

**YORK WATER STATEMENT NO. 103**

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**THE YORK WATER COMPANY**

**DIRECT TESTIMONY OF MATTHEW E. POFF**

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9  
10 Q. State your name and business address.

11 A. Matthew E. Poff. My business address is: 130 East Market Street, York, Pennsylvania.  
12

13 Q. By whom are you employed?

14 A. I am employed by The York Water Company (“York Water” or the “Company”).  
15

16 Q. State your present position with the Company and explain your duties and  
17 responsibilities.

18 A. I am Chief Financial Officer and Treasurer for the Company. My duties and  
19 responsibilities include managing the day to day financial transactions of the Company.  
20

21 Q. How long have you been employed by the Company?

22 A. I have been employed by the Company since June 15, 2009.  
23

24 Q. What is your educational background?  
25

1 A. I have a Bachelor's Degree from the Pennsylvania State University, University Park,  
2 Pennsylvania and a Master's Degree in Business Administration from York College of  
3 Pennsylvania, York, Pennsylvania.

4  
5 Q. Are you a certified public accountant?

6 A. Yes, I am a certified public accountant licensed by the Commonwealth of Pennsylvania.

7  
8 Q. What has been your other business experience?

9 A. From September 2006 through June 2009, I was employed by I. B. Abel, Inc. in York,  
10 Pennsylvania as the Chief Financial Officer. In this capacity, I managed the day-to-day  
11 accounting and financial transactions of the Company.

12  
13 From July 1995 through September 2006, I was employed by Beard Miller Company  
14 LLP (now Baker Tilly US, LLP) as a certified public accountant. In this capacity, I  
15 oversaw the audits and reviews and preparation of financial statements and tax returns for  
16 various business entities, both private and public companies of various sizes.

17  
18 Q. Have you previously testified before a regulatory commission?

19 A. Yes, I have presented testimony to the Pennsylvania Public Utility Commission  
20 ("Commission") in the Company's last three rate cases.

21  
22 Q. Will you list the exhibits you are sponsoring in this proceeding?

23 A. I am sponsoring the following exhibits prepared by me or under my direction and  
24 supervision:

25

1 Exhibit Nos. F (b)-2, F (c)-5, F (c)-6, FI-1, FI-2, FI-3, FI-4, and FI-5 relating to the  
2 statement of operations for the water division;

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4 Exhibit Nos. F (a)-2, F (a)-3, F (a)-4, F (a)-5, F (b)-3, F (b)-4, F (b)-5, F (b)-6, FII-1, FII-  
5 2, FII-2-1, FII-2-2, FII-2-3, FII-2-4, FII-2-5, FII-2-6, FII-2-7, FII-2-8, FII-2-9, FII-2-10,  
6 FII-2-11, FII-2-12, FII-2-13, FII-2-14, FII-2-15, FII-2-16, FII-2-17, FII-2-18, FII-2-20,  
7 FII-2-21, FII-2-22, FII-2-23, FII-2-24, FII-2-25, FII-2-26, FII-2-27, FII-2-28, FII-2-29,  
8 FII-2-30, FII-2-31, FII-2-32, FII-2-34, FII-2-35, FII-2-36, FII-2-37, FII-2-38, FII-2-39,  
9 FII-2-40, FII-2-41, FII-2-42, FII-2-43, FII-3, FII-4, FII-5, FII-6, FII-7, FII-8, FII-9, FII-  
10 10, FII-11, FII-12, and FII-13 relating to operating revenues for the water division;

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12 Exhibit Nos. FIII-1, FIII-2, FIII-2-1, FIII-2-1(a), FIII-2-1(b), FIII-2-2, FIII-2-3, FIII-2-4,  
13 FIII-2-5, FIII-2-6, FIII-2-7, FIII-2-8, FIII-2-9, FII-2-10, FIII-2-11, FIII-2-12, FIII-2-15,  
14 FIII-2-15(a), FIII-2-15(b), FIII-2-16, FIII-2-17, FIII-2-18, FIII-2-19, FIII-2-20, FIII-2-21,  
15 FIII-2-22, FIII-2-25, FIII-2-25(a), FIII-2-25(b), FIII-2-26, FIII-2-27, FIII-2-28, FIII-2-29,  
16 FIII-2-30, FIII-2-31, FIII-2-32, FIII-2-33, FIII-2-34, FIII-2-35, FIII-2-36, FIII-2-37, FIII-  
17 2-40, FIII-2-40(a), FIII-2-40(b), FIII-2-41, FIII-2-42, FIII-2-43, FIII-2-44, FIII-2-45, FIII-  
18 2-46, FIII-2-47, FIII-2-48, FIII-2-49, FIII-2-50, FIII-2-51, FIII-2-52, FIII-2-55, FIII-3,  
19 FIII-4, FIII-5, FIII-6, FIII-7, FIII-8, FIII-9, FIII-10, FIII-11, FIII-12, FIII-13, FIII-14,  
20 FIII-15, FIII-16, FIII-17, FIII-18, FIII-19, FIII-20, FIII-21, FIII-23, FIII-24, FIII-25, FIII-  
21 26, FIII-27, and FIII-28 relating to operating expenses for the water division;

1 Exhibit Nos. FIV-2, FIV-12, FIV-15, FIV-15-1, FIV-15-2, FIV-15-3, FIV-15-4, FIV-15-  
2 5, FIV-15-6, FIV-15-7, FIV-15-8, FIV-15-9, FIV-15-10, FIV-15-11, and FIV-15-12  
3 relating to operating taxes other than income taxes for the water division;

4  
5 Exhibit Nos. FIV-1, FIV-3, FIV-4, FIV-5, FIV-6, FIV-7, FIV-8, FIV-9, FIV-10, FIV-11,  
6 FIV-13, FIV-14, FIV-16, FIV-17, FIV-17-1, FIV-17-2, FIV-17-3, FIV-17-3 (a), FIV-17-  
7 4, FIV-17-5, FIV-17-6, FIV-17-7, FIV-17-8, FIV-17-8 (a), FIV-17-9, FIV-17-10, FIV-17-  
8 11, and FIV-18 relating to operating income taxes for the water division;

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10 Exhibit Nos. FV-1-1, FV-1-10, FV-8-1(g), FV-8-1(g)1, FV-8-1(g)2, and FV-10 relating  
11 to the original cost measure of value for the water division;

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13 Exhibit Nos. FVII-1, FVII-2, FVII-3, FVII-4, FVII-5, FVII-6, FVII-7, FVII-8, FVII-9,  
14 FVII-10, FVII-11, FVII-12, FVII-13, FVII-14, FVII-15, FVII-16, FVII-17, FVII-18,  
15 FVII-19, FVII-20, FVII-21, FVII-22, FVII-23, FVII-24, FVII-25, FVII-26, FVII-27,  
16 FVII-28, FVII-29, FVII-30, FVII-31, and FVII-32, relating to rate of return;

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18 Exhibit Nos. F (c)-2, FX-1, FX-2, FX-3, FX-4, FX-5, FX-6, FX-7, FX-8, FX-9, FX-10,  
19 FX-11, FX-12, and FX-13 relating to the balance sheet; and

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21 Exhibit Nos. F (a)-1, F (a)-6, F (a)-9, F (a)-10, F (a)-11, F (b)-1, FVIII-2, FXI-1, FXI-2,  
22 FXI-3, and FXI-4.

23  
24 Q. Explain Exhibit No. F (b)-1.

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1 A. Exhibit No. F (b)-1 provides the specific reasons the Company proposes to increase its  
2 water rates. Despite the best efforts by York Water to control costs, the effects of  
3 increased expenses and net additions to rate base have reduced returns. The Company  
4 proposes to increase its water rates for the following reasons: (1) to provide sufficient  
5 revenues to recover the cost of providing water service to its customers; (2) to allow the  
6 Company to properly discharge its public duties by continuing to furnish adequate, safe,  
7 and reliable service; (3) to maintain its facilities properly; and (4) to afford the  
8 opportunity to more nearly approach a fair and reasonable rate of return on the original  
9 cost measure of value of its used and useful property.

10  
11 Q. Explain Exhibit No. FI-2.

12 A. Exhibit No. FI-2 summarizes the projections of income for the twelve months ending  
13 December 31, 2025, and February 28, 2027, and the adjustments to such projected  
14 income to: (1) annualize and normalize the effect of changes occurring during the twelve  
15 months ending December 31, 2025, and February 28, 2027; and (2) reflect changes in  
16 operating revenues, uncollectible accounts, Commission, Consumer Advocate, Small  
17 Business Advocate, and Damage Prevention Control assessments, and income taxes due  
18 to the increase in operating revenues resulting from the proposed increase in rates.

19  
20 Projected net income for the twelve months ending December 31, 2025, in the amount of  
21 \$16,253,727 is shown in Column 4 of Exhibit No. FI-2, pages 2 through 4. I note that  
22 this amount reflects non-operating income and other income deductions not included in  
23 the calculation of net operating income for ratemaking purposes. In deriving the  
24 projected net operating income, I began with the pro forma net operating income at  
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1 present rates for the twelve months ended December 31, 2024, in the amount of  
2 \$16,904,347, which is shown in Column 1 of Exhibit No. FI-2, pages 2 through 4, and  
3 which is taken from Exhibit No. HI-2. The net of all adjustments to revenues and  
4 expenses results in projected future test year level of income adjustments of \$(621,330) at  
5 present rates as shown in Column 3 of Exhibit No. FI-2, pages 2 and 3. These  
6 adjustments are detailed in other exhibits, which will be explained later. The net  
7 operating income of \$23,609,379 represents net operating income for the projected future  
8 test year. It is necessary to adjust such net operating income to reflect and annualize  
9 various changes during the future test year to determine operating income at the level of  
10 operations at the end of the test year at present rates to be used for ratemaking purposes.

11  
12 Exhibit No. FI-2, pages 5 and 6 summarize the pro forma adjustments to the projected  
13 future test year net operating income. Projected net operating income for the twelve  
14 months ending December 31, 2025, in the amount of \$23,609,379 is shown in Column 1  
15 of Exhibit No. FI-2, pages 5 and 6. Adjustments to operating income in the net amount of  
16 \$(423,974), to annualize and normalize the effect of changes during the twelve months  
17 ending December 31, 2025, are shown in Column 3 of Exhibit No. FI-2, pages 5 and 6.  
18 These adjustments are detailed in other exhibits, which I will explain later. The net  
19 operating income of \$23,185,405 represents net operating income for the pro forma future  
20 test year.

21  
22 In deriving the projected net operating income for the fully projected future test year, I  
23 began with the pro forma net operating income at present rates for the twelve months  
24 ended December 31, 2025, in the amount of \$23,185,405, which is shown in Column 1 of  
25

1 Exhibit No. FI-2, pages 8 and 9. The net of all adjustments to revenues and expenses  
2 results in fully projected future test year income adjustments of \$(1,902,024) at present  
3 rates as shown in Column 3 of Exhibit No. FI-2, pages 8 and 9. These adjustments are  
4 detailed in other exhibits, which I will explain later. The net operating income of  
5 \$21,283,381 represents net operating income for the fully projected future test year  
6 ending February 28, 2027. It is necessary to adjust such net operating income to reflect  
7 and annualize various changes during the future test year to determine operating income  
8 at the level of operations at the end of the test year at present rates to be used for  
9 ratemaking purposes.

10  
11 Exhibit No. FI-2, pages 11 and 12 summarize the pro forma adjustments to the fully  
12 projected future test year net operating income. Projected net operating income for the  
13 twelve months ending February 28, 2027, in the amount of \$21,283,381 is shown in  
14 Column 1 of Exhibit No. FI-2, pages 11 and 12. Adjustments to operating income in the  
15 net amount of \$(278,060), to annualize and normalize the effect of changes during the  
16 twelve months ending February 28, 2027, are shown in Column 3 of Exhibit No. FI-2,  
17 pages 11 and 12. These adjustments are detailed in other exhibits, which I will explain  
18 later. The net operating income of \$21,005,321 represents net operating income for the  
19 pro forma fully projected future test year.

20  
21 Column 6 of Exhibit No. FI-2 pages 11 and 12 provides a summary of the increases to net  
22 operating income under proposed base rates at the fully projected future test year level of  
23 operations. The net increase to net operating income at proposed rates would be  
24 \$14,646,663 after reflecting increases in operating revenues, and related increase in  
25

1 uncollectible accounts, Commission, Consumer Advocate, Small Business Advocate, and  
2 Damage Prevention Control assessments and income taxes. These adjustments are shown  
3 in Column 6 of Exhibit No. FI-2, pages 11 and 12 and are detailed in other exhibits,  
4 which I will explain later. Pro forma net operating income for the twelve months ending  
5 February 28, 2027, in the amount of \$35,651,984 is shown in Column 7 of Exhibit No.  
6 FI-2, pages 11 and 12.

7  
8 Q. Are you sponsoring any other exhibits regarding the Company's statement of operations?

9 A. Yes, I am also sponsoring Exhibit Nos. F (b)-2, F (c)-5, F (c)-6, FI-1, FI-3, FI-4, and FI-  
10 5.

11  
12 Q. Explain Exhibit No. F (b)-3.

13 A. Exhibit No. F (b)-3 provides the number of customers whose monthly bills will increase  
14 under proposed rates based on pro forma historic test year volumes.

15  
16 Q. Explain Exhibit No. F (b)-5.

17 A. Exhibit No. F (b)-5 provides that no customers' monthly bills will decrease under  
18 proposed rates based on pro forma historic test year volumes.

19  
20 Q. Explain Exhibit No. FII-1.

21 A. Exhibit No. FII-1 is a comparative statement of gallons sold and operating revenues by  
22 class for the twelve months ending December 31, 2025, and ending February 28, 2027,  
23 and the number of customers by class as of December 31, 2025, and February 28, 2027.

1 Q. Explain Exhibit No. FII-2.

2 A. Exhibit No. FII-2 summarizes the projections of operating revenues under existing rates  
3 for the twelve months ending December 31, 2025, and February 28, 2027, as well as the  
4 adjustments to such projected operating revenues to: (1) annualize the effect of changes  
5 occurring during the twelve months ending December 31, 2025, and February 28, 2027,  
6 under existing rates; and (2) reflect the increase in operating revenues resulting from the  
7 proposed increase in rates for water service. I note that York Water is not proposing in  
8 this case to allocate a portion of the wastewater revenue requirement to water customers.

9

10 Projected operating revenues under existing rates for the twelve months ending December  
11 31, 2025, in the amount of \$67,381,609 are shown in Column 3 of Exhibit No. FII-2,  
12 page 2. In deriving the projected operating revenues under existing rates, I began with  
13 the pro forma operating revenues at present rates for the twelve months ended December  
14 31, 2024, in the amount of \$67,351,080, which are shown in Column 1 of Exhibit No.  
15 FII-2, page 2, and which are taken from Exhibit No. HII-2. Adjustments to the pro forma  
16 historic test year operating revenues to project the future test year operating revenues  
17 under existing rates in the amount of \$30,529 are shown in Column 2 of Exhibit No. FII-  
18 2, page 2. These adjustments are detailed in Exhibit Nos. FII-2-1 through FII-2-9, which  
19 I will explain later and are summarized in Exhibit No. FII-2, page 3.

20

21 Exhibit No. FII-2, page 4 summarizes the pro forma adjustments to the projected future  
22 test year operating revenues. Projected operating revenues under existing rates for the  
23 twelve months ending December 31, 2025, in the amount of \$67,381,609 are shown in  
24 Column 1 of Exhibit No. FII-2, page 4. Adjustments to operating revenues under existing

25

1 rates in the amount of \$436,868 to annualize the effect of changes during the twelve  
2 months ending December 31, 2025, are shown in Column 2 of Exhibit No. FII-2, page 4.  
3 These adjustments are detailed in Exhibit Nos. FII-2-10 through FII-2-19, which I will  
4 explain later, and are summarized in Exhibit No. FII-2, page 5. Column 3 of Exhibit No.  
5 FII-2, page 4 shows the pro forma operating revenues under existing rates of \$67,818,476  
6 for the twelve months ending December 31, 2025.

7  
8 Projected operating revenues under existing rates for the twelve months ending February  
9 28, 2027, in the amount of \$67,987,204 are shown in Column 3 of Exhibit No. FII-2,  
10 page 6. In deriving the projected operating revenues under existing rates, I began with  
11 the pro forma operating revenues at present rates for the twelve months ended December  
12 31, 2025, in the amount of \$67,818,476, which are shown in Column 1 of Exhibit No.  
13 FII-2, page 6. Adjustments to the pro forma future test year operating revenues to project  
14 the fully projected future test year operating revenues under existing rates in the amount  
15 of \$168,728 are shown in Column 2 of Exhibit No. FII-2, page 6. These adjustments are  
16 detailed in Exhibit Nos. FII-2-20 through FII-2-32, which I will explain later, and are  
17 summarized in Exhibit No. FII-2, page 7.

18  
19 Exhibit No. FII-2, page 9 summarizes the pro forma adjustments to the fully projected  
20 future test year operating revenues. Projected operating revenues under existing rates for  
21 the twelve months ending February 28, 2027, in the amount of \$67,987,204 are shown in  
22 Column 1 of Exhibit No. FII-2, page 9. Adjustments to operating revenues under existing  
23 rates in the amount of \$318,106 to annualize the effect of changes during the twelve  
24 months ending February 28, 2027, are shown in Column 2 of Exhibit No. FII-2, page 9.

1 These adjustments are detailed in Exhibit Nos. FII-2-34 through FII-2-42, which I will  
2 explain later, and are summarized in Exhibit No. FII-2, page 8.

3  
4 Pro Forma Distribution System Improvement Charge and State Tax Adjustment  
5 Surcharge revenues at existing rates of \$2,091,789 based upon current DSIC and STAS  
6 rates are shown in Column 4, page 9. Adjustments to operating revenues in the amount  
7 of \$20,311,978 reflect the increase in operating revenues due to the application of  
8 proposed base rates set forth in Supplement No. 165 to Tariff Water-Pa. P.U.C. No. 14  
9 are shown in Column 8 of Exhibit No. FII-2, page 9. Pro forma operating revenues under  
10 proposed rates for the twelve months ending February 28, 2027, in the amount of  
11 \$88,617,288 are shown in Column 9 of Exhibit No. FII-2, page 9.

12  
13 Q. Explain Exhibit No. FII-2-1.

14 A. Exhibit No. FII-2-1 projects operating revenues under existing rates for estimated  
15 metered residential gravity customers connected and disconnected during the twelve  
16 months ending December 31, 2025. The projected net gain in number of metered  
17 residential gravity customers during the twelve months ending December 31, 2025, is  
18 126. This projection is based on the average net gain in metered residential gravity  
19 customers for the two years ended December 31, 2024. The projected net gain of metered  
20 residential gravity customers during the twelve months ending December 31, 2025, of  
21 126 is multiplied by the annual average revenue per average metered residential gravity  
22 customer during the historic test year ended December 31, 2024, which has been reduced  
23 due to a projected decline in usage that I will explain later, of \$550.25 to derive the  
24 annualized revenue adjustment of \$69,332 (126 x \$550.25).

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In order to present the projected future test year metered sales to residential customers, it is necessary to determine the portion of the annualized revenue adjustment in the amount of \$69,332 that will occur during the twelve months ending December 31, 2025. The projected net gain of metered residential gravity customers for the twelve months ending December 31, 2025, is presumed to occur evenly throughout the future test year. Accordingly, one half (0.50) of the annualized revenue adjustment determined in this Exhibit is projected to occur during the twelve months ending December 31, 2025. The portion of the annualized revenue adjustment included in the twelve months ending December 31, 2025, or \$34,666 ( $\$69,332 \times 0.50$ ) has been carried forward to Exhibit No. FII-2, page 3. The remainder of the annualized revenue adjustment is reflected on Exhibit No. FII-2-10, which I will explain later.

- Q. Explain Exhibit No. FII-2-2.
- A. Exhibit No. FII-2-2 projects operating revenues under existing rates for estimated metered residential repumped customers connected and disconnected during the twelve months ending December 31, 2025. The projected net gain in number of metered residential repumped customers during the twelve months ending December 31, 2025, is 698. This projection is based on the average net gain in metered residential repumped customers for the two years ended December 31, 2024, exclusive of metered residential repumped customers gained during that period through the Longstown, Brookhaven, and Pine Run acquisitions. The Longstown acquisition, which occurred on February 21, 2024, the Brookhaven acquisition, which occurred on December 12, 2024, and the Pine Run acquisition, which occurred on December 12, 2024, resulted in the unusual,

1 immediate addition of a number of customers and are not representative of normal  
2 customer growth. Therefore, in estimating projected growth in customers based upon  
3 recent experience, it is proper to exclude customers added as a result of these  
4 acquisitions. I note that the annualization of revenues for these acquisitions is reflected in  
5 Exhibit No. FII-2-5. The projected net gain of metered residential repumped customers  
6 during the twelve months ending December 31, 2025, of 698 is multiplied by the annual  
7 average revenue per average metered residential repumped customer during the historic  
8 test year ended December 31, 2024, which has been reduced due to a projected decline in  
9 usage that I will explain later, of \$651.91 to derive the annualized revenue adjustment of  
10 \$455,034 (698 x \$651.91).

11  
12 In order to present projected future test year metered sales to residential customers, it is  
13 necessary to determine the portion of the annualized revenue adjustment in the amount of  
14 \$455,034 that will occur during the twelve months ending December 31, 2025. The  
15 projected net gain of metered residential repumped customers for the twelve months  
16 ending December 31, 2025, is presumed to occur evenly throughout the future test year.

17  
18 Accordingly, one half (0.50) of the annualized revenue adjustment determined in this  
19 Exhibit is projected to occur during the twelve months ending December 31, 2025. The  
20 portion of the annualized revenue adjustment included in the twelve months ending  
21 December 31, 2025, or \$227,517 ( $\$455,034 \times 0.50$ ) has been carried forward to Exhibit  
22 No. FII-2, page 3. The remainder of the annualized revenue adjustment is reflected on  
23 Exhibit No. FII-2-11, which I will explain later.

1 Q. Explain Exhibit No. FII-2-3.

2 A. Exhibit No. FII-2-3 projects operating revenues under existing rates for estimated  
3 metered commercial gravity customers connected and disconnected during the twelve  
4 months ending December 31, 2025. The projected net gain in number of metered  
5 commercial gravity customers during the twelve months ending December 31, 2025, is 7.  
6 This projection is based on the average net gain in metered commercial gravity customers  
7 for the two years ended December 31, 2024. The projected net gain of metered  
8 commercial gravity customers during the twelve months ending December 31, 2025, of 7  
9 is multiplied by the annual average revenue per average metered commercial gravity  
10 customer during the historic test year ended December 31, 2024 of \$1,860.77 to derive  
11 the annualized revenue adjustment of \$13,025 (7 x \$1,860.77).

12

13 In order to present projected future test year metered sales to commercial customers, it is  
14 necessary to determine the portion of the annualized revenue adjustment in the amount of  
15 \$13,025 that will occur during the twelve months ending December 31, 2025. The  
16 projected net gain of metered commercial gravity customers for the twelve months ending  
17 December 31, 2025, is presumed to occur evenly throughout the future test year.

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19 Accordingly, one-half (0.50) of the annualized revenue adjustment determined in this  
20 Exhibit is projected to occur during the twelve months ending December 31, 2025. The  
21 portion of the annualized revenue adjustment included in the twelve months ending  
22 December 31, 2025, or \$6,513 (\$13,025 x 0.50) has been carried forward to Exhibit No.  
23 FII-2, page 3. The remainder of the annualized revenue adjustment is reflected on  
24 Exhibit No. FII-2-12, which I will explain later.

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Q. Explain Exhibit No. FII-2-4.

A. Exhibit No. FII-2-4 projects operating revenues under existing rates for estimated metered commercial repumped customers connected and disconnected during the twelve months ending December 31, 2025. The projected net gain in number of metered commercial repumped customers during the twelve months ending December 31, 2025, is 12. This projection is based on the average net gain in metered commercial repumped customers for the two years ended December 31, 2024, exclusive of metered commercial repumped customers gained during that period through the Conewago Industrial Park and Houston Run acquisitions. The Conewago Industrial Park acquisition, which occurred on October 12, 2023 and the Houston Run acquisition, which occurred on September 26, 2024, resulted in the unusual, immediate addition of a number of customers and are not representative of normal customer growth. Therefore, in estimating projected growth in customers based upon recent experience, it is proper to exclude customers added as a result of these acquisitions. I note that the annualization of revenues for these acquisitions is reflected in Exhibit No. FII-2-14. The projected net gain of metered commercial customers during the twelve months ending December 31, 2025, of 12 is multiplied by the annual average revenue per average metered commercial repumped customer during the historic test year ended December 31, 2024 of \$4,487.60 to derive the annualized revenue adjustment of \$53,851 (12 x \$4,487.60).

In order to present projected future test year metered sales to commercial customers, it is necessary to determine the portion of the annualized revenue adjustment in the amount of \$53,851 that will occur during the twelve months ending December 31, 2025. The

1 projected net gain of metered commercial repumped customers for the twelve months  
2 ending December 31, 2025, is presumed to occur evenly throughout the future test year.

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4 Accordingly, one-half (0.50) of the annualized revenue adjustment determined in this  
5 Exhibit is projected to occur during the twelve months ending December 31, 2025. The  
6 portion of the annualized revenue adjustment included in the twelve months ending  
7 December 31, 2025, or \$26,926 ( $\$53,851 \times 0.50$ ) has been carried forward to Exhibit  
8 No.FII-2, page 3. The remainder of the annualized revenue adjustment is reflected on  
9 Exhibit No. FII-2-13, which I will explain later.

10  
11 Q. Explain Exhibit No. FII-2-5.

12 A. Exhibit No. FII-2-5 projects private fire protection revenues under existing rates based on  
13 the projected number of private fire hydrants and standby private fire service connections  
14 placed in service during the future test year ending December 31, 2025. The projected  
15 net gain in the number of private fire hydrants and standby private fire service  
16 connections is multiplied by the present annual rate for private fire hydrants and standby  
17 private fire service connections as approved by the Commission effective March 1, 2023,  
18 to derive the annualized private fire protection revenue adjustment in the amount of  
19 \$87,052. The projected net gain in the number of private fire hydrants and standby  
20 private fire service connections is based on the average gain in private fire hydrants and  
21 standby private fire service connections for the two years ended December 31, 2024.

22  
23 In order to present projected future test year private fire protection revenues, it is  
24 necessary to determine the portion of the annualized revenue adjustment in the amount of

1 \$87,052 that will occur during the twelve months ending December 31, 2025. The  
2 projected net gain of private fire hydrants and standby private fire service connections for  
3 the twelve months ending December 31, 2025, is presumed to occur evenly throughout  
4 the future test year.

5  
6 Accordingly, one half (0.50) of the annualized revenue adjustment determined in this  
7 Exhibit is projected to occur during the twelve months ending December 31, 2025. The  
8 portion of the annualized revenue adjustment included in the twelve months ending  
9 December 31, 2025, or \$43,526 ( $\$87,052 \times 0.50$ ) has been carried forward to Exhibit No.  
10 FII-2, page 3. The remainder of the annualized revenue adjustment is reflected on  
11 Exhibit No. FII-2-15, which I will explain later.

12  
13 Q. Explain Exhibit No. FII-2-6.

14 A. Exhibit No. FII-2-6 projects public fire protection revenues under existing rates based on  
15 the projected number of public fire hydrants placed in service during the future test year  
16 ending December 31, 2025. The projected net gain in the number of public fire hydrants  
17 is multiplied by the present annual rate for public fire hydrants as approved by the  
18 Commission effective March 1, 2023, to derive the annualized public fire protection  
19 revenue adjustment in the amount of \$35,716. The projected net gain in the number of  
20 public fire hydrants is based on the average net gain in public fire hydrants for the two  
21 years ended December 31, 2024.

22  
23 In order to present projected future test year public fire protection revenues, it is  
24 necessary to determine the portion of the annualized revenue adjustment in the amount of  
25

1 \$35,716 that will occur during the twelve months ending December 31, 2025. The  
2 projected net gain of public fire hydrants for the twelve months ending December 31,  
3 2025, is presumed to occur evenly throughout the future test year.

4  
5 Accordingly, one half (0.50) of the annualized revenue adjustment determined in this  
6 Exhibit is projected to occur during the twelve months ending December 31, 2025. The  
7 portion of the annualized revenue adjustment included in the twelve months ending  
8 December 31, 2025, or \$17,858 ( $\$35,716 \times 0.50$ ) has been carried forward to Exhibit No.  
9 FII-2, page 3. The remainder of the annualized revenue adjustment is reflected on  
10 Exhibit No. FII-2-17, which I will explain later.

11  
12 Q. Explain Exhibit No. FII-2-7.

13 A. Exhibit No. FII-2-7 projects lease payments received for communication equipment  
14 installed on the Company's standpipes in accordance with the non-exclusive license  
15 agreements between the Company and non-affiliated cellular telephone companies.  
16 Projected rent from water property for the twelve months ending December 31, 2025, of  
17 \$445,516 reflects actual lease payments to be received during the twelve months ending  
18 December 31, 2025. The adjustment of \$14,929 is determined by subtracting the pro  
19 forma lease payments for the installation of communication equipment for the twelve  
20 months ended December 31, 2024, in the amount of \$430,587 (Refer to Exhibit No. HII-  
21 2-12) from the projected lease payments to be received and recorded as rental income  
22 during the twelve months ending December 31, 2025, of \$445,516 ( $\$445,516 - \$430,587$   
23  $= \$14,929$ ). The revenue adjustment in the amount of \$14,929 has been carried forward  
24 to Exhibit No. FII-2, page 3.

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Q. Explain Exhibit No. FII-2-8.

A. Exhibit No. FII-2-8 projects customers' late payment charges based on projected sales of water under existing rates and a two-year average ratio of customers' late payment charges to total sales of water. Projected sales of water under existing rates (Refer to Exhibit No. FII-2) of \$66,568,868 are multiplied by the two-year average ratio of customers' late payment charges to total sales of water of 0.23% to determine the projected customers' late payment charges under existing rates of \$150,553 ( $\$66,568,868 \times 0.23\%$ ).

The adjustment to customers' accounts in the amount of \$35 is determined by subtracting pro forma customers' late payment charges under existing rates for twelve months ended December 31, 2024, of \$150,518 (Refer to Exhibit No. HII-2-15) from projected customers' late payment charges under existing rates for twelve months ending December 31, 2025, of \$150,553 ( $\$150,553 - \$150,518 = \$35$ ). The adjustment to customers' late payment charges of \$35 has been carried forward to Exhibit No. FII-2, page 3 as an adjustment to Account No. 47100500.

Q. Explain Exhibit No. FII-2-9.

A. Exhibit No. FII-2-9 projects a decline in residential revenues based on a three year average decline in consumption by residential customers. The Company has noticed per customer consumption declines over the last several years, due to conservation by customers, including water conservation devices on appliances and faucets in newer homes. As a result, the Company has seen increased revenues from acquisitions and

1 adding new customers largely offset by reduced consumption. It is appropriate to  
2 consider this trend in future rates.

3  
4 I begin the calculation by determining the pro forma residential gravity consumption for  
5 the twelve months ended December 31, 2024, of 10,938,222 (hundred gallons). Pro  
6 forma consumption is the sum of the actual historic test year residential gravity  
7 consumption found on Exhibit No. HII-4 page 2, of 10,899,034 (hundred gallons) and the  
8 consumption for the 149 residential gravity customers added on Exhibit No. HII-2-4, that  
9 was not already included in the historic test year of 39,188 (hundred gallons).

10  
11 In order to calculate the consumption of the customers added, it is necessary to determine  
12 average monthly consumption per customer. I first calculate an average monthly bill  
13 based on Exhibit No. HII-2-4 of \$46.32 ( $\$555.80/12$ ), back out the fixed customer charge  
14 of \$17.25 to arrive at the charge related to consumption of \$29.07. Dividing the \$29.07  
15 by the residential gravity consumption charge approved at Docket No. R-2022-3031340  
16 of \$6.631 per thousand gallons, I arrive at the average monthly consumption per  
17 customer of 4,383 gallons.

18  
19 Customers are assumed to be added evenly over the historic test year, so I take half of the  
20 year's bills for the 149 customers of 894 ( $149 \times 6$ ), and multiply by the average monthly  
21 consumption per customer of 4,383 to arrive at 3,918,800 gallons used by customers  
22 added during the historic test year, that was not included in historic test year revenues. I  
23 then convert the 3,918,800 gallons to hundred gallons ( $3,918,800/100=39,188$ ) to arrive  
24 at consumption to be added to arrive at pro forma residential gravity consumption.

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The pro forma residential gravity consumption of 10,938,222 (hundred gallons) is then multiplied by the three-year average decline in residential consumption plus a factor to account for the expected decline in residential gravity consumption due to the May 2025 increase in City of York consumption based wastewater rates from Pennsylvania American Water Company of 1.59% to arrive at reduced consumption in hundreds of gallons of 173,918 ( $10,938,222 \times 0.0159$ ). The reduced consumption is multiplied by the residential gravity consumption charge, approved at Docket No. R-2022-3031340, of \$6.631 per thousand, to arrive at the adjustment to residential gravity revenues of \$(115,325) [ $173,918 \times \$0.6631$ ].

The second part of the adjustment is calculated by first determining the pro forma residential repumped consumption for the twelve months ended December 31, 2024, of 19,773,573 (hundred gallons). Pro forma consumption is the sum of the actual historic test year residential repumped consumption found on Exhibit No. HII-4 page 2, of 19,550,140 (hundred gallons) and the consumption for the 1,014 residential repumped customers added on Exhibit No. HII-2-5, that was not already included in the historic test year of 223,433 (hundred gallons).

In order to calculate the consumption of the customers added, it is necessary to determine average monthly consumption per customer. I first calculate an average monthly bill based on Exhibit No. HII-2-5 of \$54.75 ( $\$656.95/12$ ), back out the fixed customer charge of \$17.25 to arrive at the charge related to consumption of \$37.50. Dividing the \$37.50 by the residential repumped consumption charge approved at Docket No. R-2022-

1 3031340 of \$10.210 per thousand gallons, I arrive at the average monthly consumption  
2 per customer of 3,672 gallons.

3  
4 Customers are assumed to be added evenly over the historic test year, so I take half of the  
5 year's bills for the 1,014 customers of 6,084 (1,014 x 6), and multiply by the average  
6 monthly consumption per customer of 3,672 to arrive at 22,343,300 gallons used by  
7 customers added during the historic test year, that was not included in historic test year  
8 revenues. I then convert the 22,343,300 gallons to hundred gallons  
9 (22,343,300/100=223,433) to arrive at consumption to be added to arrive at pro forma  
10 residential repumped consumption.

11  
12 The pro forma residential repumped consumption of 19,773,573 (hundred gallons) is then  
13 multiplied by the three-year average decline in residential consumption of 1.12% to  
14 arrive at reduced consumption in hundreds of gallons of 221,464 (19,773,573 x 0.0112).

15 The reduced consumption is multiplied by the residential repumped consumption charge,  
16 approved at Docket No. R-2022-3031340 of \$10.210 per thousand, to arrive at the  
17 adjustment to residential repumped revenues of \$(226,115) [221,464 x \$1.0210].

18  
19 The combined revenue adjustment in the amount of \$(341,440) [\$(115,325)+\$(226,115)]  
20 has been carried forward to Exhibit No. FII-2, page 3.

21  
22 Q. Explain Exhibit No. FII-2-10.

23 A. Exhibit No. FII-2-10 annualizes operating revenues for estimated metered residential  
24 gravity customers connected and disconnected during the twelve months ending  
25

1 December 31, 2025. As explained previously, the Company projects a net gain of 126 in  
2 the number of metered residential gravity customers during the twelve months ending  
3 December 31, 2025. The projected net gain of metered residential gravity customers  
4 during the twelve months ending December 31, 2025, of 126 is multiplied by the annual  
5 average revenue per average metered residential gravity customer during the historic test  
6 year ended December 31, 2024, which has been reduced due to a projected decline in  
7 usage that I have previously explained, of \$550.25 to derive the annualized revenue  
8 adjustment of \$69,332 (126 x \$550.25).

9  
10 As explained previously with respect to Exhibit No. FII-2-1, I have already reflected in  
11 projected future test year revenues that portion of the increased revenues from these 126  
12 customers that are projected to be gained during the future test year ending December 31,  
13 2025. That projected amount is \$34,666, or one half of the annualized revenue  
14 adjustment of \$69,332. The remaining half of the annualized revenue adjustment is  
15 reflected on Exhibit No. FII-2-10 as an annualization adjustment to the future test year  
16 projection. The remaining half of the annualized revenue adjustment of \$34,666 has been  
17 carried forward to Exhibit No. FII-2, page 5.

18  
19 Q. Explain Exhibit No. FII-2-11.

20 A. Exhibit No. FII-2-11 annualizes operating revenues for estimated metered residential  
21 repumped customers connected and disconnected during the twelve months ending  
22 December 31, 2025. As explained previously, the Company projects a net gain of 698 in  
23 the number of metered residential repumped customers during the twelve months ending  
24 December 31, 2025. The projected net gain of metered residential repumped customers

25

1 during the twelve months ending December 31, 2025, of 698 is multiplied by the annual  
2 average revenue per average metered residential repumped customer during the historic  
3 test year ended December 31, 2024, which has been reduced due to a projected decline in  
4 usage that I have previously explained, of \$651.91 to derive the annualized revenue  
5 adjustment of \$455,034 (698 x \$651.91).

6  
7 As explained previously with respect to Exhibit No. FII-2-2, I have already reflected in  
8 projected future test year revenues that portion of the additional revenues from these 698  
9 customers that are projected to be received during the future test year ending December  
10 31, 2025. That projected amount is \$227,517, or one half of the annualized revenue  
11 adjustment of \$455,034. The remaining half of the annualized revenue adjustment is  
12 reflected on Exhibit No. FII-2-11 as an annualization adjustment to the future test year  
13 projection. The remaining half of the annualized revenue adjustment of \$227,517 has  
14 been carried forward to Exhibit No. FII-2, page 5.

15  
16 Q. Explain Exhibit No. FII-2-12.

17 A. Exhibit No. FII-2-12 annualizes operating revenues for estimated metered commercial  
18 gravity customers connected and disconnected during the twelve months ending  
19 December 31, 2025. As explained previously, the Company projects a net gain of 7 in the  
20 number of metered commercial gravity customers during the twelve months ending  
21 December 31, 2025. The projected net gain of metered commercial gravity customers  
22 during the twelve months ending December 31, 2025, of 7 is multiplied by the annual  
23 average revenue per average metered commercial gravity customer during the historic test  
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1 year ended December 31, 2025 of \$1,860.77 to derive the annualized revenue adjustment  
2 of \$13,025 (7 x \$1,860.77).

3  
4 As explained previously with respect to Exhibit No. FII-2-3, I have already reflected in  
5 projected future test year revenues that portion of the reduced revenues from these 7  
6 customers that are projected to be gained during the future test year ending December 31,  
7 2025. That projected amount is \$6,513, or one half of the annualized revenue adjustment  
8 of \$13,025. The remaining half of the annualized revenue adjustment is reflected on  
9 Exhibit No. FII-2-12 as an annualization adjustment to the future test year projection.  
10 The remaining half of the annualized revenue adjustment of \$6,513 has been carried  
11 forward to Exhibit No. FII-2, page 5.

12  
13 Q. Explain Exhibit No. FII-2-13.

14 A. Exhibit No. FII-2-13 annualizes operating revenues for estimated metered commercial  
15 repumped customers connected and disconnected during the twelve months ending  
16 December 31, 2025. As explained previously, the Company projects a net gain of 12 in  
17 the number of metered commercial repumped customers during the twelve months ending  
18 December 31, 2025. The projected net gain of metered commercial repumped customers  
19 during the twelve months ending December 31, 2025, of 12 is multiplied by the annual  
20 average revenue per average metered commercial repumped customer during the historic  
21 test year ended December 31, 2024 of \$4,487.60 to derive the annualized revenue  
22 adjustment of \$53,851 (12 x \$4,487.60).

1 As explained previously with respect to Exhibit No. FII-2-4, I have already reflected in  
2 projected future test year revenues that portion of the additional revenues from these 12  
3 customers that are projected to be lost during the future test year ending December 31,  
4 2025. That projected amount is \$26,926, or one half of the annualized revenue  
5 adjustment of \$53,851. The remaining half of the annualized revenue adjustment is  
6 reflected on Exhibit No. FII-2-13 as an annualization adjustment to the future test year  
7 projection. The remaining half of the annualized revenue adjustment of \$26,926 has been  
8 carried forward to Exhibit No. FII-2, page 5.

9  
10 Q. Explain Exhibit No. FII-2-14.

11 Exhibit No FII-2-14 annualizes commercial and industrial revenues for customers in  
12 service as of December 31, 2024 for West Donegal Township and Salisbury Township in  
13 Lancaster County, Pennsylvania. When the Company acquired the water system of  
14 Conewago Industrial Park in West Donegal Township and Houston Run Community, the  
15 Company adopted the rates as they existed before acquisition. As part of this base rate  
16 case filing, the Company is proposing to bill these acquired customers at its repumped  
17 rates. Column 2 is the total number of bills for these customers in service as of December  
18 31, 2024. Column 3 is the total annual consumption for these customers in service as of  
19 December 31, 2024. These bills totals and consumption are multiplied by the residential  
20 repumped consumption charge, approved at Docket No. R-2022-3031340.

21  
22 The adjustment to repumped commercial revenue for West Donegal Township  
23 commercial customers of \$(5,559) is determined by subtracting test year repumped  
24 commercial revenue of \$124,525 from calculated repumped commercial revenue of  
25

1           \$118,966 [ $\$118,966 - \$124,525 = \$(5,559)$ ]. The adjustment to repumped commercial  
2 revenue of  $\$(5,559)$  has been carried forward to Exhibit No. FII-2, page 5.

3  
4           The adjustment to repumped commercial revenue for Salisbury Township commercial  
5 customers of  $\$29,444$  is determined by subtracting test year repumped commercial  
6 revenue of  $\$6,179$  from calculated repumped commercial revenue of  $\$35,622$  [ $\$35,622 -$   
7  $\$6,179 = \$29,444$ ]. The adjustment to repumped commercial revenue of  $\$29,444$  has  
8 been carried forward to Exhibit No. FII-2, page 5.

9  
10          The adjustment to repumped industrial revenue for West Donegal Township commercial  
11 industrial customers of  $\$982$  is determined by subtracting test year repumped commercial  
12 revenue of  $\$2,290$  from calculated repumped commercial revenue of  $\$3,272$  [ $\$3,272 -$   
13  $\$2,290 = \$982$ ]. The adjustment to repumped industrial revenue of  $\$982$  has been carried  
14 forward to Exhibit No. FII-2, page 5.

15  
16 Q.       Explain Exhibit No. FII-2-15.

17 A.       Exhibit No. FII-2-15 annualizes private fire protection revenues under existing rates  
18 based on the estimated number of private fire hydrants and standby private fire service  
19 connections placed in service during the future test year ending December 31, 2025. The  
20 projected net gain in the number of private fire hydrants and standby private fire service  
21 connections is multiplied by the present annual rate for private fire hydrants and standby  
22 private fire service connections as approved by the Commission effective March 1, 2023,  
23 to derive the annualized private fire protection revenue adjustment in the amount of  
24  $\$87,052$ .

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As explained previously with respect to Exhibit No. FII-2-5, I have already reflected in projected future test year revenues that portion of the additional revenues from these connections that are projected to be received during the future test year ending December 31, 2025. That projected amount is \$43,526, or one half of the annualized revenue adjustment of \$87,052. The remaining half of the annualized revenue adjustment in the amount of \$43,526 is reflected on Exhibit No. FII-2-15 as an annualization adjustment to the future test year projection. The remaining half of the annualization adjustment in the amount of \$43,526 has been carried forward to Exhibit No. FII-2, page 5.

Q. Explain Exhibit No. FII-2-16.

A. Exhibit No FII-2-16 annualizes private fire protection revenues for customers in service as of December 31, 2024 for West Donegal Township and Salisbury Township in Lancaster County, Pennsylvania. When the Company acquired the water system of Conewago Industrial Park in West Donegal Township and Houston Run Community, the Company adopted the rates as they existed before acquisition. As part of this base rate case filing, the Company is proposing to bill these acquired customers at its private fire protection rates. The number of private fire hydrants and standby private fire service connections placed in service as of December 31, 2024 are multiplied by the repump fire protection rates approved at Docket No. R-2022-3031340.

The adjustment to repumped fire protection revenue for West Donegal Township and Salisbury Township fire protection customers of \$49,472 is determined by subtracting test year repumped fire protection revenue of \$49,000 from calculated repumped

1 commercial fire protection of \$98,472 ( $\$98,472 - \$49,000 = \$49,472$ ). The adjustment to  
2 repumped fire protection commercial revenue of \$49,472 has been carried forward to  
3 Exhibit No. FII-2, page 5.

4  
5 Q. Explain Exhibit No. FII-2-17.

6 A. Exhibit No. FII-2-17 annualizes public fire protection revenues under existing rates based  
7 on the estimated number of public fire hydrants placed in service during the future test  
8 year ending December 31, 2025. The projected net gain in the number of public fire  
9 hydrants is multiplied by the present annual rate for public fire hydrants as approved by  
10 the Commission effective March 1, 2023, to derive the annualized public fire protection  
11 revenue adjustment in the amount of \$35,716.

12  
13 As explained previously with respect to Exhibit No. FII-2-6, I have already reflected in  
14 projected future test year revenues that portion of the additional revenues from these  
15 connections that are projected to be received during the future test year ending December  
16 31, 2025. That projected amount is \$17,858, or one half of the annualized revenue  
17 adjustment of \$35,716. The remaining half of the annualized revenue adjustment in the  
18 amount of \$17,858 is reflected on Exhibit No. FII-2-17 as an annualization adjustment to  
19 the future test year projection. The remaining half of the annualized revenue adjustment  
20 in the amount of \$17,858 has been carried forward to Exhibit No. FII-2, page 5.

21  
22 Q. Explain Exhibit No. FII-2-18.

23 A. Exhibit No. FII-2-18 annualizes lease payments received for communication equipment  
24 installed on the Company's standpipes in accordance with the non-exclusive license

25

1 agreement between the Company and cellular telephone companies. Rent from water  
2 property for the twelve months ending December 31, 2025, reflects annualized lease  
3 payments from the license agreements of \$450,065. The adjustment of \$4,549 is  
4 determined by subtracting the lease payments to be received and recorded as rental  
5 income during the twelve months ending December 31, 2025, of \$445,516 from the  
6 annual lease payments for the installation of communication equipment in the amount of  
7 \$450,065 ( $\$450,065 - \$445,516 = \$4,549$ ). This amount of \$4,549 has been carried  
8 forward to Exhibit No. FII-2, page 5.

9  
10 Q. Explain Exhibit No. FII-2-19.

11 A. Exhibit No. FII-2-19 annualizes customers' late payment charges based on pro forma  
12 sales of water under existing rates and a two-year average ratio of customers' late  
13 payment charges to total sales of water. Pro forma sales of water under existing rates  
14 (Refer to Exhibit No. FII-2) of \$67,000,211 are multiplied by the two-year average ratio  
15 of customers' late payment charges to total sales of water of 0.23% to determine the pro  
16 forma customers' late payment charges under existing rates of \$151,528 ( $\$67,000,211 \times$   
17  $0.23\%$ ).

18  
19 The adjustment to customers' late payment charges in the amount of \$976 is determined  
20 by subtracting projected customers' late payment charges under existing rates for twelve  
21 months ending December 31, 2025, of \$150,553 (Refer to Exhibit No. FII-2-8) from pro  
22 forma customers' late payment charges under existing rates for twelve months ending  
23 December 31, 2025, of \$151,528 ( $\$151,528 - \$150,553 = \$976$ ). The adjustment to  
24  
25

1 customers' late payment charges of \$976 has been carried forward to Exhibit No. FII-2,  
2 page 5 as an adjustment to Account No. 47100500.

3  
4 Q. Explain Exhibit No. FII-2-20.

5 A. Exhibit No. FII-2-20 projects operating revenues for the estimated metered residential  
6 gravity and repumped customers connected and disconnected during January and  
7 February 2026. Although these customers are projected to be added prior to the fully  
8 projected future test year, the revenues from these customers will be included in the  
9 revenues earned for the twelve months ending February 28, 2027, so it is appropriate to  
10 include these revenues.

11  
12 As was the case for the twelve months ending December 31, 2022, the Company projects  
13 a net gain of 126 in the number of metered residential gravity customers during the  
14 twelve months ending December 31, 2026. The projected net gain of metered residential  
15 gravity customers during the twelve months ending December 31, 2026 of 126 is divided  
16 by twelve and multiplied by two to yield the number of customers expected to be gained  
17 during the two-month period ending February 28, 2026, which is 21 ( $126 / 12 \times 2$ ). Next,  
18 the number of customers gained during the two-month period is multiplied by the annual  
19 average revenue per average metered residential gravity customer during the future test  
20 year ended December 31, 2025, of \$546.41 to derive the annualized revenue adjustment  
21 for residential gravity customers of \$11,475 ( $21 \times \$546.41$ ).

22  
23 Next, the same process is followed for residential repumped customers. The Company  
24 projects a net gain of 698 in the number of metered residential repumped customers

1 during the twelve months ending December 31, 2026. The projected net gain of metered  
2 residential repumped customers during the twelve months ending December 31, 2026, is  
3 divided by twelve and multiplied by two to yield the number of customers expected to be  
4 gained during the two-month period ending February 28, 2026, which is 116 ( $698 / 12 \times$   
5 2). Next, the number of customers gained during the two-month period is multiplied by  
6 the annual average revenue per average metered residential repumped customer during  
7 the future test year ended December 31, 2025, of \$646.93 to derive the annualized  
8 revenue adjustment for residential repumped customers of \$75,259 ( $116 \times \$646.93$ ).

9  
10 The total adjustment for the estimated residential gravity and repumped customers to be  
11 added during January and February 2026, of \$86,734 ( $\$11,475 + \$75,259$ ) has been  
12 carried forward to Exhibit No. FII-2, page 7.

13  
14 Q. Explain Exhibit No. FII-2-21.

15 A. Exhibit No. FII-2-21 projects operating revenues for the estimated metered commercial  
16 gravity and repumped customers connected and disconnected during January and  
17 February 2026. Although these customers are projected to be added prior to the fully  
18 projected future test year, the revenues from these customers will be included in the  
19 revenues earned for the twelve months ending February 28, 2027, so it is appropriate to  
20 include these revenues.

21  
22 As was the case for the twelve months ending December 31, 2025, the Company projects  
23 a net gain of 7 in the number of metered commercial gravity customers during the twelve  
24 months ending December 31, 2025. The projected net gain of metered commercial  
25

1 gravity customers during the twelve months ending December 31, 2025, of 7 is divided  
2 by twelve and multiplied by two to yield the number of customers expected to be gained  
3 during the two-month period ending February 28, 2026, which is 1 ( $7 / 12 \times 2$ ). Next, the  
4 number of customers gained during the two-month period is multiplied by the annual  
5 average revenue per average metered commercial gravity customer during the future test  
6 year ended December 31, 2025, of \$1,860.77 to derive the annualized revenue adjustment  
7 for commercial gravity customers of \$2,171 ( $1 \times \$1,860.77$ ).

8  
9 Next, the same process is followed for commercial repumped customers. The Company  
10 projects a net gain of 12 in the number of metered commercial repumped customers  
11 during the twelve months ending December 31, 2026. The projected net gain of metered  
12 commercial repumped customers during the twelve months ending December 31, 2026 is  
13 divided by twelve and multiplied by two to yield the number of customers expected to be  
14 gained during the two-month period ending February 28, 2026, which is 2 ( $12 / 12 \times 2$ ).  
15 Next, the number of customers gained during the two-month period is multiplied by the  
16 annual average revenue per average metered commercial repumped customer during the  
17 future test year ended December 31, 2025, of \$4,487.60 to derive the annualized revenue  
18 adjustment for commercial repumped customers of \$8,975 ( $2 \times \$4,487.60$ ).

19  
20 The total adjustment for the estimated commercial gravity and repumped customers to be  
21 added during January and February 2026, of \$11,146 ( $\$2,171 + \$8,975$ ) has been carried  
22 forward to Exhibit No. FII-2, page 7.

23  
24 Q. Explain Exhibit No. FII-2-22.

1 A. Exhibit No. FII-2-22 projects private fire protection revenues under existing rates based  
2 on the projected number of private fire hydrants and standby private fire service  
3 connections placed in service during the two-month period ending February 28, 2026.  
4 Although these hydrants and connections are projected to be added prior to the fully  
5 projected future test year, the revenues from these customers will be included in the  
6 revenues earned for the twelve months ending February 28, 2027, so it is appropriate to  
7 include these customers.

8

9 The projected net gain in the number of private fire hydrants and standby private fire  
10 service connections is divided by twelve and multiplied by two to get the prorated gain in  
11 customers for the two-month period ending February 28, 2026, for each service type. The  
12 prorated gain in customers is multiplied by the present annual rate for private fire  
13 hydrants and standby private fire service connections as approved by the Commission  
14 effective March 1, 2023, to derive the annualized private fire protection revenue  
15 adjustment in the amount of \$14,509.

16

17 The adjustment for private fire protection hydrants and connections projected to be added  
18 during the two months ending February 28, 2026 of \$14,509 has been carried forward to  
19 Exhibit No. FII-2, page 7.

20

21 Q. Explain Exhibit No. FII-2-23.

22 A. Exhibit No. FII-2-23 projects public fire protection revenues for hydrant customers  
23 projected to be added during the two months ending February 28, 2026. Although these  
24 hydrants are projected to be added prior to the fully projected future test year, the

25

1 revenues from these customers will be included in the revenues earned for the twelve  
2 months ending February 28, 2027, so it is appropriate to include these customers.

3  
4 The projected net gain in the number of public fire hydrants is divided by twelve and  
5 multiplied by two to get the prorated gain in hydrants for the two-month period ending  
6 February 28, 2026. The prorated gain in customers is multiplied by the present annual  
7 rate for public fire hydrants as approved by the Commission effective March 1, 2023, to  
8 derive the annualized public fire protection revenue adjustment in the amount of \$5,953.

9  
10 The adjustment for public fire protection hydrants projected to be added during the two  
11 months ending February 28, 2026 of \$5,953 has been carried forward to Exhibit No. FII-  
12 2, page 7.

13  
14 Q. Explain Exhibit No. FII-2-24.

15 A. Exhibit No. FII-2-24 projects operating revenues under existing rates for estimated  
16 metered residential gravity customers connected and disconnected during the twelve  
17 months ending February 28, 2027. The projected net gain in number of metered  
18 residential gravity customers during the twelve months ending February 28, 2027, is 126.  
19 This projection is based on the average net gain in metered residential gravity customers  
20 for the two years ended December 31, 2024. The projected net gain of metered  
21 residential gravity customers during the twelve months ending February 28, 2027, of 126  
22 is multiplied by the annual average revenue per average metered residential gravity  
23 customer of \$545.78 to derive the annualized revenue adjustment of \$68,768 (126 x  
24 \$545.78).

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In order to present the fully projected future test year metered sales to residential customers, it is necessary to determine the portion of the annualized revenue adjustment in the amount of \$68,768 that will occur during the twelve months ending February 28, 2027. The projected net gain of metered residential gravity customers for the twelve months ending February 28, 2027, is presumed to occur evenly throughout the fully projected future test year.

Accordingly, one half (0.50) of the annualized revenue adjustment determined in this Exhibit is projected to occur during the twelve months ending February 28, 2027. The portion of the annualized revenue adjustment included in the twelve months ending February 28, 2027, or \$34,384 ( $\$68,768 \times 0.50$ ) has been carried forward to Exhibit No. FII-2, page 7. The remainder of the annualized revenue adjustment is reflected on Exhibit No. FII-2-34, which I will explain later.

Q. Explain Exhibit No. FII-2-25.

A. Exhibit No. FII-2-25 projects operating revenues under existing rates for estimated metered residential repumped customers connected and disconnected during the twelve months ending February 28, 2027. The projected net gain in number of metered residential repumped customers during the twelve months ending February 28, 2027, is 698. This projection is based on the average net gain in metered residential repumped customers for the two years ended December 31, 2024, exclusive of metered residential repumped customers gained during that period through the Longstown, Brookhaven, and Pine Run acquisitions. The Longstown acquisition, which occurred on February 21,

1 2024, the Brookhaven acquisition, which occurred on December 12, 2024, and the Pine  
2 Run acquisition, which occurred on December 12, 2024, resulted in the unusual,  
3 immediate addition of a number of customers and are not representative of normal  
4 customer growth. Therefore, in estimating projected growth in customers based upon  
5 recent experience, it is proper to exclude customers added as a result of these  
6 acquisitions. The projected net gain of metered residential repumped customers during  
7 the twelve months ending February 28, 2027, of 698 is multiplied by the annual average  
8 revenue per average metered residential repumped customer of \$646.11 to derive the  
9 annualized revenue adjustment of \$450,982 (698 x \$646.11).

10  
11 In order to present fully projected future test year metered sales to residential customers,  
12 it is necessary to determine the portion of the annualized revenue adjustment in the  
13 amount of \$450,982 that will occur during the twelve months ending February 28, 2027.  
14 The projected net gain of metered residential repumped customers for the twelve months  
15 ending February 28, 2027, is presumed to occur evenly throughout the fully projected  
16 future test year.

17  
18 Accordingly, one half (0.50) of the annualized revenue adjustment determined in this  
19 Exhibit is projected to occur during the twelve months ending February 28, 2027. The  
20 portion of the annualized revenue adjustment included in the twelve months ending  
21 February 28, 2027, or \$225,491 ( $\$450,982 \times 0.50$ ) has been carried forward to Exhibit  
22 No. FII-2, page 7. The remainder of the annualized revenue adjustment is reflected on  
23 Exhibit No. FII-2-35, which I will explain later.

1 Q. Explain Exhibit No. FII-2-26.

2 A. Exhibit No. FII-2-26 projects operating revenues under existing rates for estimated  
3 metered commercial gravity customers connected and disconnected during the twelve  
4 months ending February 28, 2027. The projected net gain in number of metered  
5 commercial gravity customers during the twelve months ending February 28, 2027, is 7.  
6 This projection is based on the average net gain in metered commercial gravity customers  
7 for the two years ended December 31, 2024. The projected net gain of metered  
8 commercial gravity customers during the twelve months ending February 28, 2027, of 7  
9 is multiplied by the annual average revenue per average metered commercial gravity  
10 customer of \$1,860.77 to derive the annualized revenue adjustment of \$13,025 (7 x  
11 \$1,860.77).

12

13 In order to present fully projected future test year metered sales to commercial customers,  
14 it is necessary to determine the portion of the annualized revenue adjustment in the  
15 amount of \$13,025 that will occur during the twelve months ending February 28, 2027.  
16 The projected net gain of metered commercial gravity customers for the twelve months  
17 ending February 28, 2027, is presumed to occur evenly throughout the fully projected  
18 future test year.

19

20 Accordingly, one-half (0.50) of the annualized revenue adjustment determined in this  
21 Exhibit is projected to occur during the twelve months ending February 28, 2027. The  
22 portion of the annualized revenue adjustment included in the twelve months ending  
23 February 28, 2027, or \$6,513 ( $\$13,025 \times 0.50$ ) has been carried forward to Exhibit No.

24

25

1 FII-2, page 7. The remainder of the annualized revenue adjustment is reflected on  
2 Exhibit No. FII-2-36, which I will explain later.

3  
4 Q. Explain Exhibit No. FII-2-27.

5 A. Exhibit No. FII-2-27 projects operating revenues under existing rates for estimated  
6 metered commercial repumped customers connected and disconnected during the twelve  
7 months ending February 28, 2027. The projected net gain in number of metered  
8 commercial repumped customers during the twelve months ending February 28, 2027, is  
9 12. This projection is based on the average net loss in metered commercial repumped  
10 customers for the two years ended December 31, 2024, exclusive of metered commercial  
11 repumped customers gained during that period through the Conewago Industrial Park and  
12 Houston Run acquisitions. The Conewago Industrial Park acquisition, which occurred on  
13 October 12, 2023 and the Houston Run acquisition, which occurred on September 26,  
14 2024, resulted in the unusual, immediate addition of a number of customers and are not  
15 representative of normal customer growth. Therefore, in estimating projected growth in  
16 customers based upon recent experience, it is proper to exclude customers added as a  
17 result of these acquisitions. The projected net gain of metered commercial customers  
18 during the twelve months ending February 28, 2027, of 12 is multiplied by the annual  
19 average revenue per average metered commercial repumped customer of \$4,487.60 to  
20 derive the annualized revenue adjustment of \$53,851 (12 x \$4,487.60).

21  
22 In order to present fully projected future test year metered sales to commercial customers,  
23 it is necessary to determine the portion of the annualized revenue adjustment in the  
24 amount of \$53,851 that will occur during the twelve months ending February 28, 2027.

1 The projected net gain of metered commercial repumped customers for the twelve months  
2 ending February 28, 2027, is presumed to occur evenly throughout the fully projected  
3 future test year.

4  
5 Accordingly, one-half (0.50) of the annualized revenue adjustment determined in this  
6 Exhibit is projected to occur during the twelve months ending February 28, 2027. The  
7 portion of the annualized revenue adjustment included in the twelve months ending  
8 February 28, 2027, or \$26,926 ( $\$53,851 \times 0.50$ ) has been carried forward to Exhibit  
9 No.FII-2, page 7. The remainder of the annualized revenue adjustment is reflected on  
10 Exhibit No. FII-2-37, which I will explain later.

11  
12 Q. Explain Exhibit No. FII-2-28.

13 A. Exhibit No. FII-2-28 projects private fire protection revenues under existing rates based  
14 on the projected number of private fire hydrants and standby private fire service  
15 connections placed in service during the fully projected future test year ending February  
16 28, 2027. The projected net gain in the number of private fire hydrants and standby  
17 private fire service connections is multiplied by the present annual rate for private fire  
18 hydrants and standby private fire service connections as approved by the Commission  
19 effective March 1, 2023, to derive the annualized private fire protection revenue  
20 adjustment in the amount of \$87,052. The projected net gain in the number of private fire  
21 hydrants and standby private fire service connections is based on the average gain in  
22 private fire hydrants and standby private fire service connections for the two years ended  
23 December 31, 2024.

1 In order to present fully projected future test year private fire protection revenues, it is  
2 necessary to determine the portion of the annualized revenue adjustment in the amount of  
3 \$87,052 that will occur during the twelve months ending February 28, 2027. The  
4 projected net gain of private fire hydrants and standby private fire service connections for  
5 the twelve months ending February 28, 2027, is presumed to occur evenly throughout the  
6 fully projected future test year.

7  
8 Accordingly, one half (0.50) of the annualized revenue adjustment determined in this  
9 Exhibit is projected to occur during the twelve months ending February 28, 2027. The  
10 portion of the annualized revenue adjustment included in the twelve months ending  
11 February 28, 2027, or \$43,526 ( $\$87,052 \times 0.50$ ) has been carried forward to Exhibit No.  
12 FII-2, page 7. The remainder of the annualized revenue adjustment is reflected on  
13 Exhibit No. FII-2-38, which I will explain later.

14  
15 Q. Explain Exhibit No. FII-2-29.

16 A. Exhibit No. FII-2-29 projects public fire protection revenues under existing rates based on  
17 the projected number of public fire hydrants placed in service during the fully projected  
18 future test year ending February 28, 2027. The projected net gain in the number of public  
19 fire hydrants is multiplied by the present annual rate for public fire hydrants as approved  
20 by the Commission effective March 1, 2023, to derive the annualized public fire  
21 protection revenue adjustment in the amount of \$35,716. The projected net gain in the  
22 number of public fire hydrants is based on the average net gain in public fire hydrants for  
23 the two years ended December 31, 2024.

1 In order to present fully projected future test year public fire protection revenues, it is  
2 necessary to determine the portion of the annualized revenue adjustment in the amount of  
3 \$35,716 that will occur during the twelve months ending February 28, 2027. The  
4 projected net gain of public fire hydrants for the twelve months ending February 28,  
5 2027, is presumed to occur evenly throughout the fully projected future test year.

6  
7 Accordingly, one half (0.50) of the annualized revenue adjustment determined in this  
8 Exhibit is projected to occur during the twelve months ending February 28, 2027.

9 The portion of the annualized revenue adjustment included in the twelve months ending  
10 February 28, 2027, or \$17,858 ( $\$35,716 \times 0.50$ ) has been carried forward to Exhibit No.  
11 FII-2, page 7. The remainder of the annualized revenue adjustment is reflected on  
12 Exhibit No. FII-2-39, which I will explain later.

13  
14 Q. Explain Exhibit No. FII-2-30.

15 A. Exhibit No. FII-2-30 projects lease payments received for communication equipment  
16 installed on the Company's standpipes in accordance with the non-exclusive license  
17 agreements between the Company and non-affiliated cellular telephone companies.  
18 Projected rent from water property for the twelve months ending February 28, 2027, of  
19 \$452,868 reflects actual lease payments to be received during the twelve months ending  
20 February 28, 2027. The adjustment of \$2,804 is determined by subtracting the pro forma  
21 lease payments for the installation of communication equipment for the twelve months  
22 ended December 31, 2025, in the amount of \$450,065 (Refer to Exhibit No. FII-2-18)  
23 from the projected lease payments to be received and recorded as rental income during  
24 the twelve months ending February 28, 2027, of \$452,868 ( $\$452,868 - \$450,065 =$

1           \$2,804). The revenue adjustment in the amount of \$2,804 has been carried forward to  
2           Exhibit No. FII-2, page 7.

3  
4   Q.     Explain Exhibit No. FII-2-31.

5   A.     Exhibit No. FII-2-31 projects customers' late payment charges based on projected sales of  
6           water under existing rates and a two-year average ratio of customers' late payment  
7           charges to total sales of water. Projected sales of water under existing rates (Refer to  
8           Exhibit No. FII-2) of \$67,165,761 are multiplied by the two-year average ratio of  
9           customers' late payment charges to total sales of water of 0.23% to determine the  
10          projected customers' late payment charges under existing rates of \$151,903 ( $\$67,165,761$   
11           $\times 0.23\%$ ).

12  
13          The adjustment to customers' accounts in the amount of \$374 is determined by  
14          subtracting pro forma customers' late payment charges under existing rates for twelve  
15          months ended December 31, 2025, of \$151,528 (Refer to Exhibit No. FII-2-19) from  
16          projected customers' late payment charges under existing rates for twelve months ending  
17          February 28, 2027, of \$151,903 ( $\$151,903 - \$151,528 = \$374$ ). The adjustment to  
18          customers' late payment charges of \$374 has been carried forward to Exhibit No. FII-2,  
19          page 7 as an adjustment to Account No. 47100500.

20  
21   Q.     Explain Exhibit No. FII-2-32.

22   A.     Exhibit No. FII-2-32 projects a decline in residential revenues based on a three year  
23          average decline in consumption by residential customers. The Company has noticed per  
24          customer consumption declines over the last several years, due primarily to increased  
25

1 conservation by customers including water conservation devices on appliances and  
2 faucets in newer homes. As a result, the Company has seen increased revenues from  
3 acquisitions and adding new customers largely offset by reduced consumption. It is  
4 appropriate to consider this trend in future rates.

5  
6 I begin the calculation by determining the pro forma residential gravity consumption for  
7 the twelve months ending December 31, 2025, of 10,829,528 (hundred gallons). Pro  
8 forma consumption is the sum of the pro forma historic test year residential gravity  
9 consumption found on Exhibit No. FII-2-9, of 10,938,222 (hundred gallons), the  
10 projected reduction in consumption calculated on Exhibit No. FII-2-9 of (173,918)  
11 (hundred gallons) for the twelve months ending December 31, 2025, and the consumption  
12 for the 126 residential gravity customers projected to be added during the twelve months  
13 ending February 29, 2027, on Exhibit No. FII-2-24 of 65,224 (hundred gallons)  
14 [10,938,222 + (173,918) + 65,224 = 10,829,528].

15  
16 The pro forma residential gravity consumption of 10,829,528 (hundred gallons) is then  
17 multiplied by the three-year average decline in residential consumption of 1.12% to  
18 arrive at reduced consumption in hundreds of gallons of 121,291 (10,829,528 x 0.0112).

19 The reduced consumption is multiplied by the residential gravity consumption charge,  
20 approved at Docket No. R-2022-3031340, of \$6.631 per thousand, to arrive at the  
21 adjustment to residential gravity revenues of \$(80,428) [121,291 x \$0.6631].

22  
23 The second part of the adjustment is calculated by first determining the pro forma  
24 residential repumped consumption for the twelve months ended December 31, 2018, of  
25

1 19,856,269 (hundred gallons). Pro forma consumption is the sum of the pro forma  
2 historic test year residential repumped consumption found on Exhibit No. FII-2-9, of  
3 19,773,573 (hundred gallons), the projected reduction in consumption calculated on  
4 Exhibit No. FII-2-9 of (221,464) (hundred gallons) for the twelve months ending  
5 December 31, 2025, and the consumption for the 698 residential repumped customers  
6 projected to be added during the twelve months ending February 29, 2027, on Exhibit  
7 No. FII-2-25 of 229,763 (hundred gallons)  $[19,773,573 + (221,464) + 304,160 =$   
8  $19,856,269]$ .

9  
10  
11 The pro forma residential repumped consumption of 19,856,269 (hundred gallons) is then  
12 multiplied by the three-year average decline in residential consumption of 1.12% to  
13 arrive at reduced consumption in hundreds of gallons of 222,390  $(19,856,269 \times 0.0112)$ .

14 The reduced consumption is multiplied by the residential repumped consumption charge,  
15 approved at Docket No. R-2022-3031340, of \$10.210 per thousand, to arrive at the  
16 adjustment to residential repumped revenues of \$(227,060)  $[(222,390 \times \$1.0210)]$ .

17  
18 The combined revenue adjustment in the amount of \$(307,488)  $[\$(80,428) + \$(227,060)]$   
19 has been carried forward to Exhibit No. FII-2, page 7.

20  
21 Q. Explain Exhibit No. FII-2-34.

22 A. Exhibit No. FII-2-34 annualizes operating revenues for estimated metered residential  
23 gravity customers connected and disconnected during the twelve months ending February  
24 28, 2027. As explained previously, the Company projects a net gain of 126 in the number  
25

1 of metered residential gravity customers during the twelve months ending February 28,  
2 2027. The projected net gain of metered residential gravity customers during the twelve  
3 months ending February 28, 2027, of 126 is multiplied by the annual average revenue per  
4 average metered residential gravity customer of \$545.78 to derive the annualized revenue  
5 adjustment of \$68,768 (126 x \$545.78).

6  
7 As explained previously with respect to Exhibit No. FII-2-24, I have already reflected in  
8 fully projected future test year revenues that portion of the increased revenues from these  
9 126 customers that are projected to be gained during the fully projected future test year  
10 ending February 28, 2027. That projected amount is \$34,384, or one half of the  
11 annualized revenue adjustment of \$68,768. The remaining half of the annualized revenue  
12 adjustment is reflected on Exhibit No. FII-2-34 as an annualization adjustment to the fully  
13 projected future test year projection. The remaining half of the annualized revenue  
14 adjustment of \$34,384 has been carried forward to Exhibit No. FII-2, page 8.

15  
16 Q. Explain Exhibit No. FII-2-35.

17 A. Exhibit No. FII-2-35 annualizes operating revenues for estimated metered residential  
18 repumped customers connected and disconnected during the twelve months ending  
19 February 28, 2027. As explained previously, the Company projects a net gain of 698 in  
20 the number of metered residential repumped customers during the twelve months ending  
21 February 28, 2027. The projected net gain of metered residential repumped customers  
22 during the twelve months ending February 28, 2027, of 698 is multiplied by the annual  
23 average revenue per average metered residential repumped customer of \$646.11 to derive  
24 the annualized revenue adjustment of \$450,982 (698 x \$646.11).

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As explained previously with respect to Exhibit No. FII-2-25, I have already reflected in fully projected future test year revenues that portion of the additional revenues from these customers that are projected to be received during the fully projected future test year ending February 28, 2027. That projected amount is \$225,491, or one half of the annualized revenue adjustment of \$450,982. The remaining half of the annualized revenue adjustment is reflected on Exhibit No. FII-2-35 as an annualization adjustment to the fully projected future test year projection. The remaining half of the annualized revenue adjustment of \$225,491 has been carried forward to Exhibit No. FII-2, page 8.

Q. Explain Exhibit No. FII-2-36.

A. Exhibit No. FII-2-36 annualizes operating revenues for estimated metered commercial gravity customers connected and disconnected during the twelve months ending February 28, 2027. As explained previously, the Company projects a net gain of 7 in the number of metered commercial gravity customers during the twelve months ending February 28, 2027. The projected net gain of metered commercial gravity customers during the twelve months ending February 28, 2027, of 7 is multiplied by the annual average revenue per average metered commercial gravity customer of \$1,860.77 to derive the annualized revenue adjustment of \$13,025 (7 x \$1,860.77).

As explained previously with respect to Exhibit No. FII-2-26, I have already reflected in fully projected future test year revenues that portion of the reduced revenues from these 7 customers that are projected to be gained during the fully projected future test year ending February 28, 2027. That projected amount is \$6,513, or one half of the annualized

1 revenue adjustment of \$13,025. The remaining half of the annualized revenue adjustment  
2 is reflected on Exhibit No. FII-2-36 as an annualization adjustment to the fully projected  
3 future test year projection. The remaining half of the annualized revenue adjustment of  
4 \$6,513 has been carried forward to Exhibit No. FII-2, page 8.

5  
6 Q. Explain Exhibit No. FII-2-37.

7 A. Exhibit No. FII-2-37 annualizes operating revenues for estimated metered commercial  
8 repumped customers connected and disconnected during the twelve months ending  
9 February 28, 2027. As explained previously, the Company projects a net gain of 12 in the  
10 number of metered commercial repumped customers during the twelve months ending  
11 February 28, 2027. The projected net gain of metered commercial repumped customers  
12 during the twelve months ending February 28, 2027, of 12 is multiplied by the annual  
13 average revenue per average metered commercial repumped customer of \$4,487.60 to  
14 derive the annualized revenue adjustment of \$53,851 (12 x \$4,487.60).

15  
16 As explained previously with respect to Exhibit No. FII-2-27, I have already reflected in  
17 fully projected future test year revenues that portion of the additional revenues from these  
18 12 customers that are projected to be gained during the fully projected future test year  
19 ending February 28, 2027. That projected amount is \$26,926, or one half of the  
20 annualized revenue adjustment of \$53,851. The remaining half of the annualized revenue  
21 adjustment is reflected on Exhibit No. FII-2-37 as an annualization adjustment to the fully  
22 projected future test year projection. The remaining half of the annualized revenue  
23 adjustment of \$26,926 has been carried forward to Exhibit No. FII-2, page 8.

1 Q. Explain Exhibit No. FII-2-38.

2 A. Exhibit No. FII-2-38 annualizes private fire protection revenues under existing rates  
3 based on the estimated number of private fire hydrants and standby private fire service  
4 connections placed in service during the fully projected future test year ending February  
5 28, 2027. The projected net gain in the number of private fire hydrants and standby  
6 private fire service connections is multiplied by the present annual rate for private fire  
7 hydrants and standby private fire service connections as approved by the Commission  
8 effective March 1, 2023, to derive the annualized private fire protection revenue  
9 adjustment in the amount of \$87,052.

10

11 As explained previously with respect to Exhibit No. FII-2-28, I have already reflected in  
12 fully projected future test year revenues that portion of the additional revenues from these  
13 connections that are projected to be received during the fully projected future test year  
14 ending February 28, 2027. That projected amount is \$43,526, or one half of the  
15 annualized revenue adjustment of \$87,052. The remaining half of the annualized revenue  
16 adjustment in the amount of \$43,526 is reflected on Exhibit No. FII-2-28 as an  
17 annualization adjustment to the fully projected future test year projection. The remaining  
18 half of the annualization adjustment in the amount of \$43,526 has been carried forward to  
19 Exhibit No. FII-2, page 8.

20

21 Q. Explain Exhibit No. FII-2-39.

22 A. Exhibit No. FII-2-39 annualizes public fire protection revenues under existing rates based  
23 on the estimated number of public fire hydrants placed in service during the fully  
24 projected future test year ending February 28, 2027. The projected net gain in the number

25

1 of public fire hydrants is multiplied by the present annual rate for public fire hydrants as  
2 approved by the Commission effective March 1, 2023, to derive the annualized public fire  
3 protection revenue adjustment in the amount of \$35,716.

4  
5 As explained previously with respect to Exhibit No. FII-2-29, I have already reflected in  
6 fully projected future test year revenues that portion of the additional revenues from these  
7 connections that are projected to be received during the fully projected future test year  
8 ending February 28, 2027. That projected amount is \$17,858, or one half of the  
9 annualized revenue adjustment of \$35,716. The remaining half of the annualized revenue  
10 adjustment in the amount of \$17,858 is reflected on Exhibit No. FII-2-39 as an  
11 annualization adjustment to the fully projected future test year projection. The remaining  
12 half of the annualized revenue adjustment in the amount of \$17,858 has been carried  
13 forward to Exhibit No. FII-2, page 8.

14  
15 Q. Explain Exhibit No. FII-2-40.

16 A. Exhibit No. FII-2-40 projects the annual impact on residential revenue from the creation  
17 of a pilot bill discount program as required in its Order at Docket No. R-2022-3031340  
18 dated March 1, 2023. The Company proposes that the fixed customer charge of \$17.25  
19 approved at Docket No. R-2022-3031340 would not be billed to 200 low-income  
20 customers. The annual amount is \$207 per customer ( $\$17.25 \times 12$ ). The annualized  
21 amount of the pilot bill discount program is \$(41,400) ( $\$207 \times 200$ ). This amount of  
22 \$(41,400) has been carried forward to Exhibit No. FII-2, page 8.

23  
24 Q. Explain Exhibit No. FII-2-41.

25

1 A. Exhibit No. FII-2-41 annualizes lease payments received for communication equipment  
2 installed on the Company's standpipes in accordance with the non-exclusive license  
3 agreement between the Company and cellular telephone companies. These cellular  
4 telephone companies are not affiliated with the Company. Rent from water property for  
5 the twelve months ending February 28, 2027, reflects annualized lease payments from the  
6 license agreements of \$456,968. The adjustment of \$4,100 is determined by subtracting  
7 the lease payments to be received and recorded as rental income during the twelve  
8 months ending February 28, 2027, of \$456,968 from the annual lease payments for the  
9 installation of communication equipment in the amount of \$452,868 ( $\$456,968 -$   
10  $\$452,868 = \$4,100$ ). This amount of \$4,100 has been carried forward to Exhibit No. FII-  
11 2, page 8.

12  
13 Q. Explain Exhibit No. FII-2-42.

14 A. Exhibit No. FII-2-42 annualizes customers' late payment charges based on pro forma  
15 sales of water under existing rates and a two-year average ratio of customers' late  
16 payment charges to total sales of water. Pro forma sales of water under existing rates  
17 (Refer to Exhibit No. FII-2) of \$67,479,058 are multiplied by the two-year average ratio  
18 of customers' late payment charges to total sales of water of 0.23% to determine the pro  
19 forma customers' late payment charges under existing rates of \$152,611 ( $\$67,479,058 \times$   
20  $0.23\%$ ).

21  
22 The adjustment to customers' late payment charges in the amount of \$709 is determined  
23 by subtracting projected customers' late payment charges under existing rates for twelve  
24 months ending February 28, 2027, of \$151,903 (Refer to Exhibit No. FII-2-31) from pro  
25

1        forma customers' late payment charges under existing rates for twelve months ending  
2        February 28, 2027, of \$152,611 ( $\$152,611 - \$151,903 = \$709$ ). The adjustment to  
3        customers' late payment charges of \$709 has been carried forward to Exhibit No. FII-2,  
4        page 8 as an adjustment to Account No. 47100500.

5  
6    Q.    Explain Exhibit No. FII-2-43.

7    A.    Exhibit No. FII-2-43 adjusts customers' late payment charges based on pro forma sales of  
8        water under proposed rates and a two-year average ratio of customers' late payment  
9        charges to total sales of water. Pro forma sales of water under proposed rates of  
10       \$87,745,202 are multiplied by the two-year average ratio of customers' late payment  
11       charges to total sales of water of 0.23% to determine the pro forma customers' late  
12       payment charges under proposed rates of \$198,445 ( $\$87,745,202 \times 0.0023$ ).

13  
14       The adjustment to customers' late payment charges in the amount of \$45,834 is  
15       determined by subtracting pro forma customers' late payment charges under existing rates  
16       of \$152,611 (Refer to Exhibit No. FII-2-42) from pro forma customers' late payment  
17       charges under proposed rates of \$198,445 ( $\$198,445 - \$152,611 = \$45,834$ ). The  
18       adjustment to customers' late payment charges of \$22,876 has been carried forward to  
19       Exhibit No. FII-2, page 9, Column 6, as an adjustment to Account No. 47100500.

20  
21    Q.    Explain Exhibit No. FII-3.

22    A.    Exhibit No. FII-3 provides a comparison of present and proposed base rates. The present  
23        base rates are those set forth in Supplement No. 151 to Water-Pa P.U.C. No. 14 approved  
24        by the Commission March 1, 2023. The proposed base rates are set forth in Supplement

25

1 No. 165 to Water-Pa. P.U.C. No. 14. A copy of the Company's proposed tariff  
2 supplement is attached to Exhibit No. FII-3.

3  
4 Q. Explain Exhibit No. FII-4.

5 A. Exhibit No. FII-4 provides a detailed customer consumption analysis by customer  
6 classification and meter size. Pages 2 through 7 of Exhibit No. FII-4 provides the  
7 application of present metered base rates, which became effective March 1, 2023, to the  
8 pro forma customer consumption analysis for the twelve months ending February 28,  
9 2027.

10  
11 Q. Explain Exhibit No. FII-9.

12 A. Exhibit No. FII-9, page 2 provides the number of customers by class as of December 31,  
13 2022, 2023, and 2024 and the projected number of customers by class as of December 31,  
14 2025, and as of February 28, 2027, February 29, 2028, and February 28, 2029. Page 3 of  
15 Exhibit No. FII-9 provides consumption by customer class for the twelve months ended  
16 December 31, 2022, 2023, and 2024 and the projected consumption by customer class for  
17 the twelve months ending December 31, 2025, and as of February 28, 2027, February 29,  
18 2028, and February 28, 2029.

19  
20 Q. Explain Exhibit No. FII-11.

21 A. Exhibit No. FII-11 provides revenues from sales for resale to four municipalities for years  
22 ended December 31, 2022, 2023, and 2024. These revenues are for single-point  
23 customers covered by the Company's tariff provisions and are included as commercial  
24 customer sales on the Company's books.

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Q. Explain Exhibit No. FII-12.

A. Exhibit No. FII-12 provides consumption and billings at current metered base rates and proposed metered base rates for the Company’s ten largest customers for the twelve months ended December 31, 2024. Exhibit No. FII-12 also provides consumption and billing at metered base rates for the Company’s ten largest customers for the twelve months ended December 31, 2023 and 2022.

Q. Explain Exhibit No. FII-13.

A. Exhibit No. FII-13 provides consumption and billings for the twelve months ended December 31, 2024, 2023, and 2022 for the one (1) sale for resale customer not included in Exhibit No. FII-12.

Q. Are you sponsoring any other exhibits relative to operating revenues?

A. Yes, I am also sponsoring Exhibit Nos. F (a)-2, F (a)-3, F (a)-4, F (a)-5, F (b)-4, F (b)-6, FII-5, FII-6, FII-7, FII-8, and FII-10.

Q. Explain Exhibit No. FIII-1.

A. Exhibit No. FIII-1 is a comparative statement of operating expenses per books for the twelve months ended December 31, 2024, and projected operating expenses, by account, for the twelve months ending December 31, 2025, and February 28, 2027.

Q. Explain Exhibit No. FIII-2.

1 A. The purpose of Exhibit No. FIII-2 is to summarize adjustments to operating expenses for  
2 the twelve months ending December 31, 2025, to annualize and normalize the effect of  
3 changes occurring during the twelve months ending December 31, 2025, to summarize  
4 adjustments to operating expenses for the twelve months ending February 28, 2027, to  
5 annualize and normalize the effect of changes occurring during the twelve months ending  
6 February 28, 2027, and to reflect changes in uncollectible accounts expenses due to the  
7 increase in operating revenues resulting from the proposed increase in rates.

8  
9 Pro forma operating expenses for the twelve months ended December 31, 2024, in the  
10 amount of \$28,205,929 are shown in Column 1 of Exhibit FIII-2, pages 2 through 8.

11 Adjustments required to project operating expenses for the twelve months ending  
12 December 31, 2025, in the amount of \$781,549 are shown in Column 3 of Exhibit FIII-2,  
13 pages 2 through 8, and are detailed in Exhibit Nos. FIII-2-1 through FIII-2-12. Projected  
14 operating expenses for the twelve months ending December 31, 2025, in the amount of  
15 \$28,987,478 are shown in Column 4 of Exhibit FIII-2, pages 2 through 8.

16  
17 Adjustments to operating expenses in the amount of \$945,049 to annualize and normalize  
18 the effect of changes projected to occur during the twelve months ending December 31,  
19 2025, are shown in Column 6 of Exhibit FIII-2, pages 2 through 8, and are detailed in  
20 Exhibit Nos. FIII-2-15 through FIII-2-22. Pro forma operating expenses for the twelve  
21 months ending December 31, 2025, in the amount of \$29,932,527 are shown in Column 7  
22 of Exhibit FIII-2, pages 2 through 8.

1 Pro forma operating expenses for the twelve months ending December 31, 2025, in the  
2 amount of \$29,932,527 are shown in Column 1 of Exhibit FIII-2, pages 9 through 15.

3 Adjustments required to project operating expenses for the twelve months ending  
4 February 28, 2027, in the amount of \$1,222,191 are shown in Column 3 of Exhibit FIII-2,  
5 pages 9 through 15, and are detailed in Exhibit Nos. FIII-2-25 through FIII-2-37.

6 Projected operating expenses for the twelve months ending February 28, 2027, in the  
7 amount of \$31,154,718 are shown in Column 4 of Exhibit FIII-2, pages 9 through 15.

8  
9 Projected operating expenses for the twelve months ending February 28, 2027, in the  
10 amount of \$31,154,718 are shown in Column 1 of Exhibit FIII-2, pages 16 through 22.

11 Adjustments to operating expenses in the amount of \$678,044 to annualize and normalize  
12 the effect of changes projected to occur during the twelve months ending February 28,  
13 2027, are shown in Column 3 of Exhibit FIII-2, pages 16 through 22, and are detailed in  
14 Exhibit Nos. FIII-2-40 through FIII-2-52. Pro forma operating expenses for the twelve  
15 months ending February 28, 2027, in the amount of \$31,832,762 are shown in Column 4  
16 of Exhibit FIII-2, pages 16 through 22.

17  
18 Adjustments to operating expenses in the amount of \$133,785 to reflect changes in  
19 uncollectible accounts expenses due to the increase in operating revenues resulting from  
20 the proposed increase in rates are shown in Column 6 of Exhibit FIII-2, pages 16 through  
21 22, and are detailed in Exhibit FIII-2-55. Pro forma operating expenses for the twelve  
22 months ending February 28, 2027, in the amount of \$31,966,547 are shown in Column 7  
23 of Exhibit FIII-2, pages 16 through 22.

1 Q. Explain Exhibit FIII-2-1.

2 A. Exhibit FIII-2-1 is a projection of payroll expense for union and nonunion employees for  
3 the future test year ending December 31, 2025. It reflects projected hourly and salary  
4 rates effective in 2025, annual cash and equity incentive awards effective in 2025, and  
5 projected new employees. The Company included year-end bonuses in an amount of  
6 \$55,143 in projected payroll expense. The Company has consistently provided year-end  
7 bonuses to employees for over 29 years as a part of the employee's overall compensation  
8 package, and this is an expected part of compensation. Column 1 of Exhibit FIII-2-1  
9 reflects pro forma payroll expense for the twelve months ended December 31, 2024, in  
10 the amount of \$10,142,670 (Refer to Exhibit No. HIII-2-4). Column 2 of Exhibit No.  
11 FIII-2-1 reflects the effect during the twelve months ending December 31, 2025, of the  
12 projected hourly and salary rate increases effective in 2025, annual cash and equity  
13 incentive awards effective in 2025, and projected new employees, in the amount of  
14 \$383,304. The effect of the projected hourly and salary rate increases, annual cash and  
15 equity incentive awards, and projected new employees is determined and shown on  
16 Exhibit No. FIII-2-1 (a), which I will explain later. The effect during the twelve months  
17 ending December 31, 2025, of the projected hourly and salary rate increases, annual cash  
18 and equity incentive awards, and projected new employees in the amount of \$383,304 has  
19 been carried forward to Column 3 of Exhibit No. FIII-2, pages 2 through 8. Column 3 of  
20 Exhibit No. FIII-2-1 reflects the projected payroll expense for the twelve months ending  
21 December 31, 2025, in the amount of \$10,525,974.

22

23 I note that a portion of projected payroll expense for certain specified supervisory and  
24 general office employees for twelve months ending December 31, 2025, was capitalized

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1 and is reflected, as a reduction to operating expenses, in Account No. 67580002,  
2 Administrative and General Expenses Capitalized, on Exhibit No. FIII-2-10, which I will  
3 explain later.

4  
5 Q. Explain Exhibit No. FIII-2-1 (a).

6 A. Exhibit No. FIII-2-1 (a) is a projection of the effect during the twelve months ending  
7 December 31, 2025, of the projected hourly and salary rate increases, annual cash and  
8 equity incentive awards, and projected new employees. Column 1 of Exhibit No. FIII-2-1  
9 (a) reflects the projected payroll expense for the twelve months ending December 31,  
10 2025, in the amount of \$10,525,974. The projected payroll expense for the twelve  
11 months ending December 31, 2025, in the amount of \$10,525,974 is determined and  
12 shown on Exhibit No. FIII-2-1 (b), which I will explain later. Column 2 of Exhibit No.  
13 FIII-2-2 (a) reflects the annualized payroll expense for the historic test year in the amount  
14 of \$10,142,670 (Refer to Exhibit No. HIII-2-4). Column 3 of Exhibit No. FIII-2-1 (a) is  
15 the projected increase in payroll expense in the amount of \$383,304 as a result of the  
16 projected union employee increases effective May 1, 2025, the projected nonunion  
17 employee increases effective October 1, 2025, annual cash and equity incentive awards,  
18 and projected new employees. The projected increase in payroll expense is determined  
19 by subtracting the annualized historic test year payroll expense of \$10,142,670, shown in  
20 Column 2 from the projected payroll expense for the twelve months ending December 31,  
21 2025, of \$10,525,974, shown in Column 1 ( $\$10,525,974 - \$10,142,670 = \$383,304$ ). The  
22 amount of the projected payroll expense increases to be incurred during the twelve  
23 months ending December 31, 2025, in the amount of \$383,304 has been carried forward  
24 to Exhibit No. FIII-2-1, Column 2.

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Q. Explain Exhibit No. FIII-2-1 (b).

A. Exhibit No. FIII-2-1 (b) provides the distribution of projected labor based on Company labor for the two years ended December 31, 2024. Company labor for the twelve months ended December 31, 2024, of \$10,263,675, is shown in Column 1 of Exhibit No. FIII-2-1 (b). Company labor for the twelve months ended December 31, 2023 of \$9,354,020 is shown in Column 2 of Exhibit No. FIII-2-1 (b). Two-Year Company Labor of \$19,617,695, which represents the addition of Company labor for the twelve months ended December 31, 2024, and Company labor for the twelve months ended December 31, 2023, is shown in Column 3 on Exhibit No. FIII-2-1 (b). Projected payroll of \$11,328,843 is distributed among the various capital and expense accounts based on the Two-Year Company Labor. The allocation factor of 0.57748 shown in Column 4 of Exhibit No. FIII-2-1 (b) used to distribute projected payroll among the various capital and expense accounts is calculated by dividing Projected Company Labor of \$11,328,843 by Two Year Company Labor of \$19,617,695. The allocation factor of 0.57748 is multiplied by each capital and expense amount of Two-Year Company Labor shown in Column 3 of Exhibit No. FIII-2-1 (b) to determine the projected Company labor amount allocated to each capital and expense account shown in Column 5 of Exhibit No. FIII-2-1 (b). Projected Company Labor Expense is carried forward to Column 1 of Exhibit No. FIII-2-1 (a).

Q. Explain Exhibit No. FIII-2-2.

A. Exhibit No. FIII-2-2 projects trustee and portfolio management fees for the twelve months ending December 31, 2025, for the Company’s qualified defined benefit pension

1 plans based on projected plan asset values during 2025. The Company pays for trustee  
2 and portfolio management services for its qualified defined benefit pension plans based  
3 upon the plan asset values. The adjustment in trustee and portfolio management fees in  
4 the amount of \$1,092 is determined by subtracting pro forma trustee and portfolio  
5 management fees for the twelve months ended December 31, 2024, of \$156,415 (Refer to  
6 Exhibit No. HIII-2-13) from the projected trustee and portfolio management fees based  
7 on projected plan asset values during the twelve months ending December 31, 2025, of  
8 \$157,506, which is calculated based on a trustee and portfolio management fee of 0.25%,  
9 the current rate, of the average projected plan assets for 2025 of \$63,002,525  
10 (\$63,002,525 x 0.0025). The average projected plan assets for 2025 of \$63,002,525 is  
11 determined by averaging the actual plan assets as of December 31, 2024, of \$62,565,878  
12 and projected plan assets as of December 31, 2025, of \$63,439,172, based on a 5.0%  
13 annual growth rate and assumed distributions. The adjustment in the amount of \$1,092  
14 for projected trustee and portfolio management fees as an adjustment to Account No.  
15 60480001 has been carried forward to Exhibit No. FIII-2, Column 3.

16  
17 Q. Explain Exhibit No. FIII-2-3.

18 A. Exhibit No. FIII-2-3 projects health insurance expense and group life insurance expense  
19 for the twelve months ending December 31, 2025, based on the Company's complement  
20 of employees and the annualization of actual monthly premiums effective in 2025 for  
21 health insurance and group life insurance. The Company offers health insurance  
22 coverage for its employees. The Company pays health benefits up to 80% of the  
23 premium cost for all participating employees. The Company also offers dental and vision  
24 programs for its employees. The Company pays for 80% of the participating employees'

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1 dental and vision benefits. The Company pays for a group life insurance benefit for all  
2 employees.

3  
4 The actual 2025 monthly insurance premiums by class are annualized to determine the  
5 projected annual health insurance expense of \$2,736,975. The adjustment in the amount  
6 of \$238,015 is determined by subtracting the portion of health insurance expense to be  
7 borne by all employees of \$489,302 and the pro forma health insurance expense for the  
8 twelve months ended December 31, 2025, in the amount of \$2,009,658 from the projected  
9 annual health insurance expense of \$2,736,975 ( $\$2,736,975 - \$489,302 - \$2,009,658 =$   
10  $\$238,015$ ). The adjustment to Account No. 60480005 of \$238,015 has been carried  
11 forward to Exhibit No. FIII-2, Column 3.

12  
13 I note that a portion of projected health insurance expense for the twelve months ended  
14 December 31, 2025, was capitalized in accordance with Appendix “B” to the Settlement  
15 Agreement in the Company’s 1987 rate case (Docket No. R-870769) and is reflected, as a  
16 reduction to operating expenses, in Account No. 67580002, Miscellaneous Expenses-  
17 Administrative and General Expenses Transferred on Exhibit No. FIII-2-10, which I will  
18 explain later.

19  
20 Q. Explain Exhibit No. FIII-2-4.

21 A. Exhibit No. FIII-2-4 adjusts auditing fees for the twelve months ending December 31,  
22 2025, based upon the Audit Committee approved proposal for services of the Company’s  
23 independent registered public accountants.

1 The costs of auditing fees for twelve months ending December 31, 2025, are \$264,950.

2 The adjustment of \$14,758 is determined by subtracting auditing fees incurred and  
3 recorded during the twelve months ended December 31, 2024, of \$250,192 from  
4 proposed auditing fees for the twelve months ending December 31, 2025, of \$264,950  
5 (\$264,950 - \$250,192 = \$14,758). The adjustment of auditing fees for the twelve months  
6 ending December 31, 2025, of \$14,758 as an adjustment to Account No. 63280 has been  
7 carried forward to Exhibit No. FIII-2, Column 3.

8  
9 Q. Explain Exhibit No. FIII-2-5.

10 A. Exhibit No. FIII-2-5 projects property, miscellaneous property floater, crime and  
11 fiduciary liability, ERISA bond, cyber, general liability, excess liability, directors and  
12 officers liability, pollution and underground storage tank liability, employment practices,  
13 flood, kidnap and ransom, service fee and highway restoration bond insurance expense  
14 for the twelve months ending December 31, 2025, to reflect actual insurance premiums  
15 effective January 1, 2025. The projected property, miscellaneous property floater, crime  
16 and fiduciary liability, ERISA bond, cyber, general liability, excess liability, directors and  
17 officers liability, pollution and underground storage tank liability, employment practices,  
18 flood, kidnap and ransom, service fee and highway restoration bond insurance expense  
19 for the twelve months ending December 31, 2024, is shown in Column 2 of Exhibit No.  
20 FIII-2-5. Property, miscellaneous property floater, crime and fiduciary liability, ERISA  
21 bond, cyber, general liability, excess liability, directors and officers liability, pollution  
22 and underground storage tank liability, employment practices, flood, kidnap and ransom,  
23 service fee and highway restoration bond insurance expense of \$1,031,703 for the twelve  
24 months ended December 31, 2024, shown in Column 3 of Exhibit No. FIII-2-5, is

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1 subtracted from the projected insurance expense of \$1,108,918 to derive the adjustments  
2 to property, miscellaneous property floater, crime and fiduciary liability, ERISA bond,  
3 cyber, general liability, excess liability, directors and officers liability, pollution and  
4 underground storage tank liability, employment practices, flood, kidnap and ransom,  
5 service fee and highway restoration bond insurance expense shown in Column 4. The  
6 adjustments totaling \$77,215 for the insurance premiums have been carried forward to  
7 Exhibit No. FIII-2, Column 3.

8  
9 A portion of projected property insurance expense for twelve months ending December  
10 31, 2025, is capitalized in accordance with Appendix "B" to the Settlement Agreement in  
11 the Company's 1987 rate case (Docket No. R-870769) and is reflected as a reduction to  
12 operating expenses in Account No. 67580002, Administrative and General Expenses  
13 Capitalized, on Exhibit No. FIII-2-10, which I will explain later.

14  
15 Q. Explain Exhibit No. FIII-2-6.

16 A. Exhibit No. FIII-2-6 projects workers' compensation insurance expense based on  
17 projected payroll for the twelve months ending December 31, 2025, at workers  
18 compensation rates in effect as of January 1, 2025. Total projected payroll of  
19 \$11,328,843 is detailed by workers' compensation insurance classifications of  
20 waterworks employees, outside sales and clerical employees in the amounts of  
21 \$6,102,950, \$1,379,092, and \$3,846,801, respectively. The actual January 1, 2025  
22 workers' compensation premium rates per \$100 by classifications are \$2.31, \$0.21, and  
23 \$0.08 respectively. These rates are applied to the projected payroll by classification to  
24 determine the projected initial workers' compensation insurance premiums. The

25

1 projected initial premiums are \$140,978 for waterworks employees, \$2,896 for outside  
2 sales, and \$3,077 for clerical employees. The projected initial premiums are subject to an  
3 increased employer's liability limit factor of 1.10% and an experience modification factor  
4 of 1.260 as established by the Pennsylvania Compensation Insurance Bureau. Total  
5 projected premiums subject to experience modification of \$146,952 ( $\$140,978 + \$2,896 +$   
6  $\$3,077 = \$146,952$ ) are multiplied by the increased employer's liability limit factor of  
7 1.10% to determine the cost of the increased employer's liability limit of \$1,616  
8 ( $\$146,952 \times 0.011$ ). The total of initial premiums of \$146,952 and increased employer's  
9 liability limit cost of \$1,616 are multiplied by the Pennsylvania Experience Modification  
10 of 1.260 to arrive at adjusted workers' compensation insurance premiums of \$187,196  
11 ( $\$146,952 + \$1,616 \times 1.260$ ). Adjusted workers' compensation insurance premiums of  
12 \$187,196 are increased by a 5.0% schedule rating premium of \$9,360 ( $\$187,196 \times 0.05$ ).  
13 The premiums adjusted by the application of experience modification of \$187,196 and  
14 schedule rating of \$9,360 are multiplied by and reduced by a 5% safety credit of \$(9,828)  
15 ( $\$187,196 + \$9,360 \times (0.05)$ ) to arrive at premiums adjusted by application of schedule  
16 rating and safety credit of \$186,728 ( $\$187,196 + \$9,360 - \$9,828$ ). Premiums adjusted by  
17 application of schedule rating and safety credit of \$186,728 are reduced by an 11.33%  
18 premium discount of \$21,156 ( $\$186,728 \times (0.1133)$ ) and increased by the Pennsylvania  
19 Compensation Rating Bureau Fee of \$175, a foreign and domestic terrorism surcharge of  
20 \$3,399, a catastrophe (other than terrorism) surcharge of \$2,266 and a 2.42%  
21 Pennsylvania Employer Assessment of \$4,148 ( $\$186,728 - \$21,156 + \$175 + \$3,399 +$   
22  $\$2,266 \times 0.0242$ ) to determine projected workers' compensation insurance expense of  
23 \$175,559 ( $\$186,728 - \$21,156 + \$175 + \$3,399 + \$2,266 + \$4,148$ ). The adjustment to  
24 Workers' Compensation Insurance expense of \$6,416 is determined by subtracting pro  
25

1           forma Workers' Compensation Insurance expense for the twelve months ended December  
2           31, 2024, of \$169,143 from projected workers' compensation insurance expense of  
3           \$175,559 ( $\$175,559 - \$169,143 = \$6,416$ ). The adjustment to Account No. 65880000 of  
4           \$6,416 has been carried forward to Exhibit No. FIII-2, Column 3.

5  
6           A portion of projected workers' compensation insurance expense for twelve months  
7           ending December 31, 2025, is capitalized in accordance with Appendix "B" to the  
8           Settlement Agreement in the Company's 1987 rate case (Docket No. R-870769) and is  
9           reflected, as a reduction to operating expenses, in Account No. 67580002, Administrative  
10          and General Expenses Capitalized, on Exhibit No. FIII-2-10, which I will explain later.

11  
12   Q.     Explain Exhibit FIII-2-7.

13   A.     Exhibit FIII-2-7 projects uncollectible accounts expense for the twelve months ending  
14          December 31, 2025, in the amount of 439,449 by applying the two-year average percent  
15          of uncollectible accounts actually written off less recoveries of 0.66% to projected  
16          operating revenues under existing rates for the twelve months ending December 31, 2025,  
17          of \$66,568,868 (Refer to Exhibit No. FII-1) ( $\$66,568,868 \times 0.0066$ ). The adjustment to  
18          uncollectible accounts in the amount of \$103 is determined by subtracting pro forma  
19          uncollectible accounts during the twelve months ended December 31, 2024, in the  
20          amount of \$439,347 (Refer to Exhibit No. HIII-2-2) from the calculated projected  
21          uncollectible accounts for ratemaking purposes in the amount of \$439,449 ( $\$439,449 -$   
22           $\$439,347 = \$103$ ). The adjustment to uncollectible accounts expense in the amount of  
23          \$103 to Account No. 67070000 has been carried forward to Exhibit FIII-2, Column 3.

1 Q. Explain Exhibit No. FIII-2-8.

2 A. Exhibit No. FIII-2-8 projects the allocations to wastewater for the twelve months ending  
3 December 31, 2025, based on the Company's current allocation methodology and  
4 projected expense adjustments to the accounts that are allocated. Various expenses that  
5 are for both the water and wastewater portions of the business are recorded on the water  
6 side of the business. At the end of each accounting period, a portion of those allocable  
7 expenses are recorded as a reduction to expense on the water side of the business and an  
8 addition to expense on the wastewater side of the business.

9

10 The allocable portion of indirect labor, indirect fringe benefits, and operating expense to  
11 wastewater based on the projected balances of the accounts to be allocated for the twelve  
12 months ending December 31, 2025, is calculated to be \$(531,732). The payroll taxes and  
13 fringe benefits on the direct labor recorded on the wastewater side of the business is  
14 calculated to be \$(243,044). The adjustment of \$7,941 is determined by subtracting the  
15 allocation to wastewater for the twelve months ended December 31, 2024, of \$(782,717)  
16 by the calculated allocable portion of indirect labor, indirect fringe benefits, and operating  
17 expense of \$(531,732) and calculated payroll taxes and fringe benefits on the direct labor  
18 of \$(243,044) [ $$(531,732) + $(243,044) - $(782,717) = $7,941$ ]. The adjustment of  
19 allocations to wastewater for the twelve months ending December 31, 2022, of \$7,941 as  
20 an adjustment to Account No. 67580005 has been carried forward to Exhibit No. FIII-2,  
21 Column 3.

22

23 Q. Explain Exhibit No. FIII-2-9.

24

25

1 A. Exhibit No. FIII-2-9 projects director's fees for the twelve months ending December 31,  
2 2025, based on the Company's current complement of directors, schedule of Board of  
3 Director and Board committee meetings, and projected 2025 fee increase. Directors who  
4 are also current employees of the Company receive no additional compensation for Board  
5 service.

6  
7 The projected costs of director's fees for twelve months ending December 31, 2025, are  
8 \$501,702. The adjustment of \$82,341 is determined by subtracting pro forma director's  
9 fees for the twelve months ended December 31, 2024, of \$419,361 from Exhibit No.  
10 HIII-2-8, from projected director's fees for the twelve months ending December 31, 2025,  
11 of \$501,702 ( $\$501,702 - \$419,361 = \$82,341$ ). The projection of director's fees for the  
12 twelve months ending December 31, 2025, of \$82,341 as an adjustment to Account No.  
13 67580800 has been carried forward to Exhibit No. FIII-2, Column 3.

14  
15 Q. Explain Exhibit No. FIII-2-10.

16 A. Exhibit No. FIII-2-10 projects administrative and general expenses capitalized for the  
17 twelve months ending December 31, 2025, in accordance with the Settlement Agreements  
18 under Docket Nos. R-870769 and R-963619 based on projected indirect labor, employee  
19 benefit costs, property insurance, workers' compensation insurance, and pension expense  
20 for the twelve months ending December 31, 2025, and a two-year average capitalization  
21 ratio.

22  
23 A portion of the pay of certain specified supervisory and general office employees is  
24 capitalized (referred to as "indirect labor") in addition to capitalized payroll determined  
25

1 directly from employee time records. The Company has updated the specified  
 2 supervisory and general office employees to reflect the current complement of employee  
 3 positions. Some employee positions described in the settlement of the Company's 1987  
 4 base rate proceeding no longer exist, and many new employee positions have been  
 5 created. The indirect labor capitalization is calculated based upon three, separate,  
 6 experienced ratios of directly capitalized payroll to total payroll, as follows:

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<u>Employee Position</u>	<u>Allocation</u>
(a) President and Chief Executive Officer Chief Operating Officer Chief Financial Officer Chief Administrative Officer and General Counsel Controller Finance Manager CPR Clerk CPR Clerk Purchasing Coordinator Materials and Supplies Clerk Vice President of Operations Operations Manager	Ratio of total payroll directly capitalized to total payroll
(b) GIS Administrator Assistant Distribution Superintendent Assistant Distribution Superintendent Distribution Superintendent Operations & Supply Chain Manager Distribution Line Representative Engineering Technician Engineering Technician Dispatcher Relief Dispatcher	Ratio of directly capitalized payroll of Distribution System Department employees to total Distribution System Department payroll
(c) Maintenance & Grounds Superintendent Maintenance & Grounds Assistant Superintendent Maintenance & Grounds Assistant	Ratio of directly capitalized payroll of Maintenance and Grounds Department employees to total

1 Superintendent

Maintenance and Grounds  
Department payroll

2  
3 The two-year average general and administrative employees' capitalized ratio is 10.55%.  
4 This ratio was applied to projected payroll of \$1,925,697 for the specified administrative  
5 and general employees to determine the projected capitalized indirect labor for general  
6 and administrative employees of \$203,209 ( $\$1,925,697 \times 0.1055$ ).

7  
8 The two-year average distribution employees' capitalized ratio is 17.98%. This ratio was  
9 applied to projected payroll of \$699,104 for the specified distribution employees to  
10 determine the projected capitalized indirect labor for distribution employees of \$125,665  
11 ( $\$699,104 \times 0.1798$ ).

12  
13 The two-year average maintenance and grounds employees' capitalized ratio is 2.55%.  
14 This ratio was applied to projected payroll of \$246,747 for the specified maintenance and  
15 grounds employees to determine the projected capitalized indirect labor for maintenance  
16 and grounds employees' of \$6,304 ( $\$246,747 \times 0.0255$ ).

17  
18 As further provided in the settlement of the Company's 1987 base rate proceeding at  
19 Docket No. R-870769, a portion of payroll taxes, group life and health insurance expense,  
20 workers' compensation insurance expense and property insurance expense will be  
21 capitalized.

1 In addition, as provided in the settlement of the Company's 1996 base rate proceeding at  
2 Docket No. R-963619, a portion of pension expense will be capitalized based upon the  
3 ratio of capitalized payroll to total payroll.

4  
5 The two-year average capitalized payroll ratio is 7.30%. This ratio was applied to  
6 projected group life and health insurance expense, property insurance expense and  
7 pension expense of \$2,247,673, \$222,449, and \$342,372, respectively, to determine the  
8 projected capitalized employee benefits, property insurance expense and pension expense  
9 of \$163,981, \$16,229, and \$24,978, respectively.

10  
11 The capitalized payroll ratio of 7.30% used to capitalize these expenses is different than  
12 the capitalized ratios used for indirect labor because the calculations are based on  
13 different allocation factors as prescribed by the Settlement Agreement. The latter ratio  
14 compares total capitalized payroll to total payroll, while the ratios used for indirect labor  
15 concern only a portion of the Company's employees.

16  
17 The capitalization ratios for workers' compensation and payroll taxes of 1.71% and  
18 7.90%, respectively, are based on a two-year average of the actual workers' compensation  
19 insurance premiums and payroll tax rates applied to capitalized payroll. The 1.71% ratio  
20 of workers' compensation was applied to pro forma capitalized labor from Exhibit FIII-2-  
21 1 (b) of \$773,183 to determine capitalized workers' compensation expense of \$13,187.  
22 The 7.90% ratio of payroll taxes (including FICA, FUTA, and SUTA) was applied to pro  
23 forma capitalized labor from Exhibit FIII-2-1 (b) of \$773,183 to determine capitalized  
24 payroll tax expense of \$61,116.

1  
2 Total projected capitalized indirect labor, employee benefits, property insurance expense,  
3 payroll taxes and pension expense total \$614,669 ( $\$203,209 + \$125,665 + \$6,304 +$   
4  $\$163,981 + \$16,229 + \$13,187 + \$61,116 + \$24,978$ ). The adjustment to capitalized  
5 indirect labor, employee benefits, property insurance expense, payroll taxes and pension  
6 expense in the amount of \$27,934 is determined by subtracting pro forma capitalized  
7 indirect labor, employee benefits, property insurance expenses, payroll taxes and pension  
8 expense for the twelve months ended December 31, 2024, of \$586,735 from calculated  
9 projected capitalized indirect labor, employee benefits, property insurance expense,  
10 payroll taxes and pension expense of \$614,669 ( $\$614,669 - \$586,735$ ). The adjustment to  
11 capitalized indirect labor, employee benefits, property insurance expense, payroll taxes  
12 and pension expense in the amount of \$27,934 as an adjustment to Account No.  
13 67580002 and Account No. 40801302 has been carried forward to Exhibit No. FIII-2,  
14 Column 3 and Exhibit No. FIV-15.

15  
16 Q. Explain Exhibit No. FIII-2-11.

17 A. Exhibit No. FIII-2-11 projects increased operating expenses for additional costs of  
18 customer accounting and collecting expenses (excluding uncollectible accounts),  
19 purchased power and chemicals resulting from the projection of the net increase in  
20 number of customers served during the twelve months ending December 31, 2025.

21  
22 The historical average ratio of customer accounting and collecting, purchased power and  
23 chemical costs to sales of water of 8.50% for the two-year period ended December 31,  
24 2024, was calculated. This ratio was applied to the total operating revenue adjustments in  
25

1 the amount of \$357,005 representing projected increases from load growth, as calculated  
2 on Exhibit Nos. FII-2-1 through FII-2-6, to derive an adjustment of \$30,346 ( $\$357,005 \times$   
3  $0.085$ ).

4  
5 The historical average ratio of power and chemical only costs to sales of water of 4.9%  
6 for the two-year period ended December 31, 2024, was calculated. This ratio was applied  
7 to the total operating revenue adjustments in the amount of \$(341,440) representing  
8 projected decreases from load growth, as calculated on Exhibit No. FII-2-9 to derive an  
9 adjustment of \$(16,872) [ $\$(341,440 \times 0.049)$ ].

10  
11 The adjustment in the amount of \$13,474 [ $\$30,346 + \$(16,872) = \$13,474$ ] for additional  
12 costs of customer accounting and collecting, purchased power and chemicals has been  
13 carried forward to Exhibit No. FIII-2, Column 3.

14  
15 Q. Explain Exhibit No. FIII-2-12.

16 A. Exhibit No. FIII-2-12 projects the effect of increased maintenance expenses as utility  
17 plant in service increases. The Company calculated a two-year average rate of  
18 maintenance expenses as a percentage of utility plant in service of 0.73%. The two-year  
19 average rate was applied to the projected utility plant in service at December 31, 2025 of  
20 \$681,352,401. The projected total maintenance expenses of \$4,993,006 is determined by  
21 applying the two-year average rate of maintenance expenses as a percentage of utility  
22 plant in service to projected utility plant in service at December 31, 2025 ( $\$681,352,401 \times$   
23  $0.0073$ ). The projected effect of increased maintenance expenses in the amount of  
24 \$12,672 is determined by subtracting the test year maintenance expenses of \$4,980,334

25

1 from the projected maintenance expenses of \$4,993,006 (\$4,993,006 - \$4,980,334). The  
2 adjustment of \$12,672 has been carried forward to Exhibit No. FIII-2, Column 3.

3  
4 Q. Explain Exhibit FIII-2-15.

5 A. Exhibit FIII-2-15 is a pro forma of payroll expense for union and nonunion employees for  
6 the future test year ending December 31, 2025. It reflects projected hourly and salary  
7 rates effective in 2025, annual cash and equity incentive awards effective in 2025, and  
8 projected new employees. The Company included year-end bonuses in an amount of  
9 \$55,143 in projected payroll expense. The Company has consistently provided year-end  
10 bonuses to employees for over 29 years as a part of the employee's overall compensation  
11 package, and this is an expected part of compensation. Column 1 of Exhibit FIII-2-1  
12 reflects projected payroll expense for the twelve months ended December 31, 2025, in the  
13 amount of \$10,525,974 (Refer to Exhibit No. FIII-2-1). Column 2 of Exhibit No. FIII-2-1  
14 reflects the effect during the twelve months ending December 31, 2025, of the pro forma  
15 hourly and salary rate increases effective in 2025, annual cash and equity incentive  
16 awards effective in 2025, and projected new employees in the amount of \$993,261. The  
17 effect of the pro forma hourly and salary rate increases, annual cash and equity incentive  
18 awards, and projected new employees is determined and shown on Exhibit No. FIII-2-15  
19 (a), which I will explain later. The effect during the twelve months ending December 31,  
20 2025, of the pro forma hourly and salary rate increases, annual cash and equity incentive  
21 awards, and projected new employees in the amount of \$993,261 has been carried  
22 forward to Column 6 of Exhibit No. FIII-2. Column 3 of Exhibit No. FIII-2-15 reflects  
23 the pro forma payroll expense for the twelve months ending December 31, 2025, in the  
24 amount of \$11,519,235.

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I note that a portion of pro forma payroll expense for certain specified supervisory and general office employees for twelve months ending December 31, 2025, was capitalized and is reflected, as a reduction to operating expenses, in Account No. 67580002, Administrative and General Expenses Capitalized, on Exhibit No. FIII-2-21, which I will explain later.

Q. Explain Exhibit No. FIII-2-15 (a).

A. Exhibit No. FIII-2-15 (a) is a pro forma of the effect during the twelve months ending December 31, 2025, of the projected hourly and salary rate increases, annual cash and equity incentive awards, and projected new employees. Column 1 of Exhibit No. FIII-2-15 (a) reflects the pro forma payroll expense for the twelve months ending December 31, 2025, in the amount of \$11,519,235. The pro forma payroll expense for the twelve months ending December 31, 2025, in the amount of \$11,519,235 is determined and shown on Exhibit No. FIII-2-15 (b), which I will explain later. Column 2 of Exhibit No. FIII-2-15 (a) reflects the projected payroll expense for the twelve months ending December 31, 2025 in the amount of \$10,525,974 (Refer to Exhibit No. FIII-2-1). Column 3 of Exhibit No. FIII-2-15 (a) is the pro forma increase in payroll expense in the amount of \$993,261 as a result of the projected union employee increases effective May 1, 2025, the projected nonunion employee increases effective October 1, 2025, annual cash and equity incentive awards, and projected new employees. The pro forma increase in payroll expense is determined by subtracting the projected payroll expense for the twelve months ending December 31, 2025, of \$10,525,974, shown in Column 2 from the pro forma payroll expense for the twelve months ending December 31, 2025, of

1 \$11,519,235, shown in Column 1 ( $\$11,519,235 - \$10,525,974 = \$993,261$ ). The amount  
2 of the pro forma payroll expense increases to be incurred during the twelve months  
3 ending December 31, 2025, in the amount of \$993,261 has been carried forward to  
4 Exhibit No. FIII-2-15, Column 2.  
5

6 Q. Explain Exhibit No. FIII-2-15 (b).

7 A. Exhibit No. FIII-2-15 (b) provides the distribution of pro forma labor based on Company  
8 labor for the two years ended December 31, 2024. Company labor for the twelve months  
9 ended December 31, 2024, of \$10,263,675, is shown in Column 1 of Exhibit No. FIII-2-1  
10 (b). Company labor for the twelve months ended December 31, 2023 of \$9,354,020 is  
11 shown in Column 2 of Exhibit No. FIII-2-15 (b). Two-Year Company Labor of  
12 \$19,617,695, which represents the addition of Company labor for the twelve months  
13 ended December 31, 2024, and Company labor for the twelve months ended December  
14 31, 2023, is shown in Column 3 on Exhibit No. FIII-2-15 (b). Pro forma payroll of  
15 \$12,397,865 is distributed among the various capital and expense accounts based on the  
16 Two-Year Company Labor. The allocation factor of 0.63197 shown in Column 4 of  
17 Exhibit No. FIII-2-15 (b) used to distribute pro forma payroll among the various capital  
18 and expense accounts is calculated by dividing Pro Forma Company Labor of  
19 \$12,397,865 by Two-Year Company Labor of \$19,617,695. The allocation factor of  
20 0.63197 is multiplied by each capital and expense amount of Two-Year Company Labor  
21 shown in Column 3 of Exhibit No. FIII-2-1 (b) to determine the pro forma Company  
22 labor amount allocated to each capital and expense account shown in Column 5 of  
23 Exhibit No. FIII-2-15 (b). Pro Forma Company Labor Expense is carried forward to  
24 Column 1 of Exhibit No. FIII-2-15 (a).  
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Q. Explain Exhibit No. FIII-2-16.

A. Exhibit No. FIII-2-16 adjusts trustee and portfolio management fees for the twelve months ending December 31, 2025, for the Company’s qualified defined benefit pension plans based on projected plan asset values as of December 31, 2025. The Company pays for trustee and portfolio management services for its qualified defined benefit pension plans based upon the plan asset values. The adjustment in trustee and portfolio management fees in the amount of \$1,092 is determined by subtracting projected trustee and portfolio management fees for the twelve months ending December 31, 2025, of \$157,506 (Refer to Exhibit No. FIII-2-2) from the pro forma trustee and portfolio management fees based on projected plan asset values as of December 31, 2025, of \$158,598, which is calculated based on a trustee and portfolio management fee of 0.25% of the projected plan assets as of December 31, 2025, of \$63,439,172 ( $\$63,439,175 \times 0.0025$ ). The projected plan assets as of December 31, 2025, of \$63,439,172 are based on a 5.0% annual growth rate and assumed distributions. The adjustment in the amount of \$1,092 for pro forma trustee and portfolio management fees as an adjustment to Account No. 60480001 has been carried forward to Exhibit No. FIII-2, Column 6.

Q. Explain Exhibit No. FIII-2-17.

A. Exhibit No. FIII-2-17 adjusts workers’ compensation insurance expense based on pro forma payroll at workers compensation rates in effect as of January 1, 2025. Total pro forma payroll of \$12,397,865 is detailed by workers’ compensation insurance classifications of waterworks employees, outside sales and clerical employees in the amounts of \$6,608,356, \$1,463,935, and \$4,325,574, respectively. The actual January 1,

1 2025 workers' compensation premium rates per \$100 by classifications are \$2.31, \$0.21,  
2 and \$0.08, respectively. These rates are applied to the pro forma payroll by classification  
3 to determine the pro forma initial workers' compensation insurance premiums. The  
4 initial premiums are \$152,653 for waterworks employees, \$3,074 for outside sales, and  
5 \$3,460 for clerical employees. The initial premiums are subject to an increased  
6 employer's liability limits factor of 1.10% and an experience modification factor of 1.260  
7 as established by the Pennsylvania Compensation Insurance Bureau. Total premiums  
8 subject to experience modification of \$159,188 ( $\$152,653 + \$3,074 + \$3,460 = \$159,188$ )  
9 are multiplied by the increased employer's liability limit factor of 1.10% to determine the  
10 cost of the increased employer's liability limits of \$1,751 ( $\$159,188 \times 0.011$ ). The total  
11 of initial premiums of \$159,188 and increased employer's liability limits cost of \$1,751  
12 are multiplied by the Pennsylvania Experience Modification of 1.260 to arrive at adjusted  
13 workers' compensation insurance premiums of \$202,783 [ $(\$159,188 + \$1,751) \times 1.260$ ].  
14 Adjusted workers' compensation insurance premiums of \$202,783 are increased by a  
15 5.0% schedule rating premium of \$10,139 ( $\$202,783 \times 0.05$ ). The premiums adjusted by  
16 application of experience modification of \$202,783 and schedule rating of \$10,139 are  
17 multiplied by and reduced by a 5% safety credit of \$(10,646) [ $(\$202,783 + \$10,139) \times$   
18  $(0.05)$ ] to arrive at premiums adjusted by application of schedule rating and safety credit  
19 of \$202,276 ( $\$202,783 + \$10,139 - \$10,646$ ). Premiums adjusted by application of  
20 schedule rating and safety credit of \$202,276 are reduced by an 11.33% premium  
21 discount of \$22,918 [ $\$202,276 \times (0.1133)$ ] and increased by the Pennsylvania  
22 Compensation Rating Bureau Fee of \$175, a foreign and domestic terrorism surcharge of  
23 \$3,719, a catastrophe (other than terrorism) surcharge of \$2,480 and a 2.42%  
24 Pennsylvania Employer Assessment of \$4,495 [ $(\$202,276 - \$22,918 + \$175 + \$3,719 +$   
25

1       \$2,480) x 0.0242] to determine pro forma workers' compensation insurance expense of  
2       \$190,227 (\$202,276 - \$22,918 + \$175 + \$3,719 + \$2,480 + \$4,495). The adjustment to  
3       Workers' Compensation Insurance expense of \$14,668 is determined by subtracting  
4       projected Workers' Compensation Insurance expense during the twelve months ending  
5       December 31, 2025, of \$175,559 from pro forma workers' compensation insurance  
6       expense of \$190,227 ( $\$190,227 - \$175,559 = \$14,668$ ). The adjustment to Account No.  
7       65880000 of \$14,668 has been carried forward to Exhibit No. FIII-2, Column 6.

8  
9       A portion of pro forma workers' compensation insurance expense for twelve months  
10      ending December 31, 2025, is capitalized in accordance with Appendix "B" to the  
11      Settlement Agreement in the Company's 1987 rate case (Docket R-870769) and is  
12      reflected, as a reduction to operating expenses, in Account No. 67580002, Administrative  
13      and General Expenses Capitalized, on Exhibit No. FIII-2-21, which I will explain later.

14  
15    Q.    Explain Exhibit No. FIII-2-18.

16    A.    Exhibit No. FIII-2-18 annualizes uncollectible accounts expense for the twelve months  
17      ending December 31, 2025, in the amount of \$442,297 by applying the two-year average  
18      percent of uncollectible accounts actually written off less recoveries of 0.66% to pro  
19      forma operating revenues under existing rates for the twelve months ending December  
20      31, 2025, of \$67,000,211 (Refer to Exhibit No. FII-2) ( $\$67,000,211 \times 0.0066$ ). The  
21      adjustment to uncollectible accounts in the amount of \$2,847 is determined by subtracting  
22      projected uncollectible accounts during the twelve months ending December 31, 2025, in  
23      the amount of \$439,449 (Refer to Exhibit No. FIII-2-7) from the calculated pro forma  
24      uncollectible accounts for ratemaking purposes in the amount of \$442,297 ( $\$442,297 -$

1 \$439,449 = \$2,847). The adjustment of \$2,847 to Account No. 67070000 has been  
2 carried forward to Exhibit No. FIII-2, Column 6.

3  
4 Q. Explain Exhibit No. FIII-2-19.

5 A. Exhibit No. FIII-2-19 annualizes the allocations to wastewater for the twelve months  
6 ending December 31, 2025, based on the Company's current allocation methodology and  
7 pro forma expense adjustments to the accounts that are allocated. Various expenses that  
8 are for both the water and wastewater portions of the business are recorded on the water  
9 side of the business. At the end of each accounting period, a portion of those allocable  
10 expenses are recorded as a reduction to expense on the water side of the business and an  
11 addition to expense on the wastewater side of the business.

12  
13 The allocable portion of indirect labor, indirect fringe benefits and operating expense to  
14 wastewater based on the pro forma balances of the accounts to be allocated for the twelve  
15 months ending December 31, 2025, is calculated to be \$(537,773). The payroll taxes and  
16 fringe benefits on the direct labor recorded on the wastewater side of the business is  
17 calculated to be \$(265,979). The adjustment of \$(28,975) is determined by subtracting  
18 the projected allocation to wastewater for the twelve months ending December 31, 2025,  
19 of \$(774,776) (see Exhibit No. FIII-2-8) by the calculated allocable portion of indirect  
20 labor, indirect fringe benefits and operating expense of \$(537,773) and calculated payroll  
21 taxes and fringe benefits on the direct labor of \$(265,979) [ $$(537,773) + $(265,979) -$   
22  $$(774,776) = $(28,975)$ ]. The adjustment of allocations to wastewater for the twelve  
23 months ending December 31, 2025, of \$(28,975) as an adjustment to Account No.  
24 67580005 has been carried forward to Exhibit No. FIII-2, Column 6.

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Q. Explain Exhibit No. FIII-2-20.

A. Exhibit No. FIII-2-20 annualizes director’s fees for the twelve months ending December 31, 2025, based on the Company’s current complement of directors, schedule of meetings, and projected 2025 fee increase. The adjustment to annualize, in the amount of \$18,489, is determined by subtracting the projected director’s fees for the twelve months ending December 31, 2025 (see Exhibit No. FIII-2-9) in the amount of \$501,702 from the calculated pro forma director’s fees for the twelve months ended December 31, 2025, of \$520,191 ( $\$520,191 - \$501,702 = \$18,489$ ). The annualization adjustment of \$18,489 is carried forward to Exhibit No. FIII-2, Column 6. Directors who are also current employees of the Company receive no additional compensation for Board service.

Q. Explain Exhibit No. FIII-2-21.

A. Exhibit No. FIII-2-21 adjusts administrative and general expenses capitalized for the twelve months ending December 31, 2025, in accordance with the Settlement Agreements under Docket Nos. R-870769 and R-963619 based on pro forma indirect labor, employee benefit costs, property insurance, workers’ compensation insurance and pension expense for the twelve months ending December 31, 2025, and a two-year average capitalization ratio.

A portion of the pay of certain specified supervisory and general office employees is capitalized (referred to as “indirect labor”) in addition to capitalized payroll determined directly from employee time records. The Company has updated the specified supervisory and general office employees to reflect the current complement of employee

1 positions. Some employee positions described in the Settlement of the Company's 1987  
 2 base rate proceeding no longer exist, and many new employee positions have been  
 3 created. The indirect labor capitalization is calculated based upon three, separate,  
 4 experienced ratios of directly capitalized payroll to total payroll, as follows:

<u>Employee Position</u>	<u>Allocation</u>
(a) President and Chief Executive Officer Chief Operating Officer Chief Financial Officer Chief Administrative Officer and General Counsel Controller Finance Manager CPR Clerk CPR Clerk Purchasing Coordinator Materials and Supplies Clerk Vice President of Operations Operations Manager	Ratio of total payroll directly capitalized to total payroll
(b) GIS Administrator Assistant Distribution Superintendent Assistant Distribution Superintendent Distribution Superintendent Operations & Supply Chain Manager Distribution Line Representative Engineering Technician Engineering Technician Dispatcher Relief Dispatcher	Ratio of directly capitalized payroll of Distribution System Department employees to total Distribution System Department payroll
(c) Maintenance & Grounds Superintendent Maintenance & Grounds Assistant Superintendent Maintenance & Grounds Assistant Superintendent	Ratio of directly capitalized payroll of Maintenance and Grounds Department employees to total Maintenance and Grounds Department payroll

24 The two-year average general and administrative employees' capitalized ratio is 10.55%.

25 This ratio was applied to pro forma payroll of \$1,978,522 for the specified administrative

1 and general employees to determine the pro forma capitalized indirect labor for general  
2 and administrative employees of \$208,783 ( $\$1,978,522 \times 0.1055$ ).

3  
4 The two-year average distribution employees' capitalized ratio is 17.98%. This ratio was  
5 applied to pro forma payroll of \$764,220 for the specified distribution employees to  
6 determine the pro forma capitalized indirect labor for distribution employees of \$137,370  
7 ( $\$764,220 \times 0.1798$ ).

8  
9 The two-year average maintenance and grounds employees' capitalized ratio is 2.55%.  
10 This ratio was applied to pro forma payroll of \$253,500 for the specified maintenance and  
11 grounds employees to determine the pro forma capitalized indirect labor for maintenance  
12 and grounds employees of \$6,477 ( $\$253,500 \times 0.0255$ ).

13  
14 As further provided in the settlement of the Company's 1987 base rate proceeding at  
15 Docket No. R-870769, a portion of payroll taxes, group life and health insurance expense,  
16 workers' compensation insurance expense, and property insurance expense will be  
17 capitalized.

18  
19 In addition, as provided in the settlement of the Company's 1996 base rate proceeding at  
20 Docket No. R-963619, a portion of pension expense will be capitalized based upon the  
21 ratio of capitalized payroll to total payroll.

22  
23 The two-year average capitalized payroll ratio is 7.30%. This ratio was applied to pro  
24 forma group life and health insurance expense, property insurance expense, and pension  
25

1 expense of \$2,247,673, \$222,449, and \$343,464, respectively, to determine the pro forma  
2 capitalized employee benefits, property insurance expense, and pension expense of  
3 \$163,981, \$16,229, and \$25,058, respectively.

4  
5 The capitalized payroll ratio of 7.30% used to capitalize these expenses is different than  
6 the capitalized ratios used for indirect labor because the calculations are based on  
7 different allocation factors as prescribed by the Settlement Agreement. The latter ratio  
8 compares total capitalized payroll to total payroll, while the ratios used for indirect labor  
9 concern only a portion of the Company's employees.

10  
11 The capitalization ratios for workers' compensation and payroll taxes of 1.71% and  
12 7.90%, respectively, are based on a two-year average of the actual workers' compensation  
13 insurance premiums and payroll tax rates applied to capitalized payroll. The 1.71% ratio  
14 of workers' compensation was applied to pro forma capitalized labor from Exhibit FIII-2-  
15 15 (b) of \$846,143 to determine capitalized workers' compensation expense of \$14,431.  
16 The 7.90% ratio of payroll taxes (including FICA, FUTA and SUTA) was applied to pro  
17 forma capitalized labor from Exhibit FIII-2-15 (b) of \$846,143 to determine capitalized  
18 payroll tax expense of \$66,883.

19  
20 Total pro forma capitalized indirect labor, employee benefits, property insurance expense,  
21 payroll taxes and pension expense total \$639,212 ( $\$208,783 + \$137,370 + \$6,477 +$   
22  $\$163,981 + \$16,229 + \$14,431 + \$66,883 + \$25,058$ ). The adjustment to capitalized  
23 indirect labor, employee benefits, property insurance expense, payroll taxes, and pension  
24 expense in the amount of \$24,543 is determined by subtracting projected capitalized  
25

1 indirect labor, employee benefits, property insurance expenses, payroll taxes, and pension  
2 expense for the twelve months ending December 31, 2025, of \$614,669 from calculated  
3 pro forma capitalized indirect labor, employee benefits, property insurance expense,  
4 payroll taxes, and pension expense of \$639,212 (\$639,212 - \$614,669). The adjustment  
5 to capitalized indirect labor, employee benefits, property insurance expense, payroll  
6 taxes, and pension expense in the amount of \$24,543 as an adjustment to Account No.  
7 67580002 and Account No. 40801302 has been carried forward to Exhibit No. FIII-2,  
8 Column 6 and Exhibit No. FIV-15, Column 6.

9  
10 Q. Explain Exhibit No. FIII-2-22.

11 A. Exhibit No. FIII-2-22 adjusts operating expenses in the amount of \$36,665 for additional  
12 costs of customer accounting and collecting expenses (excluding uncollectible accounts),  
13 purchased power and chemicals resulting from the annualization of the net increase in  
14 number of customers served during the twelve months ending December 31, 2025. The  
15 historical average ratio of customer accounting and collecting, purchased power, and  
16 chemical costs to sales of water of 8.50% for the two-year period ended December 31,  
17 2024, was calculated. This ratio was applied to the total operating revenue adjustments in  
18 the amount of \$431,343 representing pro forma increases from load growth, as calculated  
19 on Exhibit Nos. FII-2-10 through FII-2-17, to derive the adjustment of \$36,665 ( $\$431,343$   
20  $\times 0.085$ ). The adjustment in the amount of \$36,665 for additional costs of customer  
21 accounting and collecting, purchased power and chemicals has been carried forward to  
22 Exhibit No. FIII-2, Column 6.

23  
24 Q. Explain Exhibit FIII-2-25.

1 A. Exhibit FIII-2-25 is a projection of payroll expense for union and nonunion employees for  
2 the fully projected future test year ending February 28, 2027. It reflects projected hourly  
3 and salary rates effective in 2026 and annual cash and equity incentive awards effective  
4 in 2026. The Company included year-end bonuses in an amount of \$53,250 in projected  
5 payroll expense. The Company has consistently provided year-end bonuses to employees  
6 for over 29 years as a part of the employee's overall compensation package, and this is an  
7 expected part of compensation. Column 1 of Exhibit FIII-2-25 reflects pro forma payroll  
8 expense for the twelve months ending December 31, 2025, in the amount of \$11,519,235  
9 (Refer to Exhibit No. FIII-2-15). Column 2 of Exhibit No. FIII-2-25 reflects the effect  
10 during the twelve months ending February 28, 2027, of the projected hourly and salary  
11 rate increases effective in 2026 and annual cash and equity incentive awards effective in  
12 2026 in the amount of \$152,270. The effect of the projected hourly and salary rate  
13 increases and annual cash and equity incentive awards is determined and shown on  
14 Exhibit No. FIII-2-25 (a), which I will explain later. The effect during the twelve months  
15 ending February 28, 2027, of the projected hourly and salary rate increases and annual  
16 cash and equity incentive awards in the amount of \$152,270 has been carried forward to  
17 Column 3 of Exhibit No. FIII-2, pages 9 through 15. Column 3 of Exhibit No. FIII-2-25  
18 reflects the projected payroll expense for the twelve months ending February 28, 2027, in  
19 the amount of \$11,671,506.

20

21 I note that a portion of projected payroll expense for certain specified supervisory and  
22 general office employees for twelve months ending February 28, 2027, was capitalized  
23 and is reflected, as a reduction to operating expenses, in Account No. 67580002,

24

25

1 Administrative and General Expenses Capitalized, on Exhibit No. FIII-2-34, which I will  
2 explain later.

3  
4 Q. Explain Exhibit No. FIII-2-25 (a).

5 A. Exhibit No. FIII-2-25 (a) is a projection of the effect during the twelve months ending  
6 February 28, 2027, of the projected hourly and salary rate increases and annual cash and  
7 equity incentive awards. Column 1 of Exhibit No. FIII-2-25 (a) reflects the projected  
8 payroll expense for the twelve months ending February 28, 2027, in the amount of  
9 \$11,671,506. The projected payroll expense for the twelve months ending February 28,  
10 2027, in the amount of \$11,671,506 is determined and shown on Exhibit No. FIII-2-25  
11 (b), which I will explain later. Column 2 of Exhibit No. FIII-2-25 (a) reflects the pro  
12 forma payroll expense for the future test year in the amount of \$11,519,235 (Refer to  
13 Exhibit No. FIII-2-15). Column 3 of Exhibit No. FIII-2-25 (a) is the projected increase in  
14 payroll expense in the amount of \$152,270 as a result of the projected union employee  
15 increases effective May 1, 2026, the projected nonunion employee increases effective  
16 October 1, 2026, and annual cash and equity incentive awards. The projected increase in  
17 payroll expense is determined by subtracting the pro forma future test year payroll  
18 expense of \$11,519,235, shown in Column 2 from the projected payroll expense for the  
19 twelve months ending February 28, 2027, of \$11,671,506, shown in Column 1  
20 ( $\$11,671,506 - \$11,519,235 = \$152,270$ ). The amount of the projected payroll expense  
21 increases to be incurred during the twelve months ending February 28, 2027, in the  
22 amount of \$152,270 has been carried forward to Exhibit No. FIII-2-25, Column 2.

23  
24 Q. Explain Exhibit No. FIII-2-25 (b).

1 A. Exhibit No. FIII-2-1 (b) provides the distribution of projected labor based on Company  
2 labor for the two years ended December 31, 2024. Company labor for the twelve months  
3 ended December 31, 2024, of \$10,263,675, is shown in Column 1 of Exhibit No. FIII-2-  
4 25 (b). Company labor for the twelve months ended December 31, 2023 of \$9,354,020 is  
5 shown in Column 2 of Exhibit No. FIII-2-25 (b). Two-Year Company Labor of  
6 \$19,617,695, which represents the addition of Company labor for the twelve months  
7 ended December 31, 2024, and Company labor for the twelve months ended December  
8 31, 2023, is shown in Column 3 on Exhibit No. FIII-2-1 (b). Projected payroll of  
9 \$12,561,750 is distributed among the various capital and expense accounts based on the  
10 Two-Year Company Labor. The allocation factor of 0.64033 shown in Column 4 of  
11 Exhibit No. FIII-2-25 (b) used to distribute projected payroll among the various capital  
12 and expense accounts is calculated by dividing Projected Company Labor of \$12,561,750  
13 by Two-Year Company Labor of \$19,617,695. The allocation factor of 0.64033 is  
14 multiplied by each capital and expense amount of Two-Year Company Labor shown in  
15 Column 3 of Exhibit No. FIII-2-25 (b) to determine the projected Company labor amount  
16 allocated to each capital and expense account shown in Column 5 of Exhibit No. FIII-2-  
17 25 (b). Projected Company Labor Expense is carried forward to Column 1 of Exhibit No.  
18 FIII-2-25 (a).

19

20 Q. Explain Exhibit No. FIII-2-26.

21 A. Exhibit No. FIII-2-26 projects trustee and portfolio management fees for the twelve  
22 months ending February 28, 2027, for the Company's qualified defined benefit pension  
23 plans based on projected plan asset values. The Company pays for trustee and portfolio  
24 management services for its qualified defined benefit pension plans based upon the plan  
25

1 asset values. The adjustment in trustee and portfolio management fees in the amount of  
2 \$2,279 is determined by subtracting pro forma trustee and portfolio management fees for  
3 the twelve months ended December 31, 2025, of \$158,598 (Refer to Exhibit No. HIII-2-  
4 16) from the projected trustee and portfolio management fees based on projected plan  
5 asset values during the twelve months ending February 28, 2027, of 160,877, which is  
6 calculated based on a trustee and portfolio management fee of 0.25%, the current rate, of  
7 the average projected plan assets of \$64,350,777 ( $\$64,350,777 \times 0.0025$ ). The average  
8 projected plan assets of \$64,350,777 is determined by averaging the projected plan assets  
9 as of February 28, 2026, of \$63,582,832 and projected plan assets as of February 28,  
10 2027, of \$65,118,723, based on a 5.0% annual growth rate, assumed contributions and  
11 distributions. The adjustment in the amount of \$2,279 for projected trustee and portfolio  
12 management fees as an adjustment to Account No. 60480001 has been carried forward to  
13 Column 3 of Exhibit No. FIII-2, Pages 9 through 15.

14  
15 Q. Explain Exhibit No. FIII-2-27.

16 A. Exhibit No. FIII-2-27 projects health insurance expense for the twelve months ending  
17 February 28, 2027, based on the Company's complement of employees and the  
18 annualization of projected monthly premiums effective in 2026, for health insurance and  
19 group life insurance. The Company offers health insurance coverage for its employees.  
20 The Company pays health benefits up to 80% of the premium cost for all participating  
21 employees. The Company also offers dental and vision programs for its employees. The  
22 Company pays for 80% of the participating employees' dental and vision benefits. The  
23 Company pays for a group life insurance benefit for all employees.

1 The projected 2026 monthly insurance premiums by class, as determined through  
2 consultation with the Company's actuary, are annualized to determine the projected  
3 annual health insurance expense of \$2,898,285. The adjustment in the amount of  
4 \$125,570 is determined by subtracting the portion of health insurance expense to be borne  
5 by all employees of \$525,042 and the projected health insurance expense for the twelve  
6 months ended December 31, 2025, in the amount of \$2,373,243 from the projected annual  
7 health insurance expense of \$2,898,285 ( $\$2,898,285 - \$525,042 - \$2,373,243 =$   
8  $\$125,570$ ). The adjustment to Account No. 60480005 of \$125,570 has been carried  
9 forward to Column 3 of Exhibit No. FIII-2, pages 9 through 15.

10  
11 I note that a portion of projected health insurance expense for the twelve months ended  
12 February 28, 2027, was capitalized in accordance with Appendix "B" to the Settlement  
13 Agreement in the Company's 1987 rate case (Docket No. R-870769) and is reflected, as a  
14 reduction to operating expenses, in Account No. 67580002, Miscellaneous Expenses-  
15 Administrative and General Expenses Transferred on Exhibit No. FIII-2-34, which I will  
16 explain later.

17  
18 Q. Explain Exhibit No. FIII-2-28.

19 A. Exhibit No. FIII-2-28 projects auditing fees for the twelve months ending February 28,  
20 2027, based upon the increase in 2025 fees over 2024 fees of 5.0% for services of the  
21 Company's independent registered public accountants for the integrated audits of the  
22 financial statements and internal controls, quarterly reviews, tax preparation of the federal  
23 income tax return, and limited scope audits of the employee benefit plans.

1 The costs of auditing fees for twelve months ending December 31, 2025, are \$264,950 as  
2 shown on Exhibit No. FIII-2-4. Projected auditing fees for the twelve months ending  
3 February 28, 2027, of \$278,200 are calculated by taking the 2025 auditing fees for the  
4 integrated audits of the financial statements and internal controls, quarterly reviews, tax  
5 preparation of the federal income tax return, and limited scope audits of the employee  
6 benefit plans and applying a 5.0% increase ( $\$264,950 \times 1.05 = \$278,200$ ). The  
7 adjustment of \$13,250 is determined by subtracting auditing fees for the twelve months  
8 ending December 31, 2025, of \$264,950 from proposed auditing fees for the twelve  
9 months ending February 28, 2027, of \$278,200 ( $\$278,200 - \$264,950 = \$13,250$ ). The  
10 adjustment to auditing fees for the twelve months ending February 28, 2027, of \$13,250  
11 as an adjustment to Account No. 63280 has been carried forward to Column 3 of Exhibit  
12 No. FIII-2, pages 9 through 15.

13  
14 Q. Explain Exhibit No. FIII-2-29.

15 A. Exhibit No. FIII-2-29 projects property, miscellaneous property floater, crime and  
16 fiduciary liability, ERISA bond, cyber, general liability, excess liability, directors and  
17 officers liability, pollution and underground storage tank liability, employment practices,  
18 flood, kidnap and ransom, service fee, and highway restoration bond insurance expense  
19 for the twelve months ending February 28, 2027, based upon actual insurance premiums  
20 effective January 1, 2025, with an average inflationary increases and anticipated increases  
21 in coverage amounts of certain lines of insurance. The projected property, miscellaneous  
22 property floater, crime and fiduciary liability, ERISA bond, cyber, general liability,  
23 excess liability, directors and officers liability, pollution and underground storage tank  
24 liability, employment practices, flood, kidnap and ransom, service fee, and highway

25

1 restoration bond insurance expense for the twelve months ending February 28, 2027, is  
2 shown in Column 2. Property, miscellaneous property floater, crime and fiduciary  
3 liability, ERISA bond, cyber, general liability, excess liability, directors and officers  
4 liability, pollution and underground storage tank liability, employment practices, flood,  
5 kidnap and ransom, service fee, and highway restoration bond insurance expense of  
6 \$1,108,918 for the future test year ending December 31, 2025, shown in Column 3 of  
7 Exhibit No. FIII-2-5, is subtracted from the projected insurance expense of \$1,298,326 to  
8 derive the adjustments to property, miscellaneous property floater, crime and fiduciary  
9 liability, ERISA bond, cyber, general liability, excess liability, directors and officers  
10 liability, pollution and underground storage tank liability, employment practices, flood,  
11 kidnap and ransom, service fee, and highway restoration bond insurance expense shown  
12 in Column 4. The adjustments totaling \$189,408 for the insurance premiums have been  
13 carried forward to Column 3 of Exhibit No. FIII-2, pages 9 through 15.

14  
15 A portion of projected property insurance expense for twelve months ending February 28,  
16 2027, is capitalized in accordance with Appendix "B" to the Settlement Agreement in the  
17 Company's 1987 rate case (Docket No. R-870769) and is reflected as a reduction to  
18 operating expenses in Account No. 67580002, Administrative and General Expenses  
19 Capitalized, on Exhibit No. FIII-2-34, which I will explain later.

20  
21 Q. Explain Exhibit No. FIII-2-30.

22 A. Exhibit No. FIII-2-30 projects workers' compensation insurance expense based on  
23 projected payroll for the twelve months ending February 28, 2027, at workers  
24 compensation rates in effect as of January 1, 2025. Total projected payroll of  
25

1 \$12,561,750 is detailed by workers' compensation insurance classifications of  
2 waterworks employees, outside sales and clerical employees in the amounts of  
3 \$6,711,378, \$1,478,997, and \$4,371,375, respectively. The actual January 1, 2025  
4 workers' compensation premium rates per \$100 by classifications are \$2.31, \$0.21, and  
5 \$0.08 respectively. These rates are applied to the projected payroll by classification to  
6 determine the projected initial workers' compensation insurance premiums. The  
7 projected initial premiums are \$155,033 for waterworks employees, \$3,106 for outside  
8 sales and \$3,497 for clerical employees. The projected initial premiums are subject to an  
9 increased employer's liability limit factor of 1.10% and an experience modification factor  
10 of 1.260 as established by the Pennsylvania Compensation Insurance Bureau. Total  
11 projected premiums subject to experience modification of \$161,636 ( $\$155,033 + \$3,106 +$   
12  $\$3,497 = \$161,636$ ) are multiplied by the increased employer's liability limit factor of  
13 1.10% to determine the cost of the increased employer's liability limit of \$1,778  
14 ( $\$161,636 \times 0.011$ ). The total of initial premiums of \$161,636 and increased employer's  
15 liability limit cost of \$1,778 are multiplied by the Pennsylvania Experience Modification  
16 of 1.260 to arrive at adjusted workers' compensation insurance premiums of \$205,901  
17 [ $(\$161,636 + \$1,778) \times 1.260$ ]. Adjusted workers' compensation insurance premiums of  
18 \$205,901 are increased by a 5.0% schedule rating premium of \$10,295 ( $\$205,901 \times 0.05$ ).  
19 The premiums adjusted by application of experience modification of \$205,901 and  
20 schedule rating of \$10,295 are multiplied by and reduced by a 5% safety credit of  
21  $\$(10,810)$  [ $(\$205,901 + \$10,295) \times (0.05)$ ] to arrive at premiums adjusted by application  
22 of schedule rating and safety credit of \$205,387 ( $\$205,901 + \$10,295 - \$10,810$ ).  
23 Premiums adjusted by application of schedule rating and safety credit of \$205,387 are  
24 decreased by a 11.33% premium discount of \$23,270 [ $\$205,387 \times (0.1133)$ ] and  
25

1 increased by the Pennsylvania Compensation Rating Bureau Fee of \$175, a foreign and  
2 domestic terrorism surcharge of \$3,769, a catastrophe (other than terrorism) surcharge of  
3 \$2,512 and a 2.42% Pennsylvania Employer Assessment of \$4,563 [ $(\$205,387 - \$23,270$   
4  $+ \$175 + \$3,769 + \$2,512) \times 0.0242$ ] to determine projected workers' compensation  
5 insurance expense of \$193,136 ( $\$205,387 - \$23,270 + \$175 + \$3,769 + \$2,512 + \$4,563$ ).  
6 The adjustment to Workers' Compensation Insurance expense of \$2,909 is determined by  
7 subtracting pro forma Workers' Compensation Insurance expense for the twelve months  
8 ended December 31, 2025, of \$190,227 from projected workers' compensation insurance  
9 expense of \$193,136 ( $\$193,136 - \$190,227 = \$2,909$ ). The adjustment to Account No.  
10 65880000 of \$2,909 has been carried forward to Column 3 of Exhibit No. FIII-2, pages 9  
11 through 15.

12  
13 A portion of projected workers' compensation insurance expense for twelve months  
14 ending February 28, 2027, is capitalized in accordance with Appendix "B" to the  
15 Settlement Agreement in the Company's 1987 rate case (Docket No. R-870769) and is  
16 reflected, as a reduction to operating expenses, in Account No. 67580002, Administrative  
17 and General Expenses Capitalized, on Exhibit No. FIII-2-34, which I will explain later.

18  
19 Q. Explain Exhibit No. FIII-2-31.

20 A. Exhibit No. FIII-2-31 projects uncollectible accounts expense for the twelve months  
21 ending February 28, 2027, in the amount of \$443,390 by applying the two-year average  
22 percent of uncollectible accounts actually written off less recoveries of 0.66% to  
23 projected operating revenues under existing rates for the twelve months ending February  
24 28, 2027, of \$67,165,761 (Refer to Exhibit No. FII-1) ( $\$67,165,761 \times 0.0066$ ). The  
25

1 adjustment to uncollectible accounts in the amount of \$1,093 is determined by subtracting  
2 pro forma uncollectible accounts during the twelve months ending December 31, 2025, in  
3 the amount of \$442,2975 (Refer to Exhibit No. FIII-2-18) from the calculated projected  
4 uncollectible accounts for ratemaking purposes in the amount of \$443,390 (\$443,390 -  
5 \$442,297 = \$1,093). The adjustment to uncollectible accounts expense in the amount of  
6 \$1,093 to Account No. 67070000 has been carried forward to Column 3 of Exhibit FIII-2,  
7 pages 9 through 15.

8  
9 Q. Explain Exhibit No. FIII-2-32.

10 A. Exhibit No. FIII-2-32 projects the allocations to wastewater for the twelve months ending  
11 February 28, 2027, based on the Company's current allocation methodology and  
12 projected expense adjustments to the accounts that are allocated. Various expenses that  
13 are for both the water and wastewater portions of the business are recorded on the water  
14 side of the business. At the end of each accounting period, a portion of those allocable  
15 expenses are recorded as a reduction to expense on the water side of the business and an  
16 addition to expense on the wastewater side of the business.

17  
18 The allocable portion of indirect labor, indirect fringe benefits, and operating expense to  
19 wastewater based on the projected balances of the accounts to be allocated for the twelve  
20 months ending February 28, 2027, is calculated to be \$(592,647). The payroll taxes and  
21 fringe benefits on the direct labor recorded on the wastewater side of the business is  
22 calculated to be \$(269,494). The adjustment of \$(58,390) is determined by subtracting  
23 the allocation to wastewater for the future test year ended December 31, 2025, of  
24 \$(803,751) (see Exhibit No. FIII-2-19) by the calculated allocable portion of indirect  
25

1 labor, indirect fringe benefits and operating expense of \$(592,647) and calculated payroll  
2 taxes and fringe benefits on the direct labor of \$(269,494) [ $$(592,647) + $(269,494) -$   
3  $$(803,751) = $(58,390)$ ]. The adjustment of allocations to wastewater for the twelve  
4 months ending February 28, 2027, of \$(58,390) as an adjustment to Account No.  
5 67580005 has been carried forward to Column 3 of Exhibit No. FIII-2, pages 9 through  
6 15.

7  
8 Q. Explain Exhibit No. FIII-2-33.

9 A. Exhibit No. FIII-2-33 projects director's fees for the twelve months ending February 28,  
10 2027, based on the Company's current complement of directors, schedule of Board of  
11 Director and Board committee meetings, and projected 2026 fee increase. Directors who  
12 are also current employees of the Company receive no additional compensation for Board  
13 service.

14  
15 The projected costs of director's fees for the twelve months ending February 28, 2027,  
16 are \$587,519. The adjustment of \$67,328 is determined by subtracting pro forma  
17 director's fees for the twelve months ended December 31, 2025, of \$520,191 from  
18 Exhibit No. FIII-2-25, from projected director's fees for the twelve months ending  
19 February 28, 2027, of \$587,519 ( $$(587,519) - $(520,191) = $67,328$ ). The projection of  
20 director's fees for the twelve months ending February 28, 2027, of \$67,328 as an  
21 adjustment to Account No. 67580800 has been carried forward to Column 3 of Exhibit  
22 No. FIII-2, pages 9 through 15.

23  
24 Q. Explain Exhibit No. FIII-2-34.

25

1 A. Exhibit No. FIII-2-34 projects administrative and general expenses capitalized for the  
2 twelve months ending February 28, 2027, as previously agreed to in the Settlement  
3 Agreements under Docket Nos. R-870769 and R-963619 based on projected indirect  
4 labor, employee benefit costs, property insurance, workers' compensation insurance, and  
5 pension expense for the twelve months ending February 28, 2027, and a two-year average  
6 capitalization ratio.

7  
8 A portion of the pay of certain specified supervisory and general office employees is  
9 capitalized (referred to as "indirect labor") in addition to capitalized payroll determined  
10 directly from employee time records. The Company has updated the specified  
11 supervisory and general office employees to reflect the current complement of employee  
12 positions. Some employee positions described in the settlement of the Company's 1987  
13 base rate proceeding no longer exist, and many new employee positions have been  
14 created. Please refer to my testimony with regard to Exhibit No. FIII-2-10 for a listing of  
15 employee positions capitalized and the allocation ratio for each.

16  
17 The two-year average general and administrative employees' capitalized ratio is 10.55%.  
18 This ratio was applied to projected payroll of \$1,996,782 for the specified administrative  
19 and general employees to determine the projected capitalized indirect labor for general  
20 and administrative employees of \$210,710 ( $\$1,996,782 \times 0.1055$ ).

21  
22 The two-year average distribution employees' capitalized ratio is 17.98%. This ratio was  
23 applied to projected payroll of \$771,254 for the specified distribution employees to  
24  
25

1 determine the projected capitalized indirect labor for distribution employees of \$138,635  
2 (\$771,254 x 0.1798).

3  
4 The two-year average maintenance and grounds employees' capitalized ratio is 2.55%.  
5 This ratio was applied to projected payroll of \$255,835 for the specified maintenance and  
6 grounds employees to determine the projected capitalized indirect labor for maintenance  
7 and grounds employees' of \$6,536 ( $\$255,835 \times 0.0255$ ).

8  
9 As further provided in the settlement of the Company's 1987 base rate proceeding at  
10 Docket No. R-870769, a portion of payroll taxes, group life and health insurance expense,  
11 workers' compensation insurance expense, and property insurance expense will be  
12 capitalized.

13  
14 In addition, as provided in the settlement of the Company's 1996 base rate proceeding at  
15 Docket No. R-963619, a portion of pension expense will be capitalized based upon the  
16 ratio of capitalized payroll to total payroll.

17  
18 The two-year average capitalized payroll ratio is 7.30%. This ratio was applied to  
19 projected group life and health insurance expense, property insurance expense, and  
20 pension expense of \$2,373,243, \$249,143, and \$869,534, respectively, to determine the  
21 projected capitalized employee benefits, property insurance expense, and pension expense  
22 of \$173,142, \$18,176, and \$63,438, respectively.

1 The capitalized payroll ratio of 7.30% used to capitalize these expenses is different than  
2 the capitalized ratios used for indirect labor because the calculations are based on  
3 different allocation factors as prescribed by the Settlement Agreement. The latter ratio  
4 compares total capitalized payroll to total payroll, while the ratios used for indirect labor  
5 concern only a portion of the Company's employees.

6  
7 The capitalization ratios for workers' compensation and payroll taxes of 1.71% and  
8 7.90%, respectively, are based on a two-year average of the actual workers' compensation  
9 insurance premiums and payroll tax rates applied to capitalized payroll. The 1.71% ratio  
10 of workers' compensation was applied to pro forma capitalized labor from Exhibit FIII-2-  
11 25 (b) of \$857,328 to determine capitalized workers' compensation expense of \$14,622.  
12 The 7.90% ratio of payroll taxes (including FICA, FUTA and SUTA) was applied to pro  
13 forma capitalized labor from Exhibit FIII-2-25 (b) of \$857,328 to determine capitalized  
14 payroll tax expense of \$67,767.

15  
16 Total projected capitalized indirect labor, employee benefits, property insurance expense,  
17 payroll taxes, and pension expense total \$693,026 ( $\$210,710 + \$138,635 + \$6,536 +$   
18  $\$173,142 + \$18,176 + \$14,622 + \$67,767 + \$63,438$ ). The adjustment to capitalized  
19 indirect labor, employee benefits, property insurance expense, payroll taxes, and pension  
20 expense in the amount of \$53,814 is determined by subtracting pro forma capitalized  
21 indirect labor, employee benefits, property insurance expenses, payroll taxes, and pension  
22 expense for the twelve months ended December 31, 2025, of \$639,212 from calculated  
23 projected capitalized indirect labor, employee benefits, property insurance expense,  
24 payroll taxes, and pension expense of \$693,026 ( $\$693,026 - \$639,212$ ). The adjustment  
25

1 to capitalized indirect labor, employee benefits, property insurance expense, payroll  
2 taxes, and pension expense in the amount of \$53,814 as an adjustment to Account No.  
3 67580002 and Account No. 40801302 has been carried forward to Exhibit No. FIII-2,  
4 Column 3 and Exhibit No. FIV-15.

5  
6 Q. Explain Exhibit No. FIII-2-35.

7 A. Exhibit No. FIII-2-35 is to adjust pension expense included in the cost of service for the  
8 Company's two defined benefit pension plans (one plan for general and administrative  
9 employees and one plan for union-represented employees) to reflect the cash contribution  
10 to the pension trust. The Company has reflected in its cost of service for ratemaking  
11 purposes the cash contributions to its two defined benefit pension plans since the pension  
12 plans were established in 1959. The Commission in its Order at Docket R-00027975,  
13 dated June 26, 2003, in its Order at Docket No. R-00049165, dated November 9, 2004, in  
14 its Order at Docket No. R-00061322, dated September 16, 2006, in its Order at Docket  
15 No. R-2008-2023067, dated October 9, 2008, in its Order at Docket No. R-2010-  
16 2157140, dated November 4, 2010, in its Order at Docket No. R-2012-2336379, dated  
17 February 28, 2014, in its Order at Docket No. R-2018-3000019, dated March 1, 2019 ,  
18 and in its Order at Docket No. R-2022-3031340 dated March 1, 2023, approved cash  
19 contributions plus administrative costs as the basis for the Company's ratemaking claim  
20 for pension expense as part of full settlements of those cases.

21  
22 The Company intends to make cash contributions to its two defined benefit pension plans  
23 equal to the Service Cost as of January 1, 2024. The service cost represents the cost of  
24 benefits that are earned each year by the participants.

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For the general and administrative employees pension plan, the service cost is \$427,208. For the union-represented employees pension plan, the service cost is \$208,004. The total to be contributed is rounded to \$635,000 ( $\$427,208 + \$208,004 = \$635,212$ ).

The Company believes that it is in the best interest of the plans, their participants, and York Water’s customers to make cash contributions to the plans to ensure that the plans are fully funded. The Company is recommending a contribution to the plans to fund the service cost that will maintain the fully funded status of the plans.

The adjustment in pension expense in the amount of \$523,791 is determined by subtracting actual pension contributions made during the twelve months ended December 31, 2024, in the amount of \$111,209 from the projected cash contributions during the twelve months ending February 28, 2027 of \$635,000. Please see my Statement No. 3 for an explanation of the contribution that was made in 2024. The pension adjustment in the amount of \$523,791 ( $\$635,000 - \$111,209$ ) to account 67580003 has been carried forward to Column 3 of Exhibit No. FIII-2, pages 9 through 15.

- Q. Explain Exhibit No. FIII-2-36.
- A. Exhibit No. FIII-2-36 projects increased operating expenses for additional costs of customer accounting and collecting expenses (excluding uncollectible accounts), purchased power and chemicals resulting from the projection of the net increase in number of customers served during the twelve months ending February 28, 2027.

1 The historical average ratio of customer accounting and collecting, purchased power, and  
2 chemical costs to sales of water of 8.50% for the two-year period ended December 31,  
3 2024, was calculated. This ratio was applied to the total operating revenue adjustments in  
4 the amount of \$473,038 representing projected increases from load growth, as calculated  
5 on Exhibit Nos. FII-2-20 through FII-2-29, to derive an adjustment of \$40,209 ( $\$473,038$   
6  $\times 0.085$ ).

7  
8 The historical average ratio of power and chemical only costs to sales of water of 4.9%  
9 for the two-year period ended December 31, 2024, was calculated. This ratio was applied  
10 to the total operating revenue adjustments in the amount of \$(307,488) representing  
11 projected decreases from load growth, as calculated on Exhibit No. FII-2-32 to derive an  
12 adjustment of \$(15,194) [ $\$(307,488 \times 0.049)$ ].

13  
14 The adjustment in the amount of \$25,015 [ $\$40,209 + \$(15,194) = \$25,015$ ] for additional  
15 costs of customer accounting and collecting, purchased power, and chemicals has been  
16 carried forward to Exhibit No. FIII-2, pages 9 through 15.

17  
18 Q. Explain Exhibit No. FIII-2-37.

19 A. Exhibit No. FIII-2-37 projects the effect of increased maintenance expenses as utility  
20 plant in service increases. The Company calculated a two-year average rate of  
21 maintenance expenses as a percentage of utility plant in service of 0.73%. The two-year  
22 average rate was applied to the projected utility plant in service at February 28, 2027 of  
23 \$718,575,838. The projected total maintenance expenses of \$5,265,782 is determined by  
24 applying the two-year average rate of maintenance expenses as a percentage of utility  
25

1 plant in service to projected utility plant in service at February 28, 2027 ( $\$718,575,838 \times$   
2  $0.0073$ ). The projected effect of increased maintenance expenses in the amount of  
3  $\$272,776$  is determined by subtracting the test year maintenance expenses of  $\$4,980,334$   
4 and the future test year adjustment of  $\$12,672$  on Exhibit No. FIII-2-12 from the  
5 projected maintenance expenses of  $\$5,265,782$  [ $\$5,265,782 - (\$4,980,334 + \$12,672)$ ].  
6 The adjustment of  $\$272,776$  has been carried forward to Exhibit No. FIII-2, Column 3.  
7  
8

9 Q. Explain Exhibit FIII-2-40.

10 A. Exhibit FIII-2-40 is a pro forma of payroll expense for union and nonunion employees for  
11 the fully projected future test year ending February 28, 2027. It reflects pro forma hourly  
12 and salary rates effective in 2026 and annual cash and equity incentive awards effective  
13 in 2026. The Company included year-end bonuses in an amount of  $\$53,250$  in pro forma  
14 payroll expense. The Company has consistently provided year-end bonuses to employees  
15 for over 29 years as a part of the employee's overall compensation package, and this is an  
16 expected part of compensation. Column 1 of Exhibit FIII-2-1 reflects projected payroll  
17 expense for the twelve months ended February 28, 2027, in the amount of  $\$11,671,506$   
18 (Refer to Exhibit No. FIII-2-25). Column 2 of Exhibit No. FIII-2-40 reflects the effect  
19 during the twelve months ending February 28, 2027 of the pro forma hourly and salary  
20 rate increases effective in 2026 and annual cash and equity incentive awards effective in  
21 2026, in the amount of  $\$297,234$ . The effect of the pro forma hourly and salary rate  
22 increases and annual cash and equity incentive awards is determined and shown on  
23 Exhibit No. FIII-2-40 (a), which I will explain later. The effect during the twelve months  
24 ending February 28, 2027, of the pro forma hourly and salary rate increases and annual  
25

1 cash and equity incentive awards in the amount of \$297,234 has been carried forward to  
2 Column 3 of Exhibit No. FIII-2, page 16 through 22. Column 3 of Exhibit No. FIII-2-40  
3 reflects the pro forma payroll expense for the twelve months ending February 28, 2027, in  
4 the amount of \$11,968,739.

5  
6 I note that a portion of pro forma payroll expense for certain specified supervisory and  
7 general office employees for twelve months ending February 28, 2027, was capitalized  
8 and is reflected, as a reduction to operating expenses, in Account No. 67580002,  
9 Administrative and General Expenses Capitalized, on Exhibit No. FIII-2-49, which I will  
10 explain later.

11  
12 Q. Explain Exhibit No. FIII-2-40 (a).

13 A. Exhibit No. FIII-2-40 (a) is a pro forma of the effect during the twelve months ending  
14 February 28, 2027, of the projected hourly and salary rate increases and annual cash and  
15 equity incentive awards. Column 1 of Exhibit No. FIII-2-1 (a) reflects the pro forma  
16 payroll expense for the twelve months ending February 28, 2027, in the amount of  
17 \$11,968,739. The pro forma payroll expense for the twelve months ending February 28,  
18 2027, in the amount of \$11,968,739 is determined and shown on Exhibit No. FIII-2-40  
19 (b), which I will explain later. Column 2 of Exhibit No. FIII-2-15 (a) reflects the  
20 projected payroll expense for the twelve months ending February 28, 2027 in the amount  
21 of \$11,671,506 (Refer to Exhibit No. FIII-2-25). Column 3 of Exhibit No. FIII-2-40 (a)  
22 is the pro forma increase in payroll expense in the amount of \$297,234 as a result of the  
23 projected union employee increases effective May 1, 2026, the projected nonunion  
24 employee increases effective October 1, 2026, and annual cash and equity incentive

25

1 awards. The pro forma increase in payroll expense is determined by subtracting the  
2 projected payroll expense for the twelve months ending February 28, 2027 of  
3 \$11,671,5061, shown in Column 2 from the pro forma payroll expense for the twelve  
4 months ending February 28, 2027, of \$11,968,739, shown in Column 1 ( $\$11,968,739 -$   
5  $\$11,671,506 = \$297,234$ ). The amount of the pro forma payroll expense increases to be  
6 incurred during the twelve months ending February 28, 2027, in the amount of \$297,234  
7 has been carried forward to Exhibit No. FIII-2-40, Column 2.

8  
9 Q. Explain Exhibit No. FIII-2-40 (b).

10 A. Exhibit No. FIII-2-40 (b) provides the distribution of pro forma labor based on Company  
11 labor for the two years ended December 31, 2024. Company labor for the twelve months  
12 ended December 31, 2024, of \$10,263,675, is shown in Column 1 of Exhibit No. FIII-2-1  
13 (b). Company labor for the twelve months ended December 31, 2023 of \$9,354,020 is  
14 shown in Column 2 of Exhibit No. FIII-2-1 (b). Two-Year Company Labor of  
15 \$19,617,695, which represents the addition of Company labor for the twelve months  
16 ended December 31, 2024, and Company labor for the twelve months ended December  
17 31, 2023, is shown in Column 3 on Exhibit No. FIII-2-40 (b). Pro forma payroll of  
18 \$12,881,655 is distributed among the various capital and expense accounts based on the  
19 Two-Year Company Labor. The allocation factor of 0.65663 shown in Column 4 of  
20 Exhibit No. FIII-2-40 (b) used to distribute pro forma payroll among the various capital  
21 and expense accounts is calculated by dividing Pro Forma Company Labor of  
22 \$12,881,655 by Two-Year Company Labor of \$19,617,695. The allocation factor of  
23 0.65,663 is multiplied by each capital and expense amount of Two-Year Company Labor  
24 shown in Column 3 of Exhibit No. FIII-2-40 (b) to determine the pro forma Company  
25

1 labor amount allocated to each capital and expense account shown in Column 5 of  
2 Exhibit No. FIII-2-40 (b). Pro Forma Company Labor Expense is carried forward to  
3 Column 1 of Exhibit No. FIII-2-40 (a).

4  
5 Q. Explain Exhibit No. FIII-2-41.

6 A. Exhibit No. FIII-2-41 projects market adjustment to the Company's 401(k) match and  
7 contributions to be implemented during the twelve months ending December 31, 2026  
8 and included in cost of service for the twelve months ending February 28, 2027. The  
9 Company believes that these changes are necessary to retain and recruit qualified  
10 employees in a competitive labor market.

11  
12 There are two provisions within the Company's 401(k) plan. The basic 401(k) plan is  
13 available for employees that are eligible for the Company's defined benefit pension plans.  
14 The Company match in the basic 401(k) plan is 100% of employees contributions up to a  
15 flat amount of \$2,800. The Company is not projecting any changes to this plan.

16  
17 The enhanced 401(k) plan is available for employees that are not eligible for the  
18 Company's defined benefit pension plan. All employees hired after May 1, 2010 are  
19 included in the enhanced 401(k) plan. The Company makes an annual contribution of  
20 \$1,200 to each employee's account whether or not they defer their own compensation.  
21 The Company match in the enhanced 401(k) plan is 100% of employees' contributions up  
22 to 4% of the employees' compensation. The Company is projecting to increase its annual  
23 contribution to the greater of \$1,200 or 2% of the employees' compensation. The  
24 adjustment will be \$42,712 based on the increase from \$1,200 to 2% for those  
25

1 participants with compensation between \$1,200 and 2%. The adjustment for 401(k)  
2 contributions for the twelve months ending February 28, 2027, of \$42,712 as an  
3 adjustment to Account No. 60400002 has been carried forward to Exhibit No. FIII-2,  
4 Column 3.

5  
6 Q. Explain Exhibit No. FIII-2-42.

7 A. Exhibit No. FIII-2-42 projects annual Company 401(k) match and contributions for  
8 employees added during the future test year ending December 31, 2025, as of February  
9 28, 2027. The Company would be responsible for an annual contribution of the greater of  
10 \$1,200 per employee or 2% of the employees' compensation. The Company's annual  
11 401(k) contributions for the added employees will be \$23,381. In addition, the Company  
12 is responsible for making matching contributions of 100% of the employee's contribution  
13 up to a maximum of 4% of the employee's compensation. The matching contribution for  
14 the added employees will be \$42,714 based on the application of the 4% matching  
15 contribution rate multiplied by the annual wages of the added employees of \$1,067,841  
16 ( $\$1,067,841 \times 4\% = \$42,714$ ) The total adjustment of \$66,095 is determined by  
17 combining the Company annual contributions of \$23,381 and the Company matching  
18 contributions of \$42,714 ( $\$23,381 + \$42,714 = \$66,095$ ) The adjustment for 401(k)  
19 contributions for the twelve months ending February 28, 2027, of \$66,095 as an  
20 adjustment to Account No. 60400002 has been carried forward to Exhibit No. FIII-2,  
21 Column 3.

22  
23 Q. Explain Exhibit No. FIII-2-43.

24

25

1 A. Exhibit No. FIII-2-43 projects annual deferred compensation matching contributions for  
2 employees currently participating, and salaried employees to be added during the future  
3 test year ending December 31, 2025, as of February 28, 2027. The Company sponsors a  
4 deferred compensation plan with members of its management that requires it to make  
5 matching contributions of 100% of the employee's contribution up to a maximum of 5%  
6 of the employee's compensation. Previous rate cases have eliminated the expenses  
7 associated with the deferred compensation plan in accordance with the Settlement  
8 Agreement approved by the Commission under Docket No. R-000016236. The Company  
9 is including in this rate case the deferred compensation matching contributions for  
10 employees not eligible for the Company's defined benefit plan. The employees will build  
11 their retirement savings through the 401(k) plan and the deferred compensation plan.  
12 Since the contributions to the defined benefit plan are included in the cost of service, the  
13 Company believes its contributions to the deferred compensation plan for those  
14 employees on whose behalf it is not making contributions to the defined benefit plan  
15 should be included in the cost of service.

16  
17 There are currently six employees participating in the deferred compensation plan not  
18 eligible for the defined benefit pension plan. The annual matching contributions for these  
19 six employees based on their pro forma wages for the twelve months ending February 28,  
20 2027, and their current matching percentages is \$60,062. Six salaried employees  
21 projected to be added during the twelve months ended December 31, 2025, will be  
22 eligible for participation in the deferred compensation plan but not in the defined benefit  
23 pension plan. The annual matching contributions for these six employees based on their  
24 pro forma wages for the twelve months ending February 28, 2027, and the average  
25

1 matching percentage of the four employees currently participating of 4.00% is calculated  
2 to be \$35,021. The total adjustment of \$95,083 is determined by combining the Company  
3 matching contributions for the currently participating employees of \$60,062 and the  
4 Company matching contributions for the added employees of \$35,021 ( $\$60,062 +$   
5  $\$35,021 = \$95,083$ ). The adjustment for deferred compensation contributions for the  
6 twelve months ending February 28, 2027, of \$95,083 as an adjustment to Account No.  
7 60400002 has been carried forward to Exhibit No. FIII-2, Column 3.

8  
9 Q. Explain Exhibit No. FIII-2-44.

10 A. Exhibit No. FIII-2-44 adjusts trustee and portfolio management fees for the twelve  
11 months ending February 28, 2027, for the Company's qualified defined benefit pension  
12 plans based on projected plan asset values as of February 28, 2027. The Company pays  
13 for trustee and portfolio management services for its qualified defined benefit pension  
14 plans based upon the plan asset values. The adjustment to trustee and portfolio  
15 management fees in the amount of \$1,920 is determined by subtracting projected trustee  
16 and portfolio management fees for the twelve months ending February 28, 2027, of  
17 \$160,877 (Refer to Exhibit No. FIII-2-26) from the pro forma trustee and portfolio  
18 management fees based on projected plan asset values as of February 28, 2027, of  
19 \$162,797, which is calculated based on a trustee and portfolio management fee of 0.25%  
20 of the projected plan assets as of February 28, 2027, of \$65,118,723 ( $\$65,118,723 \times$   
21  $0.0025$ ). The projected plan assets as of February 28, 2027, of \$65,118,723 are based on  
22 a 5.0% annual growth rate, assumed contributions, and assumed distributions. The  
23 adjustment in the amount of \$1,920 for pro forma trustee and portfolio management fees  
24  
25

1 as an adjustment to Account No. 60480001 has been carried forward to Exhibit No. FIII-  
2 2, Column 3.

3  
4 Q. Explain Exhibit No. FIII-2-45.

5 A. Exhibit No. FIII-2-45 adjusts workers' compensation insurance expense based on pro  
6 forma payroll at workers compensation rates in effect as of January 1, 2025. Total pro  
7 forma payroll of \$12,881,655 is detailed by workers' compensation insurance  
8 classifications of waterworks employees, outside sales, and clerical employees in the  
9 amounts of \$6,848,697, \$1,524,182, and \$4,508,776, respectively. The actual January 1,  
10 2025 workers' compensation premium rates per \$100 by classifications are \$2.31, \$0.21,  
11 and \$0.08 respectively. These rates are applied to the pro forma payroll by classification  
12 to determine the pro forma initial workers' compensation insurance premiums. The  
13 initial premiums are \$158,205 for waterworks employees, \$3,201 for outside sales, and  
14 \$3,607 for clerical employees. The initial premiums are subject to an increased  
15 employer's liability limits factor of 1.10% and an experience modification factor of 1.260  
16 as established by the Pennsylvania Compensation Insurance Bureau. Total premiums  
17 subject to experience modification of \$165,013 ( $\$158,205 + \$3,201 + \$3,607 = \$165,013$ )  
18 are multiplied by the increased employer's liability limit factor of 1.10% to determine the  
19 cost of the increased employer's liability limits of \$1,815 ( $\$165,013 \times 0.011$ ). The total  
20 of initial premiums of \$165,013 and increased employer's liability limits cost of \$1,815  
21 are multiplied by the Pennsylvania Experience Modification of 1.260 to arrive at adjusted  
22 workers' compensation insurance premiums of \$210,203 [ $(\$165,013 + \$1,815) \times 1.260$ ].  
23 Adjusted workers' compensation insurance premiums of \$210,203 are increased by a  
24 5.0% schedule rating premium of \$10,510 ( $\$210,203 \times 0.05$ ). The premiums adjusted by  
25

1 the application of experience modification of \$201,203 and schedule rating of \$10,510  
2 are multiplied by and reduced by a 5% safety credit of \$(11,036)  $[(\$210,203 + \$10,510) \times$   
3  $(0.05)]$  to arrive at premiums adjusted by application of schedule rating and safety credit  
4 of \$209,678  $(\$210,203 + \$10,510 - \$11,036)$ . Premiums adjusted by application of  
5 schedule rating and safety credit of \$209,678 are decreased by a 11.33% premium  
6 discount of \$23,756  $[\$209,678 \times (0.1133)]$  and increased by the Pennsylvania  
7 Compensation Rating Bureau Fee of \$175, a foreign and domestic terrorism surcharge of  
8 \$3,864, a catastrophe (other than terrorism) surcharge of \$2,576 and a 2.42%  
9 Pennsylvania Employer Assessment of \$4,659  $[(\$209,678 - \$23,756 + \$175 + \$3,864 +$   
10  $\$2,576) \times 0.0242]$  to determine pro forma workers' compensation insurance expense of  
11 \$197,196  $(\$209,678 - \$23,756 + \$175 + \$3,864 + \$2,576 + \$4,659)$ . The adjustment to  
12 Workers' Compensation Insurance expense of \$4,061 is determined by subtracting  
13 projected Workers' Compensation Insurance expense during the twelve months ending  
14 February 28, 2027, of \$193,136 from pro forma workers' compensation insurance  
15 expense of \$197,196  $(\$197,196 - \$193,136 = \$4,061)$ . The adjustment to Account No.  
16 65880000 of \$4,061 has been carried forward to Exhibit No. FIII-2, Column 3.

17  
18 A portion of pro forma workers' compensation insurance expense for twelve months  
19 ending February 28, 2027, is capitalized in accordance with Appendix "B" to the  
20 Settlement Agreement in the Company's 1987 rate case (Docket R-870769) and is  
21 reflected, as a reduction to operating expenses, in Account No. 67580002, Administrative  
22 and General Expenses Capitalized, on Exhibit No. FIII-2-49, which I will explain later.

23  
24 Q. Explain Exhibit No. FIII-2-46.

1 A. Exhibit No. FIII-2-46 annualizes uncollectible accounts expense for the twelve months  
2 ending February 28, 2027, in the amount of \$445,458 by applying the two-year average  
3 percent of uncollectible accounts actually written off less recoveries of 0.66% to pro  
4 forma operating revenues under existing rates for the twelve months ending February 28,  
5 2027, of \$67,479,058 (Refer to Exhibit No. FII-2) ( $\$67,479,058 \times 0.0066$ ). The  
6 adjustment to uncollectible accounts in the amount of \$2,068 is determined by subtracting  
7 projected uncollectible accounts during the twelve months ending February 28, 2027, in  
8 the amount of \$443,390 (Refer to Exhibit No. FIII-2-31) from the calculated pro forma  
9 uncollectible accounts for ratemaking purposes in the amount of \$445,458 ( $\$445,458 -$   
10  $\$443,390 = \$2,068$ ). The adjustment of \$2,068 to Account No. 67070000 has been  
11 carried forward to Exhibit No. FIII-2, Column 3.

12  
13 Q. Explain Exhibit No. FIII-2-47.

14 A. Exhibit No. FIII-2-47 annualizes the allocations to wastewater for the twelve months  
15 ending February 28, 2027, based on the Company's current allocation methodology and  
16 pro forma expense adjustments to the accounts that are allocated. Various expenses that  
17 are for both the water and wastewater portions of the business are recorded on the water  
18 side of the business. At the end of each accounting period, a portion of those allocable  
19 expenses are recorded as a reduction to expense on the water side of the business and an  
20 addition to expense on the wastewater side of the business.

21  
22 The allocable portion of indirect labor, indirect fringe benefits and operating expense to  
23 wastewater based on the pro forma balances of the accounts to be allocated for the twelve  
24 months ending February 28, 2027, is calculated to be \$(599,197). The payroll taxes and  
25

1 fringe benefits on the direct labor recorded on the wastewater side of the business is  
2 calculated to be \$(276,358). The adjustment of \$(13,413) is determined by subtracting  
3 the projected allocation to wastewater for the twelve months ended February 28, 2027, of  
4 \$(862,142) (see Exhibit No. FIII-2-32) by the calculated allocable portion of indirect  
5 labor, indirect fringe benefits and operating expense of \$(599,197) and calculated payroll  
6 taxes and fringe benefits on the direct labor of \$(276,358) [ $$(599,197) + $(276,358) -$   
7  $$(862,142) = $(13,413)$ ]. The adjustment of allocations to wastewater for the twelve  
8 months ending February 27, 2027, of \$(13,413) as an adjustment to Account No.  
9 67580005 has been carried forward to Exhibit No. FIII-2, Column 3.

10  
11 Q. Explain Exhibit No. FIII-2-48.

12 A. Exhibit No. FIII-2-48 annualizes director's fees for the twelve months ending February  
13 28, 2027, based on the Company's current complement of directors, schedule of  
14 meetings, and the projected 2026 fee increase. The adjustment to annualize in the amount  
15 of \$10,711 is determined by subtracting the projected director's fees for the twelve  
16 months ending February 28, 2027 (see Exhibit No. FIII-2-33) in the amount of \$587,519  
17 from the calculated pro forma director's fees for the twelve months ended February 28,  
18 2027, of \$598,230 ( $$(598,230) - $587,519 = $10,711$ ). The annualization adjustment of  
19 \$10,711 is carried forward to Exhibit No. FIII-2, Column 3. Directors who are also  
20 current employees of the Company receive no additional compensation for Board service.

21  
22 Q. Explain Exhibit No. FIII-2-49.

23 A. Exhibit No. FIII-2-49 adjusts administrative and general expenses capitalized for the  
24 twelve months ending February 28, 2027, in accordance with the Settlement Agreements

1 under Docket Nos. R-870769 and R-963619 based on pro forma indirect labor, employee  
2 benefit costs, property insurance, workers' compensation insurance, and pension expense  
3 for the twelve months ending February 28, 2027, and a two-year average capitalization  
4 ratio.

5  
6 A portion of the pay of certain specified supervisory and general office employees is  
7 capitalized (referred to as "indirect labor") in addition to capitalized payroll determined  
8 directly from employee time records. The Company has updated the specified  
9 supervisory and general office employees to reflect the current complement of employee  
10 positions. Some employee positions described in the Settlement of the Company's 1987  
11 base rate proceeding no longer exist, and many new employee positions have been  
12 created. Please refer to my testimony with regard to Exhibit No. FIII-2-10 for a listing of  
13 employee positions capitalized and the allocation ratio for each.

14  
15 The two-year average general and administrative employees' capitalized ratio is 10.55%.  
16 This ratio was applied to pro forma payroll of \$2,051,563 for the specified administrative  
17 and general employees to determine the pro forma capitalized indirect labor for general  
18 and administrative employees of \$216,491 ( $\$2,051,563 \times 0.1055$ ).

19  
20 The two-year average distribution employees' capitalized ratio is 17.98%. This ratio was  
21 applied to pro forma payroll of \$792,356 for the specified distribution employees to  
22 determine the pro forma capitalized indirect labor for distribution employees of \$142,428  
23 ( $\$792,356 \times 0.1798$ ).

1 The two-year average maintenance and grounds employees' capitalized ratio is 2.55%.  
2 This ratio was applied to pro forma payroll of \$262,838 for the specified maintenance and  
3 grounds employees to determine the pro forma capitalized indirect labor for maintenance  
4 and grounds employees of \$6,715 ( $\$262,838 \times 0.0255$ ).

5  
6 As further provided in the settlement of the Company's 1987 base rate proceeding at  
7 Docket No. R-870769, a portion of payroll taxes, group life and health insurance expense,  
8 workers' compensation insurance expense, and property insurance expense will be  
9 capitalized.

10  
11 In addition, as provided in the settlement of the Company's 1996 base rate proceeding at  
12 Docket No. R-963619, a portion of pension expense will be capitalized based upon the  
13 ratio of capitalized payroll to total payroll.

14  
15 The two-year average capitalized payroll ratio is 7.30%. This ratio was applied to pro  
16 forma group life and health insurance expense, property insurance expense, and pension  
17 expense of \$2,373,243, \$249,143, and \$871,454, respectively, to determine the pro forma  
18 capitalized employee benefits, property insurance expense, and pension expense of  
19 \$173,142, \$18,176, and \$63,578, respectively.

20  
21 The capitalized payroll ratio of 7.30% used to capitalize these expenses is different than  
22 the capitalized ratios used for indirect labor because the calculations are based on  
23 different allocation factors as prescribed by the Settlement Agreement. The latter ratio  
24  
25

1 compares total capitalized payroll to total payroll, while the ratios used for indirect labor  
2 concern only a portion of the Company's employees.

3  
4 The capitalization ratios for workers' compensation and payroll taxes of 1.71% and  
5 7.90%, respectively, are based on a two-year average of the actual workers' compensation  
6 insurance premiums and payroll tax rates applied to capitalized payroll. The 1.71% ratio  
7 of workers' compensation was applied to pro forma capitalized labor from Exhibit FIII-2-  
8 40 (b) of \$879,161 to determine capitalized workers' compensation expense of \$14,994.  
9 The 7.90% ratio of payroll taxes (including FICA, FUTA and SUTA) was applied to pro  
10 forma capitalized labor from Exhibit FIII-2-40 (b) of \$879,161 to determine capitalized  
11 payroll tax expense of \$69,493.

12  
13 Total pro forma capitalized indirect labor, employee benefits, property insurance expense,  
14 payroll taxes, and pension expense total \$705,017 ( $\$216,491 + \$142,428 + \$6,715 +$   
15  $\$173,142 + \$18,176 + \$14,994 + \$69,493 + \$63,578$ ). The adjustment to capitalized  
16 indirect labor, employee benefits, property insurance expense, payroll taxes, and pension  
17 expense in the amount of \$11,991 is determined by subtracting projected capitalized  
18 indirect labor, employee benefits, property insurance expenses, payroll taxes, and pension  
19 expense for the twelve months ending February 28, 2027, of \$693,026 from calculated  
20 pro forma capitalized indirect labor, employee benefits, property insurance expense,  
21 payroll taxes, and pension expense of \$705,017 ( $\$705,017 - \$693,026$ ). The adjustment  
22 to capitalized indirect labor, employee benefits, property insurance expense, payroll taxes  
23 and pension expense in the amount of \$11,991 as an adjustment to Account No.

1 67580002 and Account No. 40801302 has been carried forward to Exhibit No. FIII-2,  
2 Column 6 and Exhibit No. FIV-15, Column 6.

3  
4 Q. Explain Exhibit No. FIII-2-50.

5 A. Exhibit No. FIII-2-50 projects the annual costs associated with identification of customer-  
6 owned service line material in compliance with the Lead and Copper Rule Improvement  
7 (LCRI) promulgated by the U.S. Environmental Protection Agency. The Company must  
8 identify the materials of all customer-owned service lines to replace all lead service lines  
9 within ten years. This requires two-point visual inspection which would require  
10 excavation for one of those two points. The Company has estimated it will require costs  
11 of at least \$150,000 per year over the ten years to identify all unknown customer-owned  
12 service lines. The adjustment of \$150,000 has been carried forward to Exhibit No. FIII-2,  
13 Column 3.

14  
15 Q. Explain Exhibit No. FIII-2-51.

16 A. Exhibit No. FIII-2-51 adjusts operating expenses in the amount of \$30,150 for additional  
17 costs of customer accounting and collecting expenses (excluding uncollectible accounts),  
18 purchased power and chemicals resulting from the annualization of the net increase in  
19 number of customers served during the twelve months ending February 28, 2027. The  
20 historical average ratio of customer accounting and collecting, purchased power and  
21 chemical costs to sales of water of 8.5% for the two-year period ended December 31,  
22 2024, was calculated. This ratio was applied to the total operating revenue adjustments in  
23 the amount of \$354,697 representing pro forma increases from load growth, as calculated  
24 on Exhibit Nos. FII-2-34 through FII-2-39, to derive the adjustment of \$30,150 (\$354,697

25

1 x 0.085). The adjustment in the amount of \$30,150 for additional costs of customer  
2 accounting and collecting, power and chemicals has been carried forward to Exhibit No.  
3 FIII-2, Column 3.

4  
5 Q. Explain Exhibit No. FIII-2-52.

6 A. Exhibit No. FIII-2-52 projects the annual costs of acoustic leak detection software. The  
7 software allows the Company to more accurately identify the source of leaks in its  
8 distribution system. The adjustment of \$23,900 has been carried forward to Exhibit No.  
9 FIII-2, Column 3.

10  
11 Q. Explain Exhibit No. FIII-2-55.

12 A. Exhibit No. FIII-2-55 adjusts uncollectible accounts expense based on pro forma  
13 revenues under proposed rates and a two-year average ratio of net uncollectible accounts  
14 written off to total operating revenues. Pro forma revenues under proposed rates (Refer  
15 to Exhibit No. FII-2) of \$87,745,202 are multiplied by the two-year average ratio of net  
16 write-offs to total operating revenues of 0.66% to determine the pro forma uncollectible  
17 accounts expense under proposed rates of \$579,243 ( $\$87,745,202 \times 0.0066$ ). The  
18 adjustment to uncollectible accounts expense in the amount of \$133,785 is determined by  
19 subtracting pro forma uncollectible accounts expense under existing rates of \$445,458  
20 (Refer to Exhibit No. FIII-2-46) from pro forma uncollectible accounts expense under  
21 proposed rates of \$579,243 ( $\$579,243 - \$445,458 = \$133,785$ ). The adjustment to  
22 uncollectible accounts expense of \$133,785 to Account No. 67070000 has been carried  
23 forward to Exhibit No. FIII-2, Column 6.

1 Q. Explain Exhibit No. FIII-11.

2 A. Exhibit No. FIII-11 provides a schedule, by major components, of Contractual Services,  
3 Rate Case Expense and Miscellaneous Expense for the projected twelve months ending  
4 February 28, 2027, and December 31, 2025, and the twelve months ended December 31,  
5 2024. Page 2 of Exhibit No. FIII-11 provides a schedule of Contractual Services-  
6 Auditing for the twelve months ending February 28, 2027, and December 31, 2025, and  
7 the twelve months ended December 31, 2024. Page 3 of Exhibit No. FIII-11 provides a  
8 schedule of Contractual Services-Tax for the twelve months ending February 28, 2027,  
9 and December 31, 2025, and the twelve months ended December 31, 2024. Page 4 of  
10 Exhibit No. FIII-11 provides a schedule, by major components, of Contractual Services-  
11 Other Accounting for the twelve months ending February 28, 2027, and December 31,  
12 2025, and the twelve months ended December 31, 2024. Page 5 of Exhibit No. FIII-11  
13 provides a schedule of Contractual Services-Legal for the twelve months ending February  
14 28, 2027, and December 31, 2025, and the twelve months ended December 31, 2024.  
15 Page 6 of Exhibit FIII-11 provides a schedule of Contractual Services-Outside Services  
16 for the twelve months ending February 28, 2027, and December 31, 2025, and the twelve  
17 months ended December 31, 2024. Page 7 of Exhibit No. FIII-11 provides a schedule, by  
18 rate case, of Rate Case Expense for the twelve months ending February 28, 2027, and  
19 December 31, 2025, and the twelve months ended December 31, 2024. Page 8 of Exhibit  
20 No. FIII-11 provides a schedule, by major components, of Miscellaneous Expense for the  
21 twelve months ending February 28, 2027, and December 31, 2025, and the twelve months  
22 ended December 31, 2024.

23

24 Q. Explain Exhibit No. FIII-15.

25

1 A. Exhibit No. FIII-15 provides a schedule of pension contributions, SFAS87 pension  
2 expense, the amount of SFAS pension expense, which was expensed to O&M, and the  
3 amount of SFAS87, which was deferred.

4  
5 The Company has two defined benefit pension plans (one plan for general and  
6 administrative employees, and one plan for union-represented employees). The Company  
7 has reflected in its cost of service for ratemaking purposes the cash contributions to its  
8 two defined benefit pension plans since the pension plans were established in 1959. The  
9 Commission, in its Order at Docket No. R-00027975, dated June 26, 2003, in its Order at  
10 Docket No. R-00049165, dated November 9, 2004, in its Order at Docket No. R-  
11 00063122, dated September 15, 2006, in its Order at Docket No. R-2008-2023067, dated  
12 October 9, 2008, in its Order at Docket No. R-2010-2157140, dated November 4, 2010,  
13 in its Order at Docket No. R-2012-2336379, dated February 28, 2014, in its Order at  
14 Docket No. R-2018-3000019, dated March 1, 2019 , and in its Order at Docket No. R-  
15 2022-3031340 dated March 1, 2023 approved cash contributions plus administrative costs  
16 as the basis for the Company’s ratemaking claim for pension expense and authorized the  
17 Company to defer on its books, the difference between cash contributions and SFAS87  
18 expense, per the full settlement agreements in each case.

19  
20 The Company believes that it is in the best interest of the plans, their participants, and  
21 York Water’s customers to make cash contributions to the plans to ensure that the plans  
22 are fully funded. The Company is recommending a contribution to the plans to fund the  
23 service cost.

1 Q. Explain Exhibit No. FIII-16.

2 A. Exhibit No. FIII-16 provides for no SFAS106 expenses to be included in the cost of  
3 service for the twelve months ended February 28, 2027. The “pay-as-you-go” expense of  
4 \$2,000 representing one death benefit paid to the beneficiaries of Company retirees is  
5 reflected as part of the fully projected future test year cost of service on Exhibit No. FIII-  
6 2-24.

7  
8 Q. Are you sponsoring any other exhibits regarding the Company’s operating expenses?

9 A. Yes, I am also sponsoring Exhibit Nos. FIII-3, FIII-4, FIII-5, FIII-6, FIII-7, FIII-8, FIII-9,  
10 FIII-10, FIII-12, FIII-13, FIII-14, FIII-17, FIII-18, FIII-19, FIII-20, FIII-21, FIII-23, FIII-  
11 24, FIII-25, FIII-26, FIII-27, and FIII-28.

12  
13 Q. Explain Exhibit No. FIV-15.

14 A. Exhibit No. FIV-15 summarizes projected and pro forma adjustments to operating taxes  
15 other than income taxes for the twelve months ending December 31, 2025, and February  
16 28, 2027, for ratemaking purposes and to reflect additional operating taxes other than  
17 income taxes resulting from the proposed increase in operating revenues.

18  
19 Pro forma operating taxes other than income taxes for the twelve months ended  
20 December 31, 2024, in the amount of \$1,645,548 are shown in Column 1, Page 2 of  
21 Exhibit FIV-15. Adjustments to operating taxes other than income taxes of \$112,466  
22 reflect the calculation of the projected level of taxes other than income taxes under  
23 existing rates for the twelve months ending December 31, 2025. Such adjustments are  
24 shown in Column 3, Page 2 of Exhibit No. FIV-15 and are detailed in Exhibit Nos. FIV-  
25

1 15-1, FIV-15-2, FIV-15-3, FIV-15-4, FIV-15-5, and FIII-2-10. Projected operating taxes  
2 other than income taxes for the twelve months ended December 31, 2025, in the amount  
3 of \$1,758,014 are shown in Column 4, Page 2 of Exhibit FIV-15.

4  
5 Adjustments to operating taxes other than income taxes of \$75,099 reflect the calculation  
6 of the Pro Forma level of taxes other than income taxes under existing rates for the twelve  
7 months ending December 31, 2025. Such adjustments are shown in Column 6, Page 2 of  
8 Exhibit No. FIV-15 and are detailed in Exhibit Nos. FIV-15-6, FIV-15-7, and FIII-2-21.  
9 Pro Forma operating taxes other than income taxes for the twelve months ending  
10 December 31, 2025, in the amount of \$1,833,113 are shown in Column 7, Page 2 of  
11 Exhibit No. FIV-15 and are carried forward to Column 1, Page 3 of Exhibit No. FIV-15.

12  
13 Projected adjustments to operating taxes other than income taxes of \$11,328 are shown in  
14 Column 3, Page 3 of Exhibit No. FIV-15 and are detailed in Exhibit Nos. FIV-15-8, FIV-  
15 15-9, and FIII-2-34. Projected operating taxes other than income taxes for the twelve  
16 months ended February 28, 2027, in the amount of \$1,844,441 are shown in Column 4,  
17 Page 3 of Exhibit FIV-15. Adjustments to operating taxes other than income taxes of  
18 \$20,533 reflect the calculation of the Pro Forma level of taxes other than income taxes  
19 under existing rates for the twelve months ending February 28, 2027. Such adjustments  
20 are shown in Column 6, Page 3 of Exhibit No. FIV-15 and are detailed in Exhibit Nos.  
21 FIV-15-10, FIV-15-11, and FIII-2-49. Pro forma operating taxes other than income taxes  
22 for the twelve months ending February 28, 2027, of \$1,864,974 are shown in Column 7,  
23 Page 3 of Exhibit No. FIV-15 and are carried forward to Column 1 of Page 4 of Exhibit  
24 No. FIV-15.

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Adjustments to operating taxes other than income taxes amounting to \$137,029 are made to reflect the increased operating taxes other than income taxes that result from the increase in operating revenues under proposed rates. These adjustments are shown in Column 3, Page 4 of Exhibit No. FIV-15 and are detailed in Exhibit No. FIV-15-12. Pro Forma operating taxes other than income taxes under proposed rates for the twelve months ended February 28, 2027, in the amount of \$2,002,004 are shown in Column 4, Page 4 of Exhibit FIV-15.

Q. Explain Exhibit No. FIV-15-1.

A. Exhibit No. FIV-15-1 is an adjustment to reflect FICA payroll taxes on projected payroll for twelve months ending December 31, 2025, at the tax rate and wage bases effective January 1, 2025. The January 1, 2025 hospitalization insurance (“HI”) component of the FICA tax of 1.45% is applied to taxable projected payroll of \$11,328,843 to determine projected HI component of FICA taxes of \$164,268 ( $\$11,328,843 \times 0.0145 = \$164,268$ ). Total projected payroll in the amount of \$11,328,843 is reduced by \$657,876, which is that portion of projected payroll not subject to old age, survivors, and disability insurance component (“OASDI”) of FICA tax to arrive at taxable projected payroll of \$10,670,967 ( $\$11,328,843 - \$657,876 = \$10,670,967$ ). The January 1, 2025 OASDI component of FICA tax rate of 6.2% is applied to the taxable projected payroll of \$10,670,967 to determine projected OASDI component of FICA taxes of \$661,600 ( $\$10,670,967 \times 0.062$ ). The HI component in the amount of \$164,268 and the OASDI component in the amount of \$661,600 FICA taxes are totaled to determine projected FICA taxes in the amount of \$825,868 ( $\$164,268 + \$661,600 = \$825,868$ ). The adjustment to FICA taxes,

1 in the amount of \$30,321, is determined by subtracting the pro forma FICA taxes for  
2 twelve months ended December 31, 2024, of \$795,547 (Refer to Exhibit No. HIV-15-1)  
3 from the calculated projected FICA taxes of \$825,868 ( $\$825,868 - \$795,547 = \$30,321$ ).  
4 The FICA adjustment, in the amount of \$30,321, has been carried forward to Exhibit No.  
5 FIV-15, Page 2, Column 3.

6  
7 I note that a portion of projected FICA taxes for the twelve months ending December 31,  
8 2025, was capitalized and is reflected, as a reduction to operating expenses, in Account  
9 40801302, Miscellaneous Taxes Other Than Income Taxes on Exhibit No. FIII-2-10.

10  
11 Q. Explain Exhibit No. FIV-15-2.

12 A. Exhibit No. FIV-15-2 presents an adjustment to reflect Federal unemployment tax on  
13 projected payroll for twelve months ended December 31, 2025, at the tax rate and wage  
14 base effective January 1, 2025. Total projected payroll in the amount of \$11,328,843 is  
15 reduced by \$10,259,323, which is that portion of projected payroll that exceeds the 2025  
16 taxable wage base per employee of \$7,000, to arrive at taxable projected payroll of  
17 \$1,069,520 ( $\$11,328,843 - \$10,259,323 = \$10,069,520$ ). The 2025 Federal  
18 unemployment tax rate of 0.6% is applied to the taxable projected payroll of \$1,069,520  
19 to determine projected Federal unemployment tax of \$6,417. The adjustment to Federal  
20 unemployment tax in the amount of \$672 is determined by subtracting the pro forma test  
21 year Federal unemployment tax of \$5,745 from the calculated projected Federal  
22 unemployment tax of \$6,417 ( $\$6,417 - \$5,745 = \$672$ ). The Federal unemployment tax  
23 adjustment in the amount of \$672 has been carried forward to Exhibit No. FIV-15,  
24 Column 3.

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I note that a portion of projected Federal unemployment tax for the twelve months ended December 31, 2025, was capitalized and is reflected, as a reduction to operating expenses, in Account No. 40801302, Miscellaneous Taxes Other Than Income Taxes on Exhibit No. FIII-2-10.

Q. Explain Exhibit No. FIV-15-3.

A. Exhibit No. FIV-15-3 presents an adjustment to reflect Pennsylvania unemployment tax on projected payroll for twelve months ended December 31, 2025, at the tax rate and wage base effective January 1, 2025. Total projected payroll in the amount of \$11,328,843 is reduced by \$9,809,343 which is that portion of projected payroll expense that exceeds the 2025 taxable wage base per employee of \$10,000, to arrive at taxable projected payroll of \$1,519,501 ( $\$11,328,843 - \$9,809,343 = \$1,519,501$ ). The 2025 Pennsylvania unemployment tax rate of 1.5282% is applied to the taxable projected payroll of \$1,519,501 to determine projected Pennsylvania unemployment tax of \$23,221. The adjustment to Pennsylvania unemployment tax in the amount of \$2,445 is determined by subtracting the pro forma test year Pennsylvania unemployment tax of \$20,776 from the calculated projected Pennsylvania unemployment tax of \$23,221 ( $\$23,221 - \$20,776 = \$2,445$ ). The Pennsylvania unemployment tax adjustment, in the amount of \$2,445, has been carried forward to Exhibit No. FIV-15, Column 3.

I note that a portion of projected Pennsylvania unemployment tax for the twelve months ended December 31, 2025, was capitalized and is reflected, as a reduction to operating

1 expenses, in Account No. 40801302, Miscellaneous Taxes Other Than Income Taxes on  
2 Exhibit No. FIII-2-10.

3  
4 Q. Explain Exhibit No. FIV-15-4.

5 A. FIV-15-4 is an adjustment to reflect the Pennsylvania Public Utility Realty Tax for the  
6 twelve months ending December 31, 2025, based on the most recent state taxable value,  
7 millage rate and transitional credit adjustments. The adjustment in the amount of \$81,148  
8 is determined by subtracting the pro forma realty taxes for the twelve months ended  
9 December 31, 2024, of \$387,834 (Refer to Exhibit No. HIV-15 Page 2) from the  
10 calculated projected amount of \$387,834 [ $\$387,834 - \$306,686 = \$81,148$ ]. The  
11 adjustment in the amount of \$81,148 has been carried forward to Exhibit No. FIV-15,  
12 Page 2, Column 3.

13  
14 Q. Explain Exhibit No. FIV-15-5.

15 A. Exhibit No. FIV-15-5 is an adjustment to reflect the Commission's General Assessment,  
16 the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and  
17 the Damage Prevention Control Assessment, based on projected operating revenues under  
18 existing rates for twelve months ending December 31, 2025, and the 2024-2025  
19 assessment factors. The currently-effective combined 2024-2025 assessment rate of  
20 0.676148% for the Commission's General Assessment, the Consumer Advocate's  
21 Assessment, the Small Business Advocate's Assessment, and the Damage Prevention  
22 Control Assessment is applied to projected operating revenues at existing rates for twelve  
23 months ending December 31, 2025, in the amount of \$64,562,296. The projected  
24 operating revenues at existing rates for combined assessment purposes is determined by  
25

1 removing sales for resale customers included on Exhibit No. FII-12 and Exhibit No. FII-  
2 13 and priced out bulk truck sales included on Exhibit No. HII-4 from total projected  
3 operating revenues at existing rates on Exhibit No. FII-2, Page 2, Column 4. Sales for  
4 resale customers and priced out bulk truck sales are not included in the combined  
5 assessment calculation. The currently-effective combined 2024-2025 assessment rate of  
6 0.676148% is applied to the projected operating revenues at existing rates for combined  
7 assessment purposes for the twelve months ended December 31, 2025, in the amount of  
8 \$50,446,207 to determine the projected combined assessment under existing rates for  
9 twelve months ended December 31, 2025, in the amount of \$436,537 ( $\$64,562,296 \times$   
10  $0.00676148$ ). The adjustment in the amount of \$105 is determined by subtracting the pro  
11 forma assessments for the twelve months ended December 31, 2024, of \$436,432 (Refer  
12 to Exhibit No. HIV-15-4) from the calculated projected amount of \$436,537 [ $\$436,537 -$   
13  $\$436,432 = \$105$ ]. The adjustment in the amount of \$105 has been carried forward to  
14 Exhibit No. FIV-15, Page 2, Column 3.

15  
16 Q. Explain Exhibit No. FIV-15-6.

17 A. Exhibit No. FIV-15-6 is an adjustment to reflect FICA payroll taxes on pro forma payroll  
18 for twelve months ending December 31, 2025, at the tax rate and wage bases effective  
19 January 1, 2025. The January 1, 2025 HI component of the FICA tax of 1.45% is applied  
20 to taxable pro forma payroll of \$12,397,865 to determine projected HI component of  
21 FICA taxes of \$179,769 ( $\$12,397,865 \times 0.0145 = \$179,769$ ). Total pro forma payroll in  
22 the amount of \$12,397,865 is reduced by \$719,665, which is that portion of pro forma  
23 payroll not subject to OASDI of FICA tax to arrive at taxable pro forma payroll of  
24 \$11,678,200 ( $\$12,397,865 - \$719,665 = \$11,678,200$ ). The January 1, 2025 OASDI  
25

1 component of FICA tax rate of 6.2% is applied to the taxable pro forma payroll of  
2 \$11,678,200 to determine pro forma OASDI component of FICA taxes of \$724,048  
3 (\$11,678,200 x 0.062). The HI component in the amount of \$179,769 and the OASDI  
4 component in the amount of \$724,048 of FICA taxes are totaled to determine projected  
5 FICA taxes in the amount of \$903,817 ( $\$179,769 + \$724,048 = \$903,817$ ). The  
6 adjustment to FICA taxes in the amount of \$77,949 is determined by subtracting the  
7 projected FICA taxes for twelve months ending December 31, 2025, of \$825,868 (Refer  
8 to Exhibit No. FIV-15-1) from the calculated pro forma FICA taxes of \$903,817  
9 ( $\$903,817 - \$825,868 = \$77,949$ ). The FICA adjustment, in the amount of \$77,949, has  
10 been carried forward to Exhibit No. FIV-15, Page 2, Column 6.

11  
12 I note that a portion of pro forma FICA taxes for the twelve months ending December 31,  
13 2025, was capitalized and is reflected, as a reduction to operating expenses, in Account  
14 40801302, Miscellaneous Taxes Other Than Income Taxes Transferred on Exhibit No.  
15 FIII-2-21.

16  
17 Q. Explain Exhibit No. FIV-15-7.

18 A. Exhibit No. FIV-15-7 is an adjustment to reflect the Commission's General Assessment,  
19 the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and  
20 the Damage Prevention Control Assessment based on Pro Forma operating revenues  
21 under existing rates for twelve months ending December 31, 2025, and the 2024-2025  
22 assessment factors. The currently-effective combined 2024-2025 assessment rate of  
23 0.676148% for the Commission's General Assessment, the Consumer Advocate's  
24 Assessment, the Small Business Advocate's Assessment, and the Damage Prevention

25

1 Control Assessment is applied to Pro Forma operating revenues at existing rates for  
2 twelve months ending December 31, 2025, in the amount of \$64,993,639. The pro forma  
3 operating revenues at existing rates for combined assessment purposes is determined by  
4 removing sales for resale customers included on Exhibit No. FII-12 and Exhibit No. FII-  
5 13 and priced out bulk truck sales included on Exhibit No. HII-4 from total pro forma  
6 operating revenues at existing rates on Exhibit No. FII-2, Page 2, Column 4. Sales for  
7 resale customers and priced out bulk truck sales are not included in the combined  
8 assessment calculation. The currently-effective combined 2024-2025 assessment rate of  
9 0.676148% is applied to the pro forma operating revenues at existing rates for combined  
10 assessment purposes for the twelve months ended December 31, 2025, in the amount of  
11 \$64,993,639 to determine the pro forma combined assessment under existing rates for  
12 twelve months ended December 31, 2025, in the amount of \$439,453 ( $\$64,993,639 \times$   
13  $0.00676148$ ). The adjustment in the amount of \$2,917 is determined by subtracting the  
14 projected year assessments for the twelve months ended December 31, 2025, of \$436,537  
15 (Refer to Exhibit No. FIV-15-5) from the calculated pro forma amount of \$439,453  
16 ( $\$439,453 - \$436,537 = \$2,917$ ). The adjustment in the amount of \$2,917 has been  
17 carried forward to Exhibit No. FIV-15, Page 2, Column 6.

18  
19 Q. Explain Exhibit No. FIV-15-8.

20 A. Exhibit No. FIV-15-8 is an adjustment to reflect FICA payroll taxes on projected payroll  
21 for twelve months ending February 28, 2027, at the tax rate and wage bases effective  
22 January 1, 2025. The January 1, 2025 HI component of the FICA tax of 1.45% is applied  
23 to taxable pro forma payroll of \$12,561,750 to determine projected HI component of  
24 FICA taxes of \$182,145 ( $\$12,561,750 \times 0.0145 = \$182,145$ ). Total projected payroll in  
25

1 the amount of \$12,561,750 is reduced by \$742,955, which is that portion of projected  
2 payroll not subject to OASDI of FICA tax to arrive at taxable projected payroll of  
3 \$11,818,795 ( $\$12,561,750 - \$742,955 = \$11,818,795$ ). The January 1, 2025 OASDI  
4 component of FICA tax rate of 6.2% is applied to the taxable projected payroll of  
5 \$11,818,795 to determine pro forma OASDI component of FICA taxes of \$732,765  
6 ( $\$11,818,795 \times 0.062$ ). The HI component in the amount of \$182,145 and the OASDI  
7 component in the amount of \$732,765 of FICA taxes are totaled to determine projected  
8 FICA taxes in the amount of \$914,911 ( $\$182,145 + \$732,765 = \$914,911$ ). The  
9 adjustment to FICA taxes in the amount of \$11,093 is determined by subtracting the Pro  
10 Forma FICA taxes for twelve months ending December 31, 2025, of \$903,817 (Refer to  
11 Exhibit No. FIV-15-6) from the calculated projected FICA taxes of \$914,911 ( $\$914,911 -$   
12  $\$903,817 = \$11,093$ ). The FICA adjustment, in the amount of \$11,093, has been carried  
13 forward to Exhibit No. FIV-15, Page 3, Column 3.

14  
15 I note that a portion of projected FICA taxes for the twelve months ending February 28,  
16 2027, was capitalized and is reflected, as a reduction to operating expenses, in Account  
17 40801302, Miscellaneous Taxes Other Than Income Taxes Transferred on Exhibit No.  
18 FIII-2-34.

19  
20 Q. Explain Exhibit No. FIV-15-9.

21 A. Exhibit No. FIV-15-9 is an adjustment to reflect the Commission's General Assessment,  
22 the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and  
23 the Damage Prevention Control Assessment based on projected operating revenues under  
24 existing rates for twelve months ending February 28, 2027, and the 2024-2025

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1 assessment factors. The currently-effective combined 2024-2025 assessment rate of  
2 0.676148% for the Commission's General Assessment, the Consumer Advocate's  
3 Assessment, the Small Business Advocate's Assessment, and the Damage Prevention  
4 Control Assessment is applied to projected operating revenues at existing rates for twelve  
5 months ending February 28, 2027, in the amount of \$65,159,189. The projected  
6 operating revenues at existing rates for combined assessment purposes is determined by  
7 removing sales for resale customers included on Exhibit No. FII-12 and Exhibit No. FII-  
8 13 and priced out bulk truck sales included on Exhibit No. HII-4 from total projected  
9 operating revenues at existing rates on Exhibit No. FII-2, Page 2, Column 4. Sales for  
10 resale customers and priced out bulk truck sales are not included in the combined  
11 assessment calculation. The currently-effective combined 2024-2025 assessment rate of  
12 0.676148% is applied to the projected operating revenues at existing rates for combined  
13 assessment purposes for the twelve months ended February 28, 2027, in the amount of  
14 \$65,159,189 to determine the projected combined assessment under existing rates for  
15 twelve months ended February 28, 2027, in the amount of \$440,573 ( $\$65,159,189 \times$   
16  $0.00676148$ ). The adjustment in the amount of \$1,119 is determined by subtracting the  
17 Pro Forma year assessments for the twelve months ending December 31, 2025, of  
18 \$439,453 (Refer to Exhibit No. FIV-15-7) from the calculated projected amount of  
19 \$440,573 ( $\$440,573 - \$439,453 = \$1,119$ ). The adjustment in the amount of \$1,119 has  
20 been carried forward to Exhibit No. FIV-15, Page 3, Column 3.

21  
22 Q. Explain Exhibit No. FIV-15-10.

23 A. Exhibit No. FIV-15-10 is an adjustment to reflect FICA payroll taxes on Pro Forma  
24 payroll for twelve months ending February 28, 2027, at the tax rate and wage bases  
25

1 effective January 1, 2025. The January 1, 2025 HI component of the FICA tax of 1.45%  
2 is applied to taxable Pro Forma payroll of \$12,881,655 to determine projected HI  
3 component of FICA taxes of \$186,784 ( $\$12,881,655 \times 0.0145 = \$186,784$ ). Total Pro  
4 Forma payroll in the amount of \$12,881,655 is reduced by \$812,825, which is that  
5 portion of Pro Forma payroll not subject to OASDI of FICA tax to arrive at taxable Pro  
6 Forma payroll of \$12,068,830 ( $\$12,881,655 - \$812,825 = \$12,068,830$ ). The January 1,  
7 2025 OASDI component of FICA tax rate of 6.2% is applied to the taxable Pro Forma  
8 payroll subject to OASDI of \$12,068,830 to determine pro forma OASDI component of  
9 FICA taxes of \$748,267 ( $\$12,068,830 \times 0.062$ ). The HI component in the amount of  
10 \$186,784 and the OASDI component in the amount of \$748,267 of FICA taxes are  
11 totaled to determine Pro Forma FICA taxes in the amount of \$935,051 ( $\$186,784 +$   
12  $\$748,267 = \$935,051$ ). The adjustment to FICA taxes, in the amount of \$20,141, is  
13 determined by subtracting the projected FICA taxes for twelve months ending February  
14 28, 2027, of \$914,911 (Refer to Exhibit No. FIV-15-6) from the calculated Pro Forma  
15 FICA taxes of \$935,051 ( $\$935,051 - \$914,911 = \$20,141$ ). The FICA adjustment in the  
16 amount of \$20,141 has been carried forward to Exhibit No. FIV-15, Page 3, Column 6.

17  
18 I note that a portion of Pro Forma FICA taxes for the twelve months ending February 28,  
19 2027, was capitalized and is reflected, as a reduction to operating expenses, in Account  
20 40801302, Miscellaneous Taxes Other Than Income Taxes Transferred on Exhibit No.  
21 FIII-2-49.

22  
23 Q. Explain Exhibit No. FIV-15-11.  
24  
25

1 A. Exhibit No. FIV-15-11 is an adjustment to reflect the Commission's General Assessment,  
2 the Consumer Advocate's Assessment, the Small Business Advocate's Assessment, and  
3 the Damage Prevention Control Assessment based on Pro Forma operating revenues  
4 under existing rates for twelve months ending February 28, 2027, and the 2024-2025  
5 assessment factors. The currently-effective combined 2024-2025 assessment rate of  
6 0.676148% for the Commission's General Assessment, the Consumer Advocate's  
7 Assessment, the Small Business Advocate's Assessment, and the Damage Prevention  
8 Control Assessment is applied to Pro Forma operating revenues at existing rates for  
9 twelve months ending February 28, 2027, in the amount of \$65,472,486. The pro forma  
10 operating revenues at existing rates for combined assessment purposes is determined by  
11 removing sales for resale customers included on Exhibit No. FII-12 and Exhibit No. FII-  
12 13 and priced out bulk truck sales included on Exhibit No. HII-4 from total pro forma  
13 operating revenues at existing rates on Exhibit No. FII-2, Page 2, Column 4. Sales for  
14 resale customers and priced out bulk truck sales are not included in the combined  
15 assessment calculation. The currently-effective combined 2024-2025 assessment rate of  
16 0.676148% is applied to the pro forma operating revenues at existing rates for combined  
17 assessment purposes for the twelve months ended February 28, 2027, in the amount of  
18 \$65,472,486 to determine the pro forma combined assessment under existing rates for  
19 twelve months ended February 28, 2027, in the amount of \$442,691 ( $\$65,472,486 \times$   
20  $0.00676148$ ). The adjustment in the amount of \$2,118 is determined by subtracting the  
21 projected year assessments for the twelve months ending February 28, 2027, of \$440,573  
22 (Refer to Exhibit No. FIV-15-9) from the calculated Pro Forma amount of \$442,691  
23 ( $\$442,691 - \$440,573 = \$2,118$ ). The adjustment in the amount of \$2,118 has been  
24 carried forward to Exhibit No. FIV-15, Page 3, Column 6.

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Q. Explain Exhibit No. FIV-15-12.

A. Exhibit No. FIV-15-12 is an adjustment to reflect the Commission’s General Assessment, the Consumer Advocate’s Assessment, the Small Business Advocate’s Assessment, and the Damage Prevention Control Assessment based on Pro Forma operating revenues under proposed rates for twelve months ending February 28, 2027, and the 2024-2025 assessment factors. The currently-effective combined 2024-2025 assessment rate of 0.676148% for the Commission’s General Assessment, the Consumer Advocate’s Assessment, the Small Business Advocate’s Assessment, and the Damage Prevention Control Assessment is applied to Pro Forma operating revenues under proposed rates for twelve months ending February 28, 2027, in the amount of \$85,738,630. The pro forma operating revenues at proposed rates for combined assessment purposes is determined by removing sales for resale customers included on Exhibit No. FII-12 and Exhibit No. FII-13 and priced out bulk truck sales included on Exhibit No. HII-4 from total pro forma operating revenues at proposed rates on Exhibit No. FII-2, Page 2, Column 4. Sales for resale customers and priced out bulk truck sales are not included in the combined assessment calculation. The currently-effective combined 2024-2025 assessment rate of 0.676148% is applied to the pro forma operating revenues at proposed rates for combined assessment purposes for the twelve months ended February 28, 2027, in the amount of \$85,738,630 to determine the pro forma combined assessment under proposed rates for twelve months ended February 28, 2027, in the amount of \$579,720 ( $\$85,738,630 \times 0.00676148$ ). The adjustment in the amount of \$137,029 is determined by subtracting the pro forma year assessments for the twelve months ending February 28, 2027, of \$442,691 (Refer to Exhibit No. FIV-15-11) from the calculated Pro Forma amount of \$579,720

1 (\$579,720 - \$442,691 = \$137,029). The adjustment in the amount of \$137,029 has been  
2 carried forward to Exhibit No. FIV-15, Page 4, Column 3.

3  
4 Q. Are you sponsoring any other exhibits regarding the Company's taxes other than income  
5 taxes?

6 A. Yes, I am also sponsoring Exhibit Nos. FIV-2 and FIV-12.

7  
8 Q. Explain Exhibit No. FIV-5.

9 A. Exhibit No. FIV-5 provides a schedule of deferred investment tax credits as of February  
10 28, 2027. In 1972, the Company timely elected the special rule for ratable flow-through  
11 of investment tax credits under former Section 46(f)(2) (at that time Section 46(e)(2)) of  
12 the Internal Revenue Code, which requires that the Federal investment tax credits be  
13 flowed through to ratepayers as a reduction to federal income taxes ratably over the  
14 depreciable life of the property. The Company adopted a fifty-year amortization period  
15 for Federal investment tax credits to meet the requirements of former Section 46(f)(2) of  
16 the Internal Revenue Code.

17  
18 Because the Company timely elected in 1972 the special rule for ratable flow-through of  
19 Federal investment tax credits under former Section 46(f)(2) (at that time Section  
20 46(e)(2)) of the Internal Revenue Code, the only reduction that may be made to the  
21 Company's cost of service, with respect to Federal investment tax credits generated in  
22 calendar year 1972 and thereafter, is to amortize the Federal investment tax credits  
23 ratably over the life of the property. Under the special rule for ratable flow-through, the  
24  
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1 rate base of the utility cannot be reduced by any portion of deferred Federal investment  
2 tax credits.

3  
4 Q. Explain Exhibit No. FIV-17.

5 A. Exhibit No. FIV-17 summarizes adjustments to operating income taxes for the twelve  
6 months ending February 28, 2027, for ratemaking purposes and to reflect additional  
7 operating income taxes resulting from the proposed increase in operating revenues.

8  
9 Pro forma operating income taxes for the twelve months ended December 31, 2024, in the  
10 amount of \$(120,559) are shown in Column 1 of Page 2 of Exhibit FIV-17. Projected  
11 adjustments to operating income taxes of \$(1,249,849) are shown in Column 3 of Page 2  
12 of Exhibit No. FIV-17 and are detailed in Exhibit Nos. FIV-17-1 through FIV-17-4,  
13 which I will explain later. Pro forma adjustments to operating income taxes of  
14 \$(159,306) are shown in Column 6 of Page 2 of Exhibit No. FIV-17 and are detailed in  
15 Exhibit No. FIV-17-5, which I will explain later. Pro forma operating income taxes for  
16 the twelve months ending December 31, 2025, in the amount of \$(1,529,715) are shown  
17 in Column 7 of Page 2 of Exhibit No. FIV-17 and are carried forward to Column 1 of  
18 Page 3 of Exhibit No. FIV-17. Projected adjustments to operating income taxes of  
19 \$(198,995) are shown in Column 3 of Page 3 of Exhibit No. FIV-17 and are detailed in  
20 Exhibit Nos. FIV-17-6 through FIV-17-9, which I will explain later. Projected operating  
21 income taxes for the twelve months ending February 28, 2027, in the amount of  
22 \$(1,728,710) are shown in Column 4 of Page 3 of Exhibit No. FIV-17 and are carried  
23 forward to Column 1 of Page 4 of Exhibit No. FIV-17. Pro forma adjustments to  
24 operating income taxes of \$(102,412) are shown in Column 3 of Page 4 of Exhibit No.

25

1 FIV-17 and are detailed in Exhibit No. FIV-17-10, which I will explain later.

2 Adjustments to operating income taxes amounting to \$5,394,500 are made to reflect the  
3 increased operating income taxes that will result from the increase in operating revenues  
4 under proposed rates and these adjustments are shown in Column 6 of Page 4 of Exhibit  
5 No. FIV-17 and are detailed in Exhibit No. FIV-17-12, which I will explain later.

6  
7 Q. Explain Exhibit No. FIV-17-1.

8 A. Exhibit No. FIV-17-1 is an annualized amortization of Federal investment tax credits for  
9 the twelve months ended December 31, 2025. The Tax Reform Act of 1986 repealed the  
10 investment tax credit provisions effective December 31, 1985. The investment tax credits  
11 for 1986 through 2025 are claimed under the transitional property provisions of TRA-86.

12  
13 Federal investment tax credits as of December 31, 2025, generated during the period  
14 1972 through 2025 are shown on Column 2 of Exhibit No. FIV-17-1. The Company  
15 adopted a fifty-year amortization period for Federal investment tax credits to meet the  
16 requirements of former Section 46(f)(2) of the Internal Revenue Code. The pro forma  
17 annual amortization of Federal investment tax credits in the amount of \$(38,374) shown  
18 in Column 4 of Exhibit No. FIV-17-1 is determined by dividing the Federal investment  
19 tax credits generated, shown in Column 2, by the fifty-year amortization period shown in  
20 Column 3.

21  
22 In 1972, the Company timely elected the special rule for ratable flow-through of  
23 investment tax credits under former Section 46(f)(2) (at that time Section 46(e)(2)) of the  
24 Internal Revenue Code which requires that Federal investment tax credits be flowed

1 through the ratepayers as a reduction to Federal income taxes ratably over the depreciable  
2 life of the property. An adjustment of the annual amortization of Federal investment tax  
3 credits in the amount of \$(65) is determined by subtracting the pro forma amortization of  
4 Federal investment tax credits for the period ended December 31, 2024, of \$(38,309)  
5 (Refer to Exhibit No. HIV-17-1) from the calculated pro forma annual amortization of  
6 Federal investment tax credits in the amount of \$(38,374), shown in Column 4 [\$(38,374)  
7 - \$(38,309) = \$(65)]. The adjustment of the annual amortization of Federal investment  
8 tax credits in the amount of \$(65) has been carried forward to Exhibit FIV-17, Page 2,  
9 Column 3.

10  
11 Because the Company timely elected in 1972 the special rule for ratable flow-through of  
12 Federal investment tax credits under former Section 46(f)(2) (at that time Section  
13 46(e)(2)) of the Internal Revenue Code, the only reduction that may be made to the  
14 Company's cost of service, with respect to Federal investment tax credits generated in  
15 calendar year 1972 and thereafter, is to amortize the Federal investment tax credits  
16 ratably over the life of the property. Under the special rule for ratable flow-through, the  
17 rate base of the utility cannot be reduced by any portion of deferred Federal investment  
18 tax credits.

19  
20 Q. Explain Exhibit No. FIV-17-2.

21 A. Exhibit No. FIV-17-2 is an adjustment to reflect projected current Federal income tax and  
22 projected current Pennsylvania corporate net income tax based on projected taxable  
23 income for the twelve months ending December 31, 2025, under existing rates at the  
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1 currently effective Federal income tax rate of 21% and at the Pennsylvania corporate net  
2 income tax rate of 7.99%.

3  
4 Total projected operating income before income taxes and excluding depreciation under  
5 existing rates for the twelve months ending December 31, 2025, in the amount of  
6 \$36,636,117 is determined by subtracting projected operating expenses under existing  
7 rates in the amount of \$28,987,478 (Refer to Exhibit No. FIII-2, Page 2 of 22, Column 4)  
8 and projected operating taxes other than income taxes under existing rates in the amount  
9 of \$1,758,014 (Refer to Exhibit No. FIV-15, Page 2 of 4, Column 4) from projected  
10 operating revenues under existing rates in the amount of \$67,381,609 (Refer to Exhibit  
11 No. FII-2, Page 2 of 9, Column 3) ( $\$67,381,609 - \$28,987,478 - \$1,758,014 =$   
12  $\$36,636,117$ ). To arrive at taxable income at present rates, amounts are added for  
13 expenses of the Customer Survey of \$4,800, Dividend Reinvestment and Direct Stock  
14 Purchase and Sale Plan of \$7,762, Long-term Incentive Plan of \$1,740, Employee Stock  
15 Purchase Plan of \$1,052, Normalization of Rate Case Expenses of \$236,188,  
16 Amortization of Acquisition Adjustments of \$(23,331), Amortization of Lead Service  
17 Line Replacements of \$145,298, Filter Plant Yard Piping Survey of \$3,081, Service Life  
18 Study of \$5,138, Long-term Infrastructure Improvement Plan of \$672, Nondeductible  
19 Parking of \$8,357, and Nondeductible Meals of \$16,770 and amounts are then deducted  
20 for tax repair expense in the amount of \$17,241,159, cost of removal in the amount of  
21 \$3,018,880, tank painting in the amount of \$480,000, deferred rate case expense in the  
22 amount of \$944,750, state tax depreciation in the amount of \$11,976,051, and pro forma  
23 interest expense deduction for ratemaking purposes in the amount of \$8,523,195.

1 Expenses of the Company's Customer Survey of \$4,800, Dividend Reinvestment and  
2 Direct Stock Purchase and Sale Plan of \$7,762, Long-term Incentive Plan of \$1,740,  
3 Employee Stock Purchase Plan of \$1,052, Normalization of Rate Case Expenses of  
4 \$236,188, Amortization of Acquisition Adjustments of \$(23,331), Amortization of Lead  
5 Service Line Replacements of \$145,298, Filter Plant Yard Piping Survey of \$3,081,  
6 Service Life Study of \$5,138, Long-term Infrastructure Improvement Plan of \$672,  
7 Nondeductible Parking of \$8,357, and Nondeductible Meals of \$16,770 are not allowed  
8 as a deduction for income tax purposes. Since these amounts are included in operating  
9 expenses and deducted in arriving at the figure of \$36,636,117, they must be added back  
10 in arriving at taxable income. Tax repair expense in the amount of \$17,241,159 has been  
11 capitalized on the corporate books but is taken as a current deduction on the Company's  
12 Federal and State income tax returns. Cost of removal in the amount of \$3,018,880 has  
13 been capitalized on the corporate books but is taken as a current deduction on the  
14 Company's Federal and State income tax returns. Tank painting in the amount of  
15 \$480,000 has been capitalized on the corporate books but is taken as a current deduction  
16 on the Company's Federal and State income tax returns. Deferred rate case expense in  
17 the amount of \$944,7500 has been capitalized on the corporate books but is taken as a  
18 current deduction on the Company's Federal and State income tax returns. Tax  
19 depreciation in the amount of \$11,976,051 is detailed on Exhibit No. HIV-17-3, and  
20 Exhibit No. HIV-17-3 (a). I note that the Federal tax depreciation is less than state tax  
21 depreciation due to the provisions of Act 89 of 2002, which I will explain later with  
22 respect to Exhibit No. HIV-17-3 (a). Pro forma interest expense deduction for  
23 ratemaking purposes in the amount of \$8,523,195 is determined by reflecting the interest  
24  
25

1 charges to ratepayers in the cost of capital determination (Interest Synchronization) (Rate  
2 Base of \$413,332,385 x Weighted Debt Cost Rate of 2.06%).

3  
4 Projected taxable income under existing rates in the amount of \$(5,140,393) is  
5 determined by adding the expenses of the Customer Survey of \$4,800, Dividend  
6 Reinvestment and Direct Stock Purchase and Sale Plan of \$7,762, Long-term Incentive  
7 Plan of \$1,740, Employee Stock Purchase Plan of \$1,052, Normalization of Rate Case  
8 Expenses of \$236,188, Amortization of Acquisition Adjustments of \$(23,331),  
9 Amortization of Lead Service Line Replacements of \$145,298, Filter Plant Yard Piping  
10 Survey of \$3,081, Service Life Study of \$5,138, Long-term Infrastructure Improvement  
11 Plan of \$672, Nondeductible Parking of \$8,357, and Nondeductible Meals of \$16,770 and  
12 amounts are then deducted for tax repair expense in the amount of \$17,241,159, cost of  
13 removal in the amount of \$3,018,880, tank painting in the amount of \$480,000, deferred  
14 rate case expense in the amount of \$944,750, state tax depreciation in the amount of  
15 \$11,976,051, and pro forma interest expense deduction for ratemaking purposes in the  
16 amount of \$8,523,195 from projected net operating income in the amount of \$36,636,117  
17 [ $\$36,636,117 + \$4,800 + \$7,762 + \$1,740 + \$1,052 + \$236,188 + \$(23,331) + \$145,298 +$   
18  $\$3,081 + \$5,138 + \$672 + \$8,357 + \$16,770 - \$17,241,159 - \$3,018,880 - \$480,000 -$   
19  $\$944,750 - \$11,976,051 - \$8,523,195 = \$(5,140,393)$ ].

20  
21 Projected State income tax under existing rates in the amount of \$(410,717) is determined  
22 by applying the Pennsylvania corporate net income tax rate of 7.99% to projected taxable  
23 income in the amount of \$(5,140,393) [ $\$(5,140,393) \times 0.0799 = \$(410,717)$ ]. Projected  
24 Federal taxable income under existing rates in the amount of \$(4,127,474) is determined

25

1 by subtracting projected State income tax under existing rates in the amount of  
2 \$(410,717) and adding back additional allowed State depreciation on bonus property of  
3 \$602,201 to projected taxable income in the amount of \$(5,140,393) [ $-(5,140,393) -$   
4  $-(410,717) + 602,201 = -(4,127,474)$ ]. Projected Federal income tax under existing  
5 rates in the amount of \$(866,769) is determined by applying the presently effective  
6 Federal income tax rate of 21% to the projected Federal taxable income under existing  
7 rates in the amount of \$(4,127,474) [ $-(4,127,474) \times 0.21 = -(866,769)$ ]. Total projected  
8 current income taxes under existing rates in the amount of \$(1,277,487) is determined by  
9 adding projected state income tax under existing rates in the amount of \$(410,717) and  
10 projected Federal income tax under existing rates in the amount of \$(866,769)  
11 [ $-(410,717) + -(866,769) = -(1,277,487)$ ]. The adjustment to income taxes in the amount  
12 of \$(1,278,121) is determined by subtracting total pro forma current income taxes under  
13 existing rates during the twelve months ended December 31, 2024, in the amount of \$634  
14 (Refer to Exhibit No. FIV-17) from total projected current income taxes under existing  
15 rates in the amount of \$(1,277,487) [ $-(1,277,487) - 634 = -(1,278,121)$ ]. The  
16 adjustment to income taxes at present rates in the amount of \$(1,278,121) has been  
17 carried forward to Exhibit No. FIV-17, Page 2, Column 3.

18  
19 Q. Explain Exhibit No. FIV-17-3.

20 A. Exhibit No. FIV-17-3 provides information concerning income tax depreciation used to  
21 calculate current and deferred Federal Income Taxes for ratemaking purposes. In order to  
22 explain Exhibit No. FIV-17-3, a general explanation of the tax depreciation methods used  
23 by York Water for various vintages of property is required.

1 For property placed in service during calendar year 1970 and prior years, the Company's  
2 method of tax depreciation is the straight-line method. No provision has been made in  
3 the rate case exhibits for normalization of tax depreciation for property placed in service  
4 in 1970 and prior years.

5  
6 For property placed in service during calendar years 1971 through 1978, the Company's  
7 method of tax depreciation is the double declining balance method. As explained later,  
8 normalization of the income tax deferrals resulting from use of an accelerated tax  
9 depreciation method for property placed in service during calendar years 1971 through  
10 1978 is required by Internal Revenue Code Section 167(1)(2)(B) because the Company's  
11 "applicable 1968 method" was straight line. The Company also filed, as a precaution, a  
12 timely election with the Internal Revenue Service electing normalization of accelerated  
13 depreciation.

14  
15 For property placed in service during calendar years 1979 and 1980, the Company's  
16 method of tax depreciation is the double declining balance method under the Internal  
17 Revenue Service's Asset Depreciation Range System. Normalization of the income tax  
18 deferrals resulting from use of an accelerated depreciation method for property placed in  
19 service during the calendar years 1979 and 1980 also is required by Internal Revenue  
20 Code Section 167(1)(2)(B).

21  
22 Normalization of the income tax deferrals resulting from the use of an accelerated tax  
23 depreciation method for property placed in service during calendar years 1971 through  
24 1980 is required because the Company's "applicable 1968 method", for purposes of  
25

1 Section 167 of the Internal Revenue Code, was the straight-line method. Under Section  
2 167(1)(2)(B) of the Internal Revenue Code, because the Company’s “applicable 1968  
3 method” was straight line, the Company may not deduct accelerated depreciation for  
4 property placed in service during calendar years 1971 through 1980 for income tax  
5 purposes unless there is normalization for ratemaking purposes.

6  
7 For property placed in service beginning with calendar year 1981 and continuing through  
8 2025, the Company employs various methods of tax depreciation as permitted by law.  
9 Normalization of the tax deferrals resulting from the use of these accelerated depreciation  
10 methods is required by the Internal Revenue Code.

11  
12 I note that for qualified property placed in service after September 10, 2001, and before  
13 January 1, 2005, the Company’s method of tax depreciation includes either the Internal  
14 Revenue Code’s Special 30 Percent Depreciation Allowance or the Internal Revenue  
15 Code’s Special 50 Percent Depreciation Allowance.

16  
17 I note that for qualified property placed in service after January 1, 2008, and before  
18 January 1, 2018, the Company’s method of tax depreciation includes either the Internal  
19 Revenue Code’s 50 Percent First Year Bonus Depreciation or the Internal Revenue  
20 Code’s 100 Percent First Year Bonus Depreciation.

21  
22 If the Company is not permitted to recover revenues necessary to provide for  
23 normalization of the income tax effects of accelerated depreciation, the Company will not  
24 be permitted to deduct accelerated depreciation for Federal income tax purposes.

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Tax depreciation by vintage year in the amount of \$14,676,498 for property included in the measure of value is shown on Exhibit FIV-17-2, Column 3.

Deferred taxes must be provided with the normalization requirements of Internal Revenue Code Sections 167 and 168. The amount of \$14,676,498 is reduced by \$12,885,523, which is the amount included for ratemaking purposes as depreciation in order to determine the difference of \$1,790,975 to be used for calculating the deferred Federal income tax ( $\$14,676,498 - \$12,885,523 = \$1,790,975$ ). The Federal income tax rate of 21% is applied to the difference of \$1,790,975 to determine deferred Federal income tax in the amount of \$376,105 ( $\$1,790,975 \times 0.21$ ). The adjustment to deferred Federal income tax in the amount of \$21,983 is determined by subtracting deferred Federal income tax recorded on the corporate books during the twelve months ended December 31, 2024, in the amount of \$354,122 from the calculated deferred Federal income tax in the amount of \$376,105 ( $\$376,105 - \$354,122 = \$21,983$ ). The adjustment to deferred Federal income tax in the amount of \$21,983 has been carried forward to Exhibit No. FIV-17, Column 3.

- Q. Explain Exhibit No. FIV-17-3 (a).
- A. Exhibit No. FIV-17-3 (a) is the calculation of the state tax decoupling from the Federal Special 30-Percent and 50-Percent Depreciation Allowance in accordance with Pennsylvania Act 89 of 2002 signed into law June 29, 2002 and the Economic Growth and Tax Relief Reconciliation Act of 2001, the Job Creation and Worker Assistance Act of 2002, the Jobs and Growth Tax Relief Reconciliation Act of 2003, the Economic

1 Stimulus Act of 2008, and the Tax Relief, Unemployment Insurance Reauthorization, and  
2 Job Creation Act of 2010. These acts require corporate taxpayers who elect the Federal  
3 Special 30-Percent and Special 50-Percent Depreciation Allowance to make adjustments,  
4 which eliminate the effect of the Federal Special 30-Percent and Special 50-Percent  
5 Depreciation Allowance in arriving at Pennsylvania taxable income. Because Act 89 of  
6 2002 eliminated the effect of the first-year Federal bonus depreciation, additional State  
7 depreciation deductions are allowed in subsequent years.

8  
9 The basis of property qualified for the additional first year depreciation allowance is  
10 reflected in Column 2 of Exhibit No. FIV-17-3 (a). Total Federal tax depreciation is  
11 shown in Column 3 of Exhibit No. FIV-17-3 (a). The adjustment for additional allowed  
12 state depreciation in lieu of the Federal Special 30-Percent and 50 Percent depreciation is  
13 reflected in Column 6 and is determined by multiplying Federal depreciation shown in  
14 Column 5 by 0.42857 (3/7). The factor of 0.42857 (3/7) is reflected in the Bureau of  
15 Corporation Taxes Adjustment for Bonus Depreciation (Form REV-784).

16  
17 The recovery of a portion of the bonus depreciation of \$602,201 is carried forward to  
18 Exhibit No. FIV-17-2 and FIV-17-5 as an adjustment to State tax depreciation.

19  
20 Q. Explain Exhibit No. FIV-17-4.

21 A. Exhibit No. FIV-17-4 calculates the reversal of excess deferred Federal income taxes  
22 related to accelerated depreciation on property. Upon passage of the Tax Cuts and Jobs  
23 Act of 2017, the Company adjusted the balance of its deferred Federal income taxes  
24 related to accelerated depreciation on property to the newly enacted statutory Federal  
25

1 income tax rate of 21%. The difference between the existing balance of deferred Federal  
2 income taxes related to accelerated depreciation on property and the adjusted balance of  
3 deferred Federal income taxes related to accelerated depreciation on property was  
4 recorded as a regulatory liability for the excess deferred Federal income taxes related to  
5 accelerated depreciation on property.

6  
7 A reversal is recorded for the excess deferred Federal income taxes whose normalized  
8 depreciation exceeds tax depreciation, that is, the tax life of the property has reached what  
9 is commonly referred to as the “turnaround point.” The vintage years that have reached  
10 the turnaround point are 1971 through 1973, 1979 through 1999, 2011, and 2015 through  
11 2017. Tax depreciation for these vintage years subject to normalization requirements of  
12 Internal Revenue Code Section 167 and 168 is \$596,214. The amount of tax depreciation  
13 of \$596,214 is less than \$1,917,477, which is the amount included for ratemaking  
14 purposes as depreciation on property placed in service during these vintage years. The  
15 difference of \$(1,321,263) is to be used for calculating the return of excess previously  
16 deferred Federal income tax to be reversed [ $\$596,214 - \$1,917,477 = \$(1,321,263)$ ]. Tax  
17 depreciation, and thus excess deferred Federal income taxes recovered from customers,  
18 was computed to the turnaround point for all of these properties at a rate of 21%, 34%,  
19 46%, or 48%. The excess of 2% between 48% and 46% has been amortized as a  
20 reduction to the cost of service in prior rate proceedings. However, the Tax Reform Act  
21 of 1986 and the Tax Cuts and Jobs Act of 2017 prohibits flow back of the excess between  
22 the prior rates and the current rate any faster than ratably over the tax life of the property  
23 following the property attaining the turnaround point. This ratable flow back is to be  
24 achieved by using a weighted average tax rate, representing the weighted average rate for  
25

1 each vintage for all years prior to the turnaround year. The weighted average rate for  
2 each vintage year, which has reached the turnaround point, is shown in Column 6. The  
3 weighted average tax rate is applied to the tax depreciation subject to deferral shown in  
4 Column 4 to determine the reversal of deferred Federal income taxes in the amount of  
5 \$(448,968). This was compared to the value of the deferred Federal income taxes at the  
6 newly enacted rate of \$277,465 determined by multiplying the total tax depreciation  
7 subject to deferral of \$(1,321,263) by the newly enacted rate of 21% [ $$(1,321,263) \times 0.21$   
8  $= $(277,465)$ ]. The difference between the deferred Federal income taxes at prior rates of  
9 \$(448,968) and those at the newly enacted rate of \$277,465 is the reversal of the excess  
10 deferred Federal income taxes of \$(171,502) [ $$(448,968) - $277,465 = $(171,502)$ ]. An  
11 adjustment of the excess deferred Federal income taxes in the amount of \$6,354 is  
12 determined by subtracting the reversal of pro forma excess deferred Federal income taxes  
13 during the twelve months ended December 31, 2024, in the amount of \$(177,856), from  
14 the calculated pro forma reversal of excess deferred Federal income taxes in the amount  
15 of \$(171,502) [ $$(171,502) - $(177,856) = $6,354$ ]. The adjustment of the reversal of  
16 deferred Federal income taxes in the amount of \$6,354 has been carried forward to  
17 Exhibit HIV-17, Column 3.

18  
19 Q. Explain Exhibit No. FIV-17-5.

20 A. Exhibit No. FIV-17-5 is an adjustment to reflect pro forma current Federal income tax  
21 and pro forma current Pennsylvania corporate net income tax based on pro forma taxable  
22 income for the twelve months ending December 31, 2025, under existing rates at the  
23 currently effective Federal income tax rate of 21% and at the Pennsylvania corporate net  
24 income tax rate of 7.99%.

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Total pro forma operating income before income taxes and excluding depreciation under existing rates for the twelve months ending December 31, 2025, in the amount of \$36,052,837 is determined by subtracting pro forma operating expenses under existing rates in the amount of \$29,932,527 (Refer to Exhibit No. FIII-2, Page 9 of 9, Column 1) and pro forma operating taxes other than income taxes under existing rates in the amount of \$1,833,113 (Refer to Exhibit No. FIV-15, Page 2 of 4, Column 7) from pro forma operating revenues under existing rates in the amount of \$67,818,476 (Refer to Exhibit No. FII-2, Page 4 of 9, Column 3) ( $\$67,818,476 - \$29,932,527 - \$1,833,113 = \$36,052,837$ ). To arrive at taxable income at present rates, amounts are added for the expenses of the Customer Survey of \$4,800, Dividend Reinvestment and Direct Stock Purchase and Sale Plan of \$7,762, Long-term Incentive Plan of \$1,740, Employee Stock Purchase Plan of \$1,052, Normalization of Rate Case Expenses of \$236,188, Amortization of Acquisition Adjustments of \$(23,331), Amortization of Lead Service Line Replacements of \$145,298, Filter Plant Yard Piping Survey of \$3,081, Service Life Study of \$5,138, Long-term Infrastructure Improvement Plan of \$672, Nondeductible Parking of \$8,357, and Nondeductible Meals of \$16,770 and amounts are then deducted for tax repair expense in the amount of \$17,241,159, cost of removal in the amount of \$3,018,880, tank painting in the amount of \$480,000, deferred rate case expense in the amount of \$944,750, state tax depreciation in the amount of \$11,976,051, and pro forma interest expense deduction for ratemaking purposes in the amount of \$8,523,195.

Expenses of the Company's Customer Survey of \$4,800, Dividend Reinvestment and Direct Stock Purchase and Sale Plan of \$7,762, Long-term Incentive Plan of \$1,740,

1 Employee Stock Purchase Plan of \$1,052, Normalization of Rate Case Expenses of  
2 \$236,188, Amortization of Acquisition Adjustments of \$(23,331), Amortization of Lead  
3 Service Line Replacements of \$145,298, Filter Plant Yard Piping Survey of \$3,081,  
4 Service Life Study of \$5,138, Long-term Infrastructure Improvement Plan of \$672,  
5 Nondeductible Parking of \$8,357, and Nondeductible Meals of \$16,770 are not allowed  
6 as a deduction for income tax purposes. Since these amounts are included in operating  
7 expenses and deducted in arriving at the figure of \$36,052,837, they must be added back  
8 in arriving at taxable income. Tax repair expense in the amount of \$17,241,159 has been  
9 capitalized on the corporate books but is taken as a current deduction on the Company's  
10 Federal and State income tax returns. Cost of removal in the amount of \$3,018,880 has  
11 been capitalized on the corporate books but is taken as a current deduction on the  
12 Company's Federal and State income tax returns. Tank painting in the amount of  
13 \$480,000 has been capitalized on the corporate books but is taken as a current deduction  
14 on the Company's Federal and State income tax returns. Deferred rate case expense in  
15 the amount of \$944,750 has been capitalized on the corporate books but is taken as a  
16 current deduction on the Company's Federal and State income tax returns. Tax  
17 depreciation in the amount of \$11,976,051 is detailed on Exhibit No. FIV-17-3 and  
18 Exhibit No. FIV-17-3 (a). I note that the Federal tax depreciation is less than state tax  
19 depreciation due to the provisions of Act 89 of 2002, which I previously explained with  
20 respect to Exhibit No. FIV-17-3 (a). Pro forma interest expense deduction for ratemaking  
21 purposes in the amount of \$8,523,195 is determined by reflecting the interest charges to  
22 ratepayers in the cost of capital determination (Interest Synchronization) (Rate Base of  
23 \$413,332,385 x Weighted Debt Cost Rate of 2.06%).

1 Pro forma taxable income under existing rates in the amount of \$(5,723,673) is  
2 determined by adding the expenses of the Customer Survey of \$4,800, Dividend  
3 Reinvestment and Direct Stock Purchase and Sale Plan of \$7,762, Long-term Incentive  
4 Plan of \$1,740, Employee Stock Purchase Plan of \$1,052, Normalization of Rate Case  
5 Expenses of \$236,188, Amortization of Acquisition Adjustments of \$(23,331),  
6 Amortization of Lead Service Line Replacements of \$145,298, Filter Plant Yard Piping  
7 Survey of \$3,081, Service Life Study of \$5,138, Long-term Infrastructure Improvement  
8 Plan of \$672, Nondeductible Parking of \$8,357, and Nondeductible Meals of \$16,770 and  
9 amounts are then deducted for tax repair expense in the amount of \$17,241,159, cost of  
10 removal in the amount of \$3,018,880, tank painting in the amount of \$480,000, deferred  
11 rate case expense in the amount of \$944,750, state tax depreciation in the amount of  
12 \$11,976,051, and pro forma interest expense deduction for ratemaking purposes in the  
13 amount of \$8,523,195 from projected net operating income in the amount of \$36,052,837  
14 [\$36,052,837 + \$4,800 + \$7,762 + \$1,740 + \$1,052 + \$236,188 + \$(23,331) + \$145,298 +  
15 \$3,081 + \$5,138 + \$672 + \$8,357 + \$16,770 - \$17,241,159 - \$3,018,880 - \$480,000 -  
16 \$944,750 - \$11,976,051 - \$8,523,195 = \$(5,723,673)].

17  
18 Pro forma State income tax under existing rates in the amount of \$(457,321) is  
19 determined by applying the Pennsylvania corporate net income tax rate of 7.99% to pro  
20 forma taxable income in the amount of \$(5,723,673) [ $$(5,723,673) \times 0.0799 =$   
21  $$(457,321)$ ]. Pro forma Federal taxable income under existing rates in the amount of  
22  $$(4,664,150)$  is determined by subtracting pro forma State income tax under existing rates  
23 in the amount of  $$(457,321)$  and adding back additional allowed State depreciation on  
24 bonus property of \$602,201 to pro forma taxable income in the amount of  $$(5,723,673)$

25

1             $[\$(5,723,673) - \$(457,321) + \$602,201 = \$(4,664,150)]$ . Pro forma Federal income tax  
2            under existing rates in the amount of  $\$(979,471)$  is determined by applying the presently  
3            effective Federal income tax rate of 21% to the pro forma Federal taxable income under  
4            existing rates in the amount of  $\$(4,664,150)$  [ $\$(4,664,150) \times 0.21 = \$(979,471)$ ]. Total  
5            pro forma current income taxes under existing rates in the amount of  $\$(1,436,793)$  is  
6            determined by adding pro forma state income tax under existing rates in the amount of  
7             $\$(457,321)$  and pro forma Federal income tax under existing rates in the amount of  
8             $\$(979,471)$  [ $\$(457,321) + \$(979,471) = \$(1,436,793)$ ]. The adjustment to income taxes in  
9            the amount of  $\$(159,306)$  is determined by subtracting total projected current income  
10           taxes under existing rates during the twelve months ending December 31, 2025, in the  
11           amount of  $\$(1,277,487)$  (Refer to Exhibit No. FIV-17-2) from total pro forma current  
12           income taxes under existing rates in the amount of  $\$(1,436,793)$  [ $\$(1,436,793) -$   
13            $\$(1,277,487) = \$(159,306)$ ]. The adjustment to income taxes at present rates in the  
14           amount of  $\$(159,306)$  has been carried forward to Exhibit No. FIV-17, Page 2, Column 6.

15  
16    Q.    Explain Exhibit No. FIV-17-6.

17    A.    Exhibit No. FIV-17-6 is an annualized amortization of Federal investment tax credits for  
18           the twelve months ended February 28, 2027. The Tax Reform Act of 1986 repealed the  
19           investment tax credit provisions effective December 31, 1985. The investment tax credits  
20           for 1986 through February 28, 2027, are claimed under the transitional property  
21           provisions of TRA-86.

22  
23           Federal investment tax credits as of February 28, 2027, generated during the period 1972  
24           through February 28, 2027, are shown on Column 2 of Exhibit No. FIV-17-9. The

1 Company adopted a fifty-year amortization period for Federal investment tax credits to  
2 meet the requirements of former Section 46(f)(2) of the Internal Revenue Code. The pro  
3 forma annual amortization of Federal investment tax credits in the amount of \$(39,126)  
4 shown in Column 4 of Exhibit No. FIV-17-6 is determined by dividing the Federal  
5 investment tax credits generated, shown in Column 2, by the fifty-year amortization  
6 period shown in Column 3.

7  
8 In 1972, the Company timely elected the special rule for ratable flow-through of  
9 investment tax credits under former Section 46(f)(2) (at that time Section 46(e)(2)) of the  
10 Internal Revenue Code which requires that Federal investment tax credits be flowed  
11 through the ratepayers as a reduction to Federal income taxes ratably over the depreciable  
12 life of the property. An adjustment of the annual amortization of Federal investment tax  
13 credits in the amount of \$1,185 is determined by subtracting the pro forma amortization  
14 of Federal investment tax credits for the period ended December 31, 2025, of \$(38,374)  
15 (see Exhibit No. FIV-17-1) from the calculated pro forma annual amortization of Federal  
16 investment tax credits in the amount of \$(37,190), shown in Column 4 [ $$(37,190) -$   
17  $$(38,374) = \$1,185$ ]. The adjustment of the annual amortization of Federal investment  
18 tax credits in the amount of \$1,185 has been carried forward to Exhibit FIV-17, Page 3,  
19 Column 3.

20  
21 Because the Company timely elected in 1972 the special rule for ratable flow-through of  
22 Federal investment tax credits under former Section 46(f)(2) (at that time Section  
23 46(e)(2)) of the Internal Revenue Code, the only reduction that may be made to the  
24 Company's cost of service, with respect to Federal investment tax credits generated in  
25

1 calendar year 1972 and thereafter, is to amortize the Federal investment tax credits  
2 ratably over the life of the property. Under the special rule for ratable flow-through, the  
3 rate base of the utility cannot be reduced by any portion of deferred Federal investment  
4 tax credits.

5  
6 Q. Explain Exhibit No. FIV-17-7.

7 A. Exhibit No. FIV-17-7 is an adjustment to reflect projected current Federal income tax and  
8 projected current Pennsylvania corporate net income tax based on projected taxable  
9 income for the twelve months ending February 28, 2027, under existing rates at the  
10 currently effective Federal income tax rate of 21% and at the Pennsylvania corporate net  
11 income tax rate of 7.49%.

12  
13 Total projected operating income before income taxes and excluding depreciation under  
14 existing rates for the twelve months ending February 28, 2027, in the amount of  
15 \$34,988,046 is determined by subtracting projected operating expenses under existing  
16 rates in the amount of \$31,154,718 (Refer to Exhibit No. FIII-2, Page 16 of 22, Column  
17 1) and projected operating taxes other than income taxes under existing rates in the  
18 amount of \$1,844,441 (Refer to Exhibit No. FIV-15, Page 3 of 4, Column 4) from  
19 projected operating revenues under existing rates in the amount of \$67,987,204 (Refer to  
20 Exhibit No. FII-2, Page 6 of 9, Column 3) ( $\$67,987,204 - \$31,154,718 - \$1,844,441 =$   
21  $\$34,988,046$ ). To arrive at taxable income at present rates, amounts are added for  
22 expenses of the Customer Survey of \$4,800, Dividend Reinvestment and Direct Stock  
23 Purchase and Sale Plan of \$7,762, Long-term Incentive Plan of \$1,740, Employee Stock  
24 Purchase Plan of \$1,052, Normalization of Rate Case Expenses of \$236,188,

25

1 Amortization of Acquisition Adjustments of \$(23,331), Amortization of Lead Service  
2 Line Replacements of \$145,298, Filter Plant Yard Piping Survey of \$3,081, Service Life  
3 Study of \$5,138, Long-term Infrastructure Improvement Plan of \$672, Nondeductible  
4 Parking of \$8,357, and Nondeductible Meals of \$9,379 and amounts are then deducted  
5 for tax repair expense in the amount of \$16,533,188, cost of removal in the amount of  
6 \$2,220,538, state tax depreciation in the amount of \$14,287,107, and pro forma interest  
7 expense deduction for ratemaking purposes in the amount of \$9,167,897.

8  
9 Expenses of the Company's Customer Survey of \$4,800, Dividend Reinvestment and  
10 Direct Stock Purchase and Sale Plan of \$7,762, Long-term Incentive Plan of \$1,740,  
11 Employee Stock Purchase Plan of \$1,052, Normalization of Rate Case Expenses of  
12 \$236,188, Amortization of Acquisition Adjustments of \$(23,331), Amortization of Lead  
13 Service Line Replacements of \$145,298, Filter Plant Yard Piping Survey of \$3,081,  
14 Service Life Study of \$5,138, Long-term Infrastructure Improvement Plan of \$672,  
15 Nondeductible Parking of \$8,357, and Nondeductible Meals of \$9,379 are not allowed as  
16 a deduction for income tax purposes. Since these amounts are included in operating  
17 expenses and deducted in arriving at the figure of \$34,988,046, they must be added back  
18 in arriving at taxable income. Tax repair expense in the amount of \$16,533,188 has been  
19 capitalized on the corporate books but is taken as a current deduction on the Company's  
20 Federal and State income tax returns. Cost of removal in the amount of \$2,220,538 is  
21 capitalized on the corporate books but is taken as a current deduction on the Company's  
22 Federal and State income tax returns. State tax depreciation in the amount of  
23 \$14,287,107 is detailed on Exhibit No. FIV-17-8 and Exhibit No. FIV-17-8 (a). I note  
24 that the state tax depreciation is greater than Federal tax depreciation, which I will  
25

1 explain later with respect to Exhibit No. FIV-17-8 (a). Projected interest expense  
2 deduction for ratemaking purposes in the amount of \$9,167,897 is determined by  
3 reflecting the interest charges to ratepayers in the cost of capital determination (Interest  
4 Synchronization) (Rate Base of \$444,597,217 x Weighted Debt Cost Rate of 2.06%).

5  
6 Projected taxable income under existing rates in the amount of \$(6,820,550) is  
7 determined by adding the expenses of the Customer Survey of \$4,800, Dividend  
8 Reinvestment and Direct Stock Purchase and Sale Plan of \$7,762, Long-term Incentive  
9 Plan of \$1,740, Employee Stock Purchase Plan of \$1,052, Normalization of Rate Case  
10 Expenses of \$236,188, Amortization of Acquisition Adjustments of \$(23,331),  
11 Amortization of Lead Service Line Replacements of \$145,298, Filter Plant Yard Piping  
12 Survey of \$3,081, Service Life Study of \$5,138, Long-term Infrastructure Improvement  
13 Plan of \$672, Nondeductible Parking of \$8,357, and Nondeductible Meals of \$9,379 and  
14 amounts are then deducted for tax repair expense in the amount of \$16,533,188, cost of  
15 removal in the amount of \$2,220,538, state tax depreciation in the amount of  
16 \$14,287,107, and pro forma interest expense deduction for ratemaking purposes in the  
17 amount of \$9,167,897. from projected net operating income in the amount of \$34,988,046  
18  $(\$34,988,046 + \$4,800 + \$7,762 + \$1,740 + \$1,052 + \$236,188 + \$(23,331) + \$145,298 +$   
19  $\$3,081 + \$5,138 + \$672 + \$8,357 + \$9,379 - \$16,533,188 - \$2,220,538 - \$14,287,107 -$   
20  $\$9,167,897 = \$(6,820,550)]$ .

21  
22 Projected State income tax under existing rates in the amount of \$(510,859) is determined  
23 by applying the Pennsylvania corporate net income tax rate of 7.49% to projected taxable  
24 income in the amount of \$(6,820,550) [ $\$(6,820,550) \times 0.0749 = \$(510,859)$ ]. Projected  
25

1 Federal taxable income under existing rates in the amount of \$(5,719,564) is determined  
2 by subtracting projected State income tax under existing rates in the amount of  
3 \$(510,859) and adding back additional allowed state depreciation on bonus property of  
4 \$590,127 to projected taxable income in the amount of \$(6,820,550) [ $$(6,820,550) -$   
5  $$(510,859) + $590,127 = $(5,719,564)$ ]. Projected Federal income tax under existing  
6 rates in the amount of \$(1,201,108) is determined by applying the presently effective  
7 Federal income tax rate of 21% to the projected Federal taxable income under existing  
8 rates in the amount of \$(5,719,564) [ $$(5,719,564) \times 0.21 = $(1,201,108)$ ]. Total projected  
9 current income taxes under existing rates in the amount of \$(1,711,968) is determined by  
10 adding projected state income tax under existing rates in the amount of \$(510,859) and  
11 projected Federal income tax under existing rates in the amount of \$(1,201,108)  
12 [ $$(510,859) + $(1,201,108) = $(1,711,968)$ ]. The adjustment to income taxes in the  
13 amount of \$(275,175) is determined by subtracting total pro forma current income taxes  
14 under existing rates during the twelve months ended December 31, 2025, in the amount  
15 of \$(1,436,793) (Refer to Exhibit No. FIV-17-5) from total projected current income  
16 taxes under existing rates in the amount of \$(1,711,968) [ $$(1,711,968) - $(1,436,793) =$   
17  $$(275,175)$ ]. The adjustment to income taxes at present rates in the amount of \$(275,175)  
18 has been carried forward to Exhibit No. FIV-17, Page 3, Column 3.

19  
20 Q. Explain Exhibit FIV-17-8.

21 A. Exhibit No. FIV-17-8 provides information concerning income tax depreciation used to  
22 calculate current and deferred Federal Income Taxes for ratemaking purposes for the fully  
23 projected future test year. A general explanation of the tax depreciation methods used by  
24 York Water for various vintages of property is required in order to fully understand

25

1 Exhibit No. FIV-17-8. That explanation was previously provided with respect to Exhibit  
2 No. FIV-17-3.

3  
4 Tax depreciation by vintage year in the amount of \$15,721,287 for property included in  
5 the measure of value is shown on Exhibit FIV-17-8, Column 3.

6  
7 Deferred taxes must be provided with the normalization requirements of Internal Revenue  
8 Code Sections 167 and 168. The amount of \$15,721,287 is reduced by \$13,688,761,  
9 which is the amount included for ratemaking purposes as depreciation in order to  
10 determine the difference of \$2,032,526 to be used for calculating the deferred Federal  
11 income tax ( $\$15,721,287 - \$13,688,761 = \$2,032,526$ ). The Federal income tax rate of  
12 21% is applied to the difference of \$2,032,526 to determine deferred Federal income tax  
13 in the amount of \$426,830 ( $\$2,032,526 \times 0.21$ ). The adjustment to deferred Federal  
14 income tax in the amount of \$50,726 is determined by subtracting deferred pro forma  
15 Federal income tax during the twelve months ended December 31, 2025, in the amount of  
16 \$376,105 from the calculated deferred Federal income tax in the amount of \$426,830  
17 ( $\$426,830 - \$376,105 = \$50,726$ ). The adjustment to deferred Federal income tax in the  
18 amount of \$50,726 has been carried forward to Exhibit No. FIV-17, Column 3.

19  
20 Q. Explain Exhibit No. FIV-17-8 (a).

21 A. Exhibit No. FIV-17-8 (a) presents the calculation of the state tax decoupling from the  
22 Federal Special 30-Percent and 50 Percent Depreciation Allowance for the fully projected  
23 future test year in accordance with Act 89 of 2002 signed into law June 29, 2002 and the  
24 Economic Growth and Tax Relief Reconciliation Act of 2001, the Job Creation and

25

1 Worker Assistance Act of 2002, the Jobs and Growth Tax Relief Reconciliation Act of  
2 2003, the Economic Stimulus Act of 2008, and the Tax Relief, Unemployment Insurance  
3 Reauthorization, and Job Creation Act of 2010. These acts require corporate taxpayers  
4 who elect the Federal Special 30-Percent and 50 Percent Depreciation Allowance to make  
5 adjustments, which eliminate the effect of the Federal Special 30-Percent and 50 Percent  
6 Depreciation Allowance in arriving at Pennsylvania taxable income. Because Act 89 of  
7 2002 eliminated the effect of the first-year Federal bonus depreciation, additional State  
8 depreciation deductions are allowed in subsequent years.

9  
10 The basis of property qualified for the additional first-year depreciation allowance is  
11 reflected in Column 2 of Exhibit No. FIV-17-8 (a). Total Federal tax depreciation is  
12 shown in Column 3 of Exhibit No. HIV-17-3 (a). The adjustment for additional allowed  
13 state depreciation in lieu of the Federal Special 30-Percent and 50 Percent depreciation is  
14 reflected in Column 6 and is determined by multiplying Federal depreciation shown in  
15 Column 5 by 0.42857 (3/7). The factor of 0.42857 (3/7) is reflected in the Bureau of  
16 Corporation Taxes Adjustment for Bonus Depreciation (Form REV-784).

17  
18 The increase in depreciation of \$590,127 is carried forward to Exhibit No. FIV-17-7 and  
19 FIV-17-10 as an adjustment to State tax depreciation.

20  
21 Q. Explain Exhibit No. FIV-17-9.

22 A. Exhibit No. FIV-17-9 calculates the reversal of excess deferred Federal income taxes  
23 related to accelerated depreciation on property for the fully projected future test year.  
24 Upon passage of the Tax Cuts and Jobs Act of 2017, the Company adjusted the balance  
25

1 of its deferred Federal income taxes related to accelerated depreciation on property to the  
2 newly enacted statutory Federal income tax rate of 21%. The difference between the  
3 existing balance of deferred Federal income taxes related to accelerated depreciation on  
4 property and the adjusted balance of deferred Federal income taxes related to accelerated  
5 depreciation on property was recorded as a regulatory liability for the excess deferred  
6 Federal income taxes related to accelerated depreciation on property.

7  
8 A reversal is recorded for the excess deferred Federal income taxes whose normalized  
9 depreciation exceeds tax depreciation, that is, the tax life of the property has reached what  
10 is commonly referred to as the “turnaround point.” The vintage years that have reached  
11 the turnaround point are 1971 through 1974, 1979 through 2001, 2011, and 2015 through  
12 2017. Tax depreciation for these vintage years subject to normalization requirements of  
13 Internal Revenue Code Section 167 and 168 is \$692,599. The amount of tax depreciation  
14 of \$692,599 is less than \$1,861,126, which is the amount included for ratemaking  
15 purposes as depreciation on property placed in service during these vintage years. The  
16 difference of \$(1,168,527) is to be used for calculating the return of excess previously  
17 deferred Federal income tax to be reversed [ $\$692,599 - \$1,861,126 = \$(1,168,527)$ ]. Tax  
18 depreciation, and thus excess deferred Federal income taxes recovered from customers,  
19 was computed to the turnaround point for all of these properties at a rate of 21%, 34%,  
20 46%, or 48%. The excess of 2% between 48% and 46% has been amortized as a  
21 reduction to the cost of service in prior rate proceedings. However, the Tax Reform Act  
22 of 1986 and the Tax Cuts and Jobs Act of 2017 prohibits flow back of the excess between  
23 the prior rates and the current rate any faster than ratably over the tax life of the property  
24 following the property attaining the turnaround point. This ratable flow back is to be  
25

1 achieved by using a weighted average tax rate, representing the weighted average rate for  
2 each vintage for all years prior to the turnaround year. The weighted average rate for  
3 each vintage year, which has reached the turnaround point, is shown in Column 6. The  
4 weighted average tax rate is applied to the tax depreciation subject to deferral shown in  
5 Column 4 to determine the reversal of deferred Federal income taxes in the amount of  
6 \$(392,624). This was compared to the value of the deferred Federal income taxes at the  
7 newly enacted rate of \$245,391 determined by multiplying the total tax depreciation  
8 subject to deferral of \$(1,168,527) by the newly enacted rate of 21% [ $$(1,168,527) \times 0.21$   
9  $= $(245,391)$ ]. The difference between the deferred Federal income taxes at prior rates of  
10 \$(392,624) and those at the newly enacted rate of \$245,391 is the reversal of the excess  
11 deferred Federal income taxes of \$(147,233) [ $$(392,624) - $245,391 = $(147,233)$ ]. An  
12 adjustment of the excess deferred Federal income taxes in the amount of \$24,269 is  
13 determined by subtracting the reversal of pro forma excess deferred Federal income taxes  
14 during the twelve months ended December 31, 2025, in the amount of \$(171,502), from  
15 the calculated pro forma reversal of excess deferred Federal income taxes in the amount  
16 of \$(147,233) [ $$(147,233) - $(171,502) = $24,269$ ]. The adjustment of the reversal of  
17 deferred Federal income taxes in the amount of \$24,269 has been carried forward to  
18 Exhibit HIV-17, Column 3.

19  
20 Q. Explain Exhibit No. FIV-17-10.

21 A. Exhibit No. FIV-17-10 is an adjustment to reflect pro forma current Federal income tax  
22 and pro forma current Pennsylvania corporate net income tax based on pro forma taxable  
23 income for the twelve months ending February 28, 2027, under existing rates at the  
24  
25

1 currently effective Federal income tax rate of 21% and at the Pennsylvania corporate net  
2 income tax rate of 7.49%.

3  
4 Total pro forma operating income before income taxes and excluding depreciation under  
5 existing rates for the twelve months ending February 28, 2027, in the amount of  
6 \$34,607,573 is determined by subtracting pro forma operating expenses under existing  
7 rates in the amount of \$31,832,762 (Refer to Exhibit No. FIII-2, Page 16 of 16, Column  
8 4) and pro forma operating taxes other than income taxes under existing rates in the  
9 amount of \$1,864,974 (Refer to Exhibit No. FIV-15, Page 3 of 4, Column 7) from pro  
10 forma operating revenues under existing rates in the amount of \$68,305,310 (Refer to  
11 Exhibit No. FII-2, Page 9 of 9, Column 3) ( $\$68,305,310 - \$31,832,762 - \$1,864,974 =$   
12  $\$34,607,573$ ). To arrive at taxable income at present rates, amounts are added for the  
13 expenses of the Customer Survey of \$4,800, Dividend Reinvestment and Direct Stock  
14 Purchase and Sale Plan of \$7,762, Long-term Incentive Plan of \$1,740, Employee Stock  
15 Purchase Plan of \$1,052, Normalization of Rate Case Expenses of \$236,188,  
16 Amortization of Acquisition Adjustments of \$(23,331), Amortization of Lead Service  
17 Line Replacements of \$145,298, Filter Plant Yard Piping Survey of \$3,081, Service Life  
18 Study of \$5,138, Long-term Infrastructure Improvement Plan of \$672, Nondeductible  
19 Parking of \$8,357, and Nondeductible Meals of \$9,379 and amounts are then deducted  
20 for tax repair expense in the amount of \$16,533,188, cost of removal in the amount of  
21 \$2,220,538, state tax depreciation in the amount of \$14,287,107, and pro forma interest  
22 expense deduction for ratemaking purposes in the amount of \$9,167,897.

1 Expenses of the Company's Customer Survey of \$4,800, Dividend Reinvestment and  
2 Direct Stock Purchase and Sale Plan of \$7,762, Long-term Incentive Plan of \$1,740,  
3 Employee Stock Purchase Plan of \$1,052, Normalization of Rate Case Expenses of  
4 \$236,188, Amortization of Acquisition Adjustments of \$(23,331), Amortization of Lead  
5 Service Line Replacements of \$145,298, Filter Plant Yard Piping Survey of \$3,081,  
6 Service Life Study of \$5,138, Long-term Infrastructure Improvement Plan of \$672,  
7 Nondeductible Parking of \$8,357, and Nondeductible Meals of \$9,379 are not allowed as  
8 a deduction for income tax purposes. Since these amounts are included in operating  
9 expenses and deducted in arriving at the figure of \$34,988,046, they must be added back  
10 in arriving at taxable income. Tax repair expense in the amount of \$16,533,188 has been  
11 capitalized on the corporate books but is taken as a current deduction on the Company's  
12 Federal and State income tax returns. Cost of removal in the amount of \$2,220,538 is  
13 capitalized on the corporate books but is taken as a current deduction on the Company's  
14 Federal and State income tax returns. State tax depreciation in the amount of  
15 \$14,287,107 is detailed on Exhibit No. FIV-17-8 and Exhibit No. FIV-17-8 (a). I note  
16 that the state tax depreciation is greater than Federal tax depreciation, which I will  
17 explained previously with respect to Exhibit No. FIV-17-8 (a). Projected interest expense  
18 deduction for ratemaking purposes in the amount of \$9,167,897 is determined by  
19 reflecting the interest charges to ratepayers in the cost of capital determination (Interest  
20 Synchronization) (Rate Base of \$444,597,217 x Weighted Debt Cost Rate of 2.06%).

21  
22 Pro forma taxable income under existing rates in the amount of \$(7,201,022) is  
23 determined by adding the expenses of the Customer Survey of \$4,800, Dividend  
24 Reinvestment and Direct Stock Purchase and Sale Plan of \$7,762, Long-term Incentive  
25

1 Plan of \$1,740, Employee Stock Purchase Plan of \$1,052, Normalization of Rate Case  
2 Expenses of \$236,188, Amortization of Acquisition Adjustments of \$(23,331),  
3 Amortization of Lead Service Line Replacements of \$145,298, Filter Plant Yard Piping  
4 Survey of \$3,081, Service Life Study of \$5,138, Long-term Infrastructure Improvement  
5 Plan of \$672, Nondeductible Parking of \$8,357, and Nondeductible Meals of \$9,379 and  
6 amounts are then deducted for tax repair expense in the amount of \$16,533,188, cost of  
7 removal in the amount of \$2,220,538, state tax depreciation in the amount of  
8 \$14,287,107, and pro forma interest expense deduction for ratemaking purposes in the  
9 amount of \$9,167,897. from projected net operating income in the amount of \$34,988,046  
10  $(\$34,607,573 + \$4,800 + \$7,762 + \$1,740 + \$1,052 + \$236,188 + \$(23,331) + \$145,298 +$   
11  $\$3,081 + \$5,138 + \$672 + \$8,357 + \$9,379 - \$16,533,188 - \$2,220,538 - \$14,287,107 -$   
12  $\$9,167,897 = \$(7,201,022)]$ .

13  
14 Pro forma State income tax under existing rates in the amount of \$(539,357) is  
15 determined by applying the Pennsylvania corporate net income tax rate of 7.49% to pro  
16 forma taxable income in the amount of \$(7,201,022)  $[\$(7,201,022) \times 0.0749 =$   
17  $\$(539,357)]$ . Pro forma Federal taxable income under existing rates in the amount of  
18  $\$(6,071,539)$  is determined by subtracting pro forma State income tax under existing rates  
19 in the amount of  $\$(539,357)$  and adding back additional allowed state depreciation on  
20 bonus property of \$590,127 to pro forma taxable income in the amount of  $\$(7,201,022)$   
21  $[\$(7,201,022) - \$(539,357) + \$590,127 = \$(6,071,539)]$ . Pro forma Federal income tax  
22 under existing rates in the amount of  $\$(1,275,023)$  is determined by applying the  
23 presently effective Federal income tax rate of 21% to the pro forma Federal taxable  
24 income under existing rates in the amount of  $\$(6,071,539)$   $[\$(6,071,539) \times 0.21 =$   
25

1 \$(1,275,023)]. Total pro forma current income taxes under existing rates in the amount  
2 of \$(1,814,380) is determined by adding pro forma state income tax under existing rates  
3 in the amount of \$(539,357) and pro forma Federal income tax under existing rates in the  
4 amount of \$(1,275,023) [ $$(539,357) + $(1,275,023) = $(1,814,380)$ ]. The adjustment to  
5 income taxes in the amount of \$(102,412) is determined by subtracting total projected  
6 current income taxes under existing rates during the twelve months ending February 28,  
7 2027, in the amount of \$(1,711,968) (Refer to Exhibit No. FIV-17-7) from total pro forma  
8 current income taxes under existing rates in the amount of \$(1,814,380) [ $$(1,814,380) -$   
9  $$(1,711,968) = $(102,412)$ ]. The adjustment to income taxes at present rates in the  
10 amount of \$(102,412) has been carried forward to Exhibit No. FIV-17, Page 4, Column 3.

11  
12 Q. Please explain Exhibit No. FIV-17-11.

13 A. Exhibit No. FIV-17-11 is an adjustment to reflect increased Federal income tax and  
14 Pennsylvania corporate net income tax based on the proposed revenue increase resulting  
15 from proposed rates.

16  
17 The total proposed increase in sales of water in the amount of \$20,266,144 (Refer to  
18 Exhibit No. FII-2, page 9, Column 8) is increased by the increase in late charges of  
19 \$45,834 (Refer to Exhibit No. FII-2-44) and reduced by the increase in pro forma expense  
20 for the Commission's general assessment, the Consumer Advocate's assessment, the  
21 Small Business Advocate's assessment, and the Damage Prevention Control Assessment  
22 under proposed rates in the amount of \$137,029 (Refer to Exhibit No. FIV-15-12) and the  
23 increase in pro forma uncollectible accounts expense under proposed rates of \$133,785  
24 (Refer to Exhibit No. FIII-2-55) to arrive at the net increase in taxable income subject to  
25

1 Pennsylvania corporate net income tax in the amount of \$20,041,163 ( $\$20,266,144 +$   
2  $\$45,834 - \$137,029 - \$133,785 = \$20,041,163$ ). The Pennsylvania corporate net income  
3 tax rate of 7.49% is applied to the net increase in taxable income subject to state income  
4 tax in the amount of \$20,041,163 to determine the increase of \$1,501,083 in the state  
5 income tax as a result of the proposed revenue increase ( $\$20,041,163 \times 0.0749$ ). The  
6 increase in the amount of \$1,501,083 in the state income tax has been carried forward to  
7 Exhibit No. FIV-17, Page 4, Column 6.

8  
9 The proposed revenue increase subject to state income tax of \$20,041,163 is reduced  
10 further by the increase of \$1,501,083 in the state income tax to determine the proposed  
11 revenue increase in the amount of \$18,540,080 subject to Federal income tax  
12 ( $\$20,041,163 - \$1,501,083 = \$18,540,080$ ). The presently effective Federal income tax  
13 rate of 21% is applied to the net increase in taxable income subject to Federal income tax  
14 to determine the increase in the amount of \$3,893,417 in the Federal income tax that  
15 results from the proposed revenue increase ( $\$18,540,080 \times 0.21$ ), and this amount has  
16 been carried forward to Exhibit No. FIV-17, Page 4, Column 6.

17  
18 Q. Explain Exhibit No. FIV-18.

19 A. Exhibit No. FIV-18 provides an explanation of the debt interest expense utilized for the  
20 income tax calculation on projected income for the twelve months ending December 31,  
21 2025, and an explanation and the calculation of debt interest expense utilized for the  
22 income tax calculation on pro forma income for the twelve months ending December 31,  
23 2025.

1 Debt interest expense utilized for the income tax calculation on projected and pro forma  
2 income for the twelve months ending December 31, 2025, is determined by reflecting the  
3 interest charges to ratepayers in the cost of capital determination (interest  
4 synchronization).

5  
6 The original cost measure of value as of December 31, 2025 (Refer to Exhibit No. FV-1,  
7 page 2) of \$431,332,385 times the weighted debt cost rate of 2.06% equals the interest  
8 expense utilized for income tax calculation on projected and pro forma income for the  
9 twelve months ending December 31, 2025, of \$8,523,195.

10  
11 Debt interest expense on projected and pro forma income for the twelve months ending  
12 December 31, 2025, in the amount of \$8,523,195 has been carried forward to Exhibit  
13 Nos. FIV-17-2 and FIV-17-5, which I explained previously.

14  
15 Exhibit No. FIV-18 also provides an explanation of the debt interest expense utilized for  
16 the income tax calculation on projected income for the twelve months ending February  
17 28, 2027, and an explanation and the calculation of debt interest expense utilized for the  
18 income tax calculation on pro forma income for the twelve months ending February 28,  
19 2027.

20  
21 Debt interest expense utilized for the income tax calculation on projected and pro forma  
22 income for the twelve months ending February 28, 2027, is determined by reflecting the  
23 interest charges to ratepayers in the cost of capital determination (interest  
24 synchronization).

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The original cost measure of value as of February 28, 2027 (Refer to Exhibit No. FV-1, page 3) of \$444,597,217 times the weighted debt cost rate of 2.06% equals the interest expense utilized for income tax calculation on projected and pro forma income for the twelve months ending February 28, 2027, of \$9,167,897.

Debt interest expense on projected and pro forma income for the twelve months ending February 28, 2027, in the amount of \$9,167,897 has been carried forward to Exhibit Nos. FIV-17-7 and FIV-17-10, which I explained previously.

- Q. Are you sponsoring any other exhibits regarding the Company's operating income taxes?
- A. Yes, I am also sponsoring Exhibit Nos. FIV-1, FIV-3, FIV-4, FIV-6, FIV-7, FIV-8, FIV-9, FIV-10, FIV-11, FIV-13, FIV-14, and FIV-16.

- Q. Explain Exhibit No. FV-1-1.
- A. Exhibit No. FV-1-1 is a summary, by year, of the projected unamortized balance of deferred income taxes related to accelerated depreciation and the unamortized balances of excess deferred income taxes related to accelerated depreciation that are deducted from the measure of value.

Deferred Federal Income Tax Related to Accelerated Depreciation on Property Constructed with Customers' Advances for Construction and Contributions in Aid of Construction have been eliminated from this schedule.

1 By Order entered April 28, 1988, at Docket Nos. R-870769 and P-870225, the  
2 Commission approved the Company's proposal to account for income taxes on  
3 Customers' Advances for Construction ("Advances") and Contributions in Aid of  
4 Construction ("Contributions") pursuant to what is known as "Method 5" treatment.  
5 Under Method 5 treatment, the Company excluded, for ratemaking purposes, all income  
6 taxes paid by the Company as a result of receipt of Contributions or Advances and  
7 excluded, from the calculation of income taxes, the portion of tax depreciation that  
8 related to property constructed with Contributions or Advances. Under this procedure,  
9 customers did not bear the increased income taxes resulting from the receipt of  
10 Contributions or Advances, and the Company recovered, over the tax life of the property,  
11 reductions in income taxes in an amount equal to the increased income taxes resulting  
12 from receipt of contributions and advances. Under Method 5, it is necessary for the  
13 Company to retain the benefits resulting from depreciation on property constructed with a  
14 Contribution or Advance, in order to be compensated for the additional income taxes paid  
15 as a result of the TRA-86 requirement that a Contribution or Advance be recognized as  
16 taxable income in the year received.

17  
18 The projected unamortized balance of deferred income taxes as of December 31, 2025, in  
19 the amount of \$25,787,845 has been carried forward to Exhibit FV-1, page 2 and has  
20 been deducted from the original cost measure of value.

21  
22 Page 2 of Exhibit No. FV-1-1 is a summary, by year, of the projected unamortized  
23 balance in the amount of \$26,229,748, as of February 28, 2027, of deferred income taxes  
24 related to accelerated depreciation that are deducted from the measure of value. Column  
25

1 2 lists, by year, deferred federal income taxes resulting from accelerated depreciation  
2 from 1971 through February 28, 2027. The balance in Column 2 is \$26,229,748.

3  
4 The projected unamortized balance of deferred income taxes as of February 28, 2027, in  
5 the amount of \$26,229,748 has been carried forward to Exhibit FV-1, page 3 and has  
6 been deducted from the original cost measure of value.

7  
8 Page 3 of Exhibit No. FV-1-1 is a calculation of the adjustment to the deferred income  
9 taxes related to accelerated depreciation as required under Treasury Regulation 1.167(l)-1  
10 of the Internal Revenue Code. Under the regulation, if a future period is used in  
11 determining the maximum amount of the reserve to be excluded from the rate base, the  
12 amount of the reserve is the amount of the reserve at the beginning of the period and a  
13 pro rata portion of the projected increase to the account during the period. The increase  
14 in deferred income taxes from February 28, 2026, to February 28, 2027, is \$378,774, or a  
15 monthly increase of \$31,565 as presented in Column 3. The regulation requires the pro  
16 rata portion of the increase to be determined by multiplying the increase by a fraction of  
17 which the numerator is the number of days remaining in the period and the denominator  
18 is the total number of days in the period. Those fractions are presented in Column 4 and  
19 the pro rata portion of the increase is presented in Column 5. The deferred income taxes  
20 under this regulation are presented in Column 6 as the pro rata portion of the increase  
21 added to the deferred income taxes at the beginning of the period. The difference  
22 between the deferred income taxes per the corporate books and the deferred income taxes  
23 per this regulation is presented in Column 7. The difference as of February 28, 2027, in  
24 the amount of \$(205,213) has been carried forward to Exhibit FV-1, page 3 and has offset  
25

1 the projected unamortized balance of deferred income taxes as of February 28, 2027, in  
2 the amount of \$26,229,748 presented on Page 2 of Exhibit No. FV-1-1.

3  
4 Page 4 of Exhibit No. FV-1-1 is a summary, by year, of the projected unamortized  
5 balance in the amount of \$12,918,425, as of December 31, 2025, of excess deferred  
6 income taxes related to accelerated depreciation that are deducted from the measure of  
7 value. Column 2 lists, by year, deferred federal income taxes resulting from accelerated  
8 depreciation from 1971 through 2017. The balance in Column 2 is \$12,918,425.

9  
10 The projected unamortized balance of excess deferred income taxes as of December 31,  
11 2025, in the amount of \$12,918,425 has been carried forward to Exhibit FV-1, page 2 and  
12 has been deducted from the original cost measure of value.

13  
14 Page 5 of Exhibit No. FV-1-1 is a summary, by year, of the projected unamortized  
15 balance in the amount of \$12,771,192, as of February 28, 2027, of excess deferred  
16 income taxes related to accelerated depreciation that are deducted from the measure of  
17 value. Column 2 lists, by year, deferred federal income taxes resulting from accelerated  
18 depreciation from 1971 through 2017. The balance in Column 2 is \$12,771,192.

19  
20 The projected unamortized balance of excess deferred income taxes as of February 28,  
21 2027, in the amount of \$12,771,192 has been carried forward to Exhibit FV-1, page 2 and  
22 has been deducted from the original cost measure of value.

1 Page 6 of Exhibit No. FV-1-1 is a calculation of the adjustment to the excess deferred  
2 income taxes related to accelerated depreciation as required under Treasury Regulation  
3 1.167(l)-1 of the Internal Revenue Code. Under the regulation, if a future period is used  
4 in determining the maximum amount of the reserve to be excluded from the rate base, the  
5 amount of the reserve is the amount of the reserve at the beginning of the period and a  
6 pro rata portion of the projected decrease to the account during the period. The decrease  
7 in excess deferred income taxes from February 28, 2026, to February 28, 2027, is  
8 \$126,200, or a monthly decrease of \$10,517 as presented in Column 3. The regulation  
9 requires the pro rata portion of the decrease to be determined by multiplying the decrease  
10 by a fraction of which the numerator is the number of days remaining in the period and  
11 the denominator is the total number of days in the period. Those fractions are presented  
12 in Column 4 and the pro rata portion of the decrease is presented in Column 5. The  
13 excess deferred income taxes under this regulation are presented in Column 6 as the pro  
14 rata portion of the decrease subtracted from the excess deferred income taxes at the  
15 beginning of the period. The difference between the excess deferred income taxes per the  
16 corporate books and the excess deferred income taxes per this regulation is presented in  
17 Column 7. The difference as of February 28, 2027, in the amount of \$68,373 has been  
18 carried forward to Exhibit FV-1, page 3 and has been added to the projected unamortized  
19 balance of excess deferred income taxes as of February 28, 2027, in the amount of  
20 \$12,771,192 presented on Page 5 of Exhibit No. FV-1-1.

21  
22 Q. Explain Exhibit No. FV-1-10.

23 A. Exhibit No. FV-1-10 provides the calculation of the unamortized taxes on deposits for  
24 construction and customer advances as of December 31, 2025, in the amount of  
25

1 \$1,104,327 and as of February 28, 2027, in the amount of \$1,042,833, that are added to  
2 the original cost measure of value.

3  
4 Under the Tax Cuts and Jobs Act of 2017, the definition of tax contributions in aid of  
5 construction was modified under Section 118(b) and the exclusion from gross income  
6 under Section 118(c) was repealed. The modification to the definition of taxable  
7 contribution in aid of construction includes contributions from customers as well as any  
8 payment received from a governmental or civic entity. Under the Company's approved  
9 tariff, the Company paid income taxes on any deposit, Customer Advance, Contribution  
10 in Aid of Construction, or other like amounts received from an applicant which would  
11 constitute taxable income as defined by the Internal Revenue Service. Such income taxes  
12 would be segregated in a deferred account for inclusion in rate base in a future rate case  
13 proceeding. Such income taxes associated with a deposit or advance would not be  
14 charged to the specific depositor of capital. This provision was rescinded under the  
15 Infrastructure Investment and Jobs Act of 2021.

16  
17 The Company paid taxes on deposits for construction and customer advances received  
18 during the period under which the deposits for construction and customer advances was  
19 taxable of \$1,157,922 as of December 31, 2024.

20  
21 The total income taxes on deposits for construction and customer advances as of  
22 December 31, 2024, of \$1,157,922 is offset by the reduction of income taxes from the  
23 depreciation on the projects paid for with the deposits for construction and customer  
24 advances. The depreciation on the projects paid for with the deposits for construction  
25

1 and customer advances of \$196,231 for the period ending December 31, 2025, is  
2 determined by applying the depreciation rate of 4% to the deposits for construction and  
3 customer advances. State income tax deduction in the amount of \$15,679 is determined  
4 by applying the Pennsylvania corporate net income tax rate of 7.99% to the depreciation  
5 on the projects paid for with deposits for construction and customer advances of  
6 \$196,231 ( $\$196,231 \times 0.0799 = \$15,679$ ). Federal income tax deduction in the amount of  
7 \$37,916 is determined by subtracting State income tax deduction in the amount of  
8 \$15,679 from the depreciation on the projects paid for with deposits for construction and  
9 customer advances of \$196,231 and applying the presently effective Federal income tax  
10 rate of 21% [ $(\$196,231 - \$15,679) \times 0.21 = \$37,916$ ]. Total income tax deductions on  
11 depreciation on the projects paid for with deposits for construction and customer  
12 advances for the period ending December 31, 2025, in the amount of \$53,595 is  
13 determined by adding state income taxes in the amount of \$15,679 and Federal income  
14 taxes in the amount of \$37,916 ( $\$15,679 + \$37,916 = \$53,595$ ). The net taxes on  
15 deposits for construction and customer advance as of December 31, 2025, of \$1,104,327  
16 is determined by subtracting the income tax deductions on depreciation on the projects  
17 paid for with deposits for construction and customer advances for the period ending  
18 December 31, 2025, in the amount of \$53,595 from the income taxes on deposits for  
19 construction and customer advances as of December 31, 2024, in the amount of  
20 \$1,157,922 ( $\$1,157,922 - \$53,595 = \$1,104,327$ ). The net taxes on deposits for  
21 construction and customer advance as of December 31, 2025, of \$1,104,327 has been  
22 carried forward to Exhibit No. FV-1, Page 2.

1 The total income taxes on deposits for construction and customer advances as of  
2 December 31, 2025, of \$1,104,327 is offset by the reduction of income taxes from the  
3 depreciation on the projects paid for with the deposits for construction and customer  
4 advances. The depreciation on the projects paid for with the deposits for construction  
5 and customer advances of \$228,937 for the period ending February 28, 2027, is  
6 determined by applying the depreciation rate of 4% to the deposits for construction and  
7 customer advances. State income tax deduction in the amount of \$16,984 is determined  
8 by applying the weighted average Pennsylvania corporate net income tax rate of 7.42% to  
9 the depreciation on the projects paid for with deposits for construction and customer  
10 advances of \$16,984 ( $\$228,937 \times 0.0742 = \$16,984$ ). Federal income tax deduction in  
11 the amount of \$44,510 is determined by subtracting State income tax deduction in the  
12 amount of \$16,984 from the depreciation on the projects paid for with deposits for  
13 construction and customer advances of \$228,937 and applying the presently effective  
14 Federal income tax rate of 21% [ $(\$228,937 - \$16,984) \times 0.21 = \$44,510$ ]. Total income  
15 tax deductions on depreciation on the projects paid for with deposits for construction and  
16 customer advances for the period ending February 28, 2027, in the amount of \$61,494 is  
17 determined by adding state income taxes in the amount of \$16,984 and Federal income  
18 taxes in the amount of \$44,510 ( $\$16,987 + \$44,510 = \$61,494$ ). The net taxes on  
19 deposits for construction and customer advance as of February 28, 2027, of \$1,042,833 is  
20 determined by subtracting the income tax deductions on depreciation on the projects paid  
21 for with deposits for construction and customer advances for the period ending February  
22 28, 2027, in the amount of \$61,494 from the income taxes on deposits for construction  
23 and customer advances as of December 31, 2025, in the amount of \$1,104,327  
24 ( $\$1,104,327 - \$61,494 = \$1,042,833$ ). The net taxes on deposits for construction and  
25

1 customer advance as of February 28, 2027, of \$1,042,833 has been carried forward to  
2 Exhibit No. FV-1, Page 3.

3  
4 Q. Explain Exhibit No. FV-8-1 (g).

5 A. Exhibit No. FV-8-1 (g) is the calculation by customer classification of the average lag  
6 days from the provision of service to receipt of operating revenues. Calculations of the  
7 lag days in receipt of operating revenues of 61.4 for metered repumped customers and lag  
8 days of 60.5 for metered gravity customers are shown in Columns 2 and 3, respectively.  
9 The components of the operating revenue lag day calculation, shown in Column 1,  
10 include the lag from the midpoints of the service periods (service period lag), the lag from  
11 the mid-point of the meter reading to billing (billing lag) and the lag from billing to  
12 collection (“collection lag”). “Billing” for purposes of determining the billing lag and the  
13 collection lag is the date that bills are entered into the Company’s accounts receivable for  
14 that billing cycle. The calculation of the billing lag from metered repumped customers  
15 and metered gravity customers are presented on Exhibit No. FV-8-1 (g) 1, which I will  
16 explain later. The calculation of the collection period lag is presented in Exhibit No. FV-  
17 8-1 (g) 2, which I will explain later. The total lag days have been carried forward to  
18 Column 3 of Exhibit No. FV-8-1.

19  
20 Q. Explain Exhibit No. FV-8-1 (g) 1.

21 A. Exhibit No. FV-8-1 (g) 1 provides the calculation of average lag days to read meters,  
22 enter data, validate and process data, and enter amounts into accounts receivable. The  
23 calculation of average lag days for repumped customers during the twelve months ended  
24 December 31, 2021, of 5.5 is shown on page 1 of Exhibit No. FV-8-1 (g) 1, and the  
25

1 calculation of average lag days for gravity customers during the twelve months ended  
2 December 31, 2017, of 4.6 is shown on page 2 of Exhibit No. FV-8-1 (g) 1.

3  
4 For each customer classification, the date of the mid-point of the meter reading for each  
5 billing cycle is shown in Column 2, and the date amounts were entered into the  
6 Company's accounts receivable for each billing cycle is shown in Column 3. The number  
7 of days lag between the date mid-point of the of the meter reading and the date amounts  
8 were entered into the Company's accounts receivable is calculated and shown in Column  
9 4. The twelve-month average of lag days per billing cycle is determined by adding the  
10 lag days for each billing cycle shown in Column 4 and dividing by the number of billing  
11 cycles. The average billing lag days of 5.5 and 4.6 for metered repumped and metered  
12 gravity billing cycles, respectively, have been carried forward to Exhibit No. FV-8-1 (g).

13  
14 Under the Company's validation procedure, if a customer's meter reading meets certain  
15 criteria of either high or low consumption based on historical averages, the reading is  
16 listed on a report for review by the billing control coordinator. If the billing control  
17 coordinator is unable to determine the reason for the unusual consumption, a reread order  
18 is generated and a meter reader is dispatched to the customer's premises to investigate the  
19 situation. The meter reader will reread the meter and, assuming the reading confirms the  
20 initial reading, check for leaks, check meter operation, and notify the customer of the  
21 results of the investigation. Only after this process is completed is the meter reading  
22 considered to be validated.

1 I note that internal auditing controls set up within the Company's accounting system  
2 require that validation for all bills be completed before all bills for each cycle are booked  
3 to accounts receivable.

4  
5 Page 3 of Exhibit No. FV-8-1 (g) 1 is a summary of the Company's billing lag calculated  
6 during the period 1991 to 2024. The billing lag calculations demonstrate a significant  
7 improvement (reduction) in the billing lag during this period. As reflected on this exhibit,  
8 the billing lag for repumped and gravity customers has been reduced by 64.7% and  
9 62.3%, respectively, since 1991.

10  
11 Q. Explain Exhibit No. FV-8-1 (g) 2.

12 A. Exhibit No. FV-8-1 (g) 2 is the calculation of the weighted average operating revenue  
13 collection lag. This is the average lag between billing customers and receipt of revenues.

14  
15 The weighted average operating revenue collection lag of 40.7 days is determined by  
16 dividing the number of days in the test year by the calculated turnover ratio of 9.0 times  
17 ( $365 \div 9.0 = 40.7$ ). The calculated turnover ratio of 9.0 times is determined by dividing  
18 test year sales and penalties in the amount of \$66,473,760 by the annual average of  
19 outstanding monthly accounts receivable balances per books in the amount of \$7,408,701  
20 ( $\$66,473,760 \div \$7,408,701 = 9.0$ ).

21  
22 Q. Are you sponsoring any other exhibits regarding the original cost measure of value?

23 A. Yes, I am also sponsoring Exhibit No. FV-10.

1 Q. Explain Exhibit No. FVII-5.

2 A. Exhibit No. FVII-5 provides financial data of the Company for the last five years.

3

4 Q. Explain Exhibit No. FVII-6.

5 A. Exhibit No. FVII-6 provides information concerning the rate used for the Company's  
6 allowance for funds used during construction ("AFUDC"). The AFUDC rate used by the  
7 Company as of December 31, 2024, was 10.04%. The AFUDC rate is set by the  
8 Company based upon the sum of the weighted cost of debt and the weighted cost of  
9 common equity as determined in the Company's most recent fully-litigated rate  
10 proceeding before the Commission. The AFUDC rate used by the Company has not  
11 changed since December 31, 1992. I note that under FAS62, the capitalization rate to be  
12 applied to projects financed with tax-free debt is the rate of that specific borrowing.

13

14 Q. Explain Exhibit No. FVII-7.

15 A. Exhibit No. FVII-7 describes the Company's indenture requirements and dividend  
16 restrictions.

17

18 Q. Explain Exhibit No. FVII-9.

19 A. Exhibit No. FVII-9 describes long-term debt reacquisition by the Company. There have  
20 been no long-term debt re-acquisitions by the Company since 1969.

21

22 Q. Explain Exhibit No. FVII-11.

23 A. Exhibit No. FVII-11 provides information concerning the Company's lines of credit. The  
24 Company anticipates having a balance of \$15,87,585 of short-term loans as of February

25

1 28, 2027, and an average daily balance of ST loans outstanding for the twelve months  
2 ended February 28, 2027, of \$10,086,510.

3  
4 Q. Are you sponsoring any other exhibits relating to rate of return?

5 A. Yes, I am also sponsoring Exhibits FVII-1, FV11-2, FVII-3, FV11-4, FVII-8, FVII-10,  
6 FVII-12, FVII-13, FVII-14, FVII-15, FVII-16, FVII-17, FVII-18, FVII-19, FVII-20,  
7 FVII-21, FVII-22, FVII-23, FVII-24, FVII-25, FVII-26, FVII-27, FVII-28, FVII-29,  
8 FVII-30, FVII-31, and FVII-32.

9  
10 Q. Explain Exhibit FX-1.

11 A. Exhibit FX-1 is the Company's comparative balance sheet, per books, as of February 28,  
12 2027, and December 31, 2024. Page 2 of Exhibit FX-1 reflects the projected assets of the  
13 Company net of depreciation reserve and reserve for uncollectible accounts in the amount  
14 of \$678,475,253 as of February 28, 2027, and actual assets of the Company net of  
15 depreciation reserve and reserve for uncollectible accounts in the amount of  
16 \$610,295,603 as of December 31, 2024. Page 3 of Exhibit FX-1 reflects the projected  
17 liabilities and total capitalization of the Company in the amount of \$678,475,253 as of  
18 February 28, 2027, and actual liabilities and total capitalization of the Company in the  
19 amount of \$610,295,603 as of December 31, 2024.

20  
21 Q. Explain Exhibit FX-2.

22 A. Exhibit FX-2 sets forth the major items of Other Physical Property, Investment in  
23 Affiliated Companies, and Other Investments as of February 28, 2027. The Exhibit  
24 reflects the projected Other Physical Property of the Company as of February 28, 2027, in  
25

1 the amount of \$2,070,079. York Water projects to have no investments in affiliated  
2 companies as of February 28, 2027. Other investments include Columbia Water  
3 Company common stock owned by the Company in the amount of \$59,724.

4  
5 Q. Explain Exhibit FX-3.

6 A. Exhibit FX-3 sets forth the amount and a description of Special Cash Deposits held by  
7 the Company as of February 28, 2027. As of February 28, 2027, the Company has  
8 projected to deposit in an interest-bearing statement savings account funds of its  
9 employees in the amount of \$45,748. These funds of the Company's employees in the  
10 amount of \$45,748 are offset by a credit amount, reflected in Account 231.27, Employee  
11 Benefits Withheld-ESPP and can be used only for purchase of the Company's common  
12 stock on behalf of employees in accordance with the Company's Employee Stock  
13 Purchase Plan.

14  
15 As of February 28, 2027, the Company projects to have deposited \$500 with York  
16 Township to be used to indemnify the Township against any loss or damage caused by  
17 the Company while working in the Township's streets.

18  
19 Q. Explain Exhibit FX-4.

20 A. Exhibit FX-4 details and describes Notes Receivable, Accounts Receivable from  
21 Associated Companies, and Other Accounts Receivable as of February 28, 2027. Page 1  
22 of Exhibit FX-4 details projected Notes Receivable as of February 28, 2027, in the  
23 amount of \$255,481, which consists of notes receivable from water districts. A general  
24  
25

1 description of the water district procedure can be found in the Commission’s Order in  
2 York Water’s 1992 rate case (77 Pa. P.U.C. 367).

3  
4 York Water projects no accounts receivable from associated companies as of February  
5 28, 2027. There is no other company projected to be an “associated company” of York  
6 Water.

7  
8 York Water classifies other significant receivables, other than customer accounts, in  
9 Account 142, Other Accounts Receivable. A detail of Other Accounts Receivable  
10 projected as of February 28, 2027, in the amount of \$193,896 is shown on page 2 of  
11 Exhibit FX-4.

12  
13 Q. Explain Exhibit FX-5.

14 A. York Water uses the reserve method of recording uncollectible accounts for book  
15 purposes. Exhibit FX-5 provides the amount of accumulated reserve for uncollectible  
16 accounts as of February 28, 2027, and December 31, 2025 and 2024. Exhibit FX-5 also  
17 provides the annual accruals, amounts of accounts written off and recoveries of amounts  
18 previously written off for the twelve months ended February 28, 2027, and December 31,  
19 2025 and 2024.

20  
21 Q. Explain Exhibit FX-6.

22 A. Exhibit FX-6 provides a list of projected prepayments as of February 28, 2027. York  
23 Water projected no special prepayments as of February 28, 2027.

1 Q. Explain Exhibit FX-8.

2 A. Exhibit FX-8 details and describes projected Other Deferred Assets as of February 28,  
3 2027. As of February 28, 2027, the Company projects to reflect on its balance sheet  
4 Unamortized Debt Expense in the amount of \$2,261,025. This account includes the  
5 unamortized portion of debt expense as of February 28, 2027, associated with the  
6 issuance of long-term debt. The balance as of February 28, 2027, includes continued  
7 amortization of historic amounts and the new issuance costs. The debt expense is  
8 amortized over the respective terms of long-term debt by crediting this account and  
9 debiting Account 428, Amortization of Debt Expense.

10

11 As of February 28, 2027, the Company projects to reflect on its balance sheet Deferred  
12 2025 Rate Case Expenses in the amount of \$708,563. The Company anticipates that  
13 Deferred 2025 Rate Case Expenses will be normalized over 48 months on the corporate  
14 books. The normalization of 2022 Rate Case Expenses will be credited to this account  
15 and charged to Account No. 66680000, Rate Case Expense. (See Exhibit No. HIII-2-1  
16 for the normalization of 2025 rate case expense.)

17

18 As of February 28, 2027, the Company projects to reflect on its balance sheet Cash Value  
19 of Supplemental Retirement Plan in the amount of \$5,617,226. The Company has a  
20 supplemental retirement plan for five key employees of the Company, consisting of the  
21 President and Chief Executive Officer, Chief Financial Officer, Chief Administrative  
22 Officer and General Counsel, Vice-President-Operations, and Vice President-  
23 Engineering, and seven retired former key employees. The plan is funded through life  
24 insurance policies. The Company has a deferred savings plan for fifteen of its

25

1 management and supervisory employees and ten retired former management employees.  
2 The plan is also funded through life insurance policies. The deferred debit related to both  
3 plans' benefits represents the current cash surrender value of the life insurance policies  
4 that have been purchased to reimburse the Company for the costs of the plans. The  
5 Company also reflects on its books of account as a deferred credit the current accrued  
6 amount of the Company's future liability with respect to the deferred compensation  
7 benefits.

8  
9 The expenses and income associated with the Company's supplemental retirement and  
10 deferred savings plans have been eliminated from this rate case in accordance with the  
11 Settlement Agreement approved by the Commission at Docket No. R-00016236 with the  
12 exception of expenses from the deferred savings plan for employees not in the defined  
13 benefit pension plan.

14  
15 York Water does not have deferred asset accounts for temporary facilities, research and  
16 development, and property losses, and therefore, there is no amortization with regard to  
17 such items, which would affect operating results.

18  
19 As of February 28, 2027, the Company projects to reflect on its balance sheet deferred  
20 preliminary survey costs in the amount of \$7,056. This account includes expenditures for  
21 preliminary surveys, plans and investigations made for the purpose of determining the  
22 feasibility of projects under consideration. These expenditures are not included in the  
23 Company's rate base or in the cost of service in this case.

1 Q. Explain Exhibit FX-10.

2 A. Exhibit FX-10 details and describes Other Deferred Credits as of February 28, 2027. As  
3 of February 28, 2027, the Company projects to reflect on its corporate books deferred  
4 interest rate swap in the amount of \$196,654. The Company utilizes an interest rate swap  
5 agreement to convert its variable rate debt to a fixed rate (a cash flow hedge). As of  
6 February 28, 2027, the Company recorded an unrealized loss on the interest rate swap.  
7 The interest rate swap agreement will expire on October 1, 2029.

8  
9 Q. Explain Exhibit FX-12.

10 A. Page 2 of Exhibit FX-12 provides an analysis of Retained Earnings as of February 28,  
11 2027, and December 31, 2025, 2024, and 2023. The analysis includes activity for the  
12 fourteen months ended February 28, 2027, and for the twelve months ended December  
13 31, 2025, 2024, and 2023.

14  
15 Q. Are you sponsoring any other exhibits regarding the Company's balance sheet?

16 A. Yes, I am also sponsoring Exhibit Nos. F (c)-2, FX-7, FX-9, FX-11, and FX-13.

17  
18 Q. Are you sponsoring any other exhibits?

19 A. Yes, I am also sponsoring Exhibit Nos. F (a)-1, F (a)-6, F (a)-9, F (a)-10, F (a)-11, FVIII-  
20 2, FXI-1, FXI-2, FXI-3, and FXI-4.

21  
22 Q. Does this conclude your future test year and fully projected future test year direct  
23 testimony at this time?

24 A. Yes.

25