



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
COMMONWEALTH KEYSTONE BUILDING
400 NORTH STREET, HARRISBURG, PA 17120

BUREAU OF
INVESTIGATION
&
ENFORCEMENT

April 6, 2026

Via Electronic Filing

Matthew L. Homsher, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v.
Pennsylvania-American Water Company
Docket Nos. R-2025-3057983 (Water)
R-2025-3058051 (Wastewater)

I&E Main Brief

Dear Secretary Homsher:

Enclosed for electronic filing please find the Main Brief of the Bureau of Investigation and Enforcement in the above-captioned proceeding.

Copies are being served on parties per the attached Certificate of Service. Should you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads 'Carrie B. Wright' with a stylized flourish at the end.

Carrie B. Wright
Deputy Chief Prosecutor
Bureau of Investigation and Enforcement
PA Attorney ID No. 208185
(717) 783-6156
carwright@pa.gov

CBW/ac
Enclosures

cc: Administrative Law Judge Jeffrey A. Watson (via email - jeffwatson@pa.gov)
Administrative Law Judge Emily I. DeVoe (via email - edevoe@pa.gov)
Per Certificate of Service

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket Nos. R-2025-3057983
	:	R-2025-3058051
Pennsylvania-American Water Company	:	

**MAIN BRIEF
OF THE
BUREAU OF INVESTIGATION AND ENFORCEMENT**

Carrie B. Wright
Prosecutor
PA Attorney ID No. 208185

Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement
Commonwealth Keystone Building
400 North Street
Harrisburg, Pennsylvania 17120

Dated: April 6, 2026

TABLE OF CONTENTS

I.	INTRODUCTION.....	1
	A. Procedural History.....	1
	B. Legal Standards and Burden of Proof.....	5
II.	SUMMARY OF ARGUMENT.....	7
	A. Rate Base.....	7
	B. Revenues.....	8
	C. Expenses.....	8
	D. Taxes.....	9
	E. Depreciation.....	9
	F. Rate of Return.....	9
	G. Rate Structure.....	10
	H. Alternative Ratemaking Requests.....	10
	I. Low-Income Customer Assistance.....	11
	J. Service Quality and Customer Service Issues.....	11
III.	OVERALL POSITION ON RATE INCREASE.....	11
IV.	RATE BASE.....	13
	A. Plant In Service.....	13
	B. Additions to Rate Base.....	14
	C. Deductions From Rate Base.....	14
	1. Cash Working Capital (CWC).....	14
	2. Corresponding Rate Base Adjustments from O&M Expense Adjustments.....	17
	D. Conclusion.....	18
V.	REVENUES.....	19
	A. SSS Operations Other Operating Revenue.....	19

B.	CSS Operations – Zone 2 and 2A	20
VI.	EXPENSES	20
A.	Labor-Related Expense (Salaries and Wages, Employee Benefits, and Related Payroll Taxes	26
1.	Salaries and Wage Expense	26
2.	401K Expense	29
3.	Defined Contribution Plan (DCP) Expense	32
4.	Payroll Tax Expense.....	34
B.	Performance Compensation	38
C.	Group Insurance Expense.....	42
D.	Service Company Expense.....	45
E.	Waste Disposal Expense	45
F.	Transportation Expense.....	47
G.	Towamencin Transaction Costs	50
H.	Interest Synchronization.....	50
I.	Amortization Expense	51
J.	Third Party Call Center Expense.....	51
K.	Pension and Other Post Employment Benefits (OPEB) Expense (Request for Deferred Regulatory Accounting Treatment.....	51
VII.	TAXES	53
VIII.	DEPRECIATION	54
IX.	RATE OF RETURN.....	55
A.	Summary	55
B.	Proxy Group	58
C.	Capital Structure.....	62
D.	Cost of Long-Term Debt.....	64
E.	Return on Common Equity	65

1.	Introduction	65
2.	I&E’s Discounted Cash Flow Analysis.....	66
	a) Dividend yields	67
	b) Growth rates	67
	c) CAPM	68
	d) Conclusion Regarding I&E’s ROE	70
3.	The Company’s Proposed Return on Common Equity.....	70
	a) Pennsylvania-American’s Use of the CAPM, and ECAPM methods.	71
	b) Flotation Costs	73
F.	Management Performance.....	74
G.	Conclusion.....	80
X.	RATE STRUCTURE.....	80
A.	Cost of Service Studies.....	81
	1. Water Operations.....	82
	2. Wastewater Operations	83
	3. Cost of Service Studies for Future General Rate Increases	84
B.	Revenue Allocation and Act 11 Shift.....	84
	1. Revenue Allocation	84
	2. Act 11	84
C.	Tariff Structure	87
	1. Customer Charges	87
	a) Water Customer Charges	88
	b) Wastewater Customer Charges	90
	2. Water Rate Design	90
	a) Rate Zone 7 – Manwalamink Usage Rates	90

b)	Rate Zone 8 – Appalachian Usage Rates	91
3.	Wastewater Rate Design	92
4.	Wastewater Deduct Adjustment.....	92
5.	Demand-Based Contract Rates	94
D.	Summary and Alternatives (Including Scale Back of Rates).....	94
1.	Water Scale Back of Rates	95
2.	Wastewater Scale Back of Rates	96
3.	Summary	96
XI.	ALTERNATIVE RATEMAKING REQUESTS	96
A.	Customer Assistance Program (CAP) Rider	96
XII.	LOW-INCOME CUSTOMER ASSISTANCE	96
A.	Summary	96
B.	Affordability Analysis	96
C.	Bill Discount Program (BDP) Design.....	97
D.	Arrearage Management Program (AMP).....	97
E.	H2O Help to Others (H2O) Program Screening, Outreach and Enrollment	97
F.	Water Conservation and Line Repair and Replacement Assistance	97
G.	Hardship Fund	97
H.	Renter Assistance Pilot Program.....	97
I.	Universal Service Plan	97
XIII.	SERVICE QUALITY AND CUSTOMER SERVICE ISSUES.....	97
A.	Summary	97
B.	Customer Service Performance	97
C.	Billing Arrangement with American Water Resources	97
XIV.	CONCLUSION.....	98

Appendix A – Tables

Appendix B – Proposed Findings of Fact

Appendix C – Proposed Conclusions of Law

Appendix D – Proposed Ordering Paragraphs

TABLE OF AUTHORITIES

Cases

<i>Berner v. Pa. P.U.C.</i> , 382 Pa. 622, 116 A.2d 738 (1955).....	7
<i>Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia</i> , 262 U.S. 679 (1923).....	55
<i>Brockway Glass v. Pa. P.U.C.</i> , 437 A.2d 1067 (Pa. Cmwlt. 1981).....	5, 6
<i>Butler Township Water Company v. Pa. P.U.C.</i> , 473 A.2d 219, 221 (Pa. Cmwlt. 1984).....	21
<i>Cup v. Pa. P.U.C.</i> , 556 A.2d 470 (Pa. Commw. 1989).....	21
<i>Dutchland Tours, Inc. v. Pa. P.U.C.</i> , 337 A.2d 922, 925 (Pa. Cmwlt. 1975).....	6
<i>Federal Power Commission v. Hope Natural Gas Co.</i> , 320 U.S. 591 (1944).....	55, 56
<i>Lloyd v. Pa. P.U.C.</i> , 904 A.2d 1010 (Pa. Commw. 2006).....	84
<i>Lower Frederick Township v. Pa. P.U.C.</i> , 409 A.2d 505 (Pa. Cmwlt. 1980).....	5, 6
<i>Pa. P.U.C. v. Aqua Pennsylvania, Inc.</i> , 2004 WL 2314523 (Pa. P.U.C. 2004).....	6
<i>Pa. P.U.C. v. Aqua Pennsylvania, Inc.</i> , Docket Nos. R-2021-3027385 and R-2021-3047386 (Order entered May 16, 2022)...	78
<i>Pa. P.U.C. v. Columbia Gas of Pa., Inc.</i> , Docket No. R-2020-3018835 (Order entered February 19, 2021).....	75
<i>Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.</i> , Docket No. R-2025-3053499 (Order entered December 9, 2025).....	61, 73
<i>Pa. P.U.C. v. Columbia Water Company</i> , Docket No. R-2023-3040258 (Order entered January 18, 2024).....	73

<i>Pa. P.U.C. v. Equitable Gas Co.,</i> 57 Pa. P.U.C. 423, 444 n.37 (1983).....	7
<i>Pa. P.U.C. v. PPL Electric Utilities Corporation,</i> 2012 WL 6758304 (Pa. P.U.C. 2012).....	6
<i>Pa. P.U.C. v. UGI Utilities, Inc. – Electric Division,</i> Docket No. R-2017-2640058 (Order entered October 25, 2018).....	72
<i>Pa. P.U.C. v. West Penn Power,</i> 73 Pa. P.U.C. 454, 510, 199 PUR 4 th 110 (1990).....	81
<i>Pa. P.U.C. vs. Pennsylvania-American Water Company,</i> Docket No. R-2013-2355276, Opinion and Order (Order entered December 19, 2013)	86
<i>Pa. P.U.C. vs. Pennsylvania-American Water Company,</i> Docket No. R-2017-2595853, Recommended Decision, p. 31, Dated November 20, 2017	86
<i>Pa. P.U.C. vs. Pennsylvania-American Water Company,</i> Docket Nos. R-2022-3031672 and R-2022-3031673	86
<i>Pa. P.U.C. vs. Pennsylvania-American Water Company,</i> Docket Nos. R-2023-3043189 and R-2023-3043190, Opinion and Order (Order entered July 22, 2024).....	86
<i>Pa. P.U.C. vs. Pennsylvania-American Water,</i> Docket Nos. R-2020-3019369 and R-2020-3019371	86
<i>Pennsylvania Gas & Water Company v. Pa. P.U.C.,</i> 341 A.2d 239, 249-252 (Pa. Cmwlth. 1975).....	56
<i>Peoples Natural Gas Company v. Pa. P.U.C.,</i> 409 A.2d 446 (Pa. Cmwlth. 1979).....	81
<i>Philadelphia Suburban Water Company v. Pa. P.U.C.,</i> 808 A.2d 1044, 1060 (Pa. Cmwlth. 2002).....	81
<i>Popowsky v. Pa. Publ. Util. Comm’n,</i> 642 A.2d 648, 652 (Pa. Cmmwlth 1994).....	52
<i>Samuel J. Lansberry, Inc. v. Pennsylvania Public Utility Commission,</i> 578 A.2d 600 (Pa. Commw. 1990)	6
<i>Se-Ling Hosiery v. Margulies,</i> 70 A.2d 854 (Pa. 1950).....	6

<i>UGI Corp. v. Pa. P.U.C.</i> , 410 A.2d 923, 932 (Pa. Cmwlth. 1980).....	21
<i>Western Pennsylvania Water Company v. Pa. P.U.C.</i> , 422 A.2d 906, 908 (Pa. Cmwlth. 1980).....	21

Statutes

66 Pa. C.S. § 101 <i>et seq.</i>	1
66 Pa. C.S. § 1301	1, 5, 6
66 Pa. C.S. § 1304	1, 80, 81
66 Pa. C.S. § 1308(d).....	3
66 Pa. C.S. § 1311(c).....	84, 85, 94
66 Pa. C.S. § 308.2(a)(11).....	1
66 Pa. C.S. § 315(a).....	5, 6, 21
66 Pa. C.S.A. § 1501	75, 76

Regulations

52 Pa. Code § 1.1 <i>et seq.</i>	1
52 Pa. Code § 69.711	76

Other Authorities

<i>A Guide to Utility Ratemaking</i> , Cawley and Kennard (2018 Edition)	84, 85
AWWA Manual of Water Supply Practices M1 Principles of Water Rates, Fees, Charges, Seventh Edition.....	87
<i>Implementation of Act 129 of 2008; Organization of Bureaus and Offices</i> , Docket No. M-2008-2071852 (Order entered August 11, 2011)	1
Management and Operations Audit of Pennsylvania-American Water Company, prepared by The Pennsylvania Public Utility Commission, Bureau of Audits at Docket No. D-2022-3035217, October 2023	77

<i>Petition of Columbia Gas of Pa. Inc.,</i> 2012 PaPUC LEXIS 836	52
<i>Petition of Columbia Gas of Pa., Inc. for Authority to Defer for Accounting and Financial Purposes Certain Start Up Expenses Assoc. with the Redesign of Upgrade of Financial Processes and Info. Systems,</i> Docket No. P-2012-2319920 (Order entered December 5, 2012).....	52
<i>Petition of Pennsylvania Util. Co., Inc.,</i> 2012 PaPUC LEXIS 1124	52
<i>Petition of Pike County Light and Power Co.,</i> 2012 PaPUC LEXIS 939	52

I. INTRODUCTION

A. Procedural History

Through its bureaus and offices, the Pennsylvania Public Utility Commission (PUC or Commission) has the authority to take appropriate enforcement actions that are necessary to ensure compliance with the Public Utility Code and Commission regulations and orders.¹ The Commission established the Bureau of Investigation and Enforcement (I&E) to serve as the prosecuting bureau of the Commission and to represent the public interest in ratemaking and utility service matters and to enforce compliance with the Public Utility Code.² By representing the public interest in rate proceedings before the Commission, I&E works to balance the interest of customers, utilities, and the regulated community as a whole to ensure that a utility's rates are just, reasonable, and nondiscriminatory.³

On November 14, 2025, Pennsylvania American Water Company (Pennsylvania-American or Company), filed a rate increase requesting a total annual revenue increase of \$168,716,450 based on the Fully Projected Future Test Year (FPFT) pro forma revenue requirement,⁴ which reflects a total rate base claim for the combined water and

¹ Act 129 of 2008, 66 Pa. C.S. § 308.2(a)(11); 66 Pa. C.S. § 101 *et seq.*; 52 Pa. Code § 1.1 *et seq.*

² *Implementation of Act 129 of 2008; Organization of Bureaus and Offices*, Docket No. M-2008-2071852 (Order entered August 11, 2011).

³ *See* 66 Pa. C.S. §§ 1301, 1304.

⁴ Pennsylvania-American Exhibit No. 3-A, p. A.

wastewater operations. The breakdown of the revenue increase by operation is as follows:⁵

	Present Rate Revenue	Net Revenue Increase after Act 11 WW Allocation	% Increase in Revenue
Water Operations	\$947,784,779	\$152,417,957	16.1%
Wastewater SSS Ops.	\$108,561,975	\$7,329,642	6.8%
BASA WW Ops.	\$12,748,475	\$5,097,089	40.0%
Wastewater CSS Ops.	\$85,758,589	\$3,341,896	3.9%
Elizabeth Borough CSS WW Ops	<u>\$1,767,267</u>	<u>\$529,866</u>	30.0%
Total Company	<u>\$1,156,621,085</u>	<u>\$168,716,450</u>	14.6%

The Company used the Fully Projected Future Test Year (FPFTY) ending June 30, 2027 as the basis for its rate increase request.

On November 18, 2025, the Office of Small Business Advocate (OSBA) filed a Notice of Appearance, and on November 21, 2025, the OSBA filed a Formal Complaint. On November 21, 2025, the Office of Consumer Advocate (OCA) filed a Formal Complaint, Public Statement, and Notice of Appearance in this proceeding to protect the interests of consumers in the Company’s service territory and to ensure that the Company is permitted to implement only a level of rates that is just and reasonable and in accordance with sound ratemaking principles. On November 24, 2025, I&E filed a Notice of Appearance.

⁵ Pennsylvania-American Exhibit No. 3-A, p. A.

On December 4, 2025, pursuant to 66 Pa. C.S. § 1308(d), the Commission ordered suspension of the proposed tariff changes until August 13, 2026, unless permitted by Commission Order to become effective at an earlier date. The Commission directed that the case be assigned to the Office of Administrative Law Judge (OALJ) for scheduling of hearings as may be necessary for the Administrative Law Judge (ALJ) to render a Recommended Decision (RD).

On December 5, 2025, CAUSE-PA filed a Formal Complaint and Notice of Appearance.

On December 9, 2025, the Company filed a tariff supplement, voluntarily suspending its proposed tariff until August 13, 2026. A Prehearing Conference was held on December 12, 2025 at 10:00 a.m., before Administrative Law Judges Emily I. DeVoe and Jeffrey A. Watson (the ALJs). Pursuant to the procedural schedule agreed to at the Prehearing Conference, the parties exchanged direct, rebuttal, and surrebuttal testimony, as well as oral rejoinder outlines. In accordance with the litigation schedule, I&E served the following testimony and exhibits:

- I&E Statement No. 1, I&E Exhibit No. 1 (in both Proprietary and Non-Proprietary format), I&E Statement No. 1-SR, and I&E Exhibit No. 1-SR, the prepared direct and surrebuttal testimony and exhibits of I&E witness Vanessa Okum, who addressed the Company's operating and maintenance expenses, and overall revenue requirement;
- I&E Statement No. 2, I&E Exhibit No. 2, I&E Statement No. 2-SR, and I&E Exhibit No. 2-R, the prepared direct and surrebuttal testimony and exhibits of I&E witness DC Patel, who addressed the Company's rate of return;

- I&E Statement No. 3 Corrected⁶, I&E Exhibit No. 3, and I&E Statement No. 3-SR, the prepared direct and surrebuttal testimony and exhibits of I&E witness Esysan Sakaya who addressed the Company's water rate base and rate structure.
- I&E Statement No. 4, I&E Exhibit No. 4, I&E Statement No. 4-SR, and I&E Exhibit No. 4-SR, the prepared direct and surrebuttal testimony and exhibits of I&E witness Ethan Cline who addressed the Company's wastewater rate base and rate structure.

Hearings were held on March 23, 2026 in Harrisburg, Pennsylvania during which the I&E testimony and exhibits were entered into the record. I&E now files this Main Brief pursuant to the procedural schedule established in this case.

As noted above, Pennsylvania-American originally requested a total annual revenue increase of approximately \$168.7 million based upon the FPPTY pro forma revenue requirement. Pennsylvania-American used the year ended June 30, 2025 as the historic test year (HTY), the year ending June 30, 2026 as the future test year (FTY), and the year ending June 30, 2027 as the FPPTY in this proceeding.⁷ In rebuttal testimony Pennsylvania-American updated this amount to \$163,362,326.⁸

Additionally, Pennsylvania-American's filing requests the Commission grant an inflated 10.95% return on equity (ROE) to its Water and Wastewater Operations.

Pennsylvania-American also proposes a new wastewater rate design to base wastewater bills for the summer on winter consumption referred to as a deduct

⁶ Any references to I&E St. No. 3 in this brief should be interpreted as referring to I&E St. No. 3 Corrected which was the version of testimony admitted into the record in this proceeding.

⁷ PAWC Ex. 3-A, p. A.

⁸ PAWC Ex. 3-A Revised.

adjustment. Pennsylvania-American proposes regulatory asset/liability treatment for its Pension and Other Post Employee Benefits (OPEB) claims. Additionally, Pennsylvania-American has proposed a deduct adjustment to separate metered water usage that is likely to go through the wastewater system from water that is used for outdoor activities in the summertime such as filling pools and watering lawns and flowers.

B. Legal Standards and Burden of Proof

The Public Utility Code (Code) mandates that “[e]very rate made, demanded, or received by any public utility . . . shall be just and reasonable, and in conformity with regulations or orders of the commission.”⁹ As set forth in Section 315(a) of the Code, Pennsylvania-American has the burden of proving that its rates are just and reasonable in this proceeding:

(a) **Reasonableness of rates.** — In any proceeding upon the motion of the commission, involving any proposed or existing rate of any public utility, or in any proceeding upon complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility.¹⁰

The Commonwealth Court has interpreted this principle as follows:

Section 315(a) of the Public Utility Code, 66 Pa. C.S. § 315(a), places the burden of proving the justness and reasonableness of a proposed rate hike squarely on the utility. It is well-established that the evidence adduced by a utility to meet this burden must be substantial.¹¹

⁹ 66 Pa. C.S. § 1301.

¹⁰ 66 Pa. C.S. § 315(a).

¹¹ *Lower Frederick Township v. Pa. P.U.C.*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980).
See also, Brockway Glass v. Pa. P.U.C., 437 A.2d 1067 (Pa. Cmwlth. 1981).

It is axiomatic that the burden of proof in any proceeding involving a utility's existing or proposed rates is on the utility.¹² Pennsylvania-American must satisfy its burden of proof by presenting a preponderance of evidence.¹³ A preponderance of the evidence is such evidence that is more convincing, by even the smallest amount, than that presented by another party.¹⁴ The Company must produce substantial evidence to satisfy its burden of proof.¹⁵ Substantial evidence is "such relevant and competent evidence having a rational probative force which a reasonable mind might accept as adequate to support a conclusion."¹⁶

If a preponderance of evidence is submitted, the burden of going forward with competing evidence shifts to opposing parties to produce credible evidence of at least equal weight. The Commission and the Courts have held that the burden of proof does not shift to the party challenging a requested rate increase.¹⁷ While the burden going forward may shift back and forth between parties, the ultimate burden of establishing the justness and reasonableness of every component of a requested rate increase remains on the utility. In contrast, there is no similar burden placed on an intervener to justify a

¹² See 66 Pa. C.S. §§ 1301, 315(a) ; *Brockway Glass Co. v. Pennsylvania Public Utility Commission*, 437 A.2d 1067 (Pa. Commw. 1981) ; *Lower Frederick Twp. v. Pennsylvania Public Utility Commission*, 409 A.2d 505 (Pa. Commw. 1980).

¹³ *Samuel J. Lansberry, Inc. v. Pennsylvania Public Utility Commission*, 578 A.2d 600 (Pa. Commw. 1990).

¹⁴ *Se-Ling Hosiery v. Margulies*, 70 A.2d 854 (Pa. 1950).

¹⁵ *Brockway Glass v. Pa. P.U.C.*, 437 A.2d 1067 (Pa. Cmwlth. 1981) ; *Lower Frederick Township v. Pa. P.U.C.*, 409 A.2d 505 (Pa. Cmwlth. 1980).

¹⁶ *Dutchland Tours, Inc. v. Pa. P.U.C.*, 337 A.2d 922, 925 (Pa. Cmwlth. 1975).

¹⁷ *Pa. P.U.C. v. PPL Electric Utilities Corporation*, 2012 WL 6758304 (Pa. P.U.C. 2012); *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, 2004 WL 2314523 (Pa. P.U.C. 2004).

proposed adjustment to the company's filing.¹⁸ The Commission has aptly summarized this burden as follows:

There is no presumption of reasonableness, which attaches to a utility's claims, at least none which survives the raising of credible issues regarding a utility's claims. A utility's burden is to affirmatively establish the reasonableness of its claim. It is not the burden of another party to disprove the reasonableness of a utility's claims.¹⁹

I&E asserts that Pennsylvania-American has failed to meet its burden with respect to a number of its ratemaking claims. Therefore, I&E respectfully requests that the Administrative Law Judges and the Commission adopt the adjustments and the overall revenue requirement set forth in the evidence presented by I&E as summarized in this Main Brief.

II. SUMMARY OF ARGUMENT

I&E generally opposes certain portions of Pennsylvania-American's proposed rate increase. These arguments are detailed at length in the body of the brief. Below is a general summary of I&E's position on these issues.

A. Rate Base

Regarding rate base, I&E has the following recommendations. First, I&E recommends that the Company provide I&E and the OCA with updates to PAWC Ex. 3-A, pp. pp. 27 and 95, Summary of Detailed Plant Accounts for each separate revenue requirement no later than December 1, 2027, under the dockets associated with these

¹⁸ *Berner v. Pa. P.U.C.*, 382 Pa. 622, 116 A.2d 738 (1955).

¹⁹ *Pa. P.U.C. v. Equitable Gas Co.*, 57 Pa. PUC 423, 444 n.37 (1983).

water and wastewater base rate case. Second, Because I&E's recommended expense adjustments are prudent for the reasons discussed herein, I&E's an allowance of \$29,748,223, or a reduction of \$346,865 (\$29,748,223 - \$29,401,358)²⁰ to the Company's FPFTY claim is reasonable. However, any adjustments by other parties to the Company's claims for revenues, expenses, taxes, and rate base that are accepted by the ALJs or Commission must be continually brought together for each operating unit in the ALJs' Recommended Decision and again in the Commission's final Order. As a result, the CWC adjustment would be subject to further change based on any other expense adjustments the ALJs may adopt, or those that the Commission may adopt in their final Order. Additionally, there are certain O&M adjustments that also require a corresponding rate base. Those should be adopted as the O&M adjustments themselves are reasonable and appropriate.

B. Revenues

Regarding revenues, because the I&E rate recommendations result in an increase to proposed revenues, there will be a corresponding increase to late payment revenues for SSS Operations and CSS Operations – Zone 2 and 2A.

C. Expenses

I&E witness Okum makes various adjustments to Salaries and Wages Expense, Performance Pay, Payroll Tax Expense, Group Insurance Expense, 401K Expense,

²⁰ I&E St. No. 1-SR, p. 52.

Defined Contribution Plan Expense, Waste Disposal, Transportation Expense, and Service Company Expense, which are detailed in the Expense portion of the Brief below.

In addition, Ms. Okum puts forth testimony opposing Pennsylvania-American's proposed Pension and Other Post-Employment Benefits Deferred Accounting Treatment and as noted above, makes recommendations related to Cash Working Capital which flow from these expense adjustments.

D. Taxes

I&E made no specific adjustments to Pennsylvania-American's claim for taxes apart from its expense adjustment to payroll taxes. Any flow-through effect to taxes resulting from the various I&E recommendations are captured in the tables attached to this brief.

Additionally, I&E accepts in end result the Company's proposal to refund the 2024 Corporate Alternative Minimum Tax (CAMT) and notes that any revenue requirement in this proceeding will need to reflect a downward adjustment to account for this refund. I&E accepts the proposal in end result only and reserves all rights to address this matter further in future proceedings.

E. Depreciation

I&E has not presented testimony on this topic.

F. Rate of Return

I&E witness Patel recommends the following rates of return for the Company:

PENNSYLVANIA-AMERICAN WATER COMPANY - WATER OPERATIONS			
Summary of Cost of Capital			
Type of Capital	Capitalization Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	44.99%	4.71%	2.12%
Preferred Stock	0.01%	9.71%	0.00%
Common Equity	<u>55.00%</u>	9.70%	<u>5.34%</u>
Total	<u>100.00%</u>		<u>7.46%</u>

PENNSYLVANIA-AMERICAN WATER COMPANY - WASTEWATER OPERATIONS			
Summary of Cost of Capital			
Type of Capital	Capitalization Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	41.59%	4.71%	1.96%
Wastewater Specific Debt	6.88%	2.20%	0.15%
Preferred Stock	0.01%	9.71%	0.00%
Common Equity	<u>51.52%</u>	9.70%	<u>5.00%</u>
Total	<u>100.00%</u>		<u>7.11%</u>

G. Rate Structure

The I&E witnesses designed rates with cost causation in mind and the goal of ensuring that water and wastewater customers pay their cost to serve. The rates designed by I&E will need to be scaled back if the Commission grants less than a full increase.

Further, I&E witness Cline recommends certain modifications to the Company's proposed deduct adjustment if it is ultimately approved by this Commission.

H. Alternative Ratemaking Requests

I&E presented no testimony on this topic.

I. Low-Income Customer Assistance

I&E presented no testimony on these topics.

J. Service Quality and Customer Service Issues

I&E presented no testimony on these topics.

III. OVERALL POSITION ON RATE INCREASE

I&E avers that Pennsylvania-American has failed to fully carry its burden of proof with respect to its proposed revenue increase of \$168,716,450, which was updated in Rebuttal to \$163,357,736. To the contrary, I&E's presentation of expert witness testimony demonstrated that Pennsylvania-American should receive a revenue increase of no more than \$86,219,545 based on the information available to them as of the writing of their surrebuttal testimony.²¹ However, the I&E increase presented in surrebuttal testimony is overstated and will have to be further reduced. The overall revenue increase afforded to Pennsylvania-American will need to be updated to reflect the impact of the Internal Revenue Service (IRS) guidance related to the CAMT as described in the supplemental direct testimony of Pennsylvania-American witness Schlessman.²² This supplemental direct testimony was presented to I&E on March 13, 2026. The I&E surrebuttal testimony was served on the same date. Thus, the timing did not allow I&E to conduct discovery or incorporate this adjustment into the I&E recommended overall revenue requirement. As witness Schlessman notes, the deferred tax asset for the CAMT included in the revenue requirement was \$35,620,052 which was reflected in

²¹ I&E St. No. 1-SR, p. 14.

²² PAWC St. No. 8 Supplemental.

Pennsylvania-American's Exhibit 3-A. Revised Pennsylvania-American Exhibit 3-A now reflects a \$35,620,052 reduction to rate base consistent with witness Schlessman's recommendation to remove the deferred tax asset from rate base.²³ Support provided for this adjustment was minimal; however, I&E accepts the reduction to revenue requirement and the impact on rates for the purposes of this proceeding only. I&E reserves all rights to address this matter more fully in any future proceedings involving this topic.

Broken down further, the \$86,219,545 increase represents an increase of \$56,241,833 to Pennsylvania-American water operations; an increase of \$11,419,548 to Pennsylvania-American Wastewater Sanitary Sewer Systems (SSS) operations; and an increase of \$16,228,324 to Pennsylvania-American Wastewater Combined Sewer Systems (CSS) operations; an increase of \$1,740,339 to Pennsylvania-American BASA Wastewater Operations; an increase of \$589,501 to Pennsylvania American Elizabeth Wastewater CSS Operations.²⁴ I&E's recommendation is based upon specific adjustments offered by I&E witnesses, as set forth herein and summarized in the tables attached to this brief as Appendix A. Again, I&E reiterates that these figures will need to be adjusted to reflect the update set forth in witness Schlessman's supplemental direct testimony.

²³ PAWC St. No. 8, Supplemental, p. 4.

²⁴ I&E St. No. 1-SR, pp. 10-13.

IV. RATE BASE

Rate base is the depreciated original cost of a utility's investment in plant a utility has in place to serve customers, plus other additions and deductions that the Commission determines to be necessary in order to keep the utility operating and providing safe and reliable service to its customers. For utility plant to be included in rates, the plant must be used and useful in the provision of utility service to the customers. Therefore, by definition, only plant currently providing or capable of providing utility service to customers or plant projected to be completed and in service by the end of the FPFTY is eligible to be reflected in rates.

The depreciated original cost is determined by subtracting the book reserve, which is the accumulation of all prior annual depreciation expense, and other items such as retirements and salvage value from the original cost of the plant in service at the end of the fully projected future test year. Some of the additions to the depreciated original cost of a company's investment in utility include acquisition adjustments, materials and supplies, prepayments, and cash working capital. Some of the deductions include deferred income taxes and customer deposits. Some additions are applicable to a specific utility or utility type.

Where appropriate, I&E has separated the rate base issues for water and wastewater in this proceeding.

A. Plant In Service

I&E did not make any adjustments to plant in service. However, I&E recommends that the Company provide I&E and the OCA with updates to PAWC Ex. 3-

A, pp. pp. 27 and 95, Summary of Detailed Plant Accounts for each separate revenue requirement no later than December 1, 2027, under this docket number. PAWC's updates should include actual plant additions and retirements for the twelve months ending June 30, 2026, and for the twelve months ending June 30, 2027.

The Company is estimating that it will add approximately \$488,705,042 of plant additions in the FTY ending June 30, 2026 and approximately \$676,410,111 of plant additions in the FPFTY. There is value in determining how closely Pennsylvania-American's projected investments in future facility comport with the actual investments that are made by the end of the FTY and the FPFTY. Determining the correlation between Pennsylvania-American's projected and actual plant additions and retirements will help verify the validity of Pennsylvania-American's projections.

Pennsylvania-American has indicated that it agrees with I&E's reporting requirement recommendation and that it will provide the updates as I&E requested.²⁵

Therefore, this recommendation should be adopted.

B. Additions to Rate Base

I&E did not provide testimony on this topic.

C. Deductions From Rate Base

1. Cash Working Capital (CWC)

For ratemaking purposes, CWC is the capital needed to operate a utility between the rendition of service and the receipt of revenues in payment for services rendered.²⁶ In

²⁵ PAWC St. No. 5-R, p. 10.

²⁶ I&E St. No. 1, p. 37.

short, CWC covers the lag between the payment of operating expenses and the receipt of revenues from ratepayers. All cash-based expenses are included in the Company's overall CWC claim; therefore, any adjustments to the Company's O&M expense claims impact the CWC allowance.

The Company calculates its CWC claim by using a lead/lag study. Briefly, the CWC requirement is calculated by multiplying the net leg days (revenue lag days less expense lag days) by the average operating expense per day (total operating expenses ÷ 365 days). A lead/lag study measures the differences in time between: (1) the time services are rendered until payment of those services is received; and (2) the time between the point when a utility has incurred an expense and the actual payment of the expense. Stating this in a different way, the lead/lag study measures how many days exist on average between the midpoint of the service period and the date the payment is made.

I&E accepts the Company's use of the lead/lag method but disagrees with the Company's CWC claim. In surrebuttal testimony, I&E witness Okum presented an update to her CWC recommendation to reflect certain adjustments that she withdrew. Based on the Company's updated CWC claim and Ms. Okum's updated O&M adjustments, the following table shows I&E's CWC recommendation²⁷:

²⁷ I&E St. No. 1-SR, p. 55.

	FPFTY Claim	I&E Allowance	Adjustment
Water Operations	\$24,869,831	\$24,556,348	(\$313,483)
Wastewater SSS Operations	\$2,269,221	\$2,254,066	(\$15,155)
Wastewater CSS Operations	\$1,497,842	\$1,482,756	(\$11,821)
BASA Wastewater Operations	\$1,059,448	\$1,053,042	(\$6,406)
Elizabeth Borough WW CSS	<u>\$51,881</u>	<u>\$51,881</u>	<u>\$0</u>
Total	<u>\$29,748,223</u>	<u>\$29,401,358</u>	<u>(\$346,865)</u>

The table above is based on the Company’s CWC claim as revised in Rebuttal testimony. Because I&E’s recommended expense adjustments are prudent for the reasons discussed herein, I&E’s an allowance of \$29,748,223, or a reduction of \$346,865 (\$29,748,223 - \$29,401,358)²⁸ to the Company’s FPFTY claim is reasonable.

However, as explained by Ms. Okum “[a]ll adjustments to the Company’s claims for revenues, expenses, taxes, and rate base must be continually brought together for each operating unit in the Administrative Law Judge’s Recommended Decision and again in the Commission’s Final Order. This process, known as iteration, effectively prevents the determination of a precise calculation until all adjustments have been made to the Company’s claims.”²⁹ As a result, this number would be subject to change based on any other expense adjustments the ALJs may adopt in their Recommended Decision, or those that the Commission may adopt in their final Order.

²⁸ I&E St. No. 1-SR, p. 52.

²⁹ I&E St. No. 1-SR, p. 58.

2. Corresponding Rate Base Adjustments from O&M Expense Adjustments

I&E witness Okum made several O&M Expense adjustments that have a corresponding adjustment to rate base. These include Performance Pay, Payroll Tax Expense, and Transportation Expense. These adjustments are detailed in the corresponding O&M Expense sections below as well.

I&E witness Okum made an adjustment detailed below related to performance pay. Because most employees, including those eligible for performance pay, perform capitalized labor, I&E recommend a corresponding reduction to rate base of \$2,110,846 which represents the portion of the estimated capitalized performance pay expense that should not be recovered from ratepayers, and is broken down by operation as shown:

	I&E O&M Adjustment
Water Operations	(\$2,006,620)
Wastewater SSS Operations	(\$49,805)
Wastewater CSS Operations	(\$39,770)
BASA Wastewater Operations	(\$14,651)
Total	<u>(\$2,110,846)</u>

Regarding Payroll Tax, which I&E witness Okum recommended an adjustment to, I&E also recommends a reduction to rate base of \$163,977 to correspond with the rate base portion of the performance pay adjustment impacting payroll tax, broken down by operation as follows:

	I&E Rate Base Adjustment
Water Operations	(\$155,714)
Wastewater SSS Operations	(\$3,950)
Wastewater CSS Operations	(\$3,154)
BASA Wastewater Operations	<u>(\$1,159)</u>
Total	<u>(\$163,977)</u>

Regarding Transportation Expense, to correspond with the expense adjustment made by I&E witness Okum, I&E recommends the following rate base adjustments:

	Updated FPFTY Rate Base Claim	I&E Rate Base Allowance	Updated I&E Rate Base Adjustment
Water Operations	\$2,316,544	\$2,144,542	(\$172,012)
Wastewater SSS Operations	\$38,863	\$36,107	(\$2,756)
Wastewater CSS Operations	\$101,786	\$95,936	(\$5,850)
BASA Wastewater Operations	<u>\$14,199</u>	<u>\$13,398</u>	<u>(\$801)</u>
Total	<u>\$2,471,402</u>	<u>\$2,289,983</u>	<u>(\$181,419)</u>

As noted above, since these adjustments contain both an expense and rate base adjustment, they are further discussed below in the Expense section of this brief.

D. Conclusion

As explained above, on the topic of rate base, I&E has the following recommendations. First, I&E recommends that the Company provide I&E and the OCA with updates to PAWC Ex. 3-A, pp. pp. 27 and 95, Summary of Detailed Plant Accounts for each separate revenue requirement no later than December 1, 2027, under this docket number. Second, because I&E's recommended expense adjustments are prudent for the reasons discussed herein, a corresponding CWC adjustment must also be made. I&E's

recommends an allowance of \$29,748,223, or a reduction of \$346,865 (\$29,748,223 - \$29,401,358)³⁰ to the Company's FPFTY claim. However, attached to this recommendation is the caveat that any adjustments to the Company's claims for revenues, expenses, taxes, and rate base must be continually brought together for each operating unit in the ALJs' Recommended Decision and again in the Commission's final Order. As a result, the CWC adjustment would be subject to change based on any other expense adjustments the ALJs may adopt, or those that the Commission may adopt in their final Order. Additionally, there are certain O&M adjustments that also require a corresponding rate base. Those are detailed further in the O&M sections below and should be adopted as the O&M adjustments are reasonable and appropriate.

V. REVENUES

A. SSS Operations Other Operating Revenue

Pennsylvania-American includes industrial pretreatment revenue, late payment fees, and miscellaneous revenue in other operating revenue. The Company is projecting it will collect \$3,072,167 of other operating revenue in SSS Operations.³¹ I&E reflected an increase of \$39,156 in other operating revenue.³² Included in the Company's calculation of other operating revenues is an amount for late payment revenues.³³ Late payment revenues are calculated as a percentage of proposed revenues. Therefore, because the I&E rate recommendations result in an increase to proposed revenues, there

³⁰ I&E St. No. 1-SR, p. 52.

³¹ Pennsylvania-American Exhibit 10-B, p. 34.

³² I&E Exhibit No. 4, Schedule 2, Column O, line 21.

³³ Pennsylvania-American Exhibit 10-B, p. 34.

will be a corresponding increase to late payment revenues. In the electronic files provided by the Company at the beginning of the proceeding, PAWC identified a late payment fee percentage of 0.5199%. I&E witness Cline multiplied the total proposed rate revenue as a result of his rate recommendations by that 0.5199% to determine the other operating revenues under proposed rates ($\$7,531,477 \times 0.5199\% = \$39,156$).³⁴ The Company agreed that changes in late fee revenues should ultimately be based on changes in proposed rates as ordered by the Commission in this proceeding.³⁵

Therefore, the final other operating revenues should be adjusted based on the proposed rate revenue eventually approved by the Commission.³⁶

B. CSS Operations – Zone 2 and 2A

Similar to SSS General Operations, described above, an increase in proposed rates necessitates an increase in late payment revenues for CSSS Operations – Zone 2 and 2A, which is a part of the Company's claimed other operating revenues. In this case, the other operating revenues increased by \$55,779.³⁷ This adjustment would change if the Commission approves proposed revenues different than what I&E recommended.

VI. EXPENSES

A public utility is entitled to recover all of its reasonably incurred expenses

³⁴ I&E Exhibit No. 4, Schedule 2.

³⁵ PAWC St. No. 10-R, p. 51.

³⁶ I&E St. No. 4, pp. 44-45.

³⁷ I&E Exhibit No. 4, Schedule 10.

necessary to provide service to customers.³⁸ The public utility requesting a rate increase and seeking to recover expenses has the burden of showing that the rate requested, including all claimed expenses, is just and reasonable.³⁹ To the extent that expenses are not reasonably incurred, imprudently incurred, or abnormally overstated during the test year, they should be disallowed and found not recoverable through rates.⁴⁰

Accordingly, Operating and Maintenance (O&M) expenses, if properly incurred, may justly inform a rate increase proposal. However, if expenses are unreasonable, e.g., overstated, abnormal, unnecessary, or simply have not been incurred for the test year, they should not be relied upon. As explained above, the Company has the burden of proof regarding the justness and reasonableness of each expense.

I&E witness Okum address the Company's O&M expenses. The tables below show her recommendations, which are discussed in further detail below:

³⁸ *Butler Township Water Company v. Pa. P.U.C.*, 473 A.2d 219, 221 (Pa. Cmwlth. 1984); *UGI Corp. v. Pa. P.U.C.*, 410 A.2d 923, 932 (Pa. Cmwlth. 1980); *Western Pennsylvania Water Company v. Pa. P.U.C.*, 422 A.2d 906, 908 (Pa. Cmwlth. 1980).

³⁹ 66 Pa. C.S. § 315(a) ; *See also Cup v. Pa. P.U.C.*, 556 A.2d 470 (Pa. Commw. 1989).

⁴⁰ *Cup v. Pa. P.U.C.*, 556 A.2d 470 (Pa. Commw. 1989).

Water Operations:⁴¹

	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&E Adjustment</u>
O&M Expenses:			
Salaries and Wages	\$59,632,332	\$59,067,291	(\$565,041)
Performance Pay	\$5,144,184	\$2,463,535	(\$2,680,649)
Payroll Taxes	\$5,025,070	\$4,773,204	(\$251,866)
Group Insurance	\$12,094,513	\$11,979,913	(\$114,600)
401k	\$1,709,357	\$1,693,160	(\$16,197)
Defined Contribution Plan	\$2,294,399	\$2,272,659	(\$21,740)
Waste Disposal	\$4,216,691	\$3,039,714	(\$1,122,977)
Transportation	\$3,095,090	\$2,864,899	(\$230,191)
Total O&M Expense Adjustments			<u>(\$5,003,261)</u>
Rate Base:			
Performance Pay			(\$2,006,620)
Payroll Taxes			(\$155,714)
Transportation	\$2,316,544	\$2,144,542	(\$172,012)
Cash Working Capital	\$24,869,831	\$24,556,348	(\$313,483)
Total Rate Base Adjustments			<u>(\$2,647,829)</u>

⁴¹ I&E St. No. 1-SR, p. 5.

Wastewater SSS Operations:⁴²

	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&E Adjustment</u>
O&M Expenses:			
Salaries and Wages	\$5,436,246	\$5,419,279	(\$16,967)
Performance Pay	\$403,976	\$201,988	(\$201,988)
Payroll Taxes	\$463,069	\$445,706	(\$17,363)
Group Insurance	\$1,294,602	\$1,290,561	(\$4,041)
401k	\$173,059	\$172,519	(\$540)
Defined Contribution Plan	\$245,695	\$244,928	(\$767)
Waste Disposal	\$1,673,584	\$1,254,740	(\$418,844)
Transportation	\$157,572	\$146,436	(\$11,136)
Total O&M Expense Adjustments			<u>(\$671,646)</u>
Rate Base:			
Performance Pay			(\$49,805)
Payroll Taxes			(\$3,950)
Transportation	\$38,863	\$36,107	(\$2,756)
Cash Working Capital	\$2,269,221	\$2,254,066	(\$15,155)
Total Rate Base Adjustments			<u>(\$71,666)</u>

⁴² I&E St. No. 1-SR, p. 6.

Wastewater CSS Operations:⁴³

	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&E Adjustment</u>
O&M Expenses:			
Salaries and Wages	\$6,996,873	\$6,975,034	(\$21,839)
Performance Pay	\$322,585	\$161,293	(\$161,292)
Payroll Taxes	\$580,304	\$565,782	(\$14,522)
Group Insurance	\$1,550,475	\$1,545,636	(\$4,839)
401k	\$123,398	\$123,013	(\$385)
Defined Contribution Plan	\$309,341	\$308,375	(\$966)
Waste Disposal	\$4,008,056	\$2,740,027	(\$1,268,029)
Transportation	\$412,698	\$389,081	<u>(\$23,617)</u>
Total O&M Expense Adjustments			<u>(\$1,495,489)</u>
Rate Base:			
Performance Pay			(\$39,770)
Payroll Taxes			(\$3,154)
Transportation	\$101,786	\$95,936	(\$5,850)
Cash Working Capital	\$1,497,842	\$1,482,756	<u>(\$11,821)</u>
Total Rate Base Adjustments			<u>(\$60,595)</u>

⁴³ I&E St. No. 1-SR, p. 7.

BASA Wastewater Operations:⁴⁴

	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&E Adjustment</u>
O&M Expenses:			
Salaries and Wages	\$2,190,576	\$2,183,738	(\$6,838)
Performance Pay	\$118,836	\$59,418	(\$59,418)
Payroll Taxes	\$182,651	\$177,410	(\$5,241)
Group Insurance	\$493,037	\$491,498	(\$1,539)
401k	\$78,409	\$78,165	(\$244)
Defined Contribution Plan	\$109,619	\$109,277	(\$342)
Waste Disposal	\$339,322	\$298,279	(\$41,043)
Transportation	\$57,569	\$54,336	<u>(\$3,233)</u>
Total O&M Expense Adjustments			<u>(\$117,898)</u>
Rate Base:			
Performance Pay			(\$14,651)
Payroll Taxes			(\$1,159)
Transportation	\$14,199	\$13,398	(\$801)
Cash Working Capital	\$1,059,448	\$1,053,042	<u>(\$6,406)</u>
Total Rate Base Adjustments			<u>(\$23,017)</u>

Finally, I&E witness Okum did not make any adjustments to the revenue requirement for Elizabeth Borough in direct or surrebuttal testimony. Thus, I&E is not providing a table with Elizabeth Borough claims. Only I&E witness DC Patel addresses

⁴⁴ I&E St. No. 1-SR, p. 8.

the revenue requirement for Elizabeth Borough via a recommended adjustment to the rate of return. At this time there is not enough historical data to support adjustments to other claims for this recently acquired system.

A. Labor-Related Expense (Salaries and Wages, Employee Benefits, and Related Payroll Taxes)

1. Salaries and Wage Expense

The I&E salaries and wages adjustment was started by calculating an average vacancy rate for the Company as a whole. A budgeted headcount was used along with vacancy data provided by PAWC in response to I&E-RE-18⁴⁵ which resulted in a three-year average vacancy rate of 1.25%.⁴⁶ The calculated vacancy rate was then applied to each operation's O&M expense claim and rate base claim for salaries and wages by multiplying the FPFTY claim by the vacancy rate to determine the vacancy adjustment.

I&E witness Okum in direct testimony recommends an O&M allowance for salaries and wages expense, based on the calculated vacancy rate of 1.25% across all business operations,⁴⁷ of \$74,256,028, or a reduction of \$939,949 (\$75,195,977 - \$74,256,028) to the Company's claim and capitalized salaries and wages of \$48,244,018, or a reduction of \$610,685 (\$48,854,703 - \$48,244,018) to the Company's claim broken down by operation as follows:

⁴⁵ I&E Exhibit No. 1, Schedule 2.

⁴⁶ I&E Exhibit No. 1, Schedule 3.

⁴⁷ I&E St. No. 1, pp. 16-18.

	FPFTY O&M Claim	I&E O&M Allowance	I&E O&M Adjustment
Water Operations	\$60,387,172	\$59,632,332	(\$754,840)
Wastewater SSS Operations	\$5,505,060	\$5,436,247	(\$68,813)
Wastewater CSS Operations	\$7,085,441	\$6,996,873	(\$88,568)
BASA Wastewater Operations	<u>\$2,218,304</u>	<u>\$2,190,576</u>	<u>(\$27,728)</u>
Total	<u>\$75,195,977</u>	<u>\$74,256,028</u>	<u>(\$939,949)</u>

	FPFTY Rate Base Claim	I&E Rate Base Allowance	I&E Rate Base Adjustment
Water Operations	\$45,203,267	\$44,638,226	(\$565,041)
Wastewater SSS Operations	\$1,357,393	\$1,340,426	(\$16,967)
Wastewater CSS Operations	\$1,747,071	\$1,725,232	(\$21,839)
BASA Wastewater Operations	<u>\$546,972</u>	<u>\$540,134</u>	<u>(\$6,838)</u>
Total	<u>\$48,854,703</u>	<u>\$48,244,018</u>	<u>(\$610,685)</u>

PAWC's claim for salaries and wages expense includes base pay, overtime, shift premium, and meal compensation.⁴⁸ PAWC is claiming total FPFTY salaries and wages expense broken down by operation as follows:

	FPFTY Claim⁴⁹	Capitalization Rate⁵⁰	O&M Claim	Rate Base Claim
Water Operations	\$105,590,439	42.81%	\$60,387,172	\$45,203,267
Wastewater SSS Operations	\$6,862,453	19.78%	\$5,505,060	\$1,357,393
Wastewater CSS Operations	\$8,832,512	19.78%	\$7,085,441	\$1,747,071
BASA Wastewater Operations	<u>\$2,765,276</u>	19.78%	<u>\$2,218,304</u>	<u>\$546,972</u>
Total	<u>\$124,050,680</u>		<u>\$75,195,977</u>	<u>\$48,854,703</u>

⁴⁸ I&E Exhibit No. 1, Schedule 1, p. 1.

⁴⁹ PAWC No. 3-B, p. 3.

⁵⁰ PAWC Exhibit No. 3-B, p. 2.

In rebuttal testimony, Pennsylvania-American witness O'Malley states that the Company has accepted I&E's recommended adjustment to reflect an average vacancy rate of 1.25% and has adjusted O&M expenses accordingly for each business operation. However, the Company has rejected I&E's recommended adjustment to rate base.⁵¹ Pennsylvania-American witness Deason states that I&E erroneously assumed that in developing its claim for FPFTY plant additions the Company adjusted the estimated cost of those additions to reflect a portion of the pro-forma payroll-related increase deemed to be capital-related. Mr. Deason states that to develop the estimated cost of plant additions, the Company included appropriate estimates of labor costs based on actual work hours that will be required to construct those additions. He asserts that the Company employs a bottom-up rather than a top-down estimation process, therefore the labor costs capitalized as part of projected plant additions are not a function of the amount of total projected labor included in the Company's O&M expense claim and should not be reduced in relation to the recommended vacancy adjustment.⁵²

I&E witness Okum accepts Mr. Deason's assertion that capitalized labor should not be adjusted in relation to the vacancy adjustment. Therefore, I&E recommends a total FPFTY O&M allowance of \$73,645,342 for salaries and wages expense, or a reduction of \$610,685 (\$74,256,027 - \$73,645,342) to the Company's updated claim.⁵³ Since the Company updated its claim to reflect only a portion of the vacancy adjustment,

⁵¹ PAWC St. No. 6-R, pp. 2-3.

⁵² PAWC St. No. 5-R, pp. 5-6.

⁵³ I&E St. No. 1-SR, p. 18.

the I&E updated adjustment will further reduce the Company's expense claim, as shown in the following table, to include the portion of the adjustment originally allocated to rate base:

	Updated FPFTY O&M Claim	I&E O&M Allowance	I&E O&M Adjustment
Water Operations	\$59,632,332	\$59,067,291	(\$565,041)
Wastewater SSS Operations	\$5,436,246	\$5,419,279	(\$16,967)
Wastewater CSS Operations	\$6,996,873	\$6,975,034	(\$21,839)
BASA Wastewater Operations	<u>\$2,190,576</u>	<u>\$2,183,738</u>	<u>(\$6,838)</u>
Total	<u>\$74,256,027</u>	<u>\$73,645,342</u>	<u>(\$610,685)</u>

2. 401K Expense

The Company's claim for 401k expense includes costs incurred when matching employee contributions to 401k accounts.⁵⁴ This expense claim is calculated for each position based on projected wages, employee contribution levels, and level of match. I&E witness Okum recommends an expense adjustment for 401k expense to match with her salaries and wages expense adjustment. In direct testimony⁵⁵, I&E witness Okum recommended an O&M expense allowance for 401k expense of \$2,084,225, or a reduction of \$26,382 (\$2,110,607- \$2,084,225) to the Company's claim and capitalized 401k expense of \$1,371,985, or a reduction of \$17,366 (\$1,389,351 - \$1,371,985) to the Company's claim broken down by operation as follows:

⁵⁴ PAWC St. No. 6, p. 9.

⁵⁵ I&E St. No. 1, pp. 32-33.

	FPFTY O&M Claim	I&E O&M Allowance	I&E O&M Adjustment
Water Operations	\$1,730,994	\$1,709,357	(\$21,637)
Wastewater SSS Operations	\$175,250	\$173,060	(\$2,190)
Wastewater CSS Operations	\$124,961	\$123,399	(\$1,562)
BASA Wastewater Operations	<u>\$79,402</u>	<u>\$78,409</u>	<u>(\$993)</u>
Total	<u>\$2,110,607</u>	<u>\$2,084,225</u>	<u>(\$26,382)</u>

	FPFTY Rate Base Claim	I&E Rate Base Allowance	I&E Rate Base Adjustment
Water Operations	\$1,295,749	\$1,279,552	(\$16,197)
Wastewater SSS Operations	\$43,212	\$42,672	(\$540)
Wastewater CSS Operations	\$30,812	\$30,427	(\$385)
BASA Wastewater Operations	<u>\$19,578</u>	<u>\$19,334</u>	<u>(\$244)</u>
Total	<u>\$1,389,351</u>	<u>\$1,371,985</u>	<u>(\$17,366)</u>

This recommendation was made to align with salaries and wages expense and was based on a calculated vacancy rate of 1.25% across all business operations.⁵⁶

Pennsylvania-American witness O'Malley states that the Company has accepted the recommended adjustment to reflect an average vacancy rate of 1.25% to align with salaries and wages expense and has adjusted O&M expenses accordingly for each business operation. However, the Company has rejected the recommended adjustment to rate base.⁵⁷ Further, Pennsylvania-American witness Jared Deason states that I&E witness Okum erroneously assumed that in developing its claim for FPFTY plant additions the Company adjusted the estimated cost of those additions to reflect a portion of the pro-forma payroll-related increase that would be deemed capital-related. Mr.

⁵⁶ I&E St. No. 1, pp. 31-32.

⁵⁷ PAWC St. No. 6-R, pp. 2-3.

Deason states that to develop the estimated cost of plant additions, the Company included appropriate estimates of actual labor costs based on actual work hours that will be required to construct those additions. He asserts that the Company employs a bottom-up rather than a top-down estimation process, therefore the labor costs capitalized as part of projected plant additions are not a function of the amount of total projected labor included in the Company’s O&M expense claim and should not be reduced in relation to the recommended vacancy adjustment.⁵⁸

I&E accepts witness Deason’s assertion that capitalized labor should not be adjusted in relation to the recommended vacancy adjustment and should be reflected entirely in O&M expense. Therefore, I&E recommends a total FPFTY O&M allowance of \$2,066,857 for 401k expense, or a reduction of \$17,366 (\$2,084,223 - \$2,066,857) to the Company’s updated claim.⁵⁹ Since the Company updated its claim to reflect only a portion of the vacancy adjustment, the updated adjustment further reduces the Company’s claim, as shown in the following table, to include the portion of the adjustment that was originally allocated to rate base:

	Updated FPFTY O&M Claim	I&E O&M Allowance	I&E O&M Adjustment
Water Operations	\$1,709,357	\$1,693,160	(\$16,197)
Wastewater SSS Operations	\$173,059	\$172,519	(\$540)
Wastewater CSS Operations	\$123,398	\$123,013	(\$385)
BASA Wastewater Operations	<u>\$78,409</u>	<u>\$78,165</u>	<u>(\$244)</u>
Total	<u>\$2,084,223</u>	<u>\$2,066,857</u>	<u>(\$17,366)</u>

⁵⁸ PAWC St. No. 5-R, pp. 5-6.

⁵⁹ I&E St. No. 1-SR, pp. 37-38.

The Company argues that the capitalized labor budget is based on the amount of actual work hours required to complete plant additions, therefore any vacancies in the Company will not affect the capitalized labor claim. However, without reducing the capitalized portion of the expense, only part of the vacancy adjustment is reflected. To reflect the entire amount, the O&M portion of the claim must be further reduced by the amount of the adjustment originally allocated to rate base.

3. Defined Contribution Plan (DCP) Expense

Pennsylvania-American’s claim for DCP expense includes Company contributions to employees’ DCP, which is a retirement savings program for those employees ineligible for the defined benefit plan.⁶⁰ I&E witness Okum recommends an adjustment to DCP expense to align with her adjustment to salaries and wages expense. I&E recommended an O&M allowance for DCP expense of \$2,959,056, or a reduction of \$37,456 (\$2,996,512- \$2,959,056) to the Company’s claim and capitalized DCP expense of \$1,881,375, or a reduction of \$23,815 (\$1,905,190 - \$1,881,375) to the Company’s claim broken down by operation as follows:

	FPFTY O&M Claim	I&E O&M Allowance	I&E O&M Adjustment
Water Operations	\$2,323,443	\$2,294,400	(\$29,043)
Wastewater SSS Operations	\$248,805	\$245,695	(\$3,110)
Wastewater CSS Operations	\$313,257	\$309,342	(\$3,915)
BASA Wastewater Operations	<u>\$111,007</u>	<u>\$109,619</u>	<u>(\$1,388)</u>
Total	<u>\$2,996,512</u>	<u>\$2,959,056</u>	<u>(\$37,456)</u>

⁶⁰ PAWC St. No. 6, p. 10.

	FPFTY Rate Base Claim	I&E Rate Base Allowance	I&E Rate Base Adjustment
Water Operations	\$1,739,230	\$1,717,490	(\$21,740)
Wastewater SSS Operations	\$61,348	\$60,581	(\$767)
Wastewater CSS Operations	\$77,241	\$76,275	(\$966)
BASA Wastewater Operations	<u>\$27,371</u>	<u>\$27,029</u>	<u>(\$342)</u>
Total	<u>\$1,905,190</u>	<u>\$1,881,375</u>	<u>(\$23,815)</u>

This recommendation was made to align with salaries and wages expense and was based on a calculated vacancy rate of 1.25% across all business operations.⁶¹

In rebuttal testimony Pennsylvania-American witness O'Malley states that the Company has accepted the recommended adjustment to reflect an average vacancy rate of 1.25% to align with salaries and wages expense and has adjusted O&M expenses accordingly for each business operation. However, the Company has rejected I&E's recommended adjustment to rate base.⁶² Further, Pennsylvania-American witness Deason states that I&E erroneously assumed that in developing its claim for FPFTY plant additions the Company adjusted the estimated cost of those additions to reflect a portion of the pro-forma payroll-related increase that would be deemed capital-related. Mr. Deason states that to develop the estimated cost of plant additions, the Company included appropriate estimates of labor costs based on actual work hours that will be required to construct those additions. He asserts that the Company employs a bottom-up rather than a top-down estimation process, therefore the labor costs capitalized as part of projected plant additions are not a function of the amount of total projected labor included in the

⁶¹ I&E St. No. 1, pp. 33-34.

⁶² PAWC St. No. 6-R, pp. 2-3.

Company’s O&M expense claim and should not be reduced in relation to the recommended vacancy adjustment.⁶³

I&E witness Okum accepts Mr. Deason’s assertion that capitalized labor should not be adjusted in relation to the recommended vacancy adjustment.⁶⁴ As a result, the entire recommended adjustment is reflected in O&M expense.

Therefore, I&E recommends the Commission adopt I&E’s adjustment for a total FPFTY O&M allowance of \$2,935,339 for DCP expense, or a reduction of \$23,815 (\$2,959,054 - \$2,935,339) to the Company’s updated claim.⁶⁵ Since the Company updated its claim to reflect only a portion of the vacancy adjustment, I&E’s updated adjustment will further reduce the Company’s claim, as shown in the following table, to include the portion of the adjustment originally allocated to rate base:

	Updated FPFTY O&M Claim	I&E O&M Allowance	I&E O&M Adjustment
Water Operations	\$2,294,399	\$2,272,659	(\$21,740)
Wastewater SSS Operations	\$245,695	\$244,928	(\$767)
Wastewater CSS Operations	\$309,341	\$308,375	(\$966)
BASA Wastewater Operations	<u>\$109,619</u>	<u>\$109,277</u>	<u>(\$342)</u>
Total	<u>\$2,959,054</u>	<u>2,935,339</u>	<u>(\$23,815)</u>

4. Payroll Tax Expense

Pennsylvania-American’s claim for payroll tax expense includes its share of federal and state payroll taxes including Social Security, Medicare, and federal and state

⁶³ PAWC St. No. 5-R, pp. 5-6.

⁶⁴ I&E St. No. 1-SR, p. 41.

⁶⁵ I&E St. No. 1-SR, p. 42.

unemployment taxes. I&E recommends an adjustment to payroll tax expense to align with the I&E adjustment to salaries and wages expense. I&E witness Okum recommended, in direct testimony, an O&M expense allowance for payroll tax expense of \$6,014,047, or a reduction of \$316,174 (\$6,330,221 - \$6,014,047) to the Company's claim and capitalized payroll tax expense of \$3,902,914, or a reduction of \$212,383 (\$4,115,297 - \$3,902,914) to the Company's claim broken down by operation as follows:

	FPFTY O&M Claim	I&E O&M Allowance	I&E O&M Adjustment
Water Operations	\$5,088,679	\$4,820,894	(\$267,785)
Wastewater SSS Operations	\$468,931	\$447,315	(\$21,616)
Wastewater CSS Operations	\$587,649	\$567,804	(\$19,845)
BASA Wastewater Operations	<u>\$184,962</u>	<u>\$178,034</u>	<u>(\$6,928)</u>
Total	<u>\$6,330,221</u>	<u>\$6,014,047</u>	<u>(\$316,174)</u>

	FPFTY Rate Base Claim	I&E Rate Base Allowance	I&E Rate Base Adjustment
Water Operations	\$3,809,168	\$3,608,716	(\$200,452)
Wastewater SSS Operations	\$115,625	\$110,295	(\$5,330)
Wastewater CSS Operations	\$144,898	\$140,005	(\$4,893)
BASA Wastewater Operations	<u>\$45,606</u>	<u>\$43,898</u>	<u>(\$1,708)</u>
Total	<u>\$4,115,297</u>	<u>\$3,902,914</u>	<u>(\$212,383)</u>

This recommendation was made to align with witness Okum's recommended adjustments to salaries and wages and performance pay expense and was based on a calculated effective tax rate for each business operation.⁶⁶ As described below, I&E adjusted this recommendation in surrebuttal testimony.

⁶⁶ I&E St. No. 1, pp. 17-18.

In rebuttal testimony Pennsylvania-American witness O'Malley states that the Company has accepted witness Okum's recommended adjustment to reflect an average vacancy rate of 1.25% to align with salaries and wages expense and has adjusted O&M expenses accordingly for each business operation. However, the Company has rejected witness Okum's recommended adjustment to rate base.⁶⁷ PAWC witness Jared Deason states that I&E witness Okum erroneously assumed that in developing the claim for FPFTY plant additions the Company adjusted the estimated cost of those additions to reflect a portion of the pro-forma payroll-related increase that would be deemed to be capital-related. Mr. Deason states that to develop the estimated cost of plant additions, the Company included appropriate estimates of labor costs based on actual work hours that will be required to construct those additions. He asserts that the Company employs a bottom-up rather than a top-down estimation process, therefore the labor costs capitalized as part of projected plant additions are not a function of the amount of total projected labor included in the Company's O&M expense claim and should not be reduced in relation to the recommended vacancy adjustment.⁶⁸

I&E accepted Pennsylvania American's assertion that capitalized labor should not be adjusted with regard to the vacancy rate adjustment which affects payroll tax. However, performance pay adjustments will also affect payroll tax, and because I&E recommended a reduction to both O&M expense and rate base for that adjustment, I&E recommends a corresponding rate base adjustment for payroll tax. Since changes have

⁶⁷ PAWC St. No. 6-R, pp. 2-3.

⁶⁸ PAWC St. 5-R, pp. 5-6.

been made by both I&E and the Company which affect payroll tax, I&E has updated its recommended adjustment in surrebuttal testimony as set forth below. I&E recommends a total FPFTY O&M allowance of \$5,962,102 for payroll tax expense, or a reduction of \$288,992 (\$6,251,094 - \$5,962,102) broken down by operation as shown below⁶⁹:

	Updated FPFTY O&M Claim	I&E O&M Allowance	I&E O&M Adjustment
Water Operations	\$5,025,070	\$4,773,204	(\$251,866)
Wastewater SSS Operations	\$463,069	\$445,706	(\$17,363)
Wastewater CSS Operations	\$580,304	\$565,782	(\$14,522)
BASA Wastewater Operations	<u>\$182,651</u>	<u>\$177,410</u>	<u>(\$5,241)</u>
Total	<u>\$6,251,094</u>	<u>\$5,962,102</u>	<u>(\$288,992)</u>

This was calculated by applying the effective tax rates of each operating unit to the total amount of the vacancy and performance pay adjustments. Accordingly, I&E also recommend a reduction to rate base of \$163,977 to correspond with the rate base portion of the performance pay adjustment impacting payroll tax, broken down by operation as follows:

	I&E Rate Base Adjustment
Water Operations	(\$155,714)
Wastewater SSS Operations	(\$3,950)
Wastewater CSS Operations	(\$3,154)
BASA Wastewater Operations	<u>(\$1,159)</u>
Total	<u>(\$163,977)</u>

⁶⁹ I&E St. No. 1-SR, pp. 29-30.

B. Performance Compensation

Performance pay is a component of total compensation that Pennsylvania-American witness O’Mally defines as an annual and long-term performance compensation for eligible employees.⁷⁰ There are two components to performance pay: the Annual Performance Plan (APP) and the Long-Term Performance Plan (LTPP). I&E’s recommended adjustment was based on removing 50% of the Company’s claim related to cash awards paid out under the APP and 70% of the Company’s claim related to stock-based compensation under the LTPP.⁷¹ Pennsylvania-American has not demonstrated how these financial metrics benefit ratepayers and, as a result, these should not be funded by ratepayers.

In direct testimony, I&E witness Okum recommended an O&M expense allowance for performance pay of \$2,920,640, or a reduction of \$3,144,758 (\$6,065,398 - \$2,920,640) to the Company’s claim and capitalized performance pay of \$1,971,394, or a reduction of \$2,139,157 (\$4,110,551 - \$1,971,394) broken down by operation as follows:⁷²

	FPFTY O&M Claim	I&E O&M Allowance	I&E O&M Adjustment
Water Operations	\$5,209,300	\$2,492,591	(\$2,716,709)
Wastewater SSS Operations	\$409,090	\$204,545	(\$204,545)
Wastewater CSS Operations	\$326,668	\$163,334	(\$163,334)
BASA Wastewater Operations	<u>\$120,340</u>	<u>\$60,170</u>	<u>(\$60,170)</u>
Total	<u>\$6,065,398</u>	<u>\$2,920,640</u>	<u>(\$3,144,758)</u>

⁷⁰ PAWC St. No. 6, p. 8.

⁷¹ I&E St. No. 1, p. 21.

⁷² I&E St. No. 1, pp. 19-23.

	FPFTY Rate Base Claim	I&E Rate Base Allowance	I&E Rate Base Adjustment
Water Operations	\$3,899,461	\$1,865,848	(\$2,033,613)
Wastewater SSS Operations	\$100,870	\$50,435	(\$50,435)
Wastewater CSS Operations	\$80,547	\$40,274	(\$40,273)
BASA Wastewater Operations	<u>\$29,673</u>	<u>\$14,837</u>	<u>(\$14,836)</u>
Total	<u>\$4,110,551</u>	<u>\$1,971,394</u>	<u>(\$2,139,157)</u>

In rebuttal Pennsylvania-American witness O'Malley presents an updated claim for performance pay based on the 1.25% vacancy rate adjustment to salaries and wages.⁷³

Additionally, in rebuttal Pennsylvania-American witness Runzer states that it is inappropriate to disallow recovery of a portion of reasonable market-based employee compensation simply because part of it is awarded through a performance pay component. He states that the Company should be entitled to recover those expenses which are reasonably necessary to provide utility service if the total expense is reasonable and prudently incurred. He continues that the Commission should focus on the reasonableness of the Company's overall level of compensation so that management has the discretion to design a compensation package that is competitive in the utility market and motivates employees to achieve goals that will improve performance and efficiency for the benefit of its customers. Mr. Runzer also states that the compensation structure benefits customers through aligning employee and customer interests and attracting skilled employees. However, Mr. Runzer mischaracterizes I&E's argument when he states that the recommendation to disallow a portion of compensation is based simply on

⁷³ PAWC Exhibit LNO-1R, p. 46, and PAWC Exhibit No. 3-B, p. 2.

the fact that it is awarded through a performance pay component. I&E has not disputed that performance pay is an acceptable method of compensation. The I&E argument is simply that the portion of performance pay that is not based on safety, customer satisfaction, or other operational goals but is based on financial goals, specifically earnings per share is necessary to provide utility service and should not be shouldered by ratepayers.

Additionally, Pennsylvania-American witness Mustich discusses a review performed by professional services company Willis Towers Watson (WTW) regarding PAWC's total compensation package. He conveys the findings of the review, which confirm that PAWC's compensation philosophy is consistent with the large majority of the Company's peers. Mr. Mustich also states that performance-based compensation plans that use both financial and non-financial metrics are common in his experience and among WTW's thousands of clients. He continues that the recommended adjustment fails to recognize the interdependence of a Company's financial performance with its operational success. Finally, Mr. Mustich claims that the circumstances surrounding the Commission decision cited in the direct testimony differ from PAWC because Columbia Gas did not provide sufficient evidence that the totality of its performance compensation claim is reasonable, whereas PAWC has done so.⁷⁴

To be clear, I&E's argument is not against PAWC's total compensation plan or either performance plan as a whole, but specifically the portion of the performance plans

⁷⁴ PAWC St. No. 16-R, pp. 3-7.

that is based on earnings per share and whether that should be recovered from ratepayers. While there is an interdependence between a Company’s financial performance and its operational success, financial metrics in performance pay align employees primarily with shareholder interests, whereas operational metrics align employees with customers. Therefore, ratepayers should not be required to fund the payout of such metrics.

Since the Company has updated its claim, I&E has updated its recommendation to reflect this update. The same methodology that was used by witness Okum in direct testimony was used here, but witness Okum applied the new claim to the calculation. As a result, I&E recommends a total allowance to FPFTY O&M expense of \$2,886,234 for performance pay expense, or a reduction of \$3,103,348 (\$5,989,581 - 2,886,234) to the Company’s updated claim broken down by operation as follows⁷⁵:

	Updated FPFTY O&M Claim	I&E O&M Allowance	I&E O&M Adjustment
Water Operations	\$5,144,184	\$2,463,535	(\$2,680,649)
Wastewater SSS Operations	\$403,976	\$201,988	(\$201,988)
Wastewater CSS Operations	\$322,585	\$161,293	(\$161,292)
BASA Wastewater Operations	<u>\$118,836</u>	<u>\$59,418</u>	<u>(\$59,418)</u>
Total	<u>\$5,989,581</u>	<u>\$2,886,234</u>	<u>(\$3,103,347)</u>

Additionally, unlike the vacancy related adjustment where the Company argued that rate base should not be impacted because the budget for capitalized labor was created based on the number of work hours needed and that will not change with vacancies, that argument should not apply to performance pay. Most employees are eligible for

⁷⁵ I&E St. No. 1-SR, p. 24.

performance pay, including the employees performing capitalized labor. Regardless of how the capitalized labor budget was created, a portion of performance pay will be capitalized. Therefore, I&E recommends a corresponding reduction to rate base of \$2,110,846 which represents the portion of the estimated capitalized performance pay expense that should not be recovered from ratepayers, and is broken down by operation as shown⁷⁶:

	I&E Rate Base Adjustment
Water Operations	(\$2,006,620)
Wastewater SSS Operations	(\$49,805)
Wastewater CSS Operations	(\$39,770)
BASA Wastewater Operations	(\$14,651)
Total	<u>(\$2,110,846)</u>

These adjustments are reasonable and should be adopted.

C. Group Insurance Expense

Pennsylvania-American’s claim for group insurance expense includes several insurance coverages that the Company provides for employees. The two primary categories include: (1) basic life, short-term disability, long-term disability, and accidental death and disability insurance; and (2) medical, dental, prescription, and vision insurance.⁷⁷ I&E witness Okum recommends an adjustment to group insurance expense to align with the I&E salaries and wages expense adjustment. The group insurance expense adjustment was calculated by applying the same vacancy rate, 1.25%, as applied

⁷⁶ I&E St. No. 1-SR, pp. 25-26.

⁷⁷ PAWC St. No. 6, p. 8.

to salaries and wages, to group insurance expense. I&E recommended in direct testimony an O&M expense allowance for group insurance expense of \$15,432,628, or a reduction of \$195,350 (\$15,627,978 - \$15,432,628) to the Company's claim and capitalized group insurance expense of \$9,876,523, or a reduction of \$125,019 (\$10,001,542 - \$9,876,523) to the Company's claim broken down by operation as follows:

	FPFTY O&M Claim	I&E O&M Allowance	I&E O&M Adjustment
Water Operations	\$12,247,609	\$12,094,513	(\$153,096)
Wastewater SSS Operations	\$1,310,989	\$1,294,602	(\$16,387)
Wastewater CSS Operations	\$1,570,102	\$1,550,476	(\$19,626)
BASA Wastewater Operations	<u>\$499,278</u>	<u>\$493,037</u>	<u>(\$6,241)</u>
Total	<u>\$15,627,978</u>	<u>\$15,432,628</u>	<u>(\$195,350)</u>

	FPFTY Rate Base Claim	I&E Rate Base Allowance	I&E Rate Base Adjustment
Water Operations	\$9,168,038	\$9,053,438	(\$114,600)
Wastewater SSS Operations	\$323,253	\$319,212	(\$4,041)
Wastewater CSS Operations	\$387,143	\$382,304	(\$4,839)
BASA Wastewater Operations	<u>\$123,108</u>	<u>\$121,569</u>	<u>(\$1,539)</u>
Total	<u>\$10,001,542</u>	<u>\$9,876,523</u>	<u>(\$125,019)</u>

This recommendation was made to align with salaries and wages expense and was based on a calculated vacancy rate of 1.25% across all business operations.⁷⁸

In rebuttal testimony Pennsylvania-American witness O'Malley states that the Company has accepted the recommended adjustment to reflect an average vacancy rate of

⁷⁸ I&E St. No. 1, pp. 28-29.

1.25% to align with salaries and wages expense and has adjusted O&M expenses accordingly for each business operation. However, the Company has rejected the recommended adjustment to rate base.⁷⁹ Pennsylvania-American witness Deason states that I&E erroneously assumed that in developing its claim for FPFTY plant additions the Company adjusted the estimated cost of those additions to reflect a portion of the pro-forma payroll-related increase that would be deemed capital-related. Mr. Deason states that to develop the estimated cost of plant additions, the Company included appropriate estimates of labor costs based on actual work hours that will be required to construct those additions. He asserts that the Company employs a bottom-up rather than a top-down estimation process, therefore the labor costs capitalized as part of projected plant additions are not a function of the amount of total projected labor included in the Company's O&M expense claim and should not be reduced in relation to the recommended vacancy adjustment.⁸⁰

I&E accepts witness Deason's assertion that capitalized labor should not be adjusted in relation to the vacancy adjustment. Therefore, I&E recommends a total FPFTY O&M allowance of \$15,307,608 for group insurance expense, or a reduction of \$125,019 (\$15,432,627 - \$15,307,608) to the Company's updated claim.⁸¹ Since the Company updated its claim to reflect only a portion of the vacancy adjustment, this I&E updated adjustment will further reduce the Company's claim, as shown in the following

⁷⁹ PAWC St. No. 6-R, pp. 2-3.

⁸⁰ PAWC St. No. 5-R, pp. 5-6.

⁸¹ I&E St. No. 1-SR, pp. 33-34.

table, to include the portion of the adjustment that was originally allocated to rate base:

	Updated FPFTY O&M Claim	I&E O&M Allowance	I&E O&M Adjustment
Water Operations	\$12,094,513	\$11,979,913	(\$114,600)
Wastewater SSS Operations	\$1,294,602	\$1,290,561	(\$4,041)
Wastewater CSS Operations	\$1,550,475	\$1,545,636	(\$4,839)
BASA Wastewater Operations	<u>\$493,037</u>	<u>\$491,498</u>	<u>(\$1,539)</u>
Total	<u>\$15,432,627</u>	<u>\$15,307,608</u>	<u>(\$125,019)</u>

D. Service Company Expense

I&E did not make an adjustment to this expense.

E. Waste Disposal Expense

The Company's claim for waste disposal expense includes costs associated with properly disposing of treatment residuals.⁸² I&E recommends an adjustment based on a 3-year average of actual waste disposal expense rather than a 3-year average of the change in expense. The exception being the BASA system which only has 1-year of actual data. As noted by I&E witness Okum, Pennsylvania-American has not provided a basis for the assumption that this expense will continue to rise annually. Therefore, I&E recommends an allowance of \$7,386,760 for waste disposal expense, or a reduction of \$2,850,893 (\$10,237,653 - \$7,386,760) to the Company's claim, broken down as follows:⁸³

⁸² PAWC St. No. 3, p. 26.

⁸³ I&E St. No. 1, pp. 35-37.

Waste Disposal Expense:	PAWC FPFTY Claim	I&E Allowance	I&E Adjustment
Water Operations	\$4,216,691	\$3,093,714	(\$1,122,977)
Wastewater SSS Operations	\$1,673,584	\$1,254,740	(\$418,844)
Wastewater CSS Operations	\$4,008,056	\$2,740,027	(\$1,268,029)
BASA Wastewater Operations	<u>\$339,322</u>	<u>\$298,279</u>	<u>(\$41,043)</u>
Total PAWC Expense	<u>\$10,237,653</u>	<u>\$7,386,760</u>	<u>(\$2,850,893)</u>

This recommendation was based on a three-year average of actual waste disposal expense rather than the Company's three-year average of the change in the expense, except for BASA Wastewater Operations, which has only one year of actual data.

In rebuttal testimony Pennsylvania-American witness O'Malley states that the Company is currently experiencing increasing dredging costs. To illustrate this, Ms. O'Malley mentions a vendor change in one district which resulted in higher costs. Ms. O'Malley admits that the Company's waste disposal costs fluctuate year to year, but notes that there has been a \$3.6 million increase from 2021 through 2025. Finally, Ms. O'Malley states that I&E accepted the same methodology to calculate waste disposal expense in PAWC's last rate case.⁸⁴

First, it is inaccurate to assume that I&E accepted the Company's methodology to calculate waste disposal costs in the last base rate case simply because I&E did not address this topic in that proceeding. Second, while it may be true that waste disposal expense did rise overall in recent historical years, it has not consistently done so and the

⁸⁴ PAWC St. No. 6-R, pp. 21-22.

Company has not provided any evidence to show that this expense will continue to rise at a rate of 13.76% each year. This is a significant increase and is speculative in nature.

Therefore, I&E recommends a total FPFTY allowance of \$7,386,760 for waste disposal expense, or a reduction of \$2,850,893 (\$10,237,653 - \$7,386,760) to the Company's claim, based on a three-year average of historical costs.⁸⁵ As explained by witness Okum, there is no clear upward trajectory of this expense for all operations.⁸⁶ Therefore, the historic average is the best predictor of this expense.

F. Transportation Expense

Pennsylvania-American's claim for transportation expense includes fleet management cost per vehicle, costs for fuel, title and registration fees, maintenance expense, and reimbursement for personal vehicle use.⁸⁷ According to PAWC witness Lori O'Malley, the forecast of fleet management expense is based on the number of vehicles claimed in the FPFTY, and the change in the number of vehicles from the HTY to the FPFTY is reflected in the cost for fuel, title and registration fees, and maintenance expense. Additionally, all these costs, along with reimbursement for use of personal vehicles, are adjusted by using a three-year average of the Transportation Services Consumer Price Index (CPI) Factor, or 6.94%, which is applied from HTY to FTY, and again from FTY to FPFTY.⁸⁸ I&E witness Okum recommends removing the CPI transportation inflation adjustment added by PAWC. When forecasting expenses in the

⁸⁵ I&E St. No. 1-S, p. 45.

⁸⁶ I&E St. No. 1, p. 38.

⁸⁷ PAWC St. No. 6, p. 22.

⁸⁸ PAWC St. No. 6, p. 22.

FPFTY, all adjustments to expenses should be known and measurable. Adjustments for inflation are inherently speculative and therefore do not meet the standard of known and measurable and should be rejected.

In direct testimony I&E witness Okum recommended an O&M expense allowance for transportation expense of \$3,454,752, or a reduction of \$539,775 (\$3,994,527-\$3,454,752) to the Company’s claim and capitalized transportation expense of \$2,289,983, or a reduction of \$361,885 (\$2,651,868 - \$2,289,983) to the Company’s claim broken down by operation as follows:⁸⁹

	FPFTY O&M Claim	I&E O&M Allowance	I&E O&M Adjustment
Water Operations	\$3,321,224	\$2,864,899	(\$456,325)
Wastewater SSS Operations	\$168,807	\$146,436	(\$22,371)
Wastewater CSS Operations	\$442,804	\$389,081	(\$53,723)
BASA Wastewater Operations	<u>\$61,692</u>	<u>\$54,336</u>	<u>(\$7,356)</u>
Total	<u>\$3,994,527</u>	<u>\$3,454,752</u>	<u>(\$539,775)</u>

	FPFTY Rate Base Claim	I&E Rate Base Allowance	I&E Rate Base Adjustment
Water Operations	\$2,485,807	\$2,144,542	(\$341,265)
Wastewater SSS Operations	\$41,634	\$36,107	(\$5,527)
Wastewater CSS Operations	\$109,211	\$95,936	(\$13,275)
BASA Wastewater Operations	<u>\$15,216</u>	<u>\$13,398</u>	<u>(\$1,818)</u>
Total	<u>\$2,651,868</u>	<u>\$2,289,983</u>	<u>(\$361,885)</u>

This recommendation was based on removing the CPI transportation inflation adjustment added by PAWC.

⁸⁹ I&E St. No. 1, pp. 38-40.

In rebuttal testimony Pennsylvania-American witness O'Malley states that because fuel and maintenance expenses fluctuate year to year, a three-year average inflation factor is generally appropriate to project future costs. She also states that the Company used the same methodology in its last base rate case and the adjustment was accepted by I&E. However, Ms. O'Malley acknowledges that the CPI transportation services inflation factor has decreased as of June 2025 and states that the Company will use an inflation rate of 3.11%, which represents the annual inflation for the year ending June 30, 2025.⁹⁰ However, it is incorrect to assume that I&E accepted the Company's methodology for calculating this expense in the last base rate case simply because I&E did not address this topic in that proceeding. Second, I&E witness Okum disagrees that any inflation factor, whether a three-year average or the Company's updated factor, is generally appropriate to project future costs. When forecasting FPFTY expenses, all adjustments to expenses should be known and measurable. Adjustments for inflation are inherently speculative and therefore do not meet the standard of known and measurable and should be rejected.

Additionally, Pennsylvania-American witness Deason states that he rejects the I&E transportation expense adjustment but erroneously states that the adjustment is related to vacancy rates. He then explains that capitalized labor costs are estimated using a bottom-up approach and should not be adjusted in relation to the vacancy rate, but does not offer an explanation as to how capitalized transportation costs are estimated or why it would be inappropriate to adjust rate base in relation to a transportation adjustment.⁹¹ In

⁹⁰ PAWC St. No. 6-R, pp. 20-21.

⁹¹ PAWC St. No. 5-R, pp. 5-6.

absence of that explanation, I&E continues to recommend reducing both O&M expense and rate base for this adjustment.

Since PAWC has updated its claim, I&E’s recommended adjustment has also changed, as shown in the chart below. As this adjustment is reasonable, I&E recommends the Commission adopt its recommendation for transportation expense.

	Updated FPFTY O&M Claim	I&E O&M Allowance	Updated I&E O&M Adjustment
Water Operations	\$3,095,090	\$2,864,899	(\$230,191)
Wastewater SSS Operations	\$157,572	\$146,436	(\$11,136)
Wastewater CSS Operations	\$412,698	\$389,081	(\$23,617)
BASA Wastewater Operations	<u>\$57,569</u>	<u>\$54,336</u>	<u>(\$3,233)</u>
Total	<u>\$3,722,929</u>	<u>\$3,454,752</u>	<u>(\$268,177)</u>

	Updated FPFTY Rate Base Claim	I&E Rate Base Allowance	Updated I&E Rate Base Adjustment
Water Operations	\$2,316,544	\$2,144,542	(\$172,012)
Wastewater SSS Operations	\$38,863	\$36,107	(\$2,756)
Wastewater CSS Operations	\$101,786	\$95,936	(\$5,850)
BASA Wastewater Operations	<u>\$14,199</u>	<u>\$13,398</u>	<u>(\$801)</u>
Total	<u>\$2,471,402</u>	<u>\$2,289,983</u>	<u>(\$181,419)</u>

As this adjustment is reasonable, it should be adopted by the Commission.

G. Towamencin Transaction Costs

I&E did not make an adjustment to this expense.

H. Interest Synchronization

I&E did not make an adjustment to this expense.

I. Amortization Expense

I&E did not make an adjustment to this expense.

J. Third Party Call Center Expense

I&E did not make an adjustment to this expense.

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

The Company is requesting Commission authorization to establish regulatory assets for its pension and OPEB expenses. PAWC witness Dr. Christina Chard states that these costs are difficult to predict and that the associated claims in this case are based on actuarial forecasts that consider a number of economic and demographic factors. Dr. Chard also states that when actual outcomes differ from predicted values, over- or under-recovery of expenses from customers can occur.⁹²

The Company's proposal would compare its actual pension and OPEB expenses incurred to the amount included within base rates. The difference between the two would be deferred to a regulatory asset or liability, and the net balance would be addressed in the Company's next base rate case.⁹³ It should be noted here that this methodology assumes that PAWC claims related to pension and OPEBs will be specifically approved by the Commission in the event of any black box settlements.

I&E recommends that the Commission disallow the proposed pension and OPEB expense regulatory asset/liability treatment in its entirety.⁹⁴ Typically, the Commission

⁹² PAWC St. No. 2, p. 27.

⁹³ PAWC St. No. 2, p. 27.

⁹⁴ I&E St. No. 1, p. 46.

has permitted extraordinary, unanticipated, non-recurring, and substantial expenses to be deferred for accounting purposes. Examples of these types of costs include those costs to make repairs in order to avoid and imminent threat to public health and safety, hurricane damage, and across the board accounting changes that would have a significant financial impact on a utility.⁹⁵ The Commission has stated “the standard which a utility must meet when seeking Commission authorization for deferral accounting is whether, based on Commission precedent, the expense item appears to be within the scope of the type of items that the Commission has allowed as an exception to the general rule against retroactive recovery of past expense.”⁹⁶ Deferred accounting treatment may be granted if the expense is: 1) extraordinary; 2) unanticipated; 3) non-recurring; and 4) substantial.⁹⁷

In *Popowsky v. Pa. P.U.C.*, it was noted that:

Extraordinary cannot mean merely unanticipated, because then every unexpected occurrence or failure to predict an item would be recoverable and the exception would overwhelm the rule, making test years meaningless. To be extraordinary, it must also be a substantial, one-time expense or a substantial item that will not appear as a continuing expense and could otherwise never be recovered in rates because, like the weather-related expenses, it would be normalized out of the test year as abnormal.⁹⁸

⁹⁵ *Petition of Pennsylvania Util. Co., Inc.*, 2012 PaPUC LEXIS 1124, at 2-3; *see also* *Petition of Pike County Light and Power Co.*, 2012 PaPUC LEXIS 939 at 5-6; *Petition of Columbia Gas of Pa. Inc.*, 2012 PaPUC LEXIS 836.

⁹⁶ *Petition of Columbia Gas of Pa., Inc. for Authority to Defer for Accounting and Financial Purposes Certain Start Up Expenses Assoc. with the Redesign of Upgrade of Financial Processes and Info. Systems*, Docket No. P-2012-2319920 (Order Entered December 5, 2012).

⁹⁷ *Id.*

⁹⁸ *Popowsky v. Pa. Publ. Util. Comm'n*, 642 A.2d 648, 652 (Pa. Cmmwlth 1994).

While these costs have sometimes been substantial in the past, the costs are not extraordinary because pension and OPEB costs are routine expenses incurred by Pennsylvania-American as well as many other water and wastewater utilities. These expenses are not one-time expenses and occur year after year. Secondly, the costs are not unanticipated because they are a part of contractual agreements with past employees. Finally, the expenses cannot be categorized as non-recurring while also being forecasted on an annual basis. As the Company's pension and OPEB expenses may have only met one of four criteria to be considered for regulatory asset treatment, it is not appropriate for the Commission to grant approval for the Company to defer these costs.

Pension and OPEB expenses are normal, expected, recurring costs for which the Company cannot expect a virtually guaranteed dollar-for-dollar recovery. Pensions and OPEB costs do not meet the requirements for deferral treatment, and I&E recommends that the Commission deny the Company's request.

VII. TAXES

I&E's adjustment for Payroll Tax Expense is detailed in the corresponding O&M expense adjustment section above. Apart from this, I&E made no specific recommendations related to adjustments to taxes. Any such adjustments would simply be the result of the flow-through of other I&E adjustments. As noted by I&E witness Okum, "[a]ll adjustments to the Company's claims for revenues, expenses, taxes, and rate base must be continually brought together in the Administrative Law Judge's Recommended

Decision and again in the Commission’s Final Order.”⁹⁹ As such, there may be adjustments to taxes related to the recommendations adopted by the ALJs and the Commission that occur as a result of this principle that must be incorporated in the final revenue requirement approved in this proceeding.

Further, as noted above, Pennsylvania-American witness Schlessman presented supplemental direct testimony related the Corporate Alternative Minimum Tax (CAMT). In this testimony she proposes to refund the 2024 CAMT payments and remove the deferred tax asset from rate base which is reflected as a \$35,620,052 reduction in rate base.¹⁰⁰ I&E accepts this adjustment in end result only as the timing of this supplement testimony did not afford I&E the opportunity to fully analyze this claim. Therefore, I&E reserves its right to address similar claims in any future proceedings.

Further, I&E reiterates that the result of this adjustment have not been reflected in the I&E testimony and spreadsheets in this proceeding. Had I&E had the time and opportunity to reflect this adjustment in its testimony and spreadsheets, it would have been reflected as a downward adjustment to the revenue requirement. Therefore, I&E recommends the ALJs and the Commission similarly reflect this adjustment as a downward adjustment to the revenue requirement for Pennsylvania-American.

VIII. DEPRECIATION

I&E presented no testimony on this topic.

⁹⁹ I&E St. No. 1-SR, p. 50.

¹⁰⁰ PAWC St. No. 8 Supplemental, p. 4.

IX. RATE OF RETURN

A. Summary

A rate of return allows payment to a utility's debt holders with interest and fair compensation for its equity shareholders. Rate of return is expressed as the amount of revenue an investment generates in the form of net income and is usually expressed as a percentage of the amount of capital invested over a given period of time.

In *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*¹⁰¹ and *Federal Power Commission v. Hope Natural Gas Co.*¹⁰² the U.S. Supreme Court expressed the legal standards for determining rates of return. In *Bluefield*, the U.S. Supreme Court stated:

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.¹⁰³

¹⁰¹ 262 U.S. 679 (1923) (*Bluefield*).

¹⁰² 320 U.S. 591 (1944) (*Hope Natural Gas*).

¹⁰³ *Bluefield*, 262 U.S. 679, 692-93.

The U.S. Supreme Court affirmed these principles in *Hope Natural Gas*, stating:

From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.¹⁰⁴

Therefore, the principles followed by regulators through the U.S. to measure a fair rate of return include the following:

- A utility is entitled to a return similar to that being earned by other enterprises with corresponding risks and uncertainties, but not as high as those earned by highly profitable or speculative ventures;
- A utility is entitled to a return level reasonably sufficient to assure financial soundness;
- A utility is entitled to a return sufficient to maintain and support its credit and raise necessary capital;
- A fair return can change (increase or decrease) along with economic conditions and capital markets.¹⁰⁵

In accordance with these principles, I&E witness DC Patel recommends the following rate of return for Pennsylvania-American:¹⁰⁶

¹⁰⁴ *Hope Natural Gas*, 320 U.S. 591, 603.

¹⁰⁵ I&E St. No. 2, p. 4. *See also Pennsylvania Gas & Water Company v. Pa. P.U.C.*, 341 A.2d 239, 249-252 (Pa. Cmwlth. 1975).

¹⁰⁶ I&E St. No. 2-SR, p. 39.

PENNSYLVANIA-AMERICAN WATER COMPANY - WATER OPERATIONS			
Summary of Cost of Capital			
Type of Capital	Capitalization Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	44.99%	4.71%	2.12%
Preferred Stock	0.01%	9.71%	0.00%
Common Equity	<u>55.00%</u>	9.70%	<u>5.34%</u>
Total	<u>100.00%</u>		<u>7.46%</u>

In addition, I&E witness Patel recommends the following rate of return for Pennsylvania-American wastewater division:¹⁰⁷

PENNSYLVANIA-AMERICAN WATER COMPANY - WASTEWATER OPERATIONS			
Summary of Cost of Capital			
Type of Capital	Capitalization Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	41.59%	4.71%	1.96%
Wastewater Specific Debt	6.88%	2.20%	0.15%
Preferred Stock	0.01%	9.71%	0.00%
Common Equity	<u>51.52%</u>	9.70%	<u>5.00%</u>
Total	<u>100.00%</u>		<u>7.11%</u>

I&E witness Patel accepts Pennsylvania-American's claimed cost rates of long-term debt as these cost rates are based on projected actual costs and are representative of the industry.¹⁰⁸ Mr. Patel also recommends using a capital structure of 55% common equity and 45% long-term debt for the water operations and the Company's claimed

¹⁰⁷ I&E St. No. 2-SR, p. 40.

¹⁰⁸ I&E St. No. 2, pp. 24-25.

capital structure for wastewater operations.¹⁰⁹ I&E witness Patel rejects the Company's method for calculating return on common equity. Instead, I&E witness Patel calculates his recommended return on equity pursuant to the Discounted Cash Flow (DCF) methodology frequently used by the Commission while using the Capital Asset Pricing Model (CAPM) as an alternate means to verify the reasonableness of his return.

B. Proxy Group

A proxy (or barometer) group is a group of companies that act as a benchmark for determining the utility's rate of return. A proxy group is also typically used because using data exclusively from one company may be less reliable than using a group of companies because the data for one company may be subject to short-term anomalies that distort its return on equity. Use of a proxy group smooths these potential anomalies. Use of a proxy group also satisfies the long-established principle of utility regulation that seeks to provide the utility the opportunity to earn a return equal to that of similar risk enterprises.¹¹⁰

I&E witness Patel selected his proxy group based on the following criteria:¹¹¹

1. Fifty percent or more of the company's revenues must be generated from the regulated water utility industry;
2. The company's stock must be publicly traded;
3. Investment information for the company must be available from more than one source, which includes Value Line;

¹⁰⁹ I&E St. No. 2, p. 19.

¹¹⁰ I&E St. No. 2, p. 8.

¹¹¹ I&E St. No. 2, pp. 9-10.

4. The company must not be currently involved in an announced merger or material acquisition; and
5. The company must have four consecutive years of historic earnings data.

I&E witness Patel's proxy group comprises American States Water Company, California Water Services Group, Middlesex Water Company, and H2O America (formerly known as SJW Group).¹¹²

Ms. Bulkley determined her proxy group by using the following criteria:

1. Pay consistent quarterly cash dividends because companies that do not, cannot be analyzed using the Constant Growth DCF model.
2. Have investment grade long-term issuer ratings.
3. Have positive long-term earnings growth forecasts from at least two equity analysts.
4. Derive more than 70% of their total operating income from regulated operations.
5. Were not parties to a merger or transformative transaction during the analytical periods relied on.¹¹³

Resulting from Ms. Bulkley's criteria, the Company's proxy group contains 11 companies consisting of: Atmos Energy Corporation, Chesapeake Utilities Corporation, NiSource, Inc., Northwest Natural Gas Company, ONE Gas, Inc., Southwest Gas Corporation, Inc., American States Water Company, California Water Service Group, Middlesex Water Company, H2O America, and Essential Utilities, Inc.¹¹⁴

¹¹² I&E St. No. 2, p. 11.

¹¹³ PAWC St. No. 13, p. 21.

¹¹⁴ PAWC St. No. 13, p. 27.

The Company's proxy group included all four companies utilized by I&E; however, I&E excluded Essential Utilities, Inc. and did not consider the natural gas utility companies, which Ms. Bulkley includes in her combined proxy group.

I&E's proxy group is the appropriate proxy group to use in this instance for various reasons. First, it is inappropriate to include Essential Utilities in the proxy group as it violates Ms. Bulkey's criteria that the company is not a party to a merger during the analytical periods relied on. Essential Utilities is currently a part of an announced merger with Pennsylvania-American's parent company American Water Works.

Regarding the inclusion of gas utilities in her proxy group, Pennsylvania-American witness Bulkley notes that she included these companies because of the small number of water companies that were available to include in her proxy group.¹¹⁵ In addition, she indicates that as these natural gas companies generate a large portion, 70% or more of their operating revenues, from regulated operations, this is similar to Pennsylvania-American water operations, Pennsylvania-American wastewater operations, and the water utilities she has included in her proxy group.¹¹⁶

I&E maintains that the proxy group developed by I&E witness Patel is the appropriate proxy group to use in this proceeding. Companies that are in the water industry are the most representative of the financial and operational risks faced by Pennsylvania-American. Using gas utilities in the proxy group can distort the information that the proxy group provides. As Mr. Patel notes, gas utilities are dissimilar

¹¹⁵ PAWC St. No. 13, p. 23.

¹¹⁶ PAWC St. No. 13, p. 23.

to water and wastewater utilities because customer can shop for a supplier.¹¹⁷ Simply put, the water and wastewater utilities in Pennsylvania have less risk of losing customers than gas companies whose customers have the option to look for supply alternatives or to switch fuel sources. In addition, Mr. Patel notes that each different utility industry faces different operational, safety, and weather-related risk.¹¹⁸ As demonstrated, gas utilities are not substantially similar to water and wastewater utilities, and, thus, including them in the proxy group off which to base the rate of return and return on equity would not be appropriate.

I&E recommends the use of its proxy group that excludes all gas utilities, and includes American States Water Company, California Water Services Group, Middlesex Water Company, and H2O America. In the most recent 2025 Columbia Gas of Pennsylvania, Inc. (Columbia) rate case,¹¹⁹ the Commission concurred with I&E and the ALJ that it is appropriate to apply a proxy group comprised exclusively of natural gas utilities in setting the rate of return for Columbia. The Commission specifically noted that non-gas distribution utilities and non-utility companies with unrelated or entirely dissimilar business segments are simply not comparable to gas distribution utilities in terms of business risk and financial risk profiles. Similarly, it would be inappropriate to

¹¹⁷ I&E St. No. 2, pp. 15-16.

¹¹⁸ I&E St. No. 2, p. 16.

¹¹⁹ *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499 (Order Entered December 9, 2025). See generally Fair Rate of Return, Proxy Groups - Disposition, pp. 204 and 205.

include non-water or non-wastewater utilities in Pennsylvania-American's proxy group. This precludes the use of Pennsylvania-American witness Bulkley's proxy group.

C. Capital Structure

A utility's capital structure is comprised of long-term debt and common equity and represents how the utility has financed its rate base with various sources of funds.

Pennsylvania-American's claimed capital structure for Water Operations consists of 43.68% long-term debt and 56.31% common equity. Pennsylvania-American's Wastewater Operations claimed capital structure consists of 41.59% long-term debt, 6.88% wastewater specific debt, and 51.52% equity.

I&E witness Patel recommends using a capital structure of 55% common equity and 45% long-term debt for water operations and the Company's claimed capital structure wastewater operations.¹²⁰

Pennsylvania-American's claimed actual capital structure for water operations is unreasonable for ratemaking purposes, as the Company's equity ratio is well above the highest end of the I&E proxy group's equity ratios. The Company's proposed equity ratio for water operations falls outside the range of the I&E proxy group's 2024 capital structures, where the most recent five-year average range contains individual company capital structure ratios from 44.39% to 57.13% long-term debt and 42.87% to 55.61% equity, with an overall five-year average of 48.21% long-term debt and 51.72% common equity.¹²¹ Generally, an optimal capital structure is 50% debt and 50% equity, although it

¹²⁰ I&E St. No. 2, p. 19.

¹²¹ I&E Exhibit No. 2, Schedule 2.

is not always possible. Limiting a company's capital structure from becoming too equity heavy is reasonable and necessary for a fair ratemaking process. A balance must be struck between rewarding a company for carrying more equity and reducing the costs that would be passed on to ratepayers. As a result, a company's capital structure should generally not exceed 55% equity.

Mr. Patel notes, that Pennsylvania-American's claimed capital structure of 56.31% equity and 43.68% debt for water operations is significantly more equity-heavy than Pennsylvania-American's parent company's historic five-year average capital structure of 42.69% equity and 57.31% long-debt.¹²²

Additionally, for illustrative purposes, Mr. Patel provides in his testimony¹²³ a table which the cost savings to ratepayers if Pennsylvania-American used an optimal 50% long-term debt and 50% common equity capital structure while maintaining its claimed return on equity and rate base:

¹²² I&E Exhibit No. 2, Schedule 2.

¹²³ I&E St. No. 2, pp. 22-23.

Pennsylvania-American Water Company (Water Operations)			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost
AS FILED CAPITAL STRUCTURE			
Long-Term Debt	43.68%	4.71%	2.06%
Preferred Stock	0.01%	9.71%	0.00%
Common Equity	<u>56.31%</u>	10.95%	<u>6.17%</u>
Total	<u>100.00%</u>		<u>8.23%</u>
50/50 OPTIMAL CAPITAL STRUCTURE			
Long-Term Debt	49.99%	4.71%	2.35%
Preferred Stock	0.01%	9.71%	0.00%
Common Equity	<u>50.00%</u>	10.95%	<u>5.48%</u>
Total	<u>100.00%</u>		<u>7.83%</u>
Difference in the Overall Rate of Return (8.23% - 7.83% = 0.40%)			0.40%
Impact prior to Gross Up (Claimed Rate Base* x Difference in the Overall Rate of Return) (\$5,174,843,488 x 0.0040)			\$20,699,374
Gross Revenue Conversion Factor**			1.3863
Total Impact to Ratepayers (\$20,699,374 x 1.3863)			\$28,695,542

As shown above, this small change to the capital structure, even with no change to the requested return on equity, the cost savings to water customers would be \$28,695,542.¹²⁴

D. Cost of Long-Term Debt

I&E accepts Pennsylvania-American claimed cost rate of long-term debt of 4.71% for water and wastewater, as well as the 2.20% cost rate of long-term debt for wastewater

¹²⁴ I&E St. No. 2, pp. 22-23.

specific issuances.¹²⁵ I&E witness Patel opines the Company's claimed cost rate of long-term debt is reasonable as it is representative of the industry. The implied long-term cost of debt range of I&E witness Patel's proxy group is 3.95% to 6.21%.¹²⁶ The Company's cost rate of long-term debt of 4.76% falls within the proxy group. While the 2.20% is below this range, it is also reasonable and therefore is appropriate to use for this proceeding.

E. Return on Common Equity

1. Introduction

As recommended by I&E witness Patel, an 9.70% return on common equity for both Pennsylvania-American water operations and Pennsylvania-American wastewater operations, based upon I&E witness Patel's use of a similarly-situated proxy group of companies, best balances the interests of the ratepayers and the Company.

I&E typically recommends using the DCF method as the primary method to determine the cost of common equity and the CAPM analysis as a check upon the reasonableness of the DCF derived return on equity (ROE). This is because the DCF method has the most wide-spread regulatory acceptance. However, since the Commission has more recently based ROE decisions on a combination of the DCF and CAPM methods, in this proceeding I&E am recommends an ROE based on the use of the DCF and CAPM methods averaged together as the primary methods to determine the cost of common equity.

¹²⁵ I&E St. No. 2, p. 24.

¹²⁶ I&E St. No. 2, p. 24.

As discussed in detail below, I&E employed the DCF method as well as a traditional CAPM analysis and a Kroll CAPM analysis. I&E averaged the two CAPM analyses to arrive at a composite CAPM. As a result, I&E recommends a cost of common equity of 9.70% $[(10.09\% \text{ DCF} + 9.31\% \text{ Composite CAPM}) \div 2]$.¹²⁷

2. I&E's Discounted Cash Flow Analysis

In sum, the DCF is the “dividend discount model” of financial theory, which maintains that the value (price) of any security or commodity is the discounted present value of all future cash flows. The DCF model assumes that investors evaluate stocks in the classical economic framework, which maintains that the value of a financial asset is determined by its earning power, or its ability to generate future cash flows.¹²⁸

The DCF recognizes the time value of money, is forward-looking, and has widespread regulatory acceptance. I&E witness Patel confirms the reasonableness of his DCF calculation with a comparison to the CAPM results because the Commission has expressed an interest in having results from another methodology as a point of comparison. While the CAPM is also forward-looking and is based on the concept of risk and return, it and the other methodologies have flaws that should discount their use as primary determinants.

I&E witness Patel recommends a cost of common equity of 9.70% for both the water and wastewater divisions.¹²⁹ This recommendation includes a dividend yield of

¹²⁷ I&E St. No. 2-SR, p. 27.

¹²⁸ I&E St. No. 2, p. 25.

¹²⁹ I&E Exhibit No. 2-SR, pp. 39-40.

2.96% and a recommended growth rate of 7.13%.¹³⁰ I&E witness Patel's analysis uses a spot dividend yield, a 52-week dividend yield, and earnings growth forecasts. I&E witness Patel employs the standard DCF model formula, $K = D_1/P_0 + g$, where K = the cost of equity, D_1 = the dividend expected during the year; P_0 = the current price of the stock; and g = the expected growth rate. When a forecast of D_1 is not available, D_0 (the current dividend) must be adjusted by $\frac{1}{2}$ the expected growth rate in order to account for changes in the dividend paid in period 1.¹³¹ However, since forecasts were available for all companies in Mr. Patel's proxy group, no dividend adjustments were necessary.

a) Dividend yields

A representative yield must be calculated over a time frame sufficient to avoid short-term anomalies and stale data. I&E witness Patel's dividend yield calculation places equal emphasis on the most recent spot dividend yield of 3.03% and the 52-week average dividend yield of 2.88% resulting in an average dividend yield of 2.96%.¹³²

b) Growth rates

I&E witness Patel used earnings growth forecasts to calculate his expected growth rate. His earnings forecasts are developed from projected growth rates using 5-year estimates from established forecasting entities for his proxy group of companies, yielding an average 5-year growth forecast of 7.13%.¹³³

¹³⁰ I&E St. No. 2, pp. 33-34.

¹³¹ I&E St. No. 2, pp. 32-33.

¹³² I&E St. No. 2, p. 33.

¹³³ I&E St. No. 2, p. 34.

c) CAPM

While I&E considers the DCF method superior for determining the rate of return for the current economic market because it measures the cost of equity directly, I&E also recognizes that no method can perfectly predict the return on equity, which is why I&E also employs the CAPM. I&E witness Patel performed two CAPM analyses; a traditional CAPM and a Kroll CAPM analysis which he then averaged together to arrive at a composite CAPM.

I&E witness Patel's analysis of a return on equity using the traditional CAPM methodology uses the standard CAPM formula $K = R_f + \beta(R_m - R_f)$, where K = the cost of equity, R_f = the risk-free rate of return; β = beta, which measures the systematic risk of an asset, and R_m = the expected rate of return on the overall stock.¹³⁴ For the traditional CAPM analysis, I&E witness Patel chose the risk-free rate of return (R_f) from the projected yield on 10-year Treasury Bonds as the most stable risk-free measure. With this choice, I&E witness Patel balanced issues related to use of long-term bonds and short-term T-Bills. For his beta, I&E witness Patel used the average of the betas from the Value Line Investment Survey.¹³⁵ The average beta for Mr. Patel's proxy group was 0.78.¹³⁶ To arrive at a representative expected return on the overall stock market, I&E witness Patel reviewed Value Line's 1700 stocks and the S&P 500 Index. The result of

¹³⁴ I&E St. No. 2, pp. 34-35.

¹³⁵ I&E St. No. 2, p. 36.

¹³⁶ I&E St. No. 2, p. 36.

the overall stock market returns based on I&E witness Patel's analysis is 11.61%.¹³⁷

This, in turn, yields a cost of equity result of 9.96%.¹³⁸

Additionally, I&E witness Patel performed a CAPM analysis using Kroll's (formerly Duff & Phelps) recommended U.S. Equity Risk Premium (ERP) paired with the 20-year U.S. Treasury yield. Kroll is a trusted and publicly available source that bases its recommended ERP on current and forecasted economic and financial market conditions.¹³⁹ Kroll recommends an ERP of 5.00%.¹⁴⁰ As of January 7, 2026, the 20-Year U.S. Treasury yield was 4.76%.¹⁴¹ The result of witness Patel's analysis using Kroll's recommended ERP and the 20-Year U.S. Treasury yield as risk-free rate yield 8.66%.¹⁴²

The average of Mr. Patel's two CAPM analyses, or the Composite CAPM, is 9.31% $((9.96\% + 8.66\%) \div 2)$.¹⁴³

I&E has historically reasoned, a recommended cost of equity based solely on the DCF analysis would be preferable because the DCF includes a spot stock price in the dividend yield calculation and analysts who generate forecasted earnings growth almost certainly take inflation into consideration as well, so it contains the most up-to-date projected information of any model. In other words, the inputs of the DCF capture all known economic factors, including inflation. However, in the interest of capturing the

¹³⁷ I&E St. No. 2, pp. 37-38.

¹³⁸ I&E St. No. 2, p. 38.

¹³⁹ I&E St. No. 2, p. 38.

¹⁴⁰ I&E St. No. 2-SR, p. 26.

¹⁴¹ I&E Exhibit No. 2, Schedule 13.

¹⁴² I&E St. No. 2-SR, p. 27.

¹⁴³ I&E St. No. 2-SR, p. 27.

Commission's recently preferred use of more than one model for the appropriate ROE, I&E recommends an average of the DCF and CAPM in this proceeding.¹⁴⁴

d) Conclusion Regarding I&E's ROE

In consideration of the above and the record evidence presented, I&E recommends that the Company should be afforded the opportunity to earn an overall rate of return of 7.46% for Water Operations and 7.11% for Wastewater Operations. I&E recommends an overall ROE for both Water and Wastewater Operations of 9.70%.

3. The Company's Proposed Return on Common Equity

Pennsylvania-American witness Bulkley relies on the DCF, CAPM, and Empirical Capital Asset Pricing Model (ECAPM) methodologies in presenting her recommended return on equity. Based on these various methods, Ms. Bulkley arrives at an ROE of 10.95%.¹⁴⁵

I&E disagrees with witness Bulkley's recommendation for several reasons. First, I&E disagrees with her application of the DCF, CAPM, and ECAPM in determining a ROE for PAWC. Additionally, I&E witness Patel disagrees with the purported claimed risks resulting from the Company's capital expenditure program and adherence to environmental and water quality regulations. Lastly, I&E disagrees with Ms. Bulkley's recommendation to include an implied adjustment, which is unquantified, to the cost of equity for stock flotation costs and her recognition of exemplary management performance.

¹⁴⁴ I&E St. No. 2, pp. 39-40.

¹⁴⁵ Pennsylvania-American Statement No. 13, p. 6.

Further, as stated above in the discussion of proxy groups, Pennsylvania-American witness Bulkley's selected proxy group is flawed as discussed above, making her results unusable.

a) Pennsylvania-American's Use of the CAPM, and ECAPM methods.

After forming her proxy group, Pennsylvania-American witness Bulkley calculated common equity costs with data inputs specific to these companies using in addition to the DCF, the CAPM, and ECAPM methods. By contrast, I&E witness Patel recommended using the average of the DCF method and the composite of the traditional and the Kroll CAMP methods to determine the ROE.

Ms. Bulkley performs several variations of analyses for her CAPM. She provides six CAPM, including ECAPM, analyses results using three risk-free rates: (a) the current 30-day average yield on 30-year U.S. Treasury Bonds, (2) the near term projected 30-year U.S. Treasury Bond yield for Q1-2026 through Q1-2027, and (3) the long term projected 30-year U.S. Treasury Bond yield for 2027-2031 and applying two subsets of Value Line beta. She calculates the expected return on the S&P 500 Index for each company in the entire S&P 500 Index applying the Constant DCF model based on data published by Bloomberg Professional. Finally, Ms. Bulkley includes an ECAPM analysis paired with each result of her standard CAPM analysis for the combined proxy group companies.¹⁴⁶

¹⁴⁶ PAWC St. No. 13, pp. 40-43.

I&E witness Patel recommends the Commission reject Pennsylvania-American witness Bulkley's method of calculating the risk-free rate used for her CAPM analysis.¹⁴⁷ Pennsylvania-American witness Bulkley's claim is based upon expected yields on 30-year U.S. Treasury Bonds. The use of 30-year treasury bonds is not appropriate. Long-term Treasury Bonds have substantial maturity risk associated with the market risk and the risk of unexpected inflation and normally offer higher yields to compensate investors for these risks.¹⁴⁸ Using the 10-year Treasury Note is more appropriate to balance the short-term volatility risk and the long-term inflation risk.

Additionally, the Commission has recognized the 10-year Treasury Note as the superior measure for the risk-free rate by stating the following:¹⁴⁹

We agree with I&E and the ALJs that using the yield on the 10-year Treasury Note provides a better measure of the risk-free rate of return than using the yield on the 30-year Treasury Bond, as recommended by UGI. In our view, using the 10-year Treasury Note balances the shortcomings of the short-term T-Bill and the 30-year Treasury Bond. Although long-term Treasury Bonds have less risk of being influenced by federal policies, they have substantial maturity risk associated with the market risk. In addition, long-term Treasury Bonds bear the risk of unexpected inflation.

In sum, I&E witness Patel's use of the yield on a 10-year Treasury Note is appropriate because it better reflects the life of the underlying investment and has been recognized by this Commission as the appropriate measure of the risk-free rate.

¹⁴⁷ I&E St. No. 2, pp. 47.

¹⁴⁸ I&E St. No. 2, p. 48.

¹⁴⁹ *Pa. P.U.C. v. UGI Utilities, Inc. – Electric Division*, Docket No. R-2017-2640058, p. 99 (Order entered October 25, 2018).

I&E witness Patel excluded the ECAPM method from his analysis because it has essentially the same flaws as the CAPM but with a further measure of subjectivity.¹⁵⁰ Additionally, in the Columbia base rate proceeding, the Commission did not consider Columbia's ECAPM and RP analyses results in determining an appropriate ROE.¹⁵¹ It appears that generally the Commission has not used the ECAPM results in determining a ROE.

Recently in the Columbia Water base rate case (*Columbia Water 2023*) the Commission agreed with I&E that the ECAPM should be rejected. There the Commission stated:

Upon our consideration of the record evidence, we agree with the ALJs' determination that Columbia's ECAPM is inappropriate. The ALJs heavily relied on I&E's criticism of the ECAPM to justify its rejection. We agree with I&E's rationale, particularly that the ECAPM adds subjectivity to the CAPM as an attempt to refine its predicted SML. Additionally, we are persuaded by I&E's assertion that while some studies indicate that the ECAPM inaccurately defines the SML, the degree to which the CAPM requires adjustment is variable.¹⁵²

b) Flotation Costs

Additionally, Ms. Bulkley asserts that flotation costs are part of the invested costs of the utility that are properly reflected on the balance sheet under 'paid in capital' and they are not current expenses, and therefore, are not reflected on the income statement.¹⁵³

¹⁵⁰ I&E St. No. 2, p. 50.

¹⁵¹ *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499 (Order Entered December 9, 2025) pp. 225-226.

¹⁵² *Pa. P.U.C. v. Columbia Water Company*, Docket No. R-2023-3040258, p. 105 (Order entered January 18, 2024).

¹⁵³ PAWC St. No. 13, p. 56, lines 16-18.

She asserts that since PAWC is a wholly owned subsidiary of AWK, it is appropriate to consider flotation costs because wholly owned subsidiaries receive equity capital from their parent and provide returns on the capital that roll up to the parent.¹⁵⁴ I&E disagrees.

Generally, the flotation costs of the parent company are accounted for and recovered as O&M expenses or amortized over a certain period in the books of the issuer company. PAWC does not issue stocks to the general public in the capital market, and the parent company issues stocks for a variety of reasons and uses, and they are not entirely issued and used for the benefit of PAWC. There is no indication that PAWC's parent company will issue new stocks during the FPFTY when the new rates will be effective. Ms. Bulkley's claim for the flotation cost impact in recommending an ROE for FPFTY ratemaking is improper and unsupported, when the claim for such cost is based on the historical flotation cost of the parent company.

Because of the flaws associated with these Ms. Bulkley's analysis, the results of Pennsylvania-American witness Bulkley's analysis should be disregarded.

F. Management Performance

The essence of strong management performance is earning a higher return through efficient use of resources and cost cutting measures. The greater net income resulting from cost savings and true efficiency in management and operations is then available to be passed on to shareholders. Therefore, Pennsylvania-American, or really any utility, should not be awarded additional rate of return basis points for doing what they are

¹⁵⁴ PAWC St. No. 13, p. 58, lines 3-5.

required to do in order to provide adequate, efficient, safe, and reasonable service under 66 Pa. C.S.A. § 1501 and for increasing profits as they are incentivized to do by their board of directors and shareholders.¹⁵⁵

Pennsylvania-American witness Bulkley states that similar to other business risks, she has not quantified or made a specific basis point adjustment for management performance, but she considered this factor in setting the overall ROE range (10.25% to 11.25%) and recommended the ROE of 10.95% within the range.¹⁵⁶

Regarding management performance ROE awards, the Commission affirmed the Administrative Law Judge's denial of management performance points in *Columbia Gas 2021*. The Commission summarized the Recommended Decision and stated:

[The ALJ] agreed with I&E, the OCA, and the OSBA that Columbia failed to provide sufficient evidence to support its proposal for an additional twenty-basis points for “strong management performance.” The ALJ reasoned that while effective operating and maintenance cost measures should flow through to ratepayers and/or investors, Columbia's proposal defeats the purpose of cutting expenses to benefit ratepayers, particularly during a pandemic when so many ratepayers have experienced reduced household income from job loss or reduction in hours. Therefore, the ALJ recommended that no upward management effectiveness adjustment be made to the Company's cost of equity.¹⁵⁷

Pennsylvania-American witnesses Bulkley and Ladner refer to Sections 523(a) and (b) that lists efficiency, effectiveness, and adequacy of service factors as well as the

¹⁵⁵ I&E St. No. 2, p. 80.

¹⁵⁶ PAWC St. No. 13, pp. 6-8.

¹⁵⁷ *Pa. P.U.C. v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835, p. 134 (Order entered February 19, 2021).

management effectiveness and operating efficiency that the Commission shall consider in evaluating the performance of water and wastewater utilities. They also refer to 52 Pa. Code § 69.711, which outlines the Commission's acquisition incentives, including rate of return premiums, acquisition adjustments, deferral of acquisition improvement costs and plant improvement surcharges to encourage the acquisition of troubled water and wastewater systems by viable utilities. Ms. Bulkley largely defers to Mr. Ladner's testimony (Pennsylvania-American Statement No. 1) to support the Company's management performance claims. Ultimately, Ms. Bulkley suggests that an ROE at the upper end of her range, specifically an ROE of 10.95%, is reasonable to account for the Company's claimed excellent management performance. Mr. Ladner supports Ms. Bulkley's recommended ROE of 10.95% in recognition of claimed superior management performance.¹⁵⁸

I&E rejects the Company's arguments that it deserves a higher ROE based on management performance and asserts that, many of the arguments presented by Pennsylvania-American fall within the categories of reliability, customer satisfaction, and safety which are required of every public utility company under 66 Pa. C.S.A. § 1501.¹⁵⁹ Second, the Company passes on capital expenditures to its ratepayers via base or it can utilize a Distribution System Improvement Charge (DSIC) for capital expenditure recovery.¹⁶⁰ Additionally, if the Company is effective at controlling operating and

¹⁵⁸ PAWC St. No. 1, p. 2.

¹⁵⁹ I&E St. No. 2, p. 72.

¹⁶⁰ I&E St. No. 2, p. 72.

maintenance costs those savings should flow through to ratepayers and/or investors, but through this adder, the claimed savings to the ratepayers would likely be offset by the addition of basis points for management performance as ratepayers would have to fund the additional costs. This would defeat the purpose of cutting expenses to benefit ratepayers.

Additionally, a review of the Management and Operations Audit Report, prepared by the Commission's Bureau of Audits, illustrates the following summary of findings which demonstrates that out of the twelve functional areas, Pennsylvania-American does not meet expectations in any:¹⁶¹

¹⁶¹ Management and Operations Audit of Pennsylvania-American Water Company, prepared by The Pennsylvania Public Utility Commission, Bureau of Audits at Docket No. D-2022-3035217, October 2023, Pennsylvania-American Statement No. 1, p. 2.

Functional Area	Meets Expected Performance Level	Minor Improvement Necessary	Moderate Improvement Necessary	Significant Improvement Necessary	Major Improvement Necessary
Executive Management and Organizational Structure		X			
Corporate Governance		X			
Cost Allocations and Affiliated Interests			X		
Financial Management		X			
Water Operations			X		
Wastewater Operations		X			
Emergency Preparedness			X		
Purchasing and Materials Management		X			
Customer Service			X		
Information Technology		X			
Fleet Management		X			
Human Resources and Diversity		X			

I&E acknowledges that in its Order in the most recent Aqua Pennsylvania base rate case (*Aqua 2022*) the Commission granted Aqua an award of 25 basis points for management performance.¹⁶² Therein, the Commission explained:

¹⁶² *Pa. P.U.C. v. Aqua Pa., Inc.*, Docket Nos. R-2021-3027385 and R-2021-3047386 (Order entered May 16, 2022).

Based upon our informed judgment, which includes consideration of *a variety of factors* (“emphasis added”) including increasing inflation leading to increases in interest rates and capital costs since the rate filing, we determine that a base ROE of 9.75% is reasonable and appropriate for Aqua. When combined with our upward adjustment of 25 basis points to the Company’s ROE for management effectiveness, this will produce a final authorized ROE for Aqua of 10.00% (*i.e.*, $9.75\% + 0.25\% = 10.00\%$).¹⁶³

In addition, the Commission explained that the additional 25 basis points were appropriate given that “...Aqua carries a roster of large and complex emergency aid matters *unlike any other Pennsylvania utility* (emphasis added).”¹⁶⁴ Notably, the Commission has specifically distinguished Aqua from other Pennsylvania utilities as taking on matters that other utilities do not. Therefore, while I&E disagreed, the Commission found it appropriate to award Aqua for their endeavors.

In contrast, Pennsylvania-American has not presented evidence which should persuade the Commission that granting additional basis points for management performance is warranted. Additionally, Pennsylvania-American witness Bulkley’s requested ROE is far above what has been approved in recent Commission history. Pennsylvania-American has neither demonstrated that it is entitled to management performance points added to its ROE and has failed to demonstrate why its customers should be burdened by the cost. Therefore, the management performance points requested by Pennsylvania-American should be denied.

¹⁶³ *Id.* at 178.

¹⁶⁴ *Id.* at 173.

G. Conclusion

Pennsylvania-American's claimed rate of return overstates its need for a revenue increase. Pennsylvania-American's requested rate of return is not supported by a reasonable measure of returns in today's market. The evidence demonstrates that Pennsylvania-American's claim for a return on equity of 10.95% and an overall rate of return of 8.23% for water and 7.75% for wastewater overstates what reasonable investors should expect from a regulated public utility and is not necessary for Pennsylvania-American to safely and reliably provide service to its ratepayers.

When adjusted by I&E to more reasonable levels that approximate expected returns in today's economy for similarly-situated water utilities, Pennsylvania-American's evidentiary support for its \$163,357,736 rate increase is substantially reduced. As demonstrated by I&E witness Patel, the appropriate overall rate of return that will result in just and reasonable rates is 7.46% for Pennsylvania-American water operations and 7.11% for Pennsylvania-American wastewater operations with an included 9.70% cost rate of common equity.

X. RATE STRUCTURE

A utility's rate structure reflects how a proposed revenue increase will be allocated among rate classes. Under Section 1304 of the Public Utility Code, the rate structure cannot either advantage or disadvantage a class or contain an unreasonable difference in

rates.¹⁶⁵ To survive a challenge under Section 1304, a utility must show any difference can be justified by the difference in costs to deliver service to each class.¹⁶⁶

A properly designed rate structure will not unduly burden one class of ratepayers to the benefit of another. Under the Public Utility Code, “[n]o public utility shall ... make or grant any unreasonable preference to any person, corporation ... No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service.”¹⁶⁷ Differences in rates charged to different classes are permissible so long as there is reasonable basis for the discrepancy.¹⁶⁸ Generally “public utility rates should enable the utility to recover its cost of providing service and should allocate this cost among the utility’s customers in a just, reasonable and nondiscriminatory manner.”¹⁶⁹

I&E witness Esyan Sakaya details I&E’s proposed water rate design and I&E witness Ethan Cline details I&E’s proposed wastewater rate design.

A. Cost of Service Studies

An important element of designing rates is the relative rate of return. The rate of return is the Commission authorized return on rate base that is determined in a base rate

¹⁶⁵ 66 Pa. C.S. § 1304. Accordingly, if there is a reasonable basis for a difference, a utility may charge different rates for different classes of customers. *See Peoples Natural Gas Company v. Pa. P.U.C.*, 409 A.2d 446 (Pa. Cmwlth. 1979).

¹⁶⁶ *Philadelphia Suburban Water Company v. Pa. P.U.C.*, 808 A.2d 1044, 1060 (Pa. Cmwlth. 2002).

¹⁶⁷ 66 Pa. C.S. § 1304.

¹⁶⁸ *See generally, Peoples Natural Gas Company v. Pa. P.U.C.*, 409 A.2d 446 (Pa. Commw.1979).

¹⁶⁹ *See generally Pa. P.U.C. v. West Penn Power*, 73 Pa. P.U.C. 454, 510, 199 PUR 4th 110 (1990).

proceeding; this is the return the Company and shareholders earn on the rate base investment. A relative rate of return indicates how the rate of return of each customer class compares to the system average rate of return. In general, a relative rate of return that provides revenue equal to its cost to serve would have a relative rate of return equal to 1.0. If a class of service has a relative rate of return below 1.0, the revenue received from that class does not cover the cost of providing service to that class. If a class of service has a relative rate of return above 1.0, the revenue received from that class exceeds the cost of providing service to that class.

1. Water Operations

Regarding the COSS for Water Operations, I&E witness Sakaya made no recommended changes. The Company provided two customer cost analyses for the FPFTY.¹⁷⁰ The results of the first cost analysis include all costs being allocated to the customer cost function and results in a unit cost of \$31.87 per month in the FPFTY. Additionally, PAWC provided a second customer cost analysis that relies on the allocation of costs more directly applicable to customers. The result of the more direct customer cost analysis is \$26.15 per month per customer in the FPFTY.¹⁷¹

I&E recommends the second customer cost analysis, or the more direct customer cost analysis, be utilized for setting customer charges. I&E witness Sakaya reasons, that costs that are recovered from customers are continuously increasing, even between rate cases, with surcharges such the DSIC. Therefore, it is appropriate to limit the increase in

¹⁷⁰ PAWC Exhibit 12-A, Appendix A, Attachment RS1j.

¹⁷¹ PAWC Exhibit 12-A, Appendix A, Attachments RS1j, p. 2.

the customer charges and to consider the affordability of rates through a lower customer charge and higher usage rates, which allows customers greater control over their bills through conservation. Additionally, the Commission has traditionally relied on customer cost analyses based on direct cost allocations to determine customer charges. For these reasons, I&E recommends the Commission to reject the fully allocated customer cost analysis and base the customer charges instead on the direct cost customer cost analysis provided by the Company on PAWC Exhibit 12-A, Appendix A, Attachments RS1j, p. 2 of 3.

2. Wastewater Operations

The Company proposed to include approximately two-thirds of its inflow and infiltration (I&I) costs in its customer cost analysis, which is the same amount that the Commission rejected in its Order resolving this issue in the 2023 base rate case.¹⁷² The Commission determined in the 2023 PAWC base rate case that the I&I cost recovery in the customer charge should be limited and approved recovery of approximately 3.6% of the Company's I&I costs in the customer charge in that proceeding. Therefore, to determine the appropriate amount of I&I costs to include in the customer cost analysis, I&E witness Cline multiplied the total cost related to I&I of \$39,657,608¹⁷³ by 3.6%, which results in \$1,427,674 of I&I costs to be allocated to the customer charge. This amount divided by the 817,672 annualized service equivalents results in an I&I related cost per bill of \$1.75 ($\$1,427,674 / 817,672$). This \$1.75 plus the \$9.87 meter related

¹⁷² PAWC Exhibit 12-B, Appendix A, RS1-j Attachment, p. 2.

¹⁷³ PAWC Exhibit 10-C, RS1-j. Attachment, p. 2 of 3.

cost per bill and the \$3.68 customer accounting cost per bill provided by the Company in its calculation of direct customer cost per month results in a total customer cost per month of \$15.30. As the customer charge under present rates is \$15.00, I&E agrees with OSBA witness Kubas that an increase to the customer charge is not supported.

3. Cost of Service Studies for Future General Rate Increases

I&E did not present testimony on this topic.

B. Revenue Allocation and Act 11 Shift

1. Revenue Allocation

Revenue allocation is described as the allocation of revenue responsibility between rate classes.¹⁷⁴ It is routinely accepted that for class revenue allocation purposes, cost of service is the “polestar.”¹⁷⁵

2. Act 11

Section 1311(c) of the Public Utility Code,¹⁷⁶ more commonly referred to as Act 11, permits utilities that provide both water and wastewater service to combine the revenue requirements by allocating a portion of the wastewater revenue requirement to the water customer base if doing so is in the “public interest.”¹⁷⁷ Section 1311(c), however, does not specify how the Commission should determine rates, nor does it dictate the percent or amount of revenue that should be allocated or shifted, leaving the

¹⁷⁴ *Ratemaking Guide*, p. 138.

¹⁷⁵ *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010 (Pa. Commw. 2006).

¹⁷⁶ 66 Pa. C.S. § 1311(c).

¹⁷⁷ *Id.*

Commission wide latitude in applying Act 11.¹⁷⁸ What is required, however, is that it must be in the public interest for the utility to allocate a portion of its wastewater revenue requirement to the combined water and wastewater customer base.¹⁷⁹

I&E witness Cline recommends that the Act 11 subsidy proposal of OSBA be adopted.¹⁸⁰ The Act 11 subsidy generated by the rate proposal of OSBA witness Kubas is \$24,303,471.¹⁸¹ The following table shows the OSBA Act 11 subsidy by system as shown on OSBA Exhibit JK-2SR.

Water Subsidy	Wastewater Subsidy Total	SSS System	BASA System	CSS System	EBMA System
\$24,303,471	(\$24,303,471)	(\$1,958,881)	(\$31,308,183)	\$11,632,644	(\$2,669,051)

Since Act 11 of 2012 was signed into law, PAWC has submitted five base rate cases, not including the present case, which have been resolved either through litigation or settlement. The total amount that PAWC has requested to be allocated to water customers over the years, not including the request in the present proceeding, is \$163,867,510 and the total amount allocated by the Commission is \$90,849,981.¹⁸² Already, almost an entire base rate case increase worth of wastewater funds has been allocated across water customers since Act 11 was enacted as demonstrated in the table¹⁸³ below. This supports the I&E position that the wastewater allocation should be as limited as possible without causing rate shock to wastewater customers.

¹⁷⁸ *Ratemaking Guide*, p. 141.

¹⁷⁹ 66 Pa. C.S. § 1311(c).

¹⁸⁰ I&E St. No. 3-SR, p. 15.

¹⁸¹ OSBA Exhibit JK-2SR.

¹⁸² I&E St. No. 4, p. 117.

¹⁸³ I&E St. No. 4, p. 18.

Case Docket No.	PAWC Proposed Act 11 Allocation	Commission approved Allocation
R-2013-2355276	\$9,092,115 ¹⁸⁴	\$5,411,134 ¹⁸⁵
R-2017-2595853	\$13,805,187 ¹⁸⁶	\$4,700,000 ¹⁸⁷
R-2020-3019369 and R-2020-3019371	\$32,851,597 (Rate Year 1) \$35,171,958 (Rate Year 2) ¹⁸⁸	\$29,296,281 (Step 1) \$21,480,685 (Step 2) ¹⁸⁹
R-2022-3031672 and R-2022-3031673	\$72,946,653 ¹⁹⁰	\$26,961,883 ¹⁹¹
R-2023-3043189 and R-2023-3043190	\$71,087,394 ¹⁹²	\$23,321,384 ¹⁹³
Total:	\$234,954,904	\$111,171,367

¹⁸⁴ Pennsylvania-American base rate filing at Docket No. R-2013-2355276, Pennsylvania-American Statement No. 1, p. 11.

¹⁸⁵ *Pa. PUC vs. Pennsylvania-American Water Company*, Docket No. R-2013-2355276, Opinion and Order (Order Entered December 19, 2013), p. 17.

¹⁸⁶ Pennsylvania-American base rate filing at Docket No. R-2017-2595853 Pennsylvania-American Exhibit No. 3-A, Water and Wastewater Revenue Requirement Summary.

¹⁸⁷ *Pa. PUC vs. Pennsylvania-American Water Company*, Docket No. R-2017-2595853, Recommended Decision, p. 31, Dated November 20, 2017.

¹⁸⁸ Pennsylvania-American base rate filing at Docket Nos. R-2020-3019369 and R-2020-3019371, Pennsylvania-American Exhibit No. 3-A, Combined Water and Wastewater Revenue Requirement Summary.

¹⁸⁹ *Pa. PUC vs. Pennsylvania-American Water*, Docket Nos. R-2020-3019369 and R-2020-3019371, Joint Petition for Non-Unanimous Settlement of Rate Investigation, p. 20.

¹⁹⁰ Pennsylvania-American base rate filing at Docket Nos. R-2022-3031672 and R-2022-3031673, Pennsylvania-American Exhibit No. 3-A, Combined Water and Wastewater Revenue Requirement Summary.

¹⁹¹ *Pa. PUC vs. Pennsylvania-American Water Company*, Docket Nos. R-2022-3031672 and R-2022-3031673, Joint Petition for Settlement of Rate Investigation, p. 23.

¹⁹² Pennsylvania-American base rate filing at Docket Nos. R-2023-3043189 and R-2023-3043190 Pennsylvania-American Exhibit No. 3-A, Water and Wastewater Revenue Requirement Summary.

¹⁹³ *Pa. PUC vs. Pennsylvania-American Water Company*, Docket Nos. R-2023-3043189 and R-2023-3043190, Opinion and Order (Order Entered July 22, 2024), Table Act 11.

Therefore, as I&E continues to support the other OSBA rate proposals, it is clear that the OSBA Act 11 shift should be adopted as well.

C. Tariff Structure

1. Customer Charges

A customer cost analysis is a part of a cost of service study that is used to determine the appropriate fixed customer charges for the various classes and meter sizes. It is necessary to perform a customer cost analysis because a fixed customer charge represents the revenue that the Company is guaranteed to receive each month, regardless of the level of usage. As acknowledged in the seventh edition of the American Water Works Association M1 Manual, there is a tradeoff between revenue stability from a high customer charge, and affordability and conservation from a low customer charge and higher usage rates.¹⁹⁴

There are two different types of customer costs: direct and indirect. A direct customer cost is a cost that changes with the increase or decrease of a single customer. An indirect customer cost is a customer related cost that does not change with the increase or decrease of a single customer. Fixed costs assigned to the customer charge are limited to those fixed costs for which there is a direct impact from an individual customer. For example, each individual customer requires a meter and a bill. Therefore, fixed costs associated with meters and billing are properly attributable to the fixed customer charge. The Commission has allowed, in past instances, certain indirect

¹⁹⁴ AWWA Manual of Water Supply Practices M1 Principles of Water Rates, Fees, Charges, Seventh Edition. pp. 154-155.

customer costs to be included in a customer cost analysis and thus recovered in a customer charge. As an example, in previous cases, the Commission has allowed the indirect cost of Employee Pension and Benefits.

a) Water Customer Charges

In this proceeding, Company provided two customer cost analyses for the FPFTY.¹⁹⁵ The second customer cost analysis that relies on the allocation of costs more directly applicable to customers results in a \$26.15 per month per customer in the FPFTY.¹⁹⁶

I&E witness Sakaya recommends that the second customer cost analysis which relies on the allocation of costs more directly applicable to customers be used to determine the customer charge for water customers.¹⁹⁷ His recommendation is based on the fact that costs that are recovered from customers are continuously increasing, even between rate cases, with surcharges such the DSIC. Therefore, it is appropriate to limit the increase in the customer charges and to consider the affordability of rates through a lower customer charge and higher usage rate. Additionally, the Commission has traditionally relied on customer cost analyses based on direct cost allocations to determine customer charges.

Based on this customer cost analysis, I&E witness Sakaya recommended accepting the Company's proposed customer charges in Rate Zones 1 through 6 and Rate

¹⁹⁵ PAWC Exhibit 12-A, Appendix A, Attachment RS1j, p. 1.

¹⁹⁶ PAWC Exhibit 12-A, Appendix A, Attachments RS1j, p. 2.

¹⁹⁷ I&E St. No. 3, p. 6.

Zone 9.¹⁹⁸ However, I&E witness Sakaya recommended changing the proposed customer charges in Rate Zones 7 and 8.¹⁹⁹

Regarding Rate Zone 7, witness Sakaya recommends:

Rate Zones 7 All Customer Charges			
Meter Size	Present Rate	I&E Proposed Rate	Revenue Percent Increase
5/8 — inch	\$8.89	\$15.00	68.73%
3/4-inch	\$8.89	\$15.00	68.73%
1 -inch	\$23.71	\$15.00	-36.74%
1 1/2-inch	\$47.42	\$15.00	-68.37%
2-inch	\$106.69	\$131.70	23.44%
3-inch	\$207.44	\$245.50	18.35%
4-inch	\$355.61	\$307.70	-13.47%
6-inch	N/A	\$460.40	0%
8-inch	N/A	891.70	0%

This will serve to accelerate consolidation of these rates within Rate Zone 1, which is ultimately the goal.

Regarding Rate Zone 8, I&E witness Sakaya recommended Rate Zone 8 customer charges for meters up to 1-1/2” be moved to those recommended for Rate Zone 1 to accelerate consolidation with Rate Zone 1.²⁰⁰ PAWC witness McClellan accepted I&E’s recommendation to move the customer charges for meters up to 1-1/2” in Rate Zone 8 to those recommended for Rate Zone 1.²⁰¹

¹⁹⁸ I&E St. No. 3, p. 5.

¹⁹⁹ I&E St. No. 3, pp. 9-10.

²⁰⁰ I&E St. No. 3-SR, p. 7.

²⁰¹ PAWC St. No. 10-R, p. 23.

b) Wastewater Customer Charges

I&E generally supports the rate design proposals as set forth by OSBA.²⁰²

2. Water Rate Design

The Company's filing includes nine different primary rate zones. Most of PAWC's customers are included in Rate Zone 1. The remaining rate zones are as follows: Rate Zone 2 – Valley, Rate Zone 3 – Turbotville, Rate Zone 4 – Farmington, Rate Zone 5 – East Dunkard, Rate Zone 6 – Audubon, Rate Zone 7 – Manwalamink, Rate Zone 8 – Appalachian, and Rate Zone 9 – Corner Water.

The Company is proposing to move Rate Zone 2 Valley, Rate Zone 3 Turbotville, Rate Zone 4 Farmington, and Rate Zone 5 East Dunkard rates to Rate Zone 1 rates. The Company is also proposing to move Rate Zone 6 Audubon, Rate Zone 7 Manwalamink, Rate Zone 8 Appalachian, and Rate Zone 9 Corner Water toward Rate Zone 1 rates and rate structures.²⁰³

I&E accept the Company's proposal to merge Rate Zones 2, 3, 4, and 5 into Rate Zone 1, and accepts the Rate Zone 6 and 9 proposals as explained below. However, to move Rate Zones 7 and 8 toward Rate Zone 1, I&E recommends certain modifications to the rates as explained below.

a) Rate Zone 7 – Manwalamink Usage Rates

To move Rate Zone 7 residential rates towards consolidation with Rate Zone 1 rates, I&E has recommended setting the customer charges for Rate Zone 7 5/8-inch, 3/4-

²⁰² I&E St. No. 3-SR, p. 13.

²⁰³ PAWC St. No. 10, p. 14.

inch, 1-inch, and 1-1/2-inch meter sizes to \$15.00 per month and setting the larger meter sizes, which have no customers, equal to Rate Zone 1 rates. For usage, I&E recommended increasing the residential usage rate for the first 100,000 gallons to \$0.7500 per hundred gallons and eliminating the second block usage rate by setting it equal to the first 100,000 gallons usage block. Likewise, for the Rate Zone 7 commercial and municipal rates, I&E recommended the customer charges be set equal to those of Rate Zone 1 and both usage block rates be set to \$0.8000 per hundred gallons, which would eliminate the second block usage rate. This will allow the creation of commercial and municipal declining usage block rates split at the 16,000-gallon usage level that exists in Rate Zone 1. This would result in an increase in the average bill of 41.74%²⁰⁴ for the residential customers and 39.82%²⁰⁵ for the commercial and municipal customers. When compared to the 16.82%²⁰⁶ increase for residential customers and 17.34%²⁰⁷ increase for commercial and municipal customers in Rate Zone 1, this recommendation moves Rate Zone 7 towards consolidation with Rate Zone 1 in future base rate cases.

b) Rate Zone 8 – Appalachian Usage Rates

I&E recommends keeping the same usage rate proposed by PAWC for the first 16,500 gallons of \$0.9534 and over 16,500 gallons of \$0.9534. This would slightly increase the average bill for customers with average usage of 3,263 gallons to \$51.11 per

²⁰⁴ I&E Exhibit No. 3, Schedule 2, p. 1.

²⁰⁵ I&E Exhibit No. 3, Schedule 2, p. 3.

²⁰⁶ PAWC Exhibit 10A, p. 78.

²⁰⁷ PAWC Exhibit 10A, p. 87.

month as opposed to \$45.81 per month.²⁰⁸ PAWC witness McClellan agreed with the recommendation to move Rate Zone 8 volumetric charges to a uniform block structure to facilitate the consolidation of usage rates of Rate Zone 8 with Rate Zone 1 in a future rate case.²⁰⁹

As this proposal will serve to facilitate the ultimate goal of moving these rates toward Rate Zone 1, I&E's proposal should be adopted.

3. Wastewater Rate Design

I&E generally supports the rate design proposals as set forth by OSBA.²¹⁰

4. Wastewater Deduct Adjustment

The Company is proposing to change the way that it determines the volumetric component of bills for residential customers. Currently, wastewater usage is based upon actual water usage. A deduct adjustment, as the Company is proposing, is a method that would separate metered water usage that is likely to go through the wastewater system from water usage that is used for outdoor purposes in the summertime. It is meant to mimic a deduct meter. The seasonal wastewater bills (April to December)²¹¹ would be determined by the lesser of actual metered water usage for the summer month or the average water consumption for that customer in the winter months (January, February

²⁰⁸ I&E Exhibit No. 3, Schedule 2, p. 3.

²⁰⁹ PAWC St. No. 10-R, p. 26.

²¹⁰ I&E St. No. 3-SR, p. 13.

²¹¹ Pennsylvania-American Notice of Proposed Wastewater Rate Changes, Rate Zones 1, 1a, 1b, 1c, 1d, 1e, 1f, and 2; Pennsylvania-American Supplement No. 61 to Tariff Wastewater PA P.U.C. No. 16, Second Revised Page 31.1, Canceling First Revised Page 31.1.

I&E witness Cline expressed general concerns that the Company's proposal is too broad and may have unintended consequences of shifting cost recovery from higher-income customers to lower-income customers since it is intended to benefit customers who water lawns, wash cars, fill pools, etc.²¹² in the summer. I&E was also concerned about the months characterized as "summer months" and the usage rate for customers with no history and about customers with increased usage in the shoulder months of October, November, December, and April.²¹³

In order to address those concerns, I&E recommends that should the Commission adopt the Company's proposed deduct adjustment the following modifications be adopted as well:

1. that the winter average be calculated using the five billing months of December through April.
2. that all CSS customers, including Scranton customers, be excluded from eligibility for the deduct adjustment.
3. that the minimum usage for customers with no winter usage be initially set at 3,000-gallons, which is approximately the system average usage for SSS Operations residential customers.
4. that the Company track and calculate the system average usage for customers during the winter period.

Further, I&E witness Cline explains that the Company should consider the option of a deduct meter program when more data exists regarding the outcome of the current deduct adjustment proposal.²¹⁴ As he notes, this would be a more simple, accurate and

²¹² PAWC St. No. 10, p. 25.

²¹³ I&E St. No. 4, p. 5.

²¹⁴ I&E St. No. 4, p. 11.

direct method to measure water that is being used for outdoor purposes. Having a program that allows customers to install deduct meters, at their own expense and not spread across the rest of the customer base, would allow for the direct measurement of water used for outdoor purposes to be deducted from the overall usage for the wastewater bill. This option would provide far more accuracy in summer period wastewater bills than using the average of three winter months, particularly for those customers who only reside in their home during non-winter seasonal months.²¹⁵

Therefore, to the extent the Commission adopts the deduct adjustment, I&E recommends the Commission also adopt the I&E modifications discussed above.

5. Demand-Based Contract Rates

I&E did not present testimony on this topic.

D. Summary and Alternatives (Including Scale Back of Rates)

If the Commission grants less than the Company's requested increase and adopts the I&E customer charges, the Company's proposed rates would be reduced, or scaled back, to produce the revenue requirement allowed by the Commission. The first step that must be completed in any scale back is to determine the revenue requirements and scale backs of the wastewater operations. The wastewater operations revenue requirement must be set first because that will determine the amount of revenue requirement that must be allocated to Water Operations under Act 11. Once the wastewater to water allocation is determined, then the full Water Operations revenue requirement will be known, and those

²¹⁵ I&E St. No. 4, p. 10.

rates can be scaled back. I&E recommends that any scale back be netted against the subsidy the Commission determines for the wastewater operations.

1. Water Scale Back of Rates

I&E witness Sakaya recommends that any scale back would first determine the revenue requirements and scale backs of the Wastewater Operations and that this would determine the amount of revenue requirement to allocate to Water Operations. Once the wastewater to water allocation is determined, a full Water Operations revenue requirement would be known, and at that point those rates can be scaled back accordingly. Witness Sakaya also recommended that any scale back be netted against the subsidy the Commission determines for Wastewater Operations.²¹⁶

Cleveland-Cliffs witness Baudino agreed to the scale back in principle, however he objected to a scale back of Industrial class customer charges as those charges were not increased.²¹⁷ The Company is proposing a consolidated customer charge of \$28.00 for Industrial customers in Rate Zones 1 through 6, with little to no increases in usage rates in the forementioned Industrial Rate Zones. Therefore, I&E also agrees with witness Baudino's recommendation that the Industrial customers in Zones 1 through 6 not be included in the scale back of any customer charge, and that only the usage rates for these customers be scaled back.²¹⁸

Therefore, I&E continues to recommend that if the Commission grants an increase

²¹⁶ I&E St. No. 3, p. 16.

²¹⁷ Cleveland-Cliffs St. No. R-1, pp. 5-6.

²¹⁸ I&E St. No. 3-SR, p. 14.

less than PAWC's total requested increase, the usage rates and customer charges be decreased to produce the revenue level approved by the Commission.²¹⁹

2. Wastewater Scale Back of Rates

OSBA witness Kubas provided a targeted scale back recommendation designed specifically around his rate recommendations.²²⁰ As a result, since I&E is supporting the rate recommendations of the OSBA, it is reasonable to also support Mr. Kubas' scale back methodology.²²¹

3. Summary

I&E's customer cost analysis, customer charge, and scale back proposals are based on sound Commission ratemaking policies and precedent and should be adopted in total.

XI. ALTERNATIVE RATEMAKING REQUESTS

A. Customer Assistance Program (CAP) Rider

I&E did not present testimony on this topic.

XII. LOW-INCOME CUSTOMER ASSISTANCE

A. Summary

I&E presented no testimony on this topic.

B. Affordability Analysis

I&E presented no testimony on this topic.

²¹⁹ I&E St. No. 3, p. 18.

²²⁰ OSBA St. No. 1-R, p. 8.

²²¹ I&E St. No. 4-SR. p. 17.

C. Bill Discount Program (BDP) Design

I&E presented no testimony on this topic.

D. Arrearage Management Program (AMP)

I&E presented no testimony on this topic.

E. H2O Help to Others (H2O) Program Screening, Outreach and Enrollment

I&E presented no testimony on this topic.

F. Water Conservation and Line Repair and Replacement Assistance

I&E presented no testimony on this topic.

G. Hardship Fund

I&E presented no testimony on this topic.

H. Renter Assistance Pilot Program

I&E presented no testimony on this topic.

I. Universal Service Plan

I&E presented no testimony on this topic.

XIII. SERVICE QUALITY AND CUSTOMER SERVICE ISSUES

A. Summary

I&E presented no testimony on this topic.

B. Customer Service Performance

I&E presented no testimony on this topic.

C. Billing Arrangement with American Water Resources

I&E presented no testimony on this topic.

XIV. CONCLUSION

Pennsylvania-American has failed to satisfy its burden of proof with respect to its proposed revenue increase of \$168,716,450, updated in Rebuttal to \$163,357,736. To the contrary, I&E's presentation of expert witness testimony demonstrates that Pennsylvania-American should receive a revenue increase of no more than \$86,219,545 based on the information available to the I&E witnesses as of the writing of their surrebuttal testimony.²²² Additionally, this overall revenue increase will need to be further updated to reflect the impact of the Internal Revenue Service (IRS) guidance related to the Corporate Alternative Minimum Tax (CAMT) as described in the Supplemental Direct Testimony of Pennsylvania-American witness Linda Schlessman.²²³ I&E, however, has not incorporated this adjustment into its overall revenue requirement calculation given the timing of the filing of this testimony.

As witness Schlessman notes, the deferred tax asset for the CAMT included in the revenue requirement was \$35,620,052 which was reflected in Pennsylvania-American's Exhibit 3-A. Revised Pennsylvania-American Exhibit 3-A now reflects a \$35,620,052 reduction to rate base consistent with witness Schlessman's recommendation to remove the deferred tax asset from rate base.²²⁴ Support provided for this adjustment was minimal; however, I&E accepts the reduction to revenue requirement and the impact on rates for the purposes of this proceeding only. I&E reserves all rights to address this

²²² I&E St. No. 1-SR, p. 14.

²²³ PAWC St. No. 8 Supplemental.

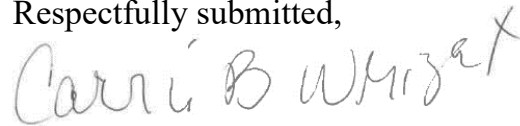
²²⁴ PAWC St. No. 8, Supplemental, p. 4.

matter more fully in any future proceedings involving this topic.

Regarding the revenue increase as presented in the I&E surrebuttal testimony, this can be broken down further. The \$86,219,545 increase represents an increase of \$31,938,351 to Pennsylvania-American water operations; an increase of \$13,378,429 to Pennsylvania-American Wastewater Sanitary Sewer Systems (SSS) operations; and an increase of \$4,595,680 to Pennsylvania-American Wastewater Combined Sewer Systems (CSS) operations; an increase of \$33,048,533 to Pennsylvania-American BASA Wastewater Operations; an increase of \$3,258,552 to Pennsylvania American Elizabeth Wastewater CSS Operations. But as explained above, due to the refund of the 2024 CAMT, these numbers will need to be further adjusted downward.

Accordingly, the Bureau of Investigation & Enforcement respectfully requests the Administrative Law Judges and the Commission adopt its recommendations in this proceeding, including all adjustments and modifications as supported herein and reflected on the attached I&E tables, and grant Pennsylvania-American Water Company a rate commensurate with the I&E adjustments.

Respectfully submitted,



Carrie B. Wright

Prosecutor

PA Attorney ID No. 208185

Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Dated: April 6, 2026

APPENDIX A

Pennsylvania-American Water Company							
I&E Recommended - Combined Water & Wastewater Revenue Requirement Summary							
Docket Nos. R-2025-3057983 and R-2025-3058051							
Line No.		<u>Total Company</u>	<u>Water Operations</u>	<u>WW - SSS General Ops.</u>	<u>WW CSS Operations</u>	<u>BASA WW Operations</u>	<u>Elizabeth Boro WW Operations</u>
		(A)	(B)	(C)	(D)	(E)	(F)
1	Present Rate Revenue	\$ 1,162,135,869	\$ 953,098,389	\$ 108,665,761	\$ 85,843,356	\$ 12,761,096	\$ 1,767,267
2	Additional Revenue Requirement*	\$ 86,219,545	\$ 31,938,351	\$ 13,378,429	\$ 4,595,680	\$ 33,048,533	\$ 3,258,552
3	Act 11 Allocation**	\$ -	\$ 24,303,482	\$ (1,958,881)	\$ 11,632,644	\$ (31,308,194)	\$ (2,669,051)
4	Proposed Revenues	\$ 1,248,355,414	\$ 1,009,340,222	\$ 120,085,309	\$ 102,071,680	\$ 14,501,435	\$ 2,356,768
5	Rate Increase/(Decrease) - \$	\$ 86,219,545	\$ 56,241,833	\$ 11,419,548	\$ 16,228,324	\$ 1,740,339	\$ 589,501
6	Rate Increase/(Decrease) - %	7.4%	5.9%	10.5%	18.9%	13.6%	33.4%
<p>* I&E's revenue increase is overstated since the Commission will need to reflect a reduced increase for the deferred tax adjustment presented in PAWC's supplemental direct testimony which is accepted by I&E. The last testimony on the record by I&E preceded receipt of the Company's supplemental direct.</p> <p>** Updated to reflect the surrebuttal testimony of OSBA witness Joe Kubas (OSBA Exhibit JK-1SR) as adopted by I&E witness Ethan Cline.</p>							

TABLE I							
Pennsylvania-American Water Company - Water Operations							
INCOME SUMMARY							
Docket Nos. R-2025-3057983 and R-2025-3058051							
	Pro Forma Present Rates (1)	Company Adjustments (1)	Pro Forma Present Rates Adjusted (1)	I&E Adjustments	I&E Pro Forma Present Rates	I&E Revenue Increase	Total Allowable Revenues
	\$	\$	\$	\$	\$	\$	\$
Operating Revenue	953,098,389	0	953,098,389	0	953,098,389	31,938,351	985,036,740
Expenses:							
O&M Expense	281,915,131	0	281,915,131	(5,003,261)	276,911,870	373,998	277,285,868
Depreciation	228,670,649	0	228,670,649	0	228,670,649	0	228,670,649
Taxes, Other	17,174,070	0	17,174,070	0	17,174,070	235,295	17,409,365
Income Taxes:							
State	19,888,012	0	19,888,012	136,422	20,024,434	2,189,901	22,214,335
Federal	46,994,519	0	46,994,519	381,204	47,375,723	6,119,223	53,494,946
Deferred Taxes/ITC	(233,592)	0	(233,592)	0	(233,592)	0	(233,592)
Total Expenses	594,408,789	0	594,408,789	(4,485,635)	589,923,154	8,918,417	598,841,571
Net Inc. Available for Return	358,689,600	0	358,689,600	4,485,635	363,175,235	23,019,934	386,195,169
Rate Base	5,179,526,769	0	5,179,526,769	(2,647,829)	5,176,878,940		5,176,878,940
Rate of Return	6.93%		6.93%		7.02%		7.46%

TABLE I(A)						
Pennsylvania-American Water Company - Water Operations						
RATE OF RETURN						
Docket Nos. R-2025-3057983 and R-2025-3058051						
	Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate	
Total Cost of Debt			2.12000000%			
Long-term Debt	44.99%	4.71%	2.12000000%			2.12%
Short-term Debt	0.00%	0.00%	0.00000000%			
Preferred Stock	0.01%	9.71%	0.00000000%	0.734779		0.00%
Common Equity	55.00%	9.70%	5.34000000%	0.734779		7.27%
	<u>100.00%</u>		<u>7.46000000%</u>			<u>9.39%</u>
Pre-Tax Interest Coverage	4.43					
After-Tax Interest Coverage	3.52					

TABLE I(B)					
Pennsylvania-American Water Company - Water Operations					
REVENUE FACTOR					
Docket Nos. R-2025-3057983 and R-2025-3058051					
100%					1.00000000
Less:					
Uncollectible Accounts Factor (*)					0.01171000
PUC, OCA, OSBA Assessment Factors (*)					0.00736715
Gross Receipts Tax					0.00000000
Other Tax Factors (adjust for rounding)					-0.00000100
					0.98092385
State Income Tax Rate (*)					0.06990000
Effective State Income Tax Rate					0.06856700
Factor After Local and State Taxes					0.91235685
Federal Income Tax Rate (*)					0.21000000
Effective Federal Income Tax Rate					0.19159500
Revenue Factor (100% - Effective Tax Rates)					<u>0.72076200</u>
(*) I&E Surrebuttal					

TABLE II							
Pennsylvania-American Water Company - Water Operations							
SUMMARY OF ADJUSTMENTS							
Docket Nos. R-2025-3057983 and R-2025-3058051							
Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	\$	\$	\$	\$	\$	\$	\$
RATE BASE:							
CWC:							
Int. & Div. (Table IV)							
Taxes (Table V)							
O&M (Table VI)							
CWC	(313,483)						
Wages and Benefits	(2,162,334)						
Transportation	(172,012)						
REVENUES:							
					0	0	0
					0	0	0
EXPENSES:							
Wages and Benefits			(3,650,093)			255,142	712,940
Waste Disposal			(1,122,977)			78,496	219,341
Transportation			(230,191)			16,090	44,961
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
TAXES:							
Interest Synchronization (Table III)						(213,306)	(596,038)
TOTALS	(2,647,829)	0	(5,003,261)	0	0	136,422	381,204

TABLE III	
Pennsylvania-American Water Company - Water Operations	
INTEREST SYNCHRONIZATION	
Docket Nos. R-2025-3057983 and R-2025-3058051	
	Amount
Company Rate Base Claim	\$ 5,179,526,769
I&E Rate Base Adjustments	(2,647,829)
I&E Rate Base	5,176,878,940
Weighted Cost of Debt	2.12000000%
I&E Interest Expense	109,749,834
Company Claim (1)	106,698,251
Total I&E Adjustment	(3,051,583)
Company Adjustment	0
Net I&E Interest Adjustment	(3,051,583)
State Income Tax Rate	6.99%
State Income Tax Adjustment	(213,306)
Net I&E Interest Adjustment	(3,051,583)
State Income Tax Adjustment	(213,306)
Net I&E Adjustment for F.I.T.	(2,838,277)
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment	\$ (596,038)
(1) Company Rebuttal Testimony	

TABLE IV				
Pennsylvania-American Water Company - Water Operations				
CASH WORKING CAPITAL - Interest and Dividends				
Docket Nos. R-2025-3057983 and R-2025-3058051				
Accrued Interest			Preferred Stock Dividends	
	Long-Term Debt	Short-Term Debt		
Company Rate Base Claim	\$5,179,526,769	\$5,179,526,769	Company Rate Base Claim	\$5,179,526,769
I&E Rate Base Adjustments	(\$2,647,829)	(\$2,647,829)	I&E Rate Base Adjustments	(\$2,647,829)
I&E Rate Base	\$5,176,878,940	\$5,176,878,940	I&E Rate Base	\$5,176,878,940
Weighted Cost of Debt	2.12000000%	0.00%	Weighted Cost Pref. Stock	0.00000000%
I&E Annual Interest Exp.	\$109,749,834	\$0	I&E Preferred Dividends	\$0
Average Revenue Lag Days	0.0	0.0	Average Revenue Lag Days	0.0
Average Expense Lag Days	0.0	0.0	Average Expense Lag Days	0.0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
Working Capital Adjustment				
I&E Daily Interest Exp.	\$300,684	\$0	I&E Daily Dividends	\$0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
I&E Working Capital	\$0	\$0		\$0
Company Claim (1)	\$0	\$0	Company Claim (1)	\$0
I&E Adjustment	\$0	\$0		\$0
Total Interest & Dividend Adj.	\$0			
(1) Company Rebuttal				

TABLE V								
Pennsylvania-American Water Company - Water Operations								
CASH WORKING CAPITAL - TAXES								
Docket Nos. R-2025-3057983 and R-2025-3058051								
Description	Company Proforma Tax Expense Present Rates	I&E Adjustments	I&E Pro forma Tax Expense Present Rates	ALJ Allowance	I&E Adjusted Taxes at Present Rates	Daily Expense	Net Lead/Lag Days	Accrued Tax Adjustment
PUC Assessment	\$0	\$0	\$0	\$235,295	\$235,295	\$644.64	0.00	\$0
Public Utility Realty	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
Capital Stock Tax	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
State Income Tax	\$0	\$136,422	\$136,422	\$2,189,901	\$2,326,323	\$6,373.49	0.00	\$0
Federal Income Tax	\$0	\$381,204	\$381,204	\$6,119,223	\$6,500,427	\$17,809.39	0.00	\$0
	\$0	\$517,626	\$517,626	\$8,544,419	\$9,062,045			

TABLE VI					
Pennsylvania-American Water Company - Water Operations					
CASH WORKING CAPITAL -- O&M EXPENSE					
Docket Nos. R-2025-3057983 and R-2025-3058051					
	Company				
	Pro forma		I&E		
	FTY	I&E	Pro forma		
Description	Expense		Expenses	Lag Days	Lag Dollars
Service Company	\$0	\$0	\$0	0.00	\$0
Chemicals	\$0	\$0	\$0	0.00	\$0
Group Insurance	\$0	\$0	\$0	0.00	\$0
Insurance, Other	\$0	\$0	\$0	0.00	\$0
Labor	\$0	\$0	\$0	0.00	\$0
Leased Equip./Rent	\$0	\$0	\$0	0.00	\$0
Leased Vehicles	\$0	\$0	\$0	0.00	\$0
Miscellaneous	\$0	\$0	\$0	0.00	\$0
Natural Gas	\$0	\$0	\$0	0.00	\$0
Power	\$0	\$0	\$0	0.00	\$0
Purchased Water	\$0	\$0	\$0	0.00	\$0
Telephone	\$0	\$0	\$0	0.00	\$0
Waste Disposal	\$0	\$0	\$0	0.00	\$0
Post Retirement Benefits	\$0	\$0	\$0	0.00	\$0
Pensions	\$0	\$0	\$0	0.00	\$0

TABLE I							
Pennsylvania-American Water Company - WW SSS General Operations							
INCOME SUMMARY							
Docket Nos. R-2025-3057983 and R-2025-3058051							
	Pro Forma Present Rates (1)	Company Adjustments (1)	Pro Forma Present Rates Adjusted (1)	I&E Adjustments	I&E Pro Forma Present Rates	I&E Revenue Increase	Total Allowable Revenues
	\$	\$	\$	\$	\$	\$	\$
Operating Revenue	108,665,761	0	108,665,761	0	108,665,761	13,378,429	122,044,190
Expenses:							
O&M Expense	29,370,450	0	29,370,450	(671,646)	28,698,804	156,661	28,855,465
Depreciation	28,595,513	0	28,595,513	0	28,595,513	0	28,595,513
Taxes, Other	2,491,390	0	2,491,390	0	2,491,390	98,561	2,589,951
Income Taxes:							
State	3,141,738	0	3,141,738	46,916	3,188,654	917,312	4,105,966
Federal	8,196,101	0	8,196,101	131,102	8,327,203	2,563,238	10,890,441
Deferred Taxes/ITC	0	0	0	0	0	0	0
Total Expenses	71,795,192	0	71,795,192	(493,628)	71,301,564	3,735,772	75,037,336
Net Inc. Available for Return	36,870,569	0	36,870,569	493,628	37,364,197	9,642,657	47,006,854
Rate Base	661,208,859	0	661,208,859	(71,666)	661,137,193		661,137,193
Rate of Return	5.58%		5.58%		5.65%		7.11%
(1) Company Rebuttal Testimony							

TABLE I(A)					
Pennsylvania-American Water Company - WW SSS General Operations					
RATE OF RETURN					
Docket Nos. R-2025-3057983 and R-2025-3058051					
	Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
Total Cost of Debt			2.11000000%		
Long-term Debt	41.59%	4.71%	1.96000000%		1.96%
Short-term Debt	6.88%	2.20%	0.15000000%		
Preferred Stock	0.01%	9.71%	0.00000000%	0.734779	0.00%
Common Equity	51.52%	9.70%	5.00000000%	0.734779	6.80%
	<u>100.00%</u>		<u>7.11000000%</u>		<u>8.76%</u>
Pre-Tax Interest Coverage	4.47				
After-Tax Interest Coverage	3.63				

TABLE I(B)					
ennsylvania-American Water Company - WW SSS General Operation					
REVENUE FACTOR					
Docket Nos. R-2025-3057983 and R-2025-3058051					
100%					1.00000000
Less:					
Uncollectible Accounts Factor (*)					0.01171000
PUC, OCA, OSBA Assessment Factors (*)					0.00736715
Gross Receipts Tax					0.00000000
Other Tax Factors (adjust for rounding)					-0.00000100
					0.98092385
State Income Tax Rate (*)					0.06990000
Effective State Income Tax Rate					0.06856700
Factor After Local and State Taxes					0.91235685
Federal Income Tax Rate (*)					0.21000000
Effective Federal Income Tax Rate					0.19159500
Revenue Factor (100% - Effective Tax Rates)					<u>0.72076200</u>
(*) I&E Surrebuttal					

Pennsylvania-American Water Company - WW SSS General Operations							
SUMMARY OF ADJUSTMENTS							
Docket Nos. R-2025-3057983 and R-2025-3058051							
Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	\$	\$	\$	\$	\$	\$	\$
RATE BASE:							
CWC:							
Int. & Div. (Table IV)							
Taxes (Table V)							
O&M (Table VI)							
CWC	(15,155)						
Wages and Benefits	(53,755)						
Transportation	(2,756)						
REVENUES:							
					0	0	0
					0	0	0
EXPENSES:							
Wages and Benefits			(241,666)			16,892	47,203
Waste Disposal			(418,844)			29,277	81,809
Transportation			(11,136)			778	2,175
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
TAXES:							
Interest Synchronization (Table III)						(31)	(85)
TOTALS	(71,666)	0	(671,646)	0	0	46,916	131,102

TABLE III	
Pennsylvania-American Water Company - WW SSS General Operations	
INTEREST SYNCHRONIZATION	
Docket Nos. R-2025-3057983 and R-2025-3058051	
	Amount
Company Rate Base Claim	\$ 661,208,859
I&E Rate Base Adjustments	(71,666)
I&E Rate Base	661,137,193
Weighted Cost of Debt	2.11000000%
I&E Interest Expense	13,949,995
Company Claim (1)	13,949,557
Total I&E Adjustment	(438)
Company Adjustment	0
Net I&E Interest Adjustment	(438)
State Income Tax Rate	6.99%
State Income Tax Adjustment	(31)
Net I&E Interest Adjustment	(438)
State Income Tax Adjustment	(31)
Net I&E Adjustment for F.I.T.	(407)
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment	\$ (85)
(1) Company Rebuttal Testimony	

TABLE IV				
Pennsylvania-American Water Company - WW SSS General Operations				
CASH WORKING CAPITAL - Interest and Dividends				
Docket Nos. R-2025-3057983 and R-2025-3058051				
Accrued Interest			Preferred Stock Dividends	
	Long-Term Debt	Short-Term Debt		
Company Rate Base Claim	\$661,208,859	\$661,208,859	Company Rate Base Claim	\$661,208,859
I&E Rate Base Adjustments	(\$71,666)	(\$71,666)	I&E Rate Base Adjustments	(\$71,666)
I&E Rate Base	\$661,137,193	\$661,137,193	I&E Rate Base	\$661,137,193
Weighted Cost of Debt	1.96000000%	0.15%	Weighted Cost Pref. Stock	0.00000000%
I&E Annual Interest Exp.	<u>\$12,958,289</u>	<u>\$991,706</u>	I&E Preferred Dividends	<u>\$0</u>
Average Revenue Lag Days	0.0	0.0	Average Revenue Lag Days	0.0
Average Expense Lag Days	0.0	0.0	Average Expense Lag Days	0.0
Net Lag Days	<u>0.0</u>	<u>0.0</u>	Net Lag Days	<u>0.0</u>
Working Capital Adjustment				
I&E Daily Interest Exp.	\$35,502	\$2,717	I&E Daily Dividends	\$0
Net Lag Days	<u>0.0</u>	<u>0.0</u>	Net Lag Days	<u>0.0</u>
I&E Working Capital	\$0	\$0		\$0
Company Claim (1)	\$0	\$0	Company Claim (1)	\$0
I&E Adjustment	<u>\$0</u>	<u>\$0</u>		<u>\$0</u>
Total Interest & Dividend Adj.	<u>\$0</u>			
(1) Company Rebuttal				

TABLE V								
Pennsylvania-American Water Company - WW SSS General Operations								
CASH WORKING CAPITAL - TAXES								
Docket Nos. R-2025-3057983 and R-2025-3058051								
Description	Company Proforma Tax Expense Present Rates	I&E Adjustments	I&E Pro forma Tax Expense Present Rates	I&E Allowance	I&E Adjusted Taxes at Present Rates	Daily Expense	Net Lead/Lag Days	Accrued Tax Adjustment
PUC Assessment	\$0	\$0	\$0	\$98,561	\$98,561	\$270.03	0.00	\$0
Public Utility Realty	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
Capital Stock Tax	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
State Income Tax	\$0	\$46,916	\$46,916	\$917,312	\$964,228	\$2,641.72	0.00	\$0
Federal Income Tax	\$0	\$131,102	\$131,102	\$2,563,238	\$2,694,340	\$7,381.75	0.00	\$0
	\$0	\$178,018	\$178,018	\$3,579,111	\$3,757,129			
						ALJ Allowance		0
						Company Claim (1)		0
						I&E Adjustment		0

(1) Company Rebuttal

TABLE VI					
Pennsylvania-American Water Company - WW SSS General Operations					
CASH WORKING CAPITAL -- O&M EXPENSE					
Docket Nos. R-2025-3057983 and R-2025-3058051					
	Company				
	Pro forma		I&E		
Description	FTY	I&E	Pro forma	Lag Days	Lag Dollars
	Expense		Expenses		
Service Company	\$0	\$0	\$0	0.00	\$0
Chemicals	\$0	\$0	\$0	0.00	\$0
Group Insurance	\$0	\$0	\$0	0.00	\$0
Insurance, Other	\$0	\$0	\$0	0.00	\$0
Labor	\$0	\$0	\$0	0.00	\$0
Leased Equip./Rent	\$0	\$0	\$0	0.00	\$0
Leased Vehicles	\$0	\$0	\$0	0.00	\$0
Miscellaneous	\$0	\$0	\$0	0.00	\$0
Natural Gas	\$0	\$0	\$0	0.00	\$0
Power	\$0	\$0	\$0	0.00	\$0
Purchased Water	\$0	\$0	\$0	0.00	\$0
Telephone	\$0	\$0	\$0	0.00	\$0
Waste Disposal	\$0	\$0	\$0	0.00	\$0
Post Retirement Benefits	\$0	\$0	\$0	0.00	\$0
Pensions	\$0	\$0	\$0	0.00	\$0

TABLE I							
Pennsylvania-American Water Company - WW CSS Operations							
INCOME SUMMARY							
Docket Nos. R-2025-3057983 and R-2025-3058051							
	Pro Forma Present Rates (1)	Company Adjustments (1)	Pro Forma Present Rates Adjusted (1)	I&E Adjustments	I&E Pro Forma Present Rates	I&E Revenue Increase (2)	Total Allowable Revenues
	\$	\$	\$	\$	\$	\$	\$
Operating Revenue	85,843,356	0	85,843,356	0	85,843,356	4,595,680	90,439,036
Expenses:							
O&M Expense	19,880,761	0	19,880,761	(1,495,489)	18,385,272	53,815	18,439,087
Depreciation	21,746,235	0	21,746,235	0	21,746,235	0	21,746,235
Taxes, Other	2,253,554	0	2,253,554	0	2,253,554	33,857	2,287,411
Income Taxes:							
State	2,530,164	0	2,530,164	104,551	2,634,715	315,110	2,949,825
Federal	6,535,020	0	6,535,020	292,145	6,827,165	880,509	7,707,674
Deferred Taxes/ITC	0	0	0	0	0	0	0
Total Expenses	52,945,734	0	52,945,734	(1,098,793)	51,846,941	1,283,291	53,130,232
Net Inc. Available for Return	32,897,622	0	32,897,622	1,098,793	33,996,415	3,312,389	37,308,804
Rate Base	524,797,637	0	524,797,637	(60,595)	524,737,042		524,737,042
Rate of Return	6.27%		6.27%		6.48%		7.11%
(1) Company Rebuttal Testimony							

TABLE I(A)						
Pennsylvania-American Water Company - WW CSS Operations						
RATE OF RETURN						
Docket Nos. R-2025-3057983 and R-2025-3058051						
	Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate	
Total Cost of Debt			2.11000000%			
Long-term Debt	41.59%	4.71%	1.96000000%		1.96%	
Short-term Debt	6.88%	2.20%	0.15000000%			
Preferred Stock	0.01%	9.71%	0.00000000%	0.734779	0.00%	
Common Equity	51.52%	9.70%	5.00000000%	0.734779	6.80%	
	<u>100.00%</u>		<u>7.11000000%</u>		<u>8.76%</u>	
Pre-Tax Interest Coverage	4.47					
After-Tax Interest Coverage	3.63					

TABLE I(B)					
Pennsylvania-American Water Company - WW CSS Operations					
REVENUE FACTOR					
Docket Nos. R-2025-3057983 and R-2025-3058051					
100%					1.00000000
Less:					
Uncollectible Accounts Factor (*)					0.01171000
PUC, OCA, OSBA Assessment Factors (*)					0.00736715
Gross Receipts Tax					0.00000000
Other Tax Factors (adjust for rounding)					-0.00000100
					0.98092385
State Income Tax Rate (*)					0.06990000
Effective State Income Tax Rate					0.06856700
Factor After Local and State Taxes					0.91235685
Federal Income Tax Rate (*)					0.21000000
Effective Federal Income Tax Rate					0.19159500
Revenue Factor (100% - Effective Tax Rates)					0.72076200

TABLE II							
Pennsylvania-American Water Company - WW CSS Operations							
SUMMARY OF ADJUSTMENTS							
Docket Nos. R-2025-3057983 and R-2025-3058051							
Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	\$	\$	\$	\$	\$	\$	\$
RATE BASE:							
CWC:							
Int. & Div. (Table IV)							
Taxes (Table V)							
O & M (Table VI)							
CWC	(11,821)						
Wages and Benefits	(42,924)						
Transportation	(5,850)						
REVENUES:							
						0	0
EXPENSES:							
Wages and Benefits			(203,843)			14,249	39,815
Waste Disposal			(1,268,029)			88,635	247,673
Transportation			(23,617)			1,651	4,613
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
TAXES:							
Interest Synchronization (Table III)						16	44
TOTALS	(60,595)	0	(1,495,489)	0	0	104,551	292,145

TABLE III	
Pennsylvania-American Water Company - WW CSS Operations	
INTEREST SYNCHRONIZATION	
Docket Nos. R-2025-3057983 and R-2025-3058051	
	Amount
Company Rate Base Claim	524,797,637
I&E Rate Base Adjustments	(60,595)
I&E Rate Base	524,737,042
Weighted Cost of Debt	2.11000000%
I&E Interest Expense	11,071,952
Company Claim (1)	11,072,177
Total I&E Adjustment	225
Company Adjustment	0
Net I&E Interest Adjustment	225
State Income Tax Rate	6.99%
State Income Tax Adjustment	16
Net I&E Interest Adjustment	225
State Income Tax Adjustment	16
Net I&E Adjustment for Federal Income Tax	209
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment	44
(1) Company Rebuttal Testimony	

TABLE IV				
Pennsylvania-American Water Company - WW CSS Operations				
CASH WORKING CAPITAL - Interest and Dividends				
Docket Nos. R-2025-3057983 and R-2025-3058051				
Accrued Interest			Preferred Stock Dividends	
	Long-Term Debt	Short-Term Debt		
Company Rate Base Claim	\$524,797,637	\$524,797,637	Company Rate Base Claim	\$524,797,637
I&E Rate Base Adjustments	(\$60,595)	(\$60,595)	I&E Rate Base Adjustments	(\$60,595)
I&E Rate Base	\$524,737,042	\$524,737,042	I&E Rate Base	\$524,737,042
Weighted Cost of Debt	1.96000000%	0.15%	Weighted Cost Pref. Stock	0.00000000%
I&E Annual Interest Exp.	\$10,284,846	\$787,106	I&E Preferred Dividends	\$0
Average Revenue Lag Days	0.0	0.0	Average Revenue Lag Days	0.0
Average Expense Lag Days	0.0	0.0	Average Expense Lag Days	0.0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
Working Capital Adjustment				
I&E Daily Interest Exp.	\$28,178	\$2,156	I&E Daily Dividends	\$0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
I&E Working Capital	\$0	\$0		\$0
Company Claim (1)	\$0	\$0	Company Claim (1)	\$0
I&E Adjustment	\$0	\$0		\$0
Total Interest & Dividend Adj.	\$0			
(1) Company Rebuttal				

TABLE V								
Pennsylvania-American Water Company - WW CSS Operations								
CASH WORKING CAPITAL - TAXES								
Docket Nos. R-2025-3057983 and R-2025-3058051								
Description	Company Proforma Tax Expense Present Rates	I&E Adjustments	I&E Pro forma Tax Expense Present Rates	I&E Allowance	I&E Adjusted Taxes at Present Rates	Daily Expense	Net Lead/Lag Days	Accrued Tax Adjustment
PUC Assessment	\$0	\$0	\$0	\$33,857	\$33,857	\$92.76	0.00	\$0
Public Utility Realty	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
Capital Stock Tax	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
State Income Tax	\$0	\$104,551	\$104,551	\$315,110	\$419,661	\$1,149.76	0.00	\$0
Federal Income Tax	\$0	\$292,145	\$292,145	\$880,509	\$1,172,654	\$3,212.75	0.00	\$0
	\$0	\$396,696	\$396,696	\$1,229,476	\$1,626,172			

TABLE VI					
Pennsylvania-American Water Company - WW CSS Operations					
CASH WORKING CAPITAL -- O&M EXPENSE					
Docket Nos. R-2025-3057983 and R-2025-3058051					
	Company				
	Pro forma		I&E		
Description	FTY	I&E	Pro forma	Lag Days	Lag Dollars
	Expense		Expenses		
Service Company	\$0	\$0	\$0	0.00	\$0
Chemicals	\$0	\$0	\$0	0.00	\$0
Group Insurance	\$0	\$0	\$0	0.00	\$0
Insurance, Other	\$0	\$0	\$0	0.00	\$0
Labor	\$0	\$0	\$0	0.00	\$0
Leased Equip./Rent	\$0	\$0	\$0	0.00	\$0
Leased Vehicles	\$0	\$0	\$0	0.00	\$0
Miscellaneous	\$0	\$0	\$0	0.00	\$0
Natural Gas	\$0	\$0	\$0	0.00	\$0
Power	\$0	\$0	\$0	0.00	\$0
Purchased Water	\$0	\$0	\$0	0.00	\$0
Telephone	\$0	\$0	\$0	0.00	\$0
Waste Disposal	\$0	\$0	\$0	0.00	\$0
Post Retirement Benefits	\$0	\$0	\$0	0.00	\$0
Pensions	\$0	\$0	\$0	0.00	\$0

TABLE I							
Pennsylvania-American Water Company - BASA WW							
INCOME SUMMARY							
Docket Nos. R-2025-3057983 and R-2025-3058051							
	Pro Forma Present Rates (1)	Company Adjustments (1)	Pro Forma Present Rates Adjusted (1)	I&E Adjustments	I&E Pro Forma Present Rates	I&E Revenue Increase (2)	Total Allowable Revenues
	\$	\$	\$	\$	\$	\$	\$
Operating Revenue	12,761,096	0	12,761,096	0	12,761,096	33,048,533	45,809,629
Expenses:							
O&M Expense	7,504,913	0	7,504,913	(117,898)	7,387,015	386,998	7,774,013
Depreciation	11,490,654	0	11,490,654	0	11,490,654	0	11,490,654
Taxes, Other	685,092	0	685,092	0	685,092	243,474	928,566
Income Taxes:							
State	(112,877)	0	(112,877)	8,033	(104,844)	2,266,022	2,161,178
Federal	(308,593)	0	(308,593)	22,448	(286,145)	6,325,111	6,038,966
Deferred Taxes/ITC	(39,775)	0	(39,775)	0	(39,775)	0	(39,775)
Total Expenses	19,219,414	0	19,219,414	(87,417)	19,131,997	9,221,605	28,353,602
Net Inc. Available for Return	(6,458,318)	0	(6,458,318)	87,417	(6,370,901)	23,826,928	17,456,027
Rate Base	245,536,760	0	245,536,760	(23,017)	245,513,743		245,513,743
Rate of Return	-2.63%		-2.63%		-2.59%		7.11%
(1) Company Rebuttal Testimony							
(2) I&E Adjusted Table Based on Company Starting Variance in Operating Revenue & Federal Income Tax Increases.						Check	

TABLE I(A)						
Pennsylvania-American Water Company - BASA WW						
RATE OF RETURN						
Docket Nos. R-2025-3057983 and R-2025-3058051						
	Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate	
Total Cost of Debt			2.11000000%			
Long-term Debt	41.59%	4.71%	1.96000000%		1.96%	
Short-term Debt	6.88%	2.20%	0.15000000%			
Preferred Stock	0.01%	9.71%	0.00000000%	0.734779	0.00%	
Common Equity	51.52%	9.70%	5.00000000%	0.734779	6.80%	
	<u>100.00%</u>		<u>7.11000000%</u>		<u>8.76%</u>	
Pre-Tax Interest Coverage	4.47					
After-Tax Interest Coverage	3.63					

TABLE I(B)					
Pennsylvania-American Water Company - BASA WW					
REVENUE FACTOR					
Docket Nos. R-2025-3057983 and R-2025-3058051					
100%					1.00000000
Less:					
Uncollectible Accounts Factor (*)					0.01171000
PUC, OCA, OSBA Assessment Factors (*)					0.00736715
Gross Receipts Tax					0.00000000
Other Tax Factors (adjust for rounding)					-0.00000100
					0.98092385
State Income Tax Rate (*)					0.06990000
Effective State Income Tax Rate					0.06856700
Factor After Local and State Taxes					0.91235685
Federal Income Tax Rate (*)					0.21000000
Effective Federal Income Tax Rate					0.19159500
Revenue Factor (100% - Effective Tax Rates)					0.72076200
(*) I&E Surrebuttal					

TABLE II							
Pennsylvania-American Water Company - BASA WW							
SUMMARY OF ADJUSTMENTS							
Docket Nos. R-2025-3057983 and R-2025-3058051							
Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	\$	\$	\$	\$	\$	\$	\$
RATE BASE:							
CWC:							
Int. & Div. (Table IV)							
Taxes (Table V)							
O & M (Table VI)							
CWC	(6,406)						
Wages and Benefits	(15,810)						
Transportation	(801)						
REVENUES:							
						0	0
EXPENSES:							
Wages and Benefits			(73,622)			5,146	14,380
Waste Disposal			(41,043)			2,869	8,017
Transportation			(3,233)			226	631
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
TAXES:							
Interest Synchronization (Table III)						(208)	(580)
TOTALS	(23,017)	0	(117,898)	0	0	8,033	22,448

TABLE III	
Pennsylvania-American Water Company - BASA WW	
INTEREST SYNCHRONIZATION	
Docket Nos. R-2025-3057983 and R-2025-3058051	
	Amount
Company Rate Base Claim	245,536,760
I&E Rate Base Adjustments	(23,017)
I&E Rate Base	245,513,743
Weighted Cost of Debt	2.11000000%
I&E Interest Expense	5,180,340
Company Claim (1)	5,177,368
Total I&E Adjustment	(2,972)
Company Adjustment	0
Net I&E Interest Adjustment	(2,972)
State Income Tax Rate	6.99%
State Income Tax Adjustment	(208)
Net I&E Interest Adjustment	(2,972)
State Income Tax Adjustment	(208)
Net I&E Adjustment for Federal Income Tax	(2,764)
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment	(580)
(1) Company Rebuttal Testimony	

TABLE IV				
Pennsylvania-American Water Company - BASA WW				
CASH WORKING CAPITAL - Interest and Dividends				
Docket Nos. R-2025-3057983 and R-2025-3058051				
Accrued Interest			Preferred Stock Dividends	
	Long-Term Debt	Short-Term Debt		
Company Rate Base Claim	\$245,536,760	\$245,536,760	Company Rate Base Claim	\$245,536,760
I&E Rate Base Adjustments	(\$23,017)	(\$23,017)	I&E Rate Base Adjustments	(\$23,017)
I&E Rate Base	\$245,513,743	\$245,513,743	I&E Rate Base	\$245,513,743
Weighted Cost of Debt	1.96000000%	0.15%	Weighted Cost Pref. Stock	0.00000000%
I&E Annual Interest Exp.	<u>\$4,812,069</u>	<u>\$368,271</u>	I&E Preferred Dividends	<u>\$0</u>
Average Revenue Lag Days	0.0	0.0	Average Revenue Lag Days	0.0
Average Expense Lag Days	0.0	0.0	Average Expense Lag Days	0.0
Net Lag Days	<u>0.0</u>	<u>0.0</u>	Net Lag Days	<u>0.0</u>
Working Capital Adjustment				
I&E Daily Interest Exp.	\$13,184	\$1,009	I&E Daily Dividends	\$0
Net Lag Days	<u>0.0</u>	<u>0.0</u>	Net Lag Days	<u>0.0</u>
I&E Working Capital	\$0	\$0		\$0
Company Claim (1)	\$0	\$0	Company Claim (1)	\$0
I&E Adjustment	<u>\$0</u>	<u>\$0</u>		<u>\$0</u>
Total Interest & Dividend Adj.	<u>\$0</u>			
(1) Company Rebuttal				

TABLE V
Pennsylvania-American Water Company - BASA WW
CASH WORKING CAPITAL - TAXES
Docket Nos. R-2025-3057983 and R-2025-3058051

Description	Company Proforma Tax Expense Present Rates	I&E Adjustments	I&E Pro forma Tax Expense Present Rates	I&E Allowance	I&E Adjusted Taxes at Present Rates	Daily Expense	Net Lead/Lag Days	Accrued Tax Adjustment
PUC Assessment	\$0	\$0	\$0	\$243,474	\$243,474	\$667.05	0.00	\$0
Public Utility Realty	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
Capital Stock Tax	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
State Income Tax	\$0	\$8,033	\$8,033	\$2,266,022	\$2,274,055	\$6,230.29	0.00	\$0
Federal Income Tax	\$0	\$22,448	\$22,448	\$6,325,111	\$6,347,559	\$17,390.57	0.00	\$0
	\$0	\$30,481	\$30,481	\$8,834,607	\$8,865,088			

TABLE VI					
Pennsylvania-American Water Company - BASA WW					
CASH WORKING CAPITAL -- O & M EXPENSE					
Docket Nos. R-2025-3057983 and R-2025-3058051					
	Company				
	Pro forma		I&E		
Description	FTY	I&E	Pro forma	Lag Days	Lag Dollars
	Expense		Expenses		
Service Company	\$0	\$0	\$0	0.00	\$0
Chemicals	\$0	\$0	\$0	0.00	\$0
Group Insurance	\$0	\$0	\$0	0.00	\$0
Insurance, Other	\$0	\$0	\$0	0.00	\$0
Labor	\$0	\$0	\$0	0.00	\$0
Leased Equip./Rent	\$0	\$0	\$0	0.00	\$0
Leased Vehicles	\$0	\$0	\$0	0.00	\$0
Miscellaneous	\$0	\$0	\$0	0.00	\$0
Natural Gas	\$0	\$0	\$0	0.00	\$0
Power	\$0	\$0	\$0	0.00	\$0
Purchased Water	\$0	\$0	\$0	0.00	\$0
Telephone	\$0	\$0	\$0	0.00	\$0
Waste Disposal	\$0	\$0	\$0	0.00	\$0
Post Retirement Benefits	\$0	\$0	\$0	0.00	\$0
Pensions	\$0	\$0	\$0	0.00	\$0

TABLE I							
Pennsylvania-American Water Company - EB WW CSS							
INCOME SUMMARY							
Docket Nos. R-2025-3057983 and R-2025-3058051							
	Pro Forma	Company	Pro Forma				
	Present Rates	Adjustments	Present Rates	I&E	I&E	I&E	Total
	(1)	(1)	Adjusted (1)	Adjustments	Pro Forma	Revenue	Allowable
					Present Rates	Increase (2)	Revenues
	\$	\$	\$	\$	\$	\$	\$
Operating Revenue	1,767,267	0	1,767,267	0	1,767,267	3,258,552	5,025,819
Expenses:							
O&M Expense	868,308	0	868,308	5	868,313	38,158	906,471
Depreciation	1,099,465	0	1,099,465	0	1,099,465	0	1,099,465
Taxes, Other	29,882	0	29,882	0	29,882	24,006	53,888
Income Taxes:							
State	24,927	0	24,927	(73)	24,854	223,428	248,282
Federal	72,489	0	72,489	(204)	72,285	621,487	693,772
Deferred Taxes/ITC	0	0	0	0	0	0	0
Total Expenses	2,095,071	0	2,095,071	(272)	2,094,799	907,079	3,001,878
Net Inc. Available for Return	(327,804)	0	(327,804)	272	(327,532)	2,351,473	2,023,941
Rate Base	28,466,120	0	28,466,120	0	28,466,120		28,466,120
Rate of Return	-1.15%		-1.15%		-1.15%		7.11%
(1) Company Rebuttal Testimony							
(2) I&E Adjusted Table Based on Company Starting Variance in Operating Revenue & Federal Income Tax Increases.						Check	

TABLE I(A)						
Pennsylvania-American Water Company - EB WW CSS						
RATE OF RETURN						
Docket Nos. R-2025-3057983 and R-2025-3058051						
	Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate	
Total Cost of Debt			2.11000000%			
Long-term Debt	41.59%	4.71%	1.96000000%		1.96%	
Short-term Debt	6.88%	2.20%	0.15000000%			
Preferred Stock	0.01%	9.71%	0.00000000%	0.734779	0.00%	
Common Equity	51.52%	9.70%	5.00000000%	0.734779	6.80%	
	<u>100.00%</u>		<u>7.11000000%</u>		<u>8.76%</u>	
Pre-Tax Interest Coverage	4.47					
After-Tax Interest Coverage	3.63					

TABLE I(B)					
Pennsylvania-American Water Company - EB WW CSS					
REVENUE FACTOR					
Docket Nos. R-2025-3057983 and R-2025-3058051					
100%					1.00000000
Less:					
Uncollectible Accounts Factor (*)					0.01171000
PUC, OCA, OSBA Assessment Factors (*)					0.00736715
Gross Receipts Tax					0.00000000
Other Tax Factors (adjust for rounding)					-0.00000100
					0.98092385
State Income Tax Rate (*)					0.06990000
Effective State Income Tax Rate					0.06856700
Factor After Local and State Taxes					0.91235685
Federal Income Tax Rate (*)					0.21000000
Effective Federal Income Tax Rate					0.19159500
Revenue Factor (100% - Effective Tax Rates)					0.72076200
(*) I&E Surrebuttal					

TABLE II
Pennsylvania-American Water Company - EB WW CSS
SUMMARY OF ADJUSTMENTS
Docket Nos. R-2025-3057983 and R-2025-3058051

Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	\$	\$	\$	\$	\$	\$	\$
RATE BASE:							
CWC:							
Int. & Div. (Table IV)							
Taxes (Table V)							
O & M (Table VI)							
CWC							
Wages and Benis							
Transportation							
REVENUES:							
						0	0
EXPENSES:							
Wages and Benis						0	0
Waste Disposal						0	0
Transportation						0	0
Rounding			5			0	(1)
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
TAXES:							
Interest Synchronization (Table III)						(73)	(203)
TOTALS	0	0	5	0	0	(73)	(204)

TABLE III	
Pennsylvania-American Water Company - EB WW CSS	
INTEREST SYNCHRONIZATION	
Docket Nos. R-2025-3057983 and R-2025-3058051	
	Amount
Company Rate Base Claim	28,466,120
I&E Rate Base Adjustments	0
I&E Rate Base	28,466,120
Weighted Cost of Debt	2.11000000%
I&E Interest Expense	600,635
Company Claim (1)	599,595
Total I&E Adjustment	(1,040)
Company Adjustment	0
Net I&E Interest Adjustment	(1,040)
State Income Tax Rate	6.99%
State Income Tax Adjustment	(73)
Net I&E Interest Adjustment	(1,040)
State Income Tax Adjustment	(73)
Net I&E Adjustment for Federal Income Tax	(967)
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment	(203)
(1) Company Rebuttal Testimony	

TABLE IV				
Pennsylvania-American Water Company - EB WW CSS				
CASH WORKING CAPITAL - Interest and Dividends				
Docket Nos. R-2025-3057983 and R-2025-3058051				
Accrued Interest			Preferred Stock Dividends	
	Long-Term Debt	Short-Term Debt		
Company Rate Base Claim	\$28,466,120	\$28,466,120	Company Rate Base Claim	\$28,466,120
I&E Rate Base Adjustments	\$0	\$0	I&E Rate Base Adjustments	\$0
I&E Rate Base	\$28,466,120	\$28,466,120	I&E Rate Base	\$28,466,120
Weighted Cost of Debt	1.96000000%	0.15%	Weighted Cost Pref. Stock	0.00000000%
I&E Annual Interest Exp.	\$557,936	\$42,699	I&E Preferred Dividends	\$0
Average Revenue Lag Days	0.0	0.0	Average Revenue Lag Days	0.0
Average Expense Lag Days	0.0	0.0	Average Expense Lag Days	0.0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
Working Capital Adjustment				
I&E Daily Interest Exp.	\$1,529	\$117	I&E Daily Dividends	\$0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
I&E Working Capital	\$0	\$0		\$0
Company Claim (1)	\$0	\$0	Company Claim (1)	\$0
I&E Adjustment	\$0	\$0		\$0
Total Interest & Dividend Adj.	\$0			
(1) Company Rebuttal				

TABLE V								
Pennsylvania-American Water Company - EB WW CSS								
CASH WORKING CAPITAL - TAXES								
Docket Nos. R-2025-3057983 and R-2025-3058051								
Description	Company Proforma Tax Expense Present Rates	I&E Adjustments	I&E Pro forma Tax Expense Present Rates	I&E Allowance	I&E Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
PUC Assessment	\$0	\$0	\$0	\$24,006	\$24,006	\$65.77	0.00	\$0
Public Utility Realty	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
Capital Stock Tax	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
State Income Tax	\$0	(\$73)	(\$73)	\$223,428	\$223,355	\$611.93	0.00	\$0
Federal Income Tax	\$0	(\$204)	(\$204)	\$621,487	\$621,283	\$1,702.15	0.00	\$0
	\$0	(\$277)	(\$277)	\$868,921	\$868,644			

TABLE VI					
Pennsylvania-American Water Company - EB WW CSS					
CASH WORKING CAPITAL -- O & M EXPENSE					
Docket Nos. R-2025-3057983 and R-2025-3058051					
	Company				
	Pro forma		I&E		
Description	FTY	I&E	Pro forma	Lag Days	Lag Dollars
	Expense		Expenses		
Service Company	\$0	\$0	\$0	0.00	\$0
Chemicals	\$0	\$0	\$0	0.00	\$0
Group Insurance	\$0	\$0	\$0	0.00	\$0
Insurance, Other	\$0	\$0	\$0	0.00	\$0
Labor	\$0	\$0	\$0	0.00	\$0
Leased Equip./Rent	\$0	\$0	\$0	0.00	\$0
Leased Vehicles	\$0	\$0	\$0	0.00	\$0
Miscellaneous	\$0	\$0	\$0	0.00	\$0
Natural Gas	\$0	\$0	\$0	0.00	\$0
Power	\$0	\$0	\$0	0.00	\$0
Purchased Water	\$0	\$0	\$0	0.00	\$0
Telephone	\$0	\$0	\$0	0.00	\$0
Waste Disposal	\$0	\$0	\$0	0.00	\$0
Post Retirement Benefits	\$0	\$0	\$0	0.00	\$0
Pensions	\$0	\$0	\$0	0.00	\$0

APPENDIX B

PROPOSED FINDINGS OF FACT

Rate Base

1. The Company is estimating that it will add approximately \$488,705,042 of plant additions in the FTY ending June 30, 2026 and approximately \$676,410,111 of plant additions in the FPFTY. I&E Statement No. 3, p. 3.
2. For ratemaking purposes, cash working capital is the capital needed to operate a utility between the rendition of service and the receipt of revenues in payment for services rendered. I&E Statement No. 1, p. 47.
3. Based on I&E's O&M adjustments the following CWC adjustments are appropriate:

	FPFTY Claim	I&E Allowance	Adjustment
Water Operations	\$24,869,831	\$24,556,348	(\$313,483)
Wastewater SSS Operations	\$2,269,221	\$2,254,066	(\$15,155)
Wastewater CSS Operations	\$1,497,842	\$1,482,756	(\$11,821)
BASA Wastewater Operations	\$1,059,448	\$1,053,042	(\$6,406)
Elizabeth Borough WW CSS	<u>\$51,881</u>	<u>\$51,881</u>	<u>\$0</u>
Total	<u>\$29,748,223</u>	<u>\$29,401,358</u>	<u>(\$346,865)</u>

I&E Statement No. 1-SR, p. 55.

4. All adjustments to the Company's claims for revenues, expenses, taxes, and rate base must be continually brought together for each operating unit in the Administrative Law Judge's Recommended Decision and again in the Commission's Final Order. This process, known as iteration, effectively prevents the determination of a precise calculation until all adjustments have been made to the Company's claims. I&E Statement No. 1-SR, p. 58.
5. Regarding Payroll Tax, a reduction to rate base of \$163,977 is appropriate. I&E Statement No. 1-SR, pp. 29-30.

6. Regarding Transportation Expense, a \$181,419 reduction to rate base is appropriate. I&E Statement No. 1-SR, p. 49.
7. Regarding Performance Pay, a \$2,110,846 reduction to rate base is appropriate. I&E Statement No. 1-SR, p. 25.

Revenues

8. The Company is projecting it will collect \$3,072,167 of other operating revenue in SSS Operations. PAWC Exhibit 10-B, p. 34.
9. I&E reflected an increase of \$39,156 in other operating revenue. I&E Exhibit No. 4, Schedule 2, Column O, line 21.
10. Included in the Company's calculation of other operating revenues is an amount for late payment revenues. Late payment revenues are calculated as a percentage of proposed revenues. PAWC Exhibit 10-B, p. 34.
11. Because the I&E rate recommendations result in an increase to proposed revenues, there will be a corresponding increase to late payment revenues.
12. Changes in late fee revenues should ultimately be based on changes in proposed rates as ordered by the Commission in this proceeding. PAWC Statement No. 10-R, p. 51.
13. Therefore, the final other operating revenues should be adjusted based on the proposed rate revenue eventually approved by the Commission.
14. Similar to SSS General Operations, described above, an increase in proposed rates necessitates an increase in late payment revenues for CSSS Operations – Zone 2 and 2A, which is a part of the Company's claimed other operating revenues. In this case, the other operating revenues increased by \$55,779. This adjustment would change if the Commission approves proposed revenues different than what I&E recommended. I&E Exhibit No. 4, Schedule 10.

Expenses

15. A three-year average vacancy rate of 1.25% is appropriate. I&E Exhibit No. 1, Schedule 3.

16. A total FPFTY O&M allowance of \$73,645,342 for salaries and wages expense, or a reduction of \$610,685 (\$74,256,027 - \$73,645,342) to the Company's updated claims appropriate. I&E Statement No. 1-SR, p. 18.
17. A total FPFTY O&M allowance of \$2,066,857 for 401k expense, or a reduction of \$17,366 (\$2,084,223 - \$2,066,857) to the Company's updated claim is appropriate. I&E Statement No. 1-SR, pp. 37-38.
18. A total FPFTY O&M allowance of \$2,935,339 for DCP expense, or a reduction of \$23,815 (\$2,959,054 - \$2,935,339) to the Company's updated claim is appropriate. I&E Statement No. 1-SR, p. 42.
19. A total FPFTY O&M allowance of \$5,962,102 for payroll tax expense, or a reduction of \$288,992 (\$6,251,094 - \$5,962,102) is appropriate. I&E Statement No. 1-SR, pp. 29-30.
20. A total allowance to FPFTY O&M expense of \$2,886,234 for performance pay expense, or a reduction of \$3,103,348 (\$5,989,581 - 2,886,234) to the Company's updated claim is appropriate. I&E Statement No. 1-SR, p. 24.
21. A total FPFTY O&M allowance of \$15,307,608 for group insurance expense, or a reduction of \$125,019 (\$15,432,627 - \$15,307,608) to the Company's updated claim is reasonable. I&E Statement No. 1-SR, pp. 33-34.
22. A total FPFTY allowance of \$7,386,760 for waste disposal expense, or a reduction of \$2,850,893 (\$10,237,653 - \$7,386,760) to the Company's claim, based on a three-year average of historical costs is appropriate. I&E Statement No. 1-S, p. 45.
23. An O&M expense allowance for transportation expense of \$3,454,752, or a reduction of \$539,775 (\$3,994,527- \$3,454,752) to the Company's claim is reasonable. I&E Statement No. 1-SR, pp. 48-49.
24. The Company's claim for regulatory asset/liability treatment for Pension and OPEB expense is inappropriate as these are normal, expected recurring costs. I&E St. No. 1, p. 47 and I&E Statement No. 1-SR, p. 51-52.

Taxes

25. I&E's adjustment for Payroll Tax Expense is appropriate. I&E Statement No. 1-SR, pp. 26-34.

26. The Company's overall revenue requirement must be adjusted downward to reflect the refund of the 202 CAMT payments. PAWC St. No. 8 Supplemental, p. 4.

Fair Rate of Return

27. Rate of return is one of the components of the revenue requirement formula, which is $RR = E + D + T + (RB \times ROR)$, where RR = Revenue Requirement; E = Operating Expense; D = Depreciation Expense; T = Taxes; RB = Rate Base; and ROR = Overall Rate of Return. I&E Statement No. 2, pp. 2-3.
28. It is inappropriate to include gas companies in the proxy group used to determine the rate of return for a water and wastewater utility. I&E Statement No. 2, pp. 15-17 and I&E Statement No. 2-SR, p. 13-15.
29. Pennsylvania-American's actual capital structure for water operations includes 43.68% Long-Term Debt and 56.31% Common Equity. PAWC Statement No. 13, p. 65, lines 10-11 and PAWC Exhibit No. 13-A, Schedules 16 and 17.
30. Pennsylvania-American's actual capital structure for wastewater operations includes 41.59% Long-Term Debt, 6.88% Wastewater Specific Debt, and 51.52% Common Equity. PAWC Statement No. 13, p. 65, lines 10-11 and PAWC Exhibit No. 13-A, Schedules 16 and 17.
31. Pennsylvania-American's cost of long-term debt is 4.71%. I&E Statement No. 2 p. 24.
32. Pennsylvania-American proposes a cost of common equity for water operations of 10.95%. PAWC Exhibit No. 13-A, Schedules 16 and 17.
33. Pennsylvania-American proposes a cost of common equity for wastewater operations of 10.95%. PAWC Exhibit No. 13-A, Schedules 16 and 17.
34. Based on a capital structure of 44.99% long-term debt and 55% common equity, cost of long-term debt, and cost of common equity, the appropriate rate of return for water operations is 7.46%. I&E Statement No. 2-SR, p. 39.
35. Based on the actual capital structure, cost of long-term debt, and cost of common equity, the appropriate rate of return for wastewater operations is 7.11%. I&E Statement No. 2-SR, p. 40.

36. A management performance adjustment the to return on equity is not appropriate for Pennsylvania-American. I&E Statement No. 2, pp. 70-81, and I&E Statement No. 2-SR, pp. 32-38.
37. The ECAPM is flawed and injects a further measure of subjectivity into the already flawed CAPM analysis. I&E Statement No. 2, pp. 50.

Rate Structure and Rate Design

38. The rates designed by I&E are designed with cost causation in mind and should be approved.

Deduct Adjustment

39. The modifications to the deduct adjustment as set forth in the I&E testimony are reasonable. I&E Statement No. 4, p. 6-11 and I&E Statement No 4-SR, pp. 6-7.

APPENDIX C

PROPOSED CONCLUSIONS OF LAW

1. The Company carries the burden of proof to show its rate proposal is just and reasonable. 66 Pa.C.S. § 315(a); *Irwin A. Popowsky v. Pa. P.U.C.*, 674 A.2d 1149 (Pa. Cmwlth. 1996).
2. Pennsylvania-American must satisfy its burden of proof by presenting a preponderance of evidence. *Samuel J. Lansberry, Inc. v. Pennsylvania Public Utility Commission*, 578 A.2d 600 (Pa. Cmwlth. 1990).
3. A preponderance of the evidence is evidence that is more convincing, by even the smallest amount, than that presented by another party. *Se-Ling Hosiery v. Margulies*, 70 A.2d 854 (Pa. 1950).
4. In base rate cases, the Commission has affirmed the utility's burden to establish the justness and reasonableness of every component of its rate request. *Pa. P.U.C. v. PPL Electric Utilities Corporation*, 2012 WL 6758304 (Pa. P.U.C. 2012); *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, 2004 WL 2314523 (Pa. P.U.C. 2004).
5. The burden of proof does not shift to parties challenging a requested rate increase. *Pa. P.U.C. v. PPL Electric Utilities Corporation*, 2012 WL 6758304 (Pa. P.U.C. 2012); *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, 2004 WL 2314523 (Pa. P.U.C. 2004).
6. The Company must produce substantial evidence to satisfy its burden of proof. *Brockaway Glass v. Pa. P.U.C.*, 437 A.2d 1067 (Pa. Cmwlth. 1981); *Lower Frederick Township v. Pa. P.U.C.*, 409 A.2d 505 (Pa. Cmwlth. 1980).
7. Substantial evidence is "such relevant and competent evidence having a rational probative force which a reasonable mind might accept as adequate to support a conclusion." *Dutchland Tours, Inc. v. Pa. P.U.C.*, 337 A.2d 922, 925 (Pa. Cmwlth. 1975).
8. Every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable, and in conformity with regulations or orders of the commission. 66 Pa. C.S. § 1301.
9. No public utility shall ... make or grant any unreasonable preference to any person, corporation ... No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service. 66 Pa. C.S. § 1304.

The standard formula for determining a utility's base rate revenue requirement is:

$$RR = E + D + T + (RB \times ROR)$$

RR: Revenue Requirement

E: Operating Expense

D: Depreciation Expense

T: Taxes

RB: Rate Base

ROR: Overall Rate of Return

Expenses

10. A public utility is entitled to recover all of its reasonably incurred expenses necessary to provide service to customers. *Butler Township Water Company v. Pa. P.U.C.*, 473 A.2d 219, 221 (Pa. Cmwlth. 1984); *UGI Corp. v. Pa. P.U.C.*, 410 A.2d 923, 932 (Pa. Cmwlth. 1980); *Western Pennsylvania Water Company v. Pa. P.U.C.*, 422 A.2d 906, 908 (Pa. Cmwlth. 1980).
11. The public utility requesting a rate increase and seeking to recover expenses has the burden of showing that the rate requested, including all claimed expenses, is just and reasonable. 66 Pa. C.S. § 315(a); *See also Cup v. Pa. P.U.C.*, 556 A.2d 470 (Pa. Commw. 1989).
12. To the extent that expenses are not reasonably incurred, imprudently incurred, or abnormally overstated during the test year, they should be disallowed and found not recoverable through rates. *Cup v. Pa. P.U.C.*, 556 A.2d 470 (Pa. Commw. 1989).

Fair Rate of Return

13. A utility is entitled to a return similar to that being earned by other enterprises with corresponding risks and uncertainties, but not as high as those earned by highly profitable or speculative ventures. *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*, 292 U.S. 679 (1923); *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *Pennsylvania Gas & Water Company v. Pa. P.U.C.*, 341 A.2d 239, 249-252 (Pa. Cmwlth. 1975).

14. A utility is entitled to a return level reasonably sufficient to assure financial soundness. *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*, 292 U.S. 679 (1923); *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *Pennsylvania Gas & Water Company v. Pa. P.U.C.*, 341 A.2d 239, 249-252 (Pa. Cmwlth. 1975).
15. A utility is entitled to a return sufficient to maintain and support its credit and raise necessary capital. *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*, 292 U.S. 679 (1923); *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *Pennsylvania Gas & Water Company v. Pa. P.U.C.*, 341 A.2d 239, 249-252 (Pa. Cmwlth. 1975).
16. A fair return can change (increase or decrease) along with economic conditions and capital markets. *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*, 292 U.S. 679 (1923); *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *Pennsylvania Gas & Water Company v. Pa. P.U.C.*, 341 A.2d 239, 249-252 (Pa. Cmwlth. 1975).
17. The PUC historically uses the DCF as the primary methodology to determine a utility's cost of equity. *Pa. P.U.C. v. UGI Utilities, Inc. – Electric Division*, Docket No. R-2017-2640058 (Order entered October 25, 2018), pp. 104-106, 121; *Pa. P.U.C. v. City of DuBois – Bureau of Water*; Docket No. R-2016-2554150 (Order Entered March 28, 2017), pp. 96-98; *Pa. P.U.C. v. PECO Energy Co.*, 87 Pa. PUC 184, 212 (Pa. P.U.C. 1997); *Pa. P.U.C. v. Philadelphia Suburban Water Co.*, 71 Pa. PUC 593, 623-32 (Pa. P.U.C. 1989); *Pa. P.U.C. v. Western Pennsylvania Water Co.*, 67 Pa. PUC 529, 559-70 (Pa. P.U.C. 1988); *Pa. P.U.C. v. Consumers Pennsylvania Water Company – Roaring Creek Division*, 87 Pa. PUC 826 (Pa. P.U.C. 1997). *Pa. P.U.C. v. City of Bethlehem*, 84 Pa. PUC 275, 304-05 (Pa. P.U.C. 1995); *Pa. P.U.C. v. Media Borough*, 77 Pa. PUC 446, 481 (Pa. P.U.C. 1992).
18. The PUC recognizes the 10-year Treasury Note as the superior measure for the risk-free rate. *Pa. P.U.C. v. UGI Utilities, Inc. – Electric Division*, Docket No. R-2017-2640058 (Order Entered October 25, 2018), p. 99.

Customer Rate Structure

19. A utility's rate structure cannot either advantage or disadvantage a class, or contain an unreasonable difference in rates. 66 Pa.C.S. §1304.

20. If there is a reasonable basis for a difference, a utility may charge different rates for different classes of customers. *Peoples Natural Gas Company v. Pa. P.U.C.*, 409 A.2d 446 (Pa. CmwltH 1979).
21. Establishment of a rate structure is an administrative function peculiarly within the expertise of the Commission. *Emporium Water Company v. Pa. Pub. Util. Comm.*, 955 A.2d 456, 461 (Pa. Commw. 2008); *City of Lancaster v. Pa. Pub. Util. Comm.*, 769 A.2d 567, 571-72 (Pa. Commw. 2001). The question of reasonableness of rates and the difference between rates in their respective classes is an administrative question for the Commission to decide. *Pennsylvania Power & Light Co. v. Pa. Pub. Util. Comm.*, 516 A.2d 426 (Pa. Commw. 1986); *Park Towne v. Pa. Pub. Util. Comm.*, 43 A.2d 610 (1981).
22. The basic factor in allocating revenue is to have the rates reflect the cost of service. *Lloyd v. Pa. Pub. Util. Comm.*, 904 A.2d 1010, 1020 (Pa. Commw. 2006)
23. A utility must show any difference in rates can be justified by the difference in costs to deliver service to each class. *Philadelphia Suburban Water Company v. Pa. P.U.C.*, 808 A.2d 1044, 1060 (Pa. CmwltH. 2002).
24. Section 1311(c) of the Public Utility Code, more commonly referred to as Act 11, permits utilities that provide both water and wastewater service to combine the revenue requirements by allocating a portion of the wastewater revenue requirement to the water customer base if doing so is in the “public interest.” 66 Pa. C.S. § 1311.
25. Section 1311(c) of the Public Utility Code does not specify how the Commission should determine rates, nor does it dictate the percent or amount of revenue that should be allocated or shifted, leaving the Commission wide latitude in applying Act 11. 66 Pa. C.S. § 1311(c).
26. “Scale back” of rates is an accepted rate making process that is applied to the final rate structure after the Commission approves the Company’s new total revenue requirement.

APPENDIX D

PROPOSED ORDERING PARAGRAPHS

THEREFORE, IT IS RECOMMENDED:

1. The Pennsylvania American Water Company shall not place into effect the rates contained in its filing, which have been found to be unjust and unreasonable and therefore, unlawful.
2. That Pennsylvania American Water Company shall be permitted to file tariffs, tariff supplements or tariff revisions containing proposed rates, rules and regulations to increase annual revenues in the total amount of not more than \$86,219,545 further reduced by the refund of the 2024 Corporate Alternative Minimum Tax as presented in Pennsylvania-American Statement No. 8 Supplemental.
3. That Pennsylvania American Water Company's request for Pension and OPEB expense regulatory asset/liability treatment is denied.
4. That Pennsylvania American Water Company's proposed deduct adjustment be modified to include the recommendations set forth in the testimony of I&E witness Cline.
5. That Pennsylvania American Water Company's tariffs, tariff Supplements or tariff revisions may be filed to be effective on at least one day's notice after entry of the Commission's Final Order, for service rendered on and after the date of entry of the Commission's Final Order in this matter.
6. That Pennsylvania American Water Company shall allocate the authorized increase in operating revenues to each customer class and rate schedule within each class in the manner set forth in the Recommended Decision or final Order.
7. That Pennsylvania American Water Company shall comply with all directives, conclusions and recommendations that are not the subject of individual ordering paragraphs as fully as if they were the subject of specific ordering paragraphs.
8. That, upon acceptance and approval by the Commission of the tariff supplements filed by Pennsylvania American Water Company, consistent with its Final Order, the investigation at Docket Nos. R-2025-3057983 and R-2025-3058051 be marked closed.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :
 :
 v. : Docket Nos. R-2025-3057983 (Water)
 : R-2025-3058051 (Wastewater)
 Pennsylvania-American Water Company :

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Main Brief** dated April 6, 2026, in the manner and upon the persons listed below.

Served via Electronic Mail Only

Elizabeth Rose Triscari, Esq.
Teresa K. Harrold, Esq.
Erin K. Fure, Esq.
Pennsylvania-American Water Company
852 Wesley Drive
Mechanicsburg, PA 17055
elizabeth.triscari@amwater.com
teresa.harrold@amwater.com
erin.fure@amwater.com

Rebecca Lyttle, Esq.
Steven C. Gray, Esq.
Office of Small Business Advocate
555 Walnut Street
1st Floor, Forum Place
Harrisburg, PA 17101
relyttle@pa.gov
sgray@pa.gov

Kenneth M. Kulak, Esq.
Mark Lazaroff, Esq.
Catherine Vasudevan, Esq.
Brooke E. McGlinn, Esq.
Morgan Lewis & Bockius LLP
2222 Market Street
Philadelphia, PA 19103-3007
ken.kulak@morganlewis.com
mark.lazaroff@morganlewis.com
catherine.vasudevan@morganlewis.com
brooke.mcglinn@morganlewis.com

Ryan Morden, Esq.
Olivia M. Spergel, Esq.
Harrison W. Breitman, Esq.
Janna E. Williams, Esq.
Johnathan M. Longhurst, Esq.
Joel H. Cheskis, Esq.
Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
OCAPAWC2025@paoca.org

Sean M. Gallagher, Esq.
Gallagher Law Group
110 East Diamond Street, Suite 101
Butler, PA 16001
smgallagher@gallagher.legal

Lauren M. Burge, Esq.
Eckert Seamans Cherin & Mellott LLC
600 Grant Street, 44th Floor
Pittsburgh, PA 15206
lburge@eckertseamans.com

Ria M. Pereira, Esq.
John W. Sweet, Esq.
Elizabeth R. Marx, Esq.
Lauren N. Berman, Esq.
Pennsylvania Utility Law Project
118 Locust Street
Harrisburg, PA 17101
pulp@pautilitylawproject.org

Stephen M. Pemberton, Esq.
Eckert Seamans Cherin & Mellott LLC
Two Liberty Place, 22nd Floor
60 South 16th Street
Philadelphia, PA 19102
spemberton@eckertseamans.com

Kurt J. Boehm, Esq.
Boehm, Kurtz & Lowry
425 Walnut Street, Suite 2400
Cincinnati, OH 45202
kboehm@bkllawfirm.com

Sharon Montanye, Esq.
Sweet Stevens Katz & Williams LLP
331 East Butler Avenue
New Britain, PA 18901
smontanye@sweetstevens.com

Harry S. Geller
118 Locust Street
Harrisburg, PA 17101
hgeller@pautilitylawproject.org

Jerome Mierzwa
Lafayette Morgan
Exeter Associates, Inc.
10480 Little Patuxent Parkway, Suite 300
Columbia, MD 21044
OCAPAWC2025@paoca.org

Roger Colton
Fisher, Sheehan and Colton
34 Warwick Road
Belmont, MA 02478
OCAPAWC2025@paoca.org

David Garrett
Resolve Utility Consulting PLLC
101 Park Avenue, Suite 1125
Oklahoma City, OK 73102
OCAPAWC2025@paoca.org

Barbara Alexander
83 Wedgewood Drive
Winthrop, ME 04364
OCAPAWC2025@paoca.org

Joseph Kubas
Office of Small Business Advocate
555 Walnut Street
Forum Place, 1st Floor
Harrisburg, PA 17101
jkubas@pa.gov

Roger Cathcart
Cathcart Advisors, Inc.
300-330 St. Mary Avenue
Winnipeg, MD, R3C 3Z5 Canada
REMC@CathcartAdvisors.com

Jason Hails
Quantiv Advisory, LLC
925 Wappoo Road, Suite A
Charleston, SC 29407
j.hails@quantivadvisory.com

Paul Zander
Sue Johnson
James Kennedy
Marlon Livingston
Bambi Reese
Vanessa Johns
Pennsylvania Public Utility Commission
Bureau of Technical Utility Services
pzander@pa.gov
suejohnso@pa.gov
jameskenne@pa.gov
marlolivin@pa.gov
bamreese@pa.gov
vanjohns@pa.gov



Carrie B. Wright
Deputy Chief Prosecutor
Bureau of Investigation and Enforcement
PA Attorney ID No. 208185
(717) 783-6156
carwright@pa.gov