONS

Section O– SPECIAL UTILITY SERVICE

THIS AGREEMENT entered into this ____ day of _____,20____, by and between Pennsylvania-American Water Company hereinafter called the "COMPANY," and _____ hereinafter called the "APPLICANT."
WHEREAS, the APPLICANT desires Special Utility Service, as defined in Section M(4) of the Company's tariff and as hereinafter described;

NOW, THEREFORE, this agreement WITNESSETH:

FIRST: THE COMPANY contracts and agrees to construct the facilities needed to furnish Special Utility Service shown in red on the diagram hereto attached and made a part hereof and described and located as follow:

(LEAVE SPACE FOR DESCRIPTION)

SECOND: It is expressly understood and agreed that if the COMPANY shall be delayed or prevented from installing facilities hereinabove described because of its failure to secure construction materials, or for any other causes beyond its control, such failure or delay in performance shall be excused; provided, however, if such failure or delay in performance shall extend for a period of more than one (1) year from the date thereof, the APPLICANT shall have the right to cancel and terminate this agreement on thirty (30) days' written notice to the COMPANY, and thereafter both parties shall be relieved of all duties and obligations arising hereunder. But this right to cancel and terminate by the APPLICANT shall not be invoked if the COMPANY has received the construction material and the APPLICANT has made the deposit as hereinafter required, in which event the COMPANY shall have the obligation to prosecute the work diligently to its
Complete on.

THIRD: The APPLICANT hereby agrees to pay to the COMPANY, upon notice from the COMPANY that it is prepared and able to go forward with the work provided in Paragraph First hereof, an amount in cash equal to the Estimated Cost. The Estimated Cost shall be the estimated cost including material, labor and overheads of the facilities hereinabove described for providing Special Utility Service.

Upon such written notice, a Preliminary Memorandum in the form attached shall be prepared and signed by both parties showing the payment required in accordance with foregoing provisions. Upon completion of the Memorandum in the form attached shall be prepared and signed by both parties showing the payment required based on the same calculation as set forth above but by using the actual installation cost of the facilities, for the Estimated Cost. If the payment shown to be due on the Final Memorandum differs from that shown on the Preliminary Memorandum, the APPLICANT shall pay any additional amount shown to be due or the COMPANY will refund to the APPLICANT, without interest, any excess amount shown to have been paid, it being the intent of this agreement that the payment required shall be based on actual installation cost. If the actual installation cost exceeds the payment required as shown on the Preliminary Memorandum, the additional amount of required payment must be made by the APPLICANT to the COMPANY before installation of the facilities, a Final service to the APPLICANT commences.

RULES AND REGULATIONS

Section O- SPECIAL UTILITY SERVICE (cont'd)

FOURTH: The ownership of the facilities installed hereunder shall at all times be with the COMPANY, its successors and assigns.

FIFTH: This agreement shall be valid and binding on the COMPANY only when executed by its duly authorized representative.

SIXTH: This agreement shall be binding upon the heirs, executors, administrators, successors and assigns of the respective parties.

SEVENTH: Any notice given hereunder shall be deemed sufficient if in writing and sent by registered mail to the COMPANY at

_____
(Address of Company)
and to the Applicant at _____
(Address of APPLICANT)

EIGHTH: This agreement is entered into pursuant to the legally established Rules and Regulations of the COMPANY, and the words, phrases, and terms thereof are to be understood and interpreted in conformity with said Rules and Regulations, which are hereby incorporated herein by reference.

Executed in triplicate by the parties hereto on the date first above written.

PENNSYLVANIA-AMERICAN WATER COMPANY

WITNESS:

_____ BY:_____

Title:_____

WITNESS: APPLICANT:

_____ _____

RULES AND REGULATIONS

Section O- SPECIAL UTILITY SERVICE (cont'd)

PRELIMINARY MEMORANDUM

This Preliminary Memorandum is executed by the parties hereto under and pursuant to the provisions of Paragraph THIRD of a certain agreement in writing between the parties entered into on the _____ day of _____, 20____, for the installation by the COMPANY of certain facilities therein described. It is, therefore, agreed and stipulated:

(a) Estimated Cost of Facilities for Special Utility Service (exclusive of the cost of the main and appurtenances, street service connection and meter) $_____

This Preliminary Memorandum shall be attached to the original agreement in accordance with the provisions of Paragraph THIRD thereof.

Dated:_____
Date of Payment

PENNSYLVANIA-AMERICAN WATER COMPANY

WITNESS:

_____ BY:_____

Title:_____

WITNESS: APPLICANT:

_____ _____

RULES AND REGULATIONS

Section O- SPECIAL UTILITY SERVICE (cont'd)

FINAL MEMORANDUM

This Final Memorandum is executed by the parties hereto under and pursuant to the provisions of Paragraph THIRD of a certain agreement in writing between the parties entered into on the _____ day of _____, 20____, for the installation by the COMPANY of certain facilities therein described. It is, therefore, agreed and stipulated:

(a)Actual Cost of Facilities $_____
for Special Utility Service
exclusive of the cost of the
main and appurtenances, street
service connection and meter)

This Final Memorandum shall be attached to the original agreement in accordance with the provisions of Paragraph THIRD thereof.

Dated:_____
Date of Payment on
Preliminary Memorandum

PENNSYLVANIA-AMERICAN WATER COMPANY

WITNESS:

_____ BY:_____

Title:_____

WITNESS: APPLICANT:

_____ _____

RULES AND REGULATIONS

Section P - Grinder Pumps for Paint-Elk Wastewater

This section applies to those customers from the former Paint-Elk Joint Sewer Authority (PEJSA) whose service addresses are listed on updated Schedule 1.1 of the acquisition closing documents. Original Schedule 1.1 from the Purchase Agreement was included in PAWC's Application filing on 12/6/2013, which was approved by the Public Utility Commission's Order entered on July 24, 2014, at Docket Number A-2013-2395998.

1. Those customers within the Former PEJSA whose addresses do not appear on Schedule 1.1 of the Purchase Agreement own their Customer service line in its entirety, including the grinder pump on their Customer service line should one exist.

2. For those customers within the Former PEJSA whose addresses appear on Schedule 1.1 of the Purchase Agreement, PAWC shall own and maintain the grinder pump units for a period of three years from the date of Closing.

3. PAWC shall be responsible to repair/replace any malfunctioning grinder pumps during this three year period. The decision to repair/replace shall be made in PAWC's sole discretion. Any customer may indicate to PAWC that it does not wish to have this service and such services shall cease upon notification from the customer and the ownership of the grinder pump unit shall revert to the customer.

4. The customer must agree to allow PAWC the necessary access to maintain the grinder pump unit or PAWC's obligation as to that particular customer shall cease without any further obligation from PAWC.

5. Three years from the date of Closing, PAWC's obligation to operate and maintain the grinder pump units shall cease. At that time, PAWC will provide written notification to the addresses listed on Schedule 1.1 that ownership of the grinder pump units has transferred to the customer and all responsibilities related to the grinder pump unit reside with the customer.

This section applies to residential customers from the former Farmington Township wastewater system, as reflected in the Purchase Agreement included in PAWC's Application filing on 8/28/2023, which was approved by the Public Utility Commission's Order entered on 09/26/2024, at Docket Number A-2023-3042587. (C)

1. **Upon customer request, Company will replace grinder pumps at residential customer properties that were installed at the time the properties were originally constructed for a period of five years after the Closing Date.**

2. **The residential customer will continue to own and maintain the grinder pumps both before and after replacement by Company.**

3. **At the end of this five-year period, Company's obligations pursuant to this section will cease.**

(C) means Change

RULES AND REGULATIONS

Section Q – Liability of Company (General)

1. The liability of the Company for any loss or damages due to any negligent act of omission or commission, by the Company, shall be limited to and in no event exceed an amount equivalent to 1/4 the average charge of 4 billing periods to the Customer for the period of service during which such deficiency has occurred. Such average shall be determined by reference to the billed charges to the Customer for the four billing periods immediately prior to the billing period during which the loss or damage occurred. (C)

2. In any legal action where a court does not recognize, or is being asked to interfere with or hamper, the jurisdiction of the Commission to authorize limitations of liability or to exclusively determine whether the service and facilities of the Company are in conformity with the regulation and Order of the Commission, the Company may certify to the Commission the question of the appropriateness of such court action by filing a petition for declaratory judgment with the Commission.

3. Notwithstanding any provision in this tariff to the contrary, the Company shall not be liable in any action where the loss or damage involves an act of God or does not involve a duty of the Company, including breaks or leaks on facilities that are not owned by the Company, such as breaks, leaks, defects or condition in the Customer's own service line, meter vault, pressure reducing valve, back flow prevention device, check valve, pressure relief valve, or any other control valve, internal plumbing or fixture, or due to the materials out of which those facilities are made. Further, the Company shall not be liable in any action where the loss or damage does not involve a breach of a duty of the Company, including where the Company does not receive actual notice, either written or oral, that a Company facility (located within the public right-of-way, in a sidewalk or on a Customer's property) is in need of repair, such as the condition or elevation of a curb box or valve box that is not proven to have been in that condition at the time of installation or that is caused by a plumber, developer, or other person or event.

RULES AND REGULATIONS

[paragraphs deleted]

(C)Section R – Stormwater Connections to Sanitary or Combined Sewer System: **(C)**

(a) No person shall install any new connection to discharge stormwater or groundwater drainage to a Sanitary or Combined Sewer, or undertake any modification that increases the flow of stormwater or groundwater being discharged via an existing connection to the Sanitary or Combined Sewer, without applying for and obtaining a Connection Permit from the Company. Consideration and issuance of any Connection Permit is subject to the following:

(1) No new or increased discharge of stormwater or groundwater to the Sanitary or Combined Sewer will be permitted if separate stormwater system facilities or receiving streams exist in reasonable proximity to the proposed connection to the Sanitary or Combined Sewer. The person seeking a Connection Permit must demonstrate to the satisfaction of the Company that the discharge stormwater or groundwater flows to anywhere but to the Sanitary or Combined Sewer is not (i) technically or economically feasible, or (ii) permissible under applicable environmental regulations.

(2) No new or increased discharge of stormwater or groundwater will be allowed unless there is adequate capacity in the Sanitary or Combined Sewer system, and such flows can be managed in compliance with all laws and requirements applicable to the Sanitary or Combined Sewer system. When known or potential hydraulic capacity overloads may exist or may be created as the result of the proposed new or modified connection to the Sanitary or Combined Sewer, the Company reserves the right to require a detailed hydraulic study of the affected portion of the Sanitary or Combined Sewer system. The work and costs associated with such study shall be paid for by the party seeking the Connection Permit.

(3) Any new or modified connection involving the discharge of stormwater or groundwater to the Sanitary or Combined Sewer shall comply with all applicable state regulations and municipal ordinances.

(4) In the case of new or modified connections from a property that is presently contributing stormwater or groundwater drainage to a Sanitary or Combined Sewer, the peak rate of discharge must be controlled. The peak rate of discharge to the Sanitary or Combined Sewer after development or improvement shall be no greater than 75% of the peak rate of discharge to the Sanitary or Combined Sewer prior to development or improvement under storm conditions up to a 100-year rainfall event. Stormwater peak discharge and runoff shall be determined through the use of: (A) the USDA NRCS Soil Cover Complex Method as set forth in Urban Hydrology for Small Watersheds, Technical Release No. 55 (USDA, 1986), with specific attention given to antecedent moisture conditions, flood routing, time of concentration, and peak discharge specifications included therein and in Hydrology National Handbook, Section 4 (USDA, 1985); (B) the USDA NRCS Technical Release No. 20; or (C) other procedures as approved by the Company. Refer to Pennsylvania Stormwater Best Management Practices Manual (363-0300-002) dated December 30, 2006.

(5) Except where specifically approved by the Company, all new sanitary sewer laterals and mains shall be separate from stormwater laterals and mains.

(b) If a connection to the Sanitary or Combined Sewer is permitted as provided in 5(a), (1) any facilities using the connection to the Sanitary or Combined Sewer shall utilize inlet structures equipped with devices to prevent solids and floatable debris from entering the Sanitary or Combined Sewer of a design approved by the Company; and (2) the connection shall be made to an existing or new manhole or other Company approved structure that complies with design standards prescribed by the Company.

(c) No downspout gutter shall be connected to the Sanitary or Combined Sewer

RULES AND REGULATIONS

Section S – TAXES ON DEPOSITS FOR CONSTRUCTION, CUSTOMER ADVANCES AND CONTRIBUTIONS IN AID OF CONSTRUCTION

The Company will pay income taxes on any deposit, advance, contribution or other like amounts received from an applicant which shall constitute taxable income to the Company as defined by the Internal Revenue Service. Such income taxes shall be segregated in a deferred account for inclusion in rate base in a future rate case proceeding. Such income tax associated with a deposit, advance or contribution will not be charged to the specific depositor / contributor of the capital.

[paragraphs deleted] **(C)**

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (C)

1. GENERAL PROVISIONS (C)

1.1 Purpose and Policy

(a) These rules set forth uniform requirements applicable to users of the wastewater collection, treatment, and disposal services provided by the Company and the nature of wastes acceptable for discharge into the Company's treatment works, either directly or indirectly. In developing these rules, the Company was guided by the "EPA Model Pretreatment Ordinance" (January 2007) published by the U.S. Environmental Protection Agency ("EPA") for use by municipalities operating Publicly Owned Treatment Works ("POTWs") as well as EPA regulations designed to control pollutants discharged to POTWs at 40 CFR Part 403 (General Pretreatment Regulations for Existing and New Sources of Pollution). These rules shall apply throughout the Company's service territory.

(b) The objectives of these rules are:

(i) To prohibit the introduction of pollutants into the Company's treatment works that will interfere with its operation or impact the quality or classification of the resulting sludge;

(ii) To prohibit the introduction of pollutants into the Company's treatment works that will pass through the treatment works, inadequately treated, into receiving waters, or otherwise be incompatible with the treatment works;

(iii) To protect both the Company's personnel who may be affected by wastewater and sludge in the course of their employment and the general public;

(iv) To promote reuse and recycling of industrial wastewater and sludge from the Company's treatment works;

(v) To provide for fees for the equitable distribution of the cost of operation, maintenance, and improvement of the Company's treatment works;

(vi) To enable the Company to comply with its National Pollutant Discharge Elimination System permit conditions, sludge use and disposal requirements, and any other federal or state laws to which the Company's treatment works is subject;

(vii) To require the pretreatment of wastewater discharged into the Company's treatment works as appropriate and consistent with standards for pretreatment of wastewater that have been promulgated by the EPA or otherwise imposed by the DEP; and

(viii) To otherwise provide the conditions of wastewater collection, treatment, and disposal service by the Company.

[paragraphs deleted] **(C)**

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) (C)

(c) These rules shall apply to all users of the Company's treatment works. These rules authorize the issuance of wastewater discharge permits; provide for monitoring, compliance, and enforcement activities; establish administrative review procedures; require user reporting; and provide for the setting of fees for the equitable distribution of costs resulting from the program established herein.

1.2 Administration

Except as otherwise provided herein, the Company shall administer, implement, and enforce these rules. Any powers granted to or duties imposed upon the Company may be delegated by the Company to the Company's IPP Coordinator or other duly authorized Company employee.

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) (C)

1.3 Abbreviations (C)

The following abbreviations, when used in these rules, or in the implementation of these rules, shall have the designated meanings:

BOD5 – Biochemical Oxygen Demand (5-day)
BMP – Best Management Practice
C - Celsius
CERCLA - Comprehensive Environmental Response, Compensation and Liability Act
CFR - Code of Federal Regulations
CIU – Categorical Industrial User
COD – Chemical Oxygen Demand
DEP – Pennsylvania Department of Environmental Protection
EPA – U.S. Environmental Protection Agency
F - Fahrenheit
FOG - Fats, Oils and Grease
gpd – gallons per day
IU – Industrial User
IPP – Industrial Pretreatment Program
IWDP – Individual Wastewater Discharge Permit
mg/l – milligrams per liter
MGD - Million Gallons per Day
NH3-N - Ammonia Nitrogen
NPDES – National Pollutant Discharge Elimination System
NSCIU – Non-Significant Categorical Industrial User
POTW - Publicly Owned Treatment Works
RCRA – Resource Conservation and Recovery Act
SIU – Significant Industrial User
TDS - Total Dissolved Solids
TKN - Total Kjeldahl Nitrogen
TN - Total Nitrogen
TP - Total Phosphorus
TSS – Total Suspended Solids
U.S.C. – United States Code

[paragraphs deleted] **(C)**

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd)

2. GENERAL SEWER USE REQUIREMENTS

2.1 Prohibited Discharge Standards

(a) General Prohibitions. No user shall introduce or cause to be introduced into the treatment works any pollutant or wastewater which causes pass through or interference or damages the treatment works. These general prohibitions apply to all users of the treatment works whether or not they are subject to categorical pretreatment standards or any other national, state, or local pretreatment standard or requirement.

(b) Specific Prohibitions. No user shall introduce or cause to be introduced into the treatment works the following pollutants, substances, or wastewater:

(i) Liquids, solids or gases that by reason of their nature or amount are, or may be, sufficient either alone or by interaction with other substances to cause fire or explosion or be injurious in any way to persons, the treatment works or the operation of the treatment works, including, but not limited to, any discharge with a closed-cup flashpoint of less than 140° F (60°C) using the test methods specified in 40 CFR §261.21. At no time shall any wastewater cause two successive readings on an explosion hazard meter, at the point of discharge into the system (or at any point in the system), to be more than five percent (5%) nor any single reading to be over ten percent (10%) of the Lower Explosive Limit (LEL) of the meter.

(ii) Wastewater having a pH less than 6.0 or higher than 9.0 as measured by a grab sample, unless otherwise specified by the Company in an IWDP, or wastewater having other corrosive properties capable of causing damage or hazard to structures, equipment, or personnel of the treatment works.

(iii) Solid or viscous substances which may cause obstruction to the flow in the sewer system or other interference with the operation of the treatment works such as, but not limited to, grease, **except at discharge points designated by the Company in accordance with subsection 2.10 of Section T of this tariff** (C), garbage (not properly shredded), animal guts or tissues, paunch manure, bones, hair, hides or fleshings, entrails, whole blood, feathers, ashes, cinders, sand, spent limestone or marble dust, bentonite, lye, building materials, rubber, leather, porcelain, china, metal glass, straw, shavings, grass clippings, rages, spent grains, spent hops, waste paper, wood, plastics, tar, asphalt residues, residues from refining or processing of fuel or lubricating oil, mud, or glass grinding or polishing wastes or any material which can be disposed of as trash.

(iv) Pollutants, including oxygen-demanding pollutants (BOD5, etc.), released in a discharge at a flow rate and/or pollutant concentration which, either singly or by interaction with other pollutants, will cause interference with the treatment works.

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) (C)

(v) Wastewater with a temperature at the introduction into the treatment works which exceeds 120 degrees F (49 degrees C), or less than 32°F, or which will inhibit biological activity in the treatment plant resulting in interference, but in no case wastewater which causes the temperature at the introduction into the treatment plant to exceed 104 degrees F (40 degrees C).

(vi) Petroleum oil, motor oils or lubricants removed from vehicles or machinery, non- biodegradable cutting oil, or products of mineral oil origin, in amounts that will cause interference or pass through.

(vii) Pollutants in sufficient quantity which, either alone or by interaction with other pollutants, would result in the presence of toxic gases, vapors or fumes, cause worker injury or disruption of any wastewater treatment process, including the disposal of sludge, or be in non-compliance with any categorical or pretreatment standards established in accord with 40 CFR §403.6.

(viii) Trucked or hauled pollutants, except at discharge points designated by the Company in accordance with subsection 2.10 of Section T of this tariff.

(ix) Noxious or malodorous liquids, gases, solids, or other wastewater which, either singly or by interaction with other wastes, are sufficient to create a public nuisance or a hazard to life, or to prevent entry into the sewer system for maintenance or repair.

(x) Wastewater which imparts color which cannot be removed by the treatment process, and which consequently imparts color to the treatment plant's effluent.

(xi) Wastewater containing any radioactive wastes or isotopes with half-lives or concentrations that exceed (A) measured background or naturally-occurring levels or (B) limits established by the Company.

[paragraphs deleted] **(C)**

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) (C)

(xii) Storm water, surface water, ground water, artesian well water, roof runoff, subsurface drainage, swimming pool drainage, condensate, deionized water, noncontact cooling water, and unpolluted wastewater, unless specifically authorized by the Company.

(xiii) Sludges, screenings, or other residues from the pretreatment of industrial wastes

(xiv) Medical wastes, except as specifically authorized by the Company in an IWDP.

(xv) Wastewater causing, alone or in conjunction with other sources, the treatment plant's effluent to fail toxicity test or otherwise create a toxic effect in receiving waters.

(xvi) Detergents, surface-active agents, or other substances that might cause excessive foaming in the treatment works.

(xvii) Discharge which is or contains hazardous waste or, if otherwise disposed of, would be considered hazardous waste.

(xviii) Any substance which may cause the treatment plant's effluent or any other product of the treatment plant, such as residues, sludge or scum, to be unsuitable for reclamation and reuse or to interfere with the reclamation process. In no case shall a substance discharged to the treatment works cause the Company to be in non-compliance with sludge use or disposal criteria, guidelines or regulations developed under Section 405 of the Act, nor any criteria, guidelines, or regulations affecting sludge use or disposal developed pursuant to the Solid Waste Disposal Act, the Clean Air Act, the Toxic Substances Control Act, or state criteria applicable to the sludge management methods being used by the Company.

(xix) Any pollutant, including oxygen demanding pollutants and suspended solids, released at a flow rate and/or pollutant concentration which a user knows or has reason to know will cause interference or pass through to the treatment works. In no case shall a slug load have a flow rate or contain a concentration or quantity of a pollutant that exceeds for any time period longer than fifteen (15) minutes more than five (5) times the average twenty-four (24) hour permitted concentration, quantity, or flow during normal operation

(xx) Any wastewater which because of its chemical nature or composition causes the sewer atmosphere to contain airborne chemical concentrations in excess of concentrations established by the U.S. Department of Labor, Occupational Safety and Health Administration (OSHA) under 29 CFR Part 1910, regardless of duration of exposure experienced by any individual, unless written authorization is granted by the Company.

[paragraphs deleted] **(C)**

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) (C)

(xxi) Substances which will cause pass through or interference or otherwise cause the Company to violate its NPDES permit or air quality or receiving water quality standards, or that are prohibited by any permit issued by the Company, the Commonwealth of Pennsylvania or EPA.

(xxii) Wastes which are not amenable to biological treatment or reduction in existing treatment facilities, including but not limited to nonbiodegradable complex carbon compounds.

(xxiii) Wastewater containing any organic compounds of endrin, lindane, methoxychlor, toxaphene, dichlorophenoxyacetic acid, trichlorophenoxypropionic acid or other herbicides, pesticides or rodenticides.

(xxiv) Wastewater containing any of the pollutants listed on EPA's "Priority Pollutant List" (40 CFR Part 423, Appendix A), without authorization from the Company in an IWDP.

(c) Pollutants, substances, or wastewater prohibited by this section shall not be processed or stored in such a manner that they could be discharged to the treatment works.

2.2 National Categorical Pretreatment Standards

(a) The National Categorical Standards found at 40 CFR Chapter I, Subchapter N, Parts 405-471 are hereby incorporated by reference. Any industrial user that would be a categorical industrial user under the provisions of one or more categorical standards if it were discharging to a POTW is a significant industrial user under these rules and is required to obtain an individual wastewater discharge permit as described in subsection 4 of this Section T, unless otherwise determined by the Company pursuant to these rules. The IWDP will reflect the effluent limitations and standards of the pertinent categorical standard(s). Although the Company is not subject to EPA's pretreatment regulations, the Company will use pertinent standards and requirements contained in 40 CFR, Chapter I, Subchapter N, Part 403 as guidance in administering and applying the categorical standards. Any categorical standard or local limit, if more stringent than the limitations imposed under an IWDP, shall immediately supersede the limitations imposed under the IWDP.

(b) Where a categorical standard is expressed only in terms of either the mass or the concentration of a pollutant in wastewater, the Company may impose equivalent concentration or mass limits in the manner described in 40 CFR §403.6(c).

[paragraphs deleted] **(C)**

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) **(C)**

(i) When the limits in a categorical standard are expressed only in terms of mass of pollutant per unit of production, the Company may convert the limits to equivalent limitations expressed either as mass of pollutant discharged per day or effluent concentrations for purposes of calculating effluent limitations applicable to individual industrial users.

(c) When wastewater subject to a categorical standard is mixed with wastewater not regulated by the same standard, the Company shall impose an alternate limit using the combined waste stream formula in 40 CFR §403.6(e).

(d) Once included in its IWDP, an industrial user must comply with the equivalent limitations developed in this subsection 2.2 of this Section T in lieu of the categorical standard from which the equivalent limitations were derived.

(e) Where a categorical standard specifies one limit for calculating maximum daily discharge limitations and a second limit for calculating maximum monthly average (or 4-day average) limitations, the same production flow figure shall be used in calculating both the average and the maximum equivalent limitation.

(f) Any industrial user operating under an IWDP incorporating equivalent mass or concentration limits calculated from a production-based standard, as provided in paragraph (c) of this subsection 2.2, shall notify the Company within two (2) business days after the user has a reasonable basis to know that the production level will significantly change within the next calendar month. Any user not notifying the Company of such anticipated change will be required to meet the mass or concentration limits in its IWDP that was based on the original estimate of the long term average production rate.

2.3 Modification of National Categorical Pretreatment Standards

The Company may modify specific limits in a categorical pretreatment standard where appropriate for purposes of these rules or an IWDP. Although not subject to EPA's pretreatment regulations, the Company will utilize the standards and requirements contained in 40 CFR, Chapter I, subchapter N, Part 403 generally, and particularly sections 403.7 (removal credits), 403.13 (fundamentally different factors), and 403.15 (net limits), as guidance in considering any such modifications.

2.4 State and Federal Requirements

Applicable state or federal requirements and limitations on discharges shall apply in any case where they are more stringent than those in these rules.

RULES AND REGULATIONS

[paragraphs deleted] **(C)**

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) (C)

2.5 Specific Pollutant Discharge Limitations – Local Limits

(a) All industrial users shall be subject to the local limits applicable to their service area as specified in the Company's IPP.

(b) Local limits are the highest allowable concentrations in a discharge, unless otherwise specified in an IWDP.

(c) Local limits apply at the point where wastewater is discharged to the treatment works or at the point designated by the Company.

(d) The Company reserves the right to allocate among users the total loading applicable to a particular pollutant by establishing maximum daily industrial concentrations specific to each user, provided that the total maximum allowable daily industrial load for the treatment plant is not exceeded.

(e) In addition to industrial users, the Company reserves the right to apply local limits to any user's wastewater discharge which is not composed strictly of domestic sewage.

(f) The Company reserves the right to establish alternate limits in IWDPs in order to protect against pass through or interference or to assure that the Company complies with its National Pollutant Discharge Elimination System permit and federal and state law. The alternate limits, if more stringent than the categorical standards, shall immediately supersede the categorical standards.

(g) The Company may develop BMPs in IWDPs to implement local limits and the requirements of subsection 2.1 of this Section T.

2.6 Reservation of Right to Impose More Stringent Requirements

The Company reserves the right to establish, in IWDPs, more stringent limits or requirements on discharges to the treatment works, if deemed necessary, consistent with the purpose of these rules.

2.7 Dilution

No user shall ever increase the use of process water, or in any way attempt to dilute a discharge as a partial or complete substitute for adequate treatment to achieve compliance with a discharge limitation unless expressly authorized by an applicable pretreatment standard or requirement. The Company may impose mass limitations on users who are using dilution to meet applicable pretreatment standards or requirements, or in other cases when the imposition of mass limitations is appropriate.

2.8 Compliance with Other Applicable Standards and Requirements

Compliance with these rules and permits or compliance or cessation directives issued hereunder does not relieve the industrial user from its obligations to comply with any and all applicable local, state, and federal standards and requirements including any such applicable standard or requirement that may become effective during the term of a permit or directive or these rules.

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd)

2.9 Environmental Emergency Response Plans (C)

Industrial users shall prepare and maintain all environmental emergency response plans required by EPA, DEP or any other federal or state authority, including but not limited to: spill prevention control and countermeasure plans; preparedness, prevention and contingency plans; spill prevention response plans; and facility response plans. Such plans may be prepared in accordance with DEP's Guidelines for the Development and Implementation of Environmental Emergency Response Plans (the "DEP PPC Guidelines"). A copy of any such plan prepared and maintained by an industrial user shall be submitted to the Company.

2.10 Hauled Wastewater

(a) Septic tank waste and holding tank waste may be introduced into the treatment works only at locations designated by the Company, and at such times as are established by the Company. Such waste shall not violate subsection 2 of this Section T or any other requirements established by the Company. The Company may require septic and holding tank waste haulers to enter septic disposal agreements with the Company.

(b) The Company may require haulers of industrial waste or generators of hauled industrial waste to obtain individual wastewater discharge permits. The Company also may prohibit or refuse the disposal of hauled industrial waste. The discharge of hauled industrial waste is subject to all other requirements of these rules.

(c) Industrial waste haulers may discharge loads only at locations designated by the Company. No load may be discharged without prior consent of the Company. The Company may collect samples of each hauled load to ensure compliance with applicable standards. The Company may require the industrial waste hauler to provide a waste analysis of any load prior to discharge.

(d) Industrial waste haulers must provide a waste-tracking form for every load. This form shall include, at a minimum, the name and address of the industrial waste hauler, permit number, truck identification, names and addresses of sources of waste, and volume and characteristics of waste. The form shall identify the type of industry and all known or suspected waste constituents and confirm that no wastes are RCRA hazardous wastes.

2.11 Accidental Discharge/Slug Discharge Control Plans

(a) All significant industrial users, and any other industrial user identified by the Company, shall prepare an accidental discharge/slug discharge control plan. Such plan shall be submitted to the Company for review and approval as part of any application for issuance or renewal/reissuance of an IWDP or otherwise when requested by the Company. The Company may request modification of an accidental discharge/slug discharge control plan at any time circumstances warrant.

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd)

(b) An accidental discharge/slug discharge control plan shall address, at a minimum, the following:

(i) Description of discharge practices, including non-routine batch discharges;

(ii) Description of stored chemicals;

(iii) Procedures for immediately notifying the Company of any accidental or slug discharge, as required by subsection 6.6 of this Section T; and

(iv) Procedures to prevent adverse impact from any accidental or slug discharge. Such procedures shall include, but are not limited to, inspection and maintenance of storage areas, handling and transfer of materials, loading and unloading operations, control of plant site runoff, worker training, building of containment structures or equipment, measures for containing toxic organic pollutants, including solvents, and/or measures and equipment for emergency response.

(c) The Company may include conditions relating to implementation of an accidental discharge/slug discharge control plan when issuing an IWDP or by letter approving a plan submitted independently of an IWDP application.

(d) An approved environmental emergency response plan prepared in accordance with the DEP PPC Guidelines may substitute for all or a portion of the contents of an accidental discharge/slug discharge control plan to the extent that it satisfies the requirements described herein.

2.12 Drainage of Water Filtration Systems

Filter back-wash may be discharged to the treatment works only as follows:

(a) Sand filter back-wash may be discharged to the treatment works. An IWDP may be required to permit such discharge if the discharge is non-domestic in nature.

(b) Diatomaceous earth filter back-wash, if discharged to the treatment works, shall be connected to the treatment works through settling tanks with no less than three (3) months storage capacity of spent diatomaceous earth, which tanks shall be readily accessible for removing solid waste for disposal. An IWDP may be required to permit such discharge if the discharge is non-domestic in nature.

2.13 Grease Traps

Users shall install, operate and maintain interceptor/collector devices (e.g., traps) to capture and remove fats, oils and grease prior to discharge to the treatment works whenever the Company determines that such devices are necessary for the proper handling of wastewater. All such devices shall be designed and installed so as to accommodate the maximum flow rate expected to occur and to be readily and easily accessible for cleaning and inspection. The user shall be responsible to operated and maintained the devices, including regular cleaning, to ensure that they consistently remove FOG prior to discharge to the treatment works. Alternatively, or in addition, the Company may require users to implement BMPs in order to eliminate FOG at the point of use and thereby reduce the generation of FOG in wastewater. **Upon the request of the Company, the user shall provide to the Company records of cleaning and maintenance of the interceptor/trap. (C)**

2.14 Removal, Transportation, and Disposal of Sewage and Industrial Wastes

(a) Any waste to be discharged from tank trucks or rail car shall be disposed at the location designated by the Company at the treatment plant at the time or times, and at a rate or rates of discharge, fixed by the Company.

(b) The wastes discharged by the tank trucks or rail car at the treatment plant shall not contain industrial waste, chemicals, or other matter, with or without pretreatment, that does not conform to the requirements of these rules. Conformity with these rules is to be determined by the Company.

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) **(C)**

3. PRETREATMENT OF WASTEWATER

3.1 Pretreatment Facilities – General

Users shall provide wastewater treatment as necessary to comply with these rules and shall achieve compliance with all categorical pretreatment standards, local limits, and the prohibitions set out in subsection 2.1 of this Section T within the time limitations specified by EPA, the state, or the Company, whichever is more stringent. Any facilities necessary for compliance, including the design, construction, operation, and maintenance of these facilities, shall be at the user's expense. Detailed plans describing such facilities and operating procedures shall be submitted to the Company for review, and shall be acceptable to the Company before such facilities are constructed or procedures are implemented. The review of such plans and operating procedures shall in no way relieve the user from the responsibility of modifying such facilities or procedures as necessary to produce a discharge acceptable to the Company under the provisions of these rules.

3.2 Proper Operation and Maintenance

The user shall at all times properly operate and maintain all facilities and systems of treatment and control (and related appurtenances) which are installed or used by the user to achieve compliance with these rules. Proper operation and maintenance includes but is not limited to: effective performance, adequate funding, adequate operator staffing and training, proper disposal of residuals, and adequate laboratory and process control, including appropriate quality assurance procedures. This provision requires the operation of back-up or auxiliary procedures only when necessary to achieve compliance with these rules.

The user shall maintain records demonstrating proper operation and maintenance of pretreatment facilities, retain such records for a period of at least five (5) years, and make such records available to the Company upon request.

3.3 Duty to Halt or Reduce Activity

Upon reduction of efficiency of operation of treatment facilities, or loss or failure of all or part of the treatment system, the user shall, to the extent necessary to maintain compliance with these rules, control its production or discharges (or both) until operation of the treatment system is restored or an alternative method of treatment is provided. It shall not be a defense for the user that it would have been necessary to halt or reduce an activity in order to maintain compliance with these rules.

[paragraphs deleted] **(C)**

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd)

3.4 Bypass of Treatment Facilities

(a) Bypass of treatment systems is prohibited unless it is unavoidable to prevent loss of life, personal injury, or severe property damage and no feasible alternative exists.

(b) The user may allow bypass to occur which does not cause the effluent limitations to be exceeded, but only if it is necessary for essential maintenance to assure *efficient* operation.

(c) Notification of Bypass:

(i) Anticipated Bypass. If the user knows in advance of the need for bypass, it shall submit prior written notice, at least ten (10) days before the date of the bypass, to the Company.

(ii) Unanticipated Bypass. The user shall immediately notify the Company and submit a written report to the Company within five (5) days. This report shall specify:

1) A description of the bypass, its cause, and its duration;

2) Whether the bypass has been corrected; and

3) The steps being taken or to be taken to reduce, eliminate, and prevent a reoccurrence of the bypass.

3.5 Damage Liability

The person producing or introducing waste to the treatment works shall be liable for all damages, increased costs of treatment or maintenance, or other costs incurred by the Company directly attributable to such waste, including the costs of repairs, testing, consulting and all other costs associated with the damage. Any user violating any of the provisions of these rules shall be liable to the Company for all expenses, losses, or damages occasioned by the Company by reason of such violation, whether incidental or consequential.

3.6 Disposal Sludges

Sludges, floats, oils, etc., generated by industrial users must be contained and transported in a safe manner as prescribed by the rules of regulatory agencies, including but not limited to the U.S. Department of Transportation, and handled by reputable persons who shall dispose of all such wastes in accordance with all federal, state, and local regulations. The owner of such sludges, floats, oils, etc., shall keep records and receipts needed to demonstrate proper disposal for review by the Company upon request.

3.7 Additional Pretreatment Measures

(a) Grease, oil and sand interceptors or traps shall be provided when, in the opinion of the Company, they are necessary for the proper handling of wastewater containing excessive amounts of grease and oil, or sand, or to avoid interference. All interceptors or traps shall be of the type and capacity acceptable to the Company, and shall be located as to be readily and easily accessible for cleaning and inspection. Such interceptors shall be inspected, cleaned and repaired by the user at the user's expense. **Cleaning and maintenance records for the interceptor or traps must be made available to the Company upon request. (C)**

(b) The use of mechanical garbage grinders producing a finely divided mass, properly flushed with an ample amount of water, shall be permitted upon the condition that no mechanical garbage grinder to serve premises used for commercial purposes shall be installed until permission for such installation shall have been obtained from the Company.

(c) Users with the potential to discharge combustible or flammable substances may be required to install and maintain an approved combustible gas detection meter.

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) **(C)**

4 INDIVIDUAL WASTEWATER DISCHARGE PERMITS

4.1 Wastewater Analysis

When requested by the Company, a user must submit information on the nature and characteristics of its wastewater. Upon receipt of a questionnaire or permit application from the Company, a user shall have forty-five (45) days (unless extended by the Company for good reason) to return the completed questionnaire or application, signed by an authorized representative of the user. The Company may periodically require users to update this information.

4.2 Permit Requirements

(a) No significant industrial user shall discharge wastewater into the treatment works without first obtaining an individual wastewater discharge permit from the Company.

(b) No person discharging industrial waste to the treatment works shall undertake any significant wastewater modification without first notifying the Company and obtaining a new or amended IWDP from the Company, except as authorized by the Company in accordance with the provisions of these rules.

(c) The Company may require that other users obtain IWDPs as necessary to carry out the purposes of these rules.

(d) Any violation of the terms and conditions of an IWDP shall be deemed a violation of these rules and subjects the wastewater discharge permittee to the sanctions set out in subsection 8 through subsection 10 of this Section T. Obtaining an IWDP does not relieve a permittee of its obligation to comply with all federal and state standards or requirements or with any other requirement of federal, state, and local law.

(e) At the discretion of DEP, a significant industrial user may be required to obtain an individual NPDES permit from DEP to authorize its discharge to the treatment works.

4.3 Permitting: Existing Connections

All existing industrial users presently permitted on the date these rules become effective to such user will receive written notice from the Company that the terms and conditions of the permit presently in place will remain in force until the termination date of the permit, subject to any renewal of or change in the permit in accordance with these rules. Such notice also shall specify that continued discharge to the treatment works for thirty (30) days after receipt of such notice shall constitute acceptance of the continuation of such permit under the administration and enforcement of the Company pursuant to these rules and acknowledgement that renewal of such permit shall be in accordance with these rules.

4.4 Permitting: New Connections

Any user required to obtain an Individual Wastewater Discharge Permit who proposes to begin or recommence discharging into the treatment works must obtain such permit prior to the beginning or recommencing of such discharge. An application for this IWDP, in accordance with subsection 4.5 of this Section T, must be filed at least 180 days prior to the date upon which any discharge will begin or recommence.

[paragraphs deleted] **(C)**

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) **(C)**

4.5 Permit Application Contents

(a) All users required to obtain an individual wastewater discharge permit must submit a permit application. The Company may require users to submit all or some of the following information as part of a permit application:

(i) Identifying Information

1) The name and address of the facility, including the name of the operator and owner, and location (if different from the mailing address); and
2) Contact information, description of activities, facilities, and plant production processes on the premises.

(ii) Environmental Permits. A list of any environmental control permits held by or for the facility.

(iii) Description of Operations

1) A brief description of the nature, rate of production (including each product produced by type, amount, processes, and rate of production), and standard industrial classifications of the operation(s) carried out by such user, including a schematic process diagram, which indicates points of discharge to the treatment works from the regulated processes;
2) Types of wastes generated, and a list of all raw materials and chemicals used or stored at the facility which are, or could accidentally or intentionally be, discharged to the treatment works, as well as material safety data sheets for all materials and chemicals identified;
3) Number and type of employees, hours of operation, and proposed or actual hours of operation;
4) Type and amount of raw materials processed (average and maximum per day);
5) Site plans, floor plans, mechanical and plumbing plans, and details to show all sewers, floor drains, and appurtenances by size, location, and elevation, and all points of discharge. It is recommended that these plans be signed and sealed by a Professional Engineer licensed in the Commonwealth of Pennsylvania, to ensure compliance with sound engineering principles and all applicable federal, state, and local codes and statutes.

(iv) Time and duration of discharges.

(v) The location for monitoring all wastes covered by the permit.

(vi) Flow Measurement. Information showing the measured average daily, maximum daily, and 30 minute flow rates, in gallons per day, including daily, monthly, and seasonal variations if any, to the treatment works from regulated process streams and other streams, as necessary, to allow use of the combined wastestream formula set out in subsection 2.2 (40 CFR §403.6(e)).

(vii) Measurement of Pollutants

1) The categorical pretreatment standards applicable to each regulated process and any new categorically regulated processes for existing sources.
2) For all industrial users subject to categorical standards, any other information required in a baseline monitoring report as stated in 40 CFR §403.12(b).
3) The results of sampling and analysis identifying the nature and concentration, and/or mass, where required by the standard or by the Company, of regulated pollutants in the discharge from each regulated process.
4) Instantaneous, daily maximum, and long-term average concentrations, or mass, where required, shall be reported.
5) The sample shall be representative of daily operations and shall be analyzed in accordance with procedures set out in subsection 6.9 of this Section T. Where the standard requires compliance with a BMP or pollution prevention alternative, the user shall submit documentation as required by the Company or the applicable standards to determine compliance with the standard.
6) Sampling must be performed in accordance with procedures set out in subsection 6.10 of this Section T.
7) In instances where an industrial user has not yet begun operation (and therefore, wastewater constituents and characteristics are unknown), submission of comparable data from similar industries will be accepted for permit application purposes.

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Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd)

(viii) Where known, the nature and concentration of any pollutants in the discharge which are limited by these rules, categorical pretreatment standards, or local limits and a statement certified by a qualified professional regarding whether or not applicable standards are being met on a consistent basis and, if not, whether additional operation and maintenance or additional pretreatment is required to meet the standards.

(ix) If additional pretreatment or operation and maintenance will be required to meet applicable standards, a schedule by which the industrial user will provide such additional pretreatment or operation and maintenance. The completion date in this schedule shall not be later than the compliance date established for the applicable categorical pretreatment standard or, in the case of local limits, such a date as determined by the Company. The following conditions shall apply to this schedule:

1) The schedule shall contain increments of progress in the form of dates for the commencement and completion of major events leading to the construction and operation of additional pretreatment required for the Industrial user to meet the applicable pretreatment standards (e.g. hiring an engineer, completing preliminary plans, completing final plans, executing contract for major components, commencing construction, completing construction, etc.).

2) Not later than fourteen (14) days following each date in the schedule and the final date for compliance, the industrial user shall submit a progress report to the Company including, as a minimum, whether or not it complied with the increment of progress to be met on such date and, if not, the date on which it expects to comply with this increment of progress, the reason for delay, and the steps being taken by the industrial user to return the construction to the schedule established. In no event shall more than nine (9) months elapse between such progress reports to the Company.

(x) Any other information as may be deemed necessary by the Company to evaluate the permit application.

(b) Incomplete or inaccurate applications will not be processed and will be returned to the user for revision.

(c) Applicants wishing to claim confidentiality of information required in the application shall indicate on the application which information is of a confidential nature. Wastewater constituents and characteristics shall not be considered as confidential information.

4.6 Permitting: General Permits

(a) At the discretion of the Company, the Company may use general permits to control discharges to the treatment works, if the following conditions are met. All facilities to be covered by a general permit must:

(i) Involve the same or substantially similar types of operations; **(C)**

(ii) Discharge the same type of wastes; **(C)**

(iii) Require the same effluent limitations; **(C)**

(iv) Require the same or similar monitoring; and **(C)**

(v) In the opinion of the Company, be more appropriately controlled under a general permit than under individual wastewater discharge permits. **(C)**

(b) Users that are eligible may request coverage by a general permit under this section in lieu of an IWDP.

(c) To be covered by the general permit, the user must file a written request for coverage that identifies its contact information, production processes, the types of wastes generated, the location for monitoring all wastes covered by the general permit, any requests for a monitoring waiver for a pollutant neither present nor expected to be present in the discharge, verification that it will meet the requirements of the general permit, and any other information the Company deems appropriate. A monitoring waiver for a pollutant neither present nor expected to be present in the discharge is not effective in the general permit until after the Company has provided written notice to the user that such a waiver request has been granted.

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) **(C)**

(d) The Company will retain a copy of the general permit, documentation to support the Company's determination that a specific user meets the criteria in subsection 4.6(a) and applicable state regulations, and a copy of the user's written request for coverage for three (3) years after the expiration of the general permit.

(e) The Company may not control a user through a general permit where the facility is subject to production-based categorical pretreatment standards or categorical pretreatment standards expressed as mass of pollutant discharged per day or industrial users whose limits are based on the combined wastestream formula (subsection 2.2(b)) or net/gross calculations (subsection 2.3).

4.7 Application Signatories and Certifications

(a) All wastewater discharge permit applications, user reports and certification statements must be signed by an authorized representative of the user and contain the certification statement in subsection 6.13 of this Section T.

(b) If the designation of an authorized representative of the user is no longer accurate because a different individual or position has responsibility for the overall operation of the facility or overall responsibility for environmental matters for the company, a new written authorization satisfying the requirements of this Section must be submitted to the Company prior to or together with any reports to be signed by the authorized representative of the user.

(c) A facility determined to be a non-significant categorical industrial user by the Company must annually submit the signed certification statement in subsection 6.13 of this Section T.

4.8 Permit Decisions

The Company will evaluate the data furnished by the user and may require additional information. The Company will determine whether to issue and individual wastewater discharge permit or a general permit and may deny any application for an IWDP or general permit.

4.9 Permit Renewal

(a) A user with an expiring IWDP or general permit shall apply for permit reissuance by submitting a permit application, in accordance with subsection 4.5 of this Section T, a minimum of one hundred twenty (120) days prior to the expiration of the user's existing permit, unless the deadline is extended in writing by the Company.

(b) In the event that a timely and complete application to renew an IWDP has been submitted and the IWDP cannot be reissued before the expiration date, through no fault of the user, the terms and conditions of the existing IWDP will be automatically continued and will remain fully effective and enforceable pending the granting or denial of the application for IWDP renewal.

[paragraphs deleted] **(C)**

RULES AND REGULATIONS

[paragraphs deleted] **(C)**

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) **(C)**

5 INDIVIDUAL WASTEWATER DISCHARGE PERMIT ISSUANCE (C)

5.1 Permit Duration

Individual wastewater discharge permits shall be issued for a specified time period, not to exceed five (5) years. A permit may be issued for a period less than five (5) years at the discretion of the Company. Each IWDP will indicate a specific date upon which it will expire.

5.2 Permit Contents

(a) Individual wastewater discharge permits shall be expressly subject to all provisions of these rules, the Company's IPP, and such other conditions as are deemed reasonably necessary by the Company to prevent pass through or interference, protect the quality of the water body receiving the treatment plant's effluent, protect worker health and safety, facilitate sludge management and disposal, and protect against damage to the treatment works.

(b) Individual wastewater discharge permits will contain the following:
- (i) A statement that indicates the IWDP issuance date, expiration date and effective date.
- (ii) A statement that the IWDP is nontransferable without prior notification to the Company in accordance with subsection 5.5 of this Section T, and provisions for furnishing the new owner or operator with a copy of the existing IWDP.
- (iii) Effluent limits, including BMPs, based on applicable pretreatment standards.
- (iv) Self-monitoring, sampling, reporting, notification, and record-keeping requirements. These requirements shall include an identification of pollutants (or BMPs) to be monitored, sampling location, sampling frequency, and sample type based on federal, state, and local law.
- (v) A statement of fees for violation of pretreatment standards and requirements, and any applicable compliance schedule. Such schedule may not extend the time for compliance beyond that required by applicable federal state, or local law.
- (vi) Requirements to control slug discharge, if determined by the Company to be necessary.

(c) Individual wastewater discharge permits may contain, but need not be limited to, the following conditions:
- (i) Limits on the average and/or maximum rate of discharge, time of discharge, and/or requirements for flow regulation and equalization.
- (ii) Requirements for the installation of pretreatment technology, pollution control, or construction of appropriate containment devices, designed to reduce, eliminate, or prevent the introduction of pollutants into the treatment works.
- (iii) Requirements for the development and implementation of spill control plans or other special conditions including management practices necessary to adequately prevent accidental, unanticipated, or non-routine discharges.
- (iv) Development and implementation of waste minimization plans to reduce the amount of pollutants discharged to the treatment works.
- (v) The unit charge or schedule of user charges and fees for the management of the wastewater discharged to the treatment works.
- (vi) Requirements for installation and maintenance of inspection and sampling facilities and equipment, including flow measurement devices.
- (vii) A statement that compliance with the IWDP does not relieve the permittee of responsibility for compliance with all applicable federal pretreatment standards, as incorporated by subsection 2.2 of this Section T, including those which become effective during the term of the IWDP.
- (viii) Requirements for notification to the Company for any significant wastewater modification.
- (ix) Requirements for notification to the Company of any accidental discharge or other potential problem.
- (x) Requirements for submission of reports. Periodic compliance reports will be required a minimum of twice a year, indicating the nature and concentration of pollutants in the discharge as well as a record of flows.
- (xi) Other conditions as deemed appropriate by the Company to ensure compliance with these rules, the Company's IPP, and state and federal laws and regulations.

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) **(C)**

5.3 Appeals

(a) The permittee may appeal to the Company to reconsider the terms of an individual wastewater discharge permit within thirty (30) days of receipt of the permit. This appeal must be in writing and must indicate the permit provisions objected to, the reasons for the objection, and the alternative condition, if any, sought to be placed in the permit.

(b) The effectiveness of the permit shall not be stayed pending reconsideration by the Company.

(c) The Company, with the direct involvement of a Vice President, will review the appeal and other pertinent information and determine if any amendment to the permit is warranted.

(d) If the Company determines that an amendment is warranted, it will issue an amended IWDP; if the Company determines that no amendment is warranted, it will so notify the permittee.

(e) The Company will act in a timely manner on any appeal.

5.4 Permit Modification

(a) The Company may modify an individual wastewater discharge permit for good cause, including, but not limited to, the following reasons:

(i) To incorporate any new or revised federal, state, or local pretreatment standard or requirement;

(ii) To address significant alterations or additions to the user's operation, processes, or wastewater volume or character since the time of the IWDP issuance;

(iii) A change in the treatment works that requires either a temporary or permanent reduction or elimination of the authorized discharge;

(iv) Information indicating that the permitted discharge poses a threat to the treatment works, Company personnel or the receiving stream;

(v) Violation of any terms or conditions of the IWDP;

(vi) Misrepresentations or failure to fully disclose all relevant facts in the wastewater discharge permit application or in any required reporting;

(vii) Revision of or a grant of variance from categorical pretreatment standards as provided in 40 CFR §403.13;

(viii) To correct typographical or other errors in the IWDP;

(ix) To reflect a transfer of the facility ownership or operation to a new owner or operator where requested in accordance with subsection 5.5 of this Section T; or

(x) Upon request of the permittee, provided such a request does not create a violation of any applicable requirements, standards, laws, or rules and regulations.

(b) When an additional or new categorical pretreatment standard is promulgated, any user subject to such additional or new standard shall apply to modify its IWDP within 180 days of the promulgation of such standard.

(c) The filing of a request by the permittee for a permit modification does not stay or suspend any permit condition.

(d) The Company will act in a timely manner on any request for permit modification.

(e) The user shall be informed of any proposed changes in its permit at least thirty (30) days prior to the effective date of change. Any changes or new conditions in the permit may include a reasonable time schedule for compliance in the event that compliance cannot reasonably be achieved in 30 days.

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) **(C)**

5.5 Permit Transfer

(a) Individual wastewater discharge permits may be transferred to a new owner or operator only if the permittee gives at least forty (40) days advance notice to the Company and the Company approves the IWDP transfer. The notice to the Company must include a written certification by the new owner or operator which:

(i) States that the new owner or operator has no immediate intent to change the facility's operations and processes;
(ii) Identifies the specific date on which the transfer is to occur; and
(iii) Acknowledges full responsibility for complying with the existing IWDP.

(b) Within ten (10) days of receiving an IWDP transfer notice, the Company will determine if the notice is administratively complete and issue to the permittee either an acknowledgement of completeness or a letter specifying any deficiencies. If a permit transfer notice is deficient, the permittee shall cure the deficiencies and resubmit the notice, which the Company then, within ten (10) days, will review again for completeness and issue to the permittee either an acknowledgement of completeness or a letter specifying any deficiencies.

(c) The Company will approve or disapprove a permit transfer within thirty (30) days of issuing an acknowledgement of completeness of the notice, and approval of such transfer shall not be unreasonably withheld by the Company.

(d) Failure to provide advance notice of a transfer renders the IWDP void as of the date of facility transfer.

5.6 Permit Revocation

(a) The Company may revoke an individual wastewater discharge permit for good cause, including, but not limited to, the following reasons:

(i) Failure to provide prior notification to the Company of a significant wastewater modification pursuant to subsection 6.5 of this Section T;
(ii) Failure to factually report the wastewater constituents and characteristics of a discharge or misrepresentation of relevant facts in an application for an IDWP;
(iii) Falsifying self-monitoring reports and certification statements;
(iv) Tampering with monitoring equipment;
(v) Refusing to allow the Company reasonable and timely access to the facility premises for purposes of compliance inspection, records review, sampling or monitoring;
(vi) Failure to meet effluent limitations;
(vii) Failure to pay fees or sewer charges;
(viii) Failure to meet compliance schedules;
(ix) Failure to complete a wastewater survey or the wastewater discharge permit application;
(x) Failure to provide advance notice of the transfer of business ownership of a permitted facility; or
(xi) Violation of any pretreatment standard or requirement or any term or condition of an IWDP or these rules.

(b) If an IDWP is revoked, the Company may take steps it deems advisable, including severance of the sewer connection to terminate service, in order to promote compliance with these rules. The Company reserves the right to terminate wastewater service for violation of any provision of these rules, subject to the Commission's rules and regulations.

(c) Prior to revocation of an IWDP or termination of service, the Company will provide notice to the user of the proposed revocation or termination and reasonable opportunity for the user to show cause why the proposed action should not be taken. The Company, with the direct involvement of a Vice President, will review the information presented by the user and other pertinent information and determine if revocation of the permit or termination of service is warranted.

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) **(C)**

6 REPORTING REQUIREMENTS

6.1 Baseline Monitoring Reports

(a) Within either one hundred eighty (180) days after the effective date of a categorical pretreatment standard, or the final administrative decision on a category determination under 40 CFR §403.6(a)(4), whichever is later, existing categorical industrial users currently discharging to or scheduled to discharge to the treatment works shall submit to the Company a report which contains the information listed in paragraph (b), below. At least ninety (90) days prior to commencement of their discharge, new sources, and sources that become categorical industrial users subsequent to the promulgation of an applicable categorical standard, shall submit to the Company a report which contains the information listed in paragraph (b), below. A new source shall report the method of pretreatment it intends to use to meet applicable categorical standards. A new source also shall give estimates of its anticipated flow and quantity of pollutants to be discharged using forms approved by the Company.

(b) Users described above shall submit the information set forth below.

(i) All information required in subsections 4.5(a)(i)(1), 4.5(a)(ii), 4.5(a)(iii)(1), and 4.5(a)(vi).

(ii) Measurement of pollutants.

1) The user shall provide the information required in subsection 4.5(a)(vii)(1) through 4.5(a)(vii)(4)

2) The user shall take a minimum of one representative sample to compile that data necessary to comply with the requirements of this paragraph.

3) Samples should be taken immediately downstream from pretreatment facilities if such exist or immediately downstream from the regulated process if no pretreatment exists. If other wastewaters are mixed with the regulated wastewater prior to pretreatment, the user should measure the flows and concentrations necessary to allow use of the combined wastestream formula in 40 CFR §403.6(e) to evaluate compliance with the pretreatment standards. Where an alternate concentration or mass limit has been calculated in accordance with subsection 2.2 and 40 CFR §403.6(e) this adjusted limit along with supporting data shall be submitted to the Company;

4) Sampling and analysis shall be performed in accordance with subsections 6.9 and 6.10;

5) The Company may allow the submission of a baseline report which utilizes only historical data so long as the data provides information sufficient to determine the need for industrial pretreatment measures;

6) The baseline report shall indicate the time, date and place of sampling and methods of analysis, and shall certify that such sampling and analysis is representative of normal work cycles and expected pollutant discharges to the treatment works.

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) **(C)**

(iii) Compliance Certification. A statement, reviewed by the authorized representative of the user and certified by a qualified professional, indicating whether pretreatment standards are being met on a consistent basis, and, if not, whether additional operation and maintenance and/or additional pretreatment is required to meet the pretreatment standards and requirements.

(iv) Compliance Schedule. If additional pretreatment and/or operation and maintenance will be required to meet the pretreatment standards, the shortest schedule by which the user will provide such additional pretreatment and/or O&M must be provided. The completion date in this schedule shall not be later than the compliance date established for the applicable pretreatment standard. A compliance schedule pursuant to this section must meet the requirements set out in subsection 6.2 of this Section T.

(v) Signature and Report Certification. All baseline monitoring reports must be certified in accordance with subsection 6.13 of this Section T and signed by an authorized representative of the user.

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) **(C)**

6.2 Compliance Schedule Progress Reports

The following conditions shall apply to the compliance schedule required by subsection 6.1(b)(iv) of this Section T.

(a) The schedule shall contain progress increments in the form of dates for the commencement and completion of major events leading to the construction and operation of additional pretreatment required for the user to meet the applicable pretreatment standards (such events include, but are not limited to, hiring an engineer, completing preliminary and final plans, executing contracts for major components, commencing and completing construction, and beginning and conducting routine operation);

(b) No increment referred to above shall exceed nine (9) months;

(c) The user shall submit a progress report to the Company no later than fourteen (14) days following each date in the schedule and the final date of compliance including, as a minimum, whether or not it complied with the increment of progress, the reason for any delay, and, if appropriate, the steps being taken by the user to return to the established schedule; and

(d) In no event shall more than nine (9) months elapse between such progress reports to the Company.

6.3 Reports on Compliance with Categorical Pretreatment Standard Deadline

Within ninety (90) days following the date for final compliance with applicable categorical pretreatment standards, or in the case of a new source following commencement of the introduction of wastewater into the treatment works, any user subject to such pretreatment standards and requirements shall submit to the Company a report containing the information described in subsections 4.5(a)(vi), 4.5(a)(vii) and 6.1(b)(ii) of this Section T. For users subject to equivalent mass or concentration limits established in accordance with the procedures in 40 CFR §403.6(c), this report shall contain a reasonable measure of the user's long-term production rate. For all other users subject to categorical pretreatment standards expressed in terms of allowable pollutant discharge per unit of production (or other measure of operation), this report shall include the user's actual production during the appropriate sampling period. All compliance reports must be signed and certified in accordance with subsection 6.13 of this Section T. All sampling will be done in conformance with subsection 6.10.

6.4 Periodic Compliance Reports

(a) All significant industrial users must submit reports to the Company on a quarterly basis, within thirty (30) days following the end of each calendar quarter, unless otherwise specified in the user's individual wastewater discharge permit, indicating the nature, concentration of pollutants in the discharge which are limited by pretreatment standards and the measured or estimated average and maximum daily flows for the reporting period. In cases where the pretreatment standard requires compliance with BMPs or pollution prevention alternatives, the user must submit documentation required by the Company or the pretreatment standard necessary to determine the compliance status of the user.

(b) All periodic compliance reports must be signed and certified in accordance with subsection 6.13 of this Section T.

(c) All wastewater samples must be representative of the user's discharge. Wastewater monitoring and flow measurement facilities shall be properly operated, kept clean, and maintained in good working order at all times. The failure of a user to keep its monitoring facility in good working order shall not be grounds for the user to claim that sample results are unrepresentative of its discharge.

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) **(C)**

(d) If a user subject to the reporting requirement in this section monitors any regulated pollutant at the appropriate sampling location more frequently than required by the Company, using the procedures prescribed in subsection 6.10 of this Section T, the results of this monitoring shall be included in the report.

(e) Significant industrial users not subject to categorical pretreatment standards under these rules shall submit periodic compliance reports as specified by the user's IWDP.

6.5 Reports of Changed Conditions

(a) Each user must notify the Company of any significant wastewater modification at least ninety (90) days before the change.

(b) The Company may require the user to submit such information as may be deemed necessary to evaluate the changed condition, including the submission of an IWDP application.

(c) The Company may issue a new IWDP or modify an existing IWDP in response to changed conditions or anticipated changed conditions.

6.6 Reports of Potential Problems

(a) In the case of any discharge, including, but not limited to, an accidental discharge, a discharge of a non-routine, episodic nature, a non-customary batch discharge, or a slug discharge or slug load, that might cause potential problems for the treatment works, the user, upon discovery, and after assessing the situation and taking initial corrective action, shall immediately telephone and notify the Company of the incident. This notification shall include the location of the discharge, type of waste, concentration and volume, if known, and initial corrective actions taken by the user.

(b) Within five (5) days following such discharge, the user shall, unless waived by the Company, submit a detailed written report including the date, time and duration of the discharge and describing the cause(s) of the discharge, all corrective actions implemented or attempted, and the measures to be taken by the user to prevent similar future occurrences. Such notification shall not relieve the user of any expense, loss, damage, or other liability which might be incurred as a result of damage to the treatment works, natural resources, or any other damage to person or property; nor shall such notification relieve the user of any fees or other liability which may be imposed pursuant to these rules.

(c) A notice shall be permanently posted on the user's bulletin board or other prominent place advising employees who to call in the event of a discharge described in paragraph (a), above. Employers shall ensure that all employees are advised of the emergency notification procedure.

(d) Significant industrial users are required to notify the Company immediately of any changes at its facility affecting the potential for a slug discharge.

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd)

6.7 Reports from Unpermitted Users

All users not required to obtain an individual wastewater discharge permit shall provide appropriate reports to the Company as the Company may require.

6.8 Notice of Violation/Repeat Sampling and Reporting

If sampling performed by a user indicates a violation, the user must notify the Company within twenty-four (24) hours of becoming aware of the violation and submit to the Company within five (5) business days, unless otherwise specified, a detailed written report describing the discharge and the measures taken to prevent similar future occurrences. The user shall also repeat the sampling and analysis and submit the results of the repeat analysis to the Company within the current quarterly reporting cycle, however no later than thirty (30) days after becoming aware of the violation. Resampling by the user is not required if the Company performs sampling at the user's facility at least once a month, or if the Company performs sampling at the user'**s facility** between the **(C)** time when the initial sampling was conducted and the time when the user or **the Company** receives the results **(C)** of this sampling, or if the **C**ompany has performed the sampling and analysis in lieu of the user. **(C)**

6.9 Analytical Requirements

All pollutant analyses, including sampling techniques, to be submitted as part of a wastewater discharge permit application or report shall be performed in accordance with the techniques prescribed in 40 CFR Part 136 and amendments thereto, unless otherwise specified in an applicable categorical pretreatment standard, and shall use appropriate reporting limits at or below any applicable local limit or IWDP limit. If 40 CFR Part 136 does not contain sampling or analytical techniques for the pollutant in question, or where the Company determines that the Part 136 sampling and analytical techniques are inappropriate for the pollutant in question, sampling and analyses shall be performed by using validated analytical methods or any other applicable sampling and analytical procedures, including procedures suggested by the Company. The Company may specify appropriate alternative procedures in a user's IWDP.

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) **(C)**

6.10 Sample Collection

(a) Samples collected to satisfy reporting requirements must be based on data obtained through appropriate sampling and analysis performed during the period covered by the report, based on data that are representative of conditions occurring during the reporting period.

(b) Except as indicated in subsections (c) and (d) below, the user must collect wastewater samples using 24-hour flow-proportional composite sampling techniques, unless time-proportional composite sampling or grab sampling is authorized by the Company. Where time-proportional composite sampling or grab sampling is authorized by the Company, the samples must be representative of the discharge. Using protocols (including appropriate preservation) specified in 40 CFR Part 136 and appropriate EPA guidance, multiple grab samples collected during a 24-hour period may be composited prior to the analysis as follows: for cyanide, total phenols, and sulfides, the samples may be composited in the laboratory or in the field; for volatile organics and oil and grease, the samples may be composited in the laboratory. Composite samples for other parameters unaffected by the compositing procedures as documented in approved EPA methodologies may be authorized by the Company, as appropriate. In addition, grab samples may be required to show compliance with instantaneous limits.

(c) Samples for oil and grease, temperature, pH, cyanide, total phenols, sulfides, and volatile organic compounds must be obtained using grab collection techniques.

(d) For sampling required in support of baseline monitoring and 90-day compliance reports required in subsections 6.1 and 6.3, a minimum of four (4) grab samples must be used for pH, cyanide, total phenols, oil and grease, sulfide and volatile organic compounds for facilities for which historical sampling data do not exist; for facilities for which historical sampling data are available, the Company may authorize a lower minimum. For the reports required by subsection 6.4, the industrial user is required to collect the number of grab samples necessary to assess and assure compliance with applicable pretreatment standards and requirements.

(e) The user bears the obligation to complete all sampling required by these rules. Upon request by a user, the Company may agree to conduct sampling on behalf of a user.

6.11 Date of Receipt of Reports

Written reports will be deemed to have been submitted on the date postmarked. For reports which are not mailed, postage prepaid, into a mail facility serviced by the United States Postal Service, including reports submitted by electronic mail, the date of receipt of the report shall govern.

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd)

6.12 Recordkeeping

Users subject to the reporting requirements of these rules shall retain, and make available for inspection and copying, all records of information obtained pursuant to any monitoring activities required by these rules, any additional records of information obtained pursuant to monitoring activities undertaken by the user independent of such requirements, and documentation associated with BMPs established under subsection 2.5(g). Records shall include the date, exact place, method, and time of sampling, and the name of the person(s) taking the samples; the dates analyses were performed; who performed the analyses; the analytical techniques or methods used; and the results of such analyses. These records shall remain available for a period of at least five (5) years. This period shall be automatically extended for the duration of any litigation concerning the user or the Company, or where the user has been specifically notified of a longer retention period by the Company.

6.13 Certification Statements

(a) Certification of Permit Applications, User Reports and Initial Monitoring Waiver – The following certification statement is required to be signed and submitted by users submitting permit applications in accordance with subsection 4.7; users submitting baseline monitoring reports under subsection 6.1(b)(v); users submitting reports on compliance with the categorical pretreatment standard deadlines under subsection 6.3; and users submitting periodic compliance reports required by subsection 6.4. The following certification statement must be signed by an authorized representative of the user:

I certify that this document and all attachments were prepared under my direction or **(C)**
supervision in accordance with a system designed to assure that qualified personnel properly gather and evaluate the information submitted. Based on my inquiry of the person or persons who manage the system, or those persons directly responsible for gathering the information, the information submitted is, to the best of my knowledge and belief, true, accurate, and complete. **[language deleted] (C)**

(b) A facility determined by the Company to be a NSCIU must annually submit the following certification statement signed an authorized representative of the user. This certification must accompany an alternative report required by the Company:

Based on my inquiry of the person or persons directly responsible for managing compliance with the Categorical Pretreatment Standards under 40 CFR_____, I certify that, to the best of my knowledge and belief that during the period from_____,_____to_____,_____[months, days, year]:

(a) The facility described as_____[facility name] met the definition of a Non-Significant Categorical Industrial User as described in Section A of the rules and regulations specified in Pennsylvania-American Water Company's Wastewater Tariff; and

(b) The facility complied with all applicable Pretreatment Standards and requirements during this reporting period; and

(c) The facility never discharged more than 100 gallons of total categorical wastewater on any given day during this reporting period.

This compliance certification is based on the following information:

(C) means Change

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Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd)

7 FEES AND CHARGES

The following fees and charges are billed on a quarterly basis. (C)

7.1 General Fees.

(a) IWDP Application Fee: $1,000.00.

(b) IWDP Transfer/Modification/Renewal Fee: $250.00.

(c) Facility Inspection Fee: $250.00 per inspection.

(d) Monitoring Report Review Fee: $250.00 per monitoring report.

(e) Sampling and Analysis Fee:

(i) For use of outside services, actual cost of sampling and laboratory analysis plus 25% to cover administrative costs.

(ii) For use of in-house services:

Analytical Procedure/Service	Cost
Sample processing	$12.00
Sampling, composite	$40.00
Sampling, grab	$25.00
Ammonia as N	$20.00
BOD5	$20.00
Metals digestion	$16.00
Metals analysis	$17.00
pH	$6.00
Phosphorus as P	$9.00
Total Suspended Solids	$5.00

(f) Accidental Discharge, Slug Control, and/or Monitoring Fee: Actual cost of response to accidental discharges or discharges of slugs loads, including but not limited to the costs incurred for any additional treatment or other actions required to manage such discharges, monitor and respond to such discharges, correct any resulting contamination or other impacts to the treatment works.

(g) Compliance and Enforcement Fee: Administrative and Legal: Actual cost incurred by the Company for investigation and actions to address a user's non-compliance with the terms of these rules or any IWDP.

(h) Damage Repair: Actual cost for cleaning, repair, replacement or correction of any damage to the treatment works caused or contributed to by a user's discharge.

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) **(C)**

7.2 Specific Fees.

(a) An Industrial Loading Fee shall apply on a quarterly basis to discharges with concentrations above typical domestic sewage concentrations up to but not exceeding any applicable local limit or IWDP limit, based on sampling and analysis required to be reported by the user under an IWDP and any composite sampling and analysis conducted by the Company, as follows:

Industrial Loading Fee = *[Pollutant Removal Cost ($/lb.) x Total Quarterly Flow (MG) x 8.34 x Measured Pollutant Concentration (mg/L)]* ***minus*** *[Pollutant Removal Cost ($/lb.) x Total Quarterly Flow (MG) x 8.34 x Typical Domestic Pollutant Concentration (mg/L)]*

Typical Domestic Pollutant Concentrations are as follows:

BOD5 = 300 mg/L

NH3-N = 30 mg/L

TSS = 300 mg/L

TN = 40 mg/L

TP = 10 mg/L

Pollutant removal costs are specified in Section U of this tariff for each wastewater system. An Industrial Loading Fee will be calculated, based on the formula above, for each pollutant for which a removal cost is specified in Section U for the applicable system. Totally Quarterly Flow shall be as measured by the user or the Company. **Measured pollutant concentration will be the quarterly average of all samples collected by the user and the Company.** **(C)**

An Industrial Loading Fee also may apply when total quarterly flow, as measured by the user or by the Company, exceeds total permitted quarterly flow, even if pollutant concentrations do not exceed the pollutant concentrations expected in typical domestic sewage. In such circumstances, the Industrial Loading Fee shall be calculated as follows for each pollutant for which a removal cost is specified in Section U for the applicable system:

Industrial Loading Fee = *[Pollutant Removal Cost ($/lb.) x Total Quarterly Flow (MG) x 8.34 x Measured Pollutant Concentration (mg/L)]* ***minus*** *[Pollutant Removal Cost ($/lb.) x Total Permitted Quarterly Flow (MG) x 8.34 x Typical Domestic Pollutant Concentration (mg/L)]*

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd)

(b) Excess Loading Fee: If, in any quarter, the **average** loading **or concentration** of a pollutant for **(C)** Which a removal cost is specified in Section U of this tariff exceeds a local limit or IWDP limit, then for the applicable parameter, in calculating the Industrial Loading Fee under subsection 7.2(a) of this Section T, the pollutant removal cost applicable to the total loading of that parameter will be 125% of the value set forth in Section U to compensate for the additional administrative, oversight and management costs associated with managing such excessive loadings. Users are exempt from Excess Loading Fees during the period of any compliance schedule established in the user's Individual Wastewater Discharge Permit. This exemption from Excess Loading Fees applies to Excess Loading Fees for all pollutants, unless otherwise provided by the IWDP.

(c) A Special Discharge Fee shall apply to discharges with loadings or concentrations that exceed a local limit or IWDP limit and that impact sludge handling or disposal methods and costs, necessitate acquisition of nutrient credits, result in damage to the facility, cause a violation of the facility's NPDES Permit, or require extraordinary measures. The Special Discharge Fee shall be equal to the actual cost incurred by the Company, including but not limited to: (1) additional costs of managing impacted sludge (including costs related to use of alternative disposal facilities, additional monitoring, etc.), (2) costs of acquiring nutrient credits to meet NPDES Permit cap limits; (3) costs of repairs to and restoration of the treatment works, (4) costs associated with enforcement by DEP or EPA, including civil penalties or other liabilities; and (5) costs of implementing any other measures required to control, manage and address such excessive loadings or concentrations.

7.3 Administration.

(a) If a user wishes to dispute the calculation of any fees assessed by the Company, it shall appeal to the Company, in writing, identifying the fees subject to dispute and the reason(s) they are disputed. The Company, acting in a timely manner with the direct involvement of a Vice President, will review the appeal and other pertinent information and determine if any adjustment to the fee is warranted and so advise the user. In the event that a user is not satisfied with the Company's determination on its appeal, the user may seek appropriate relief from the Commission.

(b) All fees shall be payable by the industrial user within forty-five (45) days of notification, or the industrial user will be subject to such enforcement action deemed appropriate by the Company, including, but not limited to, termination of service and a revocation of the IWDP.

(c) Fees may be modified or amended as the Company deems necessary, subject to review and approval by the Commission.

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) **(C)**

8 COMPLIANCE

8.1 Right of Entry: Inspection and Sampling

(a) In addition to the rights afforded by Section L of this tariff, and without limiting such rights in any way, the Company shall have the right to enter the premises of any user at all reasonable times to inspect the facility, perform sampling, review and copy of records, and take other actions necessary to determine whether the user is complying with all requirements of these rules and any individual wastewater discharge permit or compliance directive issued hereunder.

(b) The Company will sample and analyze the discharge of each significant industrial user holding an IWDP at least once per year, the costs of which shall be borne by the user.

(c) Where a user has security measures in force which require proper identification and clearance before entry into its premises, the user shall make necessary arrangements with its security guards so that, upon presentation of suitable identification, the Company shall be permitted to enter without delay for the purposes of performing specific responsibilities. The user shall inform the Company of any applicable safety procedures that the Company must follow in any area, or with respect to any process, that is the subject of inspection, evaluation or other action by the Company.

(d) The Company shall have the right to set up on the user's property, or require installation of, such devices as are necessary to conduct sampling or metering of the user's operations. Sampling shall be conducted pursuant to approved EPA methods or guidance, where applicable.

(e) The Company may require the user to install monitoring equipment as necessary. The facility's sampling and monitoring equipment shall be maintained at all times in a safe and proper operating condition by the user at its own expense. All devices used to measure wastewater flow and quality shall be calibrated at least one per year, and more frequently if necessary, to ensure their accuracy.

(f) Any temporary or permanent obstruction to safe and easy access to the facility to be inspected or sampled shall be promptly removed by the user at the written or verbal request of the Company and shall not be replaced. The costs of clearing such access shall be borne by the user.

(g) Unreasonable delays in allowing the Company access to the user's premises shall be a violation of these rules.

8.2 Confidential Information

Information and data on a user obtained from reports, surveys, wastewater discharge permit applications, individual wastewater discharge permits, and monitoring programs, and from the Company's inspection and sampling activities, shall be available to the public without restriction, unless the user specifically requests, and is able to demonstrate to the satisfaction of the Company that the release of such information would divulge information, processes, or methods of production entitled to protection as trade secrets under applicable state or federal law. Any such request must be asserted at the time of submission of the information or data. When requested and demonstrated by the user furnishing a report that such information should be held confidential, the portions of a report which might disclose trade secrets or secret processes shall not be made available for inspection by the public, but shall be made available immediately upon request to governmental agencies for uses related to the NPDES program or pretreatment program, and in enforcement proceedings involving the person furnishing the report. Wastewater constituents and characteristics and other effluent data, as defined at 40 CFR §2.302, shall not be recognized as confidential information and shall be available to the public without restriction.

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) **(C)**

9 ADMINISTRATIVE ENFORCEMENT REMEDIES

9.1 General

Users of the Company's treatment works are obligated to comply with applicable provisions of these rules, pretreatment standards, and the terms and conditions of permits issued by the Company. Failure to comply with these requirements may lead to suspension or termination of service, permit revocation, assessment of costs, and/or legal action. In determining what enforcement remedies are appropriate, the Company, in its discretion, may consider the nature and extent of the violation, the harm or threat of harm presented by the discharge, the compliance history of the user, and whether the user is in "significant noncompliance" as defined by 40 CFR §403.8(f)(2)(viii)(A)-(H), among other factors.

9.2 Emergency Response

(a) The Company may immediately suspend a user's discharge or the individual wastewater discharge permit of any user, upon notice to the user, whenever such suspension is necessary, in the opinion of the Company, in order to stop an actual or threatened discharge which presents or reasonably appears to present an imminent or substantial endangerment to the health or welfare of persons or the environment, causes or contributes to interference or pass through, causes or contributes to a violation of any condition of the Company's NPDES permit, or threatens to interfere with the operation of the treatment works.

(b) Any user notified of a suspension of its discharge shall immediately stop or eliminate its discharge to the treatment works. In the event of a user's failure to immediately comply voluntarily with the suspension notice, the Company may take such steps as deemed necessary, including immediate severance of the sewer connection, to prevent or minimize damage to the treatment works, its receiving stream, or endangerment to any individuals or the environment.

(c) A user that is responsible, in whole or in part, for any discharge presenting imminent endangerment shall submit a detailed written statement to the Company describing the causes of the harmful discharge and the measures taken to prevent any future occurrence. The detailed written statement shall be submitted to the Company within five (5) days of the first date of the occurrence.

(d) The Company may reinstate the IWDP or the wastewater treatment service, and allow the user to recommence its discharge, upon demonstration by the user to the satisfaction of the Company that the non-complying discharge has been eliminated and that the period of endangerment has passed.

9.3 Notice of Violation

When the Company finds that a user has violated, or continues to violate, any provision of these rules, the terms and conditions of an individual wastewater discharge permit, a compliance or cessation directive issued hereunder, or any pretreatment standard or requirement, the Company may deliver to that user a written notice of violation stating the nature of the violation(s). Within the timeframe set forth in such notice, the user shall submit to the Company an explanation of the violation and a plan for the satisfactory correction and prevention thereof, to include specific remedial actions. Submission of such a plan in no way relieves the user of liability for any violations occurring before or after receipt the notice. Nothing in this section shall limit the authority of the Company to take any action, including emergency actions or any other enforcement action, without first issuing a notice of violation.

RULES AND REGULATIONS

Section T- Wastewater Control and Industrial Pretreatment Regulations (cont'd) **(C)**

9.4 Compliance Directives

When the Company finds that a user has violated, or continues to violate, any provision of these rules, an individual wastewater discharge permit, a compliance or cessation directive issued hereunder, or any pretreatment standard or requirement, the Company may issue a compliance directive to the user responsible for the discharge directing that the user come into compliance within a specified time. If the user does not come into compliance within the time provided, sewer service may be discontinued unless adequate treatment facilities, devices, or other related appurtenances are installed and properly operated. Compliance directives also may contain other requirements to address the noncompliance, including additional self-monitoring and management practices designed to minimize the amount of pollutants discharged to the sewer. A compliance directive may not extend the deadline for compliance established for a pretreatment standard or requirement, nor does a compliance directive relieve the user of liability for any violation, including any continuing violation. Issuance of a compliance directive shall not be a bar against, or a prerequisite for, taking any other action against the user.

9.5 Cessation Directives

(a) When the Company finds that a user has violated, or continues to violate, any provision of these rules, an individual wastewater discharge permit, a compliance or cessation directive issued hereunder, or any pretreatment standard or requirement, or that the user's past violations are likely to recur, the Company may issue a directive to the user directing it to cease and desist all such violations and directing the user to:

(i) Immediately comply with all requirements; and

(ii) Take such appropriate remedial or preventive action as may be needed to properly address a continuing or threatened violation, including halting operations and/or terminating the discharge.

(b) Issuance of a cessation directive shall not be a bar against, or a prerequisite for, taking any other action against the user.

9.6 Referral to the DEP

When the Company finds that the Industrial user has failed or is failing to meet categorical pretreatment standards applicable under these rules or an individual wastewater discharge permit, the Company may report the user to the DEP and recommend that the DEP require that the user obtain an individual NPDES permit to authorize its discharge.

10 JUDICIAL ENFORCEMENT REMEDIES

10.1 Injunctive Relief and Civil Actions

When the Company finds that a user has violated, or continues to violate, any provision of these rules, an individual wastewater discharge permit, a compliance or cessation directive issued hereunder, or any pretreatment standard or requirement, the Company may petition the Court of Common Pleas in the county in which the user is located for the issuance of a temporary or permanent injunction, as appropriate, which restrains or compels the specific performance of the IWDP, directive, or other requirement imposed by these rules. The Company also may seek such other action as is appropriate for legal or equitable relief, including a requirement for the user to conduct environmental remediation. A petition for injunctive or other judicial relief shall not be a bar against, or a prerequisite for, taking any other action against a user.

10.2 Remedies Nonexclusive

The remedies provided for in these rules are not exclusive and the Company may take any, all, or any combination of actions against a noncompliant user. As a general policy, however, the Company will seek to resolve compliance matters informally with a user before pursuing formal enforcement proceedings.

RULES AND REGULATIONS

Section U- Industrial Pretreatment Program - Pollutant Removal Costs

This Section U applies to industrial and commercial customers served under the rate zones identified below within the Company's service territory. All such customers shall comply with the Industrial Pretreatment Program ("IPP") made available on the Company's website, and as may be amended by the Company or the Pennsylvania Department of Environmental Protection from time to time. Such customers shall be responsible for the charges and fees set forth in subsection 7 of Section T of the rules and regulations of this tariff related to the implementation, administration, and enforcement of the IPP, including fees and charges for the additional costs for treatment of wastewaters with excess loadings and characteristics. These fees are separate from and in addition to all other rates chargeable by the Company under this tariff.

The "Pollutant Removal Costs" identified in subsection 7.2(a) of Section T of the rules and regulations of this tariff applicable to each rate zone shall be as specified below. These "Pollutant Removal Costs" shall be utilized in the calculation of Industrial Loading Fees and Excess Loading Fees in accordance with subsection 7.2(a) and (b) of Section T.

1 Coatesville District

This Section applies to industrial and commercial customers served under Rate Zone 1 of this tariff and by the Coatesville treatment plant.

Pollutant Removal Costs:

BOD5 Removal Cost = $0.**35**/lb. **(I)**
NH3-N Removal Cost = N/A
TN Removal Cost = $1.08/lb.
TP Removal Cost = $2.32/lb.
TSS Removal Cost = $0.19/lb.

2 Exeter Area

This Section applies to industrial and commercial customers served under Rate Zone 1 of this tariff and by the Exeter treatment plant.

Pollutant Removal Costs:

BOD5 Removal Cost = $0.24/lb.
NH3-N Removal Cost = $0.97/lb.
TN Removal Cost = N/A
TP Removal Cost = N/A
TSS Removal Cost = $0.31/lb.

(I) means Increase

RULES AND REGULATIONS

Section U- Industrial Pretreatment Program - Pollutant Removal Costs (cont'd) **(C)**

3 Franklin Township Area

This Section applies to industrial and commercial customers served under **Rate Zone 1** of this tariff and by the Franklin treatment plant. **(C)**

Pollutant Removal Costs:
BOD5 Removal Cost = $0.30/lb.
NH3-N Removal Cost = $1.25/lb.
TN Removal Cost = N/A
TP Removal Cost = N/A
TSS Removal Cost = $0.30/lb.

4 McKeesport Area

This Section applies to industrial and commercial customers served under Rate Zone 6 of this tariff and by the McKeesport treatment plant.

Pollutant Removal Costs:
BOD5 Removal Cost = $0.30/lb.
NH3-N Removal Cost = N/A
TN Removal Cost = N/A
TP Removal Cost = N/A
TSS Removal Cost = $0.30/lb.

5 Royersford Area

This Section applies to industrial and commercial customers served under **Rate Zone 9** of this tariff and by the Royersford treatment plant. **(C)**

Pollutant Removal Costs:
BOD5 Removal Cost = $0.30/lb.
NH3-N Removal Cost = N/A
TN Removal Cost = N/A
TP Removal Cost = N/A
TSS Removal Cost = $0.30/lb.

6 Scranton Area

This Section applies to industrial and commercial customers served under **Rate Zone 3** of this tariff and by the Scranton treatment plant. **(C)**

Pollutant Removal Costs:
BOD5 Removal Cost = $0.30/lb.
NH3-N Removal Cost = N/A
TN Removal Cost = $1.25/lb.
TP Removal Cost = $3.25/lb.
TSS Removal Cost = $0.30/lb.

RULES AND REGULATIONS

Section U- Industrial Pretreatment Program - Pollutant Removal Costs (cont'd) **(C)**

7 York Area

This Section applies to industrial and commercial customers served under Rate Zone 7 of this tariff and by the York treatment plant.

Pollutant Removal Costs:

BOD5 Removal Cost = $0.26/lb.
NH3-N Removal Cost = $0.78/lb.
TN Removal Cost = N/A
TP Removal Cost = $2.61/lb.
TSS Removal Cost = $0.43/lb.

8 All Other Areas

This Section applies to industrial and commercial customers in areas not addressed by subsections 1 - 7 of this Section U, above. In any such area, the pollutant removal costs below shall apply, based on the type of treatment provided, pending completion of a cost evaluation specific to the treatment plant serving the subject area and amendment of this Section U to establish system-specific pollutant removal costs for such area.

Pollutant removal costs for treatment plants with advanced nutrient removal:

BOD5 Removal Cost = $0.30/lb.
NH3-N Removal Cost = N/A
TN Removal Cost = $1.25/lb.
TP Removal Cost = $3.25/lb.
TSS Removal Cost = $0.30/lb.

Pollutant removal costs for treatment plants with nitrification:

BOD5 Removal Cost = $0.30/lb.
NH3-N Removal Cost = $1.25/lb.
TN Removal Cost = N/A
TP Removal Cost = N/A
TSS Removal Cost = $0.30/lb.

Pollutant removal costs for treatment plants with secondary treatment:

BOD5 Removal Cost = $0.30/lb.
NH3-N Removal Cost = N/A
TN Removal Cost = N/A
TP Removal Cost = N/A
TSS Removal Cost = $0.30/lb.

RULES AND REGULATIONS

Section V - Wastewater Control and Protection of Collection Systems (C)

1. APPLICABILITY

This Section V establishes uniform requirements applicable to users of wastewater collection and conveyance services provided by the Company and the nature of wastes acceptable for discharge into the Company's wastewater collection and conveyance facilities, either directly or indirectly, where the Company provides collection and conveyance services only and the wastewater is treated at a wastewater treatment plant owned or operated by a municipality, municipal authority, other public utility or other party.

2. REQUIREMENTS

2.1. Compliance and Cooperation with Treatment Plant Operator and Host Municipality

In circumstances where the Company provides wastewater collection and conveyance services but not wastewater treatment services within a service territory:

(a) All users shall comply with all rules, regulations and requirements established by the treatment plant operator and/or the host municipality, including but not limited to requirements specifying prohibited discharges, assuring compliance with applicable pretreatment standards and discharge limitations, providing for user permitting, and assessing administrative and pollutant loading fees with respect to wastewaters that are not composed entirely of sanitary sewage.

(b) The Company will cooperate with the treatment plant operator and the host municipality with respect to the implementation of the rules, regulations and requirements adopted by either or both of them by providing reasonable access to the Company's collection and conveyance facilities within the service territory for purposes of inspection and sampling.

2.2. Compliance with Section T of this Tariff

Users of wastewater collection and conveyance services provided by the Company in service territories where the Company does not provide wastewater treatment services shall be subject to and comply with all portions of Section T of this tariff relevant to the protection of the Company's collection and conveyance facilities, the Company's personnel, and the general public, including but not limited to requirements set forth in subsections 2 (General Sewer Use Requirements), 3 (Pretreatment of Wastewater), 8 (Compliance), 9 (Administrative Enforcement Remedies), and 10 (Judicial Enforcement Remedies). (The term "treatment works," as defined in Section A and used throughout Section T of this tariff, includes the Company's wastewater collection and conveyance facilities.)

2.3. Prohibited Discharges

No user shall introduce or cause to be introduced into the Company's collection and conveyance facilities any substance, pollutant or wastewater which may cause an obstruction to the flow in the sewer system, corrosion or other damage to the treatment works, interference or pass-through, or a hazard to the Company's personnel or the general public.

RULES AND REGULATIONS

Section W - Regulation of Waste Received from Other Jurisdictions (C)

1. APPLICABILITY

This Section W sets forth uniform requirements applicable to the receipt of wastewater from a municipality or other entity on a bulk service basis.

2. REQUIREMENTS

2.1. Bulk Service Agreement

(a) If the Company receives or intends to receive wastewater from a municipality or other entity on a bulk service basis, the Company shall enter into a bulk service agreement with the contributing municipality or entity, subject to the approval of the Commission.

(b) Prior to entering into a bulk service agreement, as provided in paragraph (a), the Company shall request the following information from the contributing municipality or entity:

(i) A description of the quality and volume of wastewater discharged or to be discharged to the treatment works by the contributing municipality or entity, as well as the number of customers served;

(ii) An inventory of all industrial users located within the contributing area that are or will be discharging, directly or indirectly, to the treatment works, including the volume and nature of such discharges and existing permits and pretreatment control requirements; and

(iii) Such other information as the Company may deem necessary.

(c) A bulk service agreement, as provided in paragraph (a), shall contain the following conditions:

(i) A requirement for the contributing municipality or entity to adopt a sewer use ordinance or rules which are at least as stringent as the requirements of Section T of this tariff and local limits at least as stringent as specified in the Company's IPP. The requirement shall specify that such ordinance or rules shall be revised as necessary to reflect changes made to Section T or local limits.

(ii) A requirement for the contributing municipality or entity to submit a revised user inventory on at least an annual basis.

(iii) A provision specifying which pretreatment implementation activities, including permit issuance, inspection and sampling, and enforcement, will be conducted by the contributing municipality or entity; which of these activities will be conducted by the Company; and which of these activities will be conducted jointly by the contributing municipality or entity and the Company.

RULES AND REGULATIONS

Section W - Regulation of Waste Received from Other Jurisdictions (cont'd) **(C)**

(iv) A requirement for the contributing municipality or entity to provide the Company with access to all information that the contributing municipality or entity obtains as part of its pretreatment activities.

(v) Limits on the nature, quality, and volume of the contributing municipality's or entity's wastewater at the point where it discharges to the treatment works.

(vi) Requirements for monitoring the discharge by the contributing municipality or entity.

(vii) A provision ensuring the Company access to the facilities of users located within the jurisdictional boundaries of the contributing municipality or entity for the purpose of inspection, sampling, and any other duties deemed necessary by the Company.

A provision specifying remedies available for breach of the terms of the bulk service agreement.

2.2. Expansion of Service Territory

In circumstances where a bulk service agreement provides that the Company will implement its pretreatment program with respect to an industrial user contributing to the bulk service flow, the Company shall seek approval of the Commission to expand its service territory to include the industrial user facility. In such circumstances, the industrial user shall be subject to the requirements of this tariff and the Company's IPP to the same extent as an industrial user discharging directly to the Company's treatment works.

PAWC EXHIBIT NO. 4

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Company, Pursuant to the Pennsylvania Public Utility Code, 66 Pa.C.S. § 1102(a) and 1329, For Approval of 1) the Transfer, by Sale, of Substantially all of the Borough of Kane Authority's Assets, Properties and Rights Related To Its Wastewater Collection and Treatment System to Pennsylvania-American Water Company; 2) the Rights of Pennsylvania-American Water Company to Begin to Offer or Furnish Wastewater Service to the Public in the Borough of Kane, and in a portion of Wetmore Township, McKean County, Pennsylvania; and 3) for Approval of the use for Ratemaking Purposes of the Lesser Fair Market Value or the Negotiated Purchase Price of the Borough of Kane Authority's Assets Related to its Wastewater Collection and Treatment System	:	A-2019-3014248

RECOMMENDED DECISION

Before
Joel H. Cheskis
Deputy Chief Administrative Law Judge

INTRODUCTION

This decision recommends that a joint petition for settlement be approved in its entirety without modification because it is in the public interest and supported by substantial evidence. This decision finds that the settlement complies with the relevant sections of the Public Utility Code regarding acquisitions of water and wastewater assets, properties and rights and is consistent with Commission regulations promoting settlements. The Commission must act on this application no later than its Public Meeting on August 6, 2020.

HISTORY OF THE PROCEEDING

On December 2, 2019, the Pennsylvania American Water Company (PAWC) filed an application with the Pennsylvania Public Utility Commission (Commission) asking the Commission to approve the Asset Purchase Agreement (APA) entered into between PAWC and the Borough of Kane Authority (Authority), the Borough of Kane (Kane) and Wetmore Township by which PAWC will purchase the wastewater system presently owned by the Authority pursuant to Sections 1102 and 1329 of the Public Utility Code, 66 Pa. C.S. §§ 1102, 1329. The filing was amended on December 6, 2019. On December 10, 2019, PAWC filed information in response to a completeness review conducted by the Commission's Bureau of Technical Utility Services. On December 11, 2019, the Commission informed PAWC that the application had been conditionally accepted pending compliance with certain service and notice requirements.

On December 27, 2019, the Office of Small Business Advocate (OSBA) filed a notice of intervention.

On January 22, 2020, PAWC notified the Commission that it had completed providing individualized notice of the application to the customers of PAWC and Kane and complied with all requirements of the conditional acceptance.

On February 6, 2020, the Commission notified PAWC that it had accepted the application for filing and a notice of the application was published in the Pennsylvania Bulletin with a protest deadline of March 9, 2020. 50 Pa.B. 1229 (Feb. 22, 2020).

On February 6, 2020, the Office of Consumer Advocate (OCA) filed a protest and public statement. On February 10, 2020, the Commission's Bureau of Investigation (I&E) entered an appearance. On February 18, 2020, the Authority filed a petition to intervene.

On February 7, 2020, the Commission issued a Notice establishing an Initial Prehearing Conference for Wednesday, March 11, 2020 beginning at 1:00 p.m. in Hearing Room 5 of the Commonwealth Keystone Building in Harrisburg and assigning me as the Presiding

Officer. A prehearing conference order dated February 7, 2020 was also issued setting forth various rules that would govern the prehearing conference.

On March 2, 2020, the parties submitted a Stipulation Regarding Discovery Rule Modifications memorializing, and seeking approval of, modifications to the Commission's discovery rules that the parties agreed to.

The prehearing conference convened on March 11, 2020, as scheduled. Erika McLain, Esquire and Carrie B. Wright, Esquire appeared on behalf of I&E; Santo Spataro, Esquire, Harrison Breitman, Esquire and Erin Gannon, Esquire, appeared on behalf of OCA; David Zambito, Esquire and Elizabeth Triscari, Esquire, appeared on behalf of PAWC; Carl Shultz, Esquire appeared on behalf of the Authority; and Sharon Webb, Esquire appeared on behalf of OSBA. Each party had previously submitted a prehearing conference memorandum as requested in the prehearing conference order. A scheduling order was informally issued on March 19, 2020 memorializing the procedural matters agreed to at the prehearing conference.[1] A hearing notice was issued establishing evidentiary hearings for this matter for April 20, 2020 and April 21, 2020, as agreed to during the prehearing conference.

Pursuant to the scheduling order, on March 27, 2020, the OCA filed the direct testimony of Ralph C. Smith along with accompanying attachments and exhibits.

Also on March 27, 2020, PAWC filed two Joint Stipulations – one stipulation it entered into with I&E and the other stipulation it entered into with OSBA.

On April 6, 2020, an off-the-record conference call was held with the presiding officer and the parties where the parties indicated they had reached an agreement in principle to resolve this proceeding. As a result, on April 15, 2020, a hearing cancellation notice was issued formally cancelling the hearings scheduled for April 20, 2020 and April 21, 2020.

[1] Due to the Covid-19 pandemic, official service of the Scheduling Order was delayed.

On April 17, 2020, a Joint Petition for Approval of Settlement of All Issues (settlement) was submitted by PAWC, the OCA and the Authority. On April 17, 2020, I&E submitted a letter indicating it did not oppose the settlement and on April 20, 2020 the OSBA submitted a letter indicating it did not oppose the settlement. The following attachments were included with the settlement: Appendix A (proposed ordering paragraphs), Appendix B (statement in support of PAWC), Appendix C (statement in support of the Authority) and Appendix D (statement in support of OCA).

Also on April 17, 2020, a Joint Stipulation for the Admission of Evidence (stipulation) agreed to by PAWC, the Authority, OCA, OSBA and I&E was filed. Through the stipulation, the parties agreed to the admission of the following documents into the record of this proceeding:

A. Pennsylvania-American Water Company Statements and Exhibits

1. PAWC Statement No. 1 – Direct Testimony of Daniel P. Bickerton, and PAWC Exhibit DPB-1 (this Exhibit is the Application, which was previously filed with the Secretary of the Pennsylvania Public Utility Commission);

2. PAWC Statement No. 2 – Direct Testimony of Michael J. Guntrum, P.E. and PAWC Exhibits MJG-1 through MJG-2;

3. PAWC Statement No. 3 – Direct Testimony of Rod P. Nevirauskas and PAWC Exhibit RPN-1; and

4. PAWC Statement No. 4 – Direct Testimony of Jerome C. Weinert, PE, ASA, CDP, and Appendix A.

B. Authority Statements and Exhibits

1. Authority Statement No. 1 – Direct Testimony of Donald E. Payne; and

2. Authority Statement No. 2 – Direct Testimony of Harold Walker III.

C. Office of Consumer Advocate Statements and Exhibits

1. OCA Statement No. 1 – Direct Testimony of Ralph C. Smith and Exhibits RCS-1 through RCS-7.

In addition, in light of the difficulties created by the Covid-19 pandemic in holding a public input hearing, the parties agreed to the admission of the customer comments filed in the public folder in the Secretary's Bureau for this case into the evidentiary record of this proceeding as Joint Exhibit 1. This exhibit consists of all the public comments submitted in response to the published notices of the application and individualized customer notices to the customers of PAWC and Kane. Both of these stipulations will be approved as part of this decision and the parties will be directed to file two copies of the stipulated documents to the Commission's Secretary's Bureau for inclusion in the official file of this case.

The record in this case closed on April 17, 2020 when the settlement was submitted. For the reasons discussed below, the settlement will be recommended for approval in its entirety without modification because it is in the public interest and supported by substantial evidence.

DISCUSSION

Settlement Terms

In the settlement, the parties agreed to resolve all outstanding issues. The relevant terms of the settlement are as follows, with the original paragraph numbering provided in the settlement:

> **A. Approval of Application**
>
> 21. The Application shall, subject to the other terms and conditions contained in the Settlement, be approved as being in the public interest and the Commission shall issue such Certificates of Public Convenience as may be necessary to evidence its approval pursuant to 66 Pa. C.S. § 1102(a) of (i) the transfer, by sale, of the Authority's assets, properties and rights related to its wastewater collection and treatment system to PAWC as provided in the Application, and (ii) PAWC's right to begin to offer, render, furnish and supply wastewater service in the areas served by the Authority as indicated in the Application.

B. Tariff

22. The *pro forma* tariff supplement attached to the Application as Appendix A-12, including all rates, rules and regulations regarding conditions of PAWC's wastewater service, shall be permitted to become effective immediately upon closing of the Transaction.

C. Fair Market Value for Ratemaking Rate Base Purposes

23. Pursuant to 66 Pa. C.S. § 1329, PAWC shall be permitted to use $17,560,000 for ratemaking rate base purposes for the acquired assets.

24. The Parties agree that the adjustments to the appraisals reflect a compromise of the various positions of the Parties. All Parties reserve the right to present adjustments and oppose adjustments to appraisals and methodologies, inputs and assumptions in appraisals in future cases and proceedings, whether or not raised in this proceeding. The Parties further agree, however, for the purposes of this proceeding, that the following adjustments are explicitly accepted by the Parties:

(a) Market Approach: If "comparable acquisitions" are used in determining market value, the proxy group will include all Section 1329 acquisitions for which the Commission has entered a final order.

(b) Cost Approach: If the reproduction cost methodology is used, valuation of the collection mains will not be treated differently or as a special circumstance unless reasonably justified.

D. Rates

25. Except as explicitly stated herein, nothing contained in the Settlement or in the Commission's approval of the Application shall preclude any Petitioner from asserting any position or raising any issue in a future PAWC base rate proceeding.

26. In the first base rate case that includes the Authority's wastewater system assets, PAWC will submit a cost of service study that removes all costs and revenues associated with the operation of the Authority's system.

27. In the first base rate case that includes the Authority's wastewater system assets, PAWC will also provide a separate cost of service study for the Authority's system.

28. In the first base rate case that includes the Authority's wastewater system assets, PAWC will propose to move the Authority's system to its cost of service or 1.46x the current Authority rate, whichever is lower, based on a separate cost of service study for the Authority's system; provided, however, that PAWC will not be obligated to propose Authority wastewater rates in excess of PAWC's proposed Rate Zone 1 system-average rates. The Parties acknowledge, however, that PAWC may agree to rates other than those proposed for Authority customers in the context of a settlement of the base rate case. OCA, I&E and OSBA reserve their rights to fully address this proposal, and to make other rate proposals in the base rate case.

29. The current average Authority rate is $51.87 per month based on 3,630 gallons of monthly usage.

E. Distribution System Improvement Charge

30. If PAWC proposes to modify its Long-Term Infrastructure Improvement Plan ("LTIIP") to include the Authority's wastewater system, PAWC will not reprioritize other existing capital improvements that the Company already committed to undertake in other service areas. Upon approval by the Commission of such modification to its LTIIP, PAWC shall be permitted to collect a Distribution System Improvement Charge ("DSIC") related to the Authority's wastewater system prior to the first base rate case in which the Authority's assets are incorporated into rate base.

F. Claims for Allowance for Funds Used During Construction and Deferred Depreciation

31. The Parties acknowledge that the Application includes a request that (i) PAWC be permitted to accrue Allowance for Funds Used During Construction ("AFUDC") for post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes, and (ii) PAWC be permitted to defer depreciation related to post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes. Any claims for AFUDC and deferred depreciation related to post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes will be addressed in PAWC's first base rate case which includes the Authority's wastewater system assets. The Parties reserve their rights to litigate their positions fully in future rate cases when these issues are ripe for review. The Parties' assent to this term should not be construed to operate as their preapproval of PAWC's requests.

G. Transaction and Closing Costs

32. The Parties acknowledge that the Application includes a request that PAWC be permitted to claim transaction and closing costs associated with the Transaction. The Parties agree that they will not contest this request in this proceeding, but they reserve their rights to litigate their positions fully in future rate cases when this issue is ripe for review. The Parties' assent to this term should not be construed to operate as their preapproval of PAWC's request.

33. The inclusion of outside legal fees, if any, in PAWC's transaction and closing costs under the Asset Purchase Agreement between PAWC and the Authority shall be separately identified in PAWC's next base rate case, and OCA, I&E and OSBA reserve the right to challenge the reasonableness, prudency, and basis for such fees.

H. Low Income Program Outreach

34. In the first full billing cycle commencing within 30 days after closing of the Transaction, PAWC shall include a bill insert or onsert to former Authority customers regarding PAWC's low income programs and shall also include such information in a welcome letter to the Authority's customers. The bill insert or onsert and welcome letter shall include, at a minimum, a description of the available low income programs, eligibility requirements for participation in the programs, and PAWC's contact information.

I. Report on Status of Missing Easements

35. One year after closing on the Transaction, PAWC shall file a report at this docket number regarding the status of any missing easements for the Authority's system. The report will include the dollar value of each easement obtained during the year after closing.

J. Approval of Section 507 Agreements

36. Pursuant to 66 Pa. C.S. § 507, the Commission shall issue Certificates of Filing or approvals for the following agreements between PAWC and a municipal corporation:[2]

(a) the Asset Purchase Agreement By and Among the Borough of Kane Authority, as Seller, together with the Borough of Kane and Wetmore Township, and Pennsylvania-American Water Company, as Buyer, dated as of November 4, 2019, and

[2] The OCA does not join in this paragraph but does not oppose PAWC's request.

(b) the Agreement by and between the Borough of Kane Authority, the Township of Wetmore and the Borough of Kane, dated July 8, 1992.

K. Other Necessary Approvals

37. The Commission shall issue any other approvals or certificates appropriate, customary, or necessary under the Pennsylvania Public Utility Code to carry out the transaction contemplated in the Application in a lawful manner.

Settlement at 5-10. The settlement is also conditioned on the standard settlement conditions found in most settlements submitted to the Commission. For example, if the Commission modifies the settlement, any petitioner may elect to withdraw from the settlement and proceed with litigation and, in such event, the settlement will be void and of no effect. Id. at 10. Furthermore, the settlement is made without any admission against or prejudice to any position which any petitioner may adopt in the event of any subsequent litigation of these proceedings or any other proceeding. Id. The parties also agreed to waive their rights to file Exceptions if the settlement is recommended for approval without modification. Id. at 11.

Legal Standard

Section 1102(a) of the Public Utility Code, 66 Pa. C.S. § 1102(a), permits a public utility to undertake certain actions only upon Commission approval evidenced by a certificate of public convenience. Among the activities that require Commission approval is the following:

> (3) For any public utility or an affiliated interest of a public utility . . . to acquire from, or to transfer to, any person or corporation . . . by any method or device whatsoever, including the sale or transfer of stock and including a consolidation, merger, sale or lease, the title to, or the possession or use of, any tangible or intangible property used or useful in the public service….

66 Pa. C.S. § 1102(a)(3). The acquisition proposed by the joint application falls under Section 1102(a)(3).

When a certificate of public convenience is required under Section 1102, pursuant to Section 1103(a) of the Public Utility Code, 66 Pa. C.S. § 1103(a), the Commission may issue the certificate only upon a finding or determination that the granting of such certificate is "necessary or proper for the service, accommodation, convenience, or safety of the public."

According to the Pennsylvania Supreme Court, satisfying this standard requires the Commission to find that a proposed transaction would "affirmatively promote the 'service, accommodation, convenience, or safety of the public' in some substantial way." City of York v. Pa. Pub. Util. Comm'n, 449 Pa. 136, 141, 295 A.2d 825, 828 (1972); *see also*, Popowsky v. Pa. Pub. Util. Comm'n, 594 Pa. 583, 611, 937 A.2d 1040, 1057 (2007) (when addressing the issue of affirmative public benefits "the appropriate legal framework requires a reviewing court to determine whether substantial evidence supports the Commission's finding that a merger will affirmatively promote the service, accommodation, convenience, or safety of the public in some substantial way"). In addition, Section 1103(a) allows the Commission to impose upon its issuance of a certificate of public convenience "such conditions as it may deem to be just and reasonable." 66 Pa. C.S. § 1103(a).

Additionally, pursuant to Section 1103 of the Code, PAWC must show that it is technically, legally, and financially fit to own and operate the assets it will acquire from the Authority. Seaboard Tank Lines v. Pa. Pub. Util. Comm'n, 502 A. 2d 762, 764 (Pa.Cmwlth. 1985); Warminster Twp. Mun. Auth. v. Pa. Pub. Util. Comm'n, 138 A.2d 240, 243 (Pa.Super. 1958). As a certificated public utility, there is a rebuttable presumption that PAWC possesses the requisite fitness. South Hills Movers, Inc. v. Pa. Pub. Util. Comm'n, 601 A.2d 1308, 1310 (Pa.Cmwlth. 1992); *see also*, 66 Pa. C.S. § 1329.

With regard to the recently enacted Section 1329 of the Public Utility Code, this section sets forth a procedure which permits a public utility to utilize fair market valuation for ratemaking purposes instead of the original cost of construction of the acquired facilities minus the accumulated depreciation. 66 Pa. C.S. § 1329. Section 1329 of the Public Utility Code addresses the valuation of the assets of municipally or authority-owned water and wastewater systems that are acquired by investor-owned water and wastewater utilities or entities. The acquiring utility is authorized to collect a distribution system improvement charge (DSIC).

Section 1329 also enables a public utility or other acquiring entity's post-acquisition improvement costs not recovered through a DSIC to be deferred for book and ratemaking purposes. In sum, Section 1329 helps mitigate the risk that a utility will not be able to fully recover its investment when water or wastewater assets are acquired from a municipality or authority.

If the parties agree to the Section 1329 process, an "acquiring public utility" and the seller of the municipal system each select a utility valuation expert (UVE) from a list of such experts established and maintained by the Commission. The selected UVEs perform independent appraisals of the system to establish its fair market value. Also, the acquiring public utility and the seller select one licensed engineer to conduct an assessment of the tangible assets of the seller which is incorporated into the valuations of the UVEs.

After receiving the valuations, the acquiring public utility must apply for a certificate of public convenience under Section 1102 of the Code and include the following as an attachment to the Section 1102 application: copies of the UVE appraisals; the agreed purchase price; the ratemaking rate base; the transaction and closing costs incurred by the acquiring public utility that will be included in its rate base; and a tariff containing a rate equal to the existing rates of the selling utility at the time of the acquisition and a rate stabilization plan, if applicable. 66 Pa.C.S. § 1329(d)(1). For applications involving an acquiring public entity under Section 1329(d)(1), the Commission has a six-month deadline for issuing a determination.

Of note, the Commonwealth Court recently addressed Section 1329 in McCloskey v. Pa. Pub. Util. Comm'n, 195 A.3d 1055 (Pa. Cmwlth. 2018), *alloc. denied*, 207 A.3d 290 (Pa. 2019) wherein the Court vacated and remanded a decision of the Commission granting an application for approval of a jurisdictional water company to acquire the wastewater system assets of New Garden Township and the New Garden Sewer Authority. The Court vacated the Commission's decision and directed the Commission to provide notice to all ratepayers pursuant to Section 53.45 of the Commission's regulations pertaining to notice of new tariffs and tariff changes. 52 Pa. Code § 53.45. The Court directed the Commission to receive additional evidence from ratepayers regarding the acquisition and then enter a new order. The Commission has not yet acted in response to the Court's directives.

In its application filed in this case, PAWC also seeks approval of an asset purchase agreement (APA) and other connected agreements pursuant to Section 507 of the Public Utility Code, 66 Pa. C.S. § 507. Section 507 requires that contracts between a public utility and a municipal corporation (except for contracts to furnish service at regular tariff rates) be filed with the Commission at least 30 days before the effective date of the contract. The Commission approves the contract by issuing a certificate of filing, unless it decides to institute proceedings to determine whether there are any issues with the reasonableness, legality, or any other matter affecting the validity of the contract. Should the Commission initiate proceedings, the contract or agreement is not effective until the Commission grants its approval. Section 507 is a filing requirement and does not require service of the filing on any potentially interested parties.

Finally, with regard to the legal standard applied in this case, the parties submitted a settlement of all issues. Commission policy promotes settlements. 52 Pa. Code § 5.231. Settlements lessen the time and expense the parties must expend litigating a case and at the same time conserve administrative resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. 52 Pa. Code § 69.401. The focus of inquiry for determining whether a proposed settlement should be recommended for approval is not a "burden of proof" standard, as is utilized for contested matters. Pa. Pub. Util. Comm'n v. City of Lancaster – Bureau of Water, Docket No. R-2010-2179103 (Opinion and Order entered July 14, 2011) (Lancaster). Instead, the benchmark for determining the acceptability of a settlement or partial settlement is whether the proposed terms and conditions are in the public interest. Id., *citing*, Warner v. GTE North, Inc., Docket No. C-00902815 (Opinion and Order entered April 1, 1996) (Warner); Pa. Pub. Util. Comm'n v. CS Water and Sewer Associates, 74 Pa. PUC 767 (1991). In addition, the Commission has held that parties to settled cases are afforded flexibility in reaching amicable resolutions, so long as the settlement is in the public interest. Pa. Pub. Util. Comm'n v. MXenergy Electric Inc., Docket No. M-2012-2201861 (Opinion and Order entered Dec. 5, 2013).

It is against this legal backdrop that the settlement will be viewed.

Public Interest Analysis

As noted above, the benchmark for determining whether a settlement should be approved is whether the proposed terms and conditions are in the public interest. *See*, Lancaster, Warner, *supra*. In the settlement, the parties did not state why the settlement is in the public interest. As discussed further below, however, PAWC, the Authority and OCA submitted statements in support of the settlement, articulating their individual arguments and reasons why approving the settlement without modification is appropriate and in the public interest.

PAWC

In its statement in support of the settlement, PAWC notes that, as an initial matter, the fact that the settlement resolves all of the issues in this proceeding is, in and of itself, strong evidence that the settlement is reasonable and in the public interest, particularly given the diverse interests of the parties and the active roles that each has taken in this proceeding. PAWC added that the parties and their experts have considerable experience in these acquisition proceedings and that the settlement reflects a carefully balanced compromise of the interests of the parties and satisfies the requirements of the Public Utility Code. PAWC then presented specific reasons why the settlement is in the public interest.

First, PAWC noted that, pursuant to Section 1103 of the Public Utility Code, it is technically, financially and legally fit to own and operate the system it is acquiring. PAWC also noted that the transaction will affirmatively promote the service, accommodation, convenience or safety of the public in some substantial way and that the transaction with the conditions described in the settlement benefits all of the stakeholder groups impacted by the transaction, including the public at-large, the borough and township, the existing customers of the authority and PAWC's existing customers.

In particular, PAWC stated that the authority will receive the purchase price of $17,560,000 which will be used to stabilize the real estate tax base, defease all sewer debt, fully fund pension plans and fund storm sewer improvements, among other things. The township will be able to focus on the core functions of local government and PAWC will offer employment to

each of the current wastewater treatment plant operator employees. PAWC also noted several specific ways that the settlement will benefit the Authority's existing customers, including $11.2 million investment in capital improvements in the system, gaining protections of the Public Utility Code, the Commission and the public advocates, and enhanced customer service, including low income customer assistance programs. PAWC also noted that its own wastewater and water customers will benefit, in part by adding more than 2,000 customers to PAWC's customer base to spread the cost of investing in and maintaining the system over a larger base, among other things.

PAWC also noted the benefits of its agreement in the settlement to submit two cost of service studies in the first base rate case that includes the authority's assets that will be used to establish a revenue requirement for the system.

Second, with regard to approvals required under Section 1329, PAWC noted that the settlement is in the public interest because the parties compromised on certain adjustments to the evaluators' appraisal methodologies, noting that the agreed upon value of $17,560,000 is supported by substantial evidence of record. PAWC added that the settlement should be approved because it furthers the legislative intent behind the enactment of Section 1329. With regard to rates, PAWC noted that it committed to adopting the Authority's current customer charge and consumption charge in effect on the date of closing. With regard to the DSIC, PAWC noted that the settlement is in the public interest because it will not begin charging a DSIC until the eligible system plant is approved by the Commission in a modified wastewater long-term infrastructure improvement plan. Next, PAWC noted that the settlement is in the public interest because it may include a claim for allowance for funds used during construction (AFUDC) relating to the acquisition in its first base rate case that includes the Authority's wastewater system assets. With regard to deferred depreciation and transaction and closing costs, PAWC noted that the settlement makes clear that the parties do not oppose its request to defer depreciation on post-acquisition improvements that are not included in DSIC and they reserve their right to litigate their positions fully in future rate cases on both of these issues. PAWC noted that the settlement is in the public interest because of the provision that requires the Authority to retain $1,000,000 of the purchase price in an escrow account for one-year post-closing to secure missing easements.

Finally, PAWC noted in its statement in support that the settlement is in the public interest because the parties agree that the Commission should approve an amendment to the application wherein PAWC requests the Commission approve the agreement between the Authority, the Township of Wetmore and the borough dated July 8, 1992 which PAWC will assume at closing that provides for the financing and construction of a wastewater collection system in the township.

Borough of Kane Authority

In its statement in support of the settlement, the Authority stated that the settlement is in the public interest because it is the result of an examination of the proposed transaction and compromise by the active parties. The Authority noted that the parties engaged in informal and formal discovery and that the settlement balances the interests of all parties involved. The Authority then noted PAWC's agreement to submit a cost of service study that removes all costs and revenues associated with the operation of the system and a separate study for the Kane system. The Authority also noted the various actions it took to mitigate concerns raised by the OCA regarding rate shock, the cost of service studies, AFUDC, the long-term infrastructure improvement plan (LTIIP) and reporting on missing easements. The Authority noted the interest of the local governments of the Authority in selling the system and PAWC's interest in purchasing the system. Doing so, the Authority contends, is in the best interest of their constituents. The Authority then identified specific reasons why it believes the settlement is in the public interest, including further regionalization of the wastewater operations in Pennsylvania, greater access to technical resources for operation of the system, greater access to capital for necessary system investments, access to PAWC's customer assistance programs and maintenance of the existing local workforce and operational expertise, among other things. The Authority also noted that the settlement is in the public interest because it reduces the costs of further litigation while conserving limited administrative resources.

OCA

The OCA noted in its statement in support that the settlement is in the public interest because it addresses the matters raised in the pre-served testimony of its witness. In

particular, the OCA noted that its recommended adjustments to the appraisals resulted in an average appraisal amount that is higher than the $17,560,000 purchase price and that the OCA agreed that the ratemaking rate base should be $17,560,000. The OCA added that the settlement adopts the OCA's recommendation that a cost of service study that removes all costs and revenues associated with the operations of Kane's water system, as well as a separate cost of service study for the Kane system, be provided in PAWC's first base rate case which includes the Authority's assets in rate base. The OCA noted that these settlement terms will provide a means to set rates for the Authority's customers that differ, if appropriate, from rates established for other wastewater customers which will help mitigate the potential level of subsidy by PAWC's other customers and applies the principle of gradualism.

Additionally, with regard to the DSIC, the OCA noted that the parties agreed that PAWC may apply the DSIC to customers in the Authority's service area prior to the first base rate case if certain conditions are met. The OCA noted PAWC's commitment that it will not reprioritize other existing capital improvements that it already committed to undertake in other service areas which addresses a concern raised by the OCA. Next, the OCA noted that the settlement is in the public interest because the parties agreed to accept two adjustments that the OCA proposed that reflect accepted financial and ratemaking principles and help improve the reliability of data used in appraisals and the integrity of the result. The OCA also noted the settlement provisions regarding the low-income customer assistance plans as a reason the settlement is in the public interest. The OCA also recognized the provisions of the settlement regarding AFUDC, deferral of depreciation, transaction costs and legal fees as being in the public interest in support of adopting the settlement. The OCA noted that the parties reserve their rights to litigate future claims for AFUDC and deferral of depreciation on post-acquisition projects pursuant to Section 1329(f) and transaction costs in future rate cases. Lastly, the OCA noted the provision of the settlement that provides $1,000,000 to be retained for one year following the closing date for purposes of missing easements, noting that this provision and related reporting will ensure that the proceeds from the transaction are being allocated in furtherance of the public interest.

OSBA and I&E

As noted in the settlement, OSBA and I&E do not join this Settlement, but also do not oppose it.

Disposition

The joint petition for settlement will be recommended for approval in its entirety without modification because it is in the public interest and supported by substantial evidence. The settlement complies with the relevant sections of the Public Utility Code regarding acquisitions of water and wastewater assets, properties and rights and is consistent with Commission regulations promoting settlements. As the Commission has addressed more applications made pursuant to Section 1329 of the Public Utility Code, the settlement of the cases has fallen into a familiar pattern. The settlement in this proceeding resembles other settlements which have been submitted in other proceedings involving Section 1329 which have also been found to be in the public interest and, therefore, approved by the Commission.

As a preliminary matter, the settlement is in the public interest because of the negotiated price of $17,560,000 that was fully analyzed and vetted by the parties and determined to be reasonable, the core issue in these proceedings.

Furthermore, the settlement is in the public interest because PAWC has agreed to provide two cost of service studies in its first base rate case in which it includes the Authority's assets in rate base. One cost of service study removes all costs and revenues associated with the operations of Kane's wastewater system and a separate cost of service study for the Kane system. As the OCA noted, these studies will provide information to establish rates that reflect costs for the Kane system and are, therefore, in the public interest. These studies will help ensure that all customers are being charged just and reasonable rates. The agreement in the settlement to include two cost of service studies formed the basis of the joint stipulations entered into between both PAWC and OSBA as well as PAWC and I&E. In those stipulations, those parties agreed to the two cost of service studies included in the settlement in exchange for neither the OSBA nor

I&E filing direct testimony in this proceeding. The settlement is in the public interest because it incorporates those joint stipulations.

In addition, as with past settlements of cases involving Section 1329, this settlement contains agreements regarding PAWC's DSIC. This provision of the settlement is in the public interest because it ensures that PAWC will not reprioritize other existing capital improvements that it already committed to undertake in other service areas. As with other settlements, this settlement also contains provisions regarding AFUDC, deferral of depreciation, transaction costs and legal fees where the settlement provides that the parties reserve their rights to litigate future claims in PAWC's next base rate case. These provisions are also similar to the treatment of these issues in other settlements of cases involving Section 1329. Additionally, the settlement is similar to settlements of other Section 1329 cases in that it also includes the approval of the agreement between PAWC, the Authority, the borough and Township of Wetmore for the financing and construction of a wastewater collection system in the township which connects to the Authority's system and transports sewage to the Authority's system for treatment and disposal. PAWC sought Commission approval of this agreement pursuant to Section 507 of the Public Utility Code and the settlement allows for approval of the amended application which sought approval of that agreement. Doing so is in the public interest.

Two additional issues that are present in this settlement that warrant approving the settlement as being in the public interest relate to provisions regarding PAWC's low-income customer assistance programs and the allocation of $1,000,000 for the purpose of missing easements to the extent there are any. With regard to the low-income customer assistance programs, the settlement is in the public interest because Kane's customers will be provided with timely information that may be helpful to them achieving utility service. With regard to the issue of missing easements, this provision is also in the public interest because it includes a reporting requirement that will help ensure that the proceeds from the transaction are being allocated in furtherance of the public interest.

The settlement is also in the public interest because there are public interest benefits in Kane borough and township removing itself from the business of providing utility service and, instead, monetizing assets that they believe it could use for better purposes. To the

extent that Kane borough and township believe that entering into this transaction is in the best interest of the township residents, then so too is approving this settlement in the public interest.

In addition to all of these individual factors that support approving the settlement as being in the public interest, the settlement is also in the public interest because of general benefits of agreeing to a settlement. The settlement will save the parties from expending substantial time and expense involved with further litigation. Although the parties exchanged discovery and some pre-served testimony, additional costs could have included additional rounds of pre-served testimony, lengthy hearings, briefs, exceptions and possible appeals. Avoiding such expenditures minimizes the costs that might ultimately be passed on to the ratepayers, and also conserves the resources of all other parties involved in these proceedings and Commission resources as well.

The settlement should be approved as being in the public interest because the parties have engaged in extensive discovery and other litigation-related efforts in order to properly investigate and resolve the issues presented. These efforts demonstrate that the initial filings and the responses to the filings have been thoroughly vetted and considered by all concerned parties. The settlement is also the result of extensive and fruitful negotiations between all the parties and represents what each party believes to be a fair and reasonable compromise. This is of particular note as the parties in this matter have diverse and competing interests but were able to reach a settlement on all issues. These efforts also demonstrate that the parties are satisfied that there are no unresolved evidentiary issues at this point in the proceeding.

The settlement is supported by substantial evidence. On appeal, decisions of the Commission will be examined to determine if they are supported by substantial evidence. 2 Pa.C.S. § 704. The parties submitted a Joint Stipulation for the Admission of Evidence when the settlement was submitted on April 17, 2020. In that stipulation, the parties agreed to the admission of 7 pieces of pre-served written testimony filed by PAWC, the Authority and the OCA along with their accompanying exhibits, all of which were accompanied by the necessary witness verifications. The inclusion of that pre-served testimony supports adopting the settlement.

In addition, the parties also agreed to the authenticity of, and admission into the evidentiary record in this matter of, Joint Exhibit 1, which consists of all the public comments submitted in response to the published notices of the Application and individualized customer notices to customers of PAWC (both water and wastewater) and Kane. The parties explained that the original intent to hold a public input hearing on this matter became infeasible due to the outbreak of the Covid-19 pandemic. As a result, and in consideration of these extraordinary circumstances, the parties stipulated that, in lieu of a telephonic public input hearing, the customer comments filed in the public folder for this case would be admitted into the evidentiary record. Joint Exhibit 1 will be admitted into the record of this proceeding and further supports the adoption of the settlement as being in the public interest and supported by substantial evidence. The parties are commended for working toward this resolution and are directed to submit two copies of Joint Exhibit 1 for inclusion in the Secretary's Bureau's official files.

Finally, as with other settlements of cases involving Section 1329 of the Public Utility Code, the settlement is in the public interest and should be approved without modification because it satisfies the various goals of the General Assembly in enacting Section 1329. As the Commission noted in the Tentative Implementation Order entered July 21, 2016 at Docket Number M-2016-2543193, there are a number of water and wastewater systems owned by municipal corporations or authorities throughout the Commonwealth where sale to an investor-owned public utility can facilitate necessary infrastructure improvements and ensure the continued provision of safe, reliable service to customers at reasonable rates. As the Commission further noted in the subsequent Tentative Supplemental Implementation Order entered September 20, 2018 at the same docket:

> The development of water and wastewater service throughout the Commonwealth over the years has led to the creation of large numbers of geographically dispersed water and wastewater systems owned by municipal corporations or authorities. For these systems, sale to a larger, well-capitalized and well-run regulated public utility or entity can be prudent because it can facilitate necessary infrastructure improvements and access to capital markets, and, ultimately, it can ensure the long-term provision of safe reliable service to customers at reasonable rates.

Id. at 4.

Prior to the enactment of Section 1329, the valuation of utility property discouraged such acquisitions because the value of the property was defined as the original cost of construction less accumulated depreciation rather than the acquisition cost. As a result, systems that are greatly depreciated or constructed using grants or contributions in aid of construction could have valuations so low that sales of the systems would be less advantageous or could cause financial hardships to the municipal corporations and authorities. Section 1329 mitigates the risk that a utility will not be able to fully recover its investment when water and wastewater assets are acquired from a municipality or authority. The settlement filed in this docket is consistent with that goal by helping to ensure the provision of safe and reliable utility service and just and reasonable rates.

As a result, the settlement will be recommended for approval without modification because it is in the public interest, consistent with the Public Utility Code and supported by substantial evidence. Again, the parties are commended for obtaining a complete resolution of these issues in this case. Settlements can be difficult under normal circumstances. Achieving the settlement during the Covid-19 pandemic was likely even more difficult.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the subject matter of, and the parties to, this application proceeding. 66 Pa. C.S. §§ 1102, 1103, 1329.

2. A certificate of public convenience is required for any public utility to begin to offer, render, furnish or supply within this Commonwealth service of a different nature or to a different territory than that authorized. 66 Pa. C.S. § 1102(a)(1).

3. A certificate of public convenience is required for "any public utility . . . to acquire from . . . any person or corporation, including a municipal corporation, by any method or device whatsoever . . . the title to, or possession or use of, any tangible or intangible property used or useful in the public service." 66 Pa. C.S. § 1102(a)(3).

4. An applicant for a certificate of public convenience must demonstrate that it is technically, financially, and legally fit to own and operate the acquired public utility assets. Seaboard Tank Lines v. Pa. Pub. Util. Comm'n, 502 A.2d 762, 764 (Pa. Cmwlth. 1985); Warminster Township Mun. Auth. v. Pa. Pub. Util. Comm'n, 138 A.2d 240, 243 (Pa. Super. 1958).

5. The fitness of a currently certificated public utility is presumed. *See e.g.,* South Hills Movers, Inc. v. Pa. Pub. Util. Comm'n, 601 A.2d 1308, 1310 (Pa. Cmwlth. 1992).

6. The Commission may issue a certificate of public convenience upon a finding that the granting of such certificate is necessary or proper for the service, accommodation, convenience, or safety of the public. 66 Pa. C.S. § 1103(a).

7. An applicant for a certificate of public convenience must demonstrate that the transaction will affirmatively promote the service, accommodation, convenience or safety of the public in some substantial way. City of York v. Pa. Pub. Util. Comm'n, 449 Pa. 136, 151, 295 A.2d 825, 828 (1972).

8. In granting a certificate of public convenience, the Commission may impose such conditions as it may deem to be just and reasonable. 66 Pa. C.S. § 1103(a).

9. Section 1329 of the Public Utility Code sets forth a procedure which permits a public utility to utilize fair market valuation for ratemaking purposes instead of the original cost of construction of the acquired facilities minus the accumulated depreciation. 66 Pa.C.S. § 1329.

10. A contract between a municipality and a public utility (other than a contract to furnish service at regular tariff rates) must be filed with the Commission at least 30 days before the effective date of the contract. The Commission may approve it by issuing a certificate of filing or institute proceedings to determine whether there are any issues with the reasonableness, legality, or any other matter affecting the validity of the contract. 66 Pa. C.S. § 507.

11. Commission policy promotes settlement. *See* 52 Pa. Code § 5.231.

12. A settlement lessens the time and expense that the parties must expend litigating a case and, at the same time, conserves precious administrative resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. *See* 52 Pa. Code § 69.401.

13. In order to accept a settlement, the Commission must determine that the proposed terms and conditions are in the public interest. Pa. Pub. Util. Comm'n v. York Water Co., Docket No. R-00049165 (Order entered Oct. 4, 2004); Pa. Pub. Util. Comm'n v. C.S. Water and Sewer Assocs., 74 Pa. PUC 767 (1991).

14. The settlement and its proposed terms and conditions are in the public interest and, therefore, should be approved without modification.

ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Joint Petition for Approval of Settlement of All Issues, submitted by Pennsylvania-American Water Company, the Office of Consumer Advocate, and the Borough of Kane Authority on April 17, 2020, including all terms and conditions thereof, is approved without modification.

2. That Joint Stipulation for the Admission of Evidence agreed to by all the parties and submitted on April 17, 2020 is hereby approved and the parties are directed to provide two copies of the pre-served testimony identified in the stipulation to the Commission's Secretary's Bureau for inclusion in the official file of this proceeding.

3. That Joint Exhibit 1, which consists of all the public comments submitted in response to the published notices of the Application and individualized customer notices to customers of PAWC (both water and wastewater) and Kane and dated April 17, 2020, is hereby approved and the parties are directed to provide two copies of the exhibit to the Commission's Secretary's Bureau for inclusion in the official file of this proceeding.

4. That the Application filed by PAWC on December 2, 2019, and amended on December 6, 2019, is approved.

5. That the Commission's Secretary's Bureau shall issue Certificates of Public Convenience under 66 Pa. C.S. §§ 1102(a) and 1103(a) evidencing Commission approval of: (i) the transfer, by sale, of the Authority's assets, properties and rights related to its wastewater collection and treatment system to PAWC as provided in the Application, and (ii) PAWC's right to begin to offer, render, furnish and supply wastewater collection and treatment service in the areas served by the Authority as indicated in the Application.

6. That PAWC, upon closing of the Transaction, shall issue a compliance tariff supplement, consistent with the *pro forma* tariff supplement attached to the Application as **Appendix A-12**, to be effective upon closing of the Transaction.

7. That, pursuant to 66 Pa. C.S. § 1329(c), the Commission approves a rate base addition of $17,560,000 associated with the acquisition of the System.

8. That, although the parties may present adjustments and oppose adjustments to appraisals in future cases, for purposes of this proceeding, the Commission accepts the following adjustments:

(1) Market Approach: If "comparable acquisitions" are used in determining market value, the proxy group will include all Section 1329 acquisitions for which the Commission has entered a final order.

(2) Cost Approach: If the reproduction cost methodology is used, valuation of the collection mains will not be treated differently or as a special circumstance unless reasonably justified.

9. That, at the time of filing the first base rate case that includes the Authority's wastewater system assets, PAWC shall submit a cost of service study that removes all costs and revenues associated with the operation of the Authority's system.

10. That, at the time of filing its next base rate case, PAWC shall also provide a separate cost of service study for the Authority's system.

11. That PAWC shall, in the first base rate case that includes the Authority's wastewater system assets, propose to move the Authority's system to its cost of service or 1.46x the current Authority rate, whichever is lower, based on a separate cost of service study for the Authority's system; provided, however, that PAWC will not be obligated to propose Kane wastewater rates in excess of PAWC's proposed Rate Zone 1 system-average rates. The Commission recognizes that the Office of Consumer Advocate, Bureau of Investigation & Enforcement and Office of Small Business Advocate reserve their rights to fully address this proposal and to make other rate proposals in the base rate case.

12. That PAWC may propose to modify its Long Term Infrastructure Improvement Plan to include the Authority's wastewater system, subject to the condition that PAWC will not reprioritize other existing capital improvements that the Company already committed to undertake in other service areas. Upon approval by the Commission of such modification to its Long Term Infrastructure Improvement Plan, PAWC shall be permitted to collect a Distribution System Improvement Charge related to the Authority's wastewater system prior to the first base rate case in which the Authority's assets are incorporated into rate base.

13. That PAWC may accrue Allowance for Funds Used During Construction for post-acquisition improvements not recovered through the Distribution System Improvement Charge for book and ratemaking purposes. The Commission recognizes that the Parties reserve their rights to litigate their positions fully in future rate cases when this issue is ripe for review and does not construe the Parties' assent to this term to operate as their preapproval of PAWC's request.

14. That PAWC may defer depreciation related to post-acquisition improvements not recovered through the Distribution System Improvement Charge for book and ratemaking purposes. The Commission recognizes that the Parties reserve their rights to litigate their positions fully in future rate cases when this issue is ripe for review and does not construe the Parties' assent to this term to operate as their preapproval of PAWC's request.

15. That PAWC may include, in its next base rate case, a claim for transaction and closing costs related to the acquisition of the Authority's system. Outside legal fees, if any, shall be separately identified in PAWC's next base rate case. The Commission recognizes that the Parties reserve their rights to litigate their positions fully in future rate cases when this issue is ripe for review and does not construe the Parties' assent to this term to operate as their preapproval of PAWC's request.

16. That, in the first full billing cycle commencing within 30 days after closing of the Transaction, PAWC shall include a bill insert or onsert to former Authority customers regarding PAWC's low income programs and shall also include such information in a welcome letter to Authority customers. The bill insert or onsert and welcome letter shall include, at a minimum, a description of the available low income programs, the eligibility requirements for participation in the programs, and PAWC's contact information.

17. That, one year after closing on the transaction, PAWC shall file a report at this docket number regarding the status of any missing easements for the Authority's system. The report will include the dollar value of each easement obtained during the year after closing.

18. That the Secretary's Bureau issue Certificates of Filing or approvals for the following agreements between PAWC and a municipal corporation:

(1) the Asset Purchase Agreement By and Among the Borough of Kane Authority, as Seller, together with the Borough of Kane and Wetmore Township, and Pennsylvania-American Water Company, as Buyer, dated as of November 4, 2019, and

(2) the Agreement by and between the Borough of Kane Authority, the Township of Wetmore and the Borough of Kane, dated July 8, 1992.

19. That any other approvals or certificates appropriate, customary or necessary under the Code to carry out the Transaction contemplated in the Application in a lawful manner are hereby granted.

20. That the Commission's proceeding at Docket No. A-2019-3014248 is terminated and marked closed.

Date: May 7, 2020

/s/
Joel H. Cheskis
Deputy Chief Administrative Law Judge

PAWC EXHIBIT NO. 5

Town	Median Household Income	Persons per Household	100 gal per day*household size * 30 days	Water Bill
Kane	$ 52,093.00	2.3	6,900	$ 148.33
Kane	**$ 52,093.00**	**2.3**	**3,201**	**$ 78.89**
Bradford	$ 56,330.00	2.3	6,900	$ 54.50
Clarendon	$ 61,789.00	2.6	7,800	$ 141.03
Fox Township	$ 78,393.00	2.4	7,200	$ 52.20
Mount Jewett	$ 52,969.00	2.1	6,300	$ 117.85
Marienville	$ 50,675.00	2	6,000	$ 113.22
Pinegrove	$ 61,187.00	2.3	6,900	$ 134.25
Port Allegheny	$ 57,837.00	2.9	8,700	$ 92.15
Ridgway	$ 52,059.00	2.3	6,900	$ 65.62
Sheffield	$ 52,050.00	2.6	7,800	$ 63.32
Tidioute	$ 41,167.00	2.2	6,600	$ 70.00
Tionesta	$ 56,250.00	1.8	5,400	$ 55.06
Wilcox	$ 52,679.00	2.6	7,800	$ 91.33
Pennsylvania	$ 73,824.00	2.4	7,200	
National Averages	$ 77,719.00	2.5	7,500	

Example

Current Rates at Bill Discount Tiers

Assumptions: Household Size of 2; Avg Monthly Usage 3,201 gallons

	Tier 1 ($0 - $10,572)	**Tier 2 ($10,584-$21,144)**	**Tier 3 ($21,168-0$31,728)**	**Tier 4 ($31,740-0$42,300)**
Water				
Wastewater				
Total				

Wastewater	Average Bill for Water + Wastewater	Affordability Threshold per Herbstritt @ 4.5%
$ 200.21	$ 348.53	$ 195.35
$ 103.60	**$ 182.49**	**$ 195.35**
$ 82.50	$ 137.00	$ 211.24
$ 50.00	$ 191.03	$ 231.71
$ 61.00	$ 113.20	$ 293.97
$ 44.00	$ 161.85	$ 198.63
$ 56.00	$ 169.22	$ 190.03
$ 59.00	$ 193.25	$ 229.45
$ 71.08	$ 163.23	$ 216.89
$ 52.76	$ 118.38	$ 195.22
$ 78.70	$ 142.03	$ 195.19
$ 44.80	$ 114.80	$ 154.38
$ 33.32	$ 88.38	$ 210.94
$ 60.00	$ 151.33	$ 197.55
	0	$ 276.84
	0	$ 291.45

Account [redacted]

Average Consumption (100 gallons) 31

	Rates Effective		
Water	**1/28/2023**	**8/7/2024**	
Service Charge	$17.50	$18.80	
Usage	50.21	58.51	
DSIC	1.56	-	
Total	$69.27	$77.31	11.6%

	Rates Effective		
Wastewater	**1/28/2023**	**8/7/2024**	
Service Charge	$40.00	$20.00	
Usage	65.46	81.41	
DSIC	1.14	0	
Total	$106.60	$101.41	-4.9%

Total	$175.86	$178.72	1.6%

Scheduled Meter Read Date	Actual Meter R	Consumption	100 Gallons	Meter Reading
5/2/2023	5/2/2023	2100 Gallons	21	2640.0 DCG
6/6/2023	6/6/2023	2700 Gallons	27	2667.0 DCG
7/3/2023	7/5/2023	2300 Gallons	23	2690.0 DCG
8/1/2023	8/1/2023	1300 Gallons	13	2703.0 DCG
9/5/2023	9/5/2023	2100 Gallons	21	2724.0 DCG
10/3/2023	10/3/2023	1800 Gallons	18	2742.0 DCG
11/7/2023	11/7/2023	3100 Gallons	31	2773.0 DCG
12/5/2023	12/5/2023	1800 Gallons	18	2791.0 DCG
1/3/2024	1/2/2024	1300 Gallons	13	2804.0 DCG
2/6/2024	2/6/2024	2900 Gallons	29	2833.0 DCG
3/6/2024	3/5/2024	2200 Gallons	22	2855.0 DCG
4/3/2024	4/2/2024	2400 Gallons	24	2879.0 DCG
5/2/2024	5/2/2024	2500 Gallons	25	2904.0 DCG
6/5/2024	6/4/2024	2800 Gallons	28	2932.0 DCG
7/2/2024	7/2/2024	3100 Gallons	31	2963.0 DCG
8/1/2024	8/1/2024	2800 Gallons	28	2991.0 DCG
9/4/2024	9/4/2024	2600 Gallons	26	3017.0 DCG
10/3/2024	10/2/2024	3100 Gallons	31	3048.0 DCG
10/30/2024	10/31/2024	3200 Gallons	32	3080.0 DCG
12/4/2024	12/3/2024	3800 Gallons	38	3118.0 DCG
1/7/2025	1/7/2025	4300 Gallons	43	3161.0 DCG
2/4/2025	2/4/2025	3000 Gallons	30	3191.0 DCG
3/4/2025	3/4/2025	3600 Gallons	36	3227.0 DCG
4/1/2025	4/1/2025	2600 Gallons	26	3253.0 DCG

Average 12 Months- May 2024 to April 2025 31

Meter Reading Reason	Meter Read Type	Meter Alarm	Skip Code / Problem Code
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A
Periodic Meter Reading	Actual	N/A	N/A

Current PAWC H2O Help to Others Program

Water Discounts	**Tier 1 0%-50% FPL**	**Tier 2 51%-100% FPL**	**Tier 3 101%-150% FPL**	**Tier 4 151%-200% FPL**
Service Charge	90%	75%	60%	30%
Usage Charge	80%	65%	40%	20%

Wastewater Discounts	**Tier 1 0%-50% FPL**	**Tier 2 51%-100% FPL**	**Tier 3 101%-150% FPL**	**Tier 4 151%-200% FPL**
Total Bill	85%	73%	55%	37%

Example

Current Rates at Bill Discount Tiers

Assumptions: Household Size of 2; Avg Monthly Usage 3,201 gallons

	Tier 1 ($0 - $10,572)	**Tier 2 ($10,584-$21,144)**	**Tier 3 ($21,168-0$31,728)**	**Tier 4 ($31,740-0$42,300)**
Water Service Charge	$1.88	$4.70	$7.52	$13.16
Water Usage Charge	$12.02	$21.03	$36.05	$48.07
Wastewater Total Bill	$15.54	$27.97	$46.62	$65.27
Total	$29.44	$53.70	$90.19	$126.50

Rates effective 8/7/24	Monthly
Water Service Charge	$18.80
Water Usage Charge	$1.8772
WW Service Charge	$20.00
WW Usage Charge	$2.6117