

1 **YORK WATER STATEMENT NO. 103W**

2
3 **BEFORE THE**
4 **PENNSYLVANIA PUBLIC UTILITY COMMISSION**

5
6 **THE YORK WATER COMPANY**

7
8 **DIRECT TESTIMONY OF MATTHEW E. POFF**
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

1 Q. What is your educational background?

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

5
6 Q. Are you a certified public accountant?

7 A. Yes, I am a certified public accountant licensed by the Commonwealth of Pennsylvania.
8

9 Q. What has been your other business experience?

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

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

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

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

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

1 A. In addition to the exhibits identified in York Water Statement No. 103, I am sponsoring
2 the following exhibits prepared by me or under my direction and supervision:

3
4 Exhibit Nos. FI-2W relating to the statement of operations for the wastewater division;

5
6 Exhibit Nos. F(a)-4W, FII-2W, FII-2-1W, FII-2-2W, FII-2-3W, FII-2-4W, FII-2-5W, FII-
7 2-6W, FII-2-7W, FII-2-8W, FII-2-9W, FII-2-10W, FII-3W, FII-4W, FII-5W, FII-7W,
8 FII-8W, and FII-9W relating to operating revenues for the wastewater division;

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10 Exhibit Nos. FIII-2W, FIII-2-6W, FIII-2-13W, FIII-2-20W, and FIII-2-30W relating to
11 operating expenses for the wastewater division;

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13 Exhibit Nos. FIV-15W, FIV-15-1W, FIV-15-2W, FIV-15-3W, FIV-15-4W, and FIV-15-
14 5W relating to taxes other than income taxes for the wastewater division;

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16 Exhibit Nos. FIV-17W, FIV-17-2W, FIV-17-3W, FIV-17-3(a)W, FIV-17-4, FIV-17-5W,
17 FIV-17-7W, FIV-17-8W, FIV-17-8(a)W, FIV-17-10W, FIV-17-11W, and FIV-18W
18 relating to operating income taxes for the wastewater division;

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20 Exhibit No. FV-1-1W and FV-1-4W relating to the original cost measure of value for the
21 wastewater division; and

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23 Exhibit Nos. F(b)-1W.

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Q. Explain Exhibit No. FI-2W.

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

Projected net income for the twelve months ending December 31, 2025, in the amount of \$2,016,124 is shown in Column 4 of Exhibit No. FI-2W, page 2. I note that this amount reflects non-operating income and other income deductions not included in the calculation of net operating income for ratemaking purposes. In deriving the projected net operating income, I began with the pro forma net operating income at present rates for the twelve months ended December 31, 2024, in the amount of \$744,958, which is shown in Column 1 of Exhibit No. FI-2W, page 2, and which is taken from Exhibit No. HI-2W. The net of all adjustments to revenues and expenses results in projected future test year level of income adjustments of \$834,712 at present rates as shown in Column 3 of Exhibit No. FI-2W, page 2. These adjustments are detailed in other exhibits, which will be explained later. The net operating income of \$1,579,669 represents net operating income for the projected future test year. It is necessary to adjust such net operating income to reflect and annualize various changes during the future test year to determine operating

1 income at the level of operations at the end of the test year at present rates to be used for
2 ratemaking purposes.

3
4 Column 6 of Exhibit No. FI-2W, page 2 summarizes the pro forma adjustments to the
5 projected future test year net operating income. Projected net operating income for the
6 twelve months ending December 31, 2025, in the amount of \$1,579,669 is shown in
7 Column 4 of Exhibit No. FI-2W, page 2. Adjustments to operating income in the net
8 amount of \$64,058 to annualize and normalize the effect of changes during the twelve
9 months ending December 31, 2025, are shown in Column 6 of Exhibit No. FI-2W, page
10 2. These adjustments are detailed in other exhibits, which will be explained by various
11 witnesses. The net operating income of \$1,643,727 represents net operating income for
12 the pro forma future test year. The figures in Column 7 of page 2 of Exhibit No. FI-2W
13 have been carried over to Column 1 of page 3 of Exhibit No. FI-2W.

14
15 In deriving the projected net operating income for the fully projected future test year, I
16 began with the pro forma net operating income at present rates for the twelve months
17 ended December 31, 2025, in the amount of \$1,643,727, which is shown in Column 1 of
18 Exhibit No. FI-2W, page 3. The net of all adjustments to revenues and expenses results
19 in fully projected future test year income adjustments of \$(176,630) at present rates as
20 shown in Column 3 of Exhibit No. FI-2W, page 3. These adjustments are detailed in
21 other exhibits, which will be explained by various witnesses. The net operating income
22 of \$1,467,097 represents net operating income for the fully projected future test year
23 ending February 28, 2027. It is necessary to adjust such net operating income to reflect

1 and annualize various changes during the fully projected future test year to determine
2 operating income at the level of operations at the end of the test year at present rates to be
3 used for ratemaking purposes.

4
5 Column 6 of Exhibit No. FI-2W, page 3 summarizes the pro forma adjustments to the
6 fully projected future test year net operating income. Projected net operating income for
7 the twelve months ending February 28, 2027, in the amount of 1,467,097 is shown in
8 Column 4 of Exhibit No. FI-2W, page 3. Adjustments to operating income in the net
9 amount of \$113,790, to annualize and normalize the effect of changes during the twelve
10 months ending February 28, 2027, are shown in Column 6 of Exhibit No. FI-2W, page 3.
11 These adjustments are detailed in other exhibits, which will be explained by various
12 witnesses. The net operating income of \$1,580,887 represents pro forma net operating
13 income for the fully projected future test year. Column 7 figures have been carried over
14 to Column 1 of Exhibit FI-2W, page 4.

15
16 Column 3 of Exhibit No. FI-2W page 4 provides a summary of the increases to net
17 operating income under proposed base rates at the fully projected future test year level of
18 operations. The net increase to net operating income at proposed rates would be
19 \$2,800,116 after reflecting increases in operating revenues, and related increase in Public
20 Utility Commission, Consumer Advocate, Small Business Advocate, and Damage
21 Prevention Control assessments and income taxes. These adjustments are shown in
22 Column 3 of Exhibit No. FI-2W, page 4 and are detailed in other exhibits, which various
23 witnesses will explain later. Pro forma net operating income for the twelve months

1 ending February 28, 2027, in the amount of \$4,817,458 is shown in Column 4 of Exhibit
2 No. FI-2W, page 4.

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

5 A. Exhibit No. FII-2W is to summarize projections of operating revenues under existing
6 rates for the twelve months ending December 31, 2025, and February 28, 2027, and to
7 summarize adjustments to such projected operating revenues to: (1) annualize the effect
8 of changes occurring during the twelve months ending December 31, 2025, and February
9 28, 2027, under existing rates; (2) reflect the increase in operating revenues resulting
10 from the proposed increase in rates; and (3) summarize the revenue requirement for
11 wastewater after allocating a portion to water customers.

12
13 Projected operating revenues under existing rates for the twelve months ending December
14 31, 2025, in the amount of \$8,028,446 are shown in Column 3 of Exhibit No. FII-2W,
15 page 2. In deriving the projected operating revenues under existing rates, I began with
16 the pro forma operating revenues at present rates for the twelve months ended December
17 31, 2024, in the amount of \$7,835,820, which are shown in Column 1 of Exhibit No. FII-
18 2W, page 2, and which are taken from Exhibit No. HII-2W. Adjustments to the pro
19 forma historic test year operating revenues to project the future test year operating
20 revenues under existing rates in the amount of \$192,626 are shown in Column 2 of
21 Exhibit No. FII-2W, page 2. These adjustments are detailed in Exhibit Nos. FII-2-1W
22 through FII-2-2W, which I will explain later and are summarized in Exhibit No. FII-2W,
23 page 3.

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Exhibit No. FII-2, page 4 summarizes the pro forma adjustments to the projected future test year operating revenues. Projected operating revenues under existing rates for the twelve months ending December 31, 2025, in the amount of \$8,028,446 are shown in Column 1 of Exhibit No. FII-2W, page 4. Adjustments to operating revenues under existing rates in the amount of \$192,626 to annualize the effect of changes during the twelve months ending December 31, 2025, are shown in Column 2 of Exhibit No. FII-2W, page 4. These adjustments are detailed in Exhibit Nos. FII-2-3W through FII-2-4W, which I will explain later, and are summarized in Exhibit No. FII-2, page 5. Column 3 of Exhibit No. FII-2W, page 4 shows the pro forma operating revenues under existing rates of \$8,221,073 for the twelve months ending December 31, 2025.

Projected operating revenues under existing rates for the twelve months ending February 28, 2027, in the amount of \$8,477,908 are shown in Column 3 of Exhibit No. FII-2W, page 6. In deriving the projected operating revenues under existing rates, I began with the pro forma operating revenues at present rates for the twelve months ended December 31, 2025, in the amount of \$8,221,073, which are shown in Column 1 of Exhibit No. FII-2W, page 6. Adjustments to the pro forma future test year operating revenues to project the fully projected future test year operating revenues under existing rates in the amount of \$256,835 are shown in Column 2 of Exhibit No. FII-2W, page 6. These adjustments are detailed in Exhibit Nos. FII-2-5W through FII-2-8W, which I will explain later, and are summarized in Exhibit No. FII-2W, page 7.

1 Exhibit No. FII-2W, page 9 summarizes the pro forma adjustments to the fully projected
2 future test year operating revenues. Projected operating revenues under existing rates for
3 the twelve months ending February 28, 2027, in the amount of \$8,477,908 are shown in
4 Column 1 of Exhibit No. FII-2W, page 9. Adjustments to operating revenues under
5 existing rates in the amount of \$192,625 to annualize the effect of changes during the
6 twelve months ending February 28, 2027, are shown in Column 2 of Exhibit No. FII-2W,
7 page 9. These adjustments are detailed in Exhibit Nos. FII-2-9W through FII-2-10W,
8 which I will explain later, and are summarized in Exhibit No. FII-2W, page 8.

9
10 Adjustments to operating revenues in the amount of \$3,857,507, or 44.5% reflect the
11 increase in operating revenues due to the application of proposed base rates set forth in
12 Supplement No. 26 to Tariff Wastewater-Pa. P.U.C. No. 1 are shown on Column 6 of
13 Exhibit No. FII-2W, page 9. Pro forma operating revenues under proposed rates for the
14 twelve months ending February 28, 2027, in the amount of \$12,528,041 are shown on
15 Column 7 of Exhibit No. FII-2W, page 9.

16
17 Q. Explain Exhibit No. FII-2-1W.

18 A. Exhibit No. FII-2-1W projects operating revenues under existing rates for estimated
19 metered residential wastewater customers connected and disconnected during the twelve
20 months ending December 31, 2025. The projected net gain in number of metered
21 residential wastewater customers during the twelve months ending December 31, 2025, is
22 326. This projection is based on the average net gain in metered residential wastewater
23 customers for the year ended December 31, 2024. The projected net gain of metered

1 residential wastewater customers during the twelve months ending December 31, 2025, of
2 326 is multiplied by the annual average revenue per average metered residential
3 wastewater customer during the historic test year ended December 31, 2024, of \$1,054.88
4 to derive the annualized revenue adjustment of \$343,891 (326 x \$1,054.88).

5
6 In order to present the projected future test year metered sales to residential wastewater
7 customers, it is necessary to determine the portion of the annualized revenue adjustment
8 in the amount of \$343,891 that will occur during the twelve months ending December 31,
9 2025. The projected net gain of metered residential wastewater customers for the twelve
10 months ending December 31, 2025, is presumed to occur evenly throughout the future
11 test year. Accordingly, one half (0.50) of the annualized revenue adjustment determined
12 in this Exhibit is projected to occur during the twelve months ending December 31, 2025.
13 The portion of the annualized revenue adjustment included in the twelve months ending
14 December 31, 2025, or \$171,945 ($\$343,891 \times 0.50$) has been carried forward to Exhibit
15 No. FII-2W, page 3. The remainder of the annualized revenue adjustment is reflected on
16 Exhibit No. FII-2-3W, which I will explain later.

17
18 Q. Explain Exhibit No. FII-2-2W.

19 A. Exhibit No. FII-2-2W projects operating revenues under existing rates for estimated
20 metered commercial wastewater customers connected and disconnected during the twelve
21 months ending December 31, 2025. The projected net gain in number of metered
22 commercial wastewater customers during the twelve months ending December 31, 2025,
23 is 12. This projection is based on the average net gain in metered commercial wastewater

1 customers for the year ended December 31, 2024. The projected net gain of metered
2 commercial wastewater customers during the twelve months ending December 31, 2025,
3 of 12 is multiplied by the annual average revenue per average metered commercial
4 wastewater customer during the historic test year ended December 31, 2024, of \$3,446.80
5 to derive the annualized revenue adjustment of \$41,362 (12 x \$3,446,80).

6
7 In order to present the projected future test year metered sales to commercial wastewater
8 customers, it is necessary to determine the portion of the annualized revenue adjustment
9 in the amount of \$41,362 that will occur during the twelve months ending December 31,
10 2025. The projected net gain of metered commercial wastewater customers for the
11 twelve months ending December 31, 2025, is presumed to occur evenly throughout the
12 future test year. Accordingly, one half (0.50) of the annualized revenue adjustment
13 determined in this Exhibit is projected to occur during the twelve months ending
14 December 31, 2025. The portion of the annualized revenue adjustment included in the
15 twelve months ending December 31, 2025, or \$20,681 ($\$41,362 \times 0.50$) has been carried
16 forward to Exhibit No. FII-2W, page 3. The remainder of the annualized revenue
17 adjustment is reflected on Exhibit No. FII-2-4W, which I will explain later.

18
19 Q. Explain Exhibit No. FII-2-3W.

20 A. Exhibit No. FII-2-3W annualizes operating revenues for estimated metered residential
21 wastewater customers connected and disconnected during the twelve months ending
22 December 31, 2025. As explained previously, the Company projects a net gain of 326 in
23 the number of metered residential wastewater customers during the twelve months ending

1 December 31, 2025. The projected net gain of metered residential wastewater customers
2 during the twelve months ending December 31, 2025, of 326 is multiplied by the annual
3 average revenue per average metered residential wastewater customer during the historic
4 test year ended December 31, 2024, of \$1,054.88 to derive the annualized revenue
5 adjustment of \$343,891 (326 x \$1,054.88).

6
7 As explained previously with respect to Exhibit No. FII-2-1W, I have already reflected in
8 projected future test year revenues that portion of the increased revenues from these 326
9 customers that are projected to be gained during the future test year ending December 31,
10 2025. That projected amount is \$171,945, or one half of the annualized revenue
11 adjustment of \$343,891. The remaining half of the annualized revenue adjustment is
12 reflected on Exhibit No. FII-2-3W as an annualization adjustment to the future test year
13 projection. The remaining half of the annualized revenue adjustment of \$171,945 has
14 been carried forward to Exhibit No. FII-2W, page 5.

15
16 Q. Explain Exhibit No. FII-2-4W.

17 A. Exhibit No. FII-2-4W annualizes operating revenues for estimated metered commercial
18 wastewater customers connected and disconnected during the twelve months ending
19 December 31, 2025. As explained previously, the Company projects a net gain of 12 in
20 the number of metered commercial wastewater customers during the twelve months
21 ending December 31, 2025. The projected net gain of metered commercial wastewater
22 customers during the twelve months ending December 31, 2025, of 12 is multiplied by
23 the annual average revenue per average metered commercial wastewater customer during

1 the historic test year ended December 31, 2024, of \$3,446.80 to derive the annualized
2 revenue adjustment of \$41,362 (7 x \$3,446.80).

3
4 As explained previously with respect to Exhibit No. FII-2-2W, I have already reflected in
5 projected future test year revenues that portion of the increased revenues from these 12
6 customers that are projected to be gained during the future test year ending December 31,
7 2025. That projected amount is \$20,681, or one half of the annualized revenue
8 adjustment of \$41,362. The remaining half of the annualized revenue adjustment is
9 reflected on Exhibit No. FII-2-4W as an annualization adjustment to the future test year
10 projection. The remaining half of the annualized revenue adjustment of \$20,681 has been
11 carried forward to Exhibit No. FII-2W, page 5.

12
13 Q. Explain Exhibit No. FII-2-5W.

14 A. Exhibit No. FII-2-5W projects operating revenues for the estimated metered residential
15 wastewater customers connected and disconnected during January and February 2026.
16 Although these customers are projected to be added prior to the fully projected future test
17 year, the revenues from these customers will be included in the revenues earned for the
18 twelve months ending February 28, 2027, so it is appropriate to include these revenues.

19
20 As was the case for the twelve months ending December 31, 2025, the Company projects
21 a net gain of 326 in the number of metered residential wastewater customers during the
22 twelve months ending December 31, 2026. The projected net gain of metered residential
23 wastewater customers during the twelve months ending December 31, 2026 of 326 is

1 divided by twelve and multiplied by two to yield the number of customers expected to be
2 gained during the two-month period ending February 28, 2026, which is 54 ($326 / 12 \times 2$).
3 Next, the number of customers gained during the two-month period is multiplied by the
4 annual average revenue per average metered residential wastewater customer during the
5 future test year ended December 31, 2025, of \$1,054.88 to derive the annualized revenue
6 adjustment for residential wastewater customers of \$57,315 ($12 \times \$1,054.88$).

7
8 The adjustment for the estimated residential wastewater customers to be added during
9 January and February 2026, of \$57,315 has been carried forward to Exhibit No. FII-2W,
10 page 7.

11
12 Q. Explain Exhibit No. FII-2-6W.

13 A. Exhibit No. FII-2-6W projects operating revenues for the estimated metered commercial
14 wastewater customers connected and disconnected during January and February 2026.
15 Although these customers are projected to be added prior to the fully projected future test
16 year, the revenues from these customers will be included in the revenues earned for the
17 twelve months ending February 28, 2027, so it is appropriate to include these revenues.

18
19 As was the case for the twelve months ending December 31, 2025, the Company projects
20 a net gain of 12 in the number of metered commercial wastewater customers during the
21 twelve months ending December 31, 2026. The projected net gain of metered
22 commercial wastewater customers during the twelve months ending December 31, 2026
23 of 12 is divided by twelve and multiplied by two to yield the number of customers

1 expected to be gained during the two-month period ending February 28, 2026, which is 2
2 (12/ 12 x 2). Next, the number of customers gained during the two-month period is
3 multiplied by the annual average revenue per average metered commercial wastewater
4 customer during the future test year ended December 31, 2025, of \$3,446.80 to derive the
5 annualized revenue adjustment for commercial wastewater customers of \$6,894 (1 x
6 \$3,446.80).

7
8 The adjustment for the estimated commercial wastewater customers to be added during
9 January and February 2026, of \$6,894 has been carried forward to Exhibit No. FII-2W,
10 page 7.

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

13 A. Exhibit No. FII-2-7W projects operating revenues under existing rates for estimated
14 metered residential wastewater customers connected and disconnected during the twelve
15 months ending February 28, 2027. The projected net gain in number of metered
16 residential wastewater customers during the twelve months ending February 28, 2027, is
17 326. This projection is based on the average net gain in metered residential wastewater
18 customers for the year ended December 31, 2024. The projected net gain of metered
19 residential wastewater customers during the twelve months ending February 28, 2027, of
20 326 is multiplied by the annual average revenue per average metered residential
21 wastewater customer during the historic test year ended December 31, 2024, of \$1,054.88
22 to derive the annualized revenue adjustment of \$343,891 (326 x \$1,054.88).

1 In order to present the projected future test year metered sales to residential wastewater
2 customers, it is necessary to determine the portion of the annualized revenue adjustment
3 in the amount of \$343,891 that will occur during the twelve months ending February 28,
4 2027. The projected net gain of metered residential wastewater customers for the twelve
5 months ending February 28, 2027, is presumed to occur evenly throughout the future test
6 year. Accordingly, one half (0.50) of the annualized revenue adjustment determined in
7 this Exhibit is projected to occur during the twelve months ending February 28, 2027.
8 The portion of the annualized revenue adjustment included in the twelve months ending
9 February 28, 2027, or \$171,945 ($\$343,891 \times 0.50$) has been carried forward to Exhibit
10 No. FII-2W, page 7. The remainder of the annualized revenue adjustment is reflected on
11 Exhibit No. FII-2-9W, which I will explain later.

12
13 Q. Explain Exhibit No. FII-2-8W.

14 A. Exhibit No. FII-2-8W projects operating revenues under existing rates for estimated
15 metered commercial wastewater customers connected and disconnected during the twelve
16 months ending February 28, 2027. The projected net gain in number of metered
17 commercial wastewater customers during the twelve months ending February 28, 2027, is
18 12. This projection is based on the average net gain in metered commercial wastewater
19 customers for the year ended December 31, 2024. The projected net gain of metered
20 commercial wastewater customers during the twelve months ending February 28, 2027,
21 of 12 is multiplied by the annual average revenue per average metered commercial
22 wastewater customer during the historic test year ended December 31, 2024, of \$3,446.80
23 to derive the annualized revenue adjustment of \$41,362 ($12 \times \$3,446.80$).

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In order to present the projected future test year metered sales to commercial wastewater customers, it is necessary to determine the portion of the annualized revenue adjustment in the amount of \$41,362 that will occur during the twelve months ending February 28, 2027. The projected net gain of metered commercial wastewater customers for the twelve months ending February 28, 2027, 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 February 28, 2027. The portion of the annualized revenue adjustment included in the twelve months ending February 28, 2027, or \$20,681 ($\$41,362 \times 0.50$) has been carried forward to Exhibit No. FII-2W, page 7. The remainder of the annualized revenue adjustment is reflected on Exhibit No. FII-2-10W, which I will explain later.

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

A. Exhibit No. FII-2-9W annualizes operating revenues for estimated metered residential wastewater customers connected and disconnected during the twelve months ending February 28, 2027. As explained previously, the Company projects a net gain of 326 in the number of metered residential wastewater customers during the twelve months ending February 28, 2027. The projected net gain of metered residential wastewater customers during the twelve months ending February 28, 2027, of 326 is multiplied by the annual average revenue per average metered residential wastewater customer during the historic test year ended December 31, 2024, of \$1,054.88 to derive the annualized revenue adjustment of \$343,891 ($326 \times \$1,054.88$).

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As explained previously with respect to Exhibit No. FII-2-7W, I have already reflected in projected future test year revenues that portion of the increased revenues from these 71 customers that are projected to be gained during the fully projected future test year ending February 28, 2027. That projected amount is \$171,945, or one half of the annualized revenue adjustment of \$343,891. The remaining half of the annualized revenue adjustment is reflected on Exhibit No. FII-2-3W as an annualization adjustment to the future test year projection. The remaining half of the annualized revenue adjustment of \$171,945 has been carried forward to Exhibit No. FII-2W, page 8.

Q. Explain Exhibit No. FII-2-10W.

A. Exhibit No. FII-2-10W annualizes operating revenues for estimated metered commercial wastewater customers connected and disconnected during the twelve months ending February 28, 2027. As explained previously, the Company projects a net gain of 12 in the number of metered commercial wastewater customers during the twelve months ending February 28, 2027. The projected net gain of metered commercial wastewater customers during the twelve months ending February 28, 2027, of 12 is multiplied by the annual average revenue per average metered commercial wastewater customer during the historic test year ended December 31, 2024, of \$3,446.80 to derive the annualized revenue adjustment of \$41,362 (12 x \$3,446.80).

As explained previously with respect to Exhibit No. FII-2-8W, I have already reflected in projected future test year revenues that portion of the increased revenues from these 7

1 customers that are projected to be gained during the fully projected future test year ending
2 February 28, 2027. That projected amount is \$20,681, or one half of the annualized
3 revenue adjustment of \$41,362. The remaining half of the annualized revenue adjustment
4 is reflected on Exhibit No. FII-2-4W as an annualization adjustment to the future test year
5 projection. The remaining half of the annualized revenue adjustment of \$20,681 has been
6 carried forward to Exhibit No. FII-2W, page 8.

7
8 Q. Explain Exhibit No. FII-3W.

9 A. Exhibit No. FII-3W provides a comparison of present and proposed base rates. The
10 present base rates are those set forth in Supplement No. 20 to Wastewater-Pa P.U.C. No.
11 1 approved by the Commission March 1, 2023. The proposed base rates are set forth in
12 Supplement No. 26 to Wastewater-Pa. P.U.C. No. 1. A copy of the Company's proposed
13 tariff supplement is attached to Exhibit No. FII-3W.

14
15 Q. Explain Exhibit No. FII-4W.

16 A. Exhibit No. FII-4W provides a detailed customer analysis by customer classification.
17 Pages 2 through 3 of Exhibit No. FII-4W provides the application of present metered base
18 rates, which became effective March 1, 2023, to the pro forma customer analysis for the
19 twelve months ending February 28, 2027.

20
21 Q. Explain Exhibit No. FII-9W.

22 A. Exhibit No. FII-9W, page 2 provides the number of customers by class as of December
23 31, 2022, 2023, and 2024 and the projected number of customers by class as of December

1 31, 2025, and as of February 28, 2027, February 29, 2028, and February 28, 2029. Page 3
2 of Exhibit No. FII-9W provides consumption by customer class for the twelve months
3 ended December 31, 2022, 2023, and 2024 and the projected consumption by customer
4 class for the twelve months ending December 31, 2025, and as of February 28, 2027,
5 February 29, 2028, and February 28, 2029.

6
7 Q. Are you sponsoring any other exhibits relative to operating revenues?

8 A. Yes, I am also sponsoring Exhibit Nos. F(a)-4W, FII-5, FII-7 and FII-8.

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

11 A. Exhibit No. FIII-2W summarizes adjustments to operating expenses for the twelve
12 months ending December 31, 2025, annualizes and normalizes the effect of changes
13 occurring during the twelve months ending December 31, 2025, summarizes adjustments
14 to operating expenses for the twelve months ending February 28, 2027, and annualizes
15 and normalizes the effect of changes occurring during the twelve months ending February
16 28, 2027, due to the increase in operating revenues resulting from the proposed increase
17 in rates.

18
19 Pro forma operating expenses for the twelve months ended December 31, 2024, in the
20 amount of \$5,703,826 are shown in Column 1 of Exhibit FIII-2W page 3. Adjustments
21 required to project operating expenses for the twelve months ending December 31, 2025
22 in the amount of \$22,132 are shown in Column 3 of Exhibit FIII-2W, page 3, and are
23 detailed in Exhibit Nos. FIII-2-1, FIII-2-12, and FIII-2-6W. Projected operating expenses

1 for the twelve months ending December 31, 2025, in the amount of \$5,725,958 are shown
2 in Column 4 of Exhibit FIII-2W, page 3.

3
4 Adjustments to operating expenses in the amount of \$103,196 to annualize and normalize
5 the effect of changes projected to occur during the twelve months ending December 31,
6 2025, are shown in Column 6 of Exhibit FIII-2W, page 3, and are detailed in Exhibit No.
7 FIII-2-15 and FIII-2-13W. Pro forma operating expenses for the twelve months ending
8 December 31, 2025, in the amount of \$5,829,154 are shown in Column 7 of Exhibit FIII-
9 2W, page 3 and are carried over to Column 1 of Exhibit No. FIII-2W, page 4.

10
11 Adjustments required to project operating expenses for the twelve months ending
12 February 28, 2027, in the amount of \$100,569 are shown in Column 3 of Exhibit FIII-
13 2W, page 5, and are detailed in Exhibit Nos. FIII-2-25, FIII-2-37, and FIII-2-20W.

14 Projected operating expenses for the twelve months ending February 28, 2027, in the
15 amount of \$5,929,723 are shown in Column 4 of Exhibit FIII-2W, page 5 and are carried
16 over to Column 1 of Exhibit No. FIII-2W, page 6.

17
18 Adjustments to operating expenses in the amount of \$35,624 to annualize and normalize
19 the effect of changes projected to occur during the twelve months ending February 28,
20 2027, are shown in Column 3 of Exhibit FIII-2W, page 7, and are detailed in Exhibit No.
21 FIII-2-40 and FIII-2-30W. Pro forma operating expenses for the twelve months ending
22 February 28, 2027, in the amount of \$5,965,347 are shown in Column 4 of Exhibit FIII-
23 2W, page 7.

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There are no projected adjustments to operating expenses due to the increase in operating revenues resulting from the proposed increase. Pro forma operating expenses for the twelve months ending February 28, 2027, in the amount of \$5,965,347 are shown in Column 7 of Exhibit FIII-2W, page 7.

Q. Explain Exhibit No. FIII-2-6W.

A. Exhibit No. FIII-2-6W projects the allocations from water operations for the twelve months month ending December 31, 2025, based on the Company's current allocation methodology and projected expense adjustments to the accounts that are allocated.

Various expenses that are for both the water and wastewater portions of the business are recorded on the water side of the business. At the end of each accounting period, a portion of those allocable expenses are recorded as a reduction to expense on the water side of the business and an addition to expense on the wastewater side of the business.

The allocable portion of indirect labor, indirect fringe benefits and operating expense to wastewater based on the projected balances of the accounts to be allocated for the twelve months ending December 31, 2025, is calculated to be \$531,732. The payroll taxes and fringe benefits on the direct labor recorded on the wastewater side of the business is calculated to be \$243,044. The adjustment of \$(7,941) is determined by subtracting the allocation to wastewater for the twelve months ended December 31, 2024, of \$782,717 by the calculated allocable portion of indirect labor, indirect fringe benefits and operating expense of \$531,732 and calculated payroll taxes and fringe benefits on the direct labor of

1 \$243,044 [$\$531,732 + \$243,044 - \$782,717 = \$(7,941)$]. The adjustment of allocations to
2 wastewater for the twelve months ending December 31, 2025, of $\$(7,941)$ as an
3 adjustment to Account No. 77580005 has been carried forward to Exhibit No. FIII-2W,
4 Page 3, Column 3.

5
6 Q. Explain Exhibit No. FIII-2-13W.

7 A. Exhibit No. FIII-2-13W annualizes the allocations from water operations for the twelve
8 months month ending December 31, 2025, based on the Company's current allocation
9 methodology and pro forma expense adjustments to the accounts that are allocated.

10 Various expenses that are for both the water and wastewater portions of the business are
11 recorded on the water side of the business. At the end of each accounting period, a
12 portion of those allocable expenses are recorded as a reduction to expense on the water
13 side of the business and an addition to expense on the wastewater side of the business.

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

1 \$774,776 = \$28,975]. The adjustment of allocations to wastewater for the twelve months
2 ending December 31, 2025, of \$28,975 as an adjustment to Account No. 77580005 has
3 been carried forward to Exhibit No. FIII-2W, Page 3, Column 6.
4

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

6 A. Exhibit No. FIII-2-20W projects the allocations from water operations for the twelve
7 months ending February 28, 2027, based on the Company's current allocation
8 methodology and projected expense adjustments to the accounts that are allocated.

9 Various expenses that are for both the water and wastewater portions of the business are
10 recorded on the water side of the business. At the end of each accounting period, a
11 portion of those allocable expenses are recorded as a reduction to expense on the water
12 side of the business and an addition to expense on the wastewater side of the business.
13

14 The allocable portion of indirect labor, indirect fringe benefits, and operating expense to
15 wastewater based on the projected balances of the accounts to be allocated for the twelve
16 months ending February 28, 2027, is calculated to be \$592,647. The payroll taxes and
17 fringe benefits on the direct labor recorded on the wastewater side of the business is
18 calculated to be \$269,494. The adjustment of \$58,390 is determined by subtracting the
19 allocation to wastewater for the future test year ended December 31, 2025, of \$803,751
20 (see Exhibit No. FIII-2-13W) by the calculated allocable portion of indirect labor, indirect
21 fringe benefits, and operating expense of \$592,647 and calculated payroll taxes and fringe
22 benefits on the direct labor of \$269,494 [$\$592,647 + \$269,494 - \$803,751 = \$58,390$].
23

The adjustment of allocations to wastewater for the twelve months ending February 28,

1 2027, of \$58,390 as an adjustment to Account No. 77580005 has been carried forward to
2 Exhibit No. FIII-2W, Page 5, Column 3.

3
4 Q. Explain Exhibit No. FIII-2-30W.

5 A. Exhibit No. FIII-2-30W annualizes the allocations from water operations for the twelve
6 months month ending February 28, 2027, based on the Company's current allocation
7 methodology and pro forma expense adjustments to the accounts that are allocated.

8 Various expenses that are for both the water and wastewater portions of the business are
9 recorded on the water side of the business. At the end of each accounting period, a
10 portion of those allocable expenses is recorded as a reduction to expense on the water side
11 of the business and an 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 February 28, 2027, is calculated to be \$599,197. The payroll taxes and
16 fringe benefits on the direct labor recorded on the wastewater side of the business is
17 calculated to be \$276,358. The adjustment of \$13,413 is determined by subtracting the
18 projected allocation to wastewater for the twelve months ended February 28, 2027, of
19 \$862,142 (see Exhibit No. FIII-2-20W) by the calculated allocable portion of indirect
20 labor, indirect fringe benefits and operating expense of \$599,197 and calculated payroll
21 taxes and fringe benefits on the direct labor of \$276,358 [$\$599,197 + \$276,358 -$
22 $\$862,142 = \$13,413$]. The adjustment of allocations to wastewater for the twelve months

1 ending February 28, 2027, of \$13,413 as an adjustment to Account No. 77580005 has
2 been carried forward to Exhibit No. FIII-2, Page 7, Column 3.

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

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

9
10 Pro forma operating taxes other than income taxes for the twelve months ended
11 December 31, 2024, in the amount of \$109,791 are shown in Column 1, Page 2 of Exhibit
12 FIV-15W. Adjustments to operating taxes other than income taxes of \$1,302 reflect the
13 calculation of the projected level of taxes other than income taxes under existing rates for
14 the twelve months ending December 31, 2025. Such adjustments are shown in Column 3,
15 Page 2 of Exhibit No. FIV-15W and are detailed in Exhibit No. FIV-15-1W. Projected
16 operating taxes other than income taxes for the twelve months ended December 31, 2025,
17 in the amount of \$111,094 are shown in Column 4, Page 2 of Exhibit FIV-15.

18
19 Adjustments to operating taxes other than income taxes of \$1,302 reflect the calculation
20 of the Pro Forma level of taxes other than income taxes under existing rates for the twelve
21 months ending December 31, 2025. Such adjustments are shown in Column 6, Page 2 of
22 Exhibit No. FIV-15W and are detailed in Exhibit Nos. FIV-15-2W. Pro Forma operating
23 taxes other than income taxes for the twelve months ending December 31, 2025, in the

1 amount of \$112,396 are shown in Column 7, Page 2 of Exhibit No. FIV-15W and are
2 carried forward to Column 1 of Page 3 of Exhibit No. FIV-15W.

3
4 Projected adjustments to operating taxes other than income taxes of \$1,737 are shown in
5 Column 3, Page 3 of Exhibit No. FIV-15W and are detailed in Exhibit Nos. FIV-15-3W.

6 Projected operating taxes other than income taxes for the twelve months ended February
7 28, 2027, in the amount of \$114,133 are shown in Column 4, Page 3 of Exhibit FIV-15.

8
9 Adjustments to operating taxes other than income taxes of \$1,302 reflect the calculation
10 of the Pro Forma level of taxes other than income taxes under existing rates for the twelve
11 months ending February 28, 2027. Such adjustments are shown in Column 6, Page 3 of
12 Exhibit No. FIV-15W and are detailed in Exhibit Nos. FIV-15-4W. Pro forma operating
13 taxes other than income taxes for the twelve months ending February 28, 2027, of
14 \$115,435 are shown in Column 7, Page 3 of Exhibit No. FIV-15W and are carried
15 forward to Column 1 of Page 4 of Exhibit No. FIV-15W.

16
17 Adjustments to operating taxes other than income taxes amounting to \$26,082 are made
18 to reflect the increased operating taxes other than income taxes that result from the
19 increase in operating revenues under proposed rates. These adjustments are shown in
20 Column 3, Page 4 of Exhibit No. FIV-15W and are detailed in Exhibit No. FIV-15-5W.
21 Pro Forma operating taxes other than income taxes under proposed rates for the twelve
22 months ended February 28, 2027, in the amount of \$141,518 are shown in Column 4,
23 Page 4 of Exhibit FIV-15W.

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

A. Exhibit No. FIV-15-1W 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 projected operating revenues under existing rates for twelve months ending December 31, 2025, 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 projected operating revenues at existing rates for twelve months ending December 31, 2025, in the amount of \$8,005,147 (Refer to Exhibit No. FII-2W) to determine the projected combined assessment under existing rates for twelve months ended December 31, 2025, in the amount of \$54,127 ($\$8,005,147 \times 0.00676148$). The adjustment in the amount of \$1,302 is determined by subtracting the pro forma assessments for the twelve months ended December 31, 2024, of \$52,842 (Refer to Exhibit No. HIV-15-1W) from the calculated projected amount of \$54,127 [$\$54,127 - \$52,824 = \$1,302$]. The adjustment in the amount of \$1,302 has been carried forward to Exhibit No. FIV-15W, Page 2, Column 3.

Q. Explain Exhibit No. FIV-15-2W.

A. Exhibit No. FIV-15-2W 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

1 operating revenues under existing rates for twelve months ending December 31, 2025,
2 and the 2024-2025 assessment factors. The currently-effective combined 2024-2025
3 assessment rate of 0.676148% for the Commission's General Assessment, the Consumer
4 Advocate's Assessment, the Small Business Advocate's Assessment, and the Damage
5 Prevention Control Assessment is applied to Pro Forma operating revenues at existing
6 rates for twelve months ending December 31, 2025, in the amount of \$8,197,774 (Refer
7 to Exhibit No. FII-2W) to determine the pro forma combined assessment under existing
8 rates for twelve months ended December 31, 2025, in the amount of \$55,429 ($\$8,197,774$
9 $\times 0.00676148$). The adjustment in the amount of \$1,302 is determined by subtracting the
10 projected year assessments for the twelve months ended December 31, 2025, of \$54,127
11 (Refer to Exhibit No. FIV-15-1W) from the calculated pro forma amount of \$55,429
12 ($\$55,429 - \$54,127 = \$1,302$). The adjustment in the amount of \$1,302 has been carried
13 forward to Exhibit No. FIV-15W, Page 2, Column 6.

14
15 Q. Explain Exhibit No. FIV-15-3W.

16 A. Exhibit No. FIV-15-3W is an adjustment to reflect the Commission's General
17 Assessment, the Consumer Advocate's Assessment, the Small Business Advocate's
18 Assessment, and the Damage Prevention Control Assessment based on projected
19 operating revenues under existing rates for twelve months ending February 28, 2027, and
20 the 2024-2025 assessment factors. The currently-effective combined 2024-2025
21 assessment rate of 0.676148% for the Commission's General Assessment, the Consumer
22 Advocate's Assessment, the Small Business Advocate's Assessment, and the Damage
23 Prevention Control Assessment is applied to projected operating revenues at existing rates

1 for twelve months ending February 28, 2027, in the amount of \$8,454,609 (Refer to
2 Exhibit No. FII-2W) to determine the projected combined assessment under existing rates
3 for twelve months ended February 28, 2027, in the amount of \$57,166 ($\$8,454,609 \times$
4 0.00676148). The adjustment in the amount of \$1,737 is determined by subtracting the
5 Pro Forma year assessments for the twelve months ending December 31, 2025, of
6 \$55,429 (Refer to Exhibit No. FIV-15-2W) from the calculated projected amount of
7 \$57,166 [$\$57,166 - \$55,429 = \$1,737$]. The adjustment in the amount of \$1,737 has been
8 carried forward to Exhibit No. FIV-15W, Page 3, Column 3.

9
10 Q. Explain Exhibit No. FIV-15-4W.

11 A. Exhibit No. FIV-15-4W is an adjustment to reflect the Commission's General
12 Assessment, the Consumer Advocate's Assessment, the Small Business Advocate's
13 Assessment, and the Damage Prevention Control Assessment based on Pro Forma
14 operating revenues under existing rates for twelve months ending February 28, 2027, and
15 the 2024-2025 assessment factors. The currently-effective combined 2024-2025
16 assessment rate of 0.676148% for the Commission's General Assessment, the Consumer
17 Advocate's Assessment, the Small Business Advocate's Assessment, and the Damage
18 Prevention Control Assessment is applied to Pro Forma operating revenues at existing
19 rates for twelve months ending February 28, 2027, in the amount of \$8,647,235 (Refer to
20 Exhibit No. FII-2W) to determine the pro forma combined assessment under existing
21 rates for twelve months ended February 28, 2027, in the amount of \$58,468 ($\$8,647,235 \times$
22 0.00676148). The adjustment in the amount of \$1,302 is determined by subtracting the
23 projected year assessments for the twelve months ending February 28, 2027, of \$57,166

1 (Refer to Exhibit No. FIV-15-3W) from the calculated Pro Forma amount of \$58,468
2 (\$58,468 - \$57,166 = \$1,302). The adjustment in the amount of \$1,302 has been carried
3 forward to Exhibit No. FIV-15, Page 3, Column 6.
4

5 Q. Explain Exhibit No. FIV-15-5W.

6 A. Exhibit No. FIV-15-5W is an adjustment to reflect the Commission's General
7 Assessment, the Consumer Advocate's Assessment, the Small Business Advocate's
8 Assessment, and the Damage Prevention Control Assessment based on Pro Forma
9 operating revenues under proposed rates for twelve months ending February 28, 2027,
10 and the 2024-2025 assessment factors. The currently-effective combined 2024-2025
11 assessment rate of 0.676148% for the Commission's General Assessment, the Consumer
12 Advocate's Assessment, the Small Business Advocate's Assessment, and the Damage
13 Prevention Control Assessment is applied to Pro Forma operating revenues under
14 proposed rates for twelve months ending February 28, 2027, in the amount of
15 \$12,504,742 (Refer to Exhibit No. FII-2W) to determine the Pro Forma combined
16 assessment under proposed rates for twelve months ending February 28, 2027, in the
17 amount of \$84,551 ($\$12,504,742 \times 0.00676148$). The adjustment in the amount of
18 \$26,082 is determined by subtracting the Pro Forma year assessments under existing rates
19 for the twelve months ending February 28, 2027, of \$58,468 (Refer to Exhibit No. FIV-
20 15-4W) from the calculated Pro Forma amount under proposed rates of \$84,551 ($\$84,551$
21 $- \$58,468 = \$26,082$). The adjustment in the amount of \$26,082 has been carried forward
22 to Exhibit No. FIV-15W, Page 4, Column 3.
23

1 Q. Explain Exhibit No. FIV-17W.

2 A. Exhibit No. FIV-17W is to summarize adjustments to operating income taxes for the
3 twelve months ending December 31, 2025, and February 28, 2027, for ratemaking
4 purposes and to reflect additional operating income taxes resulting from the proposed
5 increase in operating revenues.

6
7 Pro forma operating income taxes for the twelve months ended December 31, 2024, in
8 the amount of \$(73,871) are shown in Column 1 of Page 1 of Exhibit FIV-17W.

9 Projected adjustments to operating income taxes of \$(891,713) are shown in Column 3 of
10 Page 1 of Exhibit No. FIV-17W and are detailed in Exhibit Nos. FIV-17-2W through
11 FIV-17-4W, which I will explain later. Pro forma adjustments to operating income taxes
12 of \$24,069 are shown in Column 6 of Page 1 of Exhibit No. FIV-17W and are detailed in
13 Exhibit No. FIV-17-5W, which I will explain later. Pro forma operating income taxes for
14 the twelve months ending December 31, 2025, in the amount of \$(941,515) are shown in
15 Column 7 of Page 1 of Exhibit No. FIV-17W and are carried forward to Column 1 of
16 Page 2 of Exhibit No. FIV-17W. Projected adjustments to operating income taxes of
17 \$172,330 are shown in Column 3 of Page 2 of Exhibit No. FIV-17W and are detailed in
18 Exhibit Nos. FIV-17-7W through FIV-17-9W, which I will explain later. Projected
19 operating income taxes for the twelve months ending February 28, 2027, in the amount of
20 \$(769,185) are show in Column 4 of Page 2 of Exhibit No. FIV-17W and are carried
21 forward to Column 1 of Page 3 of Exhibit No. FIV-17W. Pro forma adjustments to
22 operating income taxes of \$41,910 are shown in Column 3 of Page 3 of Exhibit No. FIV-
23 17W and are detailed in Exhibit No. FIV-17-10W, which I will explain later.

1 Adjustments to operating income taxes amounting to \$1,031,308 are to reflect the
2 increased operating income taxes that will result from the increase in operating revenues
3 under proposed rates, and these adjustments are shown in Column 6 of Page 3 of Exhibit
4 No. FIV-17W and are detailed in Exhibit No. FIV-17-11W, which I will explain later.

5
6 Q. Explain Exhibit No. FIV-17-2W.

7 A. Exhibit No. FIV-17-2W is an adjustment to reflect projected current Federal income tax
8 and projected current Pennsylvania corporate net income tax based on projected taxable
9 income for the twelve months ending December 31, 2025, 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 7.99%.

12
13 Total projected operating income before income taxes and excluding depreciation under
14 existing rates for the twelve months ending December 31, 2025, in the amount of
15 \$2,191,395 is determined by subtracting projected operating expenses under existing
16 rates in the amount of \$5,725,958 (Refer to Exhibit No. FIII-2W, Page 3 of 7, Column 4)
17 and projected operating taxes other than income taxes under existing rates in the amount
18 of \$111,094 (Refer to Exhibit No. FIV-15W, Page 2 of 4, Column 4) from projected
19 operating revenues under existing rates in the amount of \$8,028,446 (Refer to Exhibit No.
20 FII-2W, Page 2 of 10) [$\$8,028,446 - \$5,725,958 - \$111,094 = \$2,191,395$]. To arrive at
21 taxable income at present rates, amounts are added for Amortization of Acquisition
22 Adjustments of \$27,489 and Nondeductible Meals of \$99, and amounts are then deducted
23 for tax repair expense in the amount of \$2,926,659, cost of removal in the amount of

1 \$255,075, state tax depreciation in the amount of \$1,693,682 and pro forma interest
2 expense deduction for ratemaking purposes in the amount of \$1,027,888. Expenses of
3 the Company's Amortization of Acquisition Adjustments of \$27,489 and Nondeductible
4 Meals of \$99 are not allowed as a deduction for income tax purposes. Since this amount
5 is included in operating expenses and deducted in arriving at the figure of \$2,191,395, it
6 must be added back in arriving at taxable income. Tax repair expense in the amount of
7 \$2,926,659 has been capitalized on the corporate books but is taken as a current
8 deduction on the Company's Federal and State income tax returns. Cost of removal in
9 the amount of \$255,075 has been capitalized on the corporate books but is taken as a
10 current deduction on the Company's Federal and State income tax returns. State tax
11 depreciation in the amount of \$1,693,682 is detailed on Exhibit No. FIV-17-3W and
12 Exhibit No. FIV-17-3 (a)W. I note that the Federal tax depreciation is less than state tax
13 depreciation, which I will explain later with respect to Exhibit No. FIV-17-3 (a)W. The
14 projected interest expense deduction for ratemaking purposes in the amount of
15 \$1,027,888 is determined by reflecting the interest charges to ratepayers in the cost of
16 capital determination (Interest Synchronization) (Rate Base of \$49,847,442 x Weighted
17 Debt Cost Rate of 2.06%).

18
19 Projected taxable income under existing rates in the amount of \$(3,684,322) is
20 determined by adding the expenses of the Amortization of Acquisition Adjustments of
21 \$27,489 and Nondeductible Meals of \$99 and deducting tax repair expense in the amount
22 of \$2,926,659, cost of removal in the amount of \$255,075, state tax depreciation in the
23 amount of \$1,693,682, and projected interest expense in the amount of \$1,027,888 from

1 projected net operating income in the amount of \$2,204,143 [$\$2,191,395 + \$27,489 + \99
2 $- \$2,926,659 - \$255,075 - \$1,693,682 - \$1,027,888 = \$(3,684,322)$].

3
4 Projected State income tax under existing rates in the amount of $\$(294,377)$ is determined
5 by applying the Pennsylvania corporate net income tax rate of 7.99% to projected taxable
6 income in the amount of $\$(3,684,322)$ [$\$(3,684,322) \times 0.0799 = \$(294,377)$]. Projected
7 Federal taxable income under existing rates in the amount of $\$(3,384,363)$ is determined
8 by subtracting projected State income tax under existing rates in the amount of
9 $\$(294,377)$ and adding back additional allowed State depreciation on bonus property of
10 $\$5,581$ from projected taxable income in the amount of $\$(3,684,322)$ [$\$(3,684,322) -$
11 $\$(294,377) + \$5,581 = \$(3,384,363)$]. Projected Federal income tax under existing rates
12 in the amount of $\$(710,716)$ is determined by applying the presently effective Federal
13 income tax rate of 21% to the projected Federal taxable income under existing rates in the
14 amount of $\$(3,384,363)$ [$\$(3,384,363) \times 0.21 = \$(710,716)$]. Total projected current
15 income taxes under existing rates in the amount of $\$(1,005,094)$ is determined by adding
16 projected state income tax under existing rates in the amount of $\$(294,377)$ and projected
17 Federal income tax under existing rates in the amount of $\$(710,716)$ [$\$(294,377) +$
18 $\$(710,716) = \$(1,005,094)$]. The adjustment to income taxes in the amount of $\$(924,573)$
19 is determined by subtracting total pro forma current income taxes under existing rates
20 during the twelve months ended December 31, 2024, in the amount of $\$(80,520)$ (Refer
21 to Exhibit No. FIV-17W) from total projected current income taxes under existing rates
22 in the amount of $\$(1,005,094)$ [$\$(1,005,094) - \$(80,520) = \$(924,573)$]. The adjustment

1 to income taxes at present rates in the amount of \$(924,573) has been carried forward to
2 Exhibit No. FIV-17W, Page 1, Column 3.

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

5 A. Exhibit No. FIV-17-3W provides information concerning income tax depreciation used to
6 calculate current and deferred Federal Income Taxes for ratemaking purposes for the
7 future test year. In order to explain Exhibit FIV-17-3W, a general explanation of the tax
8 depreciation methods used by York Water for various vintages of property is required.

9
10 For property placed in service beginning with calendar year 2012, the Company employs
11 various methods of tax depreciation as permitted by law. Normalization of the tax
12 deferrals resulting from the use of these accelerated depreciation methods is required by
13 the Internal Revenue Code.

14
15 If the Company is not permitted to recover revenues necessary to provide for
16 normalization of the income tax effects of accelerated depreciation, the Company will not
17 be permitted to deduct accelerated depreciation for Federal income tax purposes.

18
19 Tax depreciation by vintage year in the amount of \$1,688,100 for property included in the
20 measure of value is shown on Exhibit No. FIV-17-3W, Column 3.

21
22 Deferred taxes must be provided with the normalization requirements of Internal
23 Revenue Code Sections 167 and 168. The amount of \$1,688,100 is reduced by

1 \$1,499,962, which is the amount included for ratemaking purposes as depreciation in
2 order to determine the difference of \$188,138 to be used for calculating the deferred
3 Federal income tax [$\$1,688,100 - \$1,499,962 = \$188,138$]. The Federal income tax rate
4 of 21% is applied to the difference of \$188,138 to determine deferred Federal income tax
5 in the amount of \$39,509 [$\$188,138 \times 0.21$]. The adjustment to deferred Federal income
6 tax expense in the amount of \$29,676 is determined by subtracting deferred Federal
7 income tax recorded on the corporate books during the twelve months ended December
8 31, 2024, in the amount of \$9,833 from the calculated deferred Federal income tax in the
9 amount of \$39,509 [$\$39,509 - \$9,833 = \$29,676$]. The adjustment to deferred Federal
10 income tax in the amount of \$29,676 has been carried forward to Exhibit No. FIV-17W,
11 Column 3.

12
13 Q. Explain Exhibit No. FIV-17-3 (a)W.

14 A. Exhibit No. FIV-17-3 (a)W is the calculation of the state tax decoupling from the Federal
15 Special 30-Percent and 50 Percent Depreciation Allowance for the twelve months ended
16 December 31, 2025, in accordance with Act 89 of 2002 signed into law June 29, 2002,
17 and the Economic Growth and Tax Relief Reconciliation Act of 2001, the Job Creation
18 and Worker Assistance Act of 2002, the Jobs and Growth Tax Relief Reconciliation Act
19 of 2003, the Economic Stimulus Act of 2008, and the Tax Relief, Unemployment
20 Insurance Reauthorization, and Job Creation Act of 2010. These acts require corporate
21 taxpayers who elected the Federal Special 30-Percent and 50 Percent Depreciation
22 Allowance to make adjustments, which eliminate the effect of the Federal Special 30-
23 Percent and 50 Percent Depreciation Allowance in arriving at Pennsylvania taxable

1 income. Because Act 89 of 2002 eliminated the effect of the first-year Federal bonus
2 depreciation, additional State depreciation deductions are allowed in subsequent years.

3
4 The recovery of a portion of the bonus depreciation of \$5,581 is carried forward to
5 Exhibit No. FIV-17-2W as an adjustment to State Tax Depreciation.

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

15
16 Q. Explain Exhibit No. FIV-17-4W.

17 A. Exhibit No. FIV-17-4W calculates the reversal of excess deferred Federal income taxes
18 related to accelerated depreciation on property for the Future Test Year. Upon passage of
19 the Tax Cuts and Jobs Act of 2017, the Company adjusted the balance of its deferred
20 Federal income taxes related to accelerated depreciation on property to the newly enacted
21 statutory Federal income tax rate of 21%. The difference between the existing balance of
22 deferred Federal income taxes related to accelerated depreciation on property and the
23 adjusted balance of deferred Federal income taxes related to accelerated depreciation on

1 property was recorded as a regulatory liability for the excess deferred Federal income
2 taxes related to accelerated depreciation on property.

3
4 A reversal is recorded for the excess deferred Federal income taxes whose normalized
5 depreciation exceeds tax depreciation, that is, the tax life of the property has reached
6 what is commonly referred to as the “turnaround point.” As of December 31, 2024, all
7 excess deferred Federal income taxes had been reversed. An adjustment of the excess
8 deferred Federal income taxes in the amount of \$3,184 is equal to the excess deferred
9 Federal income taxes recorded on the corporate books during the twelve months ended
10 December 31, 2024, in the amount of \$(3,184), from the calculated pro forma reversal of
11 excess deferred Federal income taxes in the amount of \$0 [$\$0 - \$(3,184) = \$3,184$]. The
12 adjustment of the reversal of deferred Federal income taxes in the amount of \$3,184 has
13 been carried forward to Exhibit FIV-17, Column 3.

14
15 Q. Explain Exhibit No. FIV-17-5W.

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

21
22 Total pro forma operating income before income taxes and excluding depreciation under
23 existing rates for the twelve months ending December 31, 2025, in the amount of

1 \$2,279,522 is determined by subtracting pro forma operating expenses under existing
2 rates in the amount of \$5,829,154 (Refer to Exhibit No. FIII-2W, Page 3 of 7, Column 7)
3 and pro forma operating taxes other than income taxes under existing rates in the amount
4 of \$112,396 (Refer to Exhibit No. FIV-15W, Page 2 of 4, Column 7) from pro forma
5 operating revenues under existing rates in the amount of \$8,221,073 (Refer to Exhibit No.
6 FII-2W, Page 2 of 2) [$\$8,221,073 - \$5,829,154 - \$112,396 = \$2,279,522$]. To arrive at
7 taxable income at present rates, amounts are added for Amortization of Acquisition
8 Adjustments of \$27,489 and Nondeductible Meals of \$99, and amounts are then deducted
9 for deducted for tax repair expense in the amount of \$2,926,659, cost of removal in the
10 amount of \$255,075, state tax depreciation in the amount of \$1,693,682, and pro forma
11 interest expense deduction for ratemaking purposes in the amount of \$1,027,888.
12 Expenses of the Company's Amortization of Acquisition Adjustments of \$27,489 and
13 Nondeductible Meals of \$99 are not allowed as a deduction for income tax purposes.
14 Since this amount is included in operating expenses and deducted in arriving at the figure
15 of \$2,292,270 it must be added back in arriving at taxable income. Tax repair expense in
16 the amount of \$2,926,659 has been capitalized on the corporate books but is taken as a
17 current deduction on the Company's Federal and State income tax returns. Cost of
18 removal in the amount of \$255,075 has been capitalized on the corporate books but is
19 taken as a current deduction on the Company's Federal and State income tax returns.
20 State tax depreciation in the amount of \$1,693,682 is detailed on Exhibit No. FIV-17-3W
21 and Exhibit No. FIV-17-3 (a)W. I note that the Federal tax depreciation is less than state
22 tax depreciation, as previously explained with respect to Exhibit No. FIV-17-3 (a)W.
23 The projected interest expense deduction for ratemaking purposes in the amount of

1 \$1,027,888 is determined by reflecting the interest charges to ratepayers in the cost of
2 capital determination (Interest Synchronization) (Rate Base of \$49,847,442 x Weighted
3 Debt Cost Rate of 2.06%).
4

5 Pro forma taxable income under existing rates in the amount of \$(3,596,194) is
6 determined by adding the expenses of the Amortization of Acquisition Adjustments of
7 \$27,489 and Nondeductible Meals of \$99 and deducting tax repair expense in the amount
8 of \$2,926,659, cost of removal in the amount of \$255,075, state tax depreciation in the
9 amount of \$1,693,682, and projected interest expense in the amount of \$1,027,888 from
10 pro forma net operating income in the amount of \$2,279,522 [$\$2,279,522 + \$27,489 -$
11 $+\$99 - \$2,926,659 - \$255,075 - \$1,693,682 - \$1,027,888 = \$(3,596,194)$].
12

13 Pro forma State income tax under existing rates in the amount of \$(287,336) is
14 determined by applying the Pennsylvania corporate net income tax rate of 7.99% to pro
15 forma taxable income in the amount of \$(3,596,194) [$\$(3,596,194) \times 0.0799 =$
16 $\$(287,336)$]. Pro forma Federal taxable income under existing rates in the amount of
17 $\$(3,303,277)$ is determined by subtracting pro forma State income tax under existing rates
18 in the amount of $\$(287,336)$ and adding back additional allowed State depreciation on
19 bonus property of \$5,581 from pro forma taxable income in the amount of $\$(3,596,194)$
20 [$\$(3,596,194) - \$(287,336) + \$5,581 = \$(3,303,277)$]. Pro forma Federal income tax
21 under existing rates in the amount of $\$(693,688)$ is determined by applying the presently
22 effective Federal income tax rate of 21% to the pro forma Federal taxable income under
23 existing rates in the amount of $\$(3,303,277)$ [$\$(3,303,277) \times 0.21 = \$(693,688)$]. Total

1 pro forma current income taxes under existing rates in the amount of \$(981,024) is
2 determined by adding pro forma state income tax under existing rates in the amount of
3 \$(287,336) and pro forma Federal income tax under existing rates in the amount of
4 \$(693,688) [$$(287,336) + $(693,688) = $(981,024)$]. The adjustment to income taxes in
5 the amount of \$24,069 is determined by subtracting total projected current income taxes
6 under existing rates during the twelve months ended December 31, 2025, in the amount
7 of \$(1,005,094) (Refer to Exhibit No. FIV-17-2W) from total pro forma current income
8 taxes under existing rates in the amount of \$(981,024) [$$(981,024) - $(1,005,094) =$
9 $$24,069$]. The adjustment to income taxes at present rates in the amount of \$24,069 has
10 been carried forward to Exhibit No. FIV-17W, Page 1, Column 6.

11
12 Q. Explain Exhibit No. FIV-17-7W.

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

18
19 Total projected operating income before income taxes and excluding depreciation under
20 existing rates for the twelve months ending February 28, 2027, in the amount of
21 \$2,434,052 is determined by subtracting projected operating expenses under existing
22 rates in the amount of \$5,929,723 (Refer to Exhibit No. FIII-2W, Page 5 of 7, Column 4)
23 and projected operating taxes other than income taxes under existing rates in the amount

1 of \$114,133 (Refer to Exhibit No. FIV-15, Page 3 of 4, Column 4) from projected
2 operating revenues under existing rates in the amount of \$8,477,908 (Refer to Exhibit No.
3 FII-2W, Page 2 of 2) [$\$8,477,908 - \$5,929,723 - \$114,133 = \$2,434,052$]. To arrive at
4 taxable income at present rates, amounts are added for Amortization of Acquisition
5 Adjustments of \$27,489 and Nondeductible Meals of \$99, and amounts are then deducted
6 for deducted for tax repair expense in the amount of \$2,460,000, cost of removal in the
7 amount of \$87,000, state tax depreciation in the amount of \$1,754,550, and pro forma
8 interest expense deduction for ratemaking purposes in the amount of \$1,127,650.
9 Expenses of the Company's Amortization of Acquisition Adjustments of \$27,489 and
10 Nondeductible Meals of \$99 are not allowed as a deduction for income tax purposes.
11 Since this amount is included in operating expenses and deducted in arriving at the figure
12 of \$2,446,800, it must be added back in arriving at taxable income. Tax repair expense in
13 the amount of \$2,460,000 has been capitalized on the corporate books but is taken as a
14 current deduction on the Company's Federal and State income tax returns. Cost of
15 removal in the amount of \$87,000 has been capitalized on the corporate books but is
16 taken as a current deduction on the Company's Federal and State income tax returns.
17 State tax depreciation in the amount of \$1,754,550 is detailed on Exhibit No. FIV-17-8W
18 and Exhibit No. FIV-17-8 (a)W. I note that the state tax depreciation is greater than
19 Federal tax depreciation, which I will explain later with respect to Exhibit No. FIV-17-8
20 (a)W. The projected interest expense deduction for ratemaking purposes in the amount of
21 \$1,127,650 is determined by reflecting the interest charges to ratepayers in the cost of
22 capital determination (Interest Synchronization) (Rate Base of \$54,685,381 x Weighted
23 Debt Cost Rate of 2.06%).

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Projected taxable income under existing rates in the amount of \$(2,967,561) is determined by adding the expenses of the Amortization of Acquisition Adjustments of \$27,489 and Nondeductible Meals of \$99 and deducting tax repair expense in the amount of \$2,460,000, cost of removal in the amount of \$87,000, state tax depreciation in the amount of \$1,754,550 and projected interest expense in the amount of \$1,127,650 from pro forma net operating income in the amount of \$2,434,052 [$\$2,434,052 + \$27,489 + 99 - \$2,460,000 - \$87,000 - \$1,754,550 - \$1,127,650 = \$(2,967,561)$].

Projected State income tax under existing rates in the amount of \$(222,270) is determined by applying the Pennsylvania corporate net income tax rate of 7.49% to projected taxable income in the amount of \$(2,967,561) [$\$(2,967,561) \times 0.0749 = \$(222,270)$]. Projected Federal taxable income under existing rates in the amount of \$(2,739,707) is determined by subtracting projected State income tax under existing rates in the amount of \$(222,270) and adding back additional allowed state depreciation on bonus property of \$5,583 to projected taxable income in the amount of \$(2,967,561) [$\$(2,967,561) - \$(222,270) + \$5,583 = \$(2,739,707)$]. Projected Federal income tax under existing rates in the amount of \$(575,339) is determined by applying the presently effective Federal income tax rate of 21% to the projected Federal taxable income under existing rates in the amount of \$(2,739,707) [$\$(2,739,707) \times 0.21 = \$(575,339)$]. Total projected current income taxes under existing rates in the amount of \$(797,609) is determined by adding projected state income tax under existing rates in the amount of \$(222,270) and projected Federal income tax under existing rates in the amount of \$(575,339) [$\$(222,270) +$

1 \$(575,339) = \$(797,609)]. The adjustment to income taxes in the amount of \$183,415 is
2 determined by subtracting total pro forma current income taxes under existing rates
3 during the twelve months ended December 31, 2025, in the amount of \$(981,024) (Refer
4 to Exhibit No. FIV-17-5W) from total projected current income taxes under existing rates
5 in the amount of \$(797,609) [$$(797,609) - $(981,024) = $183,415$]. The adjustment to
6 income taxes at present rates in the amount of \$183,415 has been carried forward to
7 Exhibit No. FIV-17, Page 2, Column 3.

8
9 Q. Explain Exhibit No. FIV-17-8W.

10 A. Exhibit No. FIV-17-8W provides information concerning income tax depreciation used to
11 calculate current and deferred Federal Income Taxes for ratemaking purposes for the
12 fully projected future test year. A general explanation of the tax depreciation methods
13 used by York Water for various vintages of property is required in order to fully
14 understand Exhibit No. FIV-17-8W. That explanation was previously provided with
15 respect to Exhibit No. FIV-17-3W.

16
17 Tax depreciation by vintage year in the amount of \$1,748,967 for property included in the
18 measure of value is shown on Exhibit No. FIV-17-3W, Column 3.

19
20 Deferred taxes must be provided with the normalization requirements of Internal
21 Revenue Code Sections 167 and 168. The amount of \$1,748,967 is reduced by
22 \$1,613,616, which is the amount included for ratemaking purposes as depreciation in
23 order to determine the difference of \$135,351 to be used for calculating the deferred

1 Federal income tax [$\$1,748,967 - \$1,613,616 = \$135,351$]. The Federal income tax rate
2 of 21% is applied to the difference of \$135,351 to determine deferred Federal income tax
3 in the amount of \$28,424 [$\$135,351 \times 0.21$]. The adjustment to deferred Federal income
4 tax expense in the amount of \$(11,085) is determined by subtracting deferred Federal
5 income tax recorded on the corporate books during the twelve months ended December
6 31, 2025, in the amount of \$39,509 from the calculated deferred Federal income tax in
7 the amount of \$28,424 [$\$28,424 - \$39,509 = \$(11,085)$]. The adjustment to deferred
8 Federal income tax in the amount of \$(11,085) has been carried forward to Exhibit No.
9 FIV-17W, Column 3.

10
11 Q. Explain Exhibit No. FIV-17-8 (a)W.

12 A. Exhibit No. FIV-17-8 (a)W is the calculation of the state tax decoupling from the Federal
13 Special 30-Percent and 50 Percent Depreciation Allowance for the projected period
14 ending February 28, 2027, in accordance with Act 89 of 2002 signed into law June 29,
15 2002, and the Economic Growth and Tax Relief Reconciliation Act of 2001, the Job
16 Creation and Worker Assistance Act of 2002, the Jobs and Growth Tax Relief
17 Reconciliation Act of 2003, the Economic Stimulus Act of 2008, and the Tax Relief,
18 Unemployment Insurance Reauthorization, and Job Creation Act of 2010. These acts
19 require corporate taxpayers who elected the Federal Special 30-Percent and 50 Percent
20 Depreciation Allowance to make adjustments, which eliminate the effect of the Federal
21 Special 30-Percent and 50 Percent Depreciation Allowance in arriving at Pennsylvania
22 taxable income. Because Act 89 of 2002 eliminated the effect of the first-year Federal

1 bonus depreciation, additional State depreciation deductions are allowed in subsequent
2 years.

3
4 The recovery of a portion of the bonus depreciation of \$5,583 is carried forward to
5 Exhibit No. FIV-17-5W as an adjustment to State Tax Depreciation.

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

15
16 Q. Explain Exhibit No. FIV-17-10W.

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

1 Total pro forma operating income before income taxes and excluding depreciation under
2 existing rates for the twelve months ending February 28, 2027, in the amount of
3 \$2,589,752 is determined by subtracting pro forma operating expenses under existing
4 rates in the amount of \$5,965,347 (Refer to Exhibit No. FIII-2W, Page 7 of 7, Column 7)
5 and pro forma operating taxes other than income taxes under existing rates in the amount
6 of \$115,435 (Refer to Exhibit No. FIV-15W, Page 3 of 4, Column 7) from pro forma
7 operating revenues under existing rates in the amount of \$8,670,534 (Refer to Exhibit No.
8 FII-2W, Page 2 of 2) [$\$8,670,534 - \$5,965,347 - \$115,435 = \$2,589,752$]. To arrive at
9 taxable income at present rates, amounts are added for Amortization of Acquisition
10 Adjustments of \$27,489 and Nondeductible Meals of \$99, and amounts are then deducted
11 for deducted for tax repair expense in the amount of \$2,460,000, cost of removal in the
12 amount of \$87,000, state tax depreciation in the amount of \$1,754,550, and pro forma
13 interest expense deduction for ratemaking purposes in the amount of \$1,127,650.
14 Expenses of the Company's Amortization of Acquisition Adjustments of \$27,489 and
15 Nondeductible Meals of \$99 are not allowed as a deduction for income tax purposes.
16 Since this amount is included in operating expenses and deducted in arriving at the figure
17 of \$2,602,500, it must be added back in arriving at taxable income. Tax repair expense in
18 the amount of \$2,460,000 has been capitalized on the corporate books but is taken as a
19 current deduction on the Company's Federal and State income tax returns. Cost of
20 removal in the amount of \$87,000 has been capitalized on the corporate books but is
21 taken as a current deduction on the Company's Federal and State income tax returns.
22 State tax depreciation in the amount of \$1,754,550 is detailed on Exhibit No. 17-8W and
23 Exhibit No. FIV-17-8 (a)W. I note that the state tax depreciation is greater than Federal

1 tax depreciation, which I explained previously with respect to Exhibit No. FIV-17-8
2 (a)W. The projected interest expense deduction for ratemaking purposes in the amount of
3 \$1,127,650 is determined by reflecting the interest charges to ratepayers in the cost of
4 capital determination (Interest Synchronization) (Rate Base of \$54,685,381 x Weighted
5 Debt Cost Rate of 2.06%).

6
7 Pro forma taxable income under existing rates in the amount of \$(2,811,861) is
8 determined by adding the expenses of the Amortization of Acquisition Adjustments of
9 \$14,471 and Nondeductible Meals of \$99 and deducting tax repair expense in the amount
10 of \$2,460,000, cost of removal in the amount of \$87,000, state tax depreciation in the
11 amount of \$1,754,550, and projected interest expense in the amount of \$1,127,650 from
12 pro forma net operating income in the amount of \$2,589,752 [$\$2,589,752 + \$27,489 + 99$
13 $- \$2,460,000 - \$87,000 - \$1,754,550 - \$1,127,650 = \$(2,811,861)$].

14
15 Pro forma State income tax under existing rates in the amount of \$(210,608) is
16 determined by applying the Pennsylvania corporate net income tax rate of 7.49% to pro
17 forma taxable income in the amount of \$(2,811,861) [$\$(2,811,861) \times 0.0749 =$
18 $\$(210,608)$]. Pro forma Federal taxable income under existing rates in the amount of
19 $\$(2,595,669)$ is determined by subtracting pro forma State income tax under existing rates
20 in the amount of \$(210,608) and adding back additional allowed state depreciation on
21 bonus property of \$5,583 to pro forma taxable income in the amount of \$(2,811,861)
22 [$\$(2,811,861) - \$(210,608) + \$5,583 = \$(2,595,669)$]. Pro forma Federal income tax
23 under existing rates in the amount of \$(545,091) is determined by applying the presently

1 effective Federal income tax rate of 21% to the pro forma Federal taxable income under
2 existing rates in the amount of \$(2,595,669) [$$(2,595,669) \times 0.21 = $(545,091)$]. Total
3 pro forma current income taxes under existing rates in the amount of (\$755,699) is
4 determined by adding pro forma state income tax under existing rates in the amount of
5 \$(210,608) and pro forma Federal income tax under existing rates in the amount of
6 \$(545,091) [$$(210,608) + $(545,091) = $(755,699)$]. The adjustment to income taxes in
7 the amount of \$41,910 is determined by subtracting total projected current income taxes
8 under existing rates during the twelve months ending February 28, 2027, in the amount of
9 \$(797,609) (Refer to Exhibit No. FIV-17-7W) from total pro forma current income taxes
10 under existing rates in the amount of (\$755,699) [$$(755,699) - $(797,609) = $41,910$].
11 The adjustment to income taxes at present rates in the amount of \$41,910 has been
12 carried forward to Exhibit No. FIV-17W, Page 3, Column 3.

13
14 Q. Please explain Exhibit No. FIV-17-11W.

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

18
19 The total proposed increase in wastewater revenue in the amount of \$3,857,507 (Refer to
20 Exhibit No. FII-2W, page 2 of 2) is reduced by the increase in pro forma expense for the
21 Public Utility Commission's general assessment, the Consumer Advocate's assessment,
22 the Small Business Advocate's assessment, and the Damage Prevention Control
23 assessment under proposed rates in the amount of \$26,082 (Refer to Exhibit No. FIV-15-

1 3W) to arrive at the net increase in taxable income subject to Pennsylvania corporate net
2 income tax in the amount of \$3,831,425 ($\$3,857,507 - \$26,082 = \$3,831,425$). The
3 Pennsylvania corporate net income tax rate of 7.49% is applied to the net increase in
4 taxable income subject to state income tax in the amount of \$3,831,425 to determine the
5 increase of \$286,974 in the state income tax as a result of the proposed revenue increase
6 ($\$3,831,425 \times 0.0749 = \$286,974$). The increase in the amount of \$286,974 in the state
7 income tax has been carried forward to Exhibit No. FIV-17W, Page 3, Column 6.

8
9 The proposed revenue increase subject to state income tax of \$3,831,425 is reduced
10 further by the increase of \$286,974 in the state income tax to determine the proposed
11 revenue increase in the amount of \$3,544,451 subject to Federal income tax ($\$3,544,451 -$
12 $\$286,974 = \$3,544,451$). The presently effective Federal income tax rate of 21% is
13 applied to the net increase in taxable income subject to Federal income tax to determine
14 the increase in the amount of \$744,335 in the Federal income tax that results from the
15 proposed revenue increase ($\$3,544,451 \times 0.21 = \$744,335$), and this amount has been
16 carried forward to Exhibit No. FIV-17W, Page 3, Column 6.

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

19 A. Exhibit No. FIV-18W 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.

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

The original cost measure of value as of December 31, 2025 (Refer to Exhibit No. FV-1W, page 2) of \$49,847,442 times the weighted debt cost rate of 2.06% (from Exhibit No. FVII) equals the interest expense utilized for income tax calculation on projected and pro forma income for the twelve months ending December 31, 2025, of \$1,027,888.

Debt interest expense on projected and pro forma income for the twelve months ending December 31, 2025, in the amount of \$1,027,888 has been carried forward to Exhibit Nos. FIV-17-2W and FIV-17-6W, which I explained previously.

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

Debt interest expense utilized for the income tax calculation on projected and pro forma income for the twelve months ending February 28, 2027, is determined by reflecting the

1 interest charges to ratepayers in the cost of capital determination (interest
2 synchronization).

3
4 The original cost measure of value as of February 28, 2027 (Refer to Exhibit No. FV-1W,
5 page 3) of \$54,685,381 times the weighted debt cost rate of 2.06% (from Exhibit No.
6 FVII) equals the interest expense utilized for income tax calculation on projected and pro
7 forma income for the twelve months ending February 28, 2027, of \$1,127,650.

8
9 Debt interest expense on projected and pro forma income for the twelve months ending
10 February 28, 2027, in the amount of \$1,127,650 has been carried forward to Exhibit Nos.
11 FIV-17-7W and FIV-17-10W, which I explained previously.

12
13 Q. Explain Exhibit No. FV-1-1W.

14 A. Exhibit No. FV-1-1W is a summary, by year, of the projected unamortized balance of
15 deferred income taxes related to accelerated depreciation and the unamortized balances of
16 excess deferred income taxes related to accelerated depreciation, which is \$0 as
17 previously explained, that are deducted from the measure of value.

18
19 Page 1 of Exhibit No. FV-1-1W is a summary, by year, of the projected unamortized
20 balance in the amount of \$326,873 as of December 31, 2025, of deferred income taxes
21 related to accelerated depreciation that are deducted from the measure of value. Column
22 2 lists, by year, deferred federal income taxes resulting from accelerated depreciation
23 from 2012 through December 31, 2025. The balance in Column 2 is \$326,873.

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The projected unamortized balance of deferred income taxes as of December 31, 2025, in the amount of \$326,873 has been carried forward to Exhibit FV-1W, page 2 and has been deducted from the original cost measure of value.

Page 2 of Exhibit No. FV-1-1W is a summary, by year, of the projected unamortized balance in the amount of \$355,297 as of February 28, 2027, of deferred income taxes related to accelerated depreciation that are deducted from the measure of value. Column 2 lists, by year, deferred federal income taxes resulting from accelerated depreciation from 2012 through February 28, 2027. The balance in Column 2 is \$355,297.

The projected unamortized balance of deferred income taxes as of February 28, 2027, in the amount of \$355,297 has been carried forward to Exhibit FV-1W, page 3 and has been deducted from the original cost measure of value.

Page 3 of Exhibit No. FV-1-1W is a calculation of the adjustment to the deferred income taxes related to accelerated depreciation as required under Treasury Regulation 1.167(l)-1 of the Internal Revenue Code. Under the regulation, if a future period is used in determining the maximum amount of the reserve to be excluded from the rate base, the amount of the reserve is the amount of the reserve at the beginning of the period and a pro rata portion of the projected increase to the account during the period. The increase in deferred income taxes from February 28, 2026, to February 28, 2027, is \$24,363, or a monthly increase of \$2,030 as presented in Column 3. The regulation requires the pro

1 rata portion of the increase to be determined by multiplying the increase by a fraction of
2 which the numerator is the number of days remaining in the period and the denominator
3 is the total number of days in the period. Those fractions are presented in Column 4 and
4 the pro rata portion of the increase is presented in Column 5. The deferred income taxes
5 under this regulation are presented in Column 6 as the pro rata portion of the increase
6 added to the deferred income taxes at the beginning of the period. The difference
7 between the deferred income taxes per the corporate books and the deferred income taxes
8 per this regulation is presented in Column 7. The difference as of February 28, 2027, in
9 the amount of \$(13,200) has been carried forward to Exhibit FV-1W, page 3 and has
10 offset the projected unamortized balance of deferred income taxes as of February 28,
11 2027, in the amount of \$355,297 presented on Page 2 of Exhibit No. FV-1-1W.

12
13 Q. Explain Exhibit No. FV-1-4W.

14 A. Exhibit No. FV-1-4W provides the calculation of the unamortized taxes on deposits for
15 construction and customer advances as of December 31, 2025, in the amount of \$17,725
16 and as of February 28, 2027, in the amount of \$16,860, that are added to the original cost
17 measure of value.

18
19 Under the Tax Cuts and Jobs Act of 2017, the definition of tax contributions in aid of
20 construction was modified under Section 118(b) and the exclusion from gross income
21 under Section 118(c) was repealed. The modification to the definition of taxable
22 contribution in aid of construction includes contributions from customers as well as any
23 payment received from a governmental or civic entity. Under the Company's approved

1 tariff, the Company paid income taxes on any deposit, Customer Advance, Contribution
2 in Aid of Construction, or other like amounts received from an applicant that shall
3 constitute taxable income as defined by the Internal Revenue Service. Such income taxes
4 shall be segregated in a deferred account for inclusion in rate base in a future rate case
5 proceeding. Such income taxes associated with a deposit or advance will not be charged
6 to the specific depositor of capital. This provision was rescinded under the Infrastructure
7 Investment and Jobs Act of 2024.

8
9 The Company paid taxes on deposits for construction and customer advances received
10 during the period under which the deposits for construction and customer advances was
11 taxable of \$18,479 as of December 31, 2024.

12
13 The total income taxes on deposits for construction and customer advances as of
14 December 31, 2024, of \$18,479 is offset by the reduction of income taxes from the
15 depreciation on the projects paid for with the deposits for construction and customer
16 advances. The depreciation on the projects paid for with the deposits for construction
17 and customer advances of \$2,761 for the period ending December 31, 2025, is
18 determined by applying the depreciation rate of 4% to the deposits for construction and
19 customer advances. State income tax deduction in the amount of \$221 is determined by
20 applying the Pennsylvania corporate net income tax rate of 7.99% to the depreciation on
21 the projects paid for with deposits for construction and customer advances of \$2,761
22 (\$2,761 x 0.0799 = \$221). Federal income tax deduction in the amount of \$533 is
23 determined by subtracting State income tax deduction in the amount of \$221 from the

1 depreciation on the projects paid for with deposits for construction and customer
2 advances of \$2,761 and applying the presently effective Federal income tax rate of 21%
3 [(\$2,761 - \$221) x 0.21 = \$533]. Total income tax deductions on depreciation on the
4 projects paid for with deposits for construction and customer advances for the period
5 ending December 31, 2025, in the amount of \$754 is determined by adding state income
6 taxes in the amount of \$221 and Federal income taxes in the amount of \$533 [\$221 +
7 \$533 = \$754]. The net taxes on deposits for construction and customer advance as of
8 December 31, 2025, of \$17,725 is determined by subtracting the income tax deductions
9 on depreciation on the projects paid for with deposits for construction and customer
10 advances for the period ending December 31, 2025, in the amount of \$754 from the
11 income taxes on deposits for construction and customer advances as of December 31,
12 2024, in the amount of \$18,479 (\$18,479 - \$754 = \$17,725). The net taxes on deposits
13 for construction and customer advance as of December 31, 2025, of \$17,725 has been
14 carried forward to Exhibit No. FV-1W, Page 2.

15
16 The total income taxes on deposits for construction and customer advances as of
17 December 31, 2025 of \$17,725, is offset by the reduction of income taxes from the
18 depreciation on the projects paid for with the deposits for construction and customer
19 advances. The depreciation on the projects paid for with the deposits for construction
20 and customer advances of \$3,221 for the period ending February 28, 2027, is determined
21 by applying the depreciation rate of 4% to the deposits for construction and customer
22 advances. State income tax deduction in the amount of \$239 is determined by applying
23 the weighted average Pennsylvania corporate net income tax rate of 7.42% to the

1 depreciation on the projects paid for with deposits for construction and customer
2 advances of \$3,221 ($\$3,221 \times 0.0742 = \239). Federal income tax deduction in the
3 amount of \$626 is determined by subtracting State income tax deduction in the amount of
4 \$239 from the depreciation on the projects paid for with deposits for construction and
5 customer advances of \$3,221 and applying the presently effective Federal income tax rate
6 of 21% [$(\$3,221 - \$239) \times 0.21 = \$626$]. Total income tax deductions on depreciation on
7 the projects paid for with deposits for construction and customer advances for the period
8 ending December 31, 2025, in the amount of \$865 is determined by adding state income
9 taxes in the amount of \$239 and Federal income taxes in the amount of \$626 [$\$239 +$
10 $\$626 = \865]. The net taxes on deposits for construction and customer advance as of
11 February 28, 2027, of \$16,860 is determined by subtracting the income tax deductions on
12 depreciation on the projects paid for with deposits for construction and customer
13 advances for the period ending February 28, 2027, in the amount of \$865 from the
14 income taxes on deposits for construction and customer advances as of December 31,
15 2025, in the amount of \$19,145 ($\$17,725 - \$865 = \$16,860$). The net taxes on deposits
16 for construction and customer advance as of February 28, 2027, of \$16,860 has been
17 carried forward to Exhibit No. FV-1W, Page 3.

18
19 Q. Are you sponsoring any other exhibits?

20 A. Yes, I am also sponsoring Exhibit No. F(b)-1W.

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

1 A. Yes.