

# Morgan Lewis

**Mark A. Lazaroff**

Partner  
+1.215.963.4603  
mark.lazaroff@morganlewis.com

April 6, 2026

**VIA eFILING**

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 and R-2025-3058051**

Dear Secretary Homsher:

Enclosed for filing in the above-captioned proceedings is the public version of the **Main Brief of Pennsylvania-American Water Company** (the “Brief”).

As evidenced by the Certificate of Service, copies of the Brief are being served upon Administrative Law Judge Jeffrey A. Watson, Administrative Law Judge Emily I. DeVoe, and all parties of record.

If you have any questions, please do not hesitate to contact me directly at 215.963.4603.

Very truly yours,



Mark A. Lazaroff

MAL/nt  
Enclosures

c: Per Certificate of Service (w/encls.)

DB1/ 167955069.1

**Morgan, Lewis & Bockius LLP**

2222 Market Street  
Philadelphia, PA 19103-3007  
United States

**T** +1.215.963.5000  
**F** +1.215.963.5001

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

|   |   |                                  |
|---|---|----------------------------------|
| <b>PENNSYLVANIA PUBLIC UTILITY<br/>COMMISSION</b> | : |                                  |
|   | : | <b>Docket No. R-2025-3057983</b> |
|   | : | <b>(Water)</b>                   |
| <b>v.</b>   | : |                                  |
|   | : | <b>Docket No. R-2025-3058051</b> |
| <b>PENNSYLVANIA-AMERICAN WATER<br/>COMPANY</b>    | : | <b>(Wastewater)</b>              |

**CERTIFICATE OF SERVICE**

I hereby certify that I have this date served true and correct copies of the **Main Brief of Pennsylvania-American Water** on the following individuals in the matter specified in accordance with the requirements of 52 Pa. Code § 1.54:

**VIA ELECTRONIC MAIL**

The Honorable Jeffrey A. Watson  
Administrative Law Judge  
Pennsylvania Public Utility Commission  
Office of Administrative Law Judge  
Piatt Place  
301 Fifth Avenue, Suite 220  
Pittsburgh, PA 15222  
[jeffwatson@pa.gov](mailto:jeffwatson@pa.gov)

The Honorable Emily I. DeVoe  
Administrative Law Judge  
Pennsylvania Public Utility Commission  
Office of Administrative Law Judge  
Piatt Place  
301 Fifth Avenue, Suite 220  
Pittsburgh, PA 15222  
[edevoe@pa.gov](mailto:edevoe@pa.gov)

Harrison W. Breitman\*  
Ryan Morden\*  
Janna E. Williams\*  
Olivia M. Spergel\*  
Johnathan M. Longhurst\*  
Office of Consumer Advocate  
555 Walnut Street  
5th Floor, Forum Place  
Harrisburg, PA 17101-1923  
[OCAPAWC2025@paoca.org](mailto:OCAPAWC2025@paoca.org)

Carrie B. Wright\*  
Pennsylvania Public Utility Commission  
Bureau of Investigation and Enforcement  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120  
[carwright@pa.gov](mailto:carwright@pa.gov)

Rebecca Lyttle\*  
Steven C. Gray\*  
Small Business Advocate  
Office of Small Business Advocate  
555 Walnut Street  
1st Floor, Forum Place  
Harrisburg, PA 17101  
[relyttle@pa.gov](mailto:relyttle@pa.gov)  
[sgray@pa.gov](mailto:sgray@pa.gov)

Lauren M. Burge\*  
Eckert Seamans Cherin & Mellot, LLC  
600 Grant St., 44<sup>th</sup> Floor  
Pittsburgh, PA 15206  
[lburge@eckertseamans.com](mailto:lburge@eckertseamans.com)  
*Counsel for Victory Brewing Company*

Sean M. Gallagher  
Gallagher Law Group  
110 East Diamond Street, Suite 101  
Butler, PA 16001  
[smgallagher@gallagher.legal](mailto:smgallagher@gallagher.legal)  
*Counsel for Cleveland Cliffs Steel*

Sharon W. Montanye  
Sweet, Stevens, Katz & Williams LLP  
331 E. Butler Avenue  
New Britain, PA 18901  
[smontayne@sweetstevens.com](mailto:smontayne@sweetstevens.com)  
*Counsel for Exeter Township School District*

Lauren N. Berman\*  
Elizabeth R. Marx\*  
Ria M. Pereira\*  
John W. Sweet\*  
Pennsylvania Utility Law Project  
118 Locust Street  
Harrisburg, PA 17101  
[pulp@pautilitylawproject.org](mailto:pulp@pautilitylawproject.org)  
*Counsel for CAUSE-PA*

Stephen M. Pemberton\*  
Eckert Seamans Cherin & Mellot, LLC  
Two Liberty Place, 22<sup>nd</sup> Floor  
60 South 16<sup>th</sup> Street  
Philadelphia, PA 19102  
[spemberton@eckertseamans.com](mailto:spemberton@eckertseamans.com)  
*Counsel for Victory Brewing Company*

Kurt J. Boehm\*  
Boehm, Kurtz & Lowry  
425 Walnut Street, Suite 2400  
Cincinnati, OH 45202  
[kboehm@BKLawfirm.com](mailto:kboehm@BKLawfirm.com)  
*Counsel for Cleveland Cliffs Steel*

#### WITNESSES / CONSULTANTS

Harry S. Geller\*  
118 Locust Street  
Harrisburg, PA 17101  
[hgeller@pautilitylawproject.org](mailto:hgeller@pautilitylawproject.org)  
*CAUSE Witness*

Lafayette Morgan\*  
Exeter Associates, Inc.  
10480 Little Patuxent Parkway  
Suite 300  
Columbia, MD 21044  
[OCAPAWC2025@paoca.org](mailto:OCAPAWC2025@paoca.org)  
*OCA Witness*

Jerome Mierzwa\*  
Exeter Associates, Inc.  
10480 Little Patuxent Parkway  
Suite 300  
Columbia, MD 21044

David Garrett\*  
Resolve Utility Consulting PLLC  
101 Park Avenue  
Suite 1125  
Oklahoma City, OK 73102

[OCAPAWC2025@paoca.org](mailto:OCAPAWC2025@paoca.org)  
*OCA Witness*

[OCAPAWC2025@paoca.org](mailto:OCAPAWC2025@paoca.org)  
*OCA Witness*

Roger Colton\*  
Fisher, Sheehan and Colton  
34 Warwick Road  
Belmont, MA 02478  
[OCAPAWC2025@paoca.org](mailto:OCAPAWC2025@paoca.org)  
*OCA Witness*

Barbara Alexander\*  
83 Wedgewood Drive  
Winthrop, ME 04364  
[OCAPAWC2025@paoca.org](mailto:OCAPAWC2025@paoca.org)  
*OCA Witness*

Jason Hails\*  
Quantiv Advisory, LLC  
925 Wappoo Road, Suite A  
Charleston, SC 29407  
[j.hails@quantivadvisory.com](mailto:j.hails@quantivadvisory.com)  
*OSBA Witness*

Joseph Kubas\*  
Commonwealth of Pennsylvania  
Office of Small Business Advocate  
555 Walnut Street  
Forum Place, 1<sup>st</sup> Floor  
Harrisburg, PA 17101  
[jkubas@pa.gov](mailto:jkubas@pa.gov)  
*OSBA Witness*

Roger Cathcart\*  
Cathcart Advisors, Inc.  
Financial Regulatory Advisors  
300-330 St. Mary Avenue  
Winnipeg, MD, R3C 3Z5 Canada  
[REMC@CathcartAdvisors.com](mailto:REMC@CathcartAdvisors.com)  
*OSBA Witness*

Ethan Cline\*  
Esysan Sakaya\*  
Divya Dorairajan\*  
Vanessa Okum\*  
DC Patel\*  
*I&E Witness*



---

Mark A. Lazaroff (Pa. No. 315407)  
Morgan, Lewis & Bockius LLP  
2222 Market Street  
Philadelphia, PA 19103-3007  
215.963.4603 (office)  
215.963.5001 (fax)  
[mark.lazaroff@morganlewis.com](mailto:mark.lazaroff@morganlewis.com)

Dated: **April 6, 2026**

*Counsel for Pennsylvania-American Water  
Company*

**\*=Executed SPA**

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

|   |   |  |
|---|---|--|
| <b>PENNSYLVANIA PUBLIC UTILITY<br/>COMMISSION</b> | : |  |
| <b>v.</b>   | : |  |
| <b>PENNSYLVANIA-AMERICAN<br/>WATER COMPANY</b>    | : | <b>DOCKET NOS.: R-2025-3057983 (Water)<br/>R-2025-3058051 (Wastewater)</b> |

**MAIN BRIEF OF  
PENNSYLVANIA-AMERICAN WATER COMPANY  
PUBLIC VERSION**

**Before Administrative Law Judge Jeffrey A. Watson and  
Administrative Law Judge Emily I. DeVoe**

Teresa K. Harrold (PA No. 311082)  
Elizabeth Rose Triscari (PA No. 306921)  
Erin K. Fure (PA No. 312245)  
Pennsylvania-American Water Company  
852 Wesley Drive  
Mechanicsburg, PA 17055  
717.550.1562 (bus)  
[teresa.harrold@amwater.com](mailto:teresa.harrold@amwater.com)  
[elizabeth.triscari@amwater.com](mailto:elizabeth.triscari@amwater.com)  
[erin.fure@amwater.com](mailto:erin.fure@amwater.com)

*Counsel for  
Pennsylvania-American Water Company*

Kenneth M. Kulak (PA No. 75509)  
Mark A. Lazaroff (PA No. 315407)  
Catherine G. Vasudevan (PA No. 210254)  
Brooke E. McGlinn (PA No. 204918)  
Morgan, Lewis & Bockius LLP  
2222 Market Street  
Philadelphia, PA 19103-3007  
215.963.5384 (bus)  
[ken.kulak@morganlewis.com](mailto:ken.kulak@morganlewis.com)  
[mark.lazaroff@morganlewis.com](mailto:mark.lazaroff@morganlewis.com)  
[catherine.vasudevan@morganlewis.com](mailto:catherine.vasudevan@morganlewis.com)  
[brooke.mcglinn@morganlewis.com](mailto:brooke.mcglinn@morganlewis.com)

*Counsel for  
Pennsylvania-American Water Company*

Dated: April 6, 2026

## TABLE OF CONTENTS

|   | <b>Page</b> |
|---|-------------|
| I. INTRODUCTION AND OVERVIEW .....  | 1           |
| A. Procedural History .....   | 1           |
| B. Legal Standards (Burden of Proof) .....  | 3           |
| II. SUMMARY OF ARGUMENT .....   | 4           |
| III. OVERALL POSITION ON RATE INCREASE .....  | 7           |
| IV. RATE BASE .....   | 10          |
| A. Plant-In-Service .....   | 10          |
| B. Additions to Rate Base .....   | 11          |
| 1. Acquisition Adjustments .....  | 11          |
| 2. Cash Working Capital .....   | 17          |
| C. Deductions from Rate Base .....  | 17          |
| D. Conclusion .....   | 18          |
| V. REVENUES .....   | 18          |
| VI. EXPENSES .....  | 19          |
| A. Labor-Related Expense (Salaries and Wages, Employee Benefits,<br>and Related Payroll Taxes) .....                      | 19          |
| B. Performance Compensation .....   | 21          |
| C. Group Insurance Expense .....  | 25          |
| D. Service Company Expense .....  | 25          |
| E. Waste Disposal Expense .....   | 28          |
| F. Transportation Expense .....   | 29          |
| G. Towamencin Transaction Costs .....   | 30          |
| H. Interest Synchronization .....   | 32          |
| I. Amortization Expense .....   | 32          |
| J. Third-Party Call Center Expense .....  | 32          |
| K. Pension and Other Post-Employment Benefits Expense (and Request<br>for Deferred Regulatory Accounting Treatment) ..... | 33          |
| VII. TAXES .....  | 36          |
| VIII. DEPRECIATION .....  | 36          |

|      |   |    |
|------|---|----|
| IX.  | RATE OF RETURN.....   | 41 |
|      | A. Summary .....  | 41 |
|      | B. Proxy Group .....  | 45 |
|      | C. Capital Structure.....   | 49 |
|      | D. Cost of Long-Term Debt .....                                   | 52 |
|      | E. Return on Equity .....   | 52 |
|      | 1. PAWC’s Cost of Equity .....                                    | 53 |
|      | 2. I&E’s Position .....   | 56 |
|      | 3. OCA’s Position .....   | 63 |
|      | F. Management Performance.....                                    | 65 |
| X.   | RATE STRUCTURE AND RATE DESIGN .....                              | 71 |
|      | A. Cost-of-Service Studies .....                                  | 72 |
|      | 1. Water Operations.....  | 72 |
|      | 2. Wastewater Operations .....                                    | 75 |
|      | 3. Cost-of-Service Studies for Future General Rate Increases..... | 76 |
|      | B. Revenue Allocation/Act 11 Shift .....                          | 76 |
|      | C. Tariff Structure .....   | 78 |
|      | 1. Customer Charges .....   | 78 |
|      | 2. Water Rate Design .....  | 79 |
|      | 3. Wastewater Rate Design .....                                   | 80 |
|      | 4. Wastewater Deduct Adjustment.....                              | 83 |
|      | 5. Demand-Based Contract Rates .....                              | 84 |
|      | D. Summary and Alternatives (Including Scale-Back of Rates) ..... | 86 |
| XI.  | ALTERNATIVE RATEMAKING REQUESTS .....                             | 87 |
|      | A. Customer Assistance Program Rider.....                         | 87 |
| XII. | LOW-INCOME CUSTOMER ASSISTANCE.....                               | 92 |
|      | A. Summary .....  | 92 |
|      | B. Affordability Analysis .....                                   | 92 |
|      | C. Bill Discount Program Design .....                             | 96 |
|      | D. Arrearage Management Program .....                             | 99 |

|       |  |     |
|-------|--|-----|
| E.    | H2O Help to Others Program Screening, Outreach and Enrollment Procedures ..... | 103 |
| F.    | Water Conservation and Line Repair and Replacement Assistance .....            | 107 |
| G.    | Hardship Fund .....  | 109 |
| H.    | Renter Assistance Pilot Program.....   | 110 |
| I.    | Universal Service Plan .....   | 111 |
| XIII. | SERVICE QUALITY AND CUSTOMER SERVICE ISSUES .....                              | 112 |
| A.    | Summary .....  | 112 |
| B.    | Customer Service Performance .....   | 113 |
| C.    | Billing Arrangement with American Water Resources .....                        | 118 |
| XIV.  | CONCLUSION .....   | 125 |

**LIST OF APPENDICES**

|                 |  |
|-----------------|--|
| Appendix A..... | Summary of Proposed Base Rate and Income Adjustments                 |
| Appendix B..... | Proposed Finding of Fact, Conclusions of Law and Ordering Paragraphs |
| Appendix C..... | Rate Impact Information  |

**TABLE OF AUTHORITIES**

|  | <b>Page(s)</b> |
|--|----------------|
| <b>COURT CASES</b>   |                |
| <i>Bluefield Waterworks and Imp. Co. v. P.S.C. of West Virginia</i> ,<br>262 U.S. 679 (1923).....  | 41, 42         |
| <i>Duquesne Light Company v. Barasch</i> ,<br>488 U.S. 299 (1989).....   | 42             |
| <i>Federal Power Comm’n v. Hope Natural Gas Co.</i> ,<br>320 U.S. 591 (1944).....  | 42             |
| <i>Lloyd v. Pa. P.U.C.</i> ,<br>904 A.2d 1010 (Pa. Commw. Ct. 2006) .....  | 71             |
| <i>Lower Paxton Twp. v. Pa. P.U.C.</i> ,<br>317 A.2d 917 (Pa. Commw. Ct. 1974) .....   | 41, 43         |
| <i>NRG Energy, Inc. v. Pa. P.U.C.</i> ,<br>233 A.3d 936 (Pa. Commw. Ct. 2020) .....  | 3              |
| <i>Pa. P.U.C. v. Pennsylvania Gas and Water Co. - Water Div.</i> ,<br>341 A.2d 239 (Pa. Commw. Ct. 1975) .....   | 43             |
| <i>Pa. P.U.C. v. Philadelphia Suburban Water Co.</i> ,<br>75 Pa. P.U.C. 391 (1991) .....   | 71             |
| <i>PPL Elec. Utils. Corp. v. Pa. P.U.C.</i> ,<br>912 A.2d 386 (Pa. Commw. Ct. 2006) .....  | 121            |
| <i>U.S. Steel Corp. v. Pa. P.U.C.</i> ,<br>390 A.2d 865 (Pa. Commw. Ct. 1978) .....  | 72             |
| <i>U.S. Steel Corp. v. Pa. P.U.C.</i> ,<br>456 A.2d 686 (Pa. Commw. Ct. 1983) .....  | 3              |
| <b>COMMISSION CASES</b>  |                |
| <i>Aqua Pa., Inc, Peoples Natural Gas Co. LLC, and Peoples Gas Co. LLC</i><br><i>Management and Operations Audit</i> , Docket Nos. D-2020-3018771, D-2020-<br>3018773, and D-2020-3018774 (Apr. 2021), ..... | 115            |
| <i>Illinois-Am. Water Co. Proposed Rate Increases for Water and Sewer Service</i> ,<br>Docket No. 22-0210 (Order, Dec. 15, 2022) .....   | 47             |

|  |        |
|--|--------|
| <i>In re Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S., Order No. PSC-2018-0327-PAA-WS, (June 26, 2018)</i> .....   | 47     |
| <i>Interstate Gas Supply, Inc. et al. v. Metro. Edison Co., Pennsylvania Elec. Co., Pennsylvania Power Co., and West Penn Power Co., Docket Nos. C-2019-3013805 et al., 2021 WL 3840884 (Aug. 26, 2021), aff'd, 298 A.3d 1181 (Pa. Commw. Ct. 2023)</i> .....  | 121    |
| <i>Joint Application of Aqua America, Inc., Aqua Pa., Inc., Aqua Pa. Wastewater, Inc., Peoples Natural Gas Co. LLC and Peoples Gas Co. LLC for All of the Authority and the Necessary Certificates of Pub. Convenience to Approve a Change in Control of Peoples Natural Gas Co. LLC and Peoples Gas Co. LLC by Way of the Purchase of All of LDC Funding, LLC's Membership Interests by Aqua America, Inc., Docket Nos. A-2018-3006061, A-2018-3006062 and A-2018-3006063 (Order entered Jan. 24, 2020)</i> ..... | 108    |
| <i>Joint Application of Pa.-American Water Co., Manwalamink Water Co. and Manwalamink Sewer Co., Docket Nos. A-2023-3044418 et al. (Opinion and Order entered March 27, 2025)</i> .....  | 15, 16 |
| <i>Pa. P.U.C. v. Aqua Pa., Inc., Docket No. R00072711 (Order entered July 31, 2008)</i> .....  | 23     |
| <i>Pa. P.U.C. v. Aqua Pa., Inc., Docket Nos. R-2021-3027385 and R-2021-3027386 (Opinion and Order entered May 16, 2022)</i> .....  | passim |
| <i>Pa. P.U.C. v. Columbia Gas of Pa., Inc., Docket No. R-2025-3053499 (Opinion and Order entered Dec. 9, 2025)</i> .....   | passim |
| <i>Pa. P.U.C. v. Columbia Gas of Pa., Inc., Docket No. R-2025-3053499 (Recommended Decision entered Oct. 3, 2025)</i> .....  | 106    |
| <i>Pa. P.U.C. v. Columbia Water Co., Docket No. R-2023-3040258 (Opinion and Order entered Jan 18, 2024)</i> .....  | 45     |
| <i>Pa. P.U.C. v. Columbia Gas of Pa., Inc., Docket No. R-2020-3018835 (Opinion and Order entered Feb. 19, 2021)</i> .....  | 91     |

|  |            |
|--|------------|
| <i>Pa. P.U.C. v. Columbia Gas of Pa., Inc.,</i><br>Docket No. R-2018-2647577, 2018 WL 6590854<br>( <i>Pa. P.U.C. Dec. 6, 2018</i> ).....   | 121        |
| <i>Pa. P.U.C. v. Columbia Water Co.,</i> Docket No. R-2023-3040258 (Opinion and<br>Order entered Jan 18, 2024).....  | 45, 58, 59 |
| <i>Pa. P.U.C. v. Consumers Pa. Water Co. – Roaring Creek Div.,</i><br>Docket No. R-932655 (Order entered Feb. 3, 1994) .....   | 35         |
| <i>Pa. P.U.C. v. PPL Gas Utils. Corp.,</i><br>Docket No. R-00061398 ( <i>Order entered Feb. 8, 2007</i> ).....   | 23         |
| <i>Pa. P.U.C. v. PPL Elec. Utils. Corp.,</i><br>Docket No. R-2012-2290597<br>(Opinion and Order entered Dec. 28, 2012) .....   | 23         |
| <i>Pa. P.U.C. v. Pa.-American Water Co.,</i><br>Docket Nos. R-2020-3019369 and R-2020-3019371<br>(Opinion and Order entered Feb. 25, 2021) .....   | passim     |
| <i>Pa. P.U.C. v. Pa.-American Water Co.,</i><br>Docket Nos. R-2023-3043189 and R-2023-3043190 (Opinion and Order<br>entered July 22, 2024).....  | passim     |
| <i>Pa. P.U.C. v. UGI Utils., Inc. – Elec. Div.,</i><br>Docket No. R-2017-2640058 (<br>Opinion and Order entered Oct. 4, 2018) .....  | 3, 23      |
| <i>Pa. P.U.C. v. Veolia Water Pa., Inc.,</i><br>Docket Nos. R-2024-3045192 and R-2024-3045193<br>(Order entered Oct. 10, 2024).....  | 108        |
| <i>Petition of Aquarion Water Co. of Massachusetts, Inc., pursuant to G.L. c. 164, §</i><br><i>94, and G.L. c. 165, § 2, for Approval of a General Rate Increase as set forth</i><br><i>in M.D.P.U. No. 3., Docket No. 20180006-WS (Oct. 31, 2018).....</i>  | 47         |
| <i>Petition of Citizens Utils. Water Co. of Pa.,</i><br>Docket No. P-00930746 (Order entered Feb. 25, 1994).....   | 35         |
| <i>Petition of Columbia Gas of Pa., Inc. for Auth. to Defer, for Accounting</i><br><i>Purposes, Certain Costs Associated With A Regulatory Asset Related to</i><br><i>Other Post-Retirement Benefits Provided by NiSource Corporate Serv. Co.,</i><br>Docket No. P-2011-2275383 (Opinion and Order entered May 24, 2012) ..... | 35         |

|  |          |
|--|----------|
| <i>Petition of the Newtown Artesian Water Co. for Permission to Defer and Record Unrecovered Purchased Water Costs, Docket No. P-2010-221420 (Order entered June 1, 2011)</i> .....  | 35       |
| <i>Petition of Pa.-American Water Co. for Auth. to Defer Expenses Incurred to Pay New Regulatory Fees Imposed by the Pa. Dep’t of Env’tl. Prot., Docket No. P-2019-3008253 (Opinion and Order entered May 9, 2019)</i> .....   | 35       |
| <i>Petition of Pa.-American Water Co. for Auth. to Defer for Accounting and Financial Reporting Purposes Expenses Relating to a Water Customer Class Demand Study, Docket No. P-2012-2308982 (Opinion and Order entered Aug. 20, 2012)</i> .....   | 35       |
| <i>Petition of Pa.-American Water Co. for Auth. to Defer and Record as Regulatory Assets for Future Recovery: (1) Incremental Expenses Incurred Because of the Effects of the COVID-19 Emergency; (2) Revenue Reductions Attributable to the Effects of the COVID-19 Emergency; and (3) Carrying Charges on the Amounts Deferred, Docket No. P-2020-3022426 (Opinion and Order entered Sept. 15, 2021)</i> ..... | 35       |
| <i>Petition of Pa.-American Water Co. for Approval of an Arrearage Management Plan, Docket No. P-2021-3028195 (Order entered Dec. 7, 2023)</i> .....   | 101, 105 |
| <i>Petition of Pennsylvania-American Water Company for Approval of an Arrearage Management Plan, Docket No. P-2021-3028195 (Order entered Dec. 28, 2022)</i> .....   | 49, 102  |
| <i>Petition of The Pittsburgh Water and Sewer Auth. for Approval of Pilot Private Service Line Leak Repair and Expanded Conservation Program for Eligible Low Income Customers and Authorization to Track Costs as a Regulatory Asset for Future Base Rate Recovery, Docket No. P-2022-3030253 (Order entered March 2, 2023)</i> .....   | 108      |
| <i>Valuation of Acquired Municipal Water and Wastewater Systems – Act 12 of 2016 Implementation, Docket No. M-2016-2543193 (Final Supplemental Implementation (Order entered Jul. 2, 2024)</i> .....   | 31       |

**STATUTES AND REGULATIONS**

|  |   |
|--|---|
| 66 Pa.C.S. §§ 101 <i>et seq.</i> ..... | 1 |
| 66 Pa.C.S. § 102 .....                 | 1 |
| 66 Pa.C.S. § 315 .....                 | 3 |

|  |                 |
|--|-----------------|
| 66 Pa.C.S. § 332 .....                   | 3               |
| 66 Pa.C.S. § 1102 .....                  | 17              |
| 66 Pa.C.S. § 1311(c).....                | 5, 77           |
| 66 Pa.C.S. § 1327 .....                  | passim          |
| 66 Pa.C.S. § 1329 .....                  | 31,76, 82       |
| 66 Pa.C.S. § 1330 .....                  | 87, 88, 90, 108 |
| 66 Pa.C.S. § 1502 .....                  | 121             |
| 66 Pa.C.S. § 2804(8).....                | 112             |
| 25 Pa. Code § 109.407(b)(2) .....        | 14              |
| 52 Pa. Code § 54.74.....                 | 112             |
| 52 Pa. Code § 56.13.....                 | 119             |
| 52 Pa. Code §§ 56.23, 56.83(3) .....     | 119             |
| 52 Pa. Code §§ 58.1 <i>et seq.</i> ..... | 91, 107, 108    |
| 52 Pa. Code § 62.41 .....                | 112             |
| 52 Pa. Code § 69.711(a) .....            | 66              |
| 52 Pa. Code § 69.3302.....               | 6, 88           |
| 52 Pa. Code § 73.9(c) .....              | 39              |
| 52 Pa. Code § 523.....                   | 65, 66          |

**OTHER AUTHORITY**

|   |    |
|---|----|
| FINANCIAL ACCOUNTING STANDARDS BOARD ACCOUNTING<br>STANDARD CODIFICATION TOPIC 715..... | 33 |
|---|----|

## **I. INTRODUCTION AND OVERVIEW**

Pennsylvania-American Water Company (“PAWC” or the “Company”) is a “public utility,” as defined in 66 Pa.C.S. § 102.<sup>1</sup> PAWC furnishes water and wastewater services to approximately 810,000 customers in a service area covering portions of 38 counties across Pennsylvania.<sup>2</sup> PAWC is a subsidiary of American Water Works Company, Inc. (“American Water”).

### **A. Procedural History**

On November 14, 2025, PAWC initiated this rate case by filing Supplement No. 58 to Tariff Water – Pa. P.U.C. No. 5 and Supplement No. 61 to Tariff Wastewater – Pa. P.U.C. No. 16 requesting Pennsylvania Public Utility Commission (“Commission” or “PUC”) approval of an increase in its total annual operating revenues to become effective January 13, 2026. The requested increase equaled \$168.7 million or approximately 14.6% above the level of pro forma revenues for the fully projected future test year (“FPFTY”) ending June 30, 2027.<sup>3</sup> As a result of various updates made by PAWC throughout the case, its revenue increase request was reduced to \$159,597,595 or 13.7%, as set forth in PAWC Exhibit 3-A Revised.<sup>4</sup> PAWC’s supporting information included the prepared direct

---

<sup>1</sup> Hereafter all references to a “Section” are to the Pennsylvania Public Utility Code (“Code”), 66 Pa.C.S. §§ 101 *et seq.*, unless indicated otherwise.

<sup>2</sup> PAWC St. 3, p. 3.

<sup>3</sup> PAWC St. 2, p. 3.

<sup>4</sup> On March 13, 2026, the Company submitted updated pages to Exhibit 3-A Revised that accompanied the rebuttal testimony of Dr. Christina E. Chard to address the impact of recently-released Internal Revenue Service guidance related to the Corporate Alternative Minimum Tax. The impact of that guidance and the basis for those updates to Exhibit 3-A Revised are described in the supplemental testimony of Linda Schlessman.

testimony of 14 initial witnesses and the various exhibits sponsored by those witnesses. Considerable additional information was provided in response to interrogatories and data requests, comprising a cumulative total of 679 questions with 977 subparts.

On December 4, 2025, the PUC instituted an investigation of PAWC's existing and proposed rates and the Company's proposed tariffs were suspended by operation of law until August 13, 2026. This matter was subsequently assigned to Administrative Law Judges ("ALJs") Jeffrey A. Watson and Emily I. DeVoe for purposes of conducting hearings and issuing a recommended decision.

In addition to the Commission's Bureau of Investigation and Enforcement ("I&E"), several parties participated actively in this proceeding: the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), Cleveland-Cliffs Steel ("CCS"), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA"), the Exeter Township School District, and Victory Brewing Company ("Victory"). A telephonic Prehearing Conference was held on December 12, 2025, ten in-person public input hearings were held on January 13, 15, 16, 20 and 29, 2026, and two telephonic public input hearings were held on January 21, 2026.

In accordance with Prehearing Order #1 issued on January 5, 2026, I&E, the OCA, the OSBA, and CAUSE-PA, submitted a total of 12 written statements of direct testimony and accompanying exhibits on January 28, 2026. On February 10, 2026, the OCA submitted the supplemental direct testimony of Barbara R. Alexander. On February 27, 2026, PAWC, CCS, the OSBA, and Victory submitted a total of 17 written statements of rebuttal testimony and accompanying exhibits. On March 13, 2026, I&E, the OCA, the

OSBA, and CAUSE-PA submitted a total of 12 written statements of surrebuttal testimony and accompanying exhibits. On March 19, 2026, PAWC submitted a total of five written statements of rejoinder testimony.

At the evidentiary hearing held on March 23, 2026, PAWC witness Dr. Christina E. Chard presented oral rejoinder testimony and was cross-examined by counsel for other parties. PAWC witness Ann E. Bulkley was also cross-examined. Additional written rejoinder testimony for PAWC witnesses Matthew W. Prine and John J. Spanos were also submitted. The written testimony and exhibits of all parties were admitted into evidence.

#### **B. Legal Standards (Burden of Proof)**

While Section 315(a) provides that a utility has the burden to prove that proposed rates are just and reasonable, it “cannot reasonably be read to place the burden of proof on the utility with respect to an issue the utility did not include in its general rate case filing.”<sup>5</sup> A party proposing an adjustment to a ratemaking claim bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment,<sup>6</sup> and Section 332(a) establishes a burden of proof separate from that in Section 315 for those entities that propose a rule or order. Rejecting evidence contrary to a public utility’s position is not an impermissible shifting of the evidentiary burden.<sup>7</sup>

---

<sup>5</sup> *Pa. P.U.C. v. UGI Utils., Inc. – Elec. Div.*, Docket No. R-2017-2640058 (Opinion and Order entered Oct. 4, 2018) (“*UGI Electric 2018*”), p. 7.

<sup>6</sup> *NRG Energy, Inc. v. Pa. P.U.C.*, 233 A.3d 936, 950-51 (Pa. Commw. Ct. 2020).

<sup>7</sup> *U.S. Steel Corp. v. Pa. P.U.C.*, 456 A.2d 686 (Pa. Commw. Ct. 1983).

## II. SUMMARY OF ARGUMENT

PAWC is seeking a rate increase because the Company will invest over \$1 billion in its water and wastewater systems between July 1, 2025 and June 30, 2027. The Company's current base rates are no longer sufficient to provide a reasonable return on its investments to support the continued provision of safe, efficient, and reliable water and wastewater services essential to PAWC customers. PAWC also needs to address infrastructure concerns across Pennsylvania in accordance with evolving drinking water and environmental standards. As part of its rate increase filing, PAWC submitted an affordability study demonstrating that its proposed rate increase will maintain affordable rates. As explained in Section III below, the extensive data submitted in PAWC's initial filing and evidence presented by 16 Company witnesses in this case clearly demonstrates that the proposed rate increase is just and reasonable.

Sections IV to XIII of this Brief address the opposing party positions regarding PAWC's proposed revenue requirement, revenue allocation and rate design, tariff structure, affordability of rates, alternative ratemaking, and quality of service. The major contested issues addressed in those sections are summarized below and, except as addressed herein, the parties did not contest the Company's proposed tariff changes.

**Rate Base.** No party has challenged the set of improvement projects and investments reflected in PAWC's claimed utility plant-in-service. As discussed in Section IV.B below, the record in this case contains more than sufficient evidence for the PUC to conclude that PAWC has met the threshold criteria of Section 1327(a) for rate base inclusion of the acquisition adjustments for the Farmington Township ("Farmington")

water system and the utility assets of Manwalamink Water Company (“MWC”) and Manwalamink Sewer Company (“MSC”) (together, “Manwalamink”).

**Expenses.** As discussed in Section VI below, adjustments to PAWC’s expense claims proposed by I&E, the OCA, and the OSBA should not be adopted because they are unsupported by record evidence and, in some cases, depart from prior PUC decisions. In addition, PAWC’s proposed deferral mechanism for pension and other post-employment benefits (“OPEB”) is appropriate because those expense items are subject to material change from forecasts in rate cases due to events outside of the Company’s control.

**Rate of Return.** PAWC presented expert evidence to justify an overall return of 8.13% based on the Company’s actual capital structure, long-term cost of debt, and a cost of equity of 10.95%, which incorporates recognition of PAWC’s exemplary management performance, including, in particular, PAWC’s support for troubled water systems throughout the Commonwealth. I&E recommends a deficient return on equity (“ROE”) of only 9.7%, derived from flawed discounted cash flow (“DCF”) and capital asset pricing model (“CAPM”) calculations and conclusions that did not take current market conditions into account. For its part, the OCA recommends a clearly deficient ROE of 8.7%, well below recent ROEs authorized for PAWC and other water utilities, based on a variety of incorrect calculations that are inconsistent with established methods and data.

**Revenue Allocation and Rate Design.** PAWC’s proposed rates reasonably allocate the increase in water and wastewater revenues among customer rate classes. PAWC’s proposed reallocation of a portion of its wastewater revenue requirement to water customers pursuant to Section 1311(c) is in the public interest to mitigate large rate

increases to wastewater customers. The Company's wastewater rate design appropriately includes a deduct adjustment to address the potential mismatch between water and wastewater usage during summer months.

**Low-Income Customer Assistance.** PAWC offers a robust portfolio of programs to assist low-income customers, including a tiered Bill Discount Program ("BDP"), an Arrearage Management Program ("AMP"), and Hardship Grants. PAWC is also proposing a new Rental Assistance Pilot Program ("RAPP"). As explained by PAWC's President Justin L. Ladner, the provision of affordable utility service is a key objective for the Company. To that end, PAWC has conducted significant outreach efforts to enroll customers in its H2O Help to Others™ ("H2O") Program through statewide in-person information sessions, texting, paid customer education media campaigns, and door-to-door canvassing.

**Alternative Ratemaking Proposal.** The Customer Assistance Program ("CAP") Rider is reasonable and consistent with the distribution rate policy considerations set forth in the Commission's regulations at 52 Pa. Code § 69.3302. PAWC is proposing its CAP Rider because the Company is experiencing significant BDP enrollment variability arising from the launch of documentation-based income verification in accordance with PUC rulings and guidance. PAWC experienced a dramatic drop followed by a dramatic spike in BDP enrollment in just the past year. If BDP enrollment rises above the discount levels set in rates in this case, PAWC will recover discount revenues through the CAP Rider. If BDP enrollment drops below the discount levels set in rates in this case, PAWC's CAP Rider will flow back revenues to customers. Since BDP enrollment levels are highly

subjective to material fluctuations and the fact that PAWC’s BDP enrollment levels are largely outside of PAWC’s control, a CAP Rider is the most reasonable ratemaking solution for these discounts, protecting the Company from revenue shortfalls and customers from overcollections. Any denial of the CAP Rider could place PAWC in an under-recovery position on day one of new base rates since the Company’s current BDP enrollment levels are already higher than what the Company built into its proposed rates.

**Customer Service.** The OCA’s unreasonable characterization of PAWC’s customer service as “subpar” rests largely on call wait times of two third-party collection agencies and ignores many other key indicators of overall customer satisfaction, including quality and value of service. PAWC witness Matthew W. Prine’s testimony in this case details PAWC’s positive trend in achieving internal customer service performance goals since its last base rate case. Company witness Jim Runzer’s testimony explains PAWC’s ongoing operational enhancements for the benefit of customers and the environment to deliver high-quality drinking water and wastewater services to customers.

For the reasons explained below in detail, the Company’s request for rate relief, alternative ratemaking proposal, and proposed tariffs should be approved.

### **III. OVERALL POSITION ON RATE INCREASE**

PAWC last increased its base rates effective August 7, 2024.<sup>8</sup> Since that time, and through June 30, 2027, the Company has or will spend over \$1 billion in capital investment to continue to provide safe and reliable service to customers, while facing inflationary

---

<sup>8</sup> *Pa. P.U.C. v. Pa.-American Water Co.*, Docket Nos. R-2023-3043189 and R-2023-3043190 (Opinion and Order entered July 22, 2024) (“PAWC 2024”), p. 393.

pressures driving increases in the costs to provide high quality water and wastewater service.<sup>9</sup>

None of the parties opposing the rate increase disagree with PAWC's plan to invest more than \$1 billion in its infrastructure before the end of the FPFTY. They also have not challenged the prudence or reasonableness of PAWC's ongoing replacement of its mains, meters, and lines, or any of the other investments that PAWC makes every day to meet or exceed environmental and public health standards, address aging infrastructure, and enhance the reliability and resiliency of its systems. Absent rate relief, PAWC's water and wastewater operations are projected to produce an overall return on invested capital of 6.29% for the FPFTY.<sup>10</sup> The indicated return on common equity under present rates is anticipated to be only 7.63% as of June 30, 2027, which is far less than required to provide the Company with a reasonable opportunity to attract capital for these investments.<sup>11</sup>

Many of these investments cannot be avoided and are in the long-term best interests of PAWC's customers. If the investments are not made, costs will increase even more. For example, when mains are not replaced in a timely fashion, or equipment is neglected, Company costs rise as unanticipated main breaks create water quality issues, unexpected expenses, and disruption to customers and communities. Similarly, equipment in need of replacement makes workers less efficient and can create safety issues.<sup>12</sup>

---

<sup>9</sup> PAWC St. 1, pp. 6-7; PAWC St. 2, pp. 3-4; PAWC St. 4, pp. 4-5.

<sup>10</sup> PAWC St. 2, p. 5.

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*, pp. 9-10.

In proposing this rate increase, the Company evaluated the impact of the proposed rate increases on its customers. A Zone 1 residential customer using 109 gallons of water per day would pay approximately \$3.18 per day for water under the Company's proposal. In other words, for about \$3.18 per day, an average residential customer has all the water they and their family need to drink, cook, wash, and maintain their general health and well-being.<sup>13</sup> For its lower-income customers, the Company has an extensive series of assistance programs, including an income-based bill discount program to address affordability of water and wastewater service.<sup>14</sup>

As PAWC President Justin Ladner testified, a secondary driver of this rate case filing is the inclusion of the Company's recent acquisitions into base rates for the first time. Since the Company's last rate case, the PUC has approved eleven PAWC acquisitions (six water systems and five sewer systems), which have not been incorporated into PAWC's rate base. All of these acquisitions have closed. These acquisitions include four very small, less viable systems with less than 1,000 customer connections each, continuing the Company's long-standing commitment to helping resolve the significant challenges faced by troubled water and wastewater systems in the Commonwealth of Pennsylvania.<sup>15</sup>

---

<sup>13</sup> *Id.*, p. 10.

<sup>14</sup> *Id.*, pp. 12-15.

<sup>15</sup> PAWC St. 1, pp. 7, 10.

#### **IV. RATE BASE**

PAWC's final claimed rate base of \$6,603,960,239<sup>16</sup> (Appendix A) consists of the depreciated original cost of its utility plant-in-service at June 30, 2027, together with rate base additions and deductions made in accordance with accepted ratemaking procedures.<sup>17</sup> The discussion below addresses only those rate base claims that remain contested at the close of the record in this case.

##### **A. Plant-In-Service**

The increase in PAWC's utility plant-in-service since its last base rate case is the single largest factor driving the Company's need for an increase in revenue. Since the end of the FPFTY in its last case (June 30, 2025), through the end of the FPFTY in this case (June 30, 2027), PAWC will have invested \$1.05 billion in new or replacement plant, and the overwhelming portion of this investment is in source of supply, treatment, distribution and collection assets.<sup>18</sup> Part of this investment is also being used to improve service to small and troubled water and wastewater systems that PAWC has acquired in furtherance of the Commission's policy that larger, viable water and wastewater companies acquire small, troubled systems and make the necessary improvements to provide safe and reliable service.<sup>19</sup> To address these diverse capital needs, PAWC must raise substantial amounts

---

<sup>16</sup> Sum of Water, Wastewater ("WW") Sanitary Sewer System ("SSS") General, WW Combined Sewer System ("CSS"), Elizabeth Borough Municipal Authority WW ("EBMA") and Butler Area Sewer Authority WW ("BASA") Operations.

<sup>17</sup> See PAWC St. 5, pp. 9-21; PAWC Ex. 3-A Revised, pp. 26R2, 94R2, 145R2, 192R2, 237R2.

<sup>18</sup> PAWC St. 2, pp. 3-4; PAWC St. 4, pp. 4-5.

<sup>19</sup> PAWC St. 1, pp. 10-18; PAWC St. 2, p. 4.

of debt and equity and, in the process, demonstrate its ability to provide a reasonable return in order to convince investors to commit their funds to the Company.<sup>20</sup> No party disputes PAWC's claimed plant-in-service as of the end of the FPFTY.<sup>21</sup>

## **B. Additions to Rate Base**

In addition to the depreciated original cost of net utility plant in service discussed in Section IV.A above, PAWC has included in its claimed rate base, cash working capital, materials and supplies, accrued taxes net of prepaid taxes, as well as the utility plant acquisition adjustments ("UPAAs"), transaction costs, and other amortizations described in the direct testimony of Company witness Jared Deason (PAWC Statement No. 5). Following the conclusion of the evidentiary hearing, the only rate base additions that remain in dispute are PAWC's acquisition adjustments that it recorded upon its acquisition of the Farmington water system and the Manwalamink systems.

### **1. Acquisition Adjustments**

PAWC requests that it be allowed to include in rate base, and thereby earn a return on, the approximately \$2.1 million UPAAs that it recorded upon its acquisition of the Farmington water assets and the Manwalamink water and wastewater assets.<sup>22</sup> In addition,

---

<sup>20</sup> PAWC St. 2, p. 5; PAWC St. 13, pp. 8-11.

<sup>21</sup> I&E witness Vanessa Okum's originally proposed reductions to capitalized labor costs associated with her vacancy rate adjustment are addressed in Section VI.A. below.

<sup>22</sup> PAWC St. 5, p. 18; PAWC Ex. 3-A Revised, pp. 66R, 126R; PAWC Ex. 3-C. PAWC's other claimed positive UPAAs, described in Company witness Don Wieczenski's direct testimony (PAWC St. 7, pp. 21-32), were not contested in testimony or exhibits.

PAWC asks that it be permitted a return of its Farmington and Manwalamink acquisition adjustments through a 10-year amortization.<sup>23</sup> The OCA opposes both claims.<sup>24</sup>

In broad terms, Section 1327 creates a rebuttable presumption that a purchase price in excess of the original cost less depreciation of an acquired system is reasonable and entitled to be included in rate base if eight criteria are met.<sup>25</sup> The OCA does not dispute: that the property in question is used and useful (Criterion No. 1); the viability of the acquired entities and reasonableness of the investments to be made by PAWC in the acquired systems (Criteria Nos. 2 and 4); that the acquisition was the result of arm's length negotiations (Criterion No. 5); that the parties to the transaction were not affiliated (Criteria No. 7); or the effect of rates on preacquisition customers (Criterion No. 8). As such, Mr. Morgan's position is focused on whether PAWC met its burden with respect to Criteria Nos. 3 and 6.

**Adequacy and Reasonableness of Service and Facilities (Criterion No. 3).**

Section 1327(a) requires a showing that the acquired system, at the time of its acquisition, was not "furnishing and maintaining adequate, efficient, safe and reasonable service and facilities." Such a finding may be on evidence that includes any of the following:

- (i) violation of statutory or regulatory requirements of the Department of Environmental [Protection ("DEP")] or the commission concerning the safety, adequacy, efficiency or reasonableness of service and facilities;

---

<sup>23</sup> PAWC St. 5, pp. 22-25; PAWC Ex. 3-A Revised, pp. 66R, 126R.

<sup>24</sup> OCA St. 1, pp. 13-14; OCA St. 1-SR, pp. 14-18; OCA Ex. LKM-2W-SR.

<sup>25</sup> 66 Pa. C.S. § 1327(a)(1)-(8).

(ii) a finding by the commission of inadequate financial, managerial or technical ability of the small water or sewer utility; ...; or

(v) any other facts, as the commission may determine, that evidence the inability of the small water or sewer utility to furnish or maintain adequate, efficient, safe and reasonable service and facilities[.]

The record in this case confirms that Farmington and Manwalamink were not furnishing or maintaining “adequate,” “safe,” or “reasonable” service. As Mr. Wieczenski testified, the Farmington water system was operating in violation of DEP Safe Drinking Water Act regulations, with 41 notices of violation between 2018 and 2023 for failure to conduct required monitoring of water samples.<sup>26</sup> These violations posed significant risks to the health and safety of the customers served by the Farmington water system prior to PAWC’s ownership. Without regular routine monitoring, there was no way for Farmington to confirm the safety of the water supplied to customers. Regular routine monitoring is required for such sources to detect any increase in contaminants in the water system and allow the water system to take corrective action to eliminate or mitigate the contaminants.<sup>27</sup>

Moreover, the Farmington water system’s failure to issue required public notices in a timely manner meant that customers were unaware of possible concerns with the drinking water’s quality. Some of Farmington’s violations involved Tier 2 notification requirements. DEP regulations define a Tier 2 notification as specific types of violations

---

<sup>26</sup> PAWC St. 7-R, pp. 3-4; PAWC Ex. DW-1R.

<sup>27</sup> PAWC St. 7-R, p. 5.

“with potential to have serious adverse effects on human health.”<sup>28</sup> Failing to provide Tier 2 notifications puts the public health at risk. These are serious violations.

The parties in the Farmington acquisition proceeding (including the OCA, which joined the settlement in that proceeding)<sup>29</sup> entered into a stipulation of facts that further demonstrates that Farmington was not, at the time of acquisition, furnishing and maintaining adequate, efficient, safe and reasonable service and facilities.<sup>30</sup> For example, at the time of its acquisition, the Farmington water system had non-revenue water (“NRW”) of more than 30%,<sup>31</sup> an indication of significant water loss. Nevertheless, Farmington did not contemplate or budget for improvements to the system.<sup>32</sup> Additionally, Farmington had one staff member operating the water and wastewater systems and that individual worked part-time pursuant to a temporary contract.<sup>33</sup>

With respect to Manwalamink, the OCA claims that the Company has not met its burden of proof under Section 1327 partly because, in the acquisition proceeding, PAWC did not claim that the Manwalamink systems were failing to provide adequate, efficient, safe and reasonable service and facilities. Mr. Morgan is incorrect. PAWC fought very hard in that acquisition proceeding to preserve its right to claim a Section 1327 acquisition adjustment in this rate case. Mr. Morgan’s argument is simply another attempt by the OCA to force utilities to litigate claims for a Section 1327 acquisition adjustment in the

---

<sup>28</sup> 25 Pa. Code § 109.407(b)(2).

<sup>29</sup> PAWC Ex. DW-1R.

<sup>30</sup> PAWC St. 7-R, pp. 4-7.

<sup>31</sup> PAWC Ex. DW-1R, ¶ 48.

<sup>32</sup> *Id.*, ¶ 50.

<sup>33</sup> *Id.*, ¶ 43.

acquisition proceeding rather than a later rate case.<sup>34</sup> The Commission rejected this approach in the acquisition proceeding.<sup>35</sup> There is no reason for it to reverse course now.

OCA witness Morgan also incorrectly suggests that customer complaints about quality of service are the only acceptable evidence for showing that the system was not providing reasonable and adequate service before it was acquired.<sup>36</sup> Mr. Wieczenski's testimony in this case highlights the pervasive violations of DEP's regulatory requirements pertaining to the safety of the service provided by Manwalamink. Manwalamink was not testing its water to determine whether it was safe for customers to consume and was not informing its customers about those violations.<sup>37</sup> Mr. Morgan admits that these violations "may be" serious.<sup>38</sup> Manwalamink was fortunate that its behavior did not cause a public health crisis. For the reasons set forth above, the record evidence in this case clearly shows that, in several important respects, the service rendered by Farmington and Manwalamink was not adequate, safe or reasonable.

**Reasonableness of Purchase Price (Criterion No. 6).** Section 1327(a)(6) provides that an acquiring public utility must show that the "actual purchase price is reasonable."

---

<sup>34</sup> OCA St. 1-SR, p. 16 ("In my opinion, an acquisition proceeding is where the utility that is acquiring another makes its case to justify why the acquisition should be approved. If the utility being acquired is not providing adequate, efficient, safe and reasonable service, evidence showing that would be relevant to convey to the Commission to justify approval of the acquisition.").

<sup>35</sup> *Joint Application of Pa.-American Water Co., Manwalamink Water Co. and Manwalamink Sewer Co.*, Docket Nos. A-2023-3044418 *et al.* (Opinion and Order entered March 27, 2025), pp. 47-48.

<sup>36</sup> OCA St. 1-SR, p. 15.

<sup>37</sup> PAWC St. 7-R, pp. 11-12; PAWC Ex. DW-3R.

<sup>38</sup> OCA St. 1-SR, p. 15.

With respect to the Manwalamink purchase price (\$1,809,000 for the water system and \$2,191,000 for the wastewater system), Mr. Morgan argues that the purchase price was unreasonable because the price was 111% in excess of the systems' combined book value.<sup>39</sup>

He further argues:

However, it is unclear what benefit PAWC received for paying a 111% premium for the Manwalamink systems. The general logic behind paying a premium in an acquisition is the ability to achieve higher earnings or customer growth.<sup>40</sup>

Mr. Morgan's logic is incorrect. The purpose of a Section 1327 acquisition adjustment is to give utilities an incentive to acquire small systems facing challenges. Such acquisitions are in the public interest, in part, because the costs of addressing those challenges can be spread across a large customer base. It is in the public interest to address those challenges by socializing the costs (imposing a small rate increase on the large utility's existing customers, rather than requiring the few customers of the small system to shoulder a huge financial burden alone).

During the acquisition proceeding, the Commission found that three knowledgeable buyers offered essentially the same price to purchase the system.<sup>41</sup> Additionally, the Commission noted that PAWC's net utility plant in service per customer was \$7,345 for water customers and \$12,271 for wastewater customers, whereas the purchase price per

---

<sup>39</sup> OCA St. 1, p. 19. Mr. Morgan did not take issue with the purchase price for the Farmington water system.

<sup>40</sup> OCA St. 1SR, p. 14.

<sup>41</sup> *Joint Application of Pa.-American Water Co., Manwalamink Water Co. and Manwalamink Sewer Co.*, Docket Nos. A-2023-3044418 *et al.* (Opinion and Order entered March 27, 2025), p. 44.

customer (“PP/C”) for the Manwalamink Systems was only \$1,577.<sup>42</sup> In this proceeding, PAWC introduced evidence showing that the PP/C for MWC and MSC were well below the average PP/C for all twelve Section 1102 acquisitions that PAWC made since 2019.<sup>43</sup> PAWC respectfully submits that the preponderance of the evidence shows that the purchase price for the Manwalamink systems was reasonable.

## **2. Cash Working Capital**

Cash working capital represents the funds needed to pay O&M expenses and taxes that, on average, are incurred in advance of the utility’s receipt of revenues. PAWC calculated its cash working capital requirement using the accepted, PUC-approved lead-lag method.<sup>44</sup> No party disputed the methodology the Company employed or challenged its proposed revenue lag, expense lag or net lag (revenue lag minus expense lag). However, O&M expenses are an input to the calculation of cash working capital. Therefore, I&E witness Okum proposes adjustments to PAWC’s requested cash working capital that are concomitant to her proposed adjustments to O&M expenses. I&E’s proposed expense adjustments are addressed in Section VI below. If any changes are made to PAWC’s proposed O&M expenses, its cash working capital would need to be recalculated.

### **C. Deductions from Rate Base**

No party contests any of PAWC’s deductions from rate base, which were described in Mr. Deason’s direct testimony.<sup>45</sup>

---

<sup>42</sup> *Id.*, pp. 46-47.

<sup>43</sup> PAWC St. 7-R, p. 10.

<sup>44</sup> PAWC St. 5, pp. 15-17.

<sup>45</sup> *See id.*, pp. 8, 19-21.

#### **D. Conclusion**

The Company's total rate base at June 30, 2027 under present rates is \$6,603,960,239. For the reasons set forth in Section IV.B above, PAWC has met the criteria enumerated in Section 1327(a) for rate base inclusion of its Farmington and Manwalamink acquisition adjustments.

#### **V. REVENUES**

As shown in Appendix A, PAWC's pro forma revenues, at present rate levels, equal \$1,162,135,869<sup>46</sup> for the FPFTY. The Company developed this claim using the level of water and wastewater sales revenue generated during the historic test year ("HTY") ended June 30, 2025, and, in accordance with well-established PUC practice, made appropriate adjustments, which are detailed in PAWC Exhibit 3-A Revised, to eliminate non-recurring items and to annualize the effect of known or anticipated changes. These include adjustments to eliminate unbilled revenue; to annualize revenues associated with acquired systems; to reflect changes affecting the consumption of specific large customers; and to reflect changes in the number of customers during the HTY and as projected for the future test year ("FTY") ending June 30, 2026, and the FPFTY. Additionally, for residential, commercial, and municipal customers, PAWC proposed adjustments to the actual FTY billing determinants related to trends in declining use, weather normalization, and the impact of the COVID-19 pandemic on water consumption. In his direct and rebuttal

---

<sup>46</sup> Sum of Water, WW SSS General, WW CSS, EBMA and BASA Operations.

testimony of (PAWC Statements 10 and 10-R), Company witness Max McClellan describes all the adjustments made in developing PAWC's pro forma revenue claims.

## **VI. EXPENSES**

In developing its FTY and FPFTY claims, PAWC adjusted HTY expenses recorded on its books to reflect known and measurable changes during the HTY and to reflect the effect of changes in operating conditions that were reasonably anticipated to occur thereafter.<sup>47</sup> As shown in Appendix A, PAWC's pro forma O&M expenses, at present rate levels, equal \$339,539,564<sup>48</sup> for the FPFTY. The reasonableness of all expense claims has been demonstrated through extensive documentation provided in PAWC's supporting data and through detailed explanations of all adjustments by Dr. Chard and Company witness Lori N. O'Malley (PAWC Statement Nos. 2, 2-R, 6, and 6-R). The discussion below addresses only those expense claims that parties have contested through testimony or exhibits.

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

The Company's labor-related expense allowance for the FPFTY<sup>49</sup> was developed based on PAWC's projected complement of 1,278 equivalent employees.<sup>50</sup> I&E witness Okum proposes an adjustment to salaries and wages, as well as derivative reductions to

---

<sup>47</sup> See PAWC St. 2, pp. 5-6; PAWC St. 6, pp. 3-4.

<sup>48</sup> Sum of Water, WW SSS General, WW CSS, BASA, and EBMA Operations.

<sup>49</sup> PAWC's labor-related expense claim reflects: (1) salaries and wages (including performance compensation); (2) group insurance; (3) other benefits (401k, Defined Contribution Plan and Employee Stock Purchase Plan); and (4) payroll taxes. PAWC St. 6, pp. 4-6.

<sup>50</sup> *Id.*, pp. 5-8. See also PAWC St. 3, p. 59.

benefits expense and payroll taxes, to reflect a 1.25% vacancy rate.<sup>51</sup> In rebuttal testimony, PAWC accepted Ms. Okum's vacancy rate adjustment to expenses, and reduced its overall O&M expense claim by \$1,515,312.<sup>52</sup> After employing a 1.25% vacancy rate, PAWC's final labor-related expense claim, including associated payroll taxes, is \$107,221,845. By the close of the record, only two-labor related expense issues were outstanding.

First, Ms. Okum initially proposed an adjustment to rate base for capitalized labor costs based on a 1.25% vacancy rate.<sup>53</sup> However, PAWC's claim for capitalized labor is based on estimated work hours to complete projected plant additions and those costs are not a function of the amount of total projected labor included in PAWC's O&M expense claim.<sup>54</sup> While Ms. Okum agrees in her surrebuttal testimony that capitalized labor should not be adjusted for a vacancy rate, she contends that the expense portion of PAWC's labor claim must be reduced by the amount originally allocated to rate base (\$610,685) to fully reflect the vacancy rate adjustment.<sup>55</sup> Ms. Okum's position is incorrect because PAWC did not include the capitalized portion of labor-related expense in its claimed O&M expense in this case.<sup>56</sup> To determine the portion of labor-related costs (salaries and wages, benefits and related payroll taxes) charged to expense, PAWC deducted 42.81% (water

---

<sup>51</sup> I&E St. 1, pp. 15-19, 28-36. OCA witness Morgan also proposed an adjustment to reflect the Company's employee complement at the end of HTY. Mr. Morgan withdrew this adjustment in his surrebuttal testimony in light of PAWC's acceptance of I&E's recommended vacancy rate. *See* OCA St. 1SR, p. 19.

<sup>52</sup> PAWC Ex. 3-A Revised, pp. 48R, 49R, 52R, 69R, 110R, 111R, 113R, 129R, 158R, 159R, 161R, 174R, 207R, 208R, 210R & 225R. *See also* PAWC Ex. LNO-1R.

<sup>53</sup> I&E St. 1, pp. 15-19, 28-36.

<sup>54</sup> PAWC St. 5-R, p. 6.

<sup>55</sup> I&E St. 1-SR, pp. 18-19.

<sup>56</sup> PAWC St. 6-RJ, pp. 2-3.

operations) and 19.78% (wastewater operations), which is the average proportion of direct labor costs charged to capital accounts from 2023 to 2025.<sup>57</sup> In short, Ms. Okum proposes to remove amounts that are not reflected in the proposed rate allowance for O&M expense.

Second, OSBA witness Jason Hails recommends an \$8.7 million reduction to PAWC's labor-related expense claim to "moderate" the Company's revenue requirement.<sup>58</sup> According to Mr. Hails, PAWC's actual and projected per-customer employee-related expense from 2021 to 2027 is "excessive" compared to the inflation-escalated O&M costs calculated in the analysis set forth in OSBA Exhibit JH-1.<sup>59</sup> Mr. Hails' proposed adjustment relies solely on a theoretical inflation-based benchmark and ignores the FPFTY staffing level (i.e., 1,278 positions) that PAWC determined is needed to support the continued provision of safe, adequate, efficient and reliable service.<sup>60</sup> In addition, Mr. Hails' use of Consumer Price Index ("CPI") inflation rates that are lower than PAWC's actual and projected merit increases is unreasonable.<sup>61</sup> Those merit increases were not disputed by the OSBA or anyone else.

## **B. Performance Compensation**

PAWC uses a mix of fixed and variable (i.e., performance-based) compensation to attract and retain customer-committed, dedicated and highly qualified employees.<sup>62</sup> I&E

---

<sup>57</sup> PAWC St. 6, p. 6; PAWC St. 6-RJ, p. 3.

<sup>58</sup> OSBA St. 2, pp. 3, 17-18. Mr. Hails also proposes a \$27.3 million adjustment to service company charges that is discussed in Section VI.D below.

<sup>59</sup> See OSBA St. 2, pp. 3-5; OSBA Ex. JH-1.

<sup>60</sup> PAWC St. 6-R, p. 4. See also PAWC St. 3, p. 59.

<sup>61</sup> PAWC St. 6-R, pp. 4-5.

<sup>62</sup> PAWC St. 3, pp. 59-62; PAWC St. 3-R, pp. 2-5.

witness Okum recommends that the PUC disallow one-half of PAWC's expense claim for Annual Performance Plan ("APP") compensation and 70% of its Long-Term Performance Plan ("LTPP") claim.<sup>63</sup> OCA witness Morgan, in turn, proposes adjustments that would remove 50% of APP and LTPP expense from PAWC's overall O&M expense claims in this case.<sup>64</sup> Both I&E and OCA assert that their adjustments are appropriate because, in Ms. Okum's and Mr. Morgan's opinion, the portion of performance compensation at issue hinges on corporate financial performance and stock price and, therefore, in their view, exclusively benefits shareholders.<sup>65</sup>

The performance compensation challenged by Ms. Okum and Mr. Morgan is an integral part of the total market-based compensation package paid to employees that is necessary to compete for and retain qualified employees so that customers continue to receive safe and reliable service.<sup>66</sup> As discussed by PAWC witness Robert V. Mustich, WTW conducted a compensation analysis and concluded that American Water's compensation program is consistent with market best practices and comparable to the designs of utility peers.<sup>67</sup> I&E and the OCA do not dispute the reasonableness of the overall compensation packages of PAWC or American Water Works Service Company, Inc. ("Service Company"). Consequently, on this basis alone, their proposed disallowances of performance pay is clearly wrong.

---

<sup>63</sup> I&E St. 1, p. 21.

<sup>64</sup> OCA Ex. LKM-5W-SR.

<sup>65</sup> See I&E St. 1, pp. 20-24; I&E St. 1-SR, pp. 19-26; OCA St. 1, pp. 20-21; OCA St. 1SR, pp. 7-11.

<sup>66</sup> PAWC St. 3, pp. 59-62; PAWC St. 3-R, pp. 2-13.

<sup>67</sup> See PAWC St. 16-R, pp. 3-6; CONFIDENTIAL PAWC Ex. RVM-1R.

The PUC has found on numerous occasions that the proper focus for ratemaking purposes is the reasonableness of overall compensation awards, and not the size or nature of individual pieces of the compensation package.<sup>68</sup> Notably, the Commission reviewed and approved PAWC’s performance-based compensation in the Company’s last two fully-litigated base rate cases. In the 2020 proceeding, the Commission found, among other things, that:

The performance compensation program establishes that the employees’ eligibility to receive the benefit is based on performance duties and metrics directly related to the provision of service; the fact that the program includes a financial metric does not disqualify it from allowance as an expense for inclusion in the rate base. Accordingly, we find that recovery of PAWC’s APP and LTPP expense is consistent with our prior decisions approving similar performance compensation programs that are focused on improving operational effectiveness.<sup>69</sup>

In the 2023 proceeding, the Commission agreed with ALJ findings that PAWC provided “sufficient evidence regarding how its APP calculation benefits customers by encouraging, inter alia, operational efficiency and accessing capital at reasonable rates.”<sup>70</sup> In addition, with regard to the LTPP, the Commission agreed with the ALJ that

---

<sup>68</sup> See, e.g., *Pa. P.U.C. v. Aqua Pa., Inc.*, Docket Nos. R-2021-3027385 and R-2021-3027386 (Opinion and Order entered May 16, 2022) (“*Aqua 2022*”), pp. 100-101; *Pa. P.U.C. v. UGI Utils., Inc. – Elec. Div.*, Docket No. R-2017-2640058 (Opinion and Order entered Oct. 4, 2018), pp. 73-74; *Pa. P.U.C. v. PPL Elec. Utils. Corp.*, Docket No. R-2012-2290597 (Opinion and Order entered Dec. 28, 2012), p. 26; *Pa. P.U.C. v. Aqua Pa., Inc.*, Docket No. R00072711 (Order entered July 31, 2008), pp. 20-21; *Pa. PUC v. PPL Gas Utils. Corp.*, Docket No. R-00061398 (Order entered Feb. 8, 2007), p. 40.

<sup>69</sup> *Pa. P.U.C. v. Pa.-American Water Co.*, Docket Nos. R-2020-3019369 and R-2020-3019371 (Opinion and Order entered Feb. 25, 2021) (“*PAWC 2021*”), p. 53.

<sup>70</sup> *PAWC 2024*, p. 80.

“[performance stock units] reflect the Company’s financial performance, and improved financial performance can benefit customers by encouraging operational efficiency” and “[restricted stock units] vest over a three-year period, encouraging employee retention which can benefit ratepayers by maintaining experienced employees.”<sup>71</sup>

Although the PUC disallowed certain performance compensation in the recent base rate proceeding of Columbia Gas of Pennsylvania, Inc. (“Columbia Gas”),<sup>72</sup> the basis for the disallowance was that Columbia Gas did not present sufficient evidence to support performance compensation overall where only a portion of that compensation related to operational safety, customer service, or other customer benefits.<sup>73</sup> In this proceeding, by contrast, PAWC presented unrefuted empirical evidence that its overall compensation levels (base salary, short-term at-risk compensation (APP) and long-term at-risk compensation (LTPP)) are reasonable. Contrary to assumptions underlying Ms. Okum’s and Mr. Morgan’s testimony, satisfying key financial objectives provides substantial benefits to customers, not just to shareholders of American Water. Those objectives incentivize employees to do everything they can to reduce costs and improve customer service, help ensure the financial health of the business through careful cost controls, and promote employee longevity, which enables PAWC to pursue the long-term best interests of customers.<sup>74</sup> In sum, there is no valid justification for the PUC to depart from its

---

<sup>71</sup> *Id.*, pp. 88-89.

<sup>72</sup> *Pa. P.U.C. v. Columbia Gas of Pa., Inc.*, Docket No. R-2025-3053499 (Opinion and Order entered Dec. 9, 2025) (“*Columbia Gas 2025*”).

<sup>73</sup> *Id.*, p. 125.

<sup>74</sup> *See* PAWC St. 3, pp. 59-62; PAWC St. 3-R, pp. 2-13; PAWC St. 16-RJ, pp. 2-4.

precedent in *PAWC 2021* and *PAWC 2024* rejecting the same arguments raised by I&E and the OCA in this case for disallowance of performance compensation.

### **C. Group Insurance Expense**

Mr. Morgan proposes using a single data point – 2026 group insurance rates – in lieu of the three-year average percentage change in rates PAWC employed to derive its FPPTY group insurance expense claim.<sup>75</sup> However, in its last base rate case, PAWC used a three-year average percentage change to smooth year-to-year variations in group insurance plan rates, and that approach was not opposed by the OCA.<sup>76</sup> Using a three-year average percentage change continues to be the appropriate approach to smooth year-over-year variations in plan rates. Therefore, the Commission should reject the OCA’s adjustment.

### **D. Service Company Expense**

The Service Company provides a wide range of essential support services to PAWC and other American Water utility subsidiaries on a shared basis.<sup>77</sup> Such services, which include customer service, water quality, engineering, environmental compliance, human resources, information technology, finance, accounting, legal, supply chain, and risk management services, are provided at cost with no element of profit to the Service Company.<sup>78</sup>

---

<sup>75</sup> OCA St. 1, p. 23.

<sup>76</sup> PAWC St. 6-R, p. 6.

<sup>77</sup> See PAWC St. 6, pp. 13-17; PAWC St. 6-R, pp. 11-17; PAWC St. 3-R, pp. 13-20.

<sup>78</sup> PAWC St. 6, p. 14; PAWC St. 6-R, p. 8.

The numerous advantages that accrue to PAWC and its customers from Service Company support are well known to the Commission. For example, PAWC receives access to highly trained professionals with specialized expertise in water and wastewater utility operations, is able to obtain discounts on equipment and supplies needed for essential utility operations, and receives services from Service Company's Central Laboratory in Illinois, which employs chemists, laboratory technicians, and support employees to perform water quality testing utilizing state-of-the-art technology.<sup>79</sup> If PAWC were to try to maintain a full complement of comparably qualified personnel directly, without the Service Company, the total cost to PAWC would be considerably higher. Resources such as equipment, training, monitoring, and supervision can be sourced more efficiently on a consolidated basis and it is possible to exploit economies of scale, which mitigates the costs ultimately borne by customers.<sup>80</sup>

PAWC is seeking recovery of approximately \$77.9 million in Service Company expense for the FPFTY.<sup>81</sup> The Company's claim was accepted in full by I&E.<sup>82</sup> Nevertheless, OSBA witness Hails proposes a \$27.3 million adjustment<sup>83</sup> that would

---

<sup>79</sup> See PAWC St. 3-R, pp. 14-17; PAWC St. 6-R, pp. 11-17.

<sup>80</sup> See PAWC St. 3-R, pp. 13, 18-20; PAWC St. 15-R, p. 6.

<sup>81</sup> PAWC St. 6, pp. 16-17; *see also* PAWC St. 6-R, pp. 6, 20; PAWC Ex. 3-A Revised, pp. 61R, 121R, 168R and 218R (removing \$64,830 in lobbying expense and penalties that was erroneously included in the Company's initial claim and further corrections for allocated interest expense). PAWC witness O'Malley also detailed how Service Company costs are allocated to PAWC using "Tier One" and "Tier Two" allocation factors. PAWC St. 6, p. 15.

<sup>82</sup> I&E St. 1, p. 44.

<sup>83</sup> OSBA St. 2, pp. 14-16.

reduce PAWC's claim to a level even lower than its HTY expense to \$50.6 million, which is comparable to the Company's actual service company expense in 2020.<sup>84</sup>

Mr. Hails' proposed adjustment to Service Company flows directly from his broader opinion that the Company's overall O&M expense growth above inflation is inherently unreasonable and should be reduced by \$36.0 million. Of that amount, \$8.7 million relates to employee-related expense discussed in Section VI.A above and \$27.3 million relates to Service Company charges. Mr. Hails applies arbitrary reductions of 22.5%, 50%, or 80% to each of the Service Company functions to arrive at his proposed adjustment of \$27.3 million without conducting any operational, staffing or workload analysis.<sup>85</sup> Mr. Hails did not present evidence or even allege that any specific Service Company functions are unnecessary, or that PAWC could have obtained comparable services at a lower cost.<sup>86</sup>

Mr. Runzer addresses in detail the operational services provided by Service Company in the functional areas Mr. Hails proposes to cut expenses.<sup>87</sup> Mr. Hails' drastic reductions to allocated costs for critical functions, such as environmental compliance, customer service, and supply chain, disregard necessary services provided by the Service Company to PAWC where the Company does not have an equivalent function. In addition, Mr. Hails' reliance on inflation as a benchmark is inappropriate as there is no evidence that the related costs are primarily driven by inflation. Rather, as Ms. O'Malley explains, these costs are often driven by the labor market, benefits, cybersecurity and information

---

<sup>84</sup> PAWC St. 6-R, p. 19.

<sup>85</sup> *Id.*, pp. 17-18.

<sup>86</sup> OSBA St. 2, pp. 14-15.

<sup>87</sup> *See* PAWC St. 6-R, pp. 11-17.

technology needs, compliance and insurance.<sup>88</sup> Likewise, Mr. Hails' adjustment methodology does not account for merit pay increases and therefore materially understates Service Company labor costs.<sup>89</sup>

Mr. Hails' critique of third-party assessments of PAWC's historical Service Company charges in 2020 and 2023<sup>90</sup> is also misplaced. The Company did not rely on those studies to support its costs in this proceeding. Rather, the Company's claimed Service Company expense is supported by the evidence submitted in the proceeding, including in the testimony of witnesses O'Malley, Runzer, and Prine and accompanying schedules. Mr. Hails disregards this evidence in favor of his proposed adjustment methodology, but does not specifically identify any Service Company services that are unnecessary, unreasonable, or too costly. He also does not take issue with any of the Company's cost allocation factors for particular Service Company expense items.<sup>91</sup>

For all the foregoing reasons, the adjustment proposed by the OSBA should be rejected and the Commission should approve PAWC's claim for Service Company charges of \$77,936,149, which is incorporated in Appendix A.

#### **E. Waste Disposal Expense**

I&E witness Okum proposes an adjustment to reduce PAWC's claim for waste disposal expense by \$2,850,894 by using a historical three-year average of waste disposal

---

<sup>88</sup> *Id.*, pp. 17-18.

<sup>89</sup> *Id.*, pp. 18-19.

<sup>90</sup> *See* OSBA St. 2, pp. 8-13.

<sup>91</sup> PAWC St. 6-R, p. 8.

costs rather than the three-year average percentage change of those costs.<sup>92</sup> The use of a historical three-year average of costs masks the upward trend in PAWC's waste disposal costs. For example, in 2025, PAWC had to change waste disposal vendors for its Scranton water district, which resulted in higher costs.<sup>93</sup> As shown in Table 1 of Ms. O'Malley's rebuttal testimony, PAWC experienced a \$3.6 million waste disposal expense from 2021 to 2025.<sup>94</sup> Ms. Okum contends that the three-year historical data does not necessarily depict an upward trend because the costs did not increase by 13.76% each year.<sup>95</sup> That argument is refuted by actual future test year data through December 2025, which shows a 24.48% increase in waste disposal costs in 2025 compared to 2024.<sup>96</sup> Therefore, the Commission should reject I&E's adjustment.

#### **F. Transportation Expense**

In addition to fleet management costs per vehicle, PAWC's transportation expense includes costs for fuel, titling and registration fees, maintenance expense, and reimbursement for Company use of personal vehicles.<sup>97</sup> As has been its practice for many years, PAWC included an adjustment for CPI Transportation Services (i.e., inflation) increases to fuel and maintenance expense.<sup>98</sup> In its rebuttal case, PAWC recognized the decrease in the Transportation Services inflation rate as of the end of the HTY and updated

---

<sup>92</sup> I&E St. 1, pp. 38-39.

<sup>93</sup> PAWC St. 6-R, p. 21.

<sup>94</sup> *Id.*, pp. 21-22.

<sup>95</sup> I&E St. 1-SR, pp. 44-45.

<sup>96</sup> PAWC St. 6-RJ, p. 3.

<sup>97</sup> PAWC St. 6, p. 22.

<sup>98</sup> PAWC St. 6-R, p. 20.

its claimed transportation expense by applying the June 2025 inflation rate of 3.11% instead of the three-year average of 6.94%.<sup>99</sup> Both Ms. Okum and Mr. Morgan object to the use of an inflation escalation.<sup>100</sup>

As Ms. O'Malley explained, fuel and maintenance expenses fluctuates from year to year, and those costs generally increase over time. PAWC included an inflation escalation in its claimed transportation expense in the Company's last base rate case (Docket Nos. R-2023-3043189 and R-2023-3043190), and I&E and the OCA both accepted that adjustment. In short, the escalation factor applied by Ms. O'Malley to PAWC's transportation expense is a reasonable means of reflecting increases in fuel and maintenance costs. I&E proposes rate base adjustments that are concomitant to its proposed adjustment to transportation expense, which should be rejected for the reasons previously discussed.

#### **G. Towamencin Transaction Costs**

PAWC requested recovery of \$660,138, amortized over ten years, in transaction costs for the acquisition of the Towamencin Township ("Towamencin") wastewater system.<sup>101</sup> PAWC entered into an Asset Purchase Agreement with Towamencin, filed an Application with the Commission seeking approval of the acquisition, but ultimately withdrew the Application and the transaction was not consummated.<sup>102</sup>

---

<sup>99</sup> *Id.*, pp. 20-21; PAWC Ex. 3-A, pp. 58R, 118R, 165R & 215R; *see also* PAWC Ex. LNO-6R.

<sup>100</sup> *See* OCA St. 1SR, p. 20; OCA Ex. LKM-7W-SR; I&E St. 1-SR, pp. 47-49.

<sup>101</sup> PAWC St. 5, p. 7.

<sup>102</sup> PAWC St. 7-R, pp. 15-17.

OCA witness Morgan recommends that PAWC’s request be denied, asserting the PAWC made a business decision to acquire the Towamencin system and that PAWC should bear the risk associated with the acquisition.<sup>103</sup> Mr. Morgan also asserts that since the transaction was not consummated, the transaction costs constitute a prior period cost that is not eligible for recovery.<sup>104</sup>

As explained by PAWC witness Wieczenski, the application was withdrawn due to unforeseen and extraordinary circumstances that were outside any business risk that PAWC assumed in pursuing the acquisition, which led PAWC and Towamencin to withdraw the Application.<sup>105</sup> Furthermore, PAWC is requesting recovery of its expenses in the first rate case in which it had the opportunity to do so.<sup>106</sup>

Based on the unique facts of this particular case, the Company should be permitted to recover the transaction costs incurred in attempting to acquire the Towamencin wastewater system. All the transaction costs were prudently incurred at the time they were incurred and should still be recoverable where, as here, the transaction did not close, in part, because of unforeseen changes in law. Utilities could become reluctant to incur the

---

<sup>103</sup> OCA St. 1, pp. 21-22; OCA St. 1-SR, p. 13.

<sup>104</sup> OCA St. 1-SR, pp. 12-13.

<sup>105</sup> PAWC St. 7-R, pp. 15-17. After the parties signed an Asset Purchase Agreement, a local referendum was passed prohibiting the privatization of Towamencin’s wastewater system through the adoption of a Home Rule Charter. In addition, after PAWC filed its application, the Commission adopted a Reasonableness Review Ratio (“RRR”) for reviewing acquisitions pursuant to Section 1329. *See Valuation of Acquired Municipal Water and Wastewater Systems – Act 12 of 2016 Implementation*, Docket No. M-2016-2543193 (Final Supplemental Implementation Order entered Jul. 2, 2024).

<sup>106</sup> The Commission did not approve the withdrawal of PAWC’s application to acquire the Towamencin system until September 24, 2024.

substantial expenses necessary to explore potential acquisitions if they are at risk of not being able to recover those expenses because of subsequent government actions that prevent the acquisition from closing.

#### **H. Interest Synchronization**

PAWC's claim for income tax expense is set forth in PAWC Exhibit 3-A Revised and is based, in part, on an interest expense deduction calculated using the Company's proposed rate base and weighted cost of debt.<sup>107</sup> Mr. Morgan proposes an interest expense adjustment concomitant to the OCA's proposed adjustments to rate base and the weighted average cost of debt,<sup>108</sup> which should be rejected for the reasons set forth in Sections IV and IX of this Brief.

#### **I. Amortization Expense**

The OCA's proposed adjustments to amortization expense related to the Company's Farmington and Manwalamink acquisition adjustments should be rejected for the reasons discussed in Section IV.B. above.

#### **J. Third-Party Call Center Expense**

The OCA proposes an adjustment to eliminate \$283,651 from PAWC's O&M expense claim related to third-party call handling agencies.<sup>109</sup> As Ms. Alexander acknowledges, call handling operations are necessary to provide service to PAWC's customers.<sup>110</sup> If PAWC did not utilize third-party call handling agencies, the Company

---

<sup>107</sup> See PAWC Ex. 3-A Revised, pp. 71R2, 72R2, 131R2, 132R2, 176R2, 177R2, 227R2, 228R2, 256R2, 257R2.

<sup>108</sup> OCA Ex. LKM-10W-SR; OCA Ex. LKM-9WSS-SR.

<sup>109</sup> OCA St. 1SR, p. 21; OCA Ex. LMK-12WSR.

<sup>110</sup> OCA St. 5, pp. 8-9.

would incur additional expense for staffing increases to handle the call volumes previously answered by third-party contractors.<sup>111</sup> Therefore, the OCA's recommendation that an expense PAWC necessarily incurs to serve customers should be excluded for ratemaking purposes is inappropriate.

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

Projections of PAWC's pension and OPEB costs are calculated by WTW, a national actuarial firm. Based on the actuarial report furnished by WTW for 2026 after the initial filing, PAWC revised its pension claim to an expense of \$1,072,810 and its OPEB claim to an income<sup>112</sup> of \$5,885,345.<sup>113</sup> Thus, on a net total basis, PAWC's updated claims produce income of \$4,812,535 to offset its overall revenue requirement. No party disagrees with PAWC's claimed annual level of pension and OPEB expense under proposed rates.

Although WTW uses sound, well-established actuarial methods, the pension and OPEB costs that it calculates are subject to material change based on a variety of economic

---

<sup>111</sup> PAWC St. 2-R, pp. 20-21.

<sup>112</sup> Most Pennsylvania utilities base their claims for pension and OPEB costs on cash contributions to their pension and OPEB plans, which can never be less than zero. However, in the PUC's final order in PAWC's 2017 base rate case, it approved the Company's request to cease using cash contributions as the ratemaking measure of pension and OPEB costs and, instead, follow GAAP accounting under Financial Accounting Standards Board Accounting Standard Codification Topic 715 ("ASC 715") (formerly Financial Accounting Standard 87). Under ASC 715, net changes in the actuarial determination of pension and OPEB obligations and associated plan funding levels directly impact the bottom line on a company's income statement for the applicable accounting period. Based on the direction and magnitude of the factors that drive the annual performance of a company's pension and OPEB plans, the amount reflected on the income statement in any given year can be either expense or income. PAWC St. 6, p. 11.

<sup>113</sup> PAWC St. 6-R, p. 6; PAWC Ex. 3-A Revised, pp. 50R, 51R.

and demographic variables described by Company witness John Popiolek, a Director in WTW's Retirement line of business, that are outside the Company's control.<sup>114</sup> Actuaries, including WTW, must make reasonable assumptions to supply the values for those variables, including interest rates, salary increases, inflation, and the performance of the investment markets.<sup>115</sup> In addition, demographic assumptions related to the composition of the population that will receive retirement benefits, the behavior of members of that population (e.g., decisions about when to retire), and the life expectancy of the recipients of retirement benefits all impact the assumptions and variables of the calculation.<sup>116</sup> As a consequence, from year-to-year, actual expenses can be lower or higher than the amounts embedded in the Company's base rates. Therefore, PAWC is asking for Commission permission to defer and record any amounts above or below the projected level of pension and OPEB expenses into regulatory asset or liability accounts until its next base rate proceeding.<sup>117</sup>

I&E witness Okum and OCA witness Morgan generally oppose utilizing a deferral mechanism for pension and OPEB expenses because, in their view, those expenses are normal, expected, and recurring costs.<sup>118</sup> However, the Commission regularly authorizes utilities to defer costs for accounting purposes arising from events that are unanticipated and outside the utility's control to provide the utility an opportunity to claim those costs

---

<sup>114</sup> PAWC St. 14, pp. 3-4, 6-8.

<sup>115</sup> *Id.*, pp. 6-8.

<sup>116</sup> *Id.*

<sup>117</sup> PAWC St. 2, pp. 29-30.

<sup>118</sup> *See* I&E St. 1, pp. 46-47; I&E St. 1-SR, pp. 51-52; OCA St. 1, pp. 25-26; OCA St. 1SR, pp. 5-6.

for recovery in a future rate proceeding.<sup>119</sup> As previously explained, the pension and OPEB costs calculated by PAWC's actuary are subject to material change based on economic and demographic factors that are outside of the Company's control and thus are within the scope of the PUC's exception to the prohibition against retroactive ratemaking. In short, deferred accounting authorization is a fair way to ensure customers and PAWC only bear *actual* costs incurred for pension and OPEB expenses.<sup>120</sup>

---

<sup>119</sup> See, e.g., *Petition of Pa.-American Water Co. for Auth. to Defer and Record as Regulatory Assets for Future Recovery: (1) Incremental Expenses Incurred Because of the Effects of the COVID-19 Emergency; (2) Revenue Reductions Attributable to the Effects of the COVID-19 Emergency; and (3) Carrying Charges on the Amounts Deferred*, Docket No. P-2020-3022426 (Opinion and Order entered Sept. 15, 2021), pp. 12-13, 30-32, 42, 49-50 (approving deferral of COVID-19–related financial impacts); *Petition of Pa.-American Water Co. for Auth. to Defer Expenses Incurred to Pay New Regulatory Fees Imposed by the Pa. Dep't of Env'tl. Prot.*, Docket No. P-2019-3008253 (Opinion and Order entered May 9, 2019), pp. 3-4 (approving deferral of \$840,000 of expenses incurred for new annual fees imposed by the PaDEP); *Petition of Pa.-American Water Co. for Auth. to Defer for Accounting and Financial Reporting Purposes Expenses Relating to a Water Customer Class Demand Study*, Docket No. P-2012-2308982 (Opinion and Order entered Aug. 20, 2012) (approving deferral of \$463,000 in expenses related to a demand study agreed to in settlement of PAWC's 2011 rate case); *Petition of Columbia Gas of Pa., Inc. for Auth. to Defer, for Accounting Purposes, Certain Costs Associated With A Regulatory Asset Related to Other Post-Retirement Benefits Provided by NiSource Corporate Serv. Co.*, Docket No. P-2011-2275383 (Opinion and Order entered May 24, 2012) (approving deferral of \$903,000 expenses related to an accounting change for certain retirement-related management fees paid to an affiliate); *Petition of the Newtown Artesian Water Co. for Permission to Defer and Record Unrecovered Purchased Water Costs*, Docket No. P-2010-221420 (Order entered June 1, 2011) (approving deferral of unrecovered purchased water costs totaling \$351,929 related to rate increases implemented by the Bucks County Water and Sewer Authority in between rate cases); *Petition of Citizens Utils. Water Co. of Pa.*, Docket No. P-00930746 (Order entered Feb. 25, 1994) (approving deferral of SFAS 106 costs); *Pa. P.U.C. v. Consumers Pa. Water Co. – Roaring Creek Div.*, Docket No. R-932655 (Order entered Feb. 3, 1994) (same).

<sup>120</sup> PAWC St. 2-R, pp. 17-18.

In addition, PAWC's proposed deferral mechanism will not remove incentives for PAWC to control pension and OPEB costs or "guarantee" recovery of those expense items, as witnesses for I&E and the OCA suggest.<sup>121</sup> All deferred amounts will be subject to review in the Company's next rate case, and all parties will have an opportunity to review the pension and OPEB expense incurred by PAWC to ensure that those costs have been prudently incurred.<sup>122</sup>

For all these reasons, the PUC should afford deferred accounting treatment to PAWC for pension and OPEB expenses.

## **VII. TAXES<sup>123</sup>**

PAWC's claims for Federal and State income taxes are described by Company witness Linda Schlessman in PAWC Statement No. 8 and PAWC Statement No 8 Supplemental. No party disputes the manner in which PAWC calculated its federal and state income taxes.

## **VIII. DEPRECIATION**

PAWC's claim for accrued depreciation related to its utility plant-in-service was developed and presented by PAWC witness John J. Spanos, President of Gannett Fleming Valuation and Rate Consultants, LLC. The details underlying the methodology employed by Mr. Spanos, together with all supporting calculations and documentation, are set forth in Exhibit Nos. 11-A through 11-N. Mr. Spanos completed depreciation studies to estimate

---

<sup>121</sup> I&E St. 1-SR, p. 52; OCA St. 1, pp. 25-26; OCA St. 1SR, pp. 6-7.

<sup>122</sup> PAWC St. 2-R, pp. 17-18.

<sup>123</sup> The only contested issue raised relating to taxes other than income taxes pertains to payroll taxes, which is addressed in Section VI.A above.

the annual depreciation accruals related to water and wastewater plant-in-service for ratemaking purposes and, using PUC-approved procedures, to estimate the Company's book reserve as of June 30, 2025, June 30, 2026 and June 30, 2027.<sup>124</sup> PAWC's annual depreciation accrual applicable to plant-in-service at June 30, 2027, is \$289,738,866.<sup>125</sup>

Mr. Spanos utilized the equal life group ("ELG") procedure in his studies for all depreciable accounts and installation years of water and wastewater plant, which is the most common procedure used by utilities in Pennsylvania, and, more importantly, the same procedure that has been used by the Company since the 1980s.<sup>126</sup> The Commission most recently accepted the Company's depreciation claims based on the ELG methodology in PAWC's 2023 base rate proceeding – subject to some acquisition-related adjustments.<sup>127</sup> The ELG procedure has also been utilized in PAWC's five-year service life study reports submitted to the PUC since the mid-1980s and in PAWC's annual depreciation reports to the PUC.<sup>128</sup>

OCA witness Garrett proposed a total water and wastewater reduction in depreciation expense of \$49.9 million based on his position that PAWC should deviate from its long-standing, PUC-approved ELG methodology to the average life group

---

<sup>124</sup> See generally PAWC St. 11. In rebuttal, Mr. Spanos presented updated water and wastewater depreciation accrual rates that resulted from DSIC related adjustments to water and wastewater plant. PAWC St. 11-R, p. 30; PAWC Exs. JJS-2R-JJS-7R.

<sup>125</sup> See Exhibit 3-A Revised, pp. 1R2, 75R2, 135R2, 180R2, 231R2.

<sup>126</sup> PAWC St. 11, p. 6; PAWC St. 11-R, p. 12; PAWC Hearing Ex. 2, p. 1.

<sup>127</sup> PAWC 2024, pp. 43-44, 55-56, 116-117.

<sup>128</sup> PAWC St. 11-R, pp. 12-13.

(“ALG”) methodology.<sup>129</sup> Mr. Garrett contends that the ALG procedure is “fairer” and avoids current customers paying a “disproportioned higher share” of costs relative to future customers.<sup>130</sup> Mr. Garrett also highlighted that PPL Electric was proposing to continue its use of the ALG method in a pending rate proceeding and that certain orders in other jurisdictions were supportive of the ALG method.<sup>131</sup>

In his rebuttal testimony, Mr. Spanos explained the difference between the ELG and ALG methodologies. For the ELG procedure, a group of property (e.g., a vintage within a property account) is subdivided into groups having equal service lives, and depreciation is calculated for each equal life group. In contrast, the ALG procedure depreciates every asset within an account over the average life of the entire account. Using equal life groups, rather than an average life, as the basis for depreciation provides a more precise calculation that better matches recovery with consumption of assets by depreciating assets that have shorter lives than the average over their shorter lives (and the longer-lived assets over their longer lives) as opposed to depreciating all assets over the average life for the group.<sup>132</sup> As Mr. Spanos demonstrated through a simple two-unit example, the ELG procedure better matches capital recovery with the actual lives forecast by the estimated survivor curve.

---

<sup>129</sup> OCA St. 2, pp. 46-56. In OCA St. 2SR, Mr. Garrett indicated the proposed reduction was approximately \$60 million. It is unclear if this was a misstatement and, in any event, he does not specifically support the modified recommendation. *See* PAWC Hearing Ex. 2, p. 1. The ALG methodology is also sometimes referred to as the Average Service Life (or ASL) procedure.

<sup>130</sup> OCA St. 2, pp. 47-48.

<sup>131</sup> *Id.*, pp. 48-51.

<sup>132</sup> PAWC St. 11-R, pp. 4-5.

Consequently, rate base will be higher when the ALG procedure is utilized because of the poor matching of recovery to utilization of the assets.<sup>133</sup>

Regarding the fairness and equity concerns raised by Mr. Garrett, Mr. Spanos explained that current customers benefit from the continued use of ELG because rate base is lower now compared to what rate base would have been under an ALG framework over the past 40 years. The more precise recovery through ELG benefits customers over time, because shorter-lived assets are correctly recovered over their useful lives, resulting in a lower rate base and lower return on rate base that exceeds the higher annual depreciation expense. Further, the alleged benefit proposed by Mr. Garrett of lower short-term rates is the result of the change in procedure, not from the procedure itself. Over time, the ALG depreciation rates will result in a higher rate base and higher overall cost to customers.<sup>134</sup>

Precedent also strongly supports PAWC's continued use of the ELG method. As explained earlier, the PUC has accepted PAWC's use of the ELG methods in base rate proceedings, service life study filings, and annual depreciation report filings over the last several decades.<sup>135</sup> The PUC very recently rejected the OCA's proposal in another rate proceeding to have a utility switch from the ELG to ALG procedure, finding, among other

---

<sup>133</sup> *Id.*, pp. 6-12. Mr. Garrett also presented an example to compare ELG and ALG in his surrebuttal testimony (pp. 14-15). However, that example contained errors and misstatements. PAWC Hearing Ex. 2, pp. 2-3.

<sup>134</sup> PAWC St. 11-R, pp. 14-22; PAWC Ex. JJS-1R.

<sup>135</sup> PAWC St. 11-R, pp. 12-13. *See also* 52 Pa. Code § 73.9(c) (“[i]n subsequent ratemaking proceedings, the most recent annual depreciation report or service life study approved or deemed approved for accounting purposes only under this chapter, constitutes a rebuttable presumption as to the reasonableness of the accrued depreciation claimed for ratemaking purposes”).

things, that the “alleged benefit” of ALG producing “lower depreciation expense and a short-term reduction in rates” results from the change from ELG to ALG procedure, not the ALG procedure itself.<sup>136</sup> The PUC also found that “the ELG procedure produces a more equitable recovery . . .”.<sup>137</sup> In the pending base rate case of PPL Electric Utilities Corp. (“PPL”) proceeding cited by Mr. Garrett, it is notable that PPL is seeking to preserve its long-standing depreciation methodology (ALG) instead of making a significant change as OCA is proposing in this proceeding.<sup>138</sup> Finally, the utility commission orders cited by Mr. Garrett from other states present circumstances that are not applicable to PAWC and can involve other depreciation-related policies that differ from those established in Pennsylvania.<sup>139</sup>

Finally, even if the ALG method were to be applied, Mr. Spanos explains that Mr. Garrett’s proposed ALG rates for the FTY and FPFTY are incorrect because he is using depreciation reserve balances that are based on projected ELG accruals. Consequently, Mr. Garrett erred in his statement that the difference between the two procedures is \$49.9 million as of June 30, 2027, because he applied an inappropriate methodology for forecasted test years and utilizes past approved calculations to misrepresent the true procedural changes.<sup>140</sup>

---

<sup>136</sup> *Columbia Gas 2025*, p. 108.

<sup>137</sup> *Id.*, p. 110.

<sup>138</sup> PAWC Hearing Ex. 2, pp. 3-4.

<sup>139</sup> PAWC St. 11-R, pp. 26-28; PAWC Hearing Ex. 2, pp. 4-5.

<sup>140</sup> PAWC St. 11-R, pp. 22-26; PAWC Hearing Ex. 2, pp. 5-6.

In sum, OCA witness Garrett’s objections to the long-standing use of the ELG procedure – whether based on equity, accuracy or precedent – have no reasonable basis and should be rejected by the Commission.

## **IX. RATE OF RETURN**

### **A. Summary**

As a public utility whose facilities and assets have been dedicated to public service, PAWC is entitled to an opportunity to earn a reasonable rate of return on its investment. The legal standards used by the Commission in determining what return rate is reasonable are well established, having been set forth by the United States Supreme Court more than 100 years ago:

Rates which are not sufficient to yield a reasonable return on the value of the property used at the time it is being used to render the service are unjust, unreasonable and confiscatory, and their enforcement deprives the public utility of its property in violation of the Fourteenth Amendment.<sup>141</sup>

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.<sup>142</sup> These principles are applied by the PUC<sup>143</sup> and have been adopted by Pennsylvania appellate courts in numerous cases.<sup>144</sup>

---

<sup>141</sup> *Bluefield Waterworks and Imp. Co. v. P.S.C. of West Virginia*, 262 U.S. 679, 690 (1923) (“*Bluefield*”).

<sup>142</sup> *Id.*, p. 693.

<sup>143</sup> *See, e.g., Aqua 2022*, p. 6.

<sup>144</sup> *See, e.g., Lower Paxton Twp. v. Pa. P.U.C.*, 317 A.2d 917 (Pa. Commw. Ct. 1974).

The return allowed to investors must also be commensurate with the risk assumed, as the Supreme Court has stated in three landmark opinions. *Bluefield, supra*, requires that the rate of return reflect:

. . . a return on the value of the [utility's] property which it employs for the convenience of the public equal to that generally being made at the same time on investments in other business undertakings which are attended by corresponding risks and uncertainties. . . .<sup>145</sup>

Twenty-one years later, the Supreme Court reiterated that standard in *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591, 603 (1944) (“*Hope*”), as follows:

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 the 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.

Later, in reaffirming *Hope*, the Supreme Court, in *Duquesne Light Company v. Barasch*, 488 U.S. 299, 313-14 (1989), observed that “[o]ne of the elements always relevant to setting the rate under *Hope* is the return investors expect given the risk of the enterprise.”

Determining a reasonable rate of return requires reviewing many factors, including (1) the earnings necessary to assure confidence in the financial integrity of the company and maintain its credit standing; (2) the need to pay dividends and interest; and (3) the

---

<sup>145</sup> *Bluefield*, p. 692.

amount of the investment, the size and nature of the utility, its business and financial risks, and the circumstances attending its origin, development and operation.<sup>146</sup>

In support of its proposed increase, the Company presented the expert testimony of Ms. Bulkley, a Principal in The Brattle Group. She has previously appeared before the PUC on behalf of the Company and testified on ROE issues before more than thirty-two public utility commissions across the United States and the Federal Energy Regulatory Commission.<sup>147</sup> In her testimony, Ms. Bulkley analyzed current and prospective capital market conditions, including the very high recent levels of inflation as well as interest rates that are expected to remain relatively high.<sup>148</sup> Such conditions increase the cost of the returns required by investors, and thus the cost of capital to PAWC and other utilities.<sup>149</sup> After noting that the Commission has recently used both the DCF and CAPM models because the DCF can understate the cost of equity in times of high inflation and interest rates,<sup>150</sup> Ms. Bulkley applied the ROE models accepted by the Commission using a proxy group of comparable utilities. Based on the results of those models, and after accounting for current capital market conditions and the Company's business, regulatory and financial

---

<sup>146</sup> *Pa. P.U.C. v. Pennsylvania Gas and Water Co. - Water Div.*, 341 A.2d 239 (Pa. Commw. Ct. 1975); *Lower Paxton Twp.*, *supra*; *see also Pa. P.U.C., et al. v. Columbia Gas of Pennsylvania Inc.*, Docket Nos. R-2025-3043499, *et al.* (Opinion and Order entered Dec. 24, 2025) (explaining that “[w]hen determining the cost of capital, the [Commission] must give consideration to the utilities financial structure, credit standing, dividends, interests, risks, regulatory lag, wasting assets and any peculiar features of the utility involved”) (internal quotation and citations omitted).

<sup>147</sup> *See* PAWC St. 13, Attachment A.

<sup>148</sup> *Id.*, pp. 12-20.

<sup>149</sup> *Id.*, p. 19.

<sup>150</sup> *Id.*, p. 31.

risk as well as PAWC's superior management performance, Ms. Bulkley recommends an ROE of 10.95%.<sup>151</sup>

Ms. Bulkley also analyzed the alternative ROE proposals of I&E and the OCA in these proceedings and explained the flaws and unreasonableness of each of those proposals.

- **I&E witness D.C. Patel** originally proposed an ROE of 9.8%, which he “corrected” to 9.7% in his surrebuttal testimony using more recent but still outdated and unreliable data in his capital asset pricing model calculations. His ROE analysis was flawed in many respects, including the use of a proxy group of only four water utilities, inconsistencies in his analyses and view of interest rates (including a failure to even mention the Iran conflict), and reliance only on average growth rates in his DCF calculation. Notably, Mr. Patel's CAPM methodology differs from the CAPM methodology he used in each of PAWC's last three rate cases; if he had followed the previous methodologies he had advocated with current data, his CAPM results would range from 9.97% to 12.39% instead of 9.51%. Using his water-only proxy group, averaging the results of the three different CAPM methodologies he has used, adjusting for errors in his DCF calculations and averaging the DCF and CAPM results in a ROE of 10.26%.
- **OCA witness David Garrett** proposes an ROE of 8.70%, equal to his CAPM calculation and well below the Commission's recent authorized ROEs for other water utilities (including PAWC). While he contends that he considered his DCF results in reaching this recommendation, his DCF calculations are entirely unreasonable and rely on growth rates that are both inconsistent with prior Commission decisions and generate ROEs that are barely above the cost of PAWC's recent debt issuances. Similarly, his CAPM calculation continues to rely on estimates of market risk premium inappropriate for regulated utilities and survey data that is consistently inaccurate over time. Once his calculations are adjusted for his errors and with proper growth rates, the adjusted cost of equity rises to a range of 10.42% (mean DCF) to between 10.58% (CAPM – GDP growth) to 10.98% (Garrett sustainable growth), with a model average of 10.66%.

Notably, unlike the other rate of return witnesses, Ms. Bulkley updated her analysis during the rebuttal stage of this proceeding with market data through January 31, 2026, and

---

<sup>151</sup> *Id.*, pp. 5, 70-71.

further testified at hearings that interest rates are likely to remain elevated, particularly in the wake of the Iran conflict.<sup>152</sup>

In the remainder of this section, the Company reviews the flaws in the parties' alternative ROE recommendations. Because those alternative recommendations are plainly unreasonable and inconsistent with PUC precedent, the Commission should adopt the ROE supported by Ms. Bulkley.

### **B. Proxy Group**

As the Commission has explained, “a proxy group is a group of companies that act as a benchmark for determining a utility’s cost of equity.”<sup>153</sup> Rate of return analyses incorporate a proxy group because:

A proxy group is generally preferred over the use of data from any one company because it has the effect of smoothing out potential anomalies associated with a similar company and, therefore, is a more reliable measure. A proxy group also satisfies the long-established principle of utility regulation that seeks to provide the utility with the opportunity to earn a return equal to that of enterprises of similar risk.<sup>154</sup>

In selecting her proxy group, Ms. Bulkley applied specific criteria to a group of U.S. utilities to identify utilities that have similar risk.<sup>155</sup> Due to ongoing consolidation in the water utility industry, the Value Line research service commonly relied upon by investors identifies only six companies in the United States as water utilities.<sup>156</sup> Ms. Bulkley

---

<sup>152</sup> PAWC St. 13-RJ, p. 2.

<sup>153</sup> *Columbia Water 2024*, p. 69.

<sup>154</sup> *Id.*

<sup>155</sup> PAWC St. 13, pp. 21-22.

<sup>156</sup> *Id.*, p. 23.

originally included Essential Utilities in her proxy group of five companies but excluded PAWC’s parent, American Water, in light of the inherent circularity of including the data of a utility’s parent when determining the ROE of a utility.<sup>157</sup> In her updated analysis accompanying her rebuttal testimony, Ms. Bulkley excluded Essential Utilities because of its announced merger with American Water; excluding entities involved in mergers is a “standard screening criterion that has been relied upon by nearly all cost of capital experts due to the fact that a merger can influence the assumptions used in cost of equity models.”<sup>158</sup>

Because a small proxy group can lead to one company having an outsized effect on any proxy group calculation, Ms. Bulkley included several gas utilities in her original and updated proxy group, as shown below:

| <b>Company</b>                 | <b>Ticker</b> |
|--------------------------------|---------------|
| American States Water Company  | AWR           |
| Atmos Energy Corporation       | ATO           |
| California Water Service Group | CWT           |
| Southwest Gas Corporation      | SWX           |
| Middlesex Water Company        | MSEX          |
| NiSource Inc.                  | NI            |
| Northwest Natural Gas Company  | NWN           |
| ONE Gas, Inc.                  | OGS           |
| H2O America (SJW)              | HTO           |
| Spire, Inc.                    | SR            |

Other states (including Florida, Illinois, and Massachusetts) include electric and gas utilities in proxy groups in water utility rate proceedings due to the small number of suitable

<sup>157</sup> *Id.*, p. 22.

<sup>158</sup> PAWC St. 13-RJ, pp. 12-13.

water utilities and the similar nature of natural gas utilities and water utilities is well understood by those commissions.<sup>159</sup> Ms. Bulkley applied screening criteria to select gas utilities with comparable risks to PAWC.<sup>160</sup>

Ms. Bulkley's inclusion of natural gas utilities and comparability to water utilities was based on the underlying risks of the businesses, and she presented several analyses that demonstrate that the natural gas utilities are reasonable proxy companies to be used to expand the otherwise small water utility proxy group. Ms. Bulkley reviewed the betas of the water and natural gas distribution companies and demonstrated that the betas were generally comparable.<sup>161</sup> She also compared the Value Line timeliness and safety rankings of the water and natural gas utilities, where timeliness measures the forecasted relative market performance over the next twelve months and safety considers the financial strength and volatility of the stock. Ms. Bulkley demonstrated that the companies in the water and natural gas groups were comparable on all of these measures.<sup>162</sup> In her rebuttal testimony, Ms. Bulkley provided the opinions of industry participants in two transactions, both of whom support the viewpoint that the risk profiles and business models of the natural gas

---

<sup>159</sup> PAWC St. 13-R, pp. 25-26 (citing Massachusetts Department of Public Utilities, Docket No. 17-90, *Petition of Aquarion Water Co. of Massachusetts, Inc., pursuant to G.L. c. 164, § 94, and G.L. c. 165, § 2, for Approval of a General Rate Increase as set forth in M.D.P.U. No. 3.*, Oct. 31, 2018, pp. 286-87; Docket No. 20180006-WS, *In re Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*, Order No. PSC-2018-0327-PAA-WS, at 7. Illinois Commerce Commission, *Illinois-Am. Water Co. Proposed Rate Increases for Water and Sewer Service*, Docket No. 22-0210, Order, Dec. 15, 2022, at 102).

<sup>160</sup> *Id.*, p. 21.

<sup>161</sup> PAWC St. 13, pp. 26-27.

<sup>162</sup> *Id.*

distribution and water utility sectors are similar.<sup>163</sup> Ms. Bulkley also demonstrated that the analyst coverage of the water utilities used in Mr. Patel’s water-only proxy group is limited, with S&P reporting that their growth rates for the water utilities are based on the viewpoint of one analyst for each company, whereas there are multiple analysts contributing to the growth rates for the natural gas distribution companies.<sup>164</sup> In her Rejoinder Testimony, Ms. Bulkley updated the results of her models and provided median results for three proxy groups: water utilities, natural gas utilities and the combined proxy group. The median DCF result for the water utility proxy group was notably higher with updated data, but the increase further underscores that the smaller water-only proxy group can produce more volatile results than the larger proxy groups of natural gas companies and the combined proxy group which had the same median.<sup>165</sup>

OCA witness Garrett used the same water utilities selected by Ms. Bulkley but included American Water and added in Essential “to increase the sample size” despite American Water’s circularity and both American Water and Essential being involved in a merger.<sup>166</sup> While he did not believe it was necessary to include non-water utilities in his proxy group, he concluded that the results of his analyses were not materially different with the inclusion of gas utilities.<sup>167</sup> In contrast, I&E witness Patel properly excluded both

---

<sup>163</sup> PAWC St. 13-R, p. 21.

<sup>164</sup> *Id.*, p. 23.

<sup>165</sup> PAWC St. 13-RJ, pp. 3-4.

<sup>166</sup> OCA St. 2, p. 11.

<sup>167</sup> OCA St. 2-SR, p. 6. The flaws in Mr. Garrett’s cost of equity analyses are addressed in Section IX.E.

American Water and Essential in light of the proposed merger, but then relied upon a proxy group consisting of only four companies.<sup>168</sup>

While Mr. Patel argued water companies have different characteristics than gas utilities and the Commission had agreed with Mr. Patel in a prior rate case when his proxy group consisted of five water utilities,<sup>169</sup> his proxy group is now even smaller. Ms. Bulkley demonstrated that investors view water and gas utilities as comparable in terms of investment safety, performance, and volatility.<sup>170</sup> Mr. Patel did not rebut the financial data and investor perspective provided by Ms. Bulkley, and his reliance on a Commission decision addressing the use of electric utilities in establishing an ROE for gas utilities is inapposite: that decision also did not involve the reliability and validity of using a proxy group of only four utilities.<sup>171</sup> In light of the small size of the proxy group of Mr. Patel and the flawed composition of Mr. Garrett's proxy group enlarged with merging companies to address sample size, the Commission should rely upon the expanded proxy group determined by Ms. Bulkley consistent with the practice of several other public utility commissions.

### **C. Capital Structure**

In determining the overall rate of return, the Commission considers the percentages of long-term debt, preferred stock and common equity in the Company's capital structure and the capital cost rate of each component. In developing her recommended reasonable

---

<sup>168</sup> I&E St. 2, p. 10.

<sup>169</sup> PAWC 2022, p. 152.

<sup>170</sup> PAWC St. 13, pp. 26-27; PAWC St. 13-R, pp. 21-22.

<sup>171</sup> PAWC St. 13-R, p. 20, n.31.

rate of return, Ms. Bulkley employed the Company's anticipated year-end capital structure ratios for the FPFTY, as these ratios are indicative of those PAWC will maintain to finance its claimed rate base during the period it proposed that its new rates would be in effect.<sup>172</sup>

PAWC witness Bulkley calculated the capital structure of PAWC and both its water and wastewater services. She calculated the total-Company capital structure first, using all debt issuances and all sources of capital. Because certain debt issues were specifically attributable to wastewater, she calculated the capital structure for water service by removing the wastewater-specific debt and recalculating the ratios of the remaining capital stock. The wastewater-specific capital structure was then calculated by applying the total company debt ratio to the wastewater rate base, excluding the wastewater-specific debt issuances.<sup>173</sup> The resulting capital structures are shown in the following table:<sup>174</sup>

---

<sup>172</sup> PAWC St. 13, pp. 65-66.

<sup>173</sup> *Id.*, p. 66.

<sup>174</sup> *Id.*, p. 65.

| Total Company       |        |
|---------------------|--------|
| Common Equity       | 55.30% |
| Preferred Stock     | 0.00%  |
| Long-Term Debt      | 44.66% |
| Water Services      |        |
| Common Equity       | 56.31% |
| Preferred Stock     | 0.00%  |
| Long-Term Debt      | 43.68% |
| Wastewater Services |        |
| Common Equity       | 51.52% |
| Preferred Stock     | 0.00%  |
| Long-Term Debt      | 41.49% |
| WW-Specific Debt    | 6.88%  |

OCA witness Garrett did not comment on the Company’s capital structure, and I&E witness Patel accepted the capital structure of the Company’s wastewater operations. For the Company’s water operations, however, Mr. Patel recommended that PAWC’s cost of equity should not exceed 55% because he asserted – without citation – that a capital structure closer to 50% equity / 50% debt is “commonly considered optimal when trying to balance the financial integrity of a utility and its impact on ratepayers.”<sup>175</sup> Mr. Patel also noted that PAWC’s parent company had a capital structure with lower equity (and corporate-level debt), but he did not explain why that was relevant to PAWC operating as a utility.<sup>176</sup>

---

<sup>175</sup> I&E St. 2, p. 20. Later in his testimony, Mr. Patel referenced statements of Vice Chair Barrow in *Columbia Gas 2025* expressing concern about “equity heavy” capital structures and noted that the OCA and CAUSE-PA argued for a hypothetical 50/50 capital structure in that proceeding. I&E St. 2, pp. 21-22. Mr. Patel did not note that the Commission adopted Columbia Gas’ capital structure in that proceeding and neither the OCA nor CAUSE-PA provided testimony on the Company’s capital structure in this proceeding.

<sup>176</sup> I&E St. 2, pp. 20-21.

The Commission has made clear that a utility’s actual capital structure is to be used in rate of return analysis unless that capital structure is atypical, and has rejected the use of a “hypothetical” capital structure.<sup>177</sup> PAWC’s proposed capital structure recognizes the composition of the financing that PAWC is currently using to fund its investments and obligations, and Ms. Bulkley’s testimony established that this capital structure was well within the range of equity ratios of her proxy group of utilities.<sup>178</sup> The Commission should therefore reject Mr. Patel’s proposed hypothetical capital structure and accept the Company’s proposed capital structure.

#### **D. Cost of Long-Term Debt**

The Company’s long-term debt was calculated by Ms. Bulkley, using specific debt identified for wastewater services and calculating the water services capital structure and associated water services long-term debt by removing the wastewater services debt. Ms. Bulkley calculated a long-term debt cost for water service of 4.71%, with wastewater services debt projected in two components: specific issuances having a projected debt cost of 2.20% for the FPFTY and the remainder to be financed at the total company rate of 4.71%.<sup>179</sup> As discussed in Section XI.C above, the Company’s cost of long-term debt presented by Ms. Bulkley was accepted by OCA witness Garrett and I&E witness Patel.

#### **E. Return on Equity**

---

<sup>177</sup> *Columbia Gas 2025*, pp. 210-211 (finding it “appropriate to reinforce our finding that ‘the use of an actual capital structure represents the Company’s decision, in which it has full discretion, on how to capitalize its rate base’” and citing past cases).

<sup>178</sup> PAWC St. 13, p. 67.

<sup>179</sup> PAWC St. 13, p. 70.

Given PAWC’s capital needs, a ROE that is adequate to attract capital on reasonable terms is essential for PAWC to continue to provide safe, reliable water and wastewater service.<sup>180</sup> Because the cost of common equity does not lend itself to precise mathematical computation, public utility commissions rely on multiple models to calculate the proper cost of equity for the period a utility’s new rates will be in effect.<sup>181</sup> The Commission has recognized the need for multiple models, and specifically the need to use the DCF and CAPM in times of inflation and high interest rates.<sup>182</sup>

### **1. PAWC’s Cost of Equity**

Consistent with recent Commission decisions, Ms. Bulkley considered the results of both the DCF and the CAPM. The DCF approach is based on the theory that a stock’s current price represents the present value of all expected future cash flows.<sup>183</sup> Because “dollars received in the future are worth less than the dollars received today, the cash flow must be ‘discounted’ back to the present value at the investor’s rate of return.”<sup>184</sup> The DCF model used by Ms. Bulkley and other witnesses is known as the Constant Growth DCF model, and relies on various assumptions, including a growth rate for earnings and dividends.<sup>185</sup>

---

<sup>180</sup> *Id.*, p. 11.

<sup>181</sup> *Id.*, pp. 30-33.

<sup>182</sup> *Columbia Water 2024*, p. 107 (noting that “the CAPM is more responsive to interest rates”).

<sup>183</sup> PAWC St. 13, p. 33.

<sup>184</sup> *Columbia Gas 2025*, p. 216; PAWC St. 13, pp. 33-34.

<sup>185</sup> PAWC St. 13, pp. 33-34.

Ms. Bulkley initially calculated average dividend yields for the proxy group for the 30-, 90- and 180-day trading days as of September 30, 2025 in her direct testimony.<sup>186</sup> Since utility dividends generally increase from year to year and are paid quarterly, not continuously, she adjusted her findings to capture one-half of the anticipated dividend growth.<sup>187</sup> Once the dividend yield is calculated, the proper growth rate must be developed. To that end, Ms. Bulkley considered a variety of published long-term growth rates and calculated results using minimum, average, and high growth rates from these sources, leading to an updated DCF range of 10.05% to 11.70% based on market data through February 28, 2026.<sup>188</sup>

The CAPM is a forward-looking risk premium approach that estimates the cost of equity for a given security as a function of a risk-free return plus a risk premium to compensate investors for the non-diversifiable or “systematic” risk of that security. Systematic risk is the risk inherent in the entire market or market segment—which cannot be diversified away using a portfolio of assets.<sup>189</sup> According to the theory underlying the CAPM, because unsystematic risk can be diversified away, investors should only be concerned with systematic or non-diversifiable risk, which is measured by beta (which reflects a measure of the uncertainty of the general market and the variance between a specific security and the general market).<sup>190</sup>

---

<sup>186</sup> *Id.*, p. 34.

<sup>187</sup> *Id.*, p. 35.

<sup>188</sup> PAWC Ex. 13-RJ, Schedule 1.

<sup>189</sup> PAWC St. 13, p. 39.

<sup>190</sup> *Id.*, p. 40.

To estimate the risk-free rate or return, Ms. Bulkley used the current 30-day yield on 30-year Treasury bonds and projected 30-year Treasury bond yields for the first quarter of 2026 through the first quarter of 2027 and for the period 2027 through 2031.<sup>191</sup> Ms. Bulkley used beta coefficients for the proxy group companies as reported by Value Line, which are based on five years of weekly returns relative to the New York Stock Exchange Composite Index (Value Line).<sup>192</sup> She initially estimated the market risk premia based on the expected return on the S&P 500 Index as of September 30, 2025, with a range of 8.55% to 8.94% – a range she concluded was reasonable in light of the fact that the historical market risk premia between 1926 through 2024 was at or above that range.<sup>193</sup> In addition, Ms. Bulkley considered the results of another form of CAPM (the “Empirical CAPM”). This methodology addresses the tendency of the “traditional” CAPM to underestimate the cost of equity for companies with low beta coefficients, such as regulated utilities.<sup>194</sup> Ms. Bulkley’s updated analysis indicated a traditional CAPM range of returns from 10.94% to 11.23%, with Empirical CAPM ROEs of 11.41% to 11.64% using market data through February 28, 2026.<sup>195</sup>

In this proceeding, Ms. Bulkley also highlighted several crucial risk factors for consideration by the Commission:

- **Risk Associated with Capital Expenditure Program.** PAWC’s projected \$1 billion in capital investments through June 30, 2027, puts additional pressure on cash flows, and therefore credit ratings. Moreover, in light of the Company’s

---

<sup>191</sup> *Id.*, pp. 40-41.

<sup>192</sup> *Id.*, p. 41.

<sup>193</sup> *Id.*, p. 42.

<sup>194</sup> *Id.*, p. 43.

<sup>195</sup> PAWC Ex. 13-RJ, Schedule 1, p. 1.

plan to invest \$3.50 billion in infrastructure improvements over the next few years, the Company will necessarily need to seek financing beyond any internally generated cash flow.<sup>196</sup>

- **Risks Associated with Environmental and Water Quality Regulations.** PAWC faces extensive environmental and regulatory risks as a water and wastewater utility that include expanded regulatory scrutiny and changes in a wide variety of federal and state regulations. These factors, plus the continuing need to rehabilitate, replace, and enhance aging infrastructure, add to risk factors PAWC faces to meet its statutory obligation to furnish safe, adequate, and reliable water service.<sup>197</sup>
- **Flotation Costs.** Flotation costs are associated with the sale of new issues of common stock. To the extent that a utility is denied the opportunity to recover prudently incurred flotation costs, actual returns will fall short of expected (or required) returns, thereby diluting equity share value. Flotation costs are not current expenses but are part of the invested costs of the utility and are not otherwise recovered.<sup>198</sup>

In light of the results of both the DCF and CAPM models, and after considering the business, financial and regulatory risks faced by PAWC and the Company's superior management performance as discussed in Section XI.F below, Ms. Bulkley recommends a ROE of 10.95%.<sup>199</sup>

## 2. I&E's Position

Relying upon the flawed proxy group discussed in Section XI.B above, I&E witness Patel recommends an ROE of 9.7% based on the average of his constant growth DCF analysis (10.09%) and a 9.51% average of his "traditional" CAPM (9.96%) and his "Kroll

---

<sup>196</sup> PAWC St. 13, pp. 47-49.

<sup>197</sup> *Id.*, pp. 60-62.

<sup>198</sup> *Id.*, pp. 56-59.

<sup>199</sup> PAWC St. 13, pp. 6, 59; PAWC St. 13-R, p. 11.

CAPM” (8.66%).<sup>200</sup> While Mr. Patel now agrees that the CAPM methodology should be used in addition to the DCF and gives his DCF and CAPM results equal weight, he has continued to change the way he calculates his CAPM results in PAWC proceedings with the effect of reducing his recommendations. Using the same methodology he used in PAWC’s 2020 and 2022 proceedings would have produced a CAPM of 12.39%, and using his 2024 methodology would lead to a CAPM of 9.97%.<sup>201</sup> While Mr. Patel asserts that his CAPM methodology has changed “as financial conditions have changed and Commission positions have guided I&E in updating its methodology over the years,” he does not identify what “financial conditions” require methodological changes, nor what “Commission position” has led him to change his CAPM methodology yet again for this proceeding.<sup>202</sup> Mr. Patel also asserts that PAWC does not face any specific risks different than his four proxy group companies and is not entitled to any increase for management performance.<sup>203</sup>

As a threshold matter, Mr. Patel’s review of capital market conditions is incomplete and inconsistent with current market conditions. Mr. Patel makes no mention in his testimony of current world events that have resulted in significant increases in energy prices worldwide that will likely affect inflation in the current and near term, nor does he mention the effects of these conditions on interest rates.<sup>204</sup> And while Mr. Patel suggests

---

<sup>200</sup> I&E St. 2-SR, pp. 26-27. As noted *supra*, Mr. Patel reduced his original ROE recommendation of 9.8% based on an error in his CAPM calculation.

<sup>201</sup> PAWC St. 13-R, p. 7, 32 & 38.

<sup>202</sup> PAWC St. 13-RJ, pp. 6-7.

<sup>203</sup> I&E St. 2, pp. 28-32.

<sup>204</sup> PAWC St. 13-RJ, p. 2.

that “it is speculative to assume that current inflation and interest rate scenarios will continue in the longer term”<sup>205</sup> and “it is still likely that the Federal Reserve will consider additional interest rate cuts in 2026 and 2027,”<sup>206</sup> the Blue Chip Financial Forecast data that Mr. Patel actually relied upon in his own CAPM analysis projected the yield on the 10-year Treasury bond to remain constant at 4.2% through 2027 even before the Iran conflict began—reflecting steady interest rates, not the declining rates Mr. Patel now suggests, during the time PAWC’s new rates will be in effect.<sup>207</sup>

In addition, in “partly disagree[ing]” with Ms. Bulkley’s statement that the Commission has previously concluded that DCF results understate the cost of equity given increased inflation and expected increases in interest rates and capital costs, Mr. Patel relies upon an incorrect reading of the Commission decisions in both *Aqua 2022* and Columbia Water Company’s 2024 rate proceeding.<sup>208</sup> In Mr. Patel’s view, the Commission used both DCF and CAPM models because of “various other factors” that the Commission considered in its final determination of an ROE.<sup>209</sup> However, the Commission’s decision to rely on both models due to economic conditions is distinct from its discussion of the utility-specific factors used to calculate the ROE of both Aqua and Columbia Water. As the PUC explained in *Aqua 2022*:

We are persuaded by the arguments of Aqua that the ALJ erred by concluding I&E used its DCF and CAPM results to

---

<sup>205</sup> I&E St. 2-SR, p. 9.

<sup>206</sup> *Id.*, p. 10.

<sup>207</sup> PAWC St. 13-RJ, p. 3.

<sup>208</sup> *See Pa. P.U.C. v. Columbia Water Co.*, Docket No. R-2023-3040258 (Opinion and Order entered Jan 18, 2024) (“*Columbia Water 2024*”).

<sup>209</sup> I&E St. 2-SR, pp. 7-8.

determine Aqua's ROE. In this regard, we note that although I&E did use its CAPM as a comparison to its DCF result, it made no CAPM based adjustment to its final ROE recommendation. I&E M.B. at 47. As Aqua points out, *infra*, the U.S. economy is currently in a period of high inflation. To help control rising inflation, the Federal Open Market Committee has signaled that it is ending its policies designed to maintain low interest rates. Aqua Exc. at 9. Because the DCF model does not directly account for interest rates, consequently, it is slow to respond to interest rate changes.<sup>210</sup>

And in *Columbia Water 2024*, the Commission also explicitly stated its approach was based on market conditions: "Based on the record, we agree with the ALJs that it is appropriate to consider the CAPM results to account for economic changes such as those occurring currently, in addition to the DCF results, to determine Columbia's ROE."<sup>211</sup> Thus, it remains important for the Commission to place appropriate weight on properly calculated (and consistent) CAPM results in its determinations.

With respect to his DCF calculations, Mr. Patel chose to use a spot stock price instead of a 30-day average, which both Ms. Bulkley and OCA witness Garrett used, and provides only one scenario based on average earnings per share ("EPS") growth rates.<sup>212</sup> As Ms. Bulkley explained, it is not appropriate to rely upon a spot stock price that can be biased significantly by the volatility that exists in the market on any given day, and investors will consider the full range of consensus EPS growth rates for each company in the proxy group – low, average, and high.<sup>213</sup> Adjusting Mr. Patel's results with current

---

<sup>210</sup> *Aqua 2022*, p. 89; *see also Columbia Water*, p. 107 (citing *Aqua 2022*).

<sup>211</sup> *Columbia Water 2024*, p. 107 (citing *Aqua 2022*).

<sup>212</sup> PAWC St. 13-R, pp. 27-22.

<sup>213</sup> *Id.*, p. 26.

market data and reflecting Ms. Bulkley’s properly sized proxy group with a 30-day average stock price and the full range of growth assumptions that investors would use from the same sources Mr. Patel relies upon produces a range of results of 9.90% to 11.43%, with an average cost of equity estimate of 10.72%.<sup>214</sup> But even if Mr. Patel’s four water utility proxy group is used, the DCF result is 10.59%, well above his DCF calculation of 10.09%.<sup>215</sup>

Mr. Patel’s CAPM calculation is similarly flawed. His “traditional” CAPM scenario uses the yield on the 10-year Treasury bond, Value Line betas, and a market risk premium based on the average of (i) an estimate of the total return for the companies in the Value Line universe and the S&P 500 Index less the risk-free rate and (ii) the historical average return on the S&P 500, producing a result of 9.96%. His second scenario, which he averages with his first scenario, relies on a risk-free rate of 4.76% (which is the 20-year Treasury bond yield), the Value Line beta coefficients for the four water utilities in his proxy group, and a Kroll equity risk premium of 5.00 %, producing a result of 9.05%.<sup>216</sup>

As noted earlier, Mr. Patel’s new methodology – his third methodology change in recent PAWC proceedings – results in a decrease in the CAPM of **243 basis points** from the methodology Mr. Patel believed was appropriate in 2020 and 2022 even though the risk-free rate (measured by the 10-year Treasury bond yield) is nearly 100 basis points higher and the betas remain the same.<sup>217</sup> While Ms. Bulkley recognizes that the

---

<sup>214</sup> *Id.*, p. 28.

<sup>215</sup> PAWC Ex. 13-RJ, Schedule 2.

<sup>216</sup> PAWC St. 13-R, pp. 29-30.

<sup>217</sup> *Id.*, pp. 31-32.

Commission has approved the use of the Treasury 10-year bond yield used by Mr. Patel for the CAPM risk-free rate in his traditional CAPM scenario despite the mismatch with the life of many utility assets,<sup>218</sup> Ms. Bulkley explained that Mr. Patel's use of the historical market risk premium to estimate a forward-looking cost of equity was also improper as the use of assumptions from different time periods fails to account for an inverse relationship that exists between the risk-free rate and the equity risk premium.<sup>219</sup> Interest rates and the market risk premium are inversely correlated. This means that if interest rates decline, the market risk premium increases, and the reverse is also true; if interest rates increase, the market risk premium decreases.<sup>220</sup> Therefore, Ms. Bulkley concluded that it was inappropriate for Mr. Patel to rely on the historical market risk premium when current interest rates are not as high as historical interest rates. Given the inverse correlation noted previously, since interest rates today are lower than the historical average, it would be expected that the market risk premium would be higher than the historical average.<sup>221</sup>

Mr. Patel's new second scenario, in which he relies on the yield on the 20-year Treasury bond and the Kroll premium, suffers from other flaws. First, there is no way to discern how the equity risk premium is established by Kroll.<sup>222</sup> Second, the documentation provided by Mr. Patel from Kroll indicates that Kroll would typically consider the effect of current market conditions, but the report that Mr. Patel relied upon only considered

---

<sup>218</sup> *Id.*, p. 33.

<sup>219</sup> *Id.*, pp. 34-37.

<sup>220</sup> *Id.*, p. 35.

<sup>221</sup> *Id.*

<sup>222</sup> PAWC St. 13-RJ, p. 7.

economic conditions through September 2025, which means the Kroll equity risk premium does not consider the effect of the current conflict with Iran in the equity risk premium.<sup>223</sup> Given the inconsistencies in assumptions in Mr. Patel's CAPM scenarios, Ms. Bulkley recommended the Commission not rely on Mr. Patel's CAPM estimates and suggested alternatives that either exclude the problematic estimates or average Mr. Patel's multiple approaches to CAPM calculations.<sup>224</sup>

When the issues with Mr. Patel's cost of equity analyses are reasonably adjusted, the results increase significantly. Specifically, the average adjusted DCF produces results of 10.06% (water only) and 10.72% (combined water and gas) and adjusted CAPM results of 10.47% (water only) to 10.35% (combined water and gas), resulting in averages of 10.26% to 10.53% before any enhancement for superior management performance.<sup>225</sup> These results confirm that Mr. Patel's recommended ROE of 9.70% is unreasonable and understates the cost of equity.<sup>226</sup>

---

<sup>223</sup> PAWC St. 13-RJ, pp. 7-8.

<sup>224</sup> PAWC St. 13-R, p. 37.

<sup>225</sup> PAWC St. 13-R, p. 40.

<sup>226</sup> With respect to business risks, Mr. Patel asserted that PAWC did not have any unique regulatory risks in light of its ability to file rate cases as needed as well as other regulatory mechanisms, such as the FPFTY and the DSIC. I&E St. 2, pp. 68-69. However, as Ms. Bulkley explained, nearly all the proxy group companies have such regulatory mechanisms so that the presence of those mechanisms in Pennsylvania does not lower PAWC's business and regulatory risk relative to the proxy group. PAWC St. 13-R, pp. 81-82. And with respect to recovery of flotation costs, which Mr. Patel also opposes, Ms. Bulkley describes both regulatory and academic support for consideration of flotation costs in authorizing an ROE. *Id.*, pp. 82-84.

### 3. OCA's Position

Mr. Garrett states that “[i]t is preferable to use multiple models because the results of any one model may contain a degree of imprecision, especially depending on the reliability of the inputs used at the time of conducting the model,” but his recommended ROE is equal to his CAPM result.<sup>227</sup> While he contends that he considered his DCF results and the fact that his recommendation is well below any other recently authorized ROE in Pennsylvania is immaterial,<sup>228</sup> his recommendation remains the same as it was in PAWC's last rate proceeding despite the fact that the interest rates underlying his CAPM analysis demonstrate that the cost of equity should be higher.<sup>229</sup>

With respect to his DCF calculations, Mr. Garrett relies on projected divided per share (“DPS”) growth rates from Value Line rather than projected analysts EPS growth rates for one scenario and then a projected “sustainable” growth rate of 3.70% using a nominal gross domestic product (“GDP”) growth rate projected by the Congressional Budget Office. Both Ms. Bulkley and I&E witness Patel agree that Mr. Garrett's use of DPS growth rates in constant growth DCF analysis is problematic: earnings are the fundamental determinant of a company's ability to pay dividends, and over the long term, dividend growth can only be sustained by earnings growth, so EPS growth rates should be relied on in the DCF analysis.<sup>230</sup> Mr. Garrett's “sustainable” DCF model is even more problematic—it produces a cost of equity estimate of 6.80%, which is well below any

---

<sup>227</sup> PAWC St. 13-R, pp. 40-41.

<sup>228</sup> OCA St. 2-SR, pp. 3, 8-9.

<sup>229</sup> PAWC St. 13-RJ, p. 12.

<sup>230</sup> PAWC St. 13-R, pp. 46-48; I&E St. 2-R, pp. 44-45.

authorized ROE for either a water or natural gas utility in a regulatory jurisdiction comparable to Pennsylvania since at least 1980 and only 155 basis points above PAWC's cost of debt.<sup>231</sup> In her testimony, Ms. Bulkley provides extensive material, including academic references, describing why Mr. Garrett's sustainable growth model based on GDP growth should not be used in constant growth DCF analysis.<sup>232</sup>

Mr. Garrett's CAPM analysis is equally flawed, leading him to recommend a result that is at the very low end of the range of authorized ROEs for water and natural gas utilities in regulatory jurisdictions comparable to Pennsylvania in the last forty years.<sup>233</sup> His CAPM relies on a market risk premium of only 5.00%, derived from averaging estimates from the IESE Business School survey, Kroll, Professor Damodaran, and his own implied equity risk premium calculation. Each of these sources fails to reflect the well-established inverse relationship between interest rates and the market risk premium.<sup>234</sup> Moreover, the survey data, Kroll, and Damodaran analyses, which Mr. Garrett relies upon to challenge Ms. Bulkley's results, have consistently failed to produce accurate market risk premium predictions—for example, in 2024, the observed equity risk premium was 20.68%, whereas these sources reported premia of only 4.33% to 5.50%.<sup>235</sup> Additionally, Mr. Garrett's contention that Value Line's betas are overstated because they are adjusted to market averages (via the Blume Adjustment) instead of utility industry averages is incorrect; the

---

<sup>231</sup> PAWC St. 13-R, p. 46; PAWC St. 13-RJ, pp. 13-14.

<sup>232</sup> PAWC St. 13-R, pp. 51-54. Ms. Bulkley also discusses in detail why there is no basis for Mr. Garrett's critique of her constant growth analysis. *See* PAWC St. 13-R, pp. 55-57.

<sup>233</sup> PAWC St. 13-R, p. 58.

<sup>234</sup> *Id.*, pp. 59-60.

<sup>235</sup> *Id.*, pp. 61-63.

Blume adjustment likely better reflects both the correlation with the broader market and the interest rate risk of the utility sector.<sup>236</sup>

When Mr. Garrett’s analysis is adjusted to use EPS growth rates, which are relied upon by both Mr. Patel and Ms. Bulkley, and an appropriate risk comparable natural gas and water utility proxy group, the average DCF result is 10.42%.<sup>237</sup> Similarly, when the market return in his CAPM analysis is adjusted to rely on projected EPS growth rates in the first stage and Mr. Garrett’s sustainable growth rate in the second stage, the result is 10.58%. Replacing Mr. Garrett’s sustainable growth rate with the long-term GDP growth rate specified by Morningstar, the average cost of equity increases to 10.98% (market return calculated using EPS in the first stage and GDP growth in the second stage).<sup>238</sup> The average of these model results is 10.66%,<sup>239</sup> confirming that Mr. Garrett’s recommended ROE of 8.70% is also clearly unreasonable and understates the cost of equity for PAWC.

#### **F. Management Performance**

Under Section 523 of the Code, the Commission considers management of performance of a utility and, where appropriate, may include an upward ROE adjustment for management effectiveness.<sup>240</sup> The Commission has specifically encouraged the acquisition of “suitable water and wastewater systems by viable utilities when the actions are in the public interest,” and provided that “additional rate of return basis points may be

---

<sup>236</sup> *Id.*, pp. 58-59.

<sup>237</sup> *Id.*, p. 55.

<sup>238</sup> *Id.*, p. 80.

<sup>239</sup> *Id.*

<sup>240</sup> 52 Pa. Code § 523; *see also Aqua 2022*, pp. 167-68.

awarded under [Section 523].”<sup>241</sup> Furthermore, the Commission has directed that “[t]he rate of return premium as an acquisition incentive may be the most straightforward and its use is encouraged.”<sup>242</sup>

PAWC has provided exceptional effective management in delivering water and wastewater services to its customers. As PAWC witness Runzer explained, PAWC has been consistently recognized for its water quality achievements and has undertaken a wide variety of actions to improve its facilities as well as educate and protect customers from lead service lines and proactively address per and polyfluoroalkyl (“PFAS”).<sup>243</sup> The Company has numerous programs in place to increase and enhance operational efficiency, including leak detection, main replacement and repair programs, and customer demand-side strategies.<sup>244</sup> Following customer complaints received during the Company’s last rate case proceeding, Commission staff conducted a quality-of-service investigation in the Company’s Northeastern Service Territory and issued a final report that did not identify any systemic issues and recognized that PAWC was proactively identifying specific factors causing customer complaints and utilizing necessary tools to manage and remediate quality-of-service issues.<sup>245</sup>

PAWC President Justin Ladner described the extensive work of the Company as a solution provider for troubled water and wastewater systems in his testimony, acquiring 14

---

<sup>241</sup> 52 Pa. Code § 69.711(a).

<sup>242</sup> *Id.*

<sup>243</sup> PAWC St. 3, pp. 5-10.

<sup>244</sup> *Id.*, pp. 24-30.

<sup>245</sup> PAWC St. 3, p. 10.

troubled systems in the last ten years and four recent acquisitions with less than 1,000 customer connections each.<sup>246</sup> The Company has also completed the acquisitions of systems that were not, at the time of acquisition, providing adequate, efficient, safe and reasonable service, including Delaware Sewer Company, Winola Water Company, and East Dunkard Water Authority (“EDWA”). Following these acquisitions, the Company made capital investments to improve service to customers of these systems and increase environmental compliance.<sup>247</sup>

The Company also acted as the receiver for Rock Spring Water Company (“Rock Spring”) and Indian Springs Water Company (“Indian Springs”). As receiver, PAWC substantially improved Rock Spring’s operations. In addition to reducing daily system water delivery by 25%, saving up to 40,000 gallons per day, PAWC initiated an infrastructure stabilization strategy including real-time remote monitoring and chemical system feed upgrades.<sup>248</sup> As a resolution for the Commission’s Section 529 investigation into Indian Springs, PAWC coordinated a plan for all customers to have an adequate alternative supply of water from private wells and offset all of its receivership costs and a significant portion of the costs that customers had to pay for private wells by negotiating a sale of land owned by Indian Springs, to the benefit of PAWC customers and Indian Springs customers.<sup>249</sup> PAWC has also had a positive impact on communities through acquisitions of larger systems such as the McKeesport, Scranton, York, and EBMA

---

<sup>246</sup> PAWC St. 1, p. 10.

<sup>247</sup> *Id.*

<sup>248</sup> *Id.*, p. 15.

<sup>249</sup> *Id.*, pp. 10-11.

wastewater systems where significant investments were made (and continue to be made) to address environmental challenges and aging infrastructure with resulting environmental benefits.<sup>250</sup>

The Company's effectiveness in assisting with troubled water and wastewater systems was particularly evident in its work with EDWA. EDWA was a municipal water authority that owned and operated a municipal drinking water system serving a population of approximately 4,200 in Greene County. On October 24, 2023, the EDWA system experienced a major upset resulting from operational failure of the filters at the water treatment plant and the clarifier system at the water treatment plant ceased proper operation. The EDWA system's water treatment plant ceased producing water and all customers were without even non-potable water for several days for basic sanitary and hygienic purposes, including bathing, dishwashing, and toilet flushing.<sup>251</sup> As receiver, and subsequently as owner of the assets of the EDWA system, PAWC has taken the steps necessary for the system to provide water that complies with relevant safe drinking water standards.<sup>252</sup> On June 12, 2025, Commission Chairman DeFrank joined state, local and utility leaders to celebrate the transition of the East Dunkard system to PAWC and stated: "[t]oday is a victory for the people of this community. It's also a powerful example of what happens when state agencies, local governments, utilities, and community leaders

---

<sup>250</sup> *Id.*, p. 11.

<sup>251</sup> *Id.*, pp. 11-12.

<sup>252</sup> *Id.*, pp. 12-13.

work together toward a common goal – providing safe and reliable water to the Pennsylvanians who depend on it.”<sup>253</sup>

One final example of PAWC’s extraordinary efforts to provide drinking water solutions throughout the Commonwealth is PAWC’s multiyear project to construct a public water system for the residents of Dimock, Pennsylvania, who have not had access to safe drinking water for nearly 20 years due to unsafe levels of methane and other contaminants. In conjunction with the Office of Attorney General, PAWC is nearing completion of this system at no cost to its customers.<sup>254</sup>

Despite the Commission’s clear guidance that an upwards adjustment to an ROE is appropriate to recognize utility assistance to troubled water and wastewater systems, several witnesses contend that PAWC’s performance is not deserving of recognition. In particular, OCA witness Colton asserted that PAWC failed to successfully identify its low-income customer population, provides ineffective deferred payment arrangements, relies too heavily on disconnection of service to control unpaid bills, and purportedly disconnects low-income customers during the winter moratorium.<sup>255</sup> Similarly, OCA witness Alexander asserted that PAWC’s failure to “commit to any level of service quality” is a basis to reject a higher ROE based on management performance.<sup>256</sup> Finally, I&E witness

---

<sup>253</sup> <https://www.puc.pa.gov/press-release/2025/puc-applauds-multi-agency-response-that-secured-safe-reliable-water-for-east-dunkard-community-06122025>.

<sup>254</sup> PAWC St. 1, pp. 16-17.

<sup>255</sup> OCA St. 4, pp. 111-121.

<sup>256</sup> OCA St. 5-SR, p. 9.

Patel contended that the Company's recent Management Performance Audit was inconsistent with superior management performance.<sup>257</sup>

Company witnesses refuted each of these allegations. PAWC witness Prine explained that the Company is providing specific attention to the identification of low-income customers, and further offers referrals to assistance programs before placing customers on deferred payment arrangements. The Company also undertakes personal contact with confirmed low-income customers facing termination to encourage those customers to participate in assistance programs.<sup>258</sup> Both PAWC witnesses Prine and Chard described how enrollment in the Company's low-income programs declined due to a newly-launched document-based income verification process, but that subsequent significant PAWC outreach efforts increased BDP enrollment by 25% in just seven months.<sup>259</sup> Mr. Prine further underscored that despite Mr. Colton's contentions, the Company has detailed, specific processes in place to prevent service disconnections during winter moratorium for heat-related accounts.<sup>260</sup>

In her testimony regarding the Management Performance Audit, Dr. Chard noted that none of the functional audit recommendations were marked for "significant improvement" or "major improvement" (with eight of the twelve marked "minor improvement necessary"), and the Company had fully accepted 23 of the audit

---

<sup>257</sup> I&E St. 2, pp .73-75.

<sup>258</sup> PAWC St. 15-R, pp. 21-26.

<sup>259</sup> *Id.*, p. 26; PAWC St. 2-R, p. 13.

<sup>260</sup> PAWC Hearing Ex. 3, pp. 4-5.

recommendations and partially accepted the remaining eight.<sup>261</sup> While there is no requirement for customer service performance metric commitments to demonstrate exceptional management performance as Ms. Alexander argues, Dr. Chard explained that the Company voluntarily committed to call answering metrics that are even better those used for electric distribution companies (“EDCs”) and natural gas distribution companies (“NGDCs”) by the Commission’s Bureau of Consumer Services.<sup>262</sup> The Commission should therefore recognize PAWC’s superior management performance by approving an ROE at the higher end of Ms. Bulkley’s recommended ROE range.

## **X. RATE STRUCTURE AND RATE DESIGN**

Every rate proceeding consists of two parts. First, the overall revenues to which a utility is entitled must be determined. The second part of the process must determine how much of the total revenue requirement each rate class should bear. The allocation of revenue responsibility can be one of the more contentious parts of a rate proceeding because it is a “zero sum” exercise among the non-utility parties – any revenue responsibility not borne by a particular rate class must be borne by one or more other rate classes. While cost-of-service studies are the touchstone for reasonable allocations of revenue responsibility among rate classes,<sup>263</sup> the Commission has often stated that cost of service and revenue allocation analyses must reflect the exercise of judgment and are as much a matter of art as of science.<sup>264</sup> For that reason, Pennsylvania appellate courts have

---

<sup>261</sup> PAWC St. 2-R, p. 26.

<sup>262</sup> Tr. 1820-21.

<sup>263</sup> See *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010 (Pa. Commw. Ct. 2006).

<sup>264</sup> See *Pa. P.U.C. v. Philadelphia Suburban Water Co.*, 75 Pa. P.U.C. 391, 440 (1991).

repeatedly held that the Commission, in crafting a reasonable rate structure, is “invested with a flexible limit of judgment” and may establish just, reasonable and non-discriminatory rates within a “range of reasonableness.”<sup>265</sup>

#### **A. Cost-of-Service Studies**

PAWC submitted five separate cost-of-service studies (“COSSs”), one for its water operations and four for its wastewater operations.<sup>266</sup> Schedule A of PAWC Exhibits 12-A to 12-E summarizes the results of the applicable COSS.

##### **1. Water Operations**

Gregory R. Herbert of Gannett Fleming prepared PAWC’s COSS for its water operations (“Water COSS”) using the base-extra capacity method for allocating costs to customer classifications.<sup>267</sup> This method is described in the American Water Works Association’s Water Rates Manual (“AWWA Manual”) and has been accepted by the PUC as the appropriate methodology for determining class costs of service.<sup>268</sup>

OCA witness Jerome D. Mierzwa agrees with PAWC’s use of the base-extra capacity method for allocating costs to customer classifications. However, he contends that the system-wide demand factors used in the Water COSS to functionalize costs between facilities used to meet average day demand and, respectively, maximum day and maximum hour demand are not appropriate, purportedly because they are out of date.<sup>269</sup>

---

<sup>265</sup> *U.S. Steel Corp. v. Pa. P.U.C.*, 390 A.2d 865, 872 (Pa. Commw. Ct. 1978).

<sup>266</sup> PAWC St. 12, pp. 3-5.

<sup>267</sup> *Id.*, pp. 6-18; PAWC Ex. 12-A (Water Operations).

<sup>268</sup> PAWC St. 12, pp. 6-7. The base-extra capacity method is described on pages 3-4 of PAWC Ex. 12-A.

<sup>269</sup> OCA St. 4, pp. 14-18; OCA St. 4SR, pp. 2-5.

Based on that criticism, Mr. Mierzwa developed a revised COSS employing different extra capacity factors.<sup>270</sup> The effect of using those revised extra capacity factors is to shift costs from the class with higher maximum day and maximum hour demand (the residential class) to other classes with lower demand ratios, principally the industrial class.<sup>271</sup>

PAWC's proposed system-wide maximum day demand factor (1.4) reflects the maximum daily send-out of the Company since its formation in 1987. As Mr. Herbert testified, the Company's actual maximum day send out was 1.4 times average day send out in each of the years 1988, 1995, 1996, 1999, and 2003, and PAWC experienced system-wide maximum day factors close to that value in other years since 1987.<sup>272</sup> Additionally, the water usage on the maximum day of 2022, 2023, and 2024 in several areas within PAWC's overall water operations was more than 1.4 times the average usage for that year.<sup>273</sup> Mr. Mierzwa rejects the use of these experienced system-wide maximum day factors and, instead, recommend truncating the data set to include data for only the last 14 years. On that basis, he proposes using a maximum day factor of 1.2, which was experienced in 2023 and is the highest maximum day factor within that limited 14-year window.<sup>274</sup>

Mr. Mierzwa's alternative system-wide maximum day factor is flawed and should not be considered. He ignores the fact that PAWC must be prepared to meet customers'

---

<sup>270</sup> OCA Ex. JDM-1.

<sup>271</sup> See OCA St. 4, p. 18 (Table 1).

<sup>272</sup> PAWC St. 12, pp. 10-11; PAWC St. 12-R, pp. 3-4; see also PAWC Ex. 12-A, Sch. E, p. 5.

<sup>273</sup> PAWC Ex. GRH-2R.

<sup>274</sup> OCA St. 4, p. 15.

peak demands whenever they occur because the system cannot be expanded (or contracted) to meet only those demands that appear within a limited historical study period, such as the 14-year look-back that Mr. Mierzwa arbitrarily selected.<sup>275</sup> As Mr. Herbert further explained, if the system-wide maximum day demand factor of 1.2 proposed by Mr. Mierzwa were used to calculate the diversity factor for PAWC, it would yield a diversity factor well outside the range of reasonableness identified by the AWWA Manual.<sup>276</sup> In contrast, the 1.4 system-wide maximum day demand factor PAWC employed in the Water COSS produces a diversity factor that is reasonable based on the range recommended in the AWWA Manual.<sup>277</sup>

The PUC should also reject the OCA's proposal to use a maximum hour demand factor of 1.5 in lieu of the 2.1 factor Mr. Herbert employed in the Water COSS based on a detailed analysis of PAWC's actual maximum hour send out. In accordance with the Commission's directive in *PAWC 2024*, the Company analyzed recent years of hourly send out reads and developed updated maximum hour capacity factors. Mr. Mierzwa recommends that PAWC use the maximum hour factor derived from the results of that study. However, as Mr. Herbert explained, there were significant data gaps that created challenges to accurately measure maximum hour demand.<sup>278</sup> Mr. Mierzwa has not even alleged, let alone provided any basis to contend, that the results of the Company's 1988 study of actual maximum hour send-outs from water storage tanks are inaccurate. As such,

---

<sup>275</sup> PAWC St. 12-R, pp. 5-6.

<sup>276</sup> *Id.*, pp. 6-8.

<sup>277</sup> *Id.*

<sup>278</sup> PAWC St. 12, pp. 11-12.

it is reasonable to use a maximum hour ratio of 2.1 in the Water COSS until there are at least three years of accurate hourly reads, after which such data can be used to calculate system-wide maximum hour demand factors in PAWC's future rate cases.<sup>279</sup>

Finally, the Commission's recent decision in The York Water Company's ("York Water's") base rate case at Docket Nos. R-2025-3053442 and R-2025-305373 does not provide a basis to alter the demand factors employed in PAWC's Water COSS. PAWC provides water service to many non-contiguous geographic areas across the Commonwealth, whereas York Water's system is centralized in the City of York and its surrounding communities.<sup>280</sup> If all PAWC water system facilities were designed to handle 1.2 times the average daily send-outs as Mr. Mierzwa proposes, several Company service areas would experience supply constraints.<sup>281</sup>

## **2. Wastewater Operations**

For PAWC's SSS operations, Mr. Herbert's COSSs were prepared using the functional cost allocation methodology described in "Financing and Charges for Wastewater Systems," Manual of Practice No. 27, published by the Water Environment Federation.<sup>282</sup> That allocation methodology was modified to determine the incremental cost related to handling stormwater for PAWC's CSS operations.<sup>283</sup> No parties raised any objections to the allocation methodology employed in PAWC's wastewater COSSs.

---

<sup>279</sup> PAWC St. 12, p. 12; PAWC St. 12-R, p. 6.

<sup>280</sup> PAWC St. 12-RJ, p. 2.

<sup>281</sup> *Id.*

<sup>282</sup> PAWC St. 12, pp. 19-24; PAWC Exs. 12-B (WW SSS General Operations), 12-D (BASA).

<sup>283</sup> PAWC St. 12, pp. 24-31; PAWC Exs. 12-C (WW CSS Operations), 12-E (EBMA).

### 3. Cost-of-Service Studies for Future General Rate Increases

The OCA suggests that PAWC should maintain separate cost of service studies in accordance with the Commission’s directive in *PAWC 2024* (p. 217) for all systems acquired pursuant to Section 1329 that are included in PAWC’s revenue requirement in this case.<sup>284</sup> The PUC should reject this recommendation and continue its approach of moving toward single tariff pricing for all of PAWC systems, including those acquired under Section 1329, and evaluate the necessity of separate COSSs as part of future acquisition proceedings.<sup>285</sup>

#### B. Revenue Allocation/Act 11 Shift

The Company’s proposed revenue allocation to customer class presented by Mr. McClellan and set forth in PAWC Exhibit 3-A is generally based on the COSSs presented by Mr. Herbert. A few parties took issue with PAWC’s proposal to use Section 1311(c) to mitigate the impact of rate increases on wastewater customers by recovering a portion of the Company’s wastewater revenue requirement from its total water and wastewater customer base.<sup>286</sup> Allocating approximately \$53 million of the wastewater revenue requirement,<sup>287</sup> as proposed by PAWC, is in the public interest.<sup>288</sup> While the

---

<sup>284</sup> OCA St. 4, p. 20. In future wastewater COSSs, PAWC will create a separate class for commercial customers and evaluate how certain bulk and “named customers” are classified as recommended by OSBA witness Joseph Kubas. *See* PAWC St. 12-R, pp. 9-10; OSBA St. 1-SR, pp. 25-26.

<sup>285</sup> PAWC St. 2, pp. 29-31.

<sup>286</sup> *See* I&E St. 3, p. 12; OCA St. 4, pp. 22-28; OSBA St. 1, pp. 33-34; CCS St. 1, pp. 7-8.

<sup>287</sup> *See* PAWC St. 2, p. 24.

<sup>288</sup> *See Pa. P.U.C. v. Pa.-American Water Co.*, Docket Nos. R-2020-3019369 and R-2020-3019371 (Opinion and Order entered Feb. 25, 2021) (“*PAWC 2020*”), p. 82.

Section 1311(c) allocation plays an important role in mitigating the increases to PAWC's 117,638 wastewater customers, it has a modest effect on water customers' bills – representing an increase of approximately \$5 per month to an average residential customer.<sup>289</sup> In contrast, the reallocation results in lower wastewater residential bills for average usage of up to \$146 per month depending on the rate and location of the customer.<sup>290</sup>

In addition, PAWC's proposed rates would make reasonable progress in moving the rates of its separate wastewater rate zones closer to a single consolidated wastewater rate design for all of the Company's wastewater operations.<sup>291</sup> The Company's proposal promotes gradualism, avoiding rate escalation that may otherwise be experienced absent reallocation, ensures approximate parity to residential bills for water service and wastewater service at average usage levels, and promotes affordability of wastewater.<sup>292</sup>

Finally, while OSBA witness Kubas points out that water customers may already take wastewater service from another provider as a reason to reject PAWC's proposed Section 1311(c) reallocation, Act 11 already contemplates that possibility.<sup>293</sup> Furthermore, PAWC cannot cleanly identify Act 11 wastewater amounts by customer class and assign them to the same classes for water service because the customer classes around which

---

<sup>289</sup> PAWC St. 2, pp. 24-27; PAWC St. 10, p. 36.

<sup>290</sup> PAWC St. 10, p. 36; PAWC St. 10-R, p. 11.

<sup>291</sup> PAWC St. 2, p. 24.

<sup>292</sup> PAWC St. 10, pp. 32-36; PAWC St. 10-R, pp. 7-8; *see also* OCA St. 4, p. 22 (noting that absent any Act 11 allocation, PAWC's wastewater rates would need to increase, on average, by 40.4%).

<sup>293</sup> PAWC St. 10-R, pp. 11-12.

wastewater rates are developed are not the same as the customer classes used to develop water rates – it is simply not possible to reallocate to water service customers on a perfect class-to-class match as Mr. Mierzwa suggests.<sup>294</sup>

### **C. Tariff Structure**

PAWC’s proposed rate design for water and wastewater services are set forth in PAWC Exhibits MWM-1 and MWM-2.<sup>295</sup>

#### **1. Customer Charges**

OCA witness Mierzwa recommends keeping existing customer charges at the current rate level for residential wastewater customers, based on his analysis of direct customer costs.<sup>296</sup> As Mr. Herbert explained, the OCA’s direct cost analysis improperly omits infiltration and inflow (“I/I”) costs.<sup>297</sup> The drivers of I/I are largely independent of a customer’s usage, and adding customers can increase impervious surface area, which in turn, would increase I/I that is primarily caused by precipitation.<sup>298</sup> For these reasons, PAWC’s proposed residential wastewater customer charges that include I/I costs should be accepted.

---

<sup>294</sup> OCA St. 3-R, pp. 4-5.

<sup>295</sup> See PAWC St. 10, pp. 6-8. The foundation of PAWC’s rate design is cost causation. PAWC developed revenue targets for customer classes, to be recovered through rate design, based on the results of PAWC’s cost of service analysis, which allocates revenue requirements to customer class based on cost-causation principles, also taking into account gradualism, revenue stability, avoidance of discrimination, affordability, efficiency of use, avoidance of discrimination, and simplicity and feasibility in arriving at a rate design that is fair to all customer groups and that is just and reasonable.

<sup>296</sup> OCA St. 4, pp. 44-45; OCA St. 1-SR, p. 7.

<sup>297</sup> PAWC St. 12-R, p. 11.

<sup>298</sup> *Id.*

## 2. Water Rate Design

### a. Meter Charges

PAWC's proposed meter charges are reasonable and the Commission should reject the alternative proposals from OSBA and CAUSE-PA.<sup>299</sup> Additionally, the Commission should reject the alternative proposals from I&E, except for I&E witness Sakaya's recommendation for Rate Zone 8 Appalachian meter charges moving customer charges for meters up to 1 – 1/2" to those of Rate Zone 1, which the Company finds reasonable as doing so would accelerate consolidation with Rate Zone 1.<sup>300</sup> Mr. Sakaya's recommendation for Rate Zone 7 is in conflict with a Commission-approved settlement that applies to that zone.<sup>301</sup> OSBA witness Cathcart's proposal to moderate Rate Zone 6's commercial/municipal 3/4" meter charge fails to consider that there are no municipal customers in Rate Zone 6.<sup>302</sup> Finally, CAUSE-PA witness Geller's proposal should be rejected because PAWC's proposed customer charges align rates with cost causation recovering the fixed costs required to provide service regardless of the volume of water a customer uses (i.e., metering, billing, customer service, and system readiness).<sup>303</sup>

### b. Volumetric Rates

The alternative volumetric rates proposed by OSBA should be rejected.<sup>304</sup> Additionally, the Commission should reject the alternative proposals from I&E, except for

---

<sup>299</sup> See OSBA St. 3, p. 7; CAUSE-PA St. 1, pp. 15-16.

<sup>300</sup> See I&E St. 3, pp. 9-11.

<sup>301</sup> PAWC St. 10-R, p. 23.

<sup>302</sup> *Id.* at 24.

<sup>303</sup> *Id.*

<sup>304</sup> See OSBA St. 3, pp. 6-7.

I&E witness Sakaya's recommendation for Rate Zone 8 Appalachian volumetric rates moving to a uniform block structure and setting rates closer to those of Rate Zone 1, which the Company finds reasonable as doing so would accelerate consolidation with Rate Zone 1.<sup>305</sup> Mr. Sakaya's recommendation for Rate Zone 7 is in conflict with a Commission-approved settlement that applies to that zone.<sup>306</sup> OSBA witness Cathcart's proposal to moderate Rate Zone 5's East Dunkard commercial volumetric rate fails to consider all relevant factors, including that Rate Zone 5's 5/8" commercial meter charge is proposed to be reduced by approximately \$15 per month.<sup>307</sup>

### **3. Wastewater Rate Design**

#### **a. General SSS Operations**

I&E and OSBA proposed various increases to SSS rates.<sup>308</sup> Mr. Cline's and Mr. Kubas' recommendations are largely driven by the goal of eventual consolidation of rate zones and the reduction of PAWC's Act 11 subsidy, which should be rejected. The Commission should reject Mr. Cline's proposal to increase industrial rates as there is no cost-basis justification for separate or higher Industrial rates.<sup>309</sup> Additionally, as stated above, Mr. Cline's recommendations increasing the proposed rates, as well as rejecting the rate delay provision, for Rate Zone 1g Manwalamink should be rejected as such are in conflict with a Commission-approved settlement that applies to that zone. Mr. Mierzwa's

---

<sup>305</sup> PAWC St. 10-R, p. 26.

<sup>306</sup> *Id.*

<sup>307</sup> *Id.*, pp. 26-27.

<sup>308</sup> *See* I&E St. 4, Schedule 3; OSBA Ex. JK-3.

<sup>309</sup> *See* PAWC Ex. 12-B.

and Mr. Kubas' proposals to keep existing customer charges at the current rate level should be rejected for the reasons set forth above in Section C.1. The Commission should also reject Mr. Kubas' proposed increase for special flat rate customers as raising flat rates using a volumetric rate is inappropriate.<sup>310</sup>

**b. BASA Operations**

The Commission should accept PAWC's proposed rate design for BASA.<sup>311</sup> Mr. Kubas' proposed volumetric rate for Rate Zone 1d is higher than the Company's proposal and is inconsistent with a pre-existing agreement associated with the BASA acquisition, and should therefore be rejected.<sup>312</sup> Additionally, Mr. Kubas' proposed Non-Residential customer charge should be rejected. The Company's proposal to maintain the BASA Non-Residential customer charge at \$45.50 is appropriate and consistent with the Company's Rate Zone 1 service charge and the current flat rate charged to a Non-Residential BASA customer with one equivalent dwelling unit.<sup>313</sup>

**c. CSS Operations**

Mr. Cline and Mr. Kubas propose to increase rates for Rate Zone 2a Scranton in order to reduce the Act 11 subsidy,<sup>314</sup> which should be rejected for the reasons set forth above in Section B. The Company's proposal to maintain rates for Rate Zone 2a Scranton are in accordance with a pre-existing agreement that currently applies to Scranton, and

---

<sup>310</sup> PAWC St. 10-R, p. 43.

<sup>311</sup> PAWC St. 10, p. 20.

<sup>312</sup> OSBA St. 1, p. 33.

<sup>313</sup> PAWC St. 10-R, p. 44.

<sup>314</sup> I&E St. 4, pp. 47-48; OSBA St. 1, p. 24.

therefore should be accepted.<sup>315</sup> In addition, the Commission should reject Mr. Mierzwa's proposal with respect to the residential service charge for the same reasons described above relative to the SSS customer charge.<sup>316</sup>

**d. EBMA CSS Wastewater Operations**

Mr. Kubas' and Mr. Cline's recommendations to increase the proposed rates for Rate Zone 2b higher than the rates proposed by the Company should be rejected. The Company's proposal for Rate Zone 2b is in accordance with a Commission-approved settlement in PAWC's acquisition of EBMA's wastewater collection and treatment system pursuant to Section 1329.<sup>317</sup> In his proposal to increase rates for Rate Zone 2b, Mr. Kubas argues that rates are established in base rate cases, not in a prior Application docket.<sup>318</sup> Mr. Kubas' contention is not fully accurate. While it is true that the rate base of a selling utility is incorporated into the rate base of the acquiring utility during the acquiring utility's next base rate case, it is also true that the rate base will be established in the manner provided by law – a purchase price that is within the fair market valuations for Section 1329 acquisitions.<sup>319</sup> The fair market valuation of the EBMA system, as well as the rate base amount PAWC can include, was agreed to by the settling parties in that acquisition

---

<sup>315</sup> PAWC St. 10-R, pp. 48-49.

<sup>316</sup> *Id.*, p. 48.

<sup>317</sup> *See* PAWC St. 7, p. 5.

<sup>318</sup> OSBA St. 1-SR, p. 25.

<sup>319</sup> 66 Pa.C.S. § 1329(c)(i) (“The ratemaking rate base of the selling utility shall be incorporated into the rate base of (i) the acquiring public utility during the acquiring public utility's next base rate case”).

proceeding.<sup>320</sup> The Company's proposed Elizabeth Borough rates are consistent with the settlement commitments agreed to by the parties, and approved by the Commission, and should therefore be accepted.

#### **4. Wastewater Deduct Adjustment**

PAWC proposes to utilize a deduct adjustment to more closely align wastewater bills with cost causation.<sup>321</sup> The OCA and CAUSE-PA oppose the Company's proposal; while I&E offered certain changes, it did not oppose the proposal.<sup>322</sup> The Commission should find that the OCA's and CAUSE-PA's opposition is unwarranted. Mr. Mierzwa contends that seasonal usage can be explained by "a few extra showers and clothes washing loads," ignoring PAWC's modeling that there are statistically significant changes in water consumption tied to changes in weather during the summer period.<sup>323</sup> PAWC disagrees with the views of OCA witness Colton and CAUSE-PA witness Geller that the proposed deduct adjustment will negatively impact low-income customers while benefitting higher-income customers.<sup>324</sup> The Company's deduct adjustment proposal is intended to benefit all customers by appropriately aligning the amount customers are billed with the actual costs they cause the Company to incur for wastewater service.<sup>325</sup>

---

<sup>320</sup> Customer notice was provided to the acquired customers and PAWC's legacy customers in the application proceeding.

<sup>321</sup> PAWC St. 10-R, pp. 27-28.

<sup>322</sup> See OCA St. 3, pp. 40-41; OCA St. 4, pp. 106-111; CAUSE-PA St. 1, p. 18; I&E St. 4, pp. 8-11.

<sup>323</sup> PAWC St. 10-R, p. 32.

<sup>324</sup> OCA St. 4, pp. 108-109; CAUSE-PA St. 1, p. 18.

<sup>325</sup> PAWC St. 10-R, pp. 33-34.

## 5. Demand-Based Contract Rates

PAWC currently has special contract rates to attract and retain large customers that have competitive alternatives to water service from PAWC. The Company negotiates contracts at rates, with specified minimum and maximum levels, for these customers, as set forth in Rider DIS – Demand Based Industrial Service and Rider DRS – Demand Based Resale Service.<sup>326</sup> The requirements for service specified by those riders include documentation, to the Company’s satisfaction, of the existence of a competitive alternative.<sup>327</sup> In approving Riders DIS and DRS, the Commission found that those riders create benefits for all of the Company’s water customers by preserving or attracting incremental sales that, because of competitive forces, could not otherwise be made.<sup>328</sup>

OSBA witness Cathcart claims that the cost of furnishing service to Rider DIS and DRS is subsidized by other water customers.”<sup>329</sup> Based on that premise, he recommends that the Company re-evaluate the negotiated rates relative to competitive alternatives when Rider DIS and DRS contracts are up for renewal, and increase the contract rates to up to 90% of the cost of the competitive alternative.<sup>330</sup> Mr. Cathcart’s recommendation should not be adopted for PAWC’s demand-based riders for two principal reasons.

First, Rider DIS and DRS customers have competitive options to water service from PAWC, and the negotiated contract rate is necessary to maintain those customers.<sup>331</sup> Other

---

<sup>326</sup> PAWC St. 7-R, p. 18.

<sup>327</sup> *Id.*

<sup>328</sup> PAWC St. 12-R, p. 7.

<sup>329</sup> OSBA St. 3-SR, p. 5.

<sup>330</sup> OSBA St. 3, pp. 9-10.

<sup>331</sup> PAWC St. 7-R, pp. 18-19.

water customers benefit from the contribution that Rider DIS and DRS revenues provide to offset the fixed costs that otherwise would be borne entirely by those non-contract customers. In that regard, as Mr. Herbert testified that the variable cost to produce 100 gallons of water is \$0.1146, but the Rider DIS and DRS contracts impose commodity-based rates ranging from \$0.0720 to \$0.6321 per 100 gallons during FPFTY.<sup>332</sup> Only two Rider DIS and DRS customers have negotiated commodity rates that are lower than the variable cost to produce 100 gallons of water, but those two contracts include demand charges of \$174,367.38 and \$9,881.94 per month, respectively, during the FPFTY.<sup>333</sup> As such, the combination of the demand charges and commodity charges would result in a contract rate that is greater than the cost to produce 100 gallons of water. In short, the revenues derived from Rider DIS and DRS contract customers cover the incremental or variable costs to produce 100 gallons of water and provide a meaningful contribution to the total fixed costs incurred by the Company to furnish water service.<sup>334</sup>

Second, Mr. Cathcart's recommendation only considers one variable – cost – in multifaceted service contract negotiations with a customer who has a competitive alternative to water service from PAWC. Aside from price, reliability and quality of service standards, growth potential and contract term often play a key role in negotiating contract rates designed to retain or attract industrial and resale load.<sup>335</sup> In addition, all Rider DIS and DRS contracts include a price escalation clause to ensure that high-load

---

<sup>332</sup> PAWC St. 12-R, pp. 7-8.

<sup>333</sup> PAWC St. 12-RJ, pp. 3-4.

<sup>334</sup> PAWC St. 12-R, pp. 7-8.

<sup>335</sup> PAWC St. 7-R, p. 19.

customers are not unreasonably sheltered from increases in PAWC's long-term marginal cost of serving these customers.<sup>336</sup>

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

If the Commission approves a revenue requirement that is less than that proposed by the Company, PAWC proposes to first apply any scale-back principally to the Act 11 wastewater reallocation, resulting in a reduced Act 11 wastewater allocation and a reduced water revenue increase, but would keep the proposed wastewater rate increases at their proposed levels until the Act 11 wastewater reallocation for any given operation reaches \$0.<sup>337</sup> I&E, OCA, and OSBA submitted alternative scale-back proposals.<sup>338</sup> The Company does not object to certain scale-back recommendations, and is in agreement with certain other scale-back recommendations made by intervenors.<sup>339</sup> Finally, because PAWC is proposing structural changes and new rate designs, the Company requests that proposed rates for water Rate Zone 4 Farmington, wastewater Rate Zones 1, 1d BASA, and 1f Farmington be excluded from any scale back.<sup>340</sup> The Company believes that its proposed scale-back results in a just and reasonable outcome for all customer groups and, therefore, should be approved by the Commission.

---

<sup>336</sup> *Id.*

<sup>337</sup> PAWC St. 10-R, p. 19.

<sup>338</sup> *See* I&E St. 3, pp. 15-18; I&E St. 4, pp. 57-58; OCA St. 3, p. 32; OSBA St. 3, p. 15; OSBA St. 1, pp. 47-52.

<sup>339</sup> PAWC St. 10-R, pp. 19-20.

<sup>340</sup> *Id.*, pp. 20-21.

## **XI. ALTERNATIVE RATEMAKING REQUESTS**

Under Section 1330 of the Code, a public utility may propose alternative rates and rate mechanisms in a base rate proceeding. Under the policy declaration incorporated in Section 1330, such alternative rates and rate mechanisms “should encourage and sustain investment through appropriate cost-recovery mechanisms to enhance the safety, security, reliability or availability of utility infrastructure and be consistent with the efficient consumption of utility service.”<sup>341</sup> Consistent with these policy goals, the Company is proposing an alternative rate mechanism: the CAP Rider.

### **A. Customer Assistance Program Rider**

The CAP Rider functions as a true-up mechanism that reconciles the difference between CAP costs included in base rates and the Company’s actual CAP costs.<sup>342</sup> The CAP Rider is similar to universal service riders utilized by energy utilities, but narrower in scope since the Company will continue to recover the bulk of its CAP costs in base rates. In addition, the CAP Rider is fully symmetrical and would result in a credit to residential customers’ bills if PAWC’s actual CAP costs are below the costs built into the Company’s base rates.<sup>343</sup> The Company is not proposing any change in its allocation of CAP costs—they will continue to be allocated to residential customers.<sup>344</sup>

---

<sup>341</sup> 66 Pa. C.S § 1330(a)(2).

<sup>342</sup> PAWC St. 2, p. 31. CAP costs subject to the CAP Rider will include BDP discounts, AMP credits, and, if approved, RAPP stipends and associated administrative costs.

<sup>343</sup> PAWC St. 2, p. 31.

<sup>344</sup> *Id.*, p. 34.

The record demonstrates that the proposed CAP Rider is a reasonable alternative ratemaking mechanism, permitted under Section 1330 of the Code,<sup>345</sup> that will address the inherent variability and unpredictability of CAP-related costs. The OCA and CAUSE-PA raise objections to the CAP Rider, which are without merit. The Commission should approve the CAP Rider to ensure PAWC is permitted to recover these costs while protecting customers from potential over-collection.

The CAP Rider is necessary due to the significant and ongoing volatility in the Company's CAP enrollment and costs. PAWC's implementation of a documentation-based income verification process in the first quarter of 2025 resulted in a steep decline in BDP enrollment—from approximately 30,000 customers to approximately 14,000 customers. Extensive customer outreach activity by PAWC to enroll income-eligible customers in the BDP and AMP increased enrollment to approximately 21,500 customers by September 2025.<sup>346</sup> As of March 1, 2026, BDP enrollment had increased to just under 25,000 customers.<sup>347</sup>

This variability will persist going forward due to the Company's income recertification process, which will occur for all BDP and AMP customers on the following schedule: (a) every six months for zero-income customers; (b) every two years for variable-

---

<sup>345</sup> The Company provided, in Schedule CEC-3, detailed responses to the alternative ratemaking factors identified in Section 69.3302 of the Commission's regulations. Neither the OCA nor CAUSE-PA addressed these factors in testimony.

<sup>346</sup> PAWC St. 2, pp. 32-33.

<sup>347</sup> Tr. 1812-13.

income customers; and (c) every three years for fixed-income customers.<sup>348</sup> It may appear that BDP enrollment will continue to trend upwards, but PAWC cannot predict the number of customers that may be removed from programs due to a failure to recertify their income.<sup>349</sup> The Company remains concerned that there could be significant fluctuation.<sup>350</sup> In addition, PAWC was directed by the Commission to adopt a BDP enrollment target in its 2023 rate case,<sup>351</sup> and the Company set an annual enrollment target of 2.5% growth per year of its estimated low-income customer count.<sup>352</sup> If the Company were to successfully grow its BDP enrollment at that pace, without the CAP Rider, the Company would experience a \$10 million shortfall in revenues in the two years after new rates are in effect since the CAP amounts built into its proposed base rates are too low.<sup>353</sup>

The unpredictability in CAP costs is compounded by the Company's recently implemented AMP and its proposed RAPP. AMP customers are also subject to documentation-based income recertification requirements, and arrearage levels differ extensively from customer to customer. The Company cannot reliably predict which customers at which arrearage levels will enroll in the AMP. If AMP enrollment increases significantly, the AMP costs included in proposed base rates may be far below the

---

<sup>348</sup> See *Petition of Pennsylvania American Water Company for Approval of an Arrearage Management Plan (On Remand)*; Docket No. P-2021-3028195, Recommended Decision (Oct. 13, 2022) at 13.

<sup>349</sup> Tr., pp. 1812-13.

<sup>350</sup> *Id.*

<sup>351</sup> *Pa. P.U.C. v. Pa. American Water Co.*; Docket Nos. R-2023-3043189 and R-2023-3043190 (Opinion and Order dated July 22, 2024) (Ordering Paragraph 27).

<sup>352</sup> Tr. 1816.

<sup>353</sup> *Id.*

Company's actual AMP costs.<sup>354</sup> Similarly, RAPP is a new program with uncertain participation and administrative costs and the Company did not include a projected cost level in base rates; instead, it is seeking to recover the costs of RAPP through the CAP Rider.<sup>355</sup>

Mr. Colton asserts that the Code does not permit PAWC to recover universal service costs through a rider, and that doing so would not reflect the Company's total cost of service, as Mr. Colton believes that increased low-income discounts could result in higher revenues or lower costs (e.g., increased service and decreased disconnection costs).<sup>356</sup> Mr. Colton argues that CAP costs should remain in base rates. The Public Utility Code permits utilities to propose alternative ratemaking mechanisms, which provides statutory authority for addressing the uncertainty PAWC is facing with respect to its future CAP costs.<sup>357</sup> Mr. Colton incorrectly presumes that participation in the Company's low-income programs will increase, while the record demonstrates that in just the past year, participation has both dramatically increased and decreased resulting in entirely unpredictable CAP costs.<sup>358</sup> In addition, the CAP Rider is designed to work in tandem with the Company's base rates, ensuring that the majority of fluctuating costs will be properly recovered, or credited to customers, consistent with PAWC's actual costs – this will ensure the CAP Rider reflects the Company's actual total cost of service.<sup>359</sup>

---

<sup>354</sup> PAWC St. 2, pp. 33-34.

<sup>355</sup> *Id.*, p. 34.

<sup>356</sup> OCA St. 1, pp. 92-96, OCA St. 1SR, pp. 34-35; PAWC St. 2-R, p. 14.

<sup>357</sup> 66 Pa.C.S. § 1330.

<sup>358</sup> PAWC St. 2, p. 32; PAWC St. 2-R, p. 15.

<sup>359</sup> PAWC St. 2-R, p. 15; Tr. 1813.

Mr. Geller contends that the Company’s low-income programs are “nascent” and “in development” and that the costs should be recovered through base rates and allocated to all rate classes, not just residential customers.<sup>360</sup> The record does not support these claims. The Company’s BDP and AMP are fully implemented and have been accompanied by increased outreach to low-income customers.<sup>361</sup> The Company also believes that it is appropriate, and consistent with Commission precedent, to recover its CAP costs from residential customers.<sup>362</sup>

Mr. Geller also opposes the CAP Rider since PAWC did not agree to his recommendation to adopt a leak repair program.<sup>363</sup> However, this argument should be rejected. Unlike energy companies who are subject to the Commission’s regulations requiring low-income usage reduction programs (“LIURP”),<sup>364</sup> no PUC regulations exist authorizing the Company to implement a leak repair program. PAWC’s decision to not yet propose an optional program that would also be eligible for CAP rider recovery is irrelevant to PAWC’s CAP rider position in this case. The Company has provided substantial evidence that the CAP Rider is reasonable and necessary for addressing its CAP cost variability, consistent with the Commission’s alternative ratemaking factors, and should be approved.

---

<sup>360</sup> CAUSE-PA St. 1, pp. 18-21; CAUSE-PA St. 1-SR, pp. 11-12.

<sup>361</sup> PAWC St. 2-R, p. 15.

<sup>362</sup> PAWC St. 2-R, p. 15. *See, e.g., PAWC 2024 at 219-225, Pa. P.U.C. v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835 (Opinion and Order entered Feb. 19, 2021) at 258-61.

<sup>363</sup> CAUSE-PA St. 1-SR, pp. 11-12.

<sup>364</sup> *See* 52 Pa. Code 58.1, *et seq.*

## **XII. LOW-INCOME CUSTOMER ASSISTANCE**

### **A. Summary**

An important way that PAWC maintains affordability is by continuously seeking to improve the Company's business processes and make investments that improve operational efficiencies. As Mr. Runzer and Mr. Nokovich explain, PAWC uses targeted and proactive investments to work smarter and more efficiently as well as to leverage the power of the broader organization to purchase equipment and supplies at advantageous terms.<sup>365</sup> In addition to these overall initiatives, historically, PAWC has been an industry leader in initiating, developing, and implementing innovative programs to assist low-income customers. In recent years, PAWC has enhanced its H2O Programs through increased shareholder funding, expanded offerings, and concerted outreach to increase participation of eligible customers. In this case, PAWC has proposed its innovative RAPP to test a new way to assist low-income households.

### **B. Affordability Analysis**

PAWC conducted a detailed analysis of the affordability of its water and wastewater services.<sup>366</sup> PAWC witness Ather prepared (for both water and wastewater services), an Enterprise-Level Analysis of affordability, which considered the affordability of service at a high level over a multi-year period, and a Community-Level Analysis, which presents a focused analysis for individual groups of customers using the most recent available household information on income, size, and ownership status from the U.S. Census Bureau

---

<sup>365</sup> See, e.g., PAWC St. 3, pp. 24-37; PAWC St. 3-R, pp. 10-11; PAWC St. 4, pp. 4, 9-23.

<sup>366</sup> See Exs. DFA-1, DFA-2.

and usage assumptions consistent with usage levels being used to set proposed rates in this case.<sup>367</sup> Ms. Ather concludes that:

- The affordability of the Company’s water and wastewater service from 2014 through the FPFTY indicates that the way the Company has invested in and managed its water and wastewater systems has indeed been for the long-term benefit of our customers.
- PAWC’s water and wastewater service has been, is, and is expected to continue to be affordable for the majority of its residential customers, including under proposed rates.
- There are, however, groups of customers for whom affordability of water and wastewater service may be challenging, which PAWC assists through its BDP, AMP, and Hardship Fund programs.<sup>368</sup>

Ms. Ather further notes that the Company’s proposed rates are affordable, not only because the Bill-to-Income (“BTI”) Ratio at median household income (“MHI”) falls below the 2% level, but because the Company’s proposed rate design in this case, which includes the BDP, gives virtually every residential customer the opportunity to obtain water and wastewater service at the “Basic Water Service” or “BWS” level<sup>369</sup> that is affordable (for example, less than 2% of household income for one form of service and 4% of household income for both).<sup>370</sup>

Both OCA witness Colton and CAUSE-PA witness Geller were critical of PAWC’s BWS usage of 40 gallons per person per day as part of the Company’s affordability

---

<sup>367</sup> PAWC St. 9, pp. 3-4.

<sup>368</sup> *Id.*, p. 24. *See also* PAWC St. 9, pp. 9-13 (results of Water and Wastewater Enterprise-Level Analysis), 8-9 (results of Wastewater Enterprise-Level Analysis), 19-21 (results of Water and Wastewater Community-Level Analyses).

<sup>369</sup> PAWC defines “Basic Water Service” or “BWS” as 40 gallons per person per day. *See* PAWC St. 9, pp. 17-18.

<sup>370</sup> PAWC St. 9-R, p. 8.

analyses. Mr. Colton claimed that the BWS amount is unsupported, does not incorporate individual household characteristics, and is low as compared to values identified in certain national studies.<sup>371</sup> Mr. Geller further argued that BWS was too low compared to usage by PAWC low-income customers and failed to account for households with higher usage.<sup>372</sup>

Ms. Ather explained that the 40 gallon threshold is based on an analysis of the Company's residential usage on an individual customer level and is further calibrated to non-seasonal consumption patterns for residential customers.<sup>373</sup> The national average end-use studies cited by Mr. Colton are, by definition, not tailored to PAWC residential customer usage and also do not account for any individualized household characteristics. Further, factors highlighted by Mr. Colton, such as age of children, cannot be utilized for any meaningful analysis because they are not measurable or available on a consistent basis, cannot be aggregated across PAWC's service territory, and do not provide a stable or replicable basis for evaluating essential water service. PAWC's affordability analysis necessarily relies on standardized, verifiable data such as household size, income distribution, ownership status, ZIP code level demographics, and system-level consumption, which are inputs capable of supporting a consistent, reliable, and reproducible affordability assessment.<sup>374</sup> If PAWC were to change its affordability analysis from BWS, which measures essential use, to a metric based on average consumption patterns of customer subgroups, such as confirmed low-income customers or BDP

---

<sup>371</sup> OCA St. 4, pp. 12-15; OCA St. 4SR, pp. 4-8.

<sup>372</sup> CAUSE-PA St. 1, pp. 30-33.

<sup>373</sup> PAWC St. 9-R, pp. 4-6.

<sup>374</sup> *Id.*, pp. 4-5.

participants highlighted by Mr. Geller, the analysis would no longer assess affordability at a standardized level of basic water service.<sup>375</sup>

Mr. Geller and Mr. Colton were also critical of PAWC's stated affordability outcomes in light of the Company's use of MHI and because the Company assumed full participation in the BDP.<sup>376</sup> Each presented affordability information (and in Mr. Geller's case, an affordability analysis) regarding outcomes in the absence of the BDP.<sup>377</sup> Ms. Ather explained that the Enterprise-Level Analysis, which uses MHI, provides a high level overview on affordability trends, while the Company's Community-Level Analysis, which does not rely on MHI, is used to address the depth and breadth of affordability issues for the Company's lower-income customers.<sup>378</sup> When building its affordability analyses, PAWC assumed full participation in the BDP to show maximum potential effectiveness of the program if eligible customers were to all enroll.<sup>379</sup> Finally, with regard to Mr. Geller's analysis, Ms. Ather explained that there was no information about how many PAWC customers might fall into the various income level and usage combinations presented. The Company's affordability analyses, on the other hand, provide a much clearer and more comprehensive framework for evaluating the scope and depth of real-world affordability issues, including the potential mitigating effect of its assistance programs.<sup>380</sup>

---

<sup>375</sup> *Id.*, pp. 10-11.

<sup>376</sup> *See, e.g.*, CAUSE-PA St. 1-SR, pp. 3-8; OCA St. 4SR, pp. 8-11.

<sup>377</sup> *See, e.g.*, OCA St. 4, pp. 20-25; CAUSE-PA Ex. 1.

<sup>378</sup> PAWC St. 9-R, pp. 7-8.

<sup>379</sup> *Id.*, p. 9.

<sup>380</sup> *Id.*, pp. 12-13.

### C. Bill Discount Program Design

The Company proposed limited modifications to its BDP design, which should be approved. These proposed changes were accepted by the OCA. CAUSE-PA, however, proposed alternative modifications to the Company's BDP, which should be rejected.

PAWC's existing BDP provides income-qualified customers with tiered discounts based on household income expressed as a percentage of the Federal Poverty Level ("FPL").<sup>381</sup> The program includes four tiers—0–50%, 51–100%, 101–150%, and 151–200% of FPL—and applies graduated discounts to both water and wastewater service.<sup>382</sup> Water customers are eligible for different percentage discounts for their water service and volumetric charges, while wastewater customers are eligible for a total bill discount.<sup>383</sup>

The Company proposed limited modifications to the water portion of its BDP, consolidating the existing fixed charge and volumetric charge discounts into a single, total bill discount by tier. The proposed discounts—82%, 67%, 44%, and 22% for water customers across the four income tiers—closely approximate the overall level of assistance provided under the current structure while simplifying the program for customers and improving administrative efficiency.<sup>384</sup> The Company did not propose any changes to its wastewater discount structure.<sup>385</sup>

---

<sup>381</sup> PAWC St. 10, p. 4. *See also* PAWC St. 2-R, p. 13.

<sup>382</sup> PAWC St. 10-R, pp. 2-3.

<sup>383</sup> PAWC St. 10, p. 4; PAWC St. 10-R, p. 3.

<sup>384</sup> PAWC St. 10, p. 5; PAWC St. 10-R, p. 3.

<sup>385</sup> PAWC St. 10, p. 5.

While the change may result in slight increases for some customers, the change is intended to refine the BDP, rather than materially reduce assistance to any customers. The record demonstrates that the Company's fixed and volumetric discounts are already closely aligned.<sup>386</sup> Consolidating the two discounts into a single total bill discount will produce substantially similar total bill impacts.<sup>387</sup> The change will further enhance transparency by allowing customers to more easily understand the level of assistance they will receive and will reduce operational complexity for the Company without undermining affordability.<sup>388</sup>

Some BDP participants with low usage will have slightly higher bills. But the proposal will improve affordability for higher usage customers, such as BDP participants with larger households.<sup>389</sup> Overall though, bill impacts associated with the proposed changes are expected to be minimal. For typical customers (e.g., a household of three using 4,000 gallons per month), total monthly bills will decrease across all income tiers under the proposed structure.<sup>390</sup>

Notably, the OCA supports the Company's proposed BDP changes. Mr. Colton agrees that aligning fixed and volumetric discounts into a whole-bill discount is reasonable and should be approved,<sup>391</sup> and further supports both the four-tier structure and the specific

---

<sup>386</sup> *Id.*

<sup>387</sup> *Id.*

<sup>388</sup> *Id.*

<sup>389</sup> PAWC St. 10-R, p. 4.

<sup>390</sup> *Id.*

<sup>391</sup> OCA St. 4, pp. 87-89.

discount levels proposed by the Company as falling within a reasonable definition of affordability.<sup>392</sup>

CAUSE-PA, however, opposes the Company's proposal and recommends that the Company either replace its BDP with a percentage of income payment plan ("PIPP"),<sup>393</sup> or, if it is not feasible for PAWC to move to a PIPP, to increase its discount levels, including providing a 100% discount on fixed charges for all income tiers.<sup>394</sup> These proposals should be rejected.

A PIPP structure is not necessary. The Company's BDP is structured to provide greater benefits to lower-income customers, like a PIPP, because the BDP offers four tiers of discounts with greater discounts for lower-income customers.<sup>395</sup> A PIPP structure is not necessary or appropriate and, as Mr. Geller acknowledges in his testimony, PAWC has system constraints impacting the feasibility of a PIPP.<sup>396</sup> It is not reasonable to require PAWC to incur the costs associated with upgrading its IT systems and overhauling its BDP to adopt a PIPP structure when the current BDP structure already offers four tiers of discounts tailored to customers based on their household income levels.<sup>397</sup>

In addition, Mr. Geller's proposed discount levels are inconsistent with fundamental rate design principles and would produce inequitable outcomes. Under his proposal, wastewater customers whose bills consist solely of fixed charges would have their entire

---

<sup>392</sup> *Id.*, pp. 90-91.

<sup>393</sup> *See* PAWC St. 2-R, regarding Mr. Geller's PIP structure proposal.

<sup>394</sup> CAUSE-PA St. 1, p. 38. *See also* CAUSE-PA St. 1-SR, pp. 13-14.

<sup>395</sup> PAWC St. 2-R, p. 5.

<sup>396</sup> *Id.*, pp. 5-6.

<sup>397</sup> *Id.*, p. 6.

bills offset and would pay nothing for service, and would not contribute anything towards the fixed costs necessary to maintain system availability for all customers that other BDP participants would continue to pay for.<sup>398</sup> This result is unreasonable. Fixed charges are designed to recover costs that are incurred to serve all customers regardless of usage. It is therefore appropriate that all customers, including BDP participants, contribute at least some amount toward these costs.<sup>399</sup> Mr. Geller's proposed discount levels should therefore be rejected.

#### **D. Arrearage Management Program**

The Company's AMP is a part of the Company's H2O Help to Others Program and is designed to provide meaningful assistance to low-income customers while encouraging sustainable payment behavior. Mr. Colton and Mr. Geller propose several modifications to the AMP, which should be rejected as the record demonstrates that the Company's AMP is well-structured, accessible, and reasonable as implemented.

Any customer enrolled in the Company's BDP who has an outstanding balance equal to or greater than \$150 that is at least sixty days past due is eligible to enroll in the AMP. The AMP is structured as a payment arrangement under which a customer is responsible for their current charges plus a \$5 co-payment. For each month an enrolled customer pays their bill on time and in full, the customer receives a \$25 forgiveness

---

<sup>398</sup> PAWC St. 10-R, p. 7.

<sup>399</sup> *Id.*, pp. 6-7.

credit.<sup>400</sup> This design ensures that customers make consistent progress toward reducing outstanding balances while maintaining current service obligations.<sup>401</sup>

The Company has also ensured that enrollment in the AMP is streamlined and accessible. Customers that enroll in the BDP who meet the \$150/60-day eligibility threshold will be automatically enrolled by the Company, and there is a streamlined AMP enrollment process for existing BDP participants that includes phone, email, and website enrollment options, without requiring additional income verification.<sup>402</sup>

Mr. Colton and Mr. Geller nevertheless recommend several changes to the structure of the AMP. First, they propose allowing customers to earn credits for each complete payment made, regardless of timeliness.<sup>403</sup> This recommendation should be rejected. The Company's AMP is intentionally designed to incentivize timely payment behavior, which is essential to promoting long-term payment discipline and reducing future arrearages.<sup>404</sup> Mr. Colton describes the Company's policies as "punitive" for customers who make untimely payments.<sup>405</sup> However, eliminating or weakening the timeliness requirement and providing credits for untimely payments would undermine the Company's objective of encouraging timely payments and weaken the program's effectiveness.<sup>406</sup>

---

<sup>400</sup> PAWC St. 2-R, p. 6.

<sup>401</sup> *Id.*, p. 7.

<sup>402</sup> *Id.*, pp. 6, 9-10.

<sup>403</sup> OCA St. 4, pp. 67-68; OCA St. 4-SR, pp. 28-30; CAUSE-PA St. 1, p. 46; CAUSE-PA St. 1-SR, p. 16.

<sup>404</sup> PAWC St. 2-R, p. 7.

<sup>405</sup> OCA St. 4-SR, p. 29

<sup>406</sup> PAWC St. 2-R, p. 7.

Mr. Colton and Mr. Geller also recommend that PAWC expand its current \$25 credit. Mr. Colton recommends that PAWC either provide customers with pro rata forgiveness (i.e., customers would earn a forgiveness credit of 1/24th of their pre-existing arrears for each month for which they make a complete payment) or provide customers with a \$40 credit.<sup>407</sup> Mr. Geller recommends that PAWC either adopt a similar pro rata forgiveness structure or increase the forgiveness credit to \$45.<sup>408</sup>

These recommendations should be rejected. The current \$25 monthly credit is reasonable and allows participants to make steady progress toward arrearage reduction. The average customer would achieve full forgiveness in three to four years, which is a fair outcome as each customer is treated equally, subject to the same terms, is entitled to the same monthly credit, and is able to make progress towards forgiveness with each timely monthly payment.<sup>409</sup> The \$25 monthly credit was also approved by the Commission as part of a settlement at Docket No. P-2021-3028195 (the “AMP Settlement”).<sup>410</sup> Both the OCA and CAUSE-PA were parties to the AMP Settlement.

Moreover, the reasonableness of the AMP should be evaluated in the context of PAWC’s other low-income programs. When considered together, these programs provide substantial and flexible assistance to customers and compare favorably to other utilities’ offerings.<sup>411</sup> Customers are also able to receive other forms of assistance that enhance the

---

<sup>407</sup> OCA St. 4, p. 72; OCA St. 4-SR, pp. 30-31.

<sup>408</sup> CAUSE-PA St. 1, pp. 47-48; CAUSE-PA St. No, 1-SR, pp. 16-17.

<sup>409</sup> PAWC St. 2-R, p. 7.

<sup>410</sup> *Petition of Penn. Am. Water Co. for Approval of an Arrearage Management Plan*, Docket No. P-2021-3028195 (Order entered Dec. 7, 2023).

<sup>411</sup> PAWC St. 2-R, p. 8.

overall value of the AMP. For example, the Company's Hardship Fund rules permit AMP customers to apply a hardship grant of up to \$500 to their bills if they fall behind on AMP payments, which is equivalent to an additional \$41.67 per month.<sup>412</sup>

Mr. Colton and Mr. Geller also raise concerns regarding the relationship of the AMP and the BDP and recommend additional enrollment and program changes. Mr. Colton recommends that PAWC tie enrollment of low-income customers into its AMP more closely with enrollment in its BDP.<sup>413</sup> Mr. Geller recommends that all BDP participants with qualifying arrears that are not enrolled in the AMP be enrolled in the AMP within ninety days of the effective date of rates in this proceeding, and that PAWC work with its Customer Assistance Advisory Group ("CAAG") to develop outreach and education to explain how the AMP would work.<sup>414</sup> Mr. Geller also recommends that all new BDP participants with arrears be automatically enrolled in the AMP without an additional application and without any additional steps. Finally, Mr. Geller recommends that any customer enrolling in the BDP should have their balance set aside or frozen at enrollment, regardless of the size of the balance, and that PAWC should discontinue its required \$5 monthly co-pay to participate in the AMP.<sup>415</sup>

These recommendations are unnecessary and conflict with the AMP structure agreed to in the AMP Settlement. The Company's existing structure already closely integrates the BDP and AMP, as eligible customers are automatically enrolled in the AMP

---

<sup>412</sup> *Id.*

<sup>413</sup> OCA St. 4, p. 78.

<sup>414</sup> CAUSE-PA St. 1, p. 44; CAUSE-PA St. 1-SR, pp. 17-18.

<sup>415</sup> CAUSE-PA St. 1, pp. 45-46.

at the time of BDP enrollment. The \$5 co-payment requirement reflects existing Company IT system constraints that require the AMP to be structured as a payment arrangement, and which was approved by the Commission as part the AMP Settlement.<sup>416</sup> Finally, the Company's current enrollment processes, which include automatic enrollment for customers enrolling in the BDP and streamlined options for existing BDP customers, ensure ease of access without imposing additional administrative burdens.

Finally, Mr. Geller and Mr. Colton criticize current AMP enrollment levels.<sup>417</sup> However, given that the AMP was only launched in late 2024, it is reasonable that enrollment has not yet reached parity with the more established BDP. The AMP is one of many components of PAWC's overall comprehensive suite of customer assistance programs. Current enrollment levels reflect the comparative newness of the AMP rather than a structural deficiency. Enrollment is further discussed in Section XII.E below.

For all of these reasons, the Company's AMP is reasonable as designed and implemented and Mr. Geller's and Mr. Colton's proposed modifications should be rejected.

**E. H2O Help to Others Program Screening, Outreach and Enrollment Procedures**

PAWC employs a robust, multi-pronged approach to inform customers about the benefits provided by the H2O Program, including statewide, in-person information sessions, texting and paid customer education media campaigns, and select door-to-door

---

<sup>416</sup> PAWC St. 2-R, pp. 9-10.

<sup>417</sup> CAUSE-PA St. 1, pp. 43-44; CAUSE-PA St. 1-SR, pp. 17-18; OCA St. 4-SR, pp. 27-28.

canvassing efforts.<sup>418</sup> In addition, if customers access the “myWater” customer portal, they will see information about bill assistance self-service options, as well as a link to information on PAWC’s H2O Programs and instructions for how to apply.<sup>419</sup> The Company recently experienced a substantial drop in BDP enrollment as direct consequence of the launch of a documentation-based income verification process in the first quarter of 2025 with a June 2025 enrollment level of 19,966 accounts.<sup>420</sup> The Company’s extensive outreach efforts in the remainder of 2025 and 2026 have built BDP enrollment back up to 24,839 as of March 1, 2026.<sup>421</sup> PAWC has further already adopted certain BDP enrollment and outreach goals and holds quarterly meetings with its CAAG in an effort to continue to enhance low-income assistance programs and related outreach.<sup>422</sup>

Both OCA witness Colton and CAUSE-PA witness Geller believe that PAWC’s low-income programs are under-subscribed.<sup>423</sup> Mr. Colton first recommends that PAWC broaden its policy for confirming low-income status to include, among other things, accepting a self-attestation of the receipt of public assistance.<sup>424</sup> He also recommends additional touch points for BDP and AMP screening and awareness, including when a customer initiates service, before a customer enters into a deferred payment arrangement

---

<sup>418</sup> PAWC St. 1, pp. 20-21; PAWC St. 2-R, p. 12.

<sup>419</sup> PAWC St. 15-R, pp. 23-24.

<sup>420</sup> PAWC St. 2-R, p. 13; Tr. 1813.

<sup>421</sup> *Id.*

<sup>422</sup> PAWC St. 2-R, p. 13.

<sup>423</sup> *See, e.g.*, CAUSE-PA St. 1, p. 51; OCA St. 4, pp. 47-48.

<sup>424</sup> OCA St. 4, pp. 48-55.

(“DPA”) with the Company,<sup>425</sup> and when a customer is facing disconnection.<sup>426</sup> Mr. Colton further suggests that PAWC’s customer-facing materials on BDP and AMP do not always provide complete and accurate information.<sup>427</sup> Mr. Geller recommends that PAWC not enter into a DPA unless the customer expressly declines to enroll in the BDP or AMP or applies for a hardship grant. He further states that PAWC should perform income screening for all new and moving customers and during non-emergency calls for existing customers.<sup>428</sup>

PAWC agrees that low-income customers should be enrolled in PAWC’s H2O Programs as early as possible, which is why when a customer calls in seeking payment assistance and/or is facing service termination, customer care agents (“CCAs”) are trained to direct customers to call Dollar Energy Fund (“DEF”) to enroll in the Company’s H2O Program.<sup>429</sup> DEF accepts an appropriate range of documentation to confirm low-income status and program eligibility, including proof of receipt of public assistance, but does not

---

<sup>425</sup> Specifically, Mr. Colton recommends that PAWC notify low-income customers about assistance programs before entering into a DPA and further develop a “Plain Language Notice” that would be used to obtain the customer’s “informed consent” before they entered into a DPA. *See, e.g.*, OCA St. 4, pp. 55-60.

<sup>426</sup> *Id.*, pp. 53, 55-62.

<sup>427</sup> *Id.*, pp. 62-65.

<sup>428</sup> CAUSE-PA St. 1, pp. 54-57.

<sup>429</sup> PAWC St. 15-R, p. 22; *see also* CONFIDENTIAL PAWC Exhibit MWP-1R, which contains the scripting and guidance that CCAs follow to inform PAWC customers expressing an inability to pay their bills or facing termination about the assistance programs available to them.

accept a customer’s self-attestation because such a practice is contrary to the Commission’s directive to review a customer’s income documentation.<sup>430</sup>

Further, as described in detail by Mr. Prine, the Company has appropriate customer-facing materials and additional touchpoints where a customer facing termination is provided with information about assistance programs, including personal contact with confirmed low-income customers and specific information on termination notices and field service representative cards.<sup>431</sup> Additional processes specific to educating low-income customers facing termination or considering a DPA are simply not necessary.

Finally, PAWC recognizes that the Commission recently directed Columbia Gas to adopt income-screening procedures during move-in and other non-emergency calls.<sup>432</sup> Like all energy utilities in Pennsylvania, Columbia Gas recovers its universal service program costs, including administration costs, through its Rider USP.<sup>433</sup> CAUSE-PA argues PAWC should adopt similar income-screening procedures because its BDP is under-subscribed.<sup>434</sup> The critical distinction is that Columbia Gas has full and timely

---

<sup>430</sup> PAWC St. 15-R, p. 21; *see also* *Petition of Pennsylvania-American Water Company for Approval of an Arrearage Management Plan*, Docket No. P-2021-3028195 (Order entered Dec. 28, 2022), pp. 26-29 (finding AMP settlement must be modified to require income verification for customers seeking to enroll); *Petition of Pennsylvania-American Water Company for Approval of an Arrearage Management Plan*, Docket No. P-2021-3028195 (Order entered Dec. 7, 2023) (approving updated AMP settlement that included income verification).

<sup>431</sup> PAWC St. 15-R, pp. 22-24.

<sup>432</sup> *Columbia Gas 2025*, p. 351.

<sup>433</sup> *Id.*, p. 165; *see also* PAWC St. 2, pp. 31-33; *Pa. P.U.C. v. Columbia Gas of Pa., Inc.*, Docket No. R-2025-3053499 (Recommended Decision entered Oct. 3, 2025), p. 529 (“All CAP external administration costs...are recovered through Rider USP.”).

<sup>434</sup> CAUSE-PA St. 1, pp. 54-57.

recovery of the costs associated with these new income-screening procedures through its Rider USP while PAWC currently does not. If the new screening requirements result in a spike in new CAP participation for Columbia, the additional costs associated with that participation are collected through Columbia's Rider USP. By contrast, increased CAP enrollment for PAWC currently means that PAWC is at risk of a significant under collection of CAP costs because PAWC's actual BDP costs are far exceeding the BDP costs included as part of its approved base rates.<sup>435</sup> Accordingly, if the Commission approves these income-screening requirements for PAWC, the Company's proposed CAP rider should likewise be approved.

#### **F. Water Conservation and Line Repair and Replacement Assistance**

CAUSE-PA witness Geller recommends that PAWC develop and implement a comprehensive conservation and line repair/replacement program for all customers below 250% of the FPL and characterizes PAWC as an "outlier" for not already having such program in place. He further recommends the targeting of high-usage customers, annual reporting and coordination with other utility programs.<sup>436</sup>

Mr. Geller is attempting to impose a LIURP construct on PAWC that was established for EDCs and NGDCs. There are detailed LIURP regulations addressing many of the items recommended by Mr. Geller, including prioritizing high users, reporting, and utility coordination.<sup>437</sup> LIURPs are required under Pennsylvania law for EDCs and

---

<sup>435</sup> See PAWC St. 2, p. 33.

<sup>436</sup> CAUSE-PA St. 1, pp. 60-62; CAUSE-PA St. 1-SR, pp. 21-23.

<sup>437</sup> 52 Pa. Code §§ 58.1 *et seq.*

NGDCs only, are part of their broad universal service plans, and the costs associated with such programs are recovered through their universal service plan riders.<sup>438</sup> To implement a LIURP-type program, PAWC would have to hire additional staff and manage costs associated with repairing and replacing the leaking lines and infrastructure of low-income customers and none of the associated costs of such a program are built into PAWC's proposed base rates or its proposed CAP Rider.<sup>439</sup> Finally, while Mr. Geller is correct that other water utilities have line repair/conservation programs or pilots, such programs were derived through voluntary settlements and not Commission-imposed mandates.<sup>440</sup> To the extent the PUC believes this type of program should be extended to water and wastewater customers, the PUC should provide a legal basis and cost recovery framework similar to its LIURP regulations.<sup>441</sup>

---

<sup>438</sup> PAWC St. 15-R, p. 25; *see also* Tr. 1817.

<sup>439</sup> *Id.*

<sup>440</sup> *See Petition of The Pittsburgh Water and Sewer Auth. for Approval of Pilot Private Service Line Leak Repair and Expanded Conservation Program for Eligible Low Income Customers and Authorization to Track Costs as a Regulatory Asset for Future Base Rate Recovery*, Docket No. P-2022-3030253 (Order entered Mar. 2, 2023); *Pa. P.U.C. v. Veolia Water Pa., Inc.*, Docket Nos. R-2024-3045192 and R-2024-3045193 (Order entered Oct. 10, 2024); *Joint Application of Aqua America, Inc., Aqua Pa., Inc., Aqua Pa. Wastewater, Inc., Peoples Natural Gas Co. LLC and Peoples Gas Co. LLC for All of the Authority and the Necessary Certificates of Pub. Convenience to Approve a Change in Control of Peoples Natural Gas Co. LLC and Peoples Gas Co. LLC by Way of the Purchase of All of LDC Funding, LLC's Membership Interests by Aqua America, Inc.*, Docket Nos. A-2018-3006061, A-2018-3006062 and A-2018-3006063 (Order entered Jan. 24, 2020).

<sup>441</sup> *See* 52 Pa. Code 58.1, *et seq.*

## **G. Hardship Fund**

PAWC's Hardship Fund is a bill-paying assistance program funded by PAWC shareholders, donations from customers, and others who want to help customers in need. Customers who qualify may receive grants of up to \$500 annually toward their water bill and \$500 annually toward their wastewater bill. For the 2025 to 2026 program year, the Company is contributing \$1.45 million to the Hardship Fund.<sup>442</sup>

CAUSE-PA witness Geller recommends increasing the Hardship Fund annual cap per customer to \$750 for water and wastewater, respectively, highlighting that PAWC had a hardship fund balance of over \$1.25 million as of December 2025. Mr. Geller also recommends that PAWC be required to permit a customer to receive multiple Hardship Fund grants per year, up to the applicable maximum \$750 amount.<sup>443</sup>

PAWC witness Chard explained that the Company has already adopted the functionality to allow customers to apply for multiple hardship fund grants in the same program year. In addition, the current annual cap per customer of \$500 grants for water and wastewater, totaling \$1,000, achieves the Hardship Fund's intended purpose of providing emergency, short-term assistance to customers in need.<sup>444</sup> Notably, over the last five completed funding cycles, the highest average grant amount per service was \$403.29 – in 2023 to 2024 – suggesting that the \$500 per service grant amount remains

---

<sup>442</sup> PAWC St. 2, p. 13. PAWC's donations to the Hardship Fund are at an increased level for a five-year period consistent with the settlement approved in the Company's application to acquire the BASA wastewater system, at Docket No. A-2022-3037047.

<sup>443</sup> CAUSE-PA St. 1, pp. 50-51; CAUSE-PA St. 1-SR, pp. 18-19.

<sup>444</sup> PAWC St. 2-R, p. 10.

reasonable.<sup>445</sup> Finally, the annual cycle of the Hardship Fund runs from October to September, meaning that new shareholder funds for a particular cycle are added to the fund balance in October. Therefore, it is not surprising that months closer to the beginning of the cycle, like December, would have a larger balance than later months. As of March 19, 2026, the Hardship Fund balance was approximately \$750,000 – or about \$500,000 less than the December 2025 Hardship Fund balance. Months towards the end of a cycle can have a much lower balance (zero in September of 2024 and less than \$100,00 in September of 2025).<sup>446</sup> In sum, the Company’s existing Hardship Fund annual cap is reasonable, and Mr. Geller’s proposal should be rejected.

#### **H. Renter Assistance Pilot Program**

Low-income residents who live in master-metered buildings do not pay their utility directly for their utility service and therefore are not eligible for customer assistance programs such as the BDP or AMP. PAWC is proposing to assist this population through a RAPP that would provide eligible residents with quarterly stipends that are approximately equivalent to what the resident would be receiving if they were enrolled in the BDP based on an average level of residential customer usage.<sup>447</sup> The Company intends to recover RAPP costs through PAWC’s proposed CAP rider (with a \$1 million annual cap on RAPP stipends) and to administer RAPP for a minimum of two years in locations in different regions with high renter populations: Scranton and Butler.<sup>448</sup>

---

<sup>445</sup> Tr. 1819.

<sup>446</sup> Tr. 1818.

<sup>447</sup> PAWC St. 2, pp. 15-18; PAWC St. 2-R, pp. 10-12.

<sup>448</sup> PAWC St. 2, pp. 16-18.

CAUSE-PA witness Geller recommended rejection of RAPP, citing concerns about non-residential customer benefits as well as an overall desire to maintain focus on existing Company customer assistance programs.<sup>449</sup> OCA witness Colton recommended that PAWC be directed to present its conceptual proposal for RAPP to CAAG for further development prior to re-submitting the proposal, either in a separate proceeding or as part of its next rate case.<sup>450</sup>

As Dr. Chard explained, the Commission should authorize the implementation of RAPP in this proceeding as an innovative way to address utility affordability for eligible low-income households. The program is not designed to benefit multi-family building owners, as Mr. Geller contends, and will provide payments directly to the low-income participants. The Company is willing to work with CAAG to further develop the program framework prior to implementation and can review program results and findings with CAAG one year after implementation.<sup>451</sup>

### **I. Universal Service Plan**

CAUSE-PA witness Geller recommends that PAWC develop a comprehensive universal service plan (“USP”), including a consumer education and outreach plan, for PUC review concurrent with the Company’s next base rate proceeding.<sup>452</sup> Mr. Geller asserts that a USP is necessary for Commission staff, consumers, and utility advocates to

---

<sup>449</sup> CAUSE-PA St. 1, pp. 62-64; CAUSE-PA St. 1-SR, pp. 19-20.

<sup>450</sup> OCA St. 4, pp. 84-86; OCA St. 4SR, pp. 32-34.

<sup>451</sup> PAWC St. 2-R, pp. 10-12.

<sup>452</sup> CAUSE-PA St. 1, pp. 54-55.

learn more about the Company’s low-income programs rather than relying on the Company’s tariff, website, and outreach materials.<sup>453</sup>

The Commission rejected similar proposals from CAUSE-PA and the OCA in the Company’s prior base rate case, which is consistent with Pennsylvania law.<sup>454</sup> The Public Utility Code requires USPs for EDCs and NGDCs only,<sup>455</sup> a fact acknowledged by Mr. Geller.<sup>456</sup> He acknowledges that there are numerous avenues for customers and interested parties to learn more about the Company’s low-income programs. A USP is not necessary as details regarding the Company’s low-income programs are available in its tariff, on its website, and in various outreach materials. Because no legal authority for a water or wastewater USP exists, the Company will continue to provide detailed information related to its low-income programs as part of base rate proceedings.<sup>457</sup>

### **XIII. SERVICE QUALITY AND CUSTOMER SERVICE ISSUES**

#### **A. Summary**

OCA witness Alexander proposes that the PUC impose several customer service performance standards on PAWC as a condition of any rate increase.<sup>458</sup> As a threshold matter, the Commission does not have the authority to impose performance-based rates on

---

<sup>453</sup> *Id.*, p. 54.

<sup>454</sup> *PAWC 2024*, pp. 362-363.

<sup>455</sup> *PAWC St. 2-R*, p. 16. *See also* Pa. Code § 54.74; 52 Pa. Code § 62.41; 66 Pa.C.S. § 2804(8) (“The commission shall establish for each electric utility an appropriate cost-recovery mechanism which is designed to fully recover the electric utility’s universal service and energy conservation costs over the life of these programs.”).

<sup>456</sup> *CAUSE-PA St. 1*, p. 54; *CAUSE PA St. 1-SR*, p. 25.

<sup>457</sup> *PAWC St. 2-R*, p. 16.

<sup>458</sup> *OCA St. 5*, pp. 16-17; *OCA St. 5SR*, pp. 7-8.

the Company in this proceeding. Under Act 58 of 2018 (“Act 58”), the General Assembly made clear that the Commission has authority to approve alternative rate mechanisms following the application by a utility to establish such mechanisms.<sup>459</sup> While PAWC proposed a CAP Rider in this proceeding, that alternative rate mechanism is not a performance-based rate. Nothing in Section 1330(b) provides that a utility’s application for approval of one form of alternative rate mechanism identified in Act 58 permits the Commission to impose any or all other forms of alternative rate mechanisms. Moreover, as explained below, the OCA mischaracterizes PAWC’s customer service performance.

### **B. Customer Service Performance**

The Customer Service Organization (“CSO”) supports the customer service needs of PAWC and the other American Water utility subsidiaries, including customer call handling.<sup>460</sup> The CSO consistently seeks ways to improve the customer experience and maintain high levels of customer satisfaction.<sup>461</sup> As Mr. Prine testified, the CSO’s hiring and recruitment efforts over the past several years have reduced wait times and the call abandonment rate for customers that do not utilize the courtesy call back (“CCB”) feature.<sup>462</sup> In addition, the CSO continually refines the myWater portal to help PAWC

---

<sup>459</sup> 66 Pa.C.S. § 1330(b).

<sup>460</sup> PAWC St. 15-R, pp. 3-6. The CSO is operated by Service Company employees, which provide support for several functions of PAWC and other American Water utility subsidiaries.

<sup>461</sup> *Id.*, pp. 7-9.

<sup>462</sup> *Id.*, pp. 11-13.

customers efficiently manage their account online and endeavors to expand adoption of paperless billing to increase customer engagement and, ultimately, satisfaction.<sup>463</sup>

### **1. Call Center Performance**

Ms. Alexander contends that the performance of two “third-party call centers” was poor over the last two years in terms of ability to answer calls in a timely manner and avoid a significant abandonment rate.<sup>464</sup> Based on her observations, Ms. Alexander recommends specific standards – 80% of customer calls answered within 60 seconds and an 8% call abandonment rate – that she believes the PUC should impose as a condition of any rate increase in this case.<sup>465</sup> In Ms. Alexander’s view, PAWC must also audit its CSO and third-party contractor performance, training, and complaint handling.<sup>466</sup>

Ms. Alexander narrowly and erroneously focuses her evaluation of CSO performance on wait times and call abandonment rather than the overall customer experience. As Mr. Prine explained, the highest driver of customer service that impacts overall satisfaction is first contact resolution.<sup>467</sup> Ms. Alexander’s evaluation of PAWC’s call handling performance in 2024 and 2025 is also misleading because she truncates the data set to include only collections calls, which is a small portion of overall call volume.<sup>468</sup> In fact, as Ms. Alexander acknowledges,<sup>469</sup> in 2025, overall CSO performance, including

---

<sup>463</sup> *Id.*, pp. 7-9.

<sup>464</sup> OCA St. 5, pp. 10-11; OCA Ex. BA-2.

<sup>465</sup> OCA St. 5, pp. 15-17; OCA St. 5-SR, pp. 7-9.

<sup>466</sup> *See* OCA St. 6, pp. 15-17; OCA St. 5SR, pp. 10-12.

<sup>467</sup> PAWC St. 15-R, p. 10.

<sup>468</sup> *Id.*, pp. 10-13.

<sup>469</sup> OCA St. 5SR, p. 9.

calls handled by third-party contractors, met or exceeded the performance goals recommended by Ms. Alexander.<sup>470</sup>

In addition, Ms. Alexander compares the CSO's performance with data reported to BCS by electric and gas utilities who use different definitions and metrics for call center performance than PAWC. For example, the "service level" presented in the BCS Customer Service Performance Reports that Ms. Alexander relies on for her proposed performance standards is the "percentage of calls answered within 30 seconds by an [interactive voice response ("IVR") system] or a [customer service representative] ready to render assistance."<sup>471</sup> This is significantly different than the calculation of CSO service levels, which includes only calls by an agent who is ready to render assistance.<sup>472</sup> Calls answered by the CSO's Intelligent Virtual Agent ("IVA") and customers who elected a CCB were excluded from the call center performance data presented in Ms. Alexander's direct testimony.<sup>473</sup> If calls answered by the IVA and/or customers using the CCB feature were reflected in the CSO's performance data, service levels would far exceed the CSO's internal performance goals.

Ms. Alexander's recommendation for additional auditing of CSO call handling are without merit. The performance levels of the CSO and third-party call handling agencies

---

<sup>470</sup> PAWC St. 15-R, pp. 11-13.

<sup>471</sup> *Aqua Pa., Inc, Peoples Natural Gas Co. LLC, and Peoples Gas Co. LLC Management and Operations Audit*, Docket Nos. D-2020-3018771, D-2020-3018773, and D-2020-3018774 (Apr. 2021), p. 130.

<sup>472</sup> PAWC St. 15-R, pp. 14-15.

<sup>473</sup> *Id.*

are already monitored on a *daily* basis.<sup>474</sup> PAWC leadership routinely reviews CSO performance trends with CSO leadership to develop strategies for improvement.<sup>475</sup> The Service Company determines staffing levels of third-party call handling agencies based on the performance of individual agents against known performance indicators set forth in the service agreements with those contractors.<sup>476</sup>

Finally, Ms. Alexander’s concerns about CSO oversight of call handling compliance with Pennsylvania regulations<sup>477</sup> are unfounded. The CSO conducts extensive training of its agents in Pennsylvania rules and regulations before they are permitted to handle calls from PAWC customers.<sup>478</sup> This training includes an 80-page training module and a knowledge test, and the CSO has a robust quality assurance process.<sup>479</sup> Ms. Alexander has not provided any evidence that CCAs who completed the training are not following Pennsylvania regulations when handling PAWC calls.

The CSO also utilizes other processes to reinforce training including its internal quality assurance (“QA”) process, which involves reviewing all calls with low satisfaction scores from customers and any call that did not resolve the customer’s concern in the first contact.<sup>480</sup> Contrary to Ms. Alexander’s assertion,<sup>481</sup> the QA team evaluates whether the agent followed the process specified in the applicable training materials, and if it is a

---

<sup>474</sup> *Id.*

<sup>475</sup> *Id.*

<sup>476</sup> *Id.*

<sup>477</sup> OCA St. 5, pp. 11-12, 16-17; OCA St. 5SR, pp. 10-11.

<sup>478</sup> PAWC St. 15-R, pp. 6-7.

<sup>479</sup> PAWC Hearing Ex. No. 3, p. 2.

<sup>480</sup> PAWC St. 15-R, p. 7; PAWC Hearing Ex. No. 3, p. 2.

<sup>481</sup> OCA St. 5SR, pp. 11-12.

PAWC customer call, the QA team reviews compliance with Pennsylvania regulations as part of the evaluation.<sup>482</sup>

## 2. Customer Complaints

PAWC received formal complaints in this proceeding addressing, among other things, water quality and field service-related issues. Mr. Runzer described the typical causes of, and PAWC responses to, water quality complaints (e.g., hard water, colored water, odor, taste) and also explained how field-service concerns are handled.<sup>483</sup> OCA witness Alexander highlighted individual customer public input hearing testimony about water quality and service issues.<sup>484</sup> Mr. Runzer described the individual Company outreach to the customers identified in Appendix A to Ms. Alexander's direct and supplemental direct testimony.<sup>485</sup> Mr. Runzer also addressed the testimony of several witnesses at the public input hearings in Exeter Township about abnormally high water and wastewater bills and explained that those customers' bills are far lower than their testimony alleges.<sup>486</sup> Finally, Company witness Anthony M. Nokovich described PAWC's rigorous planning process to evaluate service requests from data centers to address concerns about the service impacts on existing customers raised at the public input hearings.<sup>487</sup> He also confirmed

---

<sup>482</sup> PAWC Hearing Ex. No. 3, p. 2.

<sup>483</sup> PAWC St. 3-R, pp. 22-25.

<sup>484</sup> OCA St. 5, pp. 5-6, App. A; OCA St. 5-Supp., App. A.

<sup>485</sup> PAWC St. 3-R, pp. 28-43.

<sup>486</sup> *Id.*, pp. 25-28.

<sup>487</sup> PAWC St. 4-R, pp. 1-3.

that data center customers will be responsible for all costs of any infrastructure improvements needed to serve them.<sup>488</sup>

OCA witness Alexander also recommends requiring a professionally conducted root-cause analysis of complaint trends and a report on findings including identification of trends, evaluation, and steps to reform or avoid repeated trends.<sup>489</sup> Ms. Alexander's concerns are unfounded considering the Company's robust complaint analysis process. Mr. Prine confirmed that PAWC (1) analyzes every customer complaint it receives (other than informal mediation complaints that do not involve any allegation of wrongdoing by the Company) to determine the contributing factor, if any; (2) makes a root-cause determination for every such customer complaint; (3) logs a root cause for each such complaint, where a contributing factor is identified; (4) generates monthly reports reflecting customer complaint root causes; (5) analyzes root-cause trends; and (6) regularly discusses root-cause trends with appropriate business units within the CSO.<sup>490</sup>

### **C. Billing Arrangement with American Water Resources**

For over two decades, American Water Resources ("AWR") has offered optional products and services, such as water line and sewer line protection plans, to PAWC customers. After enrolling with AWR, customers are charged a monthly fee so that if their water or sewer line breaks, AWR will deploy a contractor to fix the water or sewer line under the warranty program at minimal up-front cost to the customer.<sup>491</sup> PAWC customers

---

<sup>488</sup> *Id.*

<sup>489</sup> OCA St. 5, pp. 12-15; OCA St. 5SR, pp. 12-14.

<sup>490</sup> PAWC Hearing Ex. 3, p. 3.

<sup>491</sup> PAWC St. 15-R, pp. 15-16.

can choose the convenience of including these charges on their PAWC bill or be billed directly by AWR.<sup>492</sup> AWR's warranty plans are viewed favorably by customers who want the convenience and certainty of minimizing the up-front cost expenditures associated with a future water or sewer line repair.<sup>493</sup>

It is standard industry practice for utilities both inside and outside of the Commonwealth to partner with providers of these types of warranty services.<sup>494</sup> AWR offers similar services to residential water and sewer utility customers in 42 other states and the District of Columbia.<sup>495</sup> The Commission's regulations recognize utilities' long-standing practice to bill "charges for other than basic service," which include, among other things, "line repair programs and appliance warranty programs."<sup>496</sup> Consistent with the Commission's regulations, PAWC includes charges for these services as a separate line item on customers' monthly bills.<sup>497</sup> In addition, these services are entirely optional to customers, i.e., customer payments are applied to PAWC's charges first and a customer's choice not to pay for AWR's services does not result in any service termination efforts by PAWC.<sup>498</sup>

---

<sup>492</sup> *Id.*, p. 16. At any time after enrollment, PAWC customers can choose to be billed directly by contacting AWR by phone or making a request in the customer's online account with AWR. PAWC Hearing Ex. No. 3, p. 3.

<sup>493</sup> PAWC St. 15-R, p. 15.

<sup>494</sup> *Id.*, p. 17.

<sup>495</sup> *Id.*, p. 15.

<sup>496</sup> 52 Pa. Code § 56.13.

<sup>497</sup> *Id.*

<sup>498</sup> 52 Pa. Code §§ 56.23, 56.83(3).

Although American Water sold its interest in AWR in December 2021, which ended the affiliate relationship between AWR and PAWC, the day-to-day relationship between PAWC and AWR remains essentially the same by virtue of a Utility Agreement executed by PAWC and AWR at the time of the sale. PAWC continues to adhere to all Commission regulations related to the billing of AWR charges. **[BEGIN CONFIDENTIAL]** [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]<sup>500</sup> **[END CONFIDENTIAL]**

PAWC's relationship with AWR as a partner who provides optional warranty products and services to its customers has remained unchanged over the last two decades.

OCA witness Alexander raises several of the same concerns about PAWC's relationship with AWR that the Commission addressed in the Company's last base rate case. Specifically, Ms. Alexander reprises her arguments that (1) PAWC's exclusive on-bill relationship with AWR is unreasonably discriminatory and (2) AWR's use of PAWC's name and logo for marketing purposes creates a false impression that customers are purchasing warranty plans from a "trusted brand."<sup>501</sup> Ms. Alexander also asserts that PAWC's customer bill does not clearly differentiate AWR charges for non-basic service from PAWC's regulated charges.<sup>502</sup> Based on her concerns, Ms. Alexander recommends that the Commission prohibit the use of PAWC's logo and name in AWR marketing

---

<sup>499</sup> PAWC St. 15-R, pp. 16-17.

<sup>500</sup> *Id.*

<sup>501</sup> OCA St. 5, pp. 24-25; OCA St. 5SR, pp. 16-17.

<sup>502</sup> *See* OCA St. 5, p. 25; OCA St. 5SR, pp. 17-18.

materials and require the Company to document that it has offered the use of its bill for non-basic charges to any third party that markets home protection services or terminate its billing arrangement with AWR.<sup>503</sup> Ms. Alexander also proposes modifications to PAWC's residential bill format and customer service training materials.<sup>504</sup> As further explained below, none of Ms. Alexander's concerns are valid.

### **1. PAWC's Billing Arrangement with AWR is Not Discriminatory**

As a threshold matter, AWR's warranty products and services are not utility services subject to PUC jurisdiction.<sup>505</sup> The Commission only has the authority to evaluate whether a utility's jurisdictional services, such as a utility's billing of warranty products and services, are consistent with the Code.<sup>506</sup> As already discussed, PAWC's billing of AWR products and services is consistent with the Commission's regulations for non-basic services. Nevertheless, Ms. Alexander alleges that PAWC including charges for AWR's warranty services on its bills discriminates against other providers of these products and services. After the restructuring of the electric and gas markets, certain electric and gas utilities prohibited competitive suppliers from including charges for their non-basic products and services on the utility's bills, while permitting a different party to include its

---

<sup>503</sup> OCA St. 5, p. 26.

<sup>504</sup> *Id.*

<sup>505</sup> *See PPL Elec. Utils. Corp. v. Pa. P.U.C.*, 912 A.2d 386, 408 (Pa. Commw. Ct. 2006) (holding that an unregulated energy consulting service offered by an unregulated affiliate of PPL is not a regulated public utility service and that competition among unregulated services is not an objective of the regulatory scheme of the Public Utility Code).

<sup>506</sup> *Pa. P.U.C. v. Columbia Gas of Pa., Inc.*, Docket No. R-2018-2647577, 2018 WL 6590854, at \*28-33 (Pa. P.U.C. Dec. 6, 2018) ("Columbia Gas Order").

products and services on the utility's bills.<sup>507</sup> In this line of cases, the PUC considered whether this utility practice was unreasonably discriminatory in violation of Section 1502 of the Code.<sup>508</sup> Section 1502 states:

No public utility shall, as to service, make or grant any unreasonable preference or advantage to any person, corporation, or municipal corporation, or subject any person, corporation, or municipal corporation to any unreasonable prejudice or disadvantage. No public utility shall establish or maintain any unreasonable difference as to service, either as between localities or as between classes of service, but this section does not prohibit the establishment of reasonable classifications of service.

Of course, these decisions are inapplicable to PAWC and its relationship with AWR because, as Ms. Prine testified, no other person or corporation has sought to include its non-basic products and services on PAWC's bills since the Company's last rate case.<sup>509</sup> The Utility Agreement states that PAWC is not precluded from offering similar on-bill services to another entity.<sup>510</sup> Therefore, as the Commission found in *PAWC 2024* (p. 385), PAWC's exclusive billing relationship with AWR under the Utility Agreement is not discriminatory because no other entity is seeking access to PAWC's bills. The PUC should reach the same conclusion in this case.

---

<sup>507</sup> See *Columbia Gas Order*, 2018 WL 6590854, at \*22-23; *Interstate Gas Supply, Inc. et al. v. Metro. Edison Co., Pennsylvania Elec. Co., Pennsylvania Power Co., and West Penn Power Co.*, Docket Nos. C-2019-3013805 *et al.*, 2021 WL 3840884, at \*1-2 (Aug. 26, 2021) ("FE PA Order"), *aff'd*, *Interstate Gas Supply, Inc. et al. v. Pa. P.U.C.*, 298 A.3d 1181 (Pa. Commw. Ct. 2023) ("IGS").

<sup>508</sup> *Columbia Gas Order*, 2018 WL 6590854, at \*28-32; FE PA Order, 2021 WL 3840884, at \*13-16; *IGS*, 298 A.3d at 1187-89.

<sup>509</sup> PAWC St. 15-R, p. 19.

<sup>510</sup> *Id.*

## **2. AWR's Use of PAWC's Name and Logo is Outside the Scope of this Proceeding**

With respect to AWR's use of PAWC's name and logo, the OCA once again is raising an issue that was considered by the Commission in the Company's last rate case. AWR has historically used PAWC's trademark and logo for marketing purposes, which is standard industry practice when a utility partners with another entity to offer warranty products and services. Similar arrangements exist between other major Pennsylvania utilities and a competitor of AWR, HomeServe, which also uses the utility name and logo to market warranty services and products to residential utility customers in the Commonwealth.<sup>511</sup> Notably, the Commission rejected the OCA's request to prohibit FirstEnergy Pennsylvania Electric Company's on-bill arrangement with HomeServe for non-basic products and services where Ms. Alexander raised the exact same claims—that the use of the utility name and logo for marketing purposes is misleading.<sup>512</sup> As the PUC found in *PAWC 2024* (p. 385), clear disclosures are included on all marketing materials explaining that AWR is not affiliated with PAWC, its products and services are optional, and AWR's prices are not determined by PAWC.<sup>513</sup> Accordingly, AWR's long-standing use of the Company's name and logo for marketing purposes does not provide a basis for the Commission to alter PAWC's arrangement with AWR under the Utility Agreement.

---

<sup>511</sup> *Id.*, pp. 18-19.

<sup>512</sup> FE-PA Order, 2021 WL 3840884, at \*10, \*12, \*19.

<sup>513</sup> PAWC St. 15-R, p. 18.

### **3. The OCA’s Proposed Modifications to PAWC’s Customer Bill Format and Training Materials Are Unwarranted**

PAWC includes the charges provided by AWR on its bills as a separate line item and no customers’ service is terminated for non-payment of AWR charges.<sup>514</sup> If a customer no longer wants to pay for AWR’s products and services, the customer can stop paying for them with no negative repercussions on their water or wastewater service.<sup>515</sup> Therefore, as the Commission concluded in *PAWC 2024* (p. 385), PAWC is following the Commission’s regulations related to billing of non-basic charges. Moreover, as shown on the sample bill provided in OCA Exhibit BA-3, the “Account Summary” that appears directly below the total amount due on the first page of PAWC’s customer bill itemizes the balance for “Service Related Charges” and “Protection Programs.”<sup>516</sup> For these reasons, changes to the presentation of AWR charges on the PAWC customer bill are not needed to provide complete information to customers to differentiate AWR charges from charges for utility service, as Ms. Alexander suggests.

The OCA contends that PAWC’s customer service training materials should require CCAs to state that PAWC is paid to promote and bill AWR products and services and that those services are optional.<sup>517</sup> Contrary to Ms. Alexander’s allegation, PAWC and Service Company employees do not market or promote any AWR services or products.<sup>518</sup> Customer calls related to non-basic services are redirected to AWR’s toll-free number and

---

<sup>514</sup> *Id.*, pp. 19-20.

<sup>515</sup> *Id.*

<sup>516</sup> PAWC Hearing Ex. 3, pp. 3-4.

<sup>517</sup> OCA St. 5, p. 26; OCA St. 5SR, p. 19.

<sup>518</sup> PAWC St. 15-R, p. 20.

website that includes clear disclosures that it is not affiliated with American Water and that AWR's services are optional.<sup>519</sup>

#### **XIV. CONCLUSION**

For the foregoing reasons, the Commission's investigation at Docket Nos. R-2025-3057983 and R-2025-3058051 should be terminated, the various Complaints consolidated therewith dismissed, and the proposed rates, terms and conditions be permitted to become effective without modification.

Respectfully submitted,



---

Teresa K. Harrold (PA No. 311082)  
Elizabeth Rose Triscari (PA No. 306921)  
Erin K. Fure (PA No. 312245)  
Pennsylvania-American Water Company  
852 Wesley Drive  
Mechanicsburg, PA 17055  
717.550.1562 (bus)  
[teresa.harrold@amwater.com](mailto:teresa.harrold@amwater.com)  
[elizabeth.triscari@amwater.com](mailto:elizabeth.triscari@amwater.com)  
[erin.fure@amwater.com](mailto:erin.fure@amwater.com)



---

Kenneth M. Kulak (PA No. 75509)  
Mark A. Lazaroff (PA No. 315407)  
Catherine G. Vasudevan (PA No. 210254)  
Brooke E. McGlinn (PA No. 204918)  
Morgan, Lewis & Bockius LLP  
2222 Market Street  
Philadelphia, PA 19103-3007  
215.963.5384 (bus)  
[ken.kulak@morganlewis.com](mailto:ken.kulak@morganlewis.com)  
[mark.lazaroff@morganlewis.com](mailto:mark.lazaroff@morganlewis.com)  
[catherine.vasudevan@morganlewis.com](mailto:catherine.vasudevan@morganlewis.com)  
[brooke.mcglinn@morganlewis.com](mailto:brooke.mcglinn@morganlewis.com)

Dated: April 6, 2026

---

<sup>519</sup> *Id.*

## Appendix A

**TABLES CALCULATING ALLOWED REVENUE INCREASE <sup>(1)</sup>**

| <b>Table Name</b>                             | <b>Description</b>                                      |
|---|---|
| Table Act 11                                  | Act 11 Water and Wastewater Revenue Requirement Summary |
| Table I Water Operations                      | Income Summary  |
| Table IA Water Operations                     | Rate of Return  |
| Table IB Water Operations                     | Revenue Factor  |
| Table II Water Operations                     | Summary of Adjustments                                  |
| Table III Water Operations                    | Interest Synchronization                                |
| Table IV Water Operations                     | Cash Working Capital: Interest and Dividends            |
| Table V Water Operations                      | Cash Working Capital: Taxes                             |
| Table VI Water Operations                     | Cash Working Capital: O&M Expenses                      |
| Table I Wastewater SSS General Operations     | Income Summary  |
| Table IA Wastewater SSS General Operations    | Rate of Return  |
| Table IB Wastewater SSS General Operations    | Revenue Factor  |
| Table II Wastewater SSS General Operations    | Summary of Adjustments                                  |
| Table III Wastewater SSS General Operations   | Interest Synchronization                                |
| Table IV Wastewater SSS General Operations    | Cash Working Capital: Interest and Dividends            |
| Table V Wastewater SSS General Operations     | Cash Working Capital: Taxes                             |
| Table VI Wastewater SSS General Operations    | Cash Working Capital: O&M Expenses                      |
| Table I BASA WW Operations                    | Income Summary  |
| Table IA BASA WW Operations                   | Rate of Return  |
| Table IB BASA WW Operations                   | Revenue Factor  |
| Table II BASA WW Operations                   | Summary of Adjustments                                  |
| Table III BASA WW Operations                  | Interest Synchronization                                |
| Table IV BASA WW Operations                   | Cash Working Capital: Interest and Dividends            |
| Table V BASA WW Operations                    | Cash Working Capital: Taxes                             |
| Table VI BASA WW Operations                   | Cash Working Capital: O&M Expenses                      |
| Table I Wastewater CSS Operations             | Income Summary  |
| Table IA Wastewater CSS Operations            | Rate of Return  |
| Table IB Wastewater CSS Operations            | Revenue Factor  |
| Table II Wastewater CSS Operations            | Summary of Adjustments                                  |
| Table III Wastewater CSS Operations           | Interest Synchronization                                |
| Table IV Wastewater CSS Operations            | Cash Working Capital: Interest and Dividends            |
| Table V Wastewater CSS Operations             | Cash Working Capital: Taxes                             |
| Table VI Wastewater CSS Operations            | Cash Working Capital: O&M Expenses                      |
| Table I Elizabeth Borough WW CSS Operations   | Income Summary  |
| Table IA Elizabeth Borough WW CSS Operations  | Rate of Return  |
| Table IB Elizabeth Borough WW CSS Operations  | Revenue Factor  |
| Table II Elizabeth Borough WW CSS Operations  | Summary of Adjustments                                  |
| Table III Elizabeth Borough WW CSS Operations | Interest Synchronization                                |
| Table IV Elizabeth Borough WW CSS Operations  | Cash Working Capital: Interest and Dividends            |
| Table V Elizabeth Borough WW CSS Operations   | Cash Working Capital: Taxes                             |
| Table VI Elizabeth Borough WW CSS Operations  | Cash Working Capital: O&M Expenses                      |

<sup>(1)</sup> On March 13, 2026, the Company submitted updated pages to Exhibit 3-A Revised that accompanied the rebuttal testimony of Dr. Christina E. Chard to address the impact of recently released Internal Revenue Service guidance related to the Corporate Alternative Minimum Tax. The impact of that guidance and the basis for those updates to Exhibit 3-A Revised are described in the supplemental testimony of Linda Schlessman.

PENNSYLVANIA-AMERICAN WATER COMPANY

TABLE ACT 11 - WATER AND WASTEWATER REVENUE REQUIREMENT SUMMARY

|                                | <u>Total<br/>Company</u> | <u>Water<br/>Operations</u> | <u>Wastewater SSS<br/>General<br/>Operations</u> | <u>BASA<br/>Wastewater<br/>Operations</u> | <u>CSS<br/>Wastewater<br/>Operations</u> | <u>Elizabeth CSS<br/>Wastewater<br/>Operations</u> |
|--------------------------------|--------------------------|-----------------------------|--|---|--|--|
| Present Rate Revenue           | \$1,162,135,869          | \$953,098,389               | \$108,665,761                                    | \$12,761,096                              | \$85,843,356                             | \$1,767,267  |
| Additional Revenue Requirement | \$159,597,595            | \$90,420,272                | \$19,727,348                                     | \$35,347,112                              | \$10,590,008                             | \$3,512,854  |
| Act 11 - Wastewater Allocation | \$0                      | \$53,010,182                | (\$12,710,621)                                   | (\$30,280,040)                            | (\$7,062,475)                            | (\$2,957,046)                                      |
| Proposed Revenues              | <u>\$1,321,733,464</u>   | <u>\$1,096,528,843</u>      | <u>\$115,682,488</u>                             | <u>\$17,828,168</u>                       | <u>\$89,370,889</u>                      | <u>\$2,323,075</u>                                 |
| Rate Increase/(Decrease) \$    | \$159,597,595            | \$143,430,454               | \$7,016,727                                      | \$5,067,072                               | \$3,527,533                              | \$555,808  |
| Rate Increase/(Decrease) %     | 13.7%                    | 15.0%                       | 6.5%   | 39.7%                                     | 4.1%                                     | 31.5%  |

## Water Operations

TABLE I  
 Pennsylvania-American Water Company - Water Operations  
 INCOME SUMMARY  
 R-2025-3057983, R-2025-3058051

|                                   | Pro Forma<br>Present Rates (1)<br>\$<br>(1) | Company<br>Adjustments (1)<br>\$<br>(2) | Pro Forma<br>Present Rates<br>Revised (1)<br>\$<br>(3) = (1) + (2) | ALJ Adjustments<br>\$<br>(4) | ALJ Pro Forma<br>Present Rates<br>\$<br>(5) = (3) + (4) | ALJ Revenue<br>Increase<br>\$<br>(6) | Total<br>Allowable<br>Revenues<br>\$<br>(7) = (5) + (6) |
|-----------------------------------|---|---|--|------------------------------|---|--------------------------------------|---|
| 1. Operating Revenue              | 953,098,389                                 | 90,420,272                              | 1,043,518,661  | 0                            | 1,043,518,661   | 0                                    | 1,043,518,661   |
| 2. Expenses:                      |   |   |  |                              |   |                                      |   |
| 3. O & M Expense                  | 281,915,131                                 | 1,058,822                               | 282,973,953  | 0                            | 282,973,953   | 0                                    | 282,973,953   |
| 4. Depreciation                   | 228,670,649                                 | 0                                       | 228,670,649  | 0                            | 228,670,649   | 0                                    | 228,670,649   |
| 5. Taxes, Other                   | 17,174,070                                  | 661,559                                 | 17,835,629   | 0                            | 17,835,629  | 0                                    | 17,835,629  |
| 6. Income Taxes:                  |   |   |  |                              |   |                                      |   |
| 7. State                          | 19,933,121                                  | 6,199,520                               | 26,132,641   | 0                            | 26,132,641  | 0                                    | 26,132,641  |
| 8. Federal                        | 46,886,976                                  | 17,323,267                              | 64,210,243   | 0                            | 64,210,243  | 0                                    | 64,210,243  |
| 9. Total Expenses                 | 594,579,948                                 | 25,243,168                              | 619,823,116  | 0                            | 619,823,116   | 0                                    | 619,823,116   |
| 10. Net Inc. Available for Return | 358,518,441                                 | 65,177,104                              | 423,695,546  | 0                            | 423,695,546   | (0)                                  | 423,695,546   |
| 11. Rate Base                     | 5,147,765,453                               | 418,577                                 | 5,148,184,030  | 0                            | 5,148,184,030   |                                      | 5,148,184,030   |
| 12. Rate of Return                | 6.96%                                       |   | 8.23%  |                              |   |                                      | 8.23%   |

(1) Exhibit 3-A Revised

## Water Operations

TABLE I(A)  
 Pennsylvania-American Water Company - Water Operations  
 RATE OF RETURN  
 R-2025-3057983, R-2025-3058051

|                                | Structure<br>(1) | Cost<br>(2) | After-Tax<br>Weighted<br>Cost<br>[(3) = (1) x (2)] | Effective<br>Tax Rate<br>Complement<br>(4) | Pre-Tax<br>Weighted<br>Cost Rate<br>[(5) = (3) x (4)] |
|--------------------------------|------------------|-------------|--|--|---|
| 1. Total Cost of Debt          |                  |             | 2.06000000%  |  |   |
| 2. Long-term Debt              | 43.68%           | 4.71%       | 2.06000000%  |  | 2.06%   |
| 3. Short-term Debt             | 0.00%            | 0.00%       | 0.00000000%  |  |   |
| 4. Preferred Stock             | 0.01%            | 9.71%       | 0.00000000%  | 0.734779                                   | 0.00%   |
| 5. Common Equity               | 56.31%           | 10.95%      | 6.17000000%  | 0.734779                                   | 8.40%   |
| 6.                             | 100.00%          |             | 8.23000000% (1) & (2)                              |  | 10.46%  |
| 7. Pre-Tax Interest Coverage   | 5.08             |             |  |  |   |
| 8. After-Tax Interest Coverage | 4.00             |             |  |  |   |

(1) Exhibit 3-A Revised

(2) The Company rounded the Total After-Tax Weighted Cost to 4 decimals places. The formula in the original presentation did not round the Total After-Tax Weighted Cost.

## Water Operations

TABLE I(B)  
Pennsylvania-American Water Company - Water Operations  
REVENUE FACTOR  
R-2025-3057983, R-2025-3058051

|     |  |                          |
|-----|--|--------------------------|
| 1.  | 100%   | <u>1.00000000</u>        |
|     | Less:  |                          |
| 2.  | Uncollectible Accounts Factor <sup>(*)</sup>     | 0.01171000               |
| 3.  | PUC, OCA, OSBA Assessment Factors <sup>(*)</sup> | 0.00736715               |
| 4.  | Gross Receipts Tax                               | 0.00000000               |
| 5.  | Other Tax Factors                                | <u>0.00000000</u>        |
| 6.  |  | 0.98092285               |
| 7.  | State Income Tax Rate <sup>(*)</sup>             | <u>0.06990000</u>        |
| 8.  | Effective State Income Tax Rate                  | <u>0.06856651</u>        |
| 9.  | Factor After Local and State Taxes               | 0.91235634               |
| 10. | Federal Income Tax Rate <sup>(*)</sup>           | <u>0.21000000</u>        |
| 11. | Effective Federal Income Tax Rate                | <u>0.19159483</u>        |
| 12. | Revenue Factor (100% - Effective Tax Rates)      | <u><u>0.72076151</u></u> |

<sup>(\*)</sup> Exhibit 3-A Revised



## Water Operations

TABLE III  
 Pennsylvania-American Water Company - Water Operations  
 INTEREST SYNCHRONIZATION  
 R-2025-3057983, R-2025-3058051

|     |  | Amount<br>\$<br>(2) |
|-----|--|---------------------|
| (1) |  |                     |
| 1.  | Company Rate Base Claim  | 5,148,184,030       |
| 2.  | ALJ Rate Base Adjustments (Table II)                                 | 0                   |
| 3.  | ALJ Rate Base (Line 1 - Line 2)                                      | 5,148,184,030       |
| 4.  | Weighted Cost of Debt (Table IA)                                     | 2.06000000%         |
| 5.  | ALJ Interest Expense (Line 3 x Line 4)                               | 106,052,591         |
| 6.  | Company Claim <sup>(1)</sup>   | 106,052,591         |
| 7.  | Total ALJ Adjustment (Line 6 - Line 5)                               | (0)                 |
| 8.  | Company Adjustment <sup>(1)</sup>                                    | 0                   |
| 9.  | Net ALJ Interest Adjustment (Line 7 - Line 8)                        | (0)                 |
| 10. | State Income Tax Rate (Table IB)                                     | 6.99%               |
| 11. | State Income Tax Adjustment (Line 9 x Line 10)<br>(Flow to Table II) | 0                   |
| 12. | Net ALJ Interest Adjustment (Line 9)                                 | (0)                 |
| 13. | State Income Tax Adjustment (Line 11)                                | 0                   |
| 14. | Net ALJ Adjustment for F.I.T. (Line 12 - Line 13)                    | (0)                 |
| 15. | Federal Income Tax Rate  | 21.00%              |
| 16. | Federal Income Tax Adjustment (Line 14 x Line 15)                    | 0                   |

<sup>(1)</sup> Exhibit 3-A Revised

## Water Operations

TABLE IV  
 Pennsylvania-American Water Company - Water Operations  
 CASH WORKING CAPITAL - Interest and Dividends  
 R-2025-3057983, R-2025-3058051

|                                    | Accrued Interest      |                        | Preferred Stock Dividends |                 |
|------------------------------------|-----------------------|------------------------|---------------------------|-----------------|
| (1)                                | Long-Term Debt<br>(2) | Short-Term Debt<br>(3) | (4)                       | (5)             |
| 1. Company Rate Base Claim         | \$5,148,184,030       | \$5,148,184,030        | Company Rate Base Claim   | \$5,148,184,030 |
| 2. ALJ Rate Base Adjustments       | \$0                   | \$0                    | ALJ Rate Base Adjustments | \$0             |
| 3. ALJ Rate Base                   | \$5,148,184,030       | \$5,148,184,030        | ALJ Rate Base             | \$5,148,184,030 |
| 4. Weighted Cost of Debt           | 2.06000000%           | 0.00%                  | Weighted Cost Pref. Stock | 0.00000000%     |
| 5. ALJ Annual Interest Exp.        | \$106,052,591         | \$0                    | ALJ Preferred Dividends   | \$0             |
| 6. Average Revenue Lag Days        | 45.1                  | 45.1                   | Average Revenue Lag Days  | 45.1            |
| 7. Average Expense Lag Days        | 91.8                  | 15.1                   | Average Expense Lag Days  | 46.1            |
| 8. Net Lag Days                    | -46.7                 | 30.0                   | Net Lag Days              | -1.0            |
| 9. Working Capital Adjustment      |                       |                        |                           |                 |
| 10. ALJ Daily Interest Exp.        | \$290,555             | \$0                    | ALJ Daily Dividends       | \$0             |
| 11. Net Lag Days                   | -46.7                 | 30.0                   | Net Lag Days              | -1.0            |
| 12. ALJ Working Capital            | (\$13,554,391)        | \$0                    |                           | \$0             |
| 13. Company Claim (1)              | (\$13,554,391)        | \$0                    | Company Claim (1)         | \$0             |
| 14. ALJ Adjustment                 | \$0                   | \$0                    |                           | \$0             |
| 15. Total Interest & Dividend Adj. | \$0                   |                        |                           |                 |

(1) Exhibit 3-A Revised

## Water Operations

TABLE V  
 Pennsylvania-American Water Company - Water Operations  
 CASH WORKING CAPITAL - TAXES  
 R-2025-3057983, R-2025-3058051

| Description<br>(1)       | Company<br>Proforma<br>Tax Expense<br>Present<br>Rates<br>(2) | ALJ<br>Adjustments<br>(3) | ALJ<br>Pro forma<br>Tax Expense<br>Present<br>Rates<br>(4) | ALJ<br>Allowance<br>(5) | ALJ<br>Adjusted<br>Taxes at<br>Present<br>Rates<br>(6) | Daily Expense<br>(7) | Net Lead/<br>Lag Days<br>(8) | Accrued Tax<br>Adjustment<br>(9) |
|--------------------------|---|---------------------------|--|-------------------------|--|----------------------|------------------------------|----------------------------------|
| 1. PUC Assessment        | \$7,561,095   | \$0                       | \$7,561,095  | \$0                     | \$7,561,095  | \$20,715.33          | 177.60                       | \$3,679,043                      |
| 2. Public Utility Realty | \$2,161,310   | \$0                       | \$2,161,310  |                         | \$2,161,310  | \$5,921.40           | 90.14                        | \$533,774                        |
| 3. Local Property Tax    | \$3,030,888   | \$0                       | \$3,030,888  |                         | \$3,030,888  | \$8,303.80           | 118.15                       | \$981,122                        |
| 4.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 5.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 6.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 7.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 8.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 9.                       | \$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                              |
| 10. State Income Tax     | \$26,132,641  | \$0                       | \$26,132,641   | \$0                     | \$26,132,641   | \$71,596.28          | 7.23                         | \$517,283                        |
| 11. Federal Income Tax   | \$64,443,835  | \$0                       | \$64,443,835   | \$0                     | \$64,443,835   | \$176,558.45         | -0.52                        | (\$92,693)                       |
| 12.                      | <u>\$103,329,769</u>  | <u>\$0</u>                | <u>\$103,329,769</u>                                       | <u>\$0</u>              | <u>\$103,329,769</u>                                   |                      |                              |                                  |
| 13.                      |   |                           |  |                         |  | ALJ Allowance        |                              | 5,618,529                        |
| 14.                      |   |                           |  |                         |  | Company Claim (1)    |                              | <u>5,618,529</u>                 |
| 15.                      |   |                           |  |                         |  | ALJ Adjustment       |                              | <u>0</u>                         |

(1) Company Main Brief

## Water Operations

TABLE VI  
 Pennsylvania-American Water Company - Water Operations  
 CASH WORKING CAPITAL -- O & M EXPENSE  
 R-2025-3057983, R-2025-3058051

| Description<br>(1)             | Company<br>Pro forma<br>F.T.Y.<br>Expense<br>(2) | ALJ<br>(3) | ALJ<br>Pro forma<br>Expenses<br>(4) | Lag Days<br>(5) | Lag Dollars<br>(6)     |
|--------------------------------|--|------------|-------------------------------------|-----------------|------------------------|
| 1. Service Company             | \$74,272,977                                     | \$0        | \$74,272,977                        | 12.05           | \$894,989,368          |
| 2. Chemicals                   | \$22,744,910                                     | \$0        | \$22,744,910                        | 44.75           | \$1,017,922,758        |
| 3. Group Insurance             | \$11,977,661                                     | \$0        | \$11,977,661                        | 11.00           | \$131,754,271          |
| 4. Insurance, Other            | \$18,773,193                                     | \$0        | \$18,773,193                        | -86.09          | (\$1,616,138,283)      |
| 5. Labor                       | \$69,814,144                                     | \$0        | \$69,814,144                        | 12.05           | \$841,260,436          |
| 6. Leased Equip./Rent          | \$180,238  | \$0        | \$180,238                           | 52.71           | \$9,499,730            |
| 7. Leased Vehicles             | \$3,095,090                                      | \$0        | \$3,095,090                         | 32.34           | \$100,099,249          |
| 8. Miscellaneous               | \$43,696,406                                     | \$0        | \$43,696,406                        | 23.44           | \$1,024,139,076        |
| 9. Natural Gas                 | \$1,139,917                                      | \$0        | \$1,139,917                         | 50.28           | \$57,313,277           |
| 10. Power                      | \$21,106,340                                     | \$0        | \$21,106,340                        | 31.06           | \$655,562,910          |
| 11. Purchased Water            | \$2,795,784                                      | \$0        | \$2,795,784                         | 31.29           | \$87,470,990           |
| 12. Telephone                  | \$3,365,806                                      | \$0        | \$3,365,806                         | 34.55           | \$116,281,363          |
| 13. Waste Disposal             | \$4,216,691                                      | \$0        | \$4,216,691                         | 47.04           | \$198,353,154          |
| 14. Post Retirement Benefits   | (\$5,885,345)                                    | \$0        | (\$5,885,345)                       | 65.00           | (\$382,547,399)        |
| 15. Pensions                   | (\$324,092)                                      | \$0        | (\$324,092)                         | -5.50           | \$1,782,503            |
| 16.                            | <u>\$270,969,720</u>                             | <u>\$0</u> | <u>\$270,969,720</u>                | <u>11.60</u>    | <u>\$3,137,743,403</u> |
| 17. ALJ Average Revenue Lag    | 45.1   |            |                                     |                 |                        |
| 18. Less: ALJ Avg. Expense Lag | <u>11.6</u>                                      |            |                                     |                 |                        |
| 19. Net Difference             | 33.5   | Days       |                                     |                 |                        |
| 20. ALJ Pro forma              |  |            |                                     |                 |                        |
| 21. O & M Expense per Day      | <u>\$742,383</u>                                 |            |                                     |                 |                        |
| 22. ALJ CWC for O & M          | \$24,869,831                                     |            |                                     |                 |                        |
| 23. Less: Company Claim (1)    | <u>\$24,869,831</u>                              |            |                                     |                 |                        |
| 24. ALJ Adjustment             | <u>\$0</u>                                       |            |                                     |                 |                        |

(1) Exhibit 3-A Revised

## Wastewater SSS General Operations

TABLE I  
 Pennsylvania-American Water Company - Wastewater SSS General Operations  
 INCOME SUMMARY  
 R-2025-3057983, R-2025-3058051

|                      | Pro Forma<br>Present Rates (1)<br>\$<br>(1) | Company<br>Adjustments (1)<br>\$<br>(2) | Pro Forma<br>Present Rates<br>Revised (1)<br>\$<br>(3) = (1) + (2) | ALJ Adjustments<br>\$<br>(4) | ALJ Pro Forma<br>Present Rates<br>\$<br>(5) = (3) + (4) | ALJ Revenue<br>Increase<br>\$<br>(6) | Total<br>Allowable<br>Revenues<br>\$<br>(7) = (5) + (6) |
|----------------------|---|---|--|------------------------------|---|--------------------------------------|---|
| 1. Operating Revenue | 108,665,761                                 | 19,727,348                              | 128,393,109  | 0                            | 128,393,109   | 0                                    | 128,393,109   |
| 2. Expenses:         |   |   |  |                              |   |                                      |   |
| 3. O & M Expense     | 29,370,450                                  | 231,007                                 | 29,601,457   | 0                            | 29,601,457  | 0                                    | 29,601,457  |
| 4. Depreciation      | 28,595,513                                  | 0                                       | 28,595,513   | 0                            | 28,595,513  | 0                                    | 28,595,513  |
| 5. Taxes, Other      | 2,491,390                                   | 144,582                                 | 2,635,972  | 0                            | 2,635,972   | 0                                    | 2,635,972   |
| 6. Income Taxes:     |   |   |  |                              |   |                                      |   |
| 7. State             | 3,144,882                                   | 1,352,553                               | 4,497,435  | 0                            | 4,497,435   | 0                                    | 4,497,435   |
| 8. Federal           | 8,204,885                                   | 3,779,428                               | 11,984,313   | 0                            | 11,984,313  | 0                                    | 11,984,313  |
| 9. Total Expenses    | 71,807,119                                  | 5,507,570                               | 77,314,689   | 0                            | 77,314,689  | 0                                    | 77,314,689  |
| 10. Return           | 36,858,642                                  | 14,219,778                              | 51,078,419   | 0                            | 51,078,419  | 0                                    | 51,078,419  |
| 11. Rate Base        | 658,984,924                                 | 91,455                                  | 659,076,379  | 0                            | 659,076,379   |                                      | 659,076,379   |
| 12. Rate of Return   | 5.59%                                       |   | 7.75%  |                              |   |                                      | 7.75%   |

(1) Exhibit 3-A Revised

## Wastewater SSS General Operations

TABLE I(A)  
 Pennsylvania-American Water Company - Wastewater SSS General Operations  
 RATE OF RETURN  
 R-2025-3057983, R-2025-3058051

|                                       | <u>Structure</u><br>(1) | <u>Cost</u><br>(2) | <u>After-Tax<br/>Weighted<br/>Cost</u><br>[(3) = (1) x (2)] | <u>Effective<br/>Tax Rate<br/>Complement</u><br>(4) | <u>Pre-Tax<br/>Weighted<br/>Cost Rate</u><br>[(5) = (3) x (4)] |
|---------------------------------------|-------------------------|--------------------|---|---|--|
| 1. Total Cost of Debt                 |                         |                    | 2.11000000%   |   |  |
| 2. Long-term Debt                     | 41.59%                  | 4.71%              | 1.96000000%   |   | 1.96%  |
| 3. Wastewater Specific Long Term Debt | 6.88% (3)               | 2.20%              | 0.15000000%   |   | 0.15%  |
| 4. Preferred Stock                    | 0.01%                   | 9.71%              | 0.00000000%   | 0.734779  | 0.00%  |
| 5. Common Equity                      | <u>51.52%</u>           | 10.95%             | <u>5.64000000%</u>  | 0.734779  | <u>7.68%</u>   |
| 6.                                    | <u>100.00%</u>          |                    | <u>7.75000000%</u> (1) & (2)                                |   | <u>9.79%</u>   |
| 7. Pre-Tax Interest Coverage          | 4.99                    |                    |   |   |  |
| 8. After-Tax Interest Coverage        | 3.95                    |                    |   |   |  |

(1) Exhibit 3-A Revised

(2) The Company rounded the Total After-Tax Weighted Cost to 4 decimals places. The formula in the original presentation did not round the Total After-Tax Weighted Cost.

(3) The Company included Wastewater Specific Long Term Debt in the Capital Structure. Short-Term Debt was originally included in this presentation.

## Wastewater SSS General Operations

TABLE I(B)

Pennsylvania-American Water Company - Wastewater SSS General Operat  
REVENUE FACTOR  
R-2025-3057983, R-2025-3058051

|     |  |                          |
|-----|--|--------------------------|
| 1.  | 100%   | <u>1.00000000</u>        |
|     | Less:  |                          |
| 2.  | Uncollectible Accounts Factor <sup>(*)</sup>     | 0.01171000               |
| 3.  | PUC, OCA, OSBA Assessment Factors <sup>(*)</sup> | 0.00736715               |
| 4.  | Gross Receipts Tax                               | 0.00000000               |
| 5.  | Other Tax Factors                                | <u>0.00000000</u>        |
| 6.  |  | 0.98092285               |
| 7.  | State Income Tax Rate <sup>(*)</sup>             | <u>0.06990000</u>        |
| 8.  | Effective State Income Tax Rate                  | <u>0.06856651</u>        |
| 9.  | Factor After Local and State Taxes               | 0.91235634               |
| 10. | Federal Income Tax Rate <sup>(*)</sup>           | <u>0.21000000</u>        |
| 11. | Effective Federal Income Tax Rate                | <u>0.19159483</u>        |
| 12. | Revenue Factor (100% - Effective Tax Rates)      | <u><u>0.72076151</u></u> |

<sup>(\*)</sup> Exhibit 3-A Revised



## Wastewater SSS General Operations

TABLE III

Pennsylvania-American Water Company - Wastewater SSS General Operati  
INTEREST SYNCHRONIZATION  
R-2025-3057983, R-2025-3058051

|     | (1)  | Amount<br>\$<br>(2) |
|-----|--|---------------------|
| 1.  | Company Rate Base Claim  | 659,076,379         |
| 2.  | ALJ Rate Base Adjustments (Table II)                                 | 0                   |
| 3.  | ALJ Rate Base (Line 1 - Line 2)                                      | 659,076,379         |
| 4.  | Weighted Cost of Debt (Table IA)                                     | 2.11000000%         |
| 5.  | ALJ Interest Expense (Line 3 x Line 4)                               | 13,906,512          |
| 6.  | Company Claim <sup>(1)</sup>   | 13,906,512          |
| 7.  | Total ALJ Adjustment (Line 6 - Line 5)                               | 0                   |
| 8.  | Company Adjustment <sup>(1)</sup>                                    | 0                   |
| 9.  | Net ALJ Interest Adjustment (Line 7 - Line 8)                        | 0                   |
| 10. | State Income Tax Rate (Table IB)                                     | 6.99%               |
| 11. | State Income Tax Adjustment (Line 9 x Line 10)<br>(Flow to Table II) | 0                   |
| 12. | Net ALJ Interest Adjustment (Line 9)                                 | 0                   |
| 13. | State Income Tax Adjustment (Line 11)                                | 0                   |
| 14. | Net ALJ Adjustment for F.I.T. (Line 12 - Line 13)                    | 0                   |
| 15. | Federal Income Tax Rate  | 21.00%              |
| 16. | Federal Income Tax Adjustment (Line 14 x Line 15)                    | 0                   |

<sup>(1)</sup> Exhibit 3-A Revised

## Wastewater SSS General Operations

TABLE IV  
 Pennsylvania-American Water Company - Wastewater SSS General Operations  
 CASH WORKING CAPITAL - Interest and Dividends  
 R-2025-3057983, R-2025-3058051

| Accrued Interest                   |                       | Preferred Stock Dividends |                           |                    |
|------------------------------------|-----------------------|---------------------------|---------------------------|--------------------|
| (1)                                | Long-Term Debt<br>(2) | Short-Term Debt<br>(3)    | (4)                       | (5)                |
| 1. Company Rate Base Claim         | \$659,076,379         | \$659,076,379             | Company Rate Base Claim   | \$659,076,379      |
| 2. ALJ Rate Base Adjustments       | <u>\$0</u>            | <u>\$0</u>                | ALJ Rate Base Adjustments | <u>\$0</u>         |
| 3. ALJ Rate Base                   | \$659,076,379         | \$659,076,379             | ALJ Rate Base             | \$659,076,379      |
| 4. Weighted Cost of Debt           | <u>1.96000000%</u>    | <u>0.15%</u>              | Weighted Cost Pref. Stock | <u>0.00000000%</u> |
| 5. ALJ Annual Interest Exp.        | <u>\$12,917,897</u>   | <u>\$988,615</u>          | ALJ Preferred Dividends   | <u>\$0</u>         |
| 6. Average Revenue Lag Days        | 45.1                  | 45.1                      | Average Revenue Lag Days  | 45.1               |
| 7. Average Expense Lag Days        | <u>91.8</u>           | <u>91.8</u>               | Average Expense Lag Days  | <u>46.1</u>        |
| 8. Net Lag Days                    | <u><u>-46.7</u></u>   | <u><u>-46.7</u></u>       | Net Lag Days              | <u><u>-1.0</u></u> |
| 9. Working Capital Adjustment      |                       |                           |                           |                    |
| 10. ALJ Daily Interest Exp.        | \$35,391              | \$2,709                   | ALJ Daily Dividends       | \$0                |
| 11. Net Lag Days                   | <u>-46.7</u>          | <u>-46.7</u>              | Net Lag Days              | <u>-1.0</u>        |
| 12. ALJ Working Capital            | (\$1,650,990)         | (\$126,353)               |                           | \$0                |
| 13. Company Claim (1)              | <u>(\$1,650,990)</u>  | <u>(\$126,353)</u>        | Company Claim (1)         | <u>\$0</u>         |
| 14. ALJ Adjustment                 | <u>\$0</u>            | <u>\$0</u>                |                           | <u>\$0</u>         |
| 15. Total Interest & Dividend Adj. | <u><u>\$0</u></u>     |                           |                           |                    |

(1) Exhibit 3-A Revised

**Wastewater SSS General Operations**

TABLE V  
 Pennsylvania-American Water Company - Wastewater SSS General Operations  
 CASH WORKING CAPITAL - TAXES  
 R-2025-3057983, R-2025-3058051

| Description<br>(1)       | Company<br>Proforma<br>Tax Expense<br>Present<br>Rates<br>(2) | ALJ<br>Adjustments<br>(3) | ALJ<br>Pro forma<br>Tax Expense<br>Present<br>Rates<br>(4) | ALJ<br>Allowance<br>(5) | ALJ<br>Adjusted<br>Taxes at<br>Present<br>Rates<br>(6) | Daily Expense<br>(7) | Net Lead/<br>Lag Days<br>(8) | Accrued Tax<br>Adjustment<br>(9) |
|--------------------------|---|---------------------------|--|-------------------------|--|----------------------|------------------------------|----------------------------------|
| 1. PUC Assessment        | \$921,260   | \$0                       | \$921,260  | \$0                     | \$921,260  | \$2,524.00           | 177.60                       | \$448,262                        |
| 2. Public Utility Realty | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 90.14                        | \$0                              |
| 3. Local Property Tax    | \$1,251,643   | \$0                       | \$1,251,643  |                         | \$1,251,643  | \$3,429.16           | 118.15                       | \$405,167                        |
| 4.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 5.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 6.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 7.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 8.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 9.                       | \$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                              |
| 10. State Income Tax     | \$4,497,435   | \$0                       | \$4,497,435  | \$0                     | \$4,497,435  | \$12,321.74          | 7.23                         | \$89,025                         |
| 11. Federal Income Tax   | \$11,984,313  | \$0                       | \$11,984,313   | \$0                     | \$11,984,313   | \$32,833.73          | -0.52                        | (\$17,238)                       |
| 12.                      | <u>\$18,654,651</u>   | <u>\$0</u>                | <u>\$18,654,651</u>  | <u>\$0</u>              | <u>\$18,654,651</u>                                    |                      |                              |                                  |
| 13.                      |   |                           |  |                         |  | ALJ Allowance        |                              | 925,216                          |
| 14.                      |   |                           |  |                         |  | Company Claim (1)    |                              | <u>925,216</u>                   |
| 15.                      |   |                           |  |                         |  | ALJ Adjustment       |                              | <u>0</u>                         |

(1) Company Main Brief

## Wastewater SSS General Operations

TABLE VI  
 Pennsylvania-American Water Company - Wastewater SSS General Operations  
 CASH WORKING CAPITAL -- O & M EXPENSE  
 R-2025-3057983, R-2025-3058051

| Description<br>(1)             | Company<br>Pro forma<br>F.T.Y.<br>Expense<br>(2) | ALJ<br>(3) | ALJ<br>Pro forma<br>Expenses<br>(4) | Lag Days<br>(5) | Lag Dollars<br>(6)   |
|--------------------------------|--|------------|-------------------------------------|-----------------|----------------------|
| 1. Service Company             | \$2,298,654                                      | \$0        | \$2,298,654                         | 12.05           | \$27,698,781         |
| 2. Chemicals                   | \$1,601,088                                      | \$0        | \$1,601,088                         | 44.75           | \$71,654,890         |
| 3. Group Insurance             | \$1,285,100                                      | \$0        | \$1,285,100                         | 11.00           | \$14,136,104         |
| 4. Insurance, Other            | \$2,367,624                                      | \$0        | \$2,367,624                         | -86.09          | (\$203,822,931)      |
| 5. Labor                       | \$6,303,291                                      | \$0        | \$6,303,291                         | 12.05           | \$75,954,662         |
| 6. Leased Equip./Rent          | \$58,950   | \$0        | \$58,950                            | 52.71           | \$3,107,059          |
| 7. Leased Vehicles             | \$157,572  | \$0        | \$157,572                           | 32.34           | \$5,096,074          |
| 8. Miscellaneous               | \$6,247,774                                      | \$0        | \$6,247,774                         | 23.44           | \$146,432,850        |
| 9. Natural Gas                 | \$67,674   | \$0        | \$67,674                            | 50.28           | \$3,402,526          |
| 10. Power                      | \$3,773,519                                      | \$0        | \$3,773,519                         | 31.06           | \$117,205,501        |
| 11. Purchased Water            | \$0  | \$0        | \$0                                 | 31.29           | \$0                  |
| 12. Telephone                  | \$239,983  | \$0        | \$239,983                           | 34.55           | \$8,290,897          |
| 13. Waste Disposal             | \$4,008,056                                      | \$0        | \$4,008,056                         | 47.04           | \$188,538,961        |
| 14. Post Retirement Benefits   | \$28,498   | \$0        | \$28,498                            | 65.00           | \$1,852,367          |
| 15. Pensions                   | \$123,260  | \$0        | \$123,260                           | -5.50           | (\$677,931)          |
| 16.                            | <u>\$28,561,043</u>                              | <u>\$0</u> | <u>\$28,561,043</u>                 | <u>16.10</u>    | <u>\$458,869,810</u> |
| 17. ALJ Average Revenue Lag    | 45.1   |            |                                     |                 |                      |
| 18. Less: ALJ Avg. Expense Lag | <u>16.1</u>                                      |            |                                     |                 |                      |
| 19. Net Difference             | 29.0   | Days       |                                     |                 |                      |
| 20. ALJ Pro forma              |  |            |                                     |                 |                      |
| 21. O & M Expense per Day      | <u>\$78,249</u>                                  |            |                                     |                 |                      |
| 22. ALJ CWC for O & M          | \$2,269,221                                      |            |                                     |                 |                      |
| 23. Less: Company Claim (1)    | <u>\$2,269,221</u>                               |            |                                     |                 |                      |
| 24. ALJ Adjustment             | <u>\$0</u>                                       |            |                                     |                 |                      |

(1) Exhibit 3-A Revised

## BASA WW Operations

TABLE I  
 Pennsylvania-American Water Company - BASA Wastewater Operations  
 INCOME SUMMARY  
 R-2025-3057983, R-2025-3058051

|                      | Pro Forma<br>Present Rates (1)<br>\$<br>(1) | Company<br>Adjustments (1)<br>\$<br>(2) | Pro Forma<br>Present Rates<br>Revised (1)<br>\$<br>(3) = (1) + (2) | ALJ Adjustments<br>\$<br>(4) | ALJ Pro Forma<br>Present Rates<br>\$<br>(5) = (3) + (4) | ALJ Revenue<br>Increase<br>\$<br>(6) | Total<br>Allowable<br>Revenues<br>\$<br>(7) = (5) + (6) |
|----------------------|---|---|--|------------------------------|---|--------------------------------------|---|
| 1. Operating Revenue | 12,761,096                                  | 35,347,112                              | 48,108,208   | 0                            | 48,108,208  | 0                                    | 48,108,208  |
| 2. Expenses:         |   |   |  |                              |   |                                      |   |
| 3. O & M Expense     | 7,504,913                                   | 413,915                                 | 7,918,828  | 0                            | 7,918,828   | 0                                    | 7,918,828   |
| 4. Depreciation      | 11,490,654                                  | 0                                       | 11,490,654   | 0                            | 11,490,654  | 0                                    | 11,490,654  |
| 5. Taxes, Other      | 685,092                                     | 259,061                                 | 944,153  | 0                            | 944,153   | 0                                    | 944,153   |
| 6. Income Taxes:     |   |   |  |                              |   |                                      |   |
| 7. State             | (112,699)                                   | 2,423,481                               | 2,310,782  | 0                            | 2,310,782   | 0                                    | 2,310,782   |
| 8. Federal           | (347,871)                                   | 6,771,912                               | 6,424,041  | 0                            | 6,424,041   | 0                                    | 6,424,041   |
| 9. Total Expenses    | 19,220,089                                  | 9,868,369                               | 29,088,458   | 0                            | 29,088,458  | 0                                    | 29,088,458  |
| 10. Return           | (6,458,993)                                 | 25,478,743                              | 19,019,750   | 0                            | 19,019,750  | (0)                                  | 19,019,750  |
| 11. Rate Base        | 245,252,312                                 | 163,819                                 | 245,416,131  | 0                            | 245,416,131   |                                      | 245,416,131   |
| 12. Rate of Return   | -2.63%                                      |   | 7.75%  |                              |   |                                      | 7.75%   |

(1) Exhibit 3-A Revised

## BASA WW Operations

TABLE I(A)  
 Pennsylvania-American Water Company - BASA Wastewater Operations  
 RATE OF RETURN  
 R-2025-3057983, R-2025-3058051

|                                       | <u>Structure</u><br>(1) | <u>Cost</u><br>(2) | <u>After-Tax<br/>Weighted<br/>Cost</u><br>[(3) = (1) x (2)] | <u>Effective<br/>Tax Rate<br/>Complement</u><br>(4) | <u>Pre-Tax<br/>Weighted<br/>Cost Rate</u><br>[(5) = (3) x (4)] |
|---------------------------------------|-------------------------|--------------------|---|---|--|
| 1. Total Cost of Debt                 |                         |                    | 2.11000000%   |   |  |
| 2. Long-term Debt                     | 41.59%                  | 4.71%              | 1.96000000%   |   | 1.96%  |
| 3. Wastewater Specific Long Term Debt | 6.88% (3)               | 2.20%              | 0.15000000%   |   | 0.15%  |
| 4. Preferred Stock                    | 0.01%                   | 9.71%              | 0.00000000%   | 0.734779  | 0.00%  |
| 5. Common Equity                      | <u>51.52%</u>           | 10.95%             | <u>5.64000000%</u>  | 0.734779  | <u>7.68%</u>   |
| 6.                                    | <u>100.00%</u>          |                    | <u>7.75000000%</u> (1) & (2)                                |   | <u>9.79%</u>   |
| 7. Pre-Tax Interest Coverage          | 4.99                    |                    |   |   |  |
| 8. After-Tax Interest Coverage        | 3.95                    |                    |   |   |  |

(1) Exhibit 3-A Revised

(2) The Company rounded the Total After-Tax Weighted Cost to 4 decimals places. The formula in the original presentation did not round the Total After-Tax Weighted Cost.

(3) The Company included Wastewater Specific Long Term Debt in the Capital Structure. Short-Term Debt was originally included in this presentation.

## BASA WW Operations

TABLE I(B)

Pennsylvania-American Water Company - BASA Wastewater Operations  
REVENUE FACTOR  
R-2025-3057983, R-2025-3058051

|     |  |                          |
|-----|--|--------------------------|
| 1.  | 100%   | <u>1.00000000</u>        |
|     | Less:  |                          |
| 2.  | Uncollectible Accounts Factor <sup>(*)</sup>     | 0.01171000               |
| 3.  | PUC, OCA, OSBA Assessment Factors <sup>(*)</sup> | 0.00736715               |
| 4.  | Gross Receipts Tax                               | 0.00000000               |
| 5.  | Other Tax Factors                                | <u>0.00000000</u>        |
| 6.  |  | 0.98092285               |
| 7.  | State Income Tax Rate <sup>(*)</sup>             | <u>0.06990000</u>        |
| 8.  | Effective State Income Tax Rate                  | <u>0.06856651</u>        |
| 9.  | Factor After Local and State Taxes               | 0.91235634               |
| 10. | Federal Income Tax Rate <sup>(*)</sup>           | <u>0.21000000</u>        |
| 11. | Effective Federal Income Tax Rate                | <u>0.19159483</u>        |
| 12. | Revenue Factor (100% - Effective Tax Rates)      | <u><u>0.72076151</u></u> |

<sup>(\*)</sup> Exhibit 3-A Revised



## BASA WW Operations

TABLE III  
 Pennsylvania-American Water Company - BASA Wastewater Operations  
 INTEREST SYNCHRONIZATION  
 R-2025-3057983, R-2025-3058051

|     |  | Amount<br>\$ |
|-----|--|--------------|
| (1) |  | (2)          |
| 1.  | Company Rate Base Claim  | 245,416,131  |
| 2.  | ALJ Rate Base Adjustments (Table II)                                 | 0            |
| 3.  | ALJ Rate Base (Line 1 - Line 2)                                      | 245,416,131  |
| 4.  | Weighted Cost of Debt (Table IA)                                     | 2.11000000%  |
| 5.  | ALJ Interest Expense (Line 3 x Line 4)                               | 5,178,280    |
| 6.  | Company Claim <sup>(1)</sup>   | 5,178,280    |
| 7.  | Total ALJ Adjustment (Line 6 - Line 5)                               | (0)          |
| 8.  | Company Adjustment <sup>(1)</sup>                                    | 0            |
| 9.  | Net ALJ Interest Adjustment (Line 7 - Line 8)                        | (0)          |
| 10. | State Income Tax Rate (Table IB)                                     | 6.99%        |
| 11. | State Income Tax Adjustment (Line 9 x Line 10)<br>(Flow to Table II) | 0            |
| 12. | Net ALJ Interest Adjustment (Line 9)                                 | (0)          |
| 13. | State Income Tax Adjustment (Line 11)                                | 0            |
| 14. | Net ALJ Adjustment for F.I.T. (Line 12 - Line 13)                    | (0)          |
| 15. | Federal Income Tax Rate  | 21.00%       |
| 16. | Federal Income Tax Adjustment (Line 14 x Line 15)                    | 0            |

<sup>(1)</sup> Exhibit 3-A Revised

## BASA WW Operations

TABLE IV  
 Pennsylvania-American Water Company - BASA Wastewater Operations  
 CASH WORKING CAPITAL - Interest and Dividends  
 R-2025-3057983, R-2025-3058051

| Accrued Interest                   |                       | Preferred Stock Dividends |                           |                    |
|------------------------------------|-----------------------|---------------------------|---------------------------|--------------------|
| (1)                                | Long-Term Debt<br>(2) | Short-Term Debt<br>(3)    | (4)                       | (5)                |
| 1. Company Rate Base Claim         | \$245,416,131         | \$245,416,131             | Company Rate Base Claim   | \$245,416,131      |
| 2. ALJ Rate Base Adjustments       | <u>\$0</u>            | <u>\$0</u>                | ALJ Rate Base Adjustments | <u>\$0</u>         |
| 3. ALJ Rate Base                   | \$245,416,131         | \$245,416,131             | ALJ Rate Base             | \$245,416,131      |
| 4. Weighted Cost of Debt           | <u>1.96000000%</u>    | <u>0.15%</u>              | Weighted Cost Pref. Stock | <u>0.00000000%</u> |
| 5. ALJ Annual Interest Exp.        | <u>\$4,810,156</u>    | <u>\$368,124</u>          | ALJ Preferred Dividends   | <u>\$0</u>         |
| 6. Average Revenue Lag Days        | 45.1                  | 45.1                      | Average Revenue Lag Days  | 45.1               |
| 7. Average Expense Lag Days        | <u>91.8</u>           | <u>91.8</u>               | Average Expense Lag Days  | <u>46.1</u>        |
| 8. Net Lag Days                    | <u>-46.7</u>          | <u>-46.7</u>              | Net Lag Days              | <u>-1.0</u>        |
| 9. Working Capital Adjustment      |                       |                           |                           |                    |
| 10. ALJ Daily Interest Exp.        | \$13,179              | \$1,009                   | ALJ Daily Dividends       | \$0                |
| 11. Net Lag Days                   | <u>-46.7</u>          | <u>-46.7</u>              | Net Lag Days              | <u>-1.0</u>        |
| 12. ALJ Working Capital            | (\$614,800)           | (\$47,049)                |                           | \$0                |
| 13. Company Claim (1)              | <u>(\$614,800)</u>    | <u>(\$47,049)</u>         | Company Claim (1)         | <u>\$0</u>         |
| 14. ALJ Adjustment                 | <u>\$0</u>            | <u>\$0</u>                |                           | <u>\$0</u>         |
| 15. Total Interest & Dividend Adj. | <u>\$0</u>            |                           |                           |                    |

(1) Exhibit 3-A Revised

**BASA WW Operations**

TABLE V  
 Pennsylvania-American Water Company - BASA Wastewater Operations  
 CASH WORKING CAPITAL - TAXES  
 R-2025-3057983, R-2025-3058051

| Description<br>(1)       | Company<br>Proforma<br>Tax Expense<br>Present<br>Rates<br>(2) | ALJ<br>Adjustments<br>(3) | ALJ<br>Pro forma<br>Tax Expense<br>Present<br>Rates<br>(4) | ALJ<br>Allowance<br>(5) | ALJ<br>Adjusted<br>Taxes at<br>Present<br>Rates<br>(6) | Daily Expense<br>(7) | Net Lead/<br>Lag Days<br>(8) | Accrued Tax<br>Adjustment<br>(9) |
|--------------------------|---|---------------------------|--|-------------------------|--|----------------------|------------------------------|----------------------------------|
| 1. PUC Assessment        | \$352,586   | \$0                       | \$352,586  | \$0                     | \$352,586  | \$965.99             | 177.60                       | \$171,560                        |
| 2. Public Utility Realty | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 90.14                        | \$0                              |
| 3. Local Property Tax    | \$408,917   | \$0                       | \$408,917  |                         | \$408,917  | \$1,120.32           | 118.15                       | \$132,370                        |
| 4.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 5.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 6.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 7.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 8.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 9.                       | \$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                              |
| 10. State Income Tax     | \$2,310,782   | \$0                       | \$2,310,782  | \$0                     | \$2,310,782  | \$6,330.91           | 7.23                         | \$45,741                         |
| 11. Federal Income Tax   | \$6,424,041   | \$0                       | \$6,424,041  | \$0                     | \$6,424,041  | \$17,600.11          | -0.52                        | (\$9,240)                        |
| 12.                      | <u>\$9,496,326</u>  | <u>\$0</u>                | <u>\$9,496,326</u>   | <u>\$0</u>              | <u>\$9,496,326</u>                                     |                      |                              |                                  |
| 13.                      |   |                           |  |                         |  | ALJ Allowance        |                              | 340,431                          |
| 14.                      |   |                           |  |                         |  | Company Claim (1)    |                              | <u>340,431</u>                   |
| 15.                      |   |                           |  |                         |  | ALJ Adjustment       |                              | <u>0</u>                         |

(1) Company Main Brief

## BASA WW Operations

TABLE VI  
 Pennsylvania-American Water Company - BASA Wastewater Operations  
 CASH WORKING CAPITAL -- O & M EXPENSE  
 R-2025-3057983, R-2025-3058051

| Description<br>(1)             | Company<br>Pro forma<br>F.T.Y.<br>Expense<br>(2) | ALJ<br>(3) | ALJ<br>Pro forma<br>Expenses<br>(4) | Lag Days<br>(5) | Lag Dollars<br>(6)    |
|--------------------------------|--|------------|-------------------------------------|-----------------|-----------------------|
| 1. Service Company             | \$120,323  | \$0        | \$120,323                           | 12.05           | \$1,449,892           |
| 2. Chemicals                   | \$148,715  | \$0        | \$148,715                           | 44.75           | \$6,655,572           |
| 3. Group Insurance             | \$484,550  | \$0        | \$484,550                           | 11.00           | \$5,330,051           |
| 4. Insurance, Other            | \$1,869,468                                      | \$0        | \$1,869,468                         | -86.09          | (\$160,937,949)       |
| 5. Labor                       | \$2,492,063                                      | \$0        | \$2,492,063                         | 12.05           | \$30,029,358          |
| 6. Leased Equip./Rent          | \$0  | \$0        | \$0                                 | 52.71           | \$0                   |
| 7. Leased Vehicles             | \$57,569   | \$0        | \$57,569                            | 32.34           | \$1,861,856           |
| 8. Miscellaneous               | \$1,379,369                                      | \$0        | \$1,379,369                         | 23.44           | \$32,329,110          |
| 9. Natural Gas                 | \$54,734   | \$0        | \$54,734                            | 50.28           | \$2,751,944           |
| 10. Power                      | \$533,237  | \$0        | \$533,237                           | 31.06           | \$16,562,348          |
| 11. Purchased Water            | \$0  | \$0        | \$0                                 | 31.29           | \$0                   |
| 12. Telephone                  | \$8,991  | \$0        | \$8,991                             | 34.55           | \$310,608             |
| 13. Waste Disposal             | \$339,322  | \$0        | \$339,322                           | 47.04           | \$15,961,701          |
| 14. Post Retirement Benefits   | \$13,365   | \$0        | \$13,365                            | 65.00           | \$868,756             |
| 15. Pensions                   | \$36,424   | \$0        | \$36,424                            | -5.50           | (\$200,334)           |
| 16.                            | <u>\$7,538,131</u>                               | <u>\$0</u> | <u>\$7,538,131</u>                  | <u>-6.20</u>    | <u>(\$47,027,087)</u> |
| 17. ALJ Average Revenue Lag    | 45.1   |            |                                     |                 |                       |
| 18. Less: ALJ Avg. Expense Lag | <u>-6.2</u>                                      |            |                                     |                 |                       |
| 19. Net Difference             | 51.3   | Days       |                                     |                 |                       |
| 20. ALJ Pro forma              |  |            |                                     |                 |                       |
| 21. O & M Expense per Day      | <u>\$20,652</u>                                  |            |                                     |                 |                       |
| 22. ALJ CWC for O & M          | \$1,059,448                                      |            |                                     |                 |                       |
| 23. Less: Company Claim (1)    | <u>\$1,059,448</u>                               |            |                                     |                 |                       |
| 24. ALJ Adjustment             | <u>\$0</u>                                       |            |                                     |                 |                       |

(1) Exhibit 3-A Revised

**Wastewater CSS Operations**

TABLE I  
 Pennsylvania-American Water Company - Wastewater CSS Operations  
 INCOME SUMMARY  
 R-2025-3057983, R-2025-3058051

|                      | Pro Forma<br>Present Rates (1)<br>\$<br>(1) | Company<br>Adjustments (1)<br>\$<br>(2) | Pro Forma<br>Present Rates<br>Revised (1)<br>\$<br>(3) = (1) + (2) | ALJ Adjustments<br>\$<br>(4) | ALJ Pro Forma<br>Present Rates<br>\$<br>(5) = (3) + (4) | ALJ Revenue<br>Increase<br>\$<br>(6) | Total<br>Allowable<br>Revenues<br>\$<br>(7) = (5) + (6) |
|----------------------|---|---|--|------------------------------|---|--------------------------------------|---|
| 1. Operating Revenue | 85,843,356                                  | 10,590,008                              | 96,433,364   | 0                            | 96,433,364  | 0                                    | 96,433,364  |
| 2. Expenses:         |   |   |  |                              |   |                                      |   |
| 3. O & M Expense     | 19,880,761                                  | 124,009                                 | 20,004,770   | 0                            | 20,004,770  | 0                                    | 20,004,770  |
| 4. Depreciation      | 21,746,235                                  | 0                                       | 21,746,235   | 0                            | 21,746,235  | 0                                    | 21,746,235  |
| 5. Taxes, Other      | 2,253,554                                   | 77,614                                  | 2,331,168  | 0                            | 2,331,168   | 0                                    | 2,331,168   |
| 6. Income Taxes:     |   |   |  |                              |   |                                      |   |
| 7. State             | 2,533,050                                   | 726,076                                 | 3,259,126  | 0                            | 3,259,126   | 0                                    | 3,259,126   |
| 8. Federal           | 6,543,083                                   | 2,028,868                               | 8,571,951  | 0                            | 8,571,951   | 0                                    | 8,571,951   |
| 9. Total Expenses    | 52,956,683                                  | 2,956,567                               | 55,913,250   | 0                            | 55,913,250  | 0                                    | 55,913,250  |
| 10. Return           | 32,886,673                                  | 7,633,441                               | 40,520,114   | 0                            | 40,520,114  | 0                                    | 40,520,114  |
| 11. Rate Base        | 522,791,149                                 | 49,031                                  | 522,840,180  | 0                            | 522,840,180   |                                      | 522,840,180   |
| 12. Rate of Return   | 6.29%                                       |   | 7.75%  |                              |   |                                      | 7.75%   |

(1) Exhibit 3-A Revised

## Wastewater CSS Operations

TABLE I(A)  
 Pennsylvania-American Water Company - Wastewater CSS Operations  
 RATE OF RETURN  
 R-2025-3057983, R-2025-3058051

|                                       | <u>Structure</u><br>(1) | <u>Cost</u><br>(2) | <u>After-Tax<br/>Weighted<br/>Cost</u><br>[(3) = (1) x (2)] | <u>Effective<br/>Tax Rate<br/>Complement</u><br>(4) | <u>Pre-Tax<br/>Weighted<br/>Cost Rate</u><br>[(5) = (3) x (4)] |
|---------------------------------------|-------------------------|--------------------|---|---|--|
| 1. Total Cost of Debt                 |                         |                    | 2.11000000%   |   |  |
| 2. Long-term Debt                     | 41.59%                  | 4.71%              | 1.96000000%   |   | 1.96%  |
| 3. Wastewater Specific Long Term Debt | 6.88% (3)               | 2.20%              | 0.15000000%   |   | 0.15%  |
| 4. Preferred Stock                    | 0.01%                   | 9.71%              | 0.00000000%   | 0.734779  | 0.00%  |
| 5. Common Equity                      | <u>51.52%</u>           | 10.95%             | <u>5.64000000%</u>  | 0.734779  | <u>7.68%</u>   |
| 6.                                    | <u>100.00%</u>          |                    | <u>7.75000000%</u> (1) & (2)                                |   | <u>9.79%</u>   |
| 7. Pre-Tax Interest Coverage          | 4.99                    |                    |   |   |  |
| 8. After-Tax Interest Coverage        | 3.95                    |                    |   |   |  |

(1) Exhibit 3-A Revised

(2) The Company rounded the Total After-Tax Weighted Cost to 4 decimals places. The formula in the original presentation did not round the Total After-Tax Weighted Cost.

(3) The Company included Wastewater Specific Long Term Debt in the Capital Structure. Short-Term Debt was originally included in this presentation.

## Wastewater CSS Operations

TABLE I(B)

Pennsylvania-American Water Company - Wastewater CSS Operations

REVENUE FACTOR

R-2025-3057983, R-2025-3058051

|     |  |                          |
|-----|--|--------------------------|
| 1.  | 100%   | <u>1.00000000</u>        |
|     | Less:  |                          |
| 2.  | Uncollectible Accounts Factor <sup>(*)</sup>     | 0.01171000               |
| 3.  | PUC, OCA, OSBA Assessment Factors <sup>(*)</sup> | 0.00736715               |
| 4.  | Gross Receipts Tax                               | 0.00000000               |
| 5.  | Other Tax Factors                                | <u>0.00000000</u>        |
| 6.  |  | 0.98092285               |
| 7.  | State Income Tax Rate <sup>(*)</sup>             | <u>0.06990000</u>        |
| 8.  | Effective State Income Tax Rate                  | <u>0.06856651</u>        |
| 9.  | Factor After Local and State Taxes               | 0.91235634               |
| 10. | Federal Income Tax Rate <sup>(*)</sup>           | <u>0.21000000</u>        |
| 11. | Effective Federal Income Tax Rate                | <u>0.19159483</u>        |
| 12. | Revenue Factor (100% - Effective Tax Rates)      | <u><u>0.72076151</u></u> |

<sup>(\*)</sup> Exhibit 3-A Revised



## Wastewater CSS Operations

TABLE III

Pennsylvania-American Water Company - Wastewater CSS Operations  
INTEREST SYNCHRONIZATION  
R-2025-3057983, R-2025-3058051

|     |  | Amount<br>\$ |
|-----|--|--------------|
| (1) |  | (2)          |
| 1.  | Company Rate Base Claim  | 522,840,180  |
| 2.  | ALJ Rate Base Adjustments (Table II)                                 | 0            |
| 3.  | ALJ Rate Base (Line 1 - Line 2)                                      | 522,840,180  |
| 4.  | Weighted Cost of Debt (Table IA)                                     | 2.11000000%  |
| 5.  | ALJ Interest Expense (Line 3 x Line 4)                               | 11,031,928   |
| 6.  | Company Claim <sup>(1)</sup>   | 11,031,928   |
| 7.  | Total ALJ Adjustment (Line 6 - Line 5)                               | 0            |
| 8.  | Company Adjustment <sup>(1)</sup>                                    | 0            |
| 9.  | Net ALJ Interest Adjustment (Line 7 - Line 8)                        | 0            |
| 10. | State Income Tax Rate (Table IB)                                     | 6.99%        |
| 11. | State Income Tax Adjustment (Line 9 x Line 10)<br>(Flow to Table II) | 0            |
| 12. | Net ALJ Interest Adjustment (Line 9)                                 | 0            |
| 13. | State Income Tax Adjustment (Line 11)                                | 0            |
| 14. | Net ALJ Adjustment for F.I.T. (Line 12 - Line 13)                    | 0            |
| 15. | Federal Income Tax Rate  | 21.00%       |
| 16. | Federal Income Tax Adjustment (Line 14 x Line 15)                    | 0            |

<sup>(1)</sup> Exhibit 3-A Revised

## Wastewater CSS Operations

TABLE IV  
 Pennsylvania-American Water Company - Wastewater CSS Operations  
 CASH WORKING CAPITAL - Interest and Dividends  
 R-2025-3057983, R-2025-3058051

| Accrued Interest                   |                       | Preferred Stock Dividends |                           |                    |
|------------------------------------|-----------------------|---------------------------|---------------------------|--------------------|
| (1)                                | Long-Term Debt<br>(2) | Short-Term Debt<br>(3)    | (4)                       | (5)                |
| 1. Company Rate Base Claim         | \$522,840,180         | \$522,840,180             | Company Rate Base Claim   | \$522,840,180      |
| 2. ALJ Rate Base Adjustments       | <u>\$0</u>            | <u>\$0</u>                | ALJ Rate Base Adjustments | <u>\$0</u>         |
| 3. ALJ Rate Base                   | \$522,840,180         | \$522,840,180             | ALJ Rate Base             | \$522,840,180      |
| 4. Weighted Cost of Debt           | <u>1.96000000%</u>    | <u>0.15%</u>              | Weighted Cost Pref. Stock | <u>0.00000000%</u> |
| 5. ALJ Annual Interest Exp.        | <u>\$10,247,668</u>   | <u>\$784,260</u>          | ALJ Preferred Dividends   | <u>\$0</u>         |
| 6. Average Revenue Lag Days        | 45.1                  | 45.1                      | Average Revenue Lag Days  | 45.1               |
| 7. Average Expense Lag Days        | <u>91.8</u>           | <u>91.8</u>               | Average Expense Lag Days  | <u>46.1</u>        |
| 8. Net Lag Days                    | <u>-46.7</u>          | <u>-46.7</u>              | Net Lag Days              | <u>-1.0</u>        |
| 9. Working Capital Adjustment      |                       |                           |                           |                    |
| 10. ALJ Daily Interest Exp.        | \$28,076              | \$2,149                   | ALJ Daily Dividends       | \$0                |
| 11. Net Lag Days                   | <u>-46.7</u>          | <u>-46.7</u>              | Net Lag Days              | <u>-1.0</u>        |
| 12. ALJ Working Capital            | (\$1,309,745)         | (\$100,235)               |                           | \$0                |
| 13. Company Claim (1)              | <u>(\$1,309,745)</u>  | <u>(\$100,235)</u>        | Company Claim (1)         | <u>\$0</u>         |
| 14. ALJ Adjustment                 | <u>\$0</u>            | <u>\$0</u>                |                           | <u>\$0</u>         |
| 15. Total Interest & Dividend Adj. | <u>\$0</u>            |                           |                           |                    |

(1) Exhibit 3-A Revised

**Wastewater CSS Operations**

TABLE V  
 Pennsylvania-American Water Company - Wastewater CSS Operations  
 CASH WORKING CAPITAL - TAXES  
 R-2025-3057983, R-2025-3058051

| Description<br>(1)       | Company<br>Proforma<br>Tax Expense<br>Present<br>Rates<br>(2) | ALJ<br>Adjustments<br>(3) | ALJ<br>Pro forma<br>Tax Expense<br>Present<br>Rates<br>(4) | ALJ<br>Allowance<br>(5) | ALJ<br>Adjusted<br>Taxes at<br>Present<br>Rates<br>(6) | Daily Expense<br>(7) | Net Lead/<br>Lag Days<br>(8) | Accrued Tax<br>Adjustment<br>(9) |
|--------------------------|---|---------------------------|--|-------------------------|--|----------------------|------------------------------|----------------------------------|
| 1. PUC Assessment        | \$705,088   | \$0                       | \$705,088  | \$0                     | \$705,088  | \$1,931.75           | 177.60                       | \$343,079                        |
| 2. Public Utility Realty | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 90.14                        | \$0                              |
| 3. Local Property Tax    | \$1,025,725   | \$0                       | \$1,025,725  |                         | \$1,025,725  | \$2,810.21           | 118.15                       | \$332,036                        |
| 4.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 5.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 6.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 7.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 8.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 9.                       | \$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                              |
| 10. State Income Tax     | \$3,259,126   | \$0                       | \$3,259,126  | \$0                     | \$3,259,126  | \$8,929.11           | 7.23                         | \$64,513                         |
| 11. Federal Income Tax   | \$8,571,951   | \$0                       | \$8,571,951  | \$0                     | \$8,571,951  | \$23,484.80          | -0.52                        | (\$12,330)                       |
| 12.                      | <u>\$13,561,890</u>   | <u>\$0</u>                | <u>\$13,561,890</u>  | <u>\$0</u>              | <u>\$13,561,890</u>                                    |                      |                              |                                  |
| 13.                      |   |                           |  |                         |  | ALJ Allowance        |                              | 727,298                          |
| 14.                      |   |                           |  |                         |  | Company Claim (1)    |                              | <u>727,298</u>                   |
| 15.                      |   |                           |  |                         |  | ALJ Adjustment       |                              | <u>0</u>                         |

(1) Company Main Brief

## Wastewater CSS Operations

TABLE VI  
 Pennsylvania-American Water Company - Wastewater CSS Operations  
 CASH WORKING CAPITAL -- O & M EXPENSE  
 R-2025-3057983, R-2025-3058051

| Description<br>(1)             | Company<br>Pro forma<br>F.T.Y.<br>Expense<br>(2) | ALJ<br>(3) | ALJ<br>Pro forma<br>Expenses<br>(4) | Lag Days<br>(5) | Lag Dollars<br>(6)   |
|--------------------------------|--|------------|-------------------------------------|-----------------|----------------------|
| 1. Service Company             | \$1,244,195                                      | \$0        | \$1,244,195                         | 12.05           | \$14,992,550         |
| 2. Chemicals                   | \$1,030,161                                      | \$0        | \$1,030,161                         | 44.75           | \$46,103,707         |
| 3. Group Insurance             | \$1,545,025                                      | \$0        | \$1,545,025                         | 11.00           | \$16,995,279         |
| 4. Insurance, Other            | \$748,668  | \$0        | \$748,668                           | -86.09          | (\$64,451,030)       |
| 5. Labor                       | \$7,899,762                                      | \$0        | \$7,899,762                         | 12.05           | \$95,192,133         |
| 6. Leased Equip./Rent          | \$11,450   | \$0        | \$11,450                            | 52.71           | \$603,490            |
| 7. Leased Vehicles             | \$412,698  | \$0        | \$412,698                           | 32.34           | \$13,347,184         |
| 8. Miscellaneous               | \$3,005,379                                      | \$0        | \$3,005,379                         | 23.44           | \$70,438,895         |
| 9. Natural Gas                 | \$151,899  | \$0        | \$151,899                           | 50.28           | \$7,637,269          |
| 10. Power                      | \$1,412,874                                      | \$0        | \$1,412,874                         | 31.06           | \$43,883,857         |
| 11. Purchased Water            | \$0  | \$0        | \$0                                 | 31.29           | \$0                  |
| 12. Telephone                  | \$124,772  | \$0        | \$124,772                           | 34.55           | \$4,310,621          |
| 13. Waste Disposal             | \$1,673,584                                      | \$0        | \$1,673,584                         | 47.04           | \$78,725,392         |
| 14. Post Retirement Benefits   | \$57,235   | \$0        | \$57,235                            | 65.00           | \$3,720,258          |
| 15. Pensions                   | \$138,136  | \$0        | \$138,136                           | -5.50           | (\$759,746)          |
| 16.                            | <u>\$19,455,839</u>                              | <u>\$0</u> | <u>\$19,455,839</u>                 | <u>17.00</u>    | <u>\$330,739,859</u> |
| 17. ALJ Average Revenue Lag    | 45.1   |            |                                     |                 |                      |
| 18. Less: ALJ Avg. Expense Lag | <u>17.0</u>                                      |            |                                     |                 |                      |
| 19. Net Difference             | 28.1   | Days       |                                     |                 |                      |
| 20. ALJ Pro forma              |  |            |                                     |                 |                      |
| 21. O & M Expense per Day      | <u>\$53,304</u>                                  |            |                                     |                 |                      |
| 22. ALJ CWC for O & M          | \$1,497,842                                      |            |                                     |                 |                      |
| 23. Less: Company Claim (1)    | <u>\$1,497,842</u>                               |            |                                     |                 |                      |
| 24. ALJ Adjustment             | <u>\$0</u>                                       |            |                                     |                 |                      |

(1) Exhibit 3-A Revised

## Elizabeth Borough WW CSS Operations

TABLE I  
 Pennsylvania-American Water Company - Elizabeth Borough WW CSS Operations  
 INCOME SUMMARY  
 R-2025-3057983, R-2025-3058051

|                      | Pro Forma<br>Present Rates (1)<br>\$<br>(1) | Company<br>Adjustments (1)<br>\$<br>(2) | Pro Forma<br>Present Rates<br>Revised (1)<br>\$<br>(3) = (1) + (2) | ALJ Adjustments<br>\$<br>(4) | ALJ Pro Forma<br>Present Rates<br>\$<br>(5) = (3) + (4) | ALJ Revenue<br>Increase<br>\$<br>(6) | Total<br>Allowable<br>Revenues<br>\$<br>(7) = (5) + (6) |
|----------------------|---|---|--|------------------------------|---|--------------------------------------|---|
| 1. Operating Revenue | 1,767,267                                   | 3,512,854                               | 5,280,121  | 0                            | 5,280,121   | 0                                    | 5,280,121   |
| 2. Expenses:         |   |   |  |                              |   |                                      |   |
| 3. O & M Expense     | 868,308                                     | 41,135                                  | 909,443  | 0                            | 909,443   | 0                                    | 909,443   |
| 4. Depreciation      | 1,099,465                                   | 0                                       | 1,099,465  | 0                            | 1,099,465   | 0                                    | 1,099,465   |
| 5. Taxes, Other      | 29,882                                      | 25,746                                  | 55,628   | 0                            | 55,628  | 0                                    | 55,628  |
| 6. Income Taxes:     |   |   |  |                              |   |                                      |   |
| 7. State             | 24,912                                      | 240,850                                 | 265,762  | 0                            | 265,762   | 0                                    | 265,762   |
| 8. Federal           | 72,447                                      | 673,004                                 | 745,451  | 0                            | 745,451   | 0                                    | 745,451   |
| 9. Total Expenses    | 2,095,014                                   | 980,735                                 | 3,075,749  | 0                            | 3,075,749   | 0                                    | 3,075,749   |
| 10. Return           | (327,747)                                   | 2,532,119                               | 2,204,373  | 0                            | 2,204,373   | (0)                                  | 2,204,373   |
| 11. Rate Base        | 28,427,192                                  | 16,327                                  | 28,443,519   | 0                            | 28,443,519  |                                      | 28,443,519  |
| 12. Rate of Return   | -1.15%                                      |   | 7.75%  |                              |   |                                      | 7.75%   |

(1) Exhibit 3-A Revised

## Elizabeth Borough WW CSS Operations

TABLE I(A)  
 Pennsylvania-American Water Company - Elizabeth Borough WW CSS Operations  
 RATE OF RETURN  
 R-2025-3057983, R-2025-3058051

|                                       | <u>Structure</u><br>(1) | <u>Cost</u><br>(2) | <u>After-Tax<br/>Weighted<br/>Cost</u><br>[(3) = (1) x (2)] | <u>Effective<br/>Tax Rate<br/>Complement</u><br>(4) | <u>Pre-Tax<br/>Weighted<br/>Cost Rate</u><br>[(5) = (3) x (4)] |
|---------------------------------------|-------------------------|--------------------|---|---|--|
| 1. Total Cost of Debt                 |                         |                    | 2.11000000%   |   |  |
| 2. Long-term Debt                     | 41.59%                  | 4.71%              | 1.96000000%   |   | 1.96%  |
| 3. Wastewater Specific Long Term Debt | 6.88% (3)               | 2.20%              | 0.15000000%   |   | 0.15%  |
| 4. Preferred Stock                    | 0.01%                   | 9.71%              | 0.00000000%   | 0.734779  | 0.00%  |
| 5. Common Equity                      | <u>51.52%</u>           | 10.95%             | <u>5.64000000%</u>  | 0.734779  | <u>7.68%</u>   |
| 6.                                    | <u>100.00%</u>          |                    | <u>7.75000000%</u> (1) & (2)                                |   | <u>9.79%</u>   |
| 7. Pre-Tax Interest Coverage          | 4.99                    |                    |   |   |  |
| 8. After-Tax Interest Coverage        | 3.95                    |                    |   |   |  |

(1) Exhibit 3-A Revised

(2) The Company rounded the Total After-Tax Weighted Cost to 4 decimals places. The formula in the original presentation did not round the Total After-Tax Weighted Cost.

(3) The Company included Wastewater Specific Long Term Debt in the Capital Structure. Short-Term Debt was originally included in this presentation.

## Elizabeth Borough WW CSS Operations

TABLE I(B)

Pennsylvania-American Water Company - Elizabeth Borough WW CSS Oper:

REVENUE FACTOR

R-2025-3057983, R-2025-3058051

|     |  |                          |
|-----|--|--------------------------|
| 1.  | 100%   | <u>1.00000000</u>        |
|     | Less:  |                          |
| 2.  | Uncollectible Accounts Factor <sup>(*)</sup>     | 0.01171000               |
| 3.  | PUC, OCA, OSBA Assessment Factors <sup>(*)</sup> | 0.00736715               |
| 4.  | Gross Receipts Tax                               | 0.00000000               |
| 5.  | Other Tax Factors                                | <u>0.00000000</u>        |
| 6.  |  | 0.98092285               |
| 7.  | State Income Tax Rate <sup>(*)</sup>             | <u>0.06990000</u>        |
| 8.  | Effective State Income Tax Rate                  | <u>0.06856651</u>        |
| 9.  | Factor After Local and State Taxes               | 0.91235634               |
| 10. | Federal Income Tax Rate <sup>(*)</sup>           | <u>0.21000000</u>        |
| 11. | Effective Federal Income Tax Rate                | <u>0.19159483</u>        |
| 12. | Revenue Factor (100% - Effective Tax Rates)      | <u><u>0.72076151</u></u> |

<sup>(\*)</sup> Exhibit 3-A Revised



## Elizabeth Borough WW CSS Operations

TABLE III

Pennsylvania-American Water Company - Elizabeth Borough WW CSS Operations  
INTEREST SYNCHRONIZATION  
R-2025-3057983, R-2025-3058051

|     | (1)  | Amount<br>\$<br>(2) |
|-----|--|---------------------|
| 1.  | Company Rate Base Claim  | 28,443,519          |
| 2.  | ALJ Rate Base Adjustments (Table II)                                 | 0                   |
| 3.  | ALJ Rate Base (Line 1 - Line 2)                                      | 28,443,519          |
| 4.  | Weighted Cost of Debt (Table IA)                                     | 2.11000000%         |
| 5.  | ALJ Interest Expense (Line 3 x Line 4)                               | 600,158             |
| 6.  | Company Claim <sup>(1)</sup>   | 600,158             |
| 7.  | Total ALJ Adjustment (Line 6 - Line 5)                               | (0)                 |
| 8.  | Company Adjustment <sup>(1)</sup>                                    | 0                   |
| 9.  | Net ALJ Interest Adjustment (Line 7 - Line 8)                        | (0)                 |
| 10. | State Income Tax Rate (Table IB)                                     | 6.99%               |
| 11. | State Income Tax Adjustment (Line 9 x Line 10)<br>(Flow to Table II) | 0                   |
| 12. | Net ALJ Interest Adjustment (Line 9)                                 | (0)                 |
| 13. | State Income Tax Adjustment (Line 11)                                | 0                   |
| 14. | Net ALJ Adjustment for F.I.T. (Line 12 - Line 13)                    | (0)                 |
| 15. | Federal Income Tax Rate  | 21.00%              |
| 16. | Federal Income Tax Adjustment (Line 14 x Line 15)                    | 0                   |

<sup>(1)</sup> Exhibit 3-A Revised

## Elizabeth Borough WW CSS Operations

TABLE IV  
 Pennsylvania-American Water Company - Elizabeth Borough WW CSS Operations  
 CASH WORKING CAPITAL - Interest and Dividends  
 R-2025-3057983, R-2025-3058051

| Accrued Interest                   |                       |                        | Preferred Stock Dividends |                    |
|------------------------------------|-----------------------|------------------------|---------------------------|--------------------|
| (1)                                | Long-Term Debt<br>(2) | Short-Term Debt<br>(3) | (4)                       | (5)                |
| 1. Company Rate Base Claim         | \$28,443,519          | \$28,443,519           | Company Rate Base Claim   | \$28,443,519       |
| 2. ALJ Rate Base Adjustments       | <u>\$0</u>            | <u>\$0</u>             | ALJ Rate Base Adjustments | <u>\$0</u>         |
| 3. ALJ Rate Base                   | \$28,443,519          | \$28,443,519           | ALJ Rate Base             | \$28,443,519       |
| 4. Weighted Cost of Debt           | <u>1.96000000%</u>    | <u>0.15%</u>           | Weighted Cost Pref. Stock | <u>0.00000000%</u> |
| 5. ALJ Annual Interest Exp.        | <u>\$557,493</u>      | <u>\$42,665</u>        | ALJ Preferred Dividends   | <u>\$0</u>         |
| 6. Average Revenue Lag Days        | 45.1                  | 45.1                   | Average Revenue Lag Days  | 45.1               |
| 7. Average Expense Lag Days        | <u>91.8</u>           | <u>91.8</u>            | Average Expense Lag Days  | <u>46.1</u>        |
| 8. Net Lag Days                    | <u>-46.7</u>          | <u>-46.7</u>           | Net Lag Days              | <u>-1.0</u>        |
| 9. Working Capital Adjustment      |                       |                        |                           |                    |
| 10. ALJ Daily Interest Exp.        | \$1,527               | \$117                  | ALJ Daily Dividends       | \$0                |
| 11. Net Lag Days                   | <u>-46.7</u>          | <u>-46.7</u>           | Net Lag Days              | <u>-1.0</u>        |
| 12. ALJ Working Capital            | (\$71,235)            | (\$5,453)              |                           | \$0                |
| 13. Company Claim (1)              | <u>(\$71,235)</u>     | <u>(\$5,453)</u>       | Company Claim (1)         | <u>\$0</u>         |
| 14. ALJ Adjustment                 | <u>\$0</u>            | <u>(\$0)</u>           |                           | <u>\$0</u>         |
| 15. Total Interest & Dividend Adj. | <u>(\$0)</u>          |                        |                           |                    |

(1) Exhibit 3-A Revised

**Elizabeth Borough WW CSS Operations**

TABLE V  
 Pennsylvania-American Water Company - Elizabeth Borough WW CSS Operations  
 CASH WORKING CAPITAL - TAXES  
 R-2025-3057983, R-2025-3058051

| Description<br>(1)       | Company<br>Proforma<br>Tax Expense<br>Present<br>Rates<br>(2) | ALJ<br>Adjustments<br>(3) | ALJ<br>Pro forma<br>Tax Expense<br>Present<br>Rates<br>(4) | ALJ<br>Allowance<br>(5) | ALJ<br>Adjusted<br>Taxes at<br>Present<br>Rates<br>(6) | Daily Expense<br>(7) | Net Lead/<br>Lag Days<br>(8) | Accrued Tax<br>Adjustment<br>(9) |
|--------------------------|---|---------------------------|--|-------------------------|--|----------------------|------------------------------|----------------------------------|
| 1. PUC Assessment        | \$38,698  | \$0                       | \$38,698   | \$0                     | \$38,698   | \$106.02             | 177.60                       | \$18,829                         |
| 2. Public Utility Realty | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 90.14                        | \$0                              |
| 3. Local Property Tax    | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 118.15                       | \$0                              |
| 4.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 5.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 6.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 7.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 8.                       | \$0   | \$0                       | \$0  |                         | \$0  | \$0.00               | 0.00                         | \$0                              |
| 9.                       | \$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                              |
| 10. State Income Tax     | \$265,762   | \$0                       | \$265,762  | \$0                     | \$265,762  | \$728.12             | 7.23                         | \$5,261                          |
| 11. Federal Income Tax   | \$745,450   | \$0                       | \$745,450  | \$0                     | \$745,450  | \$2,042.33           | -0.52                        | (\$1,072)                        |
| 12.                      | <u>\$1,049,910</u>  | <u>\$0</u>                | <u>\$1,049,910</u>   | <u>\$0</u>              | <u>\$1,049,910</u>                                     |                      |                              |                                  |
| 13.                      |   |                           |  |                         |  | ALJ Allowance        |                              | 23,018                           |
| 14.                      |   |                           |  |                         |  | Company Claim (1)    |                              | <u>23,018</u>                    |
| 15.                      |   |                           |  |                         |  | ALJ Adjustment       |                              | <u>0</u>                         |

(1) Company Main Brief

## Elizabeth Borough WW CSS Operations

TABLE VI  
 Pennsylvania-American Water Company - Elizabeth Borough WW CSS Operations  
 CASH WORKING CAPITAL -- O & M EXPENSE  
 R-2025-3057983, R-2025-3058051

| Description<br>(1)             | Company<br>Pro forma<br>F.T.Y.<br>Expense<br>(2) | ALJ<br>(3) | ALJ<br>Pro forma<br>Expenses<br>(4) | Lag Days<br>(5) | Lag Dollars<br>(6)  |
|--------------------------------|--|------------|-------------------------------------|-----------------|---------------------|
| 1. Service Company             | \$0  | \$0        | \$0                                 | 12.05           | \$0                 |
| 2. Chemicals                   | \$0  | \$0        | \$0                                 | 44.75           | \$0                 |
| 3. Group Insurance             | \$0  | \$0        | \$0                                 | 11.00           | \$0                 |
| 4. Insurance, Other            | \$0  | \$0        | \$0                                 | -86.09          | \$0                 |
| 5. Labor                       | \$16,930   | \$0        | \$16,930                            | 12.05           | \$204,007           |
| 6. Leased Equip./Rent          | \$0  | \$0        | \$0                                 | 52.71           | \$0                 |
| 7. Leased Vehicles             | \$0  | \$0        | \$0                                 | 32.34           | \$0                 |
| 8. Miscellaneous               | \$847,613  | \$0        | \$847,613                           | 23.44           | \$19,866,022        |
| 9. Natural Gas                 | \$0  | \$0        | \$0                                 | 50.28           | \$0                 |
| 10. Power                      | \$0  | \$0        | \$0                                 | 31.06           | \$0                 |
| 11. Purchased Water            | \$0  | \$0        | \$0                                 | 31.29           | \$0                 |
| 12. Telephone                  | \$0  | \$0        | \$0                                 | 34.55           | \$0                 |
| 13. Waste Disposal             | \$0  | \$0        | \$0                                 | 47.04           | \$0                 |
| 14. Post Retirement Benefits   | \$0  | \$0        | \$0                                 | 65.00           | \$0                 |
| 15. Pensions                   | \$0  | \$0        | \$0                                 | -5.50           | \$0                 |
| 16.                            | <u>\$864,543</u>                                 | <u>\$0</u> | <u>\$864,543</u>                    | <u>23.20</u>    | <u>\$20,070,029</u> |
| 17. ALJ Average Revenue Lag    | 45.1   |            |                                     |                 |                     |
| 18. Less: ALJ Avg. Expense Lag | <u>23.2</u>                                      |            |                                     |                 |                     |
| 19. Net Difference             | 21.9   | Days       |                                     |                 |                     |
| 20. ALJ Pro forma              |  |            |                                     |                 |                     |
| 21. O & M Expense per Day      | <u>\$2,369</u>                                   |            |                                     |                 |                     |
| 22. ALJ CWC for O & M          | \$51,881   |            |                                     |                 |                     |
| 23. Less: Company Claim (1)    | <u>\$51,881</u>                                  |            |                                     |                 |                     |
| 24. ALJ Adjustment             | <u>\$0</u>                                       |            |                                     |                 |                     |

(1) Exhibit 3-A Revised

## Appendix B

## PROPOSED FINDINGS OF FACT

### I. INTRODUCTION AND OVERVIEW

1. Pennsylvania-American Water Company (“PAWC” or the “Company”) is a Pennsylvania public utility that furnishes water and wastewater services to approximately 810,000 customers (an estimated population of 2.4 million people) in a service territory covering portions of 38 counties across the Commonwealth.<sup>1</sup>

2. On November 14, 2025, the Company initiated this rate case pursuant to 66 Pa.C.S. § 1308(d)<sup>2</sup> by filing Supplement No. 58 to Tariff Water – Pa. P.U.C. No. 5 and Supplement No. 61 to Tariff Wastewater – Pa. P.U.C. No. 16 requesting a \$168.7 million increase in its total annual operating revenues to become effective January 13, 2026.<sup>3</sup>

3. The Pennsylvania Public Utility Commission (“Commission” or “PUC”) initiated an investigation of the Company’s existing and proposed rates by Order entered December 4, 2025.

4. Pursuant to Section 1308(d), the Company’s rate request was suspended by operation of law to August 13, 2026.

5. In addition to the Commission’s Bureau of Investigation and Enforcement (“I&E”), several parties participated actively in this proceeding: the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), Cleveland-Cliffs Steel (“CCS”), the Coalition for Affordable Utility Services and Energy Efficiency in

---

<sup>1</sup> PAWC St. 3, p. 3.

<sup>2</sup> Hereafter all references to a “Section” are to the Pennsylvania Public Utility Code (“Code”), 66 Pa.C.S. §§ 101 *et seq.*, unless indicated otherwise.

<sup>3</sup> PAWC St. 2, p. 3.

Pennsylvania (“CAUSE-PA”), Exeter Township School District, and Victory Brewing Company (“Victory”).

6. A total of 12 public input hearings and an evidentiary hearing were held, generating 1,879 pages of transcript. The Company provided responses to 966 interrogatories and data requests with 977 subparts.

## II. OVERALL POSITION ON RATE INCREASE

7. PAWC last increased its base rates effective August 7, 2024.<sup>4</sup> Since that time, and through the fully projected future test year (“FPFTY”) ending June 30, 2027, the Company has or will spend over \$1 billion in capital investment to continue to provide safe and reliable service to customers, while facing inflationary pressures driving increases in the costs to provide high quality water and wastewater services.<sup>5</sup>

8. Absent rate relief, PAWC’s water and wastewater operations are projected to produce an overall return on invested capital of 6.29% for the FPFTY.<sup>6</sup> The indicated return on common equity under present rates is anticipated to be only 7.63% as of June 30, 2027, which is far less than required to provide the Company with a reasonable opportunity to attract capital.<sup>7</sup>

---

<sup>4</sup> *Pa. P.U.C. v. Pa.-Am. Water Co.*, Docket Nos. R-2023-3043189 and R-2023-3043190 (Opinion and Order entered July 22, 2024) (“*PAWC 2024*”), p. 393.

<sup>5</sup> PAWC St. 1, pp. 6-7; PAWC St. 2, pp. 3-4; PAWC St. 4, pp. 4-5.

<sup>6</sup> PAWC St. 2, p. 5.

<sup>7</sup> *Id.*

9. The Company evaluated the impact of the proposed rate increases on its customers. A Zone 1 residential customer using 109 gallons of water per day would pay approximately \$3.18 per day for water under the Company's proposal.<sup>8</sup>

10. For its lower-income customers, the Company has an extensive series of assistance programs, including an income-based bill discount program to address affordability of water and wastewater service.<sup>9</sup>

11. A secondary driver of this rate case filing is the inclusion of the Company's recent acquisitions into base rates for the first time that have been approved by the Commission. These acquisitions include four very small, less viable systems with less than 1,000 customer connections each, continuing the Company's commitment to helping resolve the significant challenges faced by troubled water and wastewater systems in the Commonwealth of Pennsylvania.<sup>10</sup>

### **III. RATE BASE**

12. PAWC's final claimed rate base of \$6,603,960,239<sup>11</sup> (Appendix A) consists of the depreciated original cost of its utility plant in service at June 30, 2027, together with rate base additions and deductions made in accordance with accepted ratemaking procedures.<sup>12</sup>

---

<sup>8</sup> *Id.*, p. 10.

<sup>9</sup> *Id.*, pp. 12-15.

<sup>10</sup> PAWC St. 1, pp. 7, 10.

<sup>11</sup> Sum of Water, Wastewater ("WW") Sanitary Sewer System ("SSS") General, WW Combined Sewer System ("CSS"), Elizabeth Borough Municipal Authority WW ("EBMA") and Butler Area Sewer Authority WW ("BASA") Operations.

<sup>12</sup> See PAWC St. 5, pp. 9-21; PAWC Ex. 3-A Revised, pp. 26R2, 94R2, 145R2, 192R2, 237R2.

**A. Utility Plant in Service**

13. As documented in the American Society of Civil Engineers' 2022 Report Card for Pennsylvania's Infrastructure, aging water and wastewater systems across the Commonwealth are in dire need of upgrades. The increase in PAWC's utility plant-in-service since its last base rate case is the single largest factor driving the Company's need for an increase in revenues. Since the end of the fully projected future test year ("FPFTY") in its last case (June 30, 2025), through the end of the FPFTY in this case (June 30, 2027), PAWC will have invested over \$1 billion in new or replacement plant, and the overwhelming portion of this investment is in source of supply, treatment, distribution and collection assets.<sup>13</sup>

14. PAWC's investment is also needed to improve service to small and troubled water and wastewater systems that PAWC has acquired in furtherance of the Commission's policy that larger, viable water and wastewater companies acquire small, troubled systems and make the necessary improvement to provide safe and reliable service. To address these diverse capital needs, PAWC must raise substantial amounts of debt and equity and, in the process, demonstrate its ability to provide a reasonable return in order to convince investors to commit their funds to the Company.<sup>14</sup>

15. None of the parties opposing the rate increase disagree with PAWC's plan to invest more than \$1 billion in its infrastructure before the end of the FPFTY.

---

<sup>13</sup> PAWC St. 2, p. 5; PAWC St. 4, pp. 4-7.

<sup>14</sup> PAWC St. 13, pp. 8-11.

**B. Additions to Rate Base**

16. In addition to the depreciated original cost of net utility plant in service, PAWC has included in its claimed rate base, cash working capital, materials and supplies, accrued taxes net of prepaid taxes, as well as the utility plant acquisition adjustments (“UPAAs”), transaction costs, and other amortizations described in the direct testimony of Company witness Jared Deason (PAWC Statement No. 5).

17. Only PAWC’s request that it be allowed to include in rate base the acquisition adjustments that it recorded upon its acquisition of the Farmington water system and the utility assets of Manwalamink Water Company (“MWC”) and Manwalamink Sewer Company (“MSC”) (together, “Manwalamink”) were opposed.<sup>15</sup>

18. The Farmington water system had 41 violations of statutory or Pennsylvania Department of Environmental Protection (“DEP”) regulatory requirements concerning the safety, adequacy, efficiency or reasonableness of service and facilities, including repeated failures to monitor its water and issue public notifications to its customers.<sup>16</sup>

19. At the time of its acquisition, the Farmington water system had non-revenue water (“NRW”) of more than 30%,<sup>17</sup> but did not contemplate or budget for improvements to its system.<sup>18</sup>

---

<sup>15</sup> See OCA St. 1SR, pp. 13-18.

<sup>16</sup> PAWC St. 7-R, pp. 3-4; PAWC Ex. DW-1R ¶ 50.

<sup>17</sup> PAWC Ex. DW-1R, ¶ 48.

<sup>18</sup> *Id.*, ¶ 50.

20. At the time of its acquisition, Farmington had one staff member operating its water and wastewater systems. That individual worked part-time pursuant to a temporary contract.<sup>19</sup>

21. Three knowledgeable buyers offered essentially the same amount to purchase the Manwalamink systems.<sup>20</sup>

22. At the time PAWC acquired the Manwalamink systems, PAWC's net utility plant in service per customer was \$7,345 for water customers and \$12,271 for wastewater customers, whereas the purchase price per customer ("PP/C") for the Manwalamink Systems was only \$1,577.<sup>21</sup>

23. The PP/C for MWC and MSC were well below the average PP/C for all twelve Section 1102 acquisitions that PAWC made since 2019.<sup>22</sup>

24. Manwalamink had numerous violations of DEP regulations pertaining to the safety of the service provided by Manwalamink. These violations occurred repeatedly over several years.<sup>23</sup> Among other things, Manwalamink was not testing its water to determine whether the water was safe for customers to consume and was not informing customers about those violations. In addition, MSC exceeded its wastewater permit limits on 10 occasions.<sup>24</sup>

---

<sup>19</sup> *Id.*, ¶ 43.

<sup>20</sup> *Joint Application of Pa.-Am. Water Co., Manwalamink Water Co. and Manwalamink Sewer Co.*, Docket Nos. A-2023-3044418 et al. (Opinion and Order entered March 27, 2025) p. 44.

<sup>21</sup> *Id.*, pp. 46-47.

<sup>22</sup> PAWC St. 7-R, p. 10.

<sup>23</sup> *Id.*, pp. 11-12.

<sup>24</sup> *Id.*, pp. 11-13; PAWC Ex. DW-3R.

25. At the time of its acquisition, Manwalamink had one operational employee, who was semi-retired. It hired an operations and management company, but that company's closest employee was located 70 miles away from the Manwalamink systems.<sup>25</sup>

26. The prior owners of the Manwalamink systems were concerned about their ability to respond to emergencies. For example, one water main break caused the system to lose approximately 150,000 gallons of water, emptying the system's storage tank before repairs could be made.<sup>26</sup>

27. Cash working capital represents the funds needed to pay O&M expenses and taxes that, on average, are incurred in advance of the utility's receipt of revenues. PAWC calculated its cash working capital requirement using the accepted, PUC-approved lead-lag method.<sup>27</sup>

28. No party disputed the methodology the Company employed or challenged its proposed revenue lag, expense lag or net lag (revenue lag minus expense lag).

29. I&E witness Okum proposed adjustments to the Company's requested cash working capital that are concomitant to their proposed adjustments to O&M expenses. For the reasons set forth in Section VI of PAWC's Main Brief, none of Ms. Okum's adjustments should be adopted.

---

<sup>25</sup> PAWC St. 7-R, p. 11.

<sup>26</sup> *Id.*

<sup>27</sup> PAWC St. 5, pp. 15-17.

**C. Deductions from Rate Base**

30. No party contests any of PAWC’s deductions from rate base, which were described in Mr. Deason’s direct testimony (PAWC Statement No. 5, pp. 8, 19-21).

**IV. REVENUES**

31. The Company’s pro forma revenues under present rates in the FPFTY are \$1,162,135,869<sup>28</sup> (Appendix A).

32. The Company developed this claim using the level of water and wastewater sales revenue generated during the historic test year (“HTY”) ended June 30, 2025, and, in accordance with well-established PUC practice, making appropriate adjustments to eliminate non-recurring items and to annualize the effect of known or anticipated changes.

33. All adjustments made in developing the Company’s pro forma revenue claims are described in the direct and rebuttal testimony of Company witness Max McCellean<sup>29</sup> and further detailed in PAWC Exhibit No. 3-A Revised.<sup>30</sup>

**V. EXPENSES**

34. The Company’s pro forma O&M expenses, at present rate levels, equal \$339,539,564<sup>31</sup> (Appendix A) for the FPFTY.

---

<sup>28</sup> Sum of Water, WW SSS General, WW CSS, EBMA and BASA Operations.

<sup>29</sup> See PAWC St. 10, pp. 57-69; PAWC St. 10-R, pp. 52-53.

<sup>30</sup> On March 13, 2026, the Company submitted updated pages to Exhibit 3-A Revised that accompanied the rebuttal testimony of Dr. Christina E. Chard to address the impact of recently-released Internal Revenue Service guidance related to the Corporate Alternative Minimum Tax. The impact of that guidance and the basis for those updates to Exhibit 3-A Revised are described in the supplemental testimony of Linda Schlessman.

<sup>31</sup> Sum of Water, WW SSS General, WW CSS, BASA, and EBMA Operations.

35. Adjustments to PAWC's O&M expense claims were proposed by I&E, the OCA, and the OSBA.

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

36. The Company's labor-related expense allowance for the FPFTY<sup>32</sup> was developed based on PAWC's proposed complement of 1,278 equivalent employees.<sup>33</sup>

37. I&E witness Okum proposes an adjustment to salaries and wages, as well as derivative reductions to benefits expense and payroll taxes, to reflect a 1.25% vacancy rate.<sup>34</sup>

38. In rebuttal testimony, PAWC accepted Ms. Okum's vacancy rate adjustment to expenses, and reduced its overall O&M expense claim by \$1,515,312.<sup>35</sup> After employing a 1.25% vacancy rate, PAWC's final labor-related expense claim is \$107,221,845.

39. While Ms. Okum agrees that capitalized labor should not be adjusted for a vacancy rate, she contends that the expense portion of PAWC's labor claim must be

---

<sup>32</sup> PAWC's labor-related expense claim reflects: (1) salaries and wages (including performance compensation); (2) group insurance; (3) other benefits (401k, Defined Contribution Plan and Employee Stock Purchase Plan); and (4) payroll taxes. PAWC St. 6, pp. 4-6.

<sup>33</sup> *Id.*, pp. 5-8. *See also* PAWC St. 3, p. 59.

<sup>34</sup> I&E St. 1, pp. 15-19, 28-36. OCA witness Morgan also proposed an adjustment to reflect the Company's employee complement at the end of HTY. Mr. Morgan withdrew this adjustment in his surrebuttal testimony in light of PAWC's acceptance of I&E's recommended vacancy rate. *See* OCA St. 1SR, p. 19.

<sup>35</sup> PAWC Ex. 3-A Revised, pp. 48R, 49R, 52R, 69R, 110R, 111R, 113R, 129R, 158R, 159R, 161R, 174R, 207R, 208R, 210R and 225R; *see also* PAWC Ex. LNO-1R.

reduced by the amount originally allocated to rate base (\$610,685) to fully reflect the vacancy rate adjustment.<sup>36</sup>

40. To determine the portion of labor-related costs (salaries and wages, benefits and related payroll taxes) charged to expense, PAWC deducted 42.81% (water operations) and 19.78% (wastewater operations), which is the average proportion of direct labor costs charged to capital accounts during 2023 through 2025.<sup>37</sup> Accordingly, Ms. Okum proposes to remove amounts that are not reflected in the proposed rate allowance for O&M expense.

41. Mr. Hails' proposed adjustment to reduce employee-related expense by about \$8.7 million<sup>38</sup> relies solely on a theoretical inflation-based benchmark and improperly ignores the FPFTY staffing level (i.e., 1,278 positions) that PAWC determined is needed to support the continued provision of safe, adequate, efficient and reliable service.<sup>39</sup> The OSBA did not dispute PAWC's actual and projected merit increases that exceed the Consumer Price Index ("CPI") inflation rates.<sup>40</sup>

## **B. Performance Compensation**

42. PAWC uses a mix of fixed and variable (i.e., performance-based) compensation to attract and retain customer-committed, dedicated and highly qualified employees.<sup>41</sup>

---

<sup>36</sup> I&E St. 1-SR, pp. 18-19.

<sup>37</sup> PAWC St. 6, p. 6; PAWC St. 6-RJ, p. 3.

<sup>38</sup> OSBA St. 2, pp. 3, 17-18.

<sup>39</sup> PAWC St. 6-R, p. 4; *see also* PAWC St. 3, p. 59.

<sup>40</sup> PAWC St. 6-R, pp. 4-5.

<sup>41</sup> PAWC St. 3, pp. 59-62; PAWC St. 3-R, pp. 2-5.

43. I&E witness Okum proposes to disallow (1) 50% of the compensation earned by PAWC employees under the Annual Performance Plan (“APP”); and (2) 70% of the compensation earned by PAWC employees under the Long-Term Performance Plan (“LTPP”), contending that the Company has not demonstrated how these financial metrics benefit customers.<sup>42</sup> OCA witness Morgan also proposes adjustments to disallow 50% of performance compensation he believes is tied to meeting earnings goals benefiting shareholders.<sup>43</sup>

44. The performance compensation challenged by Ms. Okum and Mr. Morgan is an integral part of the total market-based compensation package paid to employees and that is necessary to compete for and retain qualified employees so that customers continue to receive safe and reliable service.<sup>44</sup>

45. The Company presented unrefuted evidence (a detailed third-party compensation analysis) demonstrating that American Water’s total employee compensation, including performance compensation, is consistent with market best practices and comparable to the designs of utility peers.<sup>45</sup>

---

<sup>42</sup> I&E St. 1, pp. 20-24; I&E St. 1-SR, pp. 19-26.

<sup>43</sup> OCA St. 1, pp. 20-21; OCA St. 1SR, pp. 7-11.

<sup>44</sup> PAWC St. 3, pp. 59-62; PAWC St. 3-R, pp. 2-13.

<sup>45</sup> *See* PAWC St. 16-R, pp. 3-6; CONFIDENTIAL PAWC Exhibit RVM-1R.

46. PAWC’s performance-based compensation expense, including APP and LTPP, was recently reviewed and approved by the Commission in PAWC’s 2020 and 2023 base rate proceedings.<sup>46</sup>

47. Satisfying key financial objectives provides significant benefits to customers, not just shareholders of American Water, by incentivizing employees to seek out cost savings across all areas of the business, helping ensure the financial health of the business through careful cost controls, and promoting employee longevity that enables the Company to pursue the long-term best interests of customers.<sup>47</sup>

### **C. Group Insurance Expense**

48. Mr. Morgan proposes using a single data point – 2026 group insurance rates – in lieu of the three-year average percentage change in rates PAWC employed to derive its FPFTY group insurance expense claim.<sup>48</sup>

49. PAWC used a three-year average percentage change to smooth year-to-year variations in group insurance plan, and that approach was not opposed by the OCA.<sup>49</sup> Using a three-year average percentage change continues to be the appropriate approach to smooth year-over-year variations in plan rates.<sup>50</sup>

---

<sup>46</sup> *Pa. P.U.C. v. Pa.-American Water Co.*, Docket Nos. R-2020-3019369 and R-2020-3019371 (Opinion and Order entered Feb. 25, 2021) (“*PAWC 2021*”), p. 53; *PAWC 2024*, p. 80.

<sup>47</sup> See PAWC St. 3, pp. 59-62; PAWC St. 3-R, pp. 2-13; PAWC St. 16-RJ, pp. 2-4.

<sup>48</sup> OCA St. 1, p. 23.

<sup>49</sup> PAWC St. 6-R, p. 6.

<sup>50</sup> *Id.*

#### **D. Service Company Expense**

50. American Water Works Service Company, Inc. (“Service Company”) provides a wide range of essential support services to PAWC and other American Water subsidiaries on a shared basis, at cost with no profit to Service Company, which include customer service, water quality, engineering, environmental compliance, human resources, information technology, finance, accounting, legal, supply chain, and risk management services.<sup>51</sup>

51. PAWC accrues substantial benefits from Service Company including access to highly trained professionals with specialized expertise in water and wastewater utility operations, procurement support that enables PAWC to obtain discounts on equipment and supplies needed for essential utility operations, and support from Service Company’s Central Laboratory in Illinois, which employs chemists, laboratory technicians, and support employees to perform water quality testing and research, and uses state-of-the-art technology to perform water quality testing for PAWC.<sup>52</sup>

52. If PAWC were to try and maintain a fully complement of comparably qualified personnel directly, without Service Company, the total cost to PAWC for such services would be considerably higher since it is more efficient to provide such services, support, and resources on a consolidated basis, enabling economies of scale. This mitigates the costs ultimately borne by customers.<sup>53</sup>

---

<sup>51</sup> PAWC Statement No. 6, pp. 13-17; PAWC Statement No. 6-R, pp. 11-17; PAWC Statement No. 3-R, p. 13-20.

<sup>52</sup> PAWC Statement No. 6, pp. 13-14.

<sup>53</sup> *Id.*, p. 14.

53. Service Company costs solely related to PAWC are charged directly to PAWC. Costs incurred to provide services that are not exclusive to PAWC are allocated using “Tier One” or “Tier Two” allocation factors. Tier One allocation factors allocate costs between regulated and non-regulated entities based on cost causation metrics. Tier Two allocation factors are used to allocate costs among regulated entities and are primarily based on the number of customers served in the immediately preceding calendar year.<sup>54</sup>

54. PAWC is seeking recovery of approximately \$77.9 million in Service Company expense for the FPFTY.<sup>55</sup>

55. The Company’s Service Company expense claim was accepted in full by I&E.<sup>56</sup>

56. OSBA witness Hails proposes a \$27.3 million adjustment<sup>57</sup> that would reduce PAWC’s claim to a level even lower than its HTY expense of \$50.6 million, which is comparable to the Company’s actual Service Company expense in 2020.<sup>58</sup>

57. Mr. Hails’ proposed adjustment is based on arbitrary reductions derived from his broader opinion that the Company’s overall O&M expense growth above the rate of inflation is unreasonable. Mr. Hails’ adjustments to Service Company expense were not supported by any operational, staffing, or workload analysis and Mr. Hails did not present

---

<sup>54</sup> *Id.*, p. 15.

<sup>55</sup> PAWC St. 6, pp. 16-17; *see also* PAWC St. 6-R, pp. 6, 20; PAWC Ex. 3-A Revised, pp. 61R, 121R, 168R and 218R (removing \$64,830 in lobbying expense and penalties that was erroneously included in the Company’s initial claim and further corrections for allocated interest expense).

<sup>56</sup> I&E St. 1, p. 44.

<sup>57</sup> OSBA St. 2, pp. 14-16.

<sup>58</sup> PAWC St. 6-R, p. 19.

evidence that any specific Service Company functions are unnecessary or that PAWC could have obtained comparable services at a lower cost.<sup>59</sup>

58. Mr. Hails does not take any issue with the Company's cost allocation factors for particular Service Company expense items.<sup>60</sup>

59. Mr. Hails' critique of third-party assessments of PAWC's historical Service Company charges in 2020 and 2023<sup>61</sup> is misplaced as the Company did not rely on those studies to support its costs in this proceeding. The Company's claimed Service Company expense is supported by substantial evidence submitted in the proceeding, which Mr. Hails disregards in favor of his proposed adjustment methodology without specifically identifying any Service Company services that are unnecessary, unreasonable, or too costly.<sup>62</sup>

#### **E. Waste Disposal**

60. I&E witness Okum proposes an adjustment to reduce PAWC's claim for waste disposal expense by \$2,850,894 by using a historical three-year average of waste disposal costs rather than the three-year average percentage change of those costs.<sup>63</sup>

61. The use of a three-year average of costs masks the upward trend in PAWC's waste disposal costs – a \$3.6 million increase from 2021 to 2025.<sup>64</sup> Actual future test year

---

<sup>59</sup> *Id.*, pp. 17-18.

<sup>60</sup> *Id.*, p. 8.

<sup>61</sup> *See* OSBA St. 2, pp. 8-13.

<sup>62</sup> PAWC Statement No. 6-R, p. 8.

<sup>63</sup> I&E St. 1, pp. 38-39.

<sup>64</sup> PAWC St. 6-R, pp. 21-22.

data through December 2025 shows a 24.48% increase in waste disposal costs in 2025 compared to 2024.<sup>65</sup>

#### **F. Transportation Expense**

62. In addition to fleet management costs per vehicle, PAWC's transportation expense includes costs for fuel, titling and registration fees, maintenance expense, and reimbursement for Company use of personal vehicles.<sup>66</sup> As has been its practice for many years, PAWC included an adjustment for CPI Transportation Services (i.e., inflation) increases to fuel and maintenance expense.<sup>67</sup> In its rebuttal case, PAWC recognized the decrease in the Transportation Services inflation rate as of the end of the HTY and updated its claimed transportation expense by applying the June 2025 inflation rate of 3.11% instead of the three-year average of 6.94%.<sup>68</sup>

63. Both Ms. Okum and Mr. Morgan object to the use of an inflation escalation.<sup>69</sup> The escalation factor applied by Ms. O'Malley to PAWC's transportation expense is a reasonable means of reflecting increases in fuel and maintenance costs.<sup>70</sup>

#### **G. Towamencin Transaction Costs**

64. PAWC seeks to recover \$660,138, amortized over 10 years, for transaction costs incurred for the attempted acquisition of the Towamencin Township ("Towamencin")

---

<sup>65</sup> PAWC St. 6-RJ, p. 3.

<sup>66</sup> PAWC St. 6, p. 22.

<sup>67</sup> PAWC St. 6-R, p. 20.

<sup>68</sup> PAWC St. 6-R, pp. 20-21; PAWC Ex. 3-A, pp. 58R, 118R, 165R and 215R; *see also* PAWC Ex. LNO-6R.

<sup>69</sup> *See* OCA St. 1SR, p. 20; OCA Ex. LKM-7W-SR; I&E St. 1-SR, pp. 47-49.

<sup>70</sup> *See* PAWC St. 6-R, p. 20.

wastewater system, filed an Application with the Commission seeking approval of the acquisition, but ultimately withdrew the Application and the transaction was not consummated.<sup>71</sup>

65. PAWC subsequently requested to withdraw the application to acquire the Towamencin system due to two unforeseeable and extraordinary events.<sup>72</sup>

66. PAWC is requesting recovery of its expenses in the first rate case in which it had the opportunity to do so.<sup>73</sup>

#### **H. Interest Synchronization**

67. PAWC's claim for income tax expense is set forth in PAWC Exhibit 3-A Revised and is based, in part, on an interest expense deduction calculated using the Company's proposed rate base and weighted cost of debt.<sup>74</sup>

68. Mr. Morgan proposes an interest expense adjustment concomitant to the OCA's proposed adjustments to rate base and the weighted average cost of debt,<sup>75</sup> which should be rejected for the reasons set forth in Sections IV and IX of PAWC's Main Brief.

---

<sup>71</sup> PAWC St. 5, p. 7.

<sup>72</sup> *Id.* After the parties signed an Asset Purchase Agreement, a local referendum was passed prohibiting the privatization of Towamencin's wastewater system through the adoption of a Home Rule Charter. In addition, after PAWC filed its application, the Commission adopted a Reasonableness Review Ratio ("RRR") for reviewing acquisitions pursuant to Section 1329. See Valuation of Acquired Municipal Water and Wastewater Systems – Act 12 of 2016 Implementation, Docket No. M-2016-2543193 (Final Supplemental Implementation Order entered Jul. 2, 2024).

<sup>73</sup> The Commission did not approve the withdrawal of PAWC's application to acquire the Towamencin system until September 24, 2024. See PAWC St. 7-R, pp. 15-17.

<sup>74</sup> See PAWC Ex. 3-A Revised, pp. 71R2, 72R2, 131R2, 132R2, 176R2, 177R2, 227R2, 228R2, 256R2, 257R2.

<sup>75</sup> OCA Ex. LKM-10W-SR; OCA Ex. LKM-9WSS-SR.

**I. Amortization Expense**

69. The OCA’s proposed adjustments to PAWC’s amortization expense related to the Company’s Farmington and Manwalamink acquisition adjustments should be rejected for the reasons discussed in Findings of Fact Nos. 14-27.

**J. Third Party Call Center Expense**

70. The OCA acknowledges call handling operations are necessary to provide service to PAWC’s customers but proposes an adjustment to eliminate \$283,651 from PAWC’s O&M expense claim related to third-party call handling agencies.<sup>76</sup>

71. If PAWC did not utilize third-party call handling agencies, the Company would incur additional expense for staffing increases to handle the call volumes previously answered by third-party contractors.<sup>77</sup>

**K. Pension and Other Post Employment Benefits (“OPEB”) Expense**

72. Projections of PAWC’s pension and OPEB costs are calculated by WTW, a national actuarial firm. Based on the actuarial report furnished by WTW for 2026 after the initial filing, PAWC revised its pension claim to an expense of \$1,072,810 and its OPEB

---

<sup>76</sup> OCA St. 1SR, p. 21; OCA Ex. LMK-12WSR; OCA St. 5, pp. 8-9.

<sup>77</sup> PAWC St. 2-R, pp. 20-21.

claim to an income<sup>78</sup> of \$5,885,345.<sup>79</sup> Thus, on a net total basis, PAWC's updated claims produce income of \$4,812,535 to offset its overall revenue requirement. No party disagrees with PAWC's claimed annual level of pension and OPEB expense under proposed rates.

73. The Company also requested Commission approval to defer and record any amounts above or below the projected level of pension and OPEB expenses into regulatory asset or liability accounts until its next base rate proceeding.<sup>80</sup>

74. Although WTW uses sound, well-established actuarial methods, the pension and OPEB costs that it calculates are subject to material change based on a variety of economic and demographic variables that are outside the Company's control.<sup>81</sup> Deferred accounting authorization would assure that PAWC recovers only in actual expenses, no more or less.<sup>82</sup>

75. PAWC's proposed deferral mechanism will not remove incentives for PAWC to control pension and OPEB costs or guarantee recovery of those expense items.

---

<sup>78</sup> Most Pennsylvania utilities base their claims for pension and OPEB costs on cash contributions to their pension and OPEB plans, which can never be less than zero. However, in the PUC's final order in PAWC's 2017 base rate case, it approved the Company's request to cease using cash contributions as the ratemaking measure of pension and OPEB costs and, instead, follow GAAP accounting under Financial Accounting Standards Board Accounting Standard Codification Topic 715 ("ASC 715") (formerly Financial Accounting Standard 87). Under ASC 715, net changes in the actuarial determination of pension and OPEB obligations and associated plan funding levels directly impact the bottom line on a company's income statement for the applicable accounting period. Based on the direction and magnitude of the factors that drive the annual performance of a company's pension and OPEB plans, the amount reflected on the income statement in any given year can be either expense or income. PAWC St. 6, p. 11.

<sup>79</sup> PAWC St. 6-R, p. 6; Ex. 3-A Revised, pp. 50R, 51R.

<sup>80</sup> PAWC St. 2, pp. 29-30.

<sup>81</sup> PAWC St. 14, pp. 3-4, 6-8.

<sup>82</sup> PAWC St. 2, pp. 29-30.

All deferred amounts will be subject to review in the Company's next rate case, and all parties will have an opportunity to review the pension and OPEB expenses incurred by PAWC to ensure that those costs have been prudently incurred.<sup>83</sup>

## VI. TAXES

76. PAWC's claims for Federal and State income taxes are set forth in described by Company witness Linda Schlessman in PAWC St. 8 and set forth in PAWC Exhibit 3-A Revised. No party disputes the manner in which the Company calculated its Federal and State income taxes.

---

<sup>83</sup> See, e.g., *Petition of Pa.-American Water Co. for Auth. to Defer and Record as Regulatory Assets for Future Recovery: (1) Incremental Expenses Incurred Because of the Effects of the COVID-19 Emergency; (2) Revenue Reductions Attributable to the Effects of the COVID-19 Emergency; and (3) Carrying Charges on the Amounts Deferred*, Docket No. P-2020-3022426 (Opinion and Order entered Sept. 15, 2021), pp. 12-13, 30-32, 42, 49-50 (approving deferral of COVID-19-related financial impacts); *Petition of Pa.-American Water Co. for Auth. to Defer Expenses Incurred to Pay New Regulatory Fees Imposed by the Pa. Dep't of Env'tl. Prot.*, Docket No. P-2019-3008253 (Opinion and Order entered May 9, 2019), pp. 3-4 (approving deferral of \$840,000 of expenses incurred for new annual fees imposed by the PaDEP); *Petition of Pa.-American Water Co. for Auth. to Defer for Accounting and Financial Reporting Purposes Expenses Relating to a Water Customer Class Demand Study*, Docket No. P-2012-2308982 (Opinion and Order entered Aug. 20, 2012) (approving deferral of \$463,000 in expenses related to a demand study agreed to in settlement of PAWC's 2011 rate case); *Petition of Columbia Gas of Pa., Inc. for Auth. to Defer, for Accounting Purposes, Certain Costs Associated With A Regulatory Asset Related to Other Post-Retirement Benefits Provided by NiSource Corporate Serv. Co.*, Docket No. P-2011-2275383 (Opinion and Order entered May 24, 2012) (approving deferral of \$903,000 expenses related to an accounting change for certain retirement-related management fees paid to an affiliate); *Petition of the Newtown Artesian Water Co. for Permission to Defer and Record Unrecovered Purchased Water Costs*, Docket No. P-2010-221420 (Order entered June 1, 2011) (approving deferral of unrecovered purchased water costs totaling \$351,929 related to rate increases implemented by the Bucks County Water and Sewer Authority in between rate cases); *Petition of Citizens Utils. Water Co. of Pa.*, Docket No. P-00930746 (Order entered Feb. 25, 1994) (approving deferral of SFAS 106 costs); *Pa. P.U.C. v. Consumers Pa. Water Co. – Roaring Creek Div.*, Docket No. R-932655 (Order entered Feb. 3, 1994) (same).

## VII. DEPRECIATION

77. PAWC’s claim for accrued depreciation related to its utility plant-in-service was developed and presented by PAWC witness John J. Spanos, President of Gannett Fleming Valuation and Rate Consultants, LLC (“Gannett Fleming”). Mr. Spanos completed depreciation studies to estimate the annual depreciation accruals related to water and wastewater plant-in-service for ratemaking purposes and, using PUC-approved procedures, to estimate the Company’s book reserve as of June 30, 2025, June 30, 2026 and June 30, 2027.<sup>84</sup> PAWC’s annual depreciation accrual applicable to plant-in-service at June 30, 2027 is \$289,738,866.<sup>85</sup>

78. The Company uses the straight line, remaining life depreciation method with the Equal Life Group (“ELG”) procedure, to determine depreciation expense.<sup>86</sup> The ELG procedure has been used by PAWC for depreciation since the 1980s.

79. The ELG procedure allocates depreciation expense in a manner that approximates the actual life of each equal life group. OCA witness David Garrett’s proposed Average Life Group (“ALG”) procedure<sup>87</sup> depreciates all assets as if they have the same life.<sup>88</sup>

---

<sup>84</sup> See generally PAWC St. 11; PAWC Ex. Nos. 11-A through 11-N. In rebuttal, Mr. Spanos presented updated water and wastewater depreciation accrual rates that resulted from DSIC related adjustments to water and wastewater plant. PAWC St. 11-R, p. 30; PAWC Exs. JJS-2R-JJS-7R.

<sup>85</sup> See Exhibit 3-A Revised, pp. 1R2, 75R2, 135R2, 180R2, 231R2.

<sup>86</sup> PAWC St. 11, p. 6; PAWC St. 11-R, p. 12; PAWC Hearing Ex. 2, p. 1.

<sup>87</sup> See OCA St. 2, pp. 46-56.

<sup>88</sup> PAWC St. 11-R, pp. 4-12. The ALG methodology is also sometimes referred to as the Average Service Life (or ASL) procedure.

80. A change to a lower depreciation rate, through the adoption of ALG in this case, produces a short-term reduction to rates. However, the lower depreciation rate creates a higher rate base and higher overall cost to customers because of the poor matching of recovery to utilization of the assets.<sup>89</sup>

81. Even if the ALG method were to be applied, Mr. Spanos explains that Mr. Garrett's proposed ALG rates for the FTY and FPFTY are incorrect because he is using depreciation reserve balances that are based on projected ELG accruals. Consequently, Mr. Garrett erred in his statement that the difference between the two procedures is \$49.9 million as of June 30, 2027 because he has applied an inappropriate methodology for forecasted test years and utilizes past approved calculations to misrepresent the true procedural changes.<sup>90</sup>

## **VIII. RATE OF RETURN**

### **A. Summary**

82. In support of its proposed increase, the Company presented the expert testimony of PAWC witness Ann Bulkley, a Principal in The Brattle Group. She has previously appeared before the PUC on behalf of the Company and testified on return on equity ("ROE") issues before more than thirty-two public utility commissions across the United States and the Federal Energy Regulatory Commission.<sup>91</sup>

---

<sup>89</sup> PAWC St. 11-R, pp. 6-12, 14-22; PAW Ex. JJS-1R. Mr. Garrett also presented an example to compare ELG and ALG in his surrebuttal testimony (pp. 14-15). However, that example contained errors and misstatements. PAWC Hearing Ex. 2, pp. 2-3.

<sup>90</sup> PAWC St. 11-R, pp. 22-26; PAWC Hearing Ex. 2, pp. 5-6.

<sup>91</sup> PAWC St. 13 & Attachment A.

83. Ms. Bulkley analyzed current market conditions and their effect on the cost of equity for PAWC. Long-term interest rates remain elevated and are expected to remain elevated due to inflationary policies such as tariffs, immigration policy, and tax cuts. With long-term interest rates expected to remain relatively high, borrowing also remains relatively more expensive, which means the cost of capital has increased. As a result, investors demand a higher cost of equity, which means the cost of equity has increased and is expected to remain elevated over the near term.<sup>92</sup>

84. Since the Iran conflict began on February 28, 2026, interest rates have increased due to increased inflationary concerns and energy price increases. Economists and market analysis have adjusted forecasts with several revising projections to reflect the absence of any rate cuts by the Federal Reserve in 2026.<sup>93</sup>

85. Ms. Bulkley applied the ROE models accepted by the Commission using a proxy group of comparable utilities. Based on the results of those models, and after accounting for current capital market conditions and the Company's business, regulatory and financial risk as well as PAWC's superior management performance, Ms. Bulkley recommended an ROE of 10.95%.<sup>94</sup>

## **B. Proxy Group**

86. Due to a recent trend towards consolidation in the utility industry, Value Line currently classifies only six companies as water utilities, and both Ms. Bulkley and I&E

---

<sup>92</sup> PAWC St. 13, pp. 12-19.

<sup>93</sup> PAWC St. 13-RJ, p. 2.

<sup>94</sup> *Id.*, pp. 5, 70-71.

witness D.C. Patel eliminated American Water (PAWC's parent company) and Essential Utilities from their cost of equity analyses due to the announced merger of American Water and Essential.<sup>95</sup> Excluding companies involved in a merger is a standard screening criterion used by nearly all cost of capital experts.<sup>96</sup>

87. Ms. Bulkley considered natural gas utilities that met her screening criteria for the proxy group due to the small number of water utilities, consistent with the decisions of other public utility commissions in ratemaking proceedings for water utilities in Florida, Illinois and Massachusetts.<sup>97</sup>

88. Ms. Bulkley's analyses demonstrated that the natural gas utilities that met her screening criteria are reasonable proxy companies to be used to expand the otherwise small water utility proxy group. Her analyses included a review of the betas of water and natural gas distribution companies and a comparison of Value Line timeliness and safety rankings of water and natural gas utility investments.<sup>98</sup>

89. The result was a proxy group of comparable companies consisting of the following entities:<sup>99</sup>

---

<sup>95</sup> PAWC St. 13-R, p. 19; I&E St. 2, pp. 12-13.

<sup>96</sup> PAWC St. 13-RJ, pp. 12-13.

<sup>97</sup> PAWC St. 13, pp. 23-26.

<sup>98</sup> PAWC St. 13, pp. 26-27.

<sup>99</sup> PAWC St. 13-R, p. 18; *see generally* PAWC St. 13-R & 13-RJ.

Atmos Energy Corporation  
Chesapeake Utilities Corporation  
NiSource Inc.  
Northwest Natural Gas Company  
ONE Gas, Inc.  
Southwest Gas Corporation  
American States Water Company  
California Water Service Group  
Middlesex Water Company  
H2O America (SJW Group)

90. Ms. Bulkley also provided the opinions of industry participants in two transactions, both of whom support the viewpoint that the risk profiles and business models of the natural gas distribution and water utility sectors are similar.<sup>100</sup>

91. Analyst coverage of the water utilities used in Mr. Patel's water-only proxy group is limited, with S&P reporting that their growth rates for the water utilities are based on the viewpoint of one analyst for each company whereas there are multiple analysts contributing to the growth rates for the natural gas distribution companies.<sup>101</sup> The small water proxy group relied on by Mr. Patel can also produce more volatile results than the water and gas utility proxy group used by Ms. Bulkley.<sup>102</sup>

92. Mr. Patel did not rebut Ms. Bulkley's financial data or the investor perspective presented by Ms. Bulkley.<sup>103</sup>

93. Mr. Garrett's proxy group consisted of six water companies, but included Essential Utilities and American Water in violation of standard cost of equity screening

---

<sup>100</sup> PAWC St. 13-R, p. 21.

<sup>101</sup> *Id.*, p. 23.

<sup>102</sup> PAWC St. 13-RJ, p. 4.

<sup>103</sup> *Id.*, pp. 4-5.

criteria described by Ms. Bulkley.<sup>104</sup> Mr. Garrett continued to exclude gas companies from his proxy group despite stating that market risk as measured by beta (which Ms. Bulkley relied upon in her proxy group selection) is the “primary risk the Commission should consider when determining the allow return for the utilities it regulates.”<sup>105</sup>

### **C. Capital Structure**

94. In developing her recommended reasonable rate of return, Ms. Bulkley employed the Company's anticipated year-end capital structure ratios for the FPFTY, as these ratios are indicative of those PAWC will maintain to finance its claimed rate base during the period it proposed that its new rates would be in effect.<sup>106</sup>

95. Ms. Bulkley calculated the capital structure of PAWC and both its water and wastewater services. She calculated the total-Company capital structure first, using all debt issuances and all sources of capital. Because certain debt issues were specifically attributable to wastewater, she calculated the capital structure for water service by removing the wastewater-specific debt and recalculating the ratios of the remaining capital stock. The wastewater-specific capital structure was then calculated by applying the total company debt ratio to the wastewater rate base, excluding the wastewater-specific debt issuances.<sup>107</sup> The resulting capital structures are shown in the following table:<sup>108</sup>

---

<sup>104</sup> PAWC St. 13-RJ, pp. 12-13.

<sup>105</sup> PAWC St. 13-RJ, pp. 12-13.

<sup>106</sup> PAWC St. 13, pp. 64-65.

<sup>107</sup> *Id.*, pp. 66 & 69.

<sup>108</sup> *Id.*, p. 65.

| Total Company       |        |
|---------------------|--------|
| Common Equity       | 55.33% |
| Preferred Stock     | 0.01%  |
| Long-Term Debt      | 44.66% |
| Water Services      |        |
| Common Equity       | 56.31% |
| Preferred Stock     | 0.01%  |
| Long-Term Debt      | 43.68% |
| Wastewater Services |        |
| Common Equity       | 51.52% |
| Preferred Stock     | 0.01%  |
| Long-Term Debt      | 41.49% |
| WW Specific Debt    | 6.88%  |

96. OCA witness Garrett did not comment on the Company's capital structure.<sup>109</sup>

97. I&E witness Patel accepted the capital structure of the Company's wastewater operations.<sup>110</sup>

98. For the Company's water operations, however, Mr. Patel recommended that PAWC's cost of equity should not exceed 55%.<sup>111</sup>

99. PAWC's proposed capital structure recognizes the composition of the financing that PAWC is currently using to fund its investments and obligations, and Ms. Bulkley's testimony established that this capital structure was well within the range of equity ratios of her proxy group of utilities.<sup>112</sup>

#### **D. Cost of Long-Term Debt**

100. The Company's cost of long-term debt of 4.71% was calculated by Ms. Bulkley using specific debt identified for wastewater services and calculating the water

<sup>109</sup> PAWC St. 13-R, p. 5.

<sup>110</sup> I&E St. 2, p. 19.

<sup>111</sup> *Id.*

<sup>112</sup> PAWC St. 13, pp. 66-69/

services capital structure and associated water services long-term debt by removing the wastewater services debt. No party disputed Ms. Bulkley's cost of long-term debt calculation.<sup>113</sup>

## **E. Return on Equity**

### **1. PAWC Return on Equity**

101. Consistent with recent Commission decisions, Ms. Bulkley considered the results of both the discounted cash flow (“DCF”) model and the capital asset pricing model (“CAPM”).<sup>114</sup>

102. The DCF approach is based on the theory that a stock’s current price represents the present value of all expected future cash flows.<sup>115</sup> Because “dollars received in the future are worth less than the dollars received today, the cash flow must be ‘discounted’ back to the present value at the investor’s rate of return.”<sup>116</sup> The DCF model used by Ms. Bulkley and other witnesses is known as the Constant Growth DCF model, and relies on various assumptions, including a growth rate for earnings and dividends.<sup>117</sup>

103. Ms. Bulkley calculated average dividend yields for the proxy group for the 30-, 90- and 180-day trading days as of September 30, 2025.<sup>118</sup> Since utility dividends generally increase from year to year and are paid quarterly, not continuously, she adjusted

---

<sup>113</sup> PAWC St. 13, p. 70.

<sup>114</sup> PAWC St. 13, pp. 30-33.

<sup>115</sup> PAWC St. 13, p. 32.

<sup>116</sup> *Columbia Gas 2025*, p. 216; PAWC St. 13, pp. 32-33.

<sup>117</sup> PAWC St. 13, pp. 33-34.

<sup>118</sup> *Id.*, p. 34.

her findings to capture one-half of the anticipated dividend growth.<sup>119</sup> Once the dividend yield is calculated, the proper growth rate must be developed. To that end, Ms. Bulkley considered a variety of published long-term growth rates and calculated results using minimum, average, and high growth rates from these sources, leading to a DCF range of 9.66% to 11.22% based on market data through January 31, 2026.<sup>120</sup>

104. The CAPM is a forward-looking risk premium approach that estimates the cost of equity for a given security as a function of a risk-free return plus a risk premium to compensate investors for the non-diversifiable or “systematic” risk of that security. Systematic risk is the risk inherent in the entire market or market segment, which cannot be diversified away using a portfolio of assets.<sup>121</sup> According to the theory underlying the CAPM, because unsystematic risk can be diversified away, investors should only be concerned with systematic or non-diversifiable risk, which is measured by beta (which reflects a measure of the uncertainty of the general market and the variance between a specific security and the general market).<sup>122</sup>

105. To estimate the risk-free rate or return, Ms. Bulkley used the current 30-day yield on 30-year Treasury bonds and projected 30-year Treasury bond yields for the first quarter of 2026 through the first quarter of 2027 and for the period 2027 through 2031.<sup>123</sup> Ms. Bulkley used beta coefficients for the proxy group companies as reported by Value

---

<sup>119</sup> *Id.*, p. 35.

<sup>120</sup> PAWC St. 13-R, p. 10.

<sup>121</sup> PAWC St. 13, p. 39.

<sup>122</sup> *Id.*, p. 40.

<sup>123</sup> *Id.*, pp. 40-41.

Line, which are based on five years of weekly returns relative to the New York Stock Exchange Composite Index (Value Line).<sup>124</sup> She estimated the market risk premia based on the expected return on the S&P 500 Index as of September 30, 2025, with a range of 8.55% to 8.94% – a range she concluded was reasonable in light of the fact that the historical market risk premia between 1926 through 2024 was at or above that range.<sup>125</sup>

106. In addition, Ms. Bulkley considered the results of another form of CAPM (the “Empirical CAPM”). This methodology addresses the tendency of the “traditional” CAPM to underestimate the cost of equity for companies with low beta coefficients, such as regulated utilities.<sup>126</sup> Ms. Bulkley’s analysis indicated a traditional CAPM range of returns from 11.42% to 11.61%, with Empirical CAPM ROEs of 11.99% to 12.13% using market data through January 31, 2026.<sup>127</sup>

107. Ms. Bulkley also identified several crucial business and regulatory risks faced by PAWC, in particular risks associated with PAWC’s capital investment program with \$1 billion in capital investments through June 1, 2027, and \$3.50 billion in investment in infrastructure improvements over the next several years.<sup>128</sup>

108. PAWC also faces risks associated with expanded environmental and water quality regulation.<sup>129</sup>

---

<sup>124</sup> *Id.*, p. 41.

<sup>125</sup> *Id.*, p. 42.

<sup>126</sup> *Id.*, p. 43.

<sup>127</sup> PAWC St. 13-R, p. 11.

<sup>128</sup> PAWC St. 13, pp. 47-49.

<sup>129</sup> *Id.*, pp. 60-62.

109. PAWC faces risks of flotation costs associated with the sale of new issues of common stock, as those costs are not current expenses and recovered but are part of the invested costs of the utility and not otherwise recovered.<sup>130</sup>

## **2. I&E's Position**

110. I&E witness Patel initially recommended an ROE of 9.8% but changed his recommendation to 9.7% after correcting an error in his CAPM analysis.<sup>131</sup>

111. Mr. Patel has changed the way he calculates his CAPM results in several consecutive PAWC proceedings with the effect of reducing his recommendations. Using the same methodology he used in PAWC's 2020 and 2022 proceedings would have produced a CAPM of 12.39%, and using his 2024 methodology would lead to a CAPM of 9.97%.<sup>132</sup>

112. Mr. Patel does not identify what financial conditions require his methodological changes, nor what Commission position has led him to change his CAPM methodology yet again for this proceeding.<sup>133</sup>

113. Mr. Patel's review of capital market conditions is incomplete and inconsistent with current market conditions; he makes no mention in his testimony of current world events that have resulted in significant increases in energy prices worldwide

---

<sup>130</sup> *Id.*, pp. 56-59.

<sup>131</sup> I&E St. 2-SR, pp. 26-27.

<sup>132</sup> PAWC St. 13-R, p. 7.

<sup>133</sup> PAWC St. 13-RJ, pp. 6-7.

that will likely affect inflation in the current and near term, nor does he mention the effects of these conditions on interest rates.<sup>134</sup>

114. Mr. Patel suggests that “it is speculative to assume that current inflation and interest rate scenarios will continue in the longer term”<sup>135</sup> and “it is still likely that the Federal Reserve will consider additional interest rate cuts in 2026 and 2027,”<sup>136</sup> but the Blue Chip Financial Forecast data that Mr. Patel actually relied upon in his own CAPM analysis reflects steady interest rates during the time PAWC’s new rates will be in effect.<sup>137</sup>

115. With respect to his DCF calculations, Mr. Patel chose to use a spot stock price instead of a 30-day average, which both Ms. Bulkley and OCA witness Garrett used, and provides only one scenario based on average earnings per share (“EPS”) growth rates.<sup>138</sup>

116. It is not appropriate to rely upon a spot stock price that can be biased significantly by the volatility that exists in the market on any given day, and investors will consider the full range of consensus EPS growth rates for each company in the proxy group – low, average, and high.<sup>139</sup>

117. Adjusting Mr. Patel’s results with current market data and reflecting Ms. Bulkley’s properly sized proxy group with a 30-day average stock price and the full range of growth assumptions that investors would use from the same sources Mr. Patel relies

---

<sup>134</sup> PAWC St. 13-RJ, p. 2.

<sup>135</sup> I&E St. 2-SR, p. 9.

<sup>136</sup> *Id.*, p. 10.

<sup>137</sup> PAWC St. 13-R, p. 3.

<sup>138</sup> PAWC St. 13-R, pp. 30-31.

<sup>139</sup> *Id.*, p. 26.

upon produces a range of results of 9.90% to 11.43%, with an average cost of equity estimate of 10.72%.<sup>140</sup>

118. If Mr. Patel's four water utility proxy group is used, the DCF result is 10.59%, well above his DCF calculation of 10.09%.<sup>141</sup>

119. Mr. Patel's "traditional" CAPM scenario uses the yield on the 10-year Treasury bond, Value Line betas, and a market risk premium based on the average of (i) an estimate of the total return for the companies in the Value Line universe and the S&P 500 Index less the risk-free rate and (ii) the historical average return on the S&P 500, producing a result of 9.96%.

120. His second scenario, which he averages with his first scenario, relies on a risk-free rate of 4.76% (which is the 20-year Treasury bond yield), the Value Line beta coefficients for the four water utilities in his proxy group, and a Kroll equity risk premium of 5.00 %, producing a result of 9.05%.<sup>142</sup>

121. Mr. Patel's CAPM methodology in this case – his third methodology change in recent PAWC proceedings – results in a decrease in the CAPM of 243 basis points from the methodology Mr. Patel believed was appropriate in 2020 and 2022 even though the risk-free rate (measured by the 10-year Treasury bond yield) is nearly 100 basis points higher and the betas remain the same.<sup>143</sup>

---

<sup>140</sup> PAWC St. 13-RJ, p. 4.

<sup>141</sup> PAWC Exhibit No. 13-RJ, Schedule 2.

<sup>142</sup> PAWC St. 13-R, pp. 29-30.

<sup>143</sup> *Id.*, pp. 31-32.

122. Mr. Patel's use of the historical market risk premium to estimate a forward-looking cost of equity is improper as the use of assumptions from different time periods fails to account for an inverse relationship that exists between the risk-free rate and the equity risk premium.<sup>144</sup>

123. In Mr. Patel's new second CAPM scenario, in which he relies on the yield on the 20-year Treasury bond and the Kroll premium, there is no way to discern how the equity risk premium is established by Kroll.<sup>145</sup> The documentation provided by Mr. Patel from Kroll indicates that Kroll would typically consider the effect of current market conditions, but the report that Mr. Patel relied upon only considered economic conditions through September 2025, which means the Kroll equity risk premium does not consider the effect of the current conflict with Iran in the equity risk premium.<sup>146</sup>

124. While Mr. Patel asserted that PAWC does not have unique business risks because of its ability to use the FPFTY, the DSIC, and file additional rate cases, Ms. Bulkley explained nearly all the proxy group companies have such regulatory mechanisms so that the presence of those mechanisms in Pennsylvania does not lower PAWC's business and regulatory risk relative to the proxy group.<sup>147</sup>

---

<sup>144</sup> *Id.*, pp. 34-37.

<sup>145</sup> PAWC St. 13-RJ, p. 7.

<sup>146</sup> PAWC St. 13-R, p. 27; PAWC St. 13-RJ, pp. 7-8.

<sup>147</sup> PAWC St. 13-R, pp. 81-82.

125. Ms. Bulkley supported her recommendation for consideration of flotation costs in the ROE, which Mr. Patel opposed, by noting that such costs were recognized by multiple public utility commissions and both academic and financial communities.<sup>148</sup>

126. When the issues with Mr. Patel's cost of equity analyses are reasonably adjusted, the results increase significantly. Specifically, the average adjusted DCF produces results of 10.06% (water only) and 10.72% (combined water and gas) and adjusted CAPM results of 10.47% (water only) to 10.35% (combined water and gas), resulting in averages of 10.26% to 10.53% before any enhancement for superior management performance.<sup>149</sup>

### **3. OCA's Position**

127. Mr. Garrett ROE recommendation remains the same as it was in PAWC's last rate proceeding despite the fact that the interest rates underlying his CAPM analysis demonstrate that the cost of equity should be higher.<sup>150</sup>

128. With respect to his DCF calculations, Mr. Garrett relies on projected divided per share ("DPS") growth rates from Value Line rather than projected analysts EPS growth rates for one scenario and then a projected "sustainable" growth rate of 3.70% using a nominal gross domestic product ("GDP") growth rate projected by the Congressional Budget Office. Both Ms. Bulkley and I&E witness Patel agree that Mr. Garrett's use of DPS growth rates in constant growth DCF analysis is problematic because earnings are the

---

<sup>148</sup> PAWC St. 13-R, pp. 82-83.

<sup>149</sup> PAWC St. 13-R, p. 40.

<sup>150</sup> PAWC St. 13-RJ, p. 12.

fundamental determinant of a company’s ability to pay dividends, and over the long term, dividend growth can only be sustained by earnings growth, so EPS growth rates should be relied on in the DCF analysis.<sup>151</sup>

129. Mr. Garrett’s “sustainable” DCF model produces a cost of equity estimate of 6.80%, which is well below any authorized ROE for either a water or natural gas utility in a regulatory jurisdiction comparable to Pennsylvania since at least 1980 and only 155 basis points above PAWC’s cost of debt.<sup>152</sup>

130. Mr. Garrett’s CAPM analysis recommends a result that is at the very low end of the range of authorized ROEs for water and natural gas utilities in regulatory jurisdictions comparable to Pennsylvania in the last forty years.<sup>153</sup>

131. Mr. Garrett’s CAPM relies on a market risk premium of only 5.00%, derived from averaging estimates from the IESE Business School survey, Kroll, Professor Damodaran, and his own implied equity risk premium calculation. Each of these sources fails to reflect the well-established inverse relationship between interest rates and the market risk premium.<sup>154</sup>

132. The survey data, Kroll, and Damodaran analyses have consistently failed to produce accurate market risk premium predictions—for example, in 2024, the observed

---

<sup>151</sup> PAWC St. 13-R, pp. 46-48; I&E St. 2-R, pp. 44-45.

<sup>152</sup> PAWC St. 13-R, p. 46; PAWC St. 13-RJ, pp. 13-14.

<sup>153</sup> PAWC St. 13-R, p. 58.

<sup>154</sup> *Id.*, pp. 59-60.

equity risk premium was 20.68%, whereas these sources reported premia of only 4.33% to 5.50%.<sup>155</sup>

133. The Blume Adjustment to Value Line beta values is proper because it reflects both the correlation with the broader market and the interest rate risk of the utility sector.<sup>156</sup>

134. When Mr. Garrett's analysis is adjusted to use EPS growth rates, which are relied upon by both Mr. Patel and Ms. Bulkley, and an appropriate risk comparable natural gas and water utility proxy group, the average DCF result is 10.42%.<sup>157</sup>

135. When the market return in his CAPM analysis is adjusted to rely on projected EPS growth rates in the first stage and Mr. Garrett's sustainable growth rate in the second stage, the result is 10.58%.

136. Replacing Mr. Garrett's sustainable growth rate with the long-term GDP growth rate specified by Morningstar, the average cost of equity increases to 10.98% (market return calculated using EPS in the first stage and GDP growth in the second stage).<sup>158</sup> The average of these model results is 10.66%.<sup>159</sup>

## **F. Management Performance**

137. PAWC has been consistently recognized for its water quality achievements and has undertaken a wide variety of actions to improve its facilities as well as educate and

---

<sup>155</sup> *Id.*, pp. 61-63.

<sup>156</sup> *Id.*, pp. 58-59.

<sup>157</sup> *Id.*, p. 55.

<sup>158</sup> *Id.*, p. 80.

<sup>159</sup> *Id.*

protect customers from lead service lines and proactively address per and polyfluoroalkyl (“PFAS”).<sup>160</sup>

138. The Company has numerous programs in place to increase and enhance operational efficiency, including leak detection, main replacement and repair programs, and customer demand-side strategies.<sup>161</sup>

139. Following customer complaints received during the Company’s last rate case proceeding, Commission staff conducted a qualify-of-service investigation in the Company’s Northeastern Service Territory and issued a final report that did not identify any systemic issues and recognized that PAWC was proactively identifying specific factors causing customer complaints and utilizing necessary tools to manage and remediate quality-of-service issues.<sup>162</sup>

140. PAWC has acquired 14 troubled systems in the last ten years and four recent acquisitions with less than 1,000 customer connections each.<sup>163</sup> Several of these systems were not, at the time of acquisition, providing adequate, efficient, safe and reasonable service, including Delaware Sewer Company, Winola Water Company, and East Dunkard Water Authority (“EDWA”). Following these acquisitions, the Company made capital investments to improve service to customers of these systems and increase environmental compliance.<sup>164</sup>

---

<sup>160</sup> PAWC St. 3, pp. 5-10.

<sup>161</sup> *Id.*, pp. 24-30.

<sup>162</sup> PAWC St. 3, p. 10.

<sup>163</sup> PAWC St. 1, p. 10.

<sup>164</sup> *Id.*

141. The Company acted as the receiver for Rock Spring Water Company and Indian Springs Water Company. As receiver, PAWC substantially improved Rock Spring's operations. In addition to reducing daily system water delivery by 25%, saving up to 40,000 gallons per day, PAWC initiated an infrastructure stabilization strategy including real-time remote monitoring and chemical system feed upgrades.<sup>165</sup> As a resolution for the Commission's Section 529 investigation into Indian Springs, PAWC coordinated a plan for all customers to have an adequate alternative supply of water from private wells and offset all of its receivership costs and a significant portion of the costs that customers had to pay for private wells by negotiating a sale of land owned by Indian Springs.<sup>166</sup>

142. PAWC has also had a positive impact on communities through acquisitions of larger systems such as McKeesport, Scranton, York, and EBMA wastewater systems where significant investments were made (and continue to be made) to address environmental challenges and aging infrastructure with resulting environmental benefits.<sup>167</sup>

143. As receiver, and subsequently as owner of the assets of the EDWA system, PAWC has taken the steps necessary for the system to provide water that complies with relevant safe drinking water standards after all customers were without even non-potable water for several days.<sup>168</sup>

144. PAWC is completing a multiyear project to construct a public water system for the residents of Dimock, Pennsylvania, who have not had access to safe drinking water

---

<sup>165</sup> *Id.*, p. 15.

<sup>166</sup> *Id.*, pp. 10-11.

<sup>167</sup> *Id.*, p. 11.

<sup>168</sup> *Id.*, pp. 12-13.

for nearly 20 years due to unsafe levels of methane and other contaminants. In conjunction with the Office of Attorney General, PAWC is nearing completion of this system at no cost to its customers.<sup>169</sup>

145. Company witnesses refuted each of allegations of management inattention and other performance issues by OCA and I&E witnesses. PAWC witness Prine explained that the Company is providing specific attention to the identification of low-income customers, and further offers referrals to assistance programs before placing customers on deferred payment arrangements. The Company also undertakes personal contact with confirmed low-income customers facing termination to encourage those customers to participate in assistance programs.<sup>170</sup>

146. Both PAWC witnesses Prine and Chard described how enrollment in the Company's low-income programs declined due to a newly-launched document-based income verification process, but PAWC's subsequent significant outreach efforts increased that BDP enrollment by 25% in just seven months.<sup>171</sup>

147. Mr. Prine further underscored that the Company has detailed, specific processes in place to prevent service disconnections during the winter moratorium for heat-related accounts.<sup>172</sup>

148. In addressing statements of I&E witness Patel regarding the Company's recent Management Performance Audit, Dr. Chard explained that none of the functional

---

<sup>169</sup> PAWC St. 1, pp. 16-17; PAWC St. 2-R, p. 22.

<sup>170</sup> PAWC St. 15-R, pp. 21-26.

<sup>171</sup> *Id.*, p. 26; PAWC St. 1-R, p. 13.

<sup>172</sup> PAWC Hearing Ex. 3, pp. 4-5.

audit recommendations were marked for “significant improvement” or “major improvement” (with eight of the twelve marked “minor improvement necessary”), and the Company had fully accepted 23 of the audit recommendations and partially accepted the remaining eight.<sup>173</sup>

149. In response to assertions of OCA witness Alexander that PAWC should commit to customer service performance metric commitments to demonstrate exceptional management performance, Dr. Chard explained that the Company had voluntarily committed to call answering metrics that are even better those used for electric distribution companies and natural gas distribution companies by the Commission’s Bureau of Consumer Services.<sup>174</sup>

## **IX. RATE STRUCTURE AND RATE DESIGN**

### **A. Cost-of-Service Studies**

150. PAWC submitted five separate cost-of-service studies (“COSSs”), one for its water operations and four for its wastewater operations.<sup>175</sup>

151. Gregory R. Herbert of Gannett Fleming, prepared PAWC’s COSS for its water operations (“Water COSS”) using the base-extra capacity method for allocating costs to customer classifications.<sup>176</sup> This method has been accepted by the PUC as the appropriate methodology for determining class costs of service.<sup>177</sup>

---

<sup>173</sup> PAWC St. 2-R, p. 26.

<sup>174</sup> Tr. 1820-21.

<sup>175</sup> PAWC St. 12, pp. 3-5.

<sup>176</sup> *Id.*, pp. 6-18; PAWC Ex. 12-A (Water Operations).

<sup>177</sup> PAWC St. 12, pp. 6-7. The base-extra capacity method is described on pages 3-4 of PAWC Exhibit 12-A.

152. OCA witness Jerome D. Mierzwa disagrees with the system-wide demand factors used in the Company's Water COSS.<sup>178</sup>

153. PAWC's proposed system-wide maximum day demand factor (1.4) reflects the maximum daily send-out of the Company since its formation in 1987.<sup>179</sup> PAWC must be prepared to meet customers' peak demands whenever they occur because the system cannot be expanded (or contracted) to meet only those demands that appear within a limited historical study period, such as the 14-year look-back that Mr. Mierzwa has arbitrarily selected.<sup>180</sup> Additionally, the water usage on the maximum day of 2022, 2023, and 2024 in several areas within the Company's overall water operations was more than 1.4 times the average usage for that year.<sup>181</sup>

154. PAWC provides water service to many non-contiguous geographic areas across the Commonwealth.<sup>182</sup> If all PAWC water system facilities were designed to handle 1.2 times the average daily sendouts as Mr. Mierzwa proposes, several Company service areas would experience supply constraints.<sup>183</sup>

155. The 2.1 maximum hour factor Mr. Herbert employed in the Water COSS is based on a detailed analysis of PAWC's actual maximum hour send out in 1988. In accordance with the Commission's directive in *PAWC 2024*, the Company analyzed recent years of hourly send out reads and developed updated maximum hour capacity factors. Mr.

---

<sup>178</sup> OCA Sts. 4, pp. 14-18, & 4SR, pp. 2-5.

<sup>179</sup> PAWC Sts. 12, pp. 10-11, & 12-R, pp. 3-4; *see also* PAWC Ex. 12-A, Sch. E, p. 5.

<sup>180</sup> PAWC St. 12-R, pp. 5-6.

<sup>181</sup> PAWC Ex. GRH-2R.

<sup>182</sup> PAWC St. 12-RJ, p. 2.

<sup>183</sup> *Id.*

Mierzwa recommends that PAWC use the maximum hour factor derived from the results of that study. However, as Mr. Herbert explained, there were significant data gaps that created challenges to accurately measure maximum hour demand.<sup>184</sup> As such, it is reasonable to use a maximum hour ratio of 2.1 in the Water COSS until there are at least three years of accurate hourly reads, after which such data can be used to calculate system-wide maximum hour demand factors in PAWC's future rate cases.<sup>185</sup>

156. For SSS operations, Mr. Herbert's COSSs were prepared using the functional cost allocation methodology described in "Financing and Charges for Wastewater Systems," Manual of Practice No. 27, published by the Water Environment Federation. That allocation methodology was modified to determine the incremental cost related to handling stormwater for PAWC's combined sewer system ("CSS") operations.<sup>186</sup> No parties raised any objections to the allocation methodology employed in PAWC's wastewater COSSs.

157. The PUC should reject the OCA's recommendation that PAWC should maintain a separate COSS in its next base rate filing for all systems acquired pursuant to Section 1329 that are included in PAWC's revenue requirement in this case and continue the Commission's approach of moving toward single tariff pricing for all of PAWC

---

<sup>184</sup> PAWC St. 12, pp. 11-12.

<sup>185</sup> PAWC Sts. 12, p. 12. & 12-R, p. 6.

<sup>186</sup> PAWC St. 12, pp. 16-31; PAWC Exs. 12-B Revised (Wastewater SSS General Operations), 12-C Revised (BASA) & 12-E Revised (Wastewater CSS Operations).

systems and evaluate the necessity of separate COSSs as part of future acquisition proceedings.<sup>187</sup>

**B. Revenue Allocation/Act 11 Shift**

158. The Company's proposed revenue allocation to customer class was presented by Mr. McClellan and set forth in PAWC Exhibit 3-A and is generally based on the COSSs presented by Mr. Herbert.<sup>188</sup>

159. I&E, OCA, and OSBA took issue with PAWC's proposal to use Section 1311(c) to mitigate the impact of revenue increases on wastewater customers by recovering a portion of the Company's wastewater revenue requirement from its total water and wastewater customer base.<sup>189</sup>

160. Allocating \$53 million of the wastewater revenue requirement, as proposed by the Company, is in the public interest.<sup>190</sup>

161. While the Section 1311(c) allocation plays an important role in mitigating the increases to the Company's 117,638 wastewater customers, it has a modest effect on water customers' bills – representing an increase of approximately \$5 per month to an average residential customer.<sup>191</sup>

---

<sup>187</sup> PAWC St. 2, pp. 29-31.

<sup>188</sup> See PAWC St. 10, pp. 46-52; PAWC St. 10-R, pp. 7-9.

<sup>189</sup> See I&E St. 4, p. 21; OCA St. 3-R, pp. 4-5; OSBA St. 1, p. 10; OSBA St. 3, pp. 13-14.

<sup>190</sup> PAWC St. 2, p. 24. See PAWC 2020 Order, p. 82 (finding that applying Section 1311(c) in conjunction with Section 1329 is in the public interest).

<sup>191</sup> PAWC St. 2, pp. 24-27; PAWC St. 10, p. 36; PAWC St. 10-R, p. 11.

162. The reallocation results in lower wastewater residential bills for average usage of up to \$146 per month depending on the rate and location of the customer.<sup>192</sup>

163. The Company's proposed rates would make reasonable progress in moving the rates of its separate wastewater rate zones closer to a single consolidated wastewater rate design for all of the Company's wastewater operations.<sup>193</sup>

164. The Company's proposal will results in a Bill-to-Income ("BTI") Ratio for most wastewater residential customers that is at or below 2%.<sup>194</sup>

165. The Company's proposal will ensure approximate parity to residential bills for water service and wastewater service at average usage levels and promote affordability of wastewater.<sup>195</sup> Absent approval of the Company's proposed increase, there could be significant rate increases in several wastewater zones, eroding wastewater affordability, and with the potential for rate shock to the Company's wastewater customers.<sup>196</sup>

166. Proposals to alter the Company's proposed allocation to water customers should be rejected. The wastewater revenue requirement cannot be directly allocated to water customers since, as Mr. McClellan notes:

In practice, the customer classes around which wastewater rates are developed are not the same as the customer classes used to develop water rates, so there will never be a one to one match where you can cleanly identify Act 11 wastewater amounts by customer class and assign them to the same classes for water service. For example, water service has no perfect match for bulk wastewater service. It is appropriate to match

---

<sup>192</sup> PAWC St. 10, p. 36; PAWC St. 10-R, p. 11.

<sup>193</sup> PAWC St. 2, p. 24.

<sup>194</sup> PAWC St. 10, p. 32.

<sup>195</sup> PAWC St. 10, pp. 32-36; PAWC St. 10-R, pp. 7-8.

<sup>196</sup> PAWC St. 10, p. 33.

a class for class reallocation as much as possible; however, there will always be an element of an allocation to water service customers based on such cost of service principles such as gradualism rather than a perfect class-to-class match.<sup>197</sup>

The OSBA supported the Company's approach.<sup>198</sup>

### **C. Tariff Structure**

167. PAWC's proposed rate design for water and wastewater services are set forth in PAWC Exhibits MWM-1 and MWM-2.<sup>199</sup>

168. The Company proposed several changes to its water and wastewater tariffs described by Dr. Chard in PAWC Statement No. 1 (pp. 35-46) and Mr. Wieczenski in PAWC Statement No. 7 (pp. 32-41). None of those proposed tariff changes were contested by the parties.

#### **1. Customer Charges**

169. OCA witness Mierzwa's recommendation to keep existing customer charges at the current rate level for residential wastewater customers is based on his analysis that improperly omits infiltration and inflow ("I/I") costs.<sup>200</sup> The drivers of I/I are largely

---

<sup>197</sup> PAWC St. 10-R, p. 11.

<sup>198</sup> See OSBA St. 3, p. 13-14.

<sup>199</sup> See PAWC St. 10, pp. 6-8. The foundation of PAWC's rate design is cost causation. PAWC developed revenue targets for customer classes, to be recovered through rate design, based on the results of PAWC's cost of service analysis, which allocates revenue requirements to customer class based on cost-causation principles, also taking into account gradualism, revenue stability, avoidance of discrimination, affordability, efficiency of use, avoidance of discrimination, and simplicity and feasibility in arriving at a rate design that is fair to all customer groups and that is just and reasonable.

<sup>200</sup> PAWC St. 12-R, p. 11.

independent of a customer's usage, and adding customers can increase impervious surface area, which in turn, would increase I/I that is primarily caused by precipitation.<sup>201</sup>

## **2. Water Rate Design**

170. PAWC offers water service in eight rate zones. The eight rate zones are: Rate Zone 1 – General Statewide Rate, 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, and Rate Zone 8 - Appalachian.<sup>202</sup> Additionally, The Company is including a pending acquisition of territories previously served by Corner Water in this case and refers to this rate zone as Rate Zone 9 Corner Water. Mr. McClellan described the current rate structures for each of the eight rate zones in detail.<sup>203</sup>

171. Consistent with the Commission's preference for single tariff pricing, PAWC proposes to consolidate Rate Zones 2-5 to Rate Zone 1 rates. The Company is also proposing to move Rate Zone 6-9 toward Rate Zone 1 rates and rate structures. The Company's proposed changes to its rate design are set forth in Exhibit MWM-1.

### **a. Meter Charges**

172. PAWC's proposed meter charges are reasonable and the Commission should reject the alternative proposals from OSBA and CAUSE-PA.<sup>204</sup> Additionally, the

---

<sup>201</sup> *Id.*

<sup>202</sup> PAWC St. 10, pp. 8-9.

<sup>203</sup> *Id.*, pp. 8-17.

<sup>204</sup> *See* OSBA St. 3, p. 7; CAUSE-PA St. 1, pp. 15-16.

Commission should reject the alternative proposals from I&E, except for I&E witness Sakaya's recommendation for Rate Zone 8 Appalachian meter charges.<sup>205</sup>

173. The OSBA and CAUSE-PA recommendations should be rejected for the reasons set forth in Section X.C.2. of PAWC's Main Brief.

### **b. Volumetric Rates**

174. The alternative volumetric rates proposed by OSBA, (*see* OSBA St. 3, pp. 6-7) should be rejected. Additionally, the Commission should reject the alternative proposals from I&E, except for I&E witness Sakaya's recommendation for Rate Zone 8 Appalachian volumetric rates.<sup>206</sup>

175. I&E's proposal for Rate Zone 7 is in conflict with a Commission-approved settlement that applies to that zone.<sup>207</sup>

### **3. Wastewater Rate Design**

176. PAWC provides wastewater service to the following SSS: Rate Zone 1 – PAWC Statewide, Rate Zone 1a – Royersford, Rate Zone 1b – York, Rate Zone 1c – Foster, Rate Zone 1d – BASA, Rate Zone 1e – Sadsbury, Rate Zone 1f – Farmington, and Rate Zone 1g - Manwalamink. PAWC St. 10, p. 17. PAWC provides wastewater service to the following Combined Sewer Systems (“CSS”): Rate Zone 2 – Kane and McKeesport, and Rate Zone 2a – Scranton.<sup>208</sup> The Company is including a pending acquisition of the CSS currently owned and operated by Elizabeth Borough Municipal Authority and refers to this

---

<sup>205</sup> *See* I&E St. 3, pp. 9-11.

<sup>206</sup> *See* I&E St. 3, p. 14.

<sup>207</sup> PAWC St. 10-R, p. 26.

<sup>208</sup> PAWC St. 10, p. 17.

rate zone as Rate Zone 2b EBMA. Rate Zone 2b EBMA is a combined sewer system. Mr. McClellan described the current rate structures for each of the current SSS and CSS rate zones in detail.<sup>209</sup>

177. The Company's proposed changes to its wastewater rate design are set forth in Exhibit MWM-2.

**a. General SSS Operations**

178. I&E and the OSBA proposed various increases to SSS rates.<sup>210</sup>

179. The recommendations of I&E and the OSBA take into account their cost of service recommendations and modifications to the Company's allocation of wastewater revenue requirement to water customers pursuant to Section 1311(c), which should be rejected for the reasons set forth in Sections X.B. of PAWC's Main Brief.<sup>211</sup>

180. The Commission should reject Mr. Cline's proposal to increase Industrial rates as there is no cost-basis justification for separate or higher Industrial rates.<sup>212</sup>

181. Mr. Cline's recommendations increasing the proposed rates, as well as rejecting the rate delay provision, for Rate Zone 1g Manwalamink should be rejected as such are in conflict with a Commission-approved settlement that applies to that zone.<sup>213</sup>

---

<sup>209</sup> *Id.*, pp. 17-29.

<sup>210</sup> I&E St. 4, Schedule 3; OSBA Exhibit JK-3.

<sup>211</sup> *See* I&E St. 3, p. 12; OSBA St. 1, pp. 33-34.

<sup>212</sup> *See* PAWC Ex. 12-B.

<sup>213</sup> PAWC St. 10-R, pp. 39-41.

182. Mr. Mierzwa's and Mr. Kubas' proposal to keep existing customer charges at the current rate level should be rejected for the reasons set forth in Section X.C.1 of PAWC's Main Brief.<sup>214</sup>

183. The Commission should also reject Mr. Kubas' proposed increase for special flat rate customers as raising flat rates using a volumetric rate is inappropriate.<sup>215</sup>

**b. BASA Operations**

184. The Commission should accept the Company's proposed rate design for BASA. Mr. Kubas' proposed volumetric rate for Rate Zone 1d is higher than the Company's proposal and is inconsistent with a pre-existing agreement associated with the BASA acquisition, and should therefore be rejected. Additionally, Mr. Kubas' proposed Non-Residential customer charge should be rejected, the Company's proposal to maintain the BASA Non-Residential customer charge at \$45.50 is appropriate and consistent with the Company's Rate Zone 1 service charge and the current flat rate charged to a Non-Residential BASA customer with one EDU.<sup>216</sup>

**c. CSS Operations**

185. I&E's and OSBA's recommendations (*see* I&E St. 4, pp. 47-48; OSBA St. 1, p. 24) take into account their cost of service recommendations and modifications to the Company's Act 11 allocation, which should be rejected for the reasons set forth in Section X.B. of PAWC's Main Brief.

---

<sup>214</sup> PAWC St. 10-R, pp. 41-42.

<sup>215</sup> PAWC St. 10-R, p. 43.

<sup>216</sup> *Id.*, pp. 43-45.

186. The Commission should reject OCA's proposal with respect to the residential service charge for the same reasons described above relative to the SSS customer charge in Section X.C.1. of PAWC's Main Brief.<sup>217</sup>

187. I&E's and OSBA's recommendation included higher rates for Scranton than proposed by the Company. The Company's proposal for Rate Zone 2a maintains rates at current levels, inclusive of DSIC, in accordance with a pre-existing agreement that currently applies to Scranton.<sup>218</sup>

**d. EBMA CSS Wastewater Operations**

188. I&E' and OSBA's recommendations to increase the proposed rates for Rate Zone 2b higher than the rates proposed by the Company should be rejected. The Company's proposal for Rate Zone 2b is in accordance with a Commission-approved settlement in PAWC's acquisition of EBMA's wastewater collection and treatment system pursuant to Section 1329.<sup>219</sup>

189. The fair market valuation of the EBMA system, as well as the rate base amount PAWC can include, was agreed to by the settling parties in that acquisition proceeding. The Company's proposed Elizabeth Borough rates are consistent with the settlement commitments agreed to by the parties, and approved by the Commission, and should therefore be accepted.<sup>220</sup>

---

<sup>217</sup> See also PAWC St. 10-R, p. 48.

<sup>218</sup> PAWC St. 10-R, pp. 48-49.

<sup>219</sup> See PAWC St. 7, p. 5.

<sup>220</sup> PAWC St. 10-R, pp. 49-51.

**e. Wastewater Deduct Adjustment**

190. The Company proposes to utilize a deduct adjustment to more closely align wastewater bills with cost-causation.<sup>221</sup>

191. Mr. Mierzwa contends that seasonal usage can be explained by “a few extra showers and clothes washing loads,” ignoring PAWC’s modeling that there are statistically significant changes in water consumption tied to changes in weather during the summer period.<sup>222</sup>

192. PAWC disagrees with the views of OCA witness Colton and CAUSE-PA witness Geller that the proposed deduct adjustment will negatively impact low-income customers while benefitting higher-income customers. The Company’s deduct adjustment proposal is intended to benefit all customers by appropriately aligning the amount customers are billed with the actual costs they cause the Company to incur for wastewater service.<sup>223</sup>

193. The Commission should also find that the OCA’s and CAUSE-PA’s opposition (*see* OCA St. 3, pp. 40-41; OCA St. 4, pp. 106-111; CAUSE-PA St. 1, p. 18) is unwarranted.

**f. Demand-Based Contract Rates**

194. PAWC currently has special contract rates to attract and retain large customers that have competitive alternatives to water service from PAWC. The Company

---

<sup>221</sup> *Id.*, pp. 27-28.

<sup>222</sup> *Id.*, p. 32.

<sup>223</sup> *Id.*, pp. 33-34.

negotiates contracts at rates, with specified minimum and maximum levels, for these customers, as set forth in Rider DIS – Demand Based Industrial Service and Rider DRS – Demand Based Resale Service.<sup>224</sup>

195. The requirements for service specified by those riders include documentation, to the Company’s satisfaction, of the existence of a competitive alternative.<sup>225</sup> In approving Riders DIS and DRS, the Commission found that those riders create benefits for all of the Company’s water customers by preserving or attracting incremental sales that, because of competitive forces, could not otherwise be made.<sup>226</sup>

196. OSBA recommends that the Company re-evaluate the negotiated rates relative to competitive alternatives when Rider DIS and DRS contracts are up for renewal, and increase the contract rates to up to 90% of the cost of the competitive alternative.<sup>227</sup>

197. OSBA made a recommendation concerning two existing PAWC water tariffs, Rider DIS – Demand Based Industrial Service and Rider DGS – Demand Based Governmental Service.<sup>228</sup>

198. Mr. Cathcart’s recommendation should not be adopted for PAWC’s demand-based riders for the reasons set forth in Section X.C.5. of PAWC’s Main Brief.

---

<sup>224</sup> PAWC St. 7-R, p. 18.

<sup>225</sup> *Id.*

<sup>226</sup> PAWC St. 12-R, p. 7.

<sup>227</sup> OSBA St. 3, pp. 9-10.

<sup>228</sup> PAWC St. 7-R, p. 18, n.17.

#### 4. Scale Back of Rates

199. If the Commission approves a revenue requirement that is less than that proposed by the Company, PAWC proposes to first apply any scale-back principally to the Act 11 wastewater reallocation, this results in a reduced Act 11 wastewater allocation and a reduced water revenue increase, but would keep the proposed wastewater rate increases at their proposed levels until the Act 11 wastewater reallocation for any given operation reaches \$0.<sup>229</sup>

200. I&E, OCA, and OSBA submitted alternative scale back proposals.<sup>230</sup>

201. The Company does not object to certain scale-back recommendations, and is in agreement with certain other scale-back recommendations made by intervenors.<sup>231</sup> The Company does not object to Mr. Sakaya's recommendation that in the event that there is a scale-back to the revenue requirement for water service, there should be a reduction of both usage rates and fixed charges.<sup>232</sup> Further, the Company does not object to recommendations that reductions in water service revenue requirements be applied ratably across customer classes.<sup>233</sup> PAWC agrees with Mr. Cline that if the Commission grants less than the full increase for SSS Operations or CSS Operations, any subsidy from water customers should be reduced or eliminated first, but not inclusive of Rate Zones 1d BASA or 2b Elizabeth Borough. PAWC agrees with Mr. Kubas that the BASA and EBMA

---

<sup>229</sup> PAWC St. 10-R, p. 19.

<sup>230</sup> See I&E St. 3, pp. 15-18; I&E St. 4, pp. 57-58; OCA St. 3, p. 32; OSBA St. 3, p. 15; OSBA St. 1, pp. 47-52.

<sup>231</sup> PAWC St. 10-R, pp. 19-20.

<sup>232</sup> *Id.*

<sup>233</sup> *Id.*

Operations should be excluded from any scale-back in order to avoid additional subsidy as well as to aid in the consolidation of rates in future base rate cases.<sup>234</sup> Finally, the Company has no objections to any specific rates being excluded from scale-backs in cases where an intervenor recommended such.<sup>235</sup>

202. PAWC is proposing structural changes and new rate designs for water Rate Zone 4 Farmington, wastewater Rate Zones 1, 1d BASA, and 1f Farmington, and for that reason requests that these rates be excluded from any scale-back.<sup>236</sup>

## **X. ALTERNATIVE RATEMAKING REQUESTS**

### **A. Customer Assistance Program Rider**

203. The Public Utility Code permits utilities to propose alternative ratemaking mechanisms, which provides statutory authority for addressing the uncertainty PAWC is facing with respect to its future CAP costs.<sup>237</sup>

204. The CAP Rider functions as a true-up mechanism that reconciles the difference between CAP costs included in base rates and the Company's actual CAP costs.<sup>238</sup> The CAP Rider is fully symmetrical and would result in a credit to residential customers' bills if PAWC's actual CAP costs are below the costs built into the Company's base rates.<sup>239</sup> The CAP Rider is designed to work in tandem with the Company's base

---

<sup>234</sup> *Id.*

<sup>235</sup> *Id.*

<sup>236</sup> *Id.*, pp. 20-21.

<sup>237</sup> 66 Pa.C.S. § 1330.

<sup>238</sup> PAWC St. 2, p. 31. CAP costs subject to the CAP Rider will include BDP discounts, AMP credits, and, if approved RAPP stipends and associated administrative costs.

<sup>239</sup> *Id.*

rates, ensuring that the majority of fluctuating costs will be properly recovered, or credited to customers, consistent with PAWC's actual costs – this will ensure the CAP Rider reflects the Company's actual total cost of service.<sup>240</sup>

205. The Company is not proposing any change in its allocation of CAP costs – they will continue to be allocated to residential customers.<sup>241</sup>

206. The CAP Rider is necessary due to the significant and ongoing volatility in the Company's CAP enrollment and costs. PAWC's implementation of a documentation-based income verification process in the first quarter of 2025 resulted in a steep decline in BDP enrollment – from approximately 30,000 customers to approximately 14,000 customers. Extensive customer outreach activity by PAWC to enroll income-eligible customers in the BDP and AMP increased enrollment to approximately 21,500 customers by September 2025.<sup>242</sup> As of March 1, 2026, BDP enrollment had increased to just under 25,000 customers.<sup>243</sup>

207. The Company will continue to experience significant variability in its actual CAP costs due to the Company's income recertification process, which will occur for all BDP and AMP customers on the following schedule: (a) every six months for zero income customers; (b) every two years for variable income customers; and (c) every three years

---

<sup>240</sup> PAWC St. 2-R, p. 15; Tr, p. 1813.

<sup>241</sup> PAWC St. 2, p. 34.

<sup>242</sup> *Id.*, pp. 32-33.

<sup>243</sup> Tr., pp. 1812-13.

for fixed income customers.<sup>244</sup> PAWC cannot predict the number of customers that may be removed from programs due to a failure to recertify their income.<sup>245</sup> This variability is compounded by the Company's recently implemented AMP and its proposed RAPP.<sup>246</sup>

208. If PAWC were to successfully grow its BDP enrollment at the 2.5% BDP enrollment target established pursuant to the Commission's Order in *PAWC 2024* without the CAP Rider, PAWC will experience a \$10 million shortfall in revenues in the two years after new rates are in effect.<sup>247</sup>

209. Mr. Colton opposes the CAP Rider, asserting that the Code does not permit PAWC to recover universal service costs through a rider, and that doing so would not reflect the Company's total cost of service, as Mr. Colton believes that increased low-income discounts could result in higher revenues or lower costs (e.g., increased service and decreased disconnection costs).<sup>248</sup>

210. Participation in the Company's low-income programs has experienced dramatic fluctuations resulting in unpredictable CAP costs.<sup>249</sup>

211. Mr. Geller opposes the CAP Rider, contending that the Company's low-income programs are "nascent" and "in development" and that the costs should be

---

<sup>244</sup> See *Petition of Pennsylvania American Water Company for Approval of an Arrearage Management Plan (On Remand)*; Docket No. P-2021-3028195, Recommended Decision at 13.

<sup>245</sup> Tr., pp. 1812-13.

<sup>246</sup> PAWC St. 2, pp. 33-34.

<sup>247</sup> Tr., p. 1816.

<sup>248</sup> OCA St. 1, pp. 92-96, OCA St. 1-SR, pp. 34-35; PAWC St. 2-R, p. 14.

<sup>249</sup> PAWC St. 2, p. 32; PAWC St. 2-R, p. 15.

recovered through base rates and allocated to all rate classes, not just residential customers.<sup>250</sup>

212. The Company's BDP and AMP are fully implemented and have been accompanied by increased outreach to low-income customers.<sup>251</sup> It is also appropriate, and consistent with Commission precedent, to recover CAP costs from residential customers.<sup>252</sup>

213. Mr. Geller also opposes the CAP Rider since PAWC did not agree to his recommendation to adopt a leak repair program.<sup>253</sup>

214. There is no Commission requirement requiring water and wastewater utilities such as PAWC to implement leak repair programs and CAUSE-PA's proposed leak repair program is irrelevant to the CAP Rider, which addresses CAP cost variability.

## **XI. LOW-INCOME CUSTOMER ASSISTANCE**

### **A. Affordability Analysis**

215. PAWC conducted a detailed analysis of the affordability of its water and wastewater services.<sup>254</sup> PAWC witness Deba Ather prepared (for both water and wastewater services), an Enterprise-Level analysis of affordability, which considered the affordability of service at a high-level over a multi-year period, and a Community-Level

---

<sup>250</sup> CAUSE-PA St. 1, pp. 18-21; CAUSE-PA St. 1-SR, pp. 11-12.

<sup>251</sup> PAWC St. 2-R, p. 15.

<sup>252</sup> PAWC St. 2-R, p. 15. *See, e.g., PAWC 2024 at 219-225, Pa. P.U.C. v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835 (Opinion and Order entered Feb. 19, 2021) at 258-61.

<sup>253</sup> CAUSE-PA St. 1-SR, pp. 11-12.

<sup>254</sup> *See* Exhibit DFA-1 and DFA-2.

analysis, which presents a focused analysis for individual groups of customers under current and proposed rates and current economic conditions.

216. The Company's affordability analysis concludes that:

- The affordability of the Company's water and wastewater service from 2014 through the FPFTY indicates that the way the Company has invested in and managed its water and wastewater systems has indeed been for the long-term benefit of our customers.
- PAWC's water and wastewater service has been, is, and is expected to continue to be affordable for the majority of its residential customers, including under proposed rates.
- There are, however, groups of customers for whom affordability of water and wastewater service may be challenging.<sup>255</sup>

217. The Company's proposed rates are affordable, not only because the BTI ratio at Medium Household Income ("MHI") falls below the 2% level, but because the Company's proposed rate design (including the BDP) gives almost every residential customer the opportunity to obtain "Basic Water Service" or "BWS" and wastewater service at affordable levels (e.g., less than 2% of household income for one form of service and 4% of household income for both).<sup>256</sup>

218. Both OCA witness Colton and CAUSE-PA witness Geller were critical of PAWC's BWS usage of 40 gallons per person per day as part of the Company's affordability analyses.<sup>257</sup> The 40 gallon threshold is based on an analysis of the Company's

---

<sup>255</sup> PAWC St. 9, p. 24. *See also* PAWC St. 9, pp. 9-13 (results of Water and Wastewater Enterprise-Level Analysis), 8-9 (results of Wastewater Enterprise-Level Analysis), 19-21 (results of Water and Wastewater Community-Level Analyses).

<sup>256</sup> PAWC St. 9-R, p. 8

<sup>257</sup> OCA St. 4, pp. 12-15; OCA St. 4SR, pp. 4-8; CAUSE-PA St. 1, pp. 30-33..

residential usage on an individual customer level and is further calibrated to non-seasonal consumption patterns for residential customers.<sup>258</sup> If PAWC were to change its affordability analysis from BWS, which measures essential use, to a metric based on average consumption patterns of customer subgroups, the analysis would no longer assess affordability at a standardized level of basic water service.<sup>259</sup>

219. Mr. Geller and Mr. Colton were also critical of PAWC’s stated affordability outcomes in light of the Company’s use of MHI and because the Company assumed full participation in the BDP.<sup>260</sup> Ms. Ather explained that the Enterprise-Level Analysis, which uses MHI, provides a high level overview on affordability trends, while the Company’s Community-Level Analysis, which does not rely on MHI, is used to address the depth and breadth of affordability issues for the Company’s lower income customers.<sup>261</sup> When building its affordability analyses, PAWC assumed full participation in the BDP to show maximum potential effectiveness of the program if eligible customers were to all enroll.<sup>262</sup>

#### **B. Bill Discount Program Design**

220. PAWC’s existing BDP provides income-qualified customers with tiered discounts based on household income expressed as a percentage of the Federal Poverty Level (“FPL”).<sup>263</sup> The program includes four tiers—0–50%, 51–100%, 101–150%, and 151–200% of FPL—and applies graduated discounts to both water and wastewater

---

<sup>258</sup> PAWC St. 9-R, pp. 4-6.

<sup>259</sup> *Id.*, pp. 10-11.

<sup>260</sup> *See, e.g.*, CAUSE-PA St. 1-SR, pp. 3-8; OCA St. 4SR, pp. 8-11.

<sup>261</sup> PAWC St. 9-R, pp. 7-8.

<sup>262</sup> *Id.* at 9.

<sup>263</sup> PAWC St. 10, p. 4. *See also* PAWC St. 2-R, p. 13.

service.<sup>264</sup> Water customers are eligible for different percentage discounts for their water service and volumetric charges, while wastewater customers are eligible for a total bill discount.<sup>265</sup>

221. PAWC proposed limited modifications to the water portion of its BDP, consolidating the existing fixed charge and volumetric charge discounts into a single, total bill discount by tier. The proposed discounts—82%, 67%, 44%, and 22% for water customers across the four income tiers—closely approximate the overall level of assistance provided under the current structure while simplifying the program for customers and improving administrative efficiency.<sup>266</sup>

222. Consolidating the two discounts into a single total bill discount will produce substantially similar total bill impacts.<sup>267</sup> The change will further enhance transparency by allowing customers to more easily understand the level of assistance they will receive and will reduce operational complexity for the Company without undermining affordability.<sup>268</sup>

223. The Company did not propose any changes to its wastewater discount structure.<sup>269</sup>

224. The OCA supports the Company's proposed BDP changes. Mr. Colton agrees that aligning fixed and volumetric discounts into a whole-bill discount is reasonable

---

<sup>264</sup> PAWC St. 10-R, pp. 2-3.

<sup>265</sup> PAWC St. 10, p. 4; PAWC St. 10-R, p. 3.

<sup>266</sup> PAWC St. 10, p. 5; PAWC St. 10-R, p. 3.

<sup>267</sup> PAWC St. 10, p. 5.

<sup>268</sup> *Id.*

<sup>269</sup> PAWC St. 10, p. 5.

and should be approved,<sup>270</sup> and further supports both the four-tier structure and the specific discount levels proposed by the Company as falling within a reasonable definition of affordability.<sup>271</sup>

225. CAUSE-PA opposes the Company's proposal and recommends that the Company either replace its BDP with a percentage of income payment plan ("PIPP"),<sup>272</sup> or, if it is not feasible for PAWC to move to a PIPP, to increase its discount levels, including providing a 100% discount on fixed charges for all income tiers.<sup>273</sup>

226. The Company's BDP is structured to provide greater benefits to lower-income customers, like a PIPP, because the BDP offers four tiers of discounts with greater discounts for lower-income customers.<sup>274</sup> A PIPP structure is not necessary or appropriate and, as Mr. Geller acknowledges in his testimony, PAWC has system constraints impacting the feasibility of a PIPP.<sup>275</sup> It is not reasonable to require PAWC to incur the costs associated with upgrading its IT systems and overhauling its BDP to adopt a PIPP structure when the current BDP structure already offers four tiers of discounts tailored to customers based on their household income levels.<sup>276</sup>

227. Under Mr. Geller's proposal, wastewater customers whose bills consist solely of fixed charges would have their entire bills offset and would pay nothing for

---

<sup>270</sup> OCA St. 4, pp. 87-89.

<sup>271</sup> *Id.*, pp. 90-91.

<sup>272</sup> *See* PAWC St. 2-R, regarding Mr. Geller's PIP structure proposal.

<sup>273</sup> CAUSE-PA St. 1, p. 38. *See also* CAUSE-PA St. 1-SR, pp. 13-14.

<sup>274</sup> PAWC St. 2-R, p. 5.

<sup>275</sup> *Id.*, pp. 5-6.

<sup>276</sup> *Id.*, p. 6.

service, and would not contribute anything towards the fixed costs necessary to maintain system availability for all customers that other BDP participants would continue to pay for.<sup>277</sup> Fixed charges are designed to recover costs that are incurred to serve all customers regardless of usage. It is therefore appropriate that all customers, including BDP participants, contribute at least some amount toward these costs.<sup>278</sup>

### **C. Arrearage Management Program**

228. The Company's arrearage management program ("AMP") is a part of the Company's H2O Help to Others Program and is designed to provide meaningful assistance to low-income customers while encouraging sustainable payment behavior. Any customer enrolled in the Company's BDP who has an outstanding balance equal to or greater than \$150 that is at least sixty days past due is eligible to enroll in the AMP. The AMP is structured as a payment arrangement under which a customer is responsible for their current charges plus a \$5 co-payment. For each month that an enrolled customer pays their bill on time and in full, the customer receives a \$25 forgiveness credit.<sup>279</sup> This design ensures that customers make consistent progress toward reducing outstanding balances while maintaining current service obligations.<sup>280</sup>

229. Customers that enroll in the BDP who meet the \$150/60-day eligibility threshold will be automatically enrolled by the Company, and there is a streamlined AMP

---

<sup>277</sup> PAWC St. 10-R, p. 7.

<sup>278</sup> *Id.*, pp. 6-7.

<sup>279</sup> PAWC St. 2-R, p. 6.

<sup>280</sup> *Id.*, p. 7.

enrollment process for existing BDP participants that includes phone, email, and website enrollment options, without requiring additional income verification.<sup>281</sup>

230. Mr. Colton and Mr. Geller recommend allowing customers to earn credits for each complete payment made, regardless of timeliness.<sup>282</sup>

231. The Company's AMP is intentionally designed to incentivize timely payment behavior, which is essential to promoting long-term payment discipline and reducing future arrearages.<sup>283</sup> Eliminating or weakening the timeliness requirement and providing credits for untimely payments would undermine the Company's objective of encouraging timely payments and weaken the program's effectiveness.<sup>284</sup>

232. Mr. Colton and Mr. Geller also recommend that PAWC expand its current \$25 credit. Mr. Colton recommends that PAWC either provide customers with pro rata forgiveness (i.e., customers would earn a forgiveness credit of 1/24th of their pre-existing arrears for each month for which they make a complete payment) or provide customers with a \$40 credit.<sup>285</sup> Mr. Geller recommends that PAWC either adopt a similar pro rata forgiveness structure or increase the forgiveness credit to \$45.<sup>286</sup>

233. The current \$25 monthly credit is reasonable and allows participants to make steady progress toward arrearage reduction. The average customer would achieve full

---

<sup>281</sup> *Id.*, pp. 6, 9-10.

<sup>282</sup> OCA St. 4, pp. 67-68; OCA St. 4-SR, pp. 28-30; CAUSE-PA St. 1, p. 46; CAUSE-PA St. 1-SR, p. 16.

<sup>283</sup> PAWC St. 2-R, p. 7.

<sup>284</sup> *Id.*

<sup>285</sup> OCA St. 4, p. 72; OCA St. 4-SR, pp. 30-31.

<sup>286</sup> CAUSE-PA St. 1, pp. 47-48; CAUSE-PA St. No. 1-SR, pp. 16-17.

forgiveness in three to four years, which is a fair outcome as each customer is treated equally, subject to the same terms, is entitled to the same monthly credit, and is able to make progress towards forgiveness with each timely monthly payment.<sup>287</sup> In addition, when the AMP is considered in the context of PAWC's other low-income programs, these programs provide substantial and flexible assistance to customers and compare favorably to other utilities' offerings.<sup>288</sup>

234. Mr. Colton and Mr. Geller also raise concerns regarding the relationship of the AMP and the BDP and recommend additional enrollment and program changes. Mr. Colton recommends that PAWC tie enrollment of low-income customers into its AMP more closely with enrollment in its BDP.<sup>289</sup> Mr. Geller recommends that all BDP participants with qualifying arrears that are not enrolled in the AMP be enrolled in the AMP within ninety days of the effective date of rates in this proceeding, and that PAWC work with its Customer Assistance Advisory Group ("CAAG") to develop outreach and education to explain how the AMP would work.<sup>290</sup> Mr. Geller also recommends that all new BDP participants with arrears be automatically enrolled in the AMP without an additional application and without any additional steps. Finally, Mr. Geller recommends that any customer enrolling in the BDP should have their balance set aside or frozen at

---

<sup>287</sup> PAWC St. 2-R, p. 7.

<sup>288</sup> *Id.*, p. 8.

<sup>289</sup> OCA St. 4, p. 78.

<sup>290</sup> CAUSE-PA St. 1, p. 44; CAUSE-PA St. 1-SR, pp. 17-18.

enrollment, regardless of the size of the balance, and that PAWC should discontinue its required \$5 monthly co-pay to participate in the AMP.<sup>291</sup>

235. The Company's existing structure already closely integrates the BDP and AMP, as eligible customers are automatically enrolled in the AMP at the time of BDP enrollment. The \$5 co-payment requirement reflects existing Company IT system constraints that require the AMP to be structured as a payment arrangement, and which was approved by the Commission as part the AMP Settlement.<sup>292</sup> In addition, the Company's current enrollment processes, which include automatic enrollment for customers enrolling in the BDP and streamlined options for existing BDP customers, ensure ease of access without imposing additional administrative burdens.

236. Mr. Geller and Mr. Colton also criticize current AMP enrollment levels.<sup>293</sup> However, given that the AMP was only launched in late 2024, it is reasonable that enrollment has not yet reached parity with the more established BDP. The AMP is one of many components of PAWC's overall comprehensive suite of customer assistance programs. Current enrollment levels reflect the comparative newness of the AMP rather than a structural deficiency.

#### **D. H2O Program Screening, Outreach and Enrollment Procedures**

237. PAWC employs a robust, multi-prong approach to inform customers about the benefits provided by the H2O Program, including: statewide in-person information

---

<sup>291</sup> CAUSE-PA St. 1, pp. 45-46.

<sup>292</sup> PAWC St. 2-R, pp. 9-10.

<sup>293</sup> CAUSE-PA St. 1, pp. 43-44; CAUSE-PA St. 1-SR, pp. 17-18; OCA St. 4-SR, pp. 27-28.

sessions, texting and paid customer education media campaigns, and select door-to-door canvassing efforts.<sup>294</sup> In addition, if customers access the “myWater” customer portal, they will see information about bill assistance self-service options, as well as a link to information on PAWC’s H2O Programs and instructions for how to apply.<sup>295</sup>

238. The Company recently experienced a substantial drop in BDP enrollment as direct consequence of the launch of a documentation-based income verification process in the first quarter of 2025 with a June 2025 enrollment level of 19,966 accounts.<sup>296</sup> The Company’s extensive outreach efforts in the remainder of 2025 and 2026 have built BDP enrollment back up to 24,839 as of March 1, 2026.<sup>297</sup> PAWC has further already adopted certain BDP enrollment and outreach goals and holds quarterly meetings with its CAAG in an effort to continue to enhance low-income assistance programs and related outreach.<sup>298</sup>

239. Mr. Colton first recommends that PAWC broaden its policy for confirming low-income status to include, among other things, accepting a self-attestation of the receipt of public assistance.<sup>299</sup> He also recommends additional touch points for BDP and AMP screening and awareness, including when a customer initiates service, before a customer enters into a deferred payment arrangement (“DPA”) with the Company,<sup>300</sup> and when a

---

<sup>294</sup> PAWC St. 1, pp. 20-21; PAWC St. 2-R, p. 12.

<sup>295</sup> PAWC St. 15-R, pp. 23-24

<sup>296</sup> PAWC St. 2-R, p. 13; Tr. 1813.

<sup>297</sup> *Id.*

<sup>298</sup> PAWC St. 2-R, p. 13.

<sup>299</sup> OCA St. 4, pp. 48-55.

<sup>300</sup> Specifically, Mr. Colton recommends that PAWC notify low-income customers about assistance programs before entering into a DPA and further develop a “Plain Language Notice” that would be used to obtain the customer’s “informed consent” before they entered into a DPA. *See, e.g.*, OCA St. 4, pp. 55-60.

customer is facing disconnection.<sup>301</sup> Mr. Colton further suggests that PAWC’s customer-facing materials on BDP and AMP do not always provide complete and accurate information.<sup>302</sup>

240. Mr. Geller recommends that PAWC not enter into a DPA unless the customer expressly declines to enroll in the BDP or AMP or apply for a hardship grant. He further states that PAWC should perform income screening for all new and moving customers and also during non-emergency calls for existing customers.<sup>303</sup>

241. When a customer calls in seeking payment assistance, customer care agents (“CCAs”) are already trained to direct customers to call DEF to enroll.<sup>304</sup> DEF accepts an appropriate range of documentation to confirm low-income status and program eligibility, including proof of receipt of public assistance, but does not accept a customer’s self-attestation because such a practice is contrary to the Commission’s directive to review a customer’s income documentation.<sup>305</sup>

---

<sup>301</sup> *Id.* at 53, 55-62.

<sup>302</sup> *Id.* at 62-65.

<sup>303</sup> CAUSE-PA St. 1, pp. 54-57.

<sup>304</sup> PAWC St. 15-R, p. 22; see also CONFIDENTIAL PAWC Exhibit MWP-1R, which contains the scripting and guidance that CCAs follow to inform PAWC customers expressing an inability to pay their bills or facing termination about the assistance programs available to them.

<sup>305</sup> PAWC St. 15-R, p. 21; see also *Petition of Pennsylvania-American Water Company for Approval of an Arrearage Management Plan*, Docket No. P-2021-3028195 (Order entered Dec. 28, 2022) pp. 26-29 (finding AMP settlement must be modified to require income verification for customers seeking to enroll); *Petition of Pennsylvania-American Water Company for Approval of an Arrearage Management Plan*, Docket No. P-2021-3028195 (Order entered Dec. 7, 2023)(approving updated AMP settlement that included income verification).

242. The Company has appropriate customer-facing materials and additional touchpoints where a customer facing termination is provided with information about assistance programs, including personal contact with confirmed low-income customers and specific information on termination notices and field service representative cards.<sup>306</sup>

243. The Commission recently directed Columbia Gas to adopt income-screening procedures during move-in and other non-emergency calls.<sup>307</sup> Like all energy utilities in Pennsylvania, Columbia Gas recovers its universal service program costs, including administration costs, through its Rider USP.<sup>308</sup> CAUSE-PA argues PAWC should adopt similar income-screening procedures because its BDP is under-subscribed.<sup>309</sup> The critical distinction is that Columbia Gas has full and timely recovery of the costs associated with these new income-screening procedures through its Rider USP while PAWC currently does not. If the new screening requirements result in a spike in new CAP participation for Columbia, the additional costs associated with that participation are collected through Columbia's Rider USP. By contrast, increased CAP enrollment for PAWC currently means that PAWC is at risk of a significant under collection of CAP costs because PAWC's actual BDP costs are far exceeding the BDP costs included as part of its approved base rates.<sup>310</sup>

---

<sup>306</sup> PAWC St. 15-R, pp. 22-24.

<sup>307</sup> *Columbia Gas 2025*, p. 351.

<sup>308</sup> *Id.*, p. 165; *see also* PAWC St. 2, pp. 31-33; *Pa. P.U.C. v. Columbia Gas of Pa., Inc.*, Docket No. R-2025-3053499 (R.D. entered Oct. 3, 2025), p. 529 (“All CAP external administration costs...are recovered through Rider USP.”).

<sup>309</sup> CAUSE-PA St. 1, pp. 54-57.

<sup>310</sup> *See* PAWC St. 2, p. 33.

**E. Water Conservation and Line Repair and Replacement Assistance**

244. CAUSE-PA witness Geller recommends that PAWC develop and implement a comprehensive conservation and line repair/replacement program for all customers below 250% of FPL. He further recommends the targeting of high-usage customers, annual reporting and coordination with other utility programs.<sup>311</sup>

245. Low-income usage reduction programs (“LIURPs”) are required under Pennsylvania law for electric distribution companies (“EDCs”) and natural gas distribution companies (“NGDCs”) only and are part of their broad universal service plans.<sup>312</sup> There are detailed LIURP regulations addressing many of the items recommended by Mr. Geller, including prioritizing high users, reporting, and utility coordination. *See* 52 Pa. Code §§ 58.1, *et seq.*

246. To implement a LIURP-type program, PAWC would have to hire additional staff and manage costs associated with repairing and replacing the leaking lines and infrastructure of low-income customers.<sup>313</sup>

247. The line repair/conservation programs or pilots of other water utilities in Pennsylvania referenced by Mr. Geller were derived through voluntary settlements and not Commission-imposed mandates.<sup>314</sup>

---

<sup>311</sup> CAUSE-PA St. 1, pp. 60-62; CAUSE-PA St. 1-SR, pp. 21-23.

<sup>312</sup> PAWC St. 15-R, p. 25.

<sup>313</sup> PAWC St. 15-R, p. 25.

<sup>314</sup> *See Petition of The Pittsburgh Water and Sewer Auth. for Approval of Pilot Private Service Line Leak Repair and Expanded Conservation Program for Eligible Low Income Customers and Authorization to Track Costs as a Regulatory Asset for Future Base Rate Recovery*, Docket No. P-2022-3030253 (Order entered March 2, 2023); *Pa. P.U.C. v.*

248. To the extent the PUC believes this type of program should be extended to water and wastewater customers, the PUC should provide a legal basis and cost recovery framework similar to its LIURP regulations.<sup>315</sup>

#### **F. Hardship Fund**

249. PAWC's Hardship Fund is a bill-paying assistance program funded by PAWC shareholders, donations from customers, and others who want to help customers in need. For the 2025 to 2026 program year, the Company is contributing \$1.45 million to the Hardship Fund.<sup>316</sup>

250. The current annual cap per customer of \$500 grants for water and wastewater, totaling \$1,000, achieves the Hardship Fund's intended purpose of providing emergency, short-term assistance to customers in need.<sup>317</sup> Notably, over the last five completed funding cycles, the highest average grant amount per service was \$403.29 - in 2023-2024 - suggesting that the \$500 per service grant amount remains reasonable.<sup>318</sup>

---

*Veolia Water Pa., Inc.*, Docket Nos. R-2024-3045192 and R-2024-3045193 (Order entered October 10, 2024); *Joint Application of Aqua America, Inc., Aqua Pa., Inc., Aqua Pa. Wastewater, Inc., Peoples Natural Gas Co. LLC and Peoples Gas Co. LLC for All of the Authority and the Necessary Certificates of Pub. Convenience to Approve a Change in Control of Peoples Natural Gas Co. LLC and Peoples Gas Co. LLC by Way of the Purchase of All of LDC Funding, LLC's Membership Interests by Aqua America, Inc.*, Docket Nos. A-2018-3006061, A-2018-3006062 and A-2018-3006063 (Order entered Jan. 24, 2020).

<sup>315</sup> See PAWC St. 15-R, p. 25.

<sup>316</sup> PAWC St. 2, p. 13. PAWC's donations to the Hardship Fund are at an increased level for a five-year period consistent with the settlement approved in the Company's application to acquire the BASA wastewater system, at Docket No. A-2022-3037047.

<sup>317</sup> PAWC St. 2-R, p. 10.

<sup>318</sup> Tr. 1819.

251. The annual cycle of the Hardship Fund runs from October to September, meaning that new shareholder funds for a particular cycle are added to the fund balance in October. Therefore, it is not surprising that months closer to the beginning of the cycle, like December, would have a larger balance than later months. As of March 19, 2026, the Hardship Fund balance was approximately \$750,000 – or about \$500,000 less than the December 2025 Hardship Fund balance.<sup>319</sup>

#### **G. Renter Assistance Pilot Program**

252. Low-income residents who live in master-metered buildings do not pay their utility directly for their utility service and therefore are not eligible for customer assistance programs such as the BDP or AMP. PAWC is proposing to assist this population through a Rental Assistance Pilot Program (“RAPP”) that would provide eligible residents with quarterly stipends that are approximately equivalent to what the resident would be receiving if they were enrolled in the BDP based on an average level of residential customer usage.<sup>320</sup> The Company intends to recover RAPP costs through PAWC’s proposed CAP rider (with a \$1 million annual cap on RAPP stipends) and to administer the RAPP for a minimum of two years in locations in different regions with high renter populations: Scranton and Butler.<sup>321</sup>

253. The program is not designed to benefit multi-family building owners, as Mr. Geller contends,<sup>322</sup> and will provide payments directly to the low-income participants. The

---

<sup>319</sup> *Id.*, 1818.

<sup>320</sup> PAWC St. 2, pp. 15-18; PAWC St. 2-R, pp. 10-12.

<sup>321</sup> PAWC St. 2, pp. 16-18.

<sup>322</sup> CAUSE-PA St. 1, pp. 62-64; CAUSE-PA St. 1-SR, pp. 19-20.

Company is willing to work with the CAAG to further develop the program framework prior to implementation and can review program results and findings with the CAAG one year after implementation.<sup>323</sup>

#### **H. Universal Service Plan**

254. CAUSE-PA witness Geller recommends that PAWC develop a comprehensive universal service plan (“USP”), including a consumer education and outreach plan, for PUC review concurrent with the Company’s next base rate proceeding.<sup>324</sup> Mr. Geller asserts that a USP is necessary for Commission staff, consumers, and utility advocates to learn more about the Company’s low-income programs rather than relying on the Company’s tariff, website, and outreach materials.<sup>325</sup>

255. The Commission rejected similar proposals from CAUSE-PA and the OCA in the Company’s prior base rate case.<sup>326</sup> And Mr. Geller acknowledges that the Code only requires gas and electric utilities to implement USPs.<sup>327</sup>

256. A USP is not necessary as details regarding the Company’s low-income programs are available in its tariff, on its website, and in various outreach materials. Because no legal authority for a water or wastewater USP exists, the Company will

---

<sup>323</sup> PAWC St. 2-R, pp. 10-12.

<sup>324</sup> CAUSE-PA St. 1, pp. 54-55.

<sup>325</sup> *Id.*, p. 54.

<sup>326</sup> *Pa. PUC v. Pennsylvania American Water Company*, Docket Nos. R-2023-3043189 and R-2023-3043190 (Order entered July 22, 2024) Order, pp. 362-363 (the “2024 PAWC Rate Order”).

<sup>327</sup> CAUSE-PA St. 1, p. 54; CAUSE PA St. 1-SR, p. 25.

continue to provide detailed information related to its low-income programs as part of base rate proceedings.<sup>328</sup>

## **XII. SERVICE QUALITY AND CUSTOMER SERVICE ISSUES**

### **A. Customer Service Performance**

257. The Customer Service Organization (“CSO”) operated by Service Company supports the customer service needs of PAWC and the other American Water utility subsidiaries, including customer call handling and billing.<sup>329</sup>

258. The CSO consistently seeks ways to improve the customer experience and maintain high levels of customer satisfaction.<sup>330</sup> The CSO’s hiring and recruitment efforts over the past several years have reduced wait times and the call abandonment rate for customers that do not utilize the courtesy call back (“CCB”) feature.<sup>331</sup> In addition, the CSO continually refines the myWater portal to help PAWC customers efficiently manage their account online and efforts to expand adoption of paperless billing to increase customer engagement and, ultimately satisfaction.<sup>332</sup>

259. Ms. Alexander narrowly and erroneously focuses her evaluation of CSO performance on wait times and call abandonment rather than the overall customer

---

<sup>328</sup> PAWC St. 2-R, p. 16.

<sup>329</sup> PAWC St. 15-R, pp. 3-6. The CSO is operated by Service Company employees, which provides support for several functions of PAWC and other American Water utility subsidiaries.

<sup>330</sup> *Id.*, pp. 7-9.

<sup>331</sup> *Id.*, pp. 11-13.

<sup>332</sup> PAWC Statements 9, pp. 9-13; PAWC St. 9-R, pp. 3-4.

experience. In fact, the highest driver of customer service that impacts overall satisfaction is first contact resolution.<sup>333</sup>

260. Ms. Alexander’s evaluation of PAWC’s call handling performance in 2024 and 2025 is also misleading because she truncates the data set to include only collections calls, which is a small portion of overall call volume.<sup>334</sup> In fact, as Ms. Alexander acknowledges,<sup>335</sup> in 2025, overall CSO performance, including calls handled by third party contractors, met or exceeded the performance goals recommended by Ms. Alexander.<sup>336</sup>

261. Ms. Alexander compares the CSO’s performance with data reported to the BCS by electric and gas utilities who use different definitions and metrics for call center performance than PAWC. For example, the “service level” presented in the BCS Customer Service Performance Reports that Ms. Alexander relies on for her proposed performance standards is the “percentage of calls answered within 30 seconds by an [interactive voice response (“IVR”) system or a [customer service representative] ready to render assistance.”<sup>337</sup> In contrast, the calculation of CSO service levels excludes calls answered by the Intelligent Virtual Agent (“IVA”) and customers who elected a CCB.<sup>338</sup>

---

<sup>333</sup> PAWC St. 15-R, p. 10.

<sup>334</sup> *Id.*, pp. 10-13.

<sup>335</sup> OCA St. 5SR, p. 9.

<sup>336</sup> PAWC St. 15-R, pp. 11-13.

<sup>337</sup> *Aqua Pa, Inc, Peoples Natural Gas Co. LLC, and Peoples Gas Co. LLC Management and Operations Audit*, Docket Nos. D-2020-3018771, D-2020-3018773, and D-2020-3018774 (Apr. 2021), p. 130.

<sup>338</sup> PAWC St. 15-R, pp. 14-15.

262. Ms. Alexander’s recommendations for additional management oversight of CSO call handling are without merit. The performance levels of the CSO and third-party call handling agencies are already monitored on a *daily* basis.<sup>339</sup>

263. The CSO conducts extensive training of its agents in Pennsylvania rules and regulations before they are permitted to handle calls from PAWC customers.<sup>340</sup> This training includes an 80-page training module and a knowledge test.<sup>341</sup> Ms. Alexander has not provided any evidence that CCAs who completed the training are not following Pennsylvania regulations when handling PAWC calls.

264. The CSO also utilizes other processes to reinforce training including its internal quality assurance (“QA”) process, which involves reviewing all calls with low satisfaction scores from customers and any call that did not resolve the customer’s concern in the first contact.<sup>342</sup> The QA team evaluates whether the agent followed the process specified in the applicable training materials, and if it is a PAWC customer call, the QA team reviews compliance with Pennsylvania regulations as part of the evaluation.<sup>343</sup>

265. PAWC received formal complaints in this proceeding addressing, among other things, water quality and field service–related issues. Mr. Runzer described the typical causes of, and Company responses to, water quality complaints (e.g., hard water,

---

<sup>339</sup> *Id.*

<sup>340</sup> PAWC St. 15-R, pp. 6-7.

<sup>341</sup> PAWC Hearing Ex. No. 3, p. 2.

<sup>342</sup> PAWC St. 15-R, p. 7; PAWC Hearing Ex. No. 3, p. 2.

<sup>343</sup> PAWC Hearing Ex. No. 3, p. 2.

colored water, odor, taste) and also explained how field-service concerns are handled.<sup>344</sup>  
PAWC St. 2-R, pp. 13-16.

266. OCA witness Alexander highlighted individual customer public input hearing testimony about water quality and service issues. Mr. Runzer described the individual Company outreach to the customers identified in Appendix A to Ms. Alexander's direct and supplemental direct testimony.<sup>345</sup>

267. Mr. Runzer addressed the testimony of several witnesses at the public input hearings in Exeter Township about abnormally high water and wastewater bills and explained that those customers' bills are far lower than their testimony alleges.<sup>346</sup>

268. Company witness Anthony M. Nokovich described PAWC's rigorous planning process to evaluate service requests from data centers to address concerns about the service impacts on existing customers raised at the public input hearings.<sup>347</sup> He also confirmed that data center customers will be responsible for all costs of any infrastructure improvements needed to serve them.<sup>348</sup>

269. OCA witness Alexander recommends requiring a professionally conducted root-cause analysis of complaint trends and a report on findings including identification of trends, evaluation, and steps to reform or avoid repeated trends.<sup>349</sup>

---

<sup>344</sup> PAWC St. 3-R, pp. 22-25.

<sup>345</sup> *Id.*, pp. 28-43.

<sup>346</sup> *Id.*, pp. 25-28.

<sup>347</sup> PAWC St. 4-R, pp. 1-3.

<sup>348</sup> *Id.*

<sup>349</sup> OCA Sts. 5, pp. 12-15, & 5SR, pp. 12-14.

270. Mr. Prine explained the Company's robust complaint analysis process. PAWC analyzes every customer complaint it receives (other than informal mediation complaints that do not involve any allegation of wrongdoing by the Company), to determine the contributing factor, if any. The Company makes a root-cause determination for every such customer complaint and logs a root cause for each such complaint, where a contributing factor is identified. PAWC generates reports reflecting customer complaint root causes, analyzes root- cause trend, and regularly discusses root-cause trends with the appropriate business units within the CSO.<sup>350</sup>

#### **B. Billing Arrangement with American Water Resources**

271. For over two decades, American Water Resources ("AWR") has offered optional products and services, such as water line and sewer line protection plans, to PAWC customers. After enrolling with AWR, customers are charged a monthly fee on their PAWC bills so that if their water or sewer line breaks, AWR will deploy a contractor to fix the water or sewer line under the warranty program at minimal up-front cost to the customer.<sup>351</sup> PAWC customers can choose the convenience of including these charges on their PAWC bill or be billed directly by AWR.<sup>352</sup> AWR's warranty plans are viewed favorably by customers who want the convenience and certainty of minimizing the up-front cost expenditures associated with a future water or sewer line repair.<sup>353</sup>

---

<sup>350</sup> PAWC Hearing Ex. 3, p. 3.

<sup>351</sup> PAWC St. 15-R, pp. 15-16.

<sup>352</sup> *Id.*, p. 16. At any time after enrollment, PAWC customers can choose to be billed directly by contacting AWR by phone or making a request in the customer's online account with AWR. PAWC Hearing Ex. No. 3, p. 3.

<sup>353</sup> PAWC St. 15-R, p. 15.

272. It is standard industry practice for utilities both within and outside of the Commonwealth to partner with providers of these types of warranty services.<sup>354</sup>

273. No other provider of non-utility services and products is seeking access to PAWC's bills.<sup>355</sup>

274. AWR has historically used PAWC's trademark and logo for marketing purposes, which is standard industry practice when a utility partners with another entity to offer warranty products and services. Similar arrangements exist between other major Pennsylvania utilities and a competitor of AWR, HomeServe, which also uses the utility name and logo to market warranty services and products to residential utility customers in the Commonwealth.<sup>356</sup> Disclosures are included on all marketing materials explaining that AWR is not affiliated with PAWC, its products and services are optional, and AWR's prices are not determined by PAWC.<sup>357</sup>

275. In sum, none of the concerns about the Company's relationship with AWR raised by OCA witness Alexander provide a basis to alter or otherwise prescribe PAWC's arrangement with AWR under the Utility Agreement.

276. PAWC includes the charges provided by AWR on its bills as a separate line item and no customers' service is terminated for non-payment of AWR charges.<sup>358</sup> If a customer no longer wants to pay for AWR's products and services, the customer can stop

---

<sup>354</sup> *Id.*, p. 17.

<sup>355</sup> PAWC St. 9-R, p. 16.

<sup>356</sup> *Id.*, pp. 18-19.

<sup>357</sup> PAWC St. 15-R, pp. 16-17.

<sup>358</sup> *Id.*, pp. 19-20.

paying for them with no negative repercussions on their water or wastewater service.<sup>359</sup> the “Account Summary” that appears directly below the total amount due on the first page of PAWC’s customer bill itemizes the balance for “Service Related Charges” and “Protection Programs.”<sup>360</sup>

277. PAWC and Service Company employees do not market or promote any AWR services or products.<sup>361</sup> Customer calls related to non-basic services are redirected to AWR’s toll-free number and website that includes clear disclosures that it is not affiliated with American Water and that AWR’s services are optional.<sup>362</sup>

---

<sup>359</sup> *Id.*

<sup>360</sup> PAWC Hearing Ex. 3, pp. 3-4.

<sup>361</sup> PAWC St. 15-R, p. 20.

<sup>362</sup> *Id.*

## PROPOSED CONCLUSIONS OF LAW

1. Based on the record evidence, PAWC has satisfied the burden of proof imposed by Section 315(a) of the Public Utility Code to establish by a preponderance of substantial evidence that it is entitled to implement rates designed to produce additional annual operating revenues of \$159,597,595.

2. Although the ultimate burden of proof does not shift from the utility seeking a rate increase, a party proposing an adjustment to a ratemaking claim of a utility bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment.<sup>363</sup>

3. As a public utility whose facilities and assets have been dedicated to public service, PAWC is entitled to an opportunity to earn a reasonable rate of return on its investment. “Rates which are not sufficient to yield a reasonable return on the value of the property at the time it is being used to render service are unjust, unreasonable and confiscatory, and their enforcement deprives the public utility of its property in violation of the Fourteenth Amendment.”<sup>364</sup>

4. The return allowed to investors must also be commensurate with the risk assumed. *Bluefield* requires that the rate of return reflect “. . . a return on the value of the [utility’s] property which it employs for the convenience of the public equal to that

---

<sup>363</sup> See, e.g., *NRG Energy, Inc. v. Pa. P.U.C.*, 233 A.2d 936, 950 (Pa. Commw. 2020).

<sup>364</sup> *Bluefield Waterworks and Imp. Co. v. P.S.C. of West Virginia*, 262 U.S. 679, 690 (1923).

generally being made at the same time on investments in other business undertakings which are attended by corresponding risks and uncertainties. . . .”<sup>365</sup>

5. In *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944), the United States Supreme Court reiterated that “[f]rom 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 the 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.”

6. 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.<sup>366</sup> These principles are applied by the PUC and have been adopted by Pennsylvania appellate courts in numerous cases.<sup>367</sup>

7. Determining a reasonable rate of return requires reviewing many factors, including: (1) the earnings necessary to assure confidence in the financial integrity of the company and maintain its credit standing; (2) the need to pay dividends and interest; and

---

<sup>365</sup> *Id.* at 692.

<sup>366</sup> *Id.* at 693.

<sup>367</sup> See, e.g., *Pa. P.U.C. v. Pennsylvania Gas and Water Co. - Water Div.*, 341 A.2d 239 (Pa. Commw. Ct. 1975); *Pa. P.U.C. v. Aqua Pa., Inc.*, R-2021-3027385 (Order entered May 16, 2022), pp. 8-9.

(3) the amount of the investment, the size and nature of the utility, its business and financial risks, and the circumstances attending its origin, development and operation. *Pa. P.U.C. v. Pennsylvania Gas and Water Co. - Water Div.*, 341 A.2d 239 (Pa. Commw. Ct. 1975).

8. Rates established by the Commission, or any other utility regulatory authority, are not “just and reasonable” unless they are within the zone of reasonableness determined by reference to the costs a utility incurs to furnish public utility service and a return that satisfies applicable legal and Constitutional standards.<sup>368</sup>

9. The Commission has determined that a utility’s actual capital structure is to be used, absent circumstances where the actual capital structure is atypical; “an actual capital structure represents the Company’s decision, in which it has full discretion, on how to capitalize its rate base.”<sup>369</sup>

10. The ROE used in distribution system improvement charges is unlike an ROE in a base rate proceeding.<sup>370</sup>

11. Section 1327 of the Public Utility Code (Acquisition of water and sewer utilities) provides:

(a) **Acquisition cost greater than depreciated original cost.** -- If a public utility acquires property from another public utility, a municipal corporation or a person at a cost which is in excess of the original cost of the property when first devoted to the public service less the applicable accrued depreciation, it shall be a rebuttable

---

<sup>368</sup> *Permian Basin Area Rate Cases*, 390 U.S. 747, 770 (1968) (“any rate selected . . . from the broad zone of reasonableness . . . cannot be attacked as confiscatory.”) (emphasis added).

<sup>369</sup> *Pa. P.U.C. v. Columbia Water Co.*, R-2023-3040258 (Order entered January 18, 2024), pp. 83-84.

<sup>370</sup> *Pa. P.U.C. v. Aqua Pa., Inc.*, R-2021-3027385 (Order entered May 16, 2022) (“*Aqua PA 2022*”), p. 103.

presumption that the excess is reasonable and that excess shall be included in the rate base of the acquiring public utility, provided that the acquiring public utility proves that:

(1) the property is used and useful in providing water or sewer service;

(2) the public utility acquired the property from another public utility, a municipal corporation or a person which had 3,300 or fewer customer connections or which was nonviable in the absence of the acquisition;

(3) the public utility, municipal corporation or person from which the property was acquired was not, at the time of acquisition, furnishing and maintaining adequate, efficient, safe and reasonable service and facilities, evidence of which shall include, but not be limited to, any one or more of the following:

(i) violation of statutory or regulatory requirements of the Department of Environmental Resources or the commission concerning the safety, adequacy, efficiency or reasonableness of service and facilities;

(ii) a finding by the commission of inadequate financial, managerial or technical ability of the small water or sewer utility;

(iii) (iii) a finding by the commission that there is a present deficiency concerning the availability of water, the palatability of water or the provision of water at adequate volume and pressure;

(iv) a finding by the commission that the small water or sewer utility, because of necessary improvements to its plant or distribution system, cannot reasonably be expected to furnish and maintain adequate service to its customers in the future at rates equal to or less than those of the acquiring public utility; or

(v) any other facts, as the commission may determine, that evidence the inability of the small water or sewer utility to furnish or maintain adequate, efficient, safe and reasonable service and facilities;

(4) reasonable and prudent investments will be made to assure that the customers served by the property will receive adequate, efficient, safe and reasonable service;

(5) the public utility, municipal corporation or person whose property is being acquired is in agreement with the acquisition and the negotiations which led to the acquisition were conducted at arm's length;

(6) the actual purchase price is reasonable;

(7) neither the acquiring nor the selling public utility, municipal corporation or person is an affiliated interest of the other;

(8) the rates charged by the acquiring public utility to its preacquisition customers will not increase unreasonably because of the acquisition; and

(9) the excess of the acquisition cost over the depreciated original cost will be added to the rate base to be amortized as an addition to expense over a reasonable period of time with corresponding reductions in the rate base.<sup>371</sup>

12. PAWC demonstrated it satisfies all of the statutory criteria for a Section 1327 acquisition premium for the Farmington water system and Manwalamink water and wastewater systems. Therefore, Commission should deny Mr. Morgan's proposed adjustment, denying the Company recovery of all amortization expense and rate base related to the Farmington, MWC, and MSC acquisitions in excess of the net book value of the acquired company's assets.

13. Section 1311(c) provides that "[t]he commission, when setting base rates, after notice and an opportunity to be heard, may allocate a portion of the wastewater revenue requirement to the combined water and wastewater customer base if in the public interest."<sup>372</sup> The Company's proposed allocation of a portion of its wastewater revenue requirement to water customers is in the public interest.<sup>373</sup>

14. The changes in rules set forth in the Company's proposed Water Tariff and Wastewater Tariff, not having been contested by any party, should be approved.

---

<sup>371</sup> 66 Pa.C.S. § 1327(a).

<sup>372</sup> 66 Pa.C.S. § 1311(c).

<sup>373</sup> *PAWC 2021*, p. 82.

15. The Commission has found on numerous occasions that the appropriate focus for ratemaking purposes is the reasonableness of overall compensation awards, and not the size or nature of individual pieces of the compensation package.<sup>374</sup>

16. The Commission reviewed and approved PAWC's performance-based compensation in the Company's last two fully-litigated base rate cases in 2020 and 2023.

In the 2020 proceeding, the Commission found, among other things, that:

The performance compensation program establishes that the employees' eligibility to receive the benefit is based on performance duties and metrics directly related to the provision of service; the fact that the program includes a financial metric does not disqualify it from allowance as an expense for inclusion in the rate base. Accordingly, we find that recovery of PAWC's APP and LTPP expense is consistent with our prior decisions approving similar performance compensation programs that are focused on improving operational effectiveness.<sup>375</sup>

17. In Company's 2023 base rate case, the Commission agreed with ALJ findings that PAWC provided "sufficient evidence regarding how its APP calculation benefits customers by encouraging, inter alia, operational efficiency and accessing capital at reasonable rates."<sup>376</sup> In addition, with regard to the LTPP, the Commission agreed with the ALJ that "[performance stock units] reflect the Company's financial performance, and improved financial performance can benefit customers by encouraging operational

---

<sup>374</sup> See, e.g., *Aqua PA 2022*, pp. 100-101; *Pa. P.U.C. v. UGI Utils., Inc. – Elec. Div.*, Docket No. R-2017-2640058 (Opinion and Order entered Oct. 4, 2018), pp. 73-74; *Pa. P.U.C. v. PPL Elec. Utils. Corp.*, Docket No. R-2012-2290597 (Opinion and Order entered Dec. 28, 2012) p. 26; *Pa. P.U.C. v. Aqua Pa., Inc.*, Docket No. R00072711, pp. 20-21 (Order entered July 31, 2008); *Pa. P.U.C. v. PPL Gas Utils. Corp.*, Docket No. R-00061398 (Order entered Feb. 8, 2007), p. 40.

<sup>375</sup> *PAWC 2021*, p. 53.

<sup>376</sup> *PAWC 2024*, p. 80.

efficiency” and “[restricted stock units] vest over a three-year period, encouraging employee retention which can benefit ratepayers by maintaining experienced employees.”<sup>377</sup>

18. The PUC recently rejected the OCA’s proposal in another rate proceeding to have a utility switch from the ELG to ALG procedure in service life study reports, finding, among other things, that the “alleged benefit” of ALG producing “lower depreciation expense and a short-term reduction in rates” results from the change from ELG to ALG procedure, not the ALG procedure itself.<sup>378</sup> The PUC also found that “the ELG procedure produces a more equitable recovery . . .”.<sup>379</sup>

19. In the pending base rate proceeding of PPL Electric Utilities Corp. (“PPL”) cited by the OCA in support of its ALG proposal, PPL is seeking to preserve its long-standing depreciation methodology (ALG) instead of making a significant change as the OCA is proposing in this proceeding.<sup>380</sup>

20. The record evidence supports approval of the Company’s proposed CAP Rider.

21. It is appropriate, and consistent with Commission precedent, to recover CAP costs from residential customers.<sup>381</sup>

---

<sup>377</sup> *Id.*, pp. 88-89.

<sup>378</sup> *Columbia 2025*, p. 108.

<sup>379</sup> *Id.*, p. 110.

<sup>380</sup> PAWC Hearing Ex. 2, pp. 3-4.

<sup>381</sup> PAWC St. 2-R, p. 15. *See, e.g., PAWC 2024* at 219-225, *Pa. P.U.C. v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835 (Opinion and Order entered Feb. 19, 2021) at 258-61.

22. When seeking Commission authorization for deferral accounting, a utility must establish a *prima facie* case that 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 expenses.<sup>382</sup>

23. The Commission regularly authorizes utilities to defer costs for accounting purposes arising from events that are unanticipated and outside the utility's control to provide the utility an opportunity to claim those costs for recovery in a future rate proceeding.<sup>383</sup>

---

<sup>382</sup> See, e.g., *Petition of Pa.-Am. Water Co. for Auth. to Defer and Record as Regulatory Assets for Future Recovery: (1) Incremental Expenses Incurred Because of the Effects of the COVID-19 Emergency; (2) Revenue Reductions Attributable to the Effects of the COVID-19 Emergency; and (3) Carrying Charges on the Amounts Deferred*, Docket No. P-2020-3022426 (Opinion and Order entered Sept. 15, 2021) (“2021 PAWC Deferral Order”), p. 5.

<sup>383</sup> See, e.g., PAWC 2021 Deferral Order, pp. 12-13, 30-32, 42, 49-50 (approving deferral of COVID-19–related financial impacts); *Petition of Pa.-American Water Co. for Auth. to Defer Expenses Incurred to Pay New Regulatory Fees Imposed by the Pa. Dep’t of Env’tl. Prot.*, Docket No. P-2019-3008253 (Opinion and Order entered May 9, 2019), pp. 3-4 (approving deferral of \$840,000 of expenses incurred for new annual fees imposed by the PaDEP); *Petition of Pa.-American Water Co. for Auth. to Defer for Accounting and Financial Reporting Purposes Expenses Relating to a Water Customer Class Demand Study*, Docket No. P-2012-2308982 (Opinion and Order entered Aug. 20, 2012) (approving deferral of \$463,000 in expenses related to a demand study agreed to in settlement of PAWC’s 2011 rate case); *Petition of Columbia Gas of Pa., Inc. for Auth. to Defer, for Accounting Purposes, Certain Costs Associated With A Regulatory Asset Related to Other Post-Retirement Benefits Provided by NiSource Corporate Serv. Co.*, Docket No. P-2011-2275383 (Opinion and Order entered May 24, 2012) (approving deferral of \$903,000 expenses related to an accounting change for certain retirement-related management fees paid to an affiliate); *Petition of the Newtown Artesian Water Co. for Permission to Defer and Record Unrecovered Purchased Water Costs*, Docket No. P-2010-221420 (Order entered June 1, 2011) (approving deferral of unrecovered purchased water costs totaling \$351,929 related to rate increases implemented by the Bucks County Water and Sewer Authority in between rate cases); *Petition of Citizens Utils. Water Co. of Pa.*, Docket No.

24. The record evidence supports a finding that PAWC has established a *prima facie* case that the pension and OPEB expenses the Company seeks to defer are appropriate to record as a regulatory asset or liability.

25. The Commission's regulations recognize utilities long-standing practice to bill "charges for other than basic service," which include, among other things, "line repair programs and appliance warranty programs." Consistent with the Commission's regulations, PAWC includes charges for these services as a separate line item on customers' monthly bills. In addition, these services are entirely optional to customers, i.e., customer payments are applied to PAWC's charges first and a customer's choice not to pay for AWR's services does not result in any service termination efforts by PAWC.<sup>384</sup>

26. AWR's warranty products and services are not utility services subject to PUC jurisdiction.<sup>385</sup>

27. The Commission only has the authority to evaluate whether a utility's jurisdictional services, such as a utility's billing of warranty products and services, are consistent with the Public Utility Code.<sup>386</sup>

---

P-00930746 (Order entered Feb. 25, 1994) (approving deferral of SFAS 106 costs); *Pa. P.U.C. v. Consumers Pa. Water Co. – Roaring Creek Div.*, Docket No. R-932655 (Order entered Feb. 3, 1994) (same).

<sup>384</sup> 52 Pa. Code §§ 56.13, 56.23, 56.83(3).

<sup>385</sup> See *PPL Elec. Utils. Corp. v. Pa. P.U.C.*, 912 A.2d 386, 408 (Pa. Commw. Ct. 2006) (holding that an unregulated energy consulting service offered by an unregulated affiliate of PPL is not a regulated public utility service and that competition among unregulated services is not an objective of the regulatory scheme of the Public Utility Code).

<sup>386</sup> *Pa. Pub. Util. Comm'n v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2018-2647577, 2018 WL 6590854, at \*28-33 (Pa. P.U.C. Dec. 6, 2018) ("Columbia Gas Order").

28. PAWC’s billing relationship is not unreasonably discriminatory.<sup>387</sup>

29. The Commission rejected the OCA’s request to prohibit FirstEnergy Pennsylvania Electric Company’s on-bill arrangement with HomeServe for non-commodity products and services where Ms. Alexander raised the exact same claims – that the use of the utility name and logo for marketing purposes is misleading.<sup>388</sup>

30. Pennsylvania law requires EDCs and NGDCs – not water or wastewater utilities – to have universal service plans and low-income usage reduction programs.<sup>389</sup>

31. A public utility may propose alternative rates and rate mechanisms in a base rate proceeding pursuant to 66 Pa. C.S. § 1330. Such alternative rates and rate mechanisms “should encourage and sustain investment through appropriate cost-recovery mechanisms to enhance the safety, security, reliability or availability of utility infrastructure and be consistent with the efficient consumption of utility service.”<sup>390</sup>

32. The Commission has legal authority to approve the Company’s proposed CAP Rider.<sup>391</sup>

33. The rates and terms of service set forth in Supplement No. 50 to Tariff Water – Pa. P.U.C. No. 5 and Supplement No. 61 to Tariff Wastewater – Pa. P.U.C. No. 16 are

---

<sup>387</sup> 66 Pa.C.S. § 1502; *see also PAWC 2024*, p. 385; Columbia Gas Order, 2018 WL 6590854, at \*22-23; *Interstate Gas Supply, Inc. et al. v. Metro. Edison Co., Pennsylvania Elec. Co., Pennsylvania Power Co., and West Penn Power Co.*, Docket Nos. C-2019-3013805 et al., 2021 WL 3840884, at \*1-2 (Aug. 26, 2021) (“FE PA Order”), *aff’d*, *Interstate Gas Supply, Inc. et al. v. Pa. P.U.C.*, 298 A.3d 1181 (Pa. Commw. Ct. 2023).

<sup>388</sup> FE-PA Order, 2021 WL 3840884, at \*10, \*12, \*19.

<sup>389</sup> 52 Pa. Code § 54.74; 52 Pa. Code § 62.41; *see, e.g.*, 66 Pa.C.S. § 2804(8).

<sup>390</sup> 66 Pa. C.S § 1330(a)(2).

<sup>391</sup> 66 Pa. C.S § 1330; *see also* 52 Pa. Code § 69.3302.

supported by substantial evidence and are just and reasonable. Therefore, PAWC's proposed rate increase should be granted.

## PROPOSED ORDERING PARAGRAPHS

### IT IS ORDERED:

1. That PAWC is authorized to file a tariffs or tariff supplements containing rates, provisions, rules, and regulations, consistent with the findings herein, to produce revenues not in excess of \$1,321,733,464.

2. That tariffs or tariff supplements may be filed on less than statutory notice and, pursuant to the provisions of 52 Pa. Code §§ 53.31 and 53.101, may be filed to be effective for service rendered on and after the date of entry of the Commission's Opinion and Order.

3. That PAWC shall file detailed calculations with its tariff filing, which shall demonstrate that the filed rates comply with the proof of revenue, in the form and manner customarily filed in support of compliance tariffs.

4. That PAWC shall allocate the authorized increase in operating revenues to each customer class and rate schedule within each customer class in the manner prescribed in the Commission's Opinion and Order.

5. That PAWC is authorized to implement its proposed alternative ratemaking mechanism, the Customer Assistance Program Rider.

6. That PAWC is authorized to defer and record in a regulatory asset or liability any differences between the claimed amount of pension and OPEB expenses for the FPFTY and actual expenses incurred by the Company.

7. That any deferred amounts of pension and OPEB expense should be subject to further detailed review and investigation in a general base rate proceeding, prior to being charged in any manner to PAWC customers.

8. That the OCA's proposed changes to PAWC's long-standing relationship with AWR, the presentation of AWR charges on the Company customer bill, and changes to training materials related to AWR are not warranted.

9. That the Complaints filed by the various parties to this proceeding are granted, denied or deemed satisfied, consistent with the Commission's Opinion and Order in this case.

10. That, upon acceptance and approval by the Commission of the tariff supplements filed by PAWC, the investigation at Docket Nos. R-2025-3057983 and R-2025-3058051, and the above-captioned complaint dockets be marked closed.

## Appendix C

**PENNSYLVANIA AMERICAN WATER COMPANY**  
**TOTAL AVERAGE BILL FOR RESIDENTIAL, COMMERCIAL, INDUSTRIAL CUSTOMERS**

WATER - RESIDENTIAL

|             |              | PRESENT | As Filed<br>PROPOSED | Updated<br>PROPOSED | Updated<br>PROPOSED | Updated<br>PROPOSED |
|-------------|--------------|---------|----------------------|---------------------|---------------------|---------------------|
|             |              | BILL \$ | BILL \$              | BILL \$             | INCREASE \$         | INCREASE %          |
| RATE ZONE 1 | PAWC         | \$82.03 | \$95.27              | \$94.95             | \$12.92             | 15.76%              |
| RATE ZONE 2 | VALLEY       | 73.68   | 95.27                | 94.95               | 21.27               | 28.87%              |
| RATE ZONE 3 | TURBOTVILLE  | 82.03   | 95.27                | 94.95               | 12.92               | 15.76%              |
| RATE ZONE 4 | FARMINGTON   | 67.50   | 95.27                | 94.95               | 27.45               | 40.67%              |
| RATE ZONE 5 | EAST DUNKARD | 77.79   | 95.27                | 94.95               | 17.17               | 22.07%              |
| RATE ZONE 6 | AUDUBON      | 44.92   | 58.35                | 58.35               | 13.43               | 29.89%              |
| RATE ZONE 7 | MANWALAMINK  | 27.85   | 30.58                | 30.58               | 2.74                | 9.83%               |
| RATE ZONE 8 | APPALACHIAN  | 36.08   | 45.81                | 51.11               | 15.03               | 41.66%              |
| RATE ZONE 9 | CORNER WATER | 42.93   | 55.11                | 55.11               | 12.18               | 28.38%              |

\* Average consumption of 3,263 gallons.

\*\* Bill at present rate was calculated using DSIC rate @ 2.47% for Rate Zones 1-3.

\*\*\* Bill at present rate was calculated using DSIC rate @ 0.00% for Rate Zones 4-9.

\*\*\*\* Bill at proposed rate was calculated using DSIC rate @ 0.00% for all rate zones.

WASTEWATER - RESIDENTIAL

|              |                   | PRESENT  | As Filed<br>PROPOSED | Updated<br>PROPOSED | Updated<br>PROPOSED | Updated<br>PROPOSED |
|--------------|-------------------|----------|----------------------|---------------------|---------------------|---------------------|
|              |                   | BILL \$  | BILL \$              | BILL \$             | INCREASE \$         | INCREASE %          |
| RATE ZONE 1  | PAWC (SSS)        | \$109.61 | \$119.50             | \$119.34            | \$9.73              | 8.87%               |
| RATE ZONE 1a | ROYERSFORD        | 60.40    | 84.34                | 84.34               | 23.93               | 39.62%              |
| RATE ZONE 1b | YORK              | 65.07    | 91.29                | 91.23               | 26.17               | 40.22%              |
| RATE ZONE 1c | FOSTER            | 111.17   | 120.00               | 119.00              | 7.83                | 7.05%               |
| RATE ZONE 1d | BUTLER            | 45.98    | 70.81                | 70.85               | 24.86               | 54.07%              |
| RATE ZONE 1e | SADSBURY          | 128.33   | 128.33               | 128.33              | 0.00                | 0.00%               |
| RATE ZONE 1f | FARMINGTON        | 53.50    | 74.88                | 74.88               | 21.38               | 39.96%              |
| RATE ZONE 1g | MANWALAMINK       | 37.77    | 41.51                | 41.51               | 3.74                | 9.89%               |
| RATE ZONE 2  | PAWC (CSS)        | 103.72   | 124.16               | 125.44              | 21.72               | 20.94%              |
| RATE ZONE 2a | SCRANTON          | 103.72   | 103.62               | 103.72              | (0.00)              | 0.00%               |
| RATE ZONE 2b | ELIZABETH BOROUGH | 60.31    | 77.44                | 77.44               | 17.12               | 28.39%              |

\* Average consumption of 3,164 gallons.

\*\* Bill at present rate was calculated using DSIC rate @ 1.06% for Rate Zones 1, 1a, 1b, 1c, 1d, 2, 2a.

\*\*\* Bill at present rate was calculated using DSIC rate @ 0.00% for Rate Zones 1e, 1f, 1g, 2b.

\*\*\*\* Bill at proposed rate was calculated using DSIC rate @ 0.00% for all rate zones.

**PENNSYLVANIA AMERICAN WATER COMPANY**  
**TOTAL AVERAGE BILL FOR RESIDENTIAL, COMMERCIAL, INDUSTRIAL CUSTOMERS**

WATER - COMMERCIAL

|             |              | PRESENT  | As Filed<br>PROPOSED | Updated<br>PROPOSED | Updated<br>PROPOSED | Updated<br>PROPOSED |
|-------------|--------------|----------|----------------------|---------------------|---------------------|---------------------|
|             |              | BILL \$  | BILL \$              | BILL \$             | INCREASE \$         | INCREASE %          |
| RATE ZONE 1 | PAWC         | \$381.97 | \$445.61             | \$443.92            | \$61.95             | 16.22%              |
| RATE ZONE 2 | VALLEY       | 343.83   | 445.61               | 443.92              | 100.09              | 29.11%              |
| RATE ZONE 3 | TURBOTVILLE  | 343.83   | 445.61               | 443.92              | 100.09              | 29.11%              |
| RATE ZONE 4 | FARMINGTON   | 304.53   | 445.61               | 443.92              | 139.39              | 45.77%              |
| RATE ZONE 5 | EAST DUNKARD | 307.55   | 445.61               | 443.92              | 136.37              | 44.34%              |
| RATE ZONE 6 | AUDUBON      | 196.09   | 253.39               | 253.39              | 57.30               | 29.22%              |
| RATE ZONE 7 | MANWALAMINK  | 129.75   | 142.57               | 142.57              | 12.82               | 9.88%               |
| RATE ZONE 8 | APPALACHIAN  | 151.91   | 188.57               | 218.33              | 66.42               | 43.72%              |
| RATE ZONE 9 | CORNER WATER | 227.09   | 286.27               | 286.27              | 59.18               | 26.06%              |

\* Average consumption of 20,802 gallons.

\*\* Bill at present rate was calculated using DSIC rate @ 2.47% for Rate Zones 1-3.

\*\*\* Bill at present rate was calculated using DSIC rate @ 0.00% for Rate Zones 4-9.

\*\*\*\* Bill at proposed rate was calculated using DSIC rate @ 0.00% for all rate zones.

WASTEWATER - COMMERCIAL

|              |                   | PRESENT  | As Filed<br>PROPOSED | Updated<br>PROPOSED | Updated<br>PROPOSED | Updated<br>PROPOSED |
|--------------|-------------------|----------|----------------------|---------------------|---------------------|---------------------|
|              |                   | BILL \$  | BILL \$              | BILL \$             | INCREASE \$         | INCREASE %          |
| RATE ZONE 1  | PAWC (SSS)        | \$499.29 | \$532.62             | \$531.25            | \$31.96             | 6.40%               |
| RATE ZONE 1a | ROYERSFORD        | 194.76   | 272.03               | 272.03              | 77.28               | 39.68%              |
| RATE ZONE 1b | YORK              | 462.94   | 532.62               | 531.25              | 68.31               | 14.76%              |
| RATE ZONE 1c | FOSTER            | 151.59   | 162.00               | 161.00              | 9.41                | 6.21%               |
| RATE ZONE 1d | BUTLER            | 229.91   | 413.80               | 414.01              | 184.10              | 80.07%              |
| RATE ZONE 1e | SADSBURY          | 128.33   | 162.00               | 161.00              | 32.67               | 25.46%              |
| RATE ZONE 1f | FARMINGTON        | 267.50   | 373.85               | 373.85              | 106.35              | 39.76%              |
| RATE ZONE 1g | MANWALAMINK       | 110.15   | 121.03               | 121.03              | 10.88               | 9.88%               |
| RATE ZONE 2  | PAWC (CSS)        | 488.62   | 584.61               | 591.18              | 102.56              | 20.99%              |
| RATE ZONE 2a | SCRANTON          | 488.62   | 488.14               | 488.62              | 0.00                | 0.00%               |
| RATE ZONE 2b | ELIZABETH BOROUGH | 201.42   | 261.84               | 261.84              | 60.42               | 30.00%              |

\* Average consumption of 20,802 gallons.

\*\* Bill at present rate was calculated using DSIC rate @ 1.06% for Rate Zones 1, 1a, 1b, 1c, 1d, 2, 2a.

\*\*\* Bill at present rate was calculated using DSIC rate @ 0.00% for Rate Zones 1e, 1f, 1g, 2b.

\*\*\*\* Bill at proposed rate was calculated using DSIC rate @ 0.00% for all rate zones.

**PENNSYLVANIA AMERICAN WATER COMPANY**  
**TOTAL AVERAGE BILL FOR RESIDENTIAL, COMMERCIAL, INDUSTRIAL CUSTOMERS**

WATER - INDUSTRIAL

|             |              | PRESENT    | As Filed<br>PROPOSED | Updated<br>PROPOSED | Updated<br>PROPOSED | Updated<br>PROPOSED |
|-------------|--------------|------------|----------------------|---------------------|---------------------|---------------------|
|             |              | BILL \$    | BILL \$              | BILL \$             | INCREASE \$         | INCREASE %          |
| RATE ZONE 1 | PAWC         | \$8,689.81 | \$9,759.50           | \$9,726.73          | \$1,036.92          | 11.93%              |
| RATE ZONE 2 | VALLEY       | 8,689.81   | 9,759.50             | 9,726.73            | 1,036.92            | 11.93%              |
| RATE ZONE 3 | TURBOTVILLE  | 8,689.81   | 9,759.50             | 9,726.73            | 1,036.92            | 11.93%              |
| RATE ZONE 4 | FARMINGTON   | 9,708.81   | 9,759.50             | 9,726.73            | 17.92               | 0.18%               |
| RATE ZONE 5 | EAST DUNKARD | 8,623.12   | 9,759.50             | 9,726.73            | 1,103.61            | 12.80%              |
| RATE ZONE 6 | AUDUBON      | 4,113.10   | 5,861.09             | 5,861.09            | 1,747.99            | 42.50%              |
| RATE ZONE 7 | MANWALAMINK  | 2,949.91   | 3,237.17             | 3,237.17            | 287.26              | 9.74%               |
| RATE ZONE 8 | APPALACHIAN  | 2,540.62   | 3,192.86             | 6,410.49            | 3,869.87            | 152.32%             |
| RATE ZONE 9 | CORNER WATER | 5,379.89   | 8,360.15             | 8,360.15            | 2,980.26            | 55.40%              |

\* Average consumption of 647,754 gallons.

\*\* Bill at present rate was calculated using DSIC rate @ 2.47% for Rate Zones 1-3.

\*\*\* Bill at present rate was calculated using DSIC rate @ 0.00% for Rate Zones 4-9.

\*\*\*\* Bill at proposed rate was calculated using DSIC rate @ 0.00% for all rate zones.

WASTEWATER - INDUSTRIAL

|              |                   | PRESENT     | As Filed<br>PROPOSED | Updated<br>PROPOSED | Updated<br>PROPOSED | Updated<br>PROPOSED |
|--------------|-------------------|-------------|----------------------|---------------------|---------------------|---------------------|
|              |                   | BILL \$     | BILL \$              | BILL \$             | INCREASE \$         | INCREASE %          |
| RATE ZONE 1  | PAWC (SSS)        | \$14,429.57 | \$15,213.96          | \$15,171.20         | \$741.64            | 5.14%               |
| RATE ZONE 1a | ROYERSFORD        | 4,946.74    | 7,099.54             | 7,099.54            | 2,152.80            | 43.52%              |
| RATE ZONE 1b | YORK              | 14,392.48   | 15,213.96            | 15,171.20           | 778.72              | 5.41%               |
| RATE ZONE 1c | FOSTER            | 151.59      | 162.00               | 161.00              | 9.41                | 6.21%               |
| RATE ZONE 1d | BUTLER            | 7,403.15    | 11,513.98            | 11,520.46           | 4,117.31            | 55.62%              |
| RATE ZONE 1e | SADSBURY          | 128.33      | 162.00               | 161.00              | 32.67               | 25.46%              |
| RATE ZONE 1f | FARMINGTON        | 8,613.50    | 10,028.91            | 10,028.91           | 1,415.41            | 16.43%              |
| RATE ZONE 1g | MANWALAMINK       | 1,696.34    | 1,863.96             | 1,863.96            | 167.62              | 9.88%               |
| RATE ZONE 2  | PAWC (CSS)        | 13,996.93   | 16,697.28            | 16,901.97           | 2,905.04            | 20.75%              |
| RATE ZONE 2a | SCRANTON          | 13,996.93   | 13,983.28            | 13,996.93           | 0.00                | 0.00%               |
| RATE ZONE 2b | ELIZABETH BOROUGH | 5,217.03    | 6,782.14             | 6,782.14            | 1,565.11            | 30.00%              |

\* Average consumption of 647,754 gallons.

\*\* Bill at present rate was calculated using DSIC rate @ 1.06% for Rate Zones 1, 1a, 1b, 1c, 1d, 2, 2a.

\*\*\* Bill at present rate was calculated using DSIC rate @ 0.00% for Rate Zones 1e, 1f, 1g, 2b.

\*\*\*\* Bill at proposed rate was calculated using DSIC rate @ 0.00% for all rate zones.

**PENNSYLVANIA AMERICAN WATER COMPANY**

**IDENTIFICATION OF REVENUE INCREASES OF RESIDENTIAL, COMMERCIAL, INDUSTRIAL CLASSES**

WATER - RESIDENTIAL

|             |              | PRESENT<br>REVENUES | As Filed<br>PROPOSED<br>REVENUES | Updated<br>PROPOSED<br>REVENUES | Updated<br>PROPOSED<br>INCREASE \$ | Updated<br>PROPOSED<br>INCREASE % |
|-------------|--------------|---------------------|----------------------------------|---------------------------------|------------------------------------|-----------------------------------|
| RATE ZONE 1 | PAWC         | \$618,183,509       | \$718,094,479                    | \$715,683,621                   | \$97,500,112                       | 15.77%                            |
| RATE ZONE 2 | VALLEY       | 1,337,420           | 1,720,002                        | 1,714,358                       | 376,937                            | 28.18%                            |
| RATE ZONE 3 | TURBOTVILLE  | 219,929             | 253,961                          | 253,151                         | 33,222                             | 15.11%                            |
| RATE ZONE 4 | FARMINGTON   | 346,406             | 374,000                          | 372,830                         | 26,425                             | 7.63%                             |
| RATE ZONE 5 | EAST DUNKARD | 1,372,888           | 1,669,459                        | 1,663,895                       | 291,007                            | 21.20%                            |
| RATE ZONE 6 | AUDUBON      | 1,702,067           | 2,208,843                        | 2,208,843                       | 506,776                            | 29.77%                            |
| RATE ZONE 7 | MANWALAMINK  | 168,147             | 184,644                          | 184,644                         | 16,497                             | 9.81%                             |
| RATE ZONE 8 | APPALACHIAN  | 565,626             | 718,569                          | 804,014                         | 238,388                            | 42.15%                            |
| RATE ZONE 9 | CORNER WATER | 155,527             | 201,476                          | 201,476                         | 45,949                             | 29.54%                            |

\* Present revenues calculated using DSIC rate @ 2.47% for Rate Zones 1-3.

\*\* Present revenues calculated using DSIC rate @ 0.00% for Rate Zones 4-9.

\*\*\* Proposed revenues calculated using DSIC rate @ 0.00% for all rate zones.

WASTEWATER - RESIDENTIAL

|              |                   | PRESENT<br>REVENUES | As Filed<br>PROPOSED<br>REVENUES | Updated<br>PROPOSED<br>REVENUES | Updated<br>PROPOSED<br>INCREASE \$ | Updated<br>PROPOSED<br>INCREASE % |
|--------------|-------------------|---------------------|----------------------------------|---------------------------------|------------------------------------|-----------------------------------|
| RATE ZONE 1  | PAWC (SSS)        | \$46,878,090        | \$49,462,175                     | \$49,355,973                    | \$2,477,883                        | 5.29%                             |
| RATE ZONE 1a | ROYERSFORD        | 931,085             | 1,284,528                        | 1,284,528                       | 353,443                            | 37.96%                            |
| RATE ZONE 1b | YORK              | 16,253,631          | 18,681,702                       | 18,662,845                      | 2,409,214                          | 14.82%                            |
| RATE ZONE 1c | FOSTER            | 613,879             | 661,622                          | 656,109                         | 42,230                             | 6.88%                             |
| RATE ZONE 1d | BUTLER            | 8,014,639           | 11,209,387                       | 11,215,150                      | 3,200,511                          | 39.93%                            |
| RATE ZONE 1e | SADSBURY          | 346,491             | 346,491                          | 346,491                         | 0                                  | 0.00%                             |
| RATE ZONE 1f | FARMINGTON        | 251,131             | 289,143                          | 289,143                         | 38,012                             | 15.14%                            |
| RATE ZONE 1g | MANWALAMINK       | 245,727             | 270,031                          | 270,031                         | 24,304                             | 9.89%                             |
| RATE ZONE 2  | PAWC (CSS)        | 12,479,747          | 14,952,089                       | 15,102,225                      | 2,622,478                          | 21.01%                            |
| RATE ZONE 2a | SCRANTON          | 34,944,775          | 34,909,800                       | 34,944,255                      | (520)                              | 0.00%                             |
| RATE ZONE 2b | ELIZABETH BOROUGH | 454,286             | 590,572                          | 590,572                         | 136,286                            | 30.00%                            |

\* Present revenues calculated using DSIC rate @ 1.06% for Rate Zones 1, 1a, 1b, 1c, 1d, 2, 2a.

\*\* Present revenues calculated using DSIC rate @ 0.00% for Rate Zones 1e, 1f, 1g, 2b.

\*\*\* Proposed revenues calculated using DSIC rate @ 0.00 for all rate zones.

**PENNSYLVANIA AMERICAN WATER COMPANY**

**IDENTIFICATION OF REVENUE INCREASES OF RESIDENTIAL, COMMERCIAL, INDUSTRIAL CLASSES**

WATER - COMMERCIAL

|             |              | PRESENT<br>REVENUES | As Filed<br>PROPOSED<br>REVENUES | Updated<br>PROPOSED<br>REVENUES | Updated<br>PROPOSED<br>INCREASE \$ | Updated<br>PROPOSED<br>INCREASE % |
|-------------|--------------|---------------------|----------------------------------|---------------------------------|------------------------------------|-----------------------------------|
| RATE ZONE 1 | PAWC         | \$223,759,658       | \$256,088,824                    | \$255,238,120                   | \$31,478,462                       | 14.07%                            |
| RATE ZONE 2 | VALLEY       | 37,793              | 44,738                           | 44,616                          | 6,823                              | 18.05%                            |
| RATE ZONE 3 | TURBOTVILLE  | 92,055              | 110,536                          | 110,195                         | 18,140                             | 19.71%                            |
| RATE ZONE 4 | FARMINGTON   | 53,855              | 40,572                           | 40,449                          | (13,406)                           | -24.89%                           |
| RATE ZONE 5 | EAST DUNKARD | 107,268             | 136,250                          | 135,825                         | 28,557                             | 26.62%                            |
| RATE ZONE 6 | AUDUBON      | 933,237             | 1,190,348                        | 1,190,348                       | 257,111                            | 27.55%                            |
| RATE ZONE 7 | MANWALAMINK  | 253,639             | 278,635                          | 278,635                         | 24,996                             | 9.85%                             |
| RATE ZONE 8 | APPALACHIAN  | 122,400             | 150,682                          | 159,299                         | 36,899                             | 30.15%                            |
| RATE ZONE 9 | CORNER WATER | 247,376             | 321,320                          | 321,320                         | 73,944                             | 29.89%                            |

\* Present revenues calculated using DSIC rate @ 2.47% for Rate Zones 1-3.

\*\* Present revenues calculated using DSIC rate @ 0.00% for Rate Zones 4-9.

\*\*\* Proposed revenues calculated using DSIC rate @ 0.00% for all rate zones.

WASTEWATER - COMMERCIAL

|              |                   | PRESENT<br>REVENUES | As Filed<br>PROPOSED<br>REVENUES | Updated<br>PROPOSED<br>REVENUES | Updated<br>PROPOSED<br>INCREASE \$ | Updated<br>PROPOSED<br>INCREASE % |
|--------------|-------------------|---------------------|----------------------------------|---------------------------------|------------------------------------|-----------------------------------|
| RATE ZONE 1  | PAWC (SSS)        | \$14,069,992        | \$14,243,272                     | \$14,203,170                    | \$133,178                          | 0.95%                             |
| RATE ZONE 1a | ROYERSFORD        | 476,383             | 658,241                          | 658,241                         | 181,858                            | 38.17%                            |
| RATE ZONE 1b | YORK              | 8,461,644           | 9,635,579                        | 9,610,941                       | 1,149,297                          | 13.58%                            |
| RATE ZONE 1c | FOSTER            | 29,863              | 31,914                           | 31,717                          | 1,854                              | 6.21%                             |
| RATE ZONE 1d | BUTLER            | 3,763,434           | 5,147,609                        | 5,150,086                       | 1,386,652                          | 36.85%                            |
| RATE ZONE 1e | SADSBURY          | 132,437             | 167,184                          | 166,152                         | 33,715                             | 25.46%                            |
| RATE ZONE 1f | FARMINGTON        | 40,446              | 44,884                           | 44,884                          | 4,438                              | 10.97%                            |
| RATE ZONE 1g | MANWALAMINK       | 255,873             | 281,183                          | 281,183                         | 25,310                             | 9.89%                             |
| RATE ZONE 2  | PAWC (CSS)        | 4,115,073           | 4,929,561                        | 4,982,891                       | 867,818                            | 21.09%                            |
| RATE ZONE 2a | SCRANTON          | 19,467,919          | 19,448,640                       | 19,467,655                      | (264)                              | 0.00%                             |
| RATE ZONE 2b | ELIZABETH BOROUGH | 60,425              | 78,552                           | 78,552                          | 18,127                             | 30.00%                            |

\* Present revenues calculated using DSIC rate @ 1.06% for Rate Zones 1, 1a, 1b, 1c, 1d, 2, 2a.

\*\* Present revenues calculated using DSIC rate @ 0.00% for Rate Zones 1e, 1f, 1g, 2b.

\*\*\* Proposed revenues calculated using DSIC rate @ 0.00 for all rate zones.

**PENNSYLVANIA AMERICAN WATER COMPANY**

**IDENTIFICATION OF REVENUE INCREASES OF RESIDENTIAL, COMMERCIAL, INDUSTRIAL CLASSES**

WATER - INDUSTRIAL

|             |              | PRESENT<br>REVENUES | As Filed<br>PROPOSED<br>REVENUES | Updated<br>PROPOSED<br>REVENUES | Updated<br>PROPOSED<br>INCREASE \$ | Updated<br>PROPOSED<br>INCREASE % |
|-------------|--------------|---------------------|----------------------------------|---------------------------------|------------------------------------|-----------------------------------|
| RATE ZONE 1 | PAWC         | \$46,812,863        | \$51,652,565                     | \$51,501,410                    | \$4,688,547                        | 10.02%                            |
| RATE ZONE 2 | VALLEY       | 526                 | 585                              | 583                             | 57                                 | 10.84%                            |
| RATE ZONE 3 | TURBOTVILLE  | 0                   | 0                                | 0                               | 0                                  | 0.00%                             |
| RATE ZONE 4 | FARMINGTON   | 0                   | 0                                | 0                               | 0                                  | 0.00%                             |
| RATE ZONE 5 | EAST DUNKARD | 8,546               | 12,787                           | 12,771                          | 4,225                              | 49.44%                            |
| RATE ZONE 6 | AUDUBON      | 0                   | 0                                | 0                               | 0                                  | 0.00%                             |
| RATE ZONE 7 | MANWALAMINK  | 0                   | 0                                | 0                               | 0                                  | 0.00%                             |
| RATE ZONE 8 | APPALACHIAN  | 3,714               | 4,814                            | 5,092                           | 1,378                              | 37.10%                            |
| RATE ZONE 9 | CORNER WATER | 14,336              | 18,296                           | 18,296                          | 3,960                              | 27.62%                            |

\* Present revenues calculated using DSIC rate @ 2.47% for Rate Zones 1-3.

\*\* Present revenues calculated using DSIC rate @ 0.00% for Rate Zones 4-9.

\*\*\* Proposed revenues calculated using DSIC rate @ 0.00% for all rate zones.

WASTEWATER - INDUSTRIAL

|              |                   | PRESENT<br>REVENUES | As Filed<br>PROPOSED<br>REVENUES | Updated<br>PROPOSED<br>REVENUES | Updated<br>PROPOSED<br>INCREASE \$ | Updated<br>PROPOSED<br>INCREASE % |
|--------------|-------------------|---------------------|----------------------------------|---------------------------------|------------------------------------|-----------------------------------|
| RATE ZONE 1  | PAWC (SSS)        | \$1,505,356         | \$1,511,983                      | \$1,510,989                     | \$5,633                            | 0.37%                             |
| RATE ZONE 1a | ROYERSFORD        | 15,691              | 21,422                           | 21,422                          | 5,731                              | 36.52%                            |
| RATE ZONE 1b | YORK              | 12,124              | 13,324                           | 13,288                          | 1,164                              | 9.60%                             |
| RATE ZONE 1c | FOSTER            | 790,390             | 844,668                          | 839,454                         | 49,064                             | 6.21%                             |
| RATE ZONE 1d | BUTLER            | 392,321             | 557,438                          | 557,527                         | 165,206                            | 42.11%                            |
| RATE ZONE 1e | SADSBURY          | 0                   | 0                                | 0                               | 0                                  | 0.00%                             |
| RATE ZONE 1f | FARMINGTON        | 0                   | 0                                | 0                               | 0                                  | 0.00%                             |
| RATE ZONE 1g | MANWALAMINK       | 0                   | 0                                | 0                               | 0                                  | 0.00%                             |
| RATE ZONE 2  | PAWC (CSS)        | 64,979              | 77,528                           | 78,474                          | 13,495                             | 20.77%                            |
| RATE ZONE 2a | SCRANTON          | 2,533,188           | 2,530,716                        | 2,533,185                       | (3)                                | 0.00%                             |
| RATE ZONE 2b | ELIZABETH BOROUGH | 0                   | 0                                | 0                               | 0                                  | 0.00%                             |

\* Present revenues calculated using DSIC rate @ 1.06% for Rate Zones 1, 1a, 1b, 1c, 1d, 2, 2a.

\*\* Present revenues calculated using DSIC rate @ 0.00% for Rate Zones 1e, 1f, 1g, 2b.

\*\*\* Proposed revenues calculated using DSIC rate @ 0.00 for all rate zones.

**PENNSYLVANIA AMERICAN WATER COMPANY**  
**IDENTIFICATION OF RATE CHANGES OF RESIDENTIAL, COMMERCIAL, INDUSTRIAL CLASSES**

**Water Zone 1 - PAWC**

|                             | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|-----------------------------|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| <b>Residential</b>          |                 |                              |                             |                                 |                                 |
| 5/8 - Meter                 | \$ 18.80        | \$ 20.00                     | \$ 20.00                    | \$ 1.20                         | 6.4%                            |
| 3/4 - Meter                 | \$ 18.80        | \$ 20.00                     | \$ 20.00                    | \$ 1.20                         | 6.4%                            |
| 1 - Meter                   | \$ 18.80        | \$ 20.00                     | \$ 20.00                    | \$ 1.20                         | 6.4%                            |
| 1 1/2 - Meter               | \$ 18.80        | \$ 20.00                     | \$ 20.00                    | \$ 1.20                         | 6.4%                            |
| 2 - Meter                   | \$ 127.00       | \$ 131.70                    | \$ 131.70                   | \$ 4.70                         | 3.7%                            |
| 3 - Meter                   | \$ 236.80       | \$ 245.50                    | \$ 245.50                   | \$ 8.70                         | 3.7%                            |
| 4 - Meter                   | \$ 296.80       | \$ 307.70                    | \$ 307.70                   | \$ 10.90                        | 3.7%                            |
| 6 - Meter                   | \$ 444.30       | \$ 460.40                    | \$ 460.40                   | \$ 16.10                        | 3.6%                            |
| 8 - Meter                   | \$ 860.40       | \$ 891.70                    | \$ 891.70                   | \$ 31.30                        | 3.6%                            |
| Unmetered Service           | \$ 79.00        | \$ 95.00                     | \$ 95.00                    | \$ 16.00                        | 20.3%                           |
| All Usage (per 100 gallons) | \$ 1.8772       | \$ 2.3069                    | \$ 2.2971                   | \$ 0.4199                       | 22.4%                           |
| <b>Commercial</b>           |                 |                              |                             |                                 |                                 |
|                             | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
| 5/8 - Meter                 | \$ 19.30        | \$ 20.00                     | \$ 20.00                    | \$ 0.70                         | 3.6%                            |
| 3/4 - Meter                 | \$ 29.10        | \$ 30.20                     | \$ 30.20                    | \$ 1.10                         | 3.8%                            |
| 1 - Meter                   | \$ 48.40        | \$ 50.20                     | \$ 50.20                    | \$ 1.80                         | 3.7%                            |
| 1 1/2 - Meter               | \$ 79.20        | \$ 82.10                     | \$ 82.10                    | \$ 2.90                         | 3.7%                            |
| 2 - Meter                   | \$ 127.10       | \$ 131.70                    | \$ 131.70                   | \$ 4.60                         | 3.6%                            |
| 3 - Meter                   | \$ 236.90       | \$ 245.50                    | \$ 245.50                   | \$ 8.60                         | 3.6%                            |
| 4 - Meter                   | \$ 296.90       | \$ 307.70                    | \$ 307.70                   | \$ 10.80                        | 3.6%                            |
| 6 - Meter                   | \$ 444.30       | \$ 460.40                    | \$ 460.40                   | \$ 16.10                        | 3.6%                            |
| 8 - Meter                   | \$ 860.50       | \$ 891.70                    | \$ 891.70                   | \$ 31.20                        | 3.6%                            |
| 10 - Meter                  | \$ 1,246.40     | \$ 1,291.60                  | \$ 1,291.60                 | \$ 45.20                        | 3.6%                            |
| 12 - Meter                  | \$ 1,782.20     | \$ 1,846.80                  | \$ 1,846.80                 | \$ 64.60                        | 3.6%                            |
| 16 - Meter                  | \$ 2,423.80     | \$ 2,511.70                  | \$ 2,511.70                 | \$ 87.90                        | 3.6%                            |
| 18 - Meter                  | \$ 2,730.20     | \$ 2,829.20                  | \$ 2,829.20                 | \$ 99.00                        | 3.6%                            |
| 20 - Meter                  | \$ 3,033.50     | \$ 3,143.50                  | \$ 3,143.50                 | \$ 110.00                       | 3.6%                            |
| First 16,000 gallons        | \$ 1.8033       | \$ 2.1713                    | \$ 2.1627                   | \$ 0.3594                       | 19.9%                           |
| All Over 16,000 gallons     | \$ 1.3523       | \$ 1.6285                    | \$ 1.6220                   | \$ 0.2697                       | 19.9%                           |

**PENNSYLVANIA AMERICAN WATER COMPANY**  
**IDENTIFICATION OF RATE CHANGES OF RESIDENTIAL, COMMERCIAL, INDUSTRIAL CLASSES**

**Water Zone 1 - PAWC**

| Industrial                  | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|-----------------------------|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| 5/8 - Meter                 | \$ 28.00        | \$ 28.00                     | \$ 28.00                    | \$ -                            | 0.0%                            |
| 3/4 - Meter                 | \$ 42.00        | \$ 42.00                     | \$ 42.00                    | \$ -                            | 0.0%                            |
| 1 - Meter                   | \$ 70.00        | \$ 70.00                     | \$ 70.00                    | \$ -                            | 0.0%                            |
| 1 1/2 - Meter               | \$ 140.00       | \$ 140.00                    | \$ 140.00                   | \$ -                            | 0.0%                            |
| 2 - Meter                   | \$ 224.00       | \$ 224.00                    | \$ 224.00                   | \$ -                            | 0.0%                            |
| 3 - Meter                   | \$ 420.00       | \$ 420.00                    | \$ 420.00                   | \$ -                            | 0.0%                            |
| 4 - Meter                   | \$ 701.00       | \$ 701.00                    | \$ 701.00                   | \$ -                            | 0.0%                            |
| 6 - Meter                   | \$ 1,401.00     | \$ 1,401.00                  | \$ 1,401.00                 | \$ -                            | 0.0%                            |
| 8 - Meter                   | \$ 2,243.00     | \$ 2,243.00                  | \$ 2,243.00                 | \$ -                            | 0.0%                            |
| 10 - Meter                  | \$ 3,223.00     | \$ 3,223.00                  | \$ 3,223.00                 | \$ -                            | 0.0%                            |
| 12 - Meter                  | \$ 4,625.00     | \$ 4,625.00                  | \$ 4,625.00                 | \$ -                            | 0.0%                            |
| First 16,000 gallons        | \$ 1.6720       | \$ 1.9290                    | \$ 1.9223                   | \$ 0.2503                       | 15.0%                           |
| Next 584,000 gallons        | \$ 1.2860       | \$ 1.4853                    | \$ 1.4802                   | \$ 0.1942                       | 15.1%                           |
| All Over 600,000 gallons    | \$ 1.0022       | \$ 1.1574                    | \$ 1.1534                   | \$ 0.1512                       | 15.1%                           |
| <b>Curtailment</b>          |                 |                              |                             |                                 |                                 |
| First 16,000 gallons        | \$ 1.6720       | \$ 1.9290                    | \$ 1.9223                   | \$ 0.2503                       | 15.0%                           |
| Next 584,000 gallons        | \$ 1.2860       | \$ 1.4853                    | \$ 1.4802                   | \$ 0.1942                       | 15.1%                           |
| Next 14,400,000 gallons     | \$ 1.0022       | \$ 1.1574                    | \$ 1.1534                   | \$ 0.1512                       | 15.1%                           |
| All Over 15,000,000 gallons | \$ 0.6001       | \$ 0.6944                    | \$ 0.6920                   | \$ 0.0919                       | 15.3%                           |

**PENNSYLVANIA AMERICAN WATER COMPANY**  
**IDENTIFICATION OF RATE CHANGES OF RESIDENTIAL, COMMERCIAL, INDUSTRIAL CLASSES**

**Water Zone 2 - Valley**

|                             | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|-----------------------------|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| <b>Residential</b>          |                 |                              |                             |                                 |                                 |
| 5/8 - Meter                 | \$ 18.80        | \$ 20.00                     | \$ 20.00                    | \$ 1.20                         | 6.4%                            |
| 3/4 - Meter                 | \$ 18.80        | \$ 20.00                     | \$ 20.00                    | \$ 1.20                         | 6.4%                            |
| 1 - Meter                   | \$ 18.80        | \$ 20.00                     | \$ 20.00                    | \$ 1.20                         | 6.4%                            |
| 1 1/2 - Meter               | \$ 18.80        | \$ 20.00                     | \$ 20.00                    | \$ 1.20                         | 6.4%                            |
| 2 - Meter                   | \$ 127.00       | \$ 131.70                    | \$ 131.70                   | \$ 4.70                         | 3.7%                            |
| 3 - Meter                   | \$ 236.80       | \$ 245.50                    | \$ 245.50                   | \$ 8.70                         | 3.7%                            |
| 4 - Meter                   | \$ 296.80       | \$ 307.70                    | \$ 307.70                   | \$ 10.90                        | 3.7%                            |
| 6 - Meter                   | \$ 444.30       | \$ 460.40                    | \$ 460.40                   | \$ 16.10                        | 3.6%                            |
| 8 - Meter                   | \$ 860.40       | \$ 891.70                    | \$ 891.70                   | \$ 31.30                        | 3.6%                            |
| All Usage (per 100 gallons) | \$ 1.6276       | \$ 2.3069                    | \$ 2.2971                   | \$ 0.6695                       | 41.1%                           |
| <b>Commercial</b>           |                 |                              |                             |                                 |                                 |
|                             | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
| 5/8 - Meter                 | \$ 19.30        | \$ 20.00                     | \$ 20.00                    | \$ 0.70                         | 3.6%                            |
| 3/4 - Meter                 | \$ 29.10        | \$ 30.20                     | \$ 30.20                    | \$ 1.10                         | 3.8%                            |
| 1 - Meter                   | \$ 48.40        | \$ 50.20                     | \$ 50.20                    | \$ 1.80                         | 3.7%                            |
| 1 1/2 - Meter               | \$ 79.20        | \$ 82.10                     | \$ 82.10                    | \$ 2.90                         | 3.7%                            |
| 2 - Meter                   | \$ 127.10       | \$ 131.70                    | \$ 131.70                   | \$ 4.60                         | 3.6%                            |
| 3 - Meter                   | \$ 236.90       | \$ 245.50                    | \$ 245.50                   | \$ 8.60                         | 3.6%                            |
| 4 - Meter                   | \$ 296.90       | \$ 307.70                    | \$ 307.70                   | \$ 10.80                        | 3.6%                            |
| 6 - Meter                   | \$ 444.30       | \$ 460.40                    | \$ 460.40                   | \$ 16.10                        | 3.6%                            |
| 8 - Meter                   | \$ 860.50       | \$ 891.70                    | \$ 891.70                   | \$ 31.20                        | 3.6%                            |
| 10 - Meter                  | \$ 1,246.40     | \$ 1,291.60                  | \$ 1,291.60                 | \$ 45.20                        | 3.6%                            |
| 12 - Meter                  | \$ 1,782.20     | \$ 1,846.80                  | \$ 1,846.80                 | \$ 64.60                        | 3.6%                            |
| First 16,000 gallons        | \$ 1.5779       | \$ 2.1713                    | \$ 2.1627                   | \$ 0.5848                       | 37.1%                           |
| All Over 16,000 gallons     | \$ 1.3282       | \$ 1.6285                    | \$ 1.6220                   | \$ 0.2938                       | 22.1%                           |
| <b>Industrial</b>           |                 |                              |                             |                                 |                                 |
|                             | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
| 5/8 - Meter                 | \$ 28.00        | \$ 28.00                     | \$ 28.00                    | \$ -                            | 0.0%                            |
| 3/4 - Meter                 | \$ 42.00        | \$ 42.00                     | \$ 42.00                    | \$ -                            | 0.0%                            |
| 1 - Meter                   | \$ 70.00        | \$ 70.00                     | \$ 70.00                    | \$ -                            | 0.0%                            |
| 1 1/2 - Meter               | \$ 140.00       | \$ 140.00                    | \$ 140.00                   | \$ -                            | 0.0%                            |
| 2 - Meter                   | \$ 224.00       | \$ 224.00                    | \$ 224.00                   | \$ -                            | 0.0%                            |
| 3 - Meter                   | \$ 420.00       | \$ 420.00                    | \$ 420.00                   | \$ -                            | 0.0%                            |
| 4 - Meter                   | \$ 701.00       | \$ 701.00                    | \$ 701.00                   | \$ -                            | 0.0%                            |
| 6 - Meter                   | \$ 1,401.00     | \$ 1,401.00                  | \$ 1,401.00                 | \$ -                            | 0.0%                            |
| 8 - Meter                   | \$ 2,243.00     | \$ 2,243.00                  | \$ 2,243.00                 | \$ -                            | 0.0%                            |
| 10 - Meter                  |                 | \$ 3,223.00                  | \$ 3,223.00                 | \$ 3,223.00                     | 0.0%                            |
| 12 - Meter                  |                 | \$ 4,625.00                  | \$ 4,625.00                 | \$ 4,625.00                     | 0.0%                            |
| First 16,000 gallons        | \$ 1.6720       | \$ 1.9290                    | \$ 1.9223                   | \$ 0.2503                       | 15.0%                           |
| Next 584,000 gallons        | \$ 1.2860       | \$ 1.4853                    | \$ 1.4802                   | \$ 0.1942                       | 15.1%                           |
| All Over 600,000 gallons    | \$ 1.0022       | \$ 1.1574                    | \$ 1.1534                   | \$ 0.1512                       | 15.1%                           |

**PENNSYLVANIA AMERICAN WATER COMPANY**  
**IDENTIFICATION OF RATE CHANGES OF RESIDENTIAL, COMMERCIAL, INDUSTRIAL CLASSES**

**Water Zone 3 - Turbotville**

| Residential                 | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|-----------------------------|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| 5/8 - Meter                 | \$ 18.80        | \$ 20.00                     | \$ 20.00                    | \$ 1.20                         | 6.4%                            |
| 3/4 - Meter                 | \$ 18.80        | \$ 20.00                     | \$ 20.00                    | \$ 1.20                         | 6.4%                            |
| 1 - Meter                   | \$ 18.80        | \$ 20.00                     | \$ 20.00                    | \$ 1.20                         | 6.4%                            |
| 1 1/2 - Meter               | \$ 18.80        | \$ 20.00                     | \$ 20.00                    | \$ 1.20                         | 6.4%                            |
| 2 - Meter                   | \$ 127.00       | \$ 131.70                    | \$ 131.70                   | \$ 4.70                         | 3.7%                            |
| 3 - Meter                   | \$ 236.80       | \$ 245.50                    | \$ 245.50                   | \$ 8.70                         | 3.7%                            |
| 4 - Meter                   | \$ 296.80       | \$ 307.70                    | \$ 307.70                   | \$ 10.90                        | 3.7%                            |
| 6 - Meter                   | \$ 444.30       | \$ 460.40                    | \$ 460.40                   | \$ 16.10                        | 3.6%                            |
| 8 - Meter                   | \$ 860.40       | \$ 891.70                    | \$ 891.70                   | \$ 31.30                        | 3.6%                            |
| All Usage (per 100 gallons) | \$ 1.8772       | \$ 2.3069                    | \$ 2.2971                   | \$ 0.4199                       | 22.4%                           |

| Commercial              | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|-------------------------|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| 5/8 - Meter             | \$ 19.30        | \$ 20.00                     | \$ 20.00                    | \$ 0.70                         | 3.6%                            |
| 3/4 - Meter             | \$ 29.10        | \$ 30.20                     | \$ 30.20                    | \$ 1.10                         | 3.8%                            |
| 1 - Meter               | \$ 48.40        | \$ 50.20                     | \$ 50.20                    | \$ 1.80                         | 3.7%                            |
| 1 1/2 - Meter           | \$ 79.20        | \$ 82.10                     | \$ 82.10                    | \$ 2.90                         | 3.7%                            |
| 2 - Meter               | \$ 127.10       | \$ 131.70                    | \$ 131.70                   | \$ 4.60                         | 3.6%                            |
| 3 - Meter               | \$ 236.90       | \$ 245.50                    | \$ 245.50                   | \$ 8.60                         | 3.6%                            |
| 4 - Meter               | \$ 296.90       | \$ 307.70                    | \$ 307.70                   | \$ 10.80                        | 3.6%                            |
| 6 - Meter               | \$ 444.30       | \$ 460.40                    | \$ 460.40                   | \$ 16.10                        | 3.6%                            |
| 8 - Meter               | \$ 860.50       | \$ 891.70                    | \$ 891.70                   | \$ 31.20                        | 3.6%                            |
| 10 - Meter              | \$ 1,246.40     | \$ 1,291.60                  | \$ 1,291.60                 | \$ 45.20                        | 3.6%                            |
| 12 - Meter              | \$ 1,782.20     | \$ 1,846.80                  | \$ 1,846.80                 | \$ 64.60                        | 3.6%                            |
| First 16,000 gallons    | \$ 1.5779       | \$ 2.1713                    | \$ 2.1627                   | \$ 0.5848                       | 37.1%                           |
| All Over 16,000 gallons | \$ 1.3282       | \$ 1.6285                    | \$ 1.6220                   | \$ 0.2938                       | 22.1%                           |

| Industrial               | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|--------------------------|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| 5/8 - Meter              |                 | \$ 28.00                     | \$ 28.00                    | \$ 28.00                        | 0.0%                            |
| 3/4 - Meter              |                 | \$ 42.00                     | \$ 42.00                    | \$ 42.00                        | 0.0%                            |
| 1 - Meter                |                 | \$ 70.00                     | \$ 70.00                    | \$ 70.00                        | 0.0%                            |
| 1 1/2 - Meter            |                 | \$ 140.00                    | \$ 140.00                   | \$ 140.00                       | 0.0%                            |
| 2 - Meter                |                 | \$ 224.00                    | \$ 224.00                   | \$ 224.00                       | 0.0%                            |
| 3 - Meter                |                 | \$ 420.00                    | \$ 420.00                   | \$ 420.00                       | 0.0%                            |
| 4 - Meter                |                 | \$ 701.00                    | \$ 701.00                   | \$ 701.00                       | 0.0%                            |
| 6 - Meter                |                 | \$ 1,401.00                  | \$ 1,401.00                 | \$ 1,401.00                     | 0.0%                            |
| 8 - Meter                |                 | \$ 2,243.00                  | \$ 2,243.00                 | \$ 2,243.00                     | 0.0%                            |
| 10 - Meter               |                 | \$ 3,223.00                  | \$ 3,223.00                 | \$ 3,223.00                     | 0.0%                            |
| 12 - Meter               |                 | \$ 4,625.00                  | \$ 4,625.00                 | \$ 4,625.00                     | 0.0%                            |
| First 16,000 gallons     |                 | \$ 1.9290                    | \$ 1.9223                   | \$ 1.9223                       | 0.0%                            |
| Next 584,000 gallons     |                 | \$ 1.4853                    | \$ 1.4802                   | \$ 1.4802                       | 0.0%                            |
| All Over 600,000 gallons |                 | \$ 1.1574                    | \$ 1.1534                   | \$ 1.1534                       | 0.0%                            |

**PENNSYLVANIA AMERICAN WATER COMPANY**  
**IDENTIFICATION OF RATE CHANGES OF RESIDENTIAL, COMMERCIAL, INDUSTRIAL CLASSES**

**Water Zone 4 - Farmington**

|                         | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|-------------------------|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| <b>Residential</b>      |                 |                              |                             |                                 |                                 |
| Service Charge per EDU  | \$ 67.50        |                              |                             | \$ (67.50)                      | -100.0%                         |
| 5/8 - Meter             |                 | \$ 20.00                     | \$ 20.00                    | \$ 20.00                        | 0.0%                            |
| 3/4 - Meter             |                 | \$ 20.00                     | \$ 20.00                    | \$ 20.00                        | 0.0%                            |
| 1 - Meter               |                 | \$ 20.00                     | \$ 20.00                    | \$ 20.00                        | 0.0%                            |
| 1 1/2 - Meter           |                 | \$ 20.00                     | \$ 20.00                    | \$ 20.00                        | 0.0%                            |
| 2 - Meter               |                 | \$ 131.70                    | \$ 131.70                   | \$ 131.70                       | 0.0%                            |
| 3 - Meter               |                 | \$ 245.50                    | \$ 245.50                   | \$ 245.50                       | 0.0%                            |
| 4 - Meter               |                 | \$ 307.70                    | \$ 307.70                   | \$ 307.70                       | 0.0%                            |
| 6 - Meter               |                 | \$ 460.40                    | \$ 460.40                   | \$ 460.40                       | 0.0%                            |
| 8 - Meter               |                 | \$ 891.70                    | \$ 891.70                   | \$ 891.70                       | 0.0%                            |
| First 16,000 gallons    | \$ -            | \$ 2.3069                    | \$ 2.2971                   | \$ 2.2971                       | 0.0%                            |
| All Over 16,000 gallons | \$ 1.5000       | \$ 2.3069                    | \$ 2.2971                   | \$ 0.7971                       | 53.1%                           |
| <b>Commercial</b>       |                 |                              |                             |                                 |                                 |
| Service Charge per EDU  | \$ 67.50        |                              |                             | \$ (67.50)                      | -100.0%                         |
| 5/8 - Meter             |                 | \$ 20.00                     | \$ 20.00                    | \$ 20.00                        | 0.0%                            |
| 3/4 - Meter             |                 | 30.20                        | 30.20                       | \$ 30.20                        | 0.0%                            |
| 1 - Meter               |                 | 50.20                        | 50.20                       | \$ 50.20                        | 0.0%                            |
| 1 1/2 - Meter           |                 | 82.10                        | 82.10                       | \$ 82.10                        | 0.0%                            |
| 2 - Meter               |                 | 131.70                       | 131.70                      | \$ 131.70                       | 0.0%                            |
| 3 - Meter               |                 | 245.50                       | 245.50                      | \$ 245.50                       | 0.0%                            |
| 4 - Meter               |                 | 307.70                       | 307.70                      | \$ 307.70                       | 0.0%                            |
| 6 - Meter               |                 | 460.40                       | 460.40                      | \$ 460.40                       | 0.0%                            |
| 8 - Meter               |                 | 891.70                       | 891.70                      | \$ 891.70                       | 0.0%                            |
| 10 - Meter              |                 | 1,291.60                     | 1,291.60                    | \$ 1,291.60                     | 0.0%                            |
| 12 - Meter              |                 | 1,846.80                     | 1,846.80                    | \$ 1,846.80                     | 0.0%                            |
| First 5,000 gallons     | \$ -            |                              |                             | \$ -                            | 0.0%                            |
| All Over 5,000 gallons  | \$ 1.5000       |                              |                             | \$ (1.5000)                     | -100.0%                         |
| First 16,000 gallons    |                 | \$ 2.1713                    | \$ 2.1627                   | \$ 2.1627                       | 0.0%                            |
| All Over 16,000 gallons |                 | \$ 1.6285                    | \$ 1.6220                   | \$ 1.6220                       | 0.0%                            |

**PENNSYLVANIA AMERICAN WATER COMPANY**  
**IDENTIFICATION OF RATE CHANGES OF RESIDENTIAL, COMMERCIAL, INDUSTRIAL CLASSES**

**Water Zone 4 - Farmington**

| Industrial               | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|--------------------------|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| Service Charge per EDU   | \$ 67.50        |                              |                             | \$ (67.50)                      | -100.0%                         |
| 5/8 - Meter              |                 | \$ 28.00                     | \$ 28.00                    | \$ 28.00                        | 0.0%                            |
| 3/4 - Meter              |                 | \$ 42.00                     | \$ 42.00                    | \$ 42.00                        | 0.0%                            |
| 1 - Meter                |                 | \$ 70.00                     | \$ 70.00                    | \$ 70.00                        | 0.0%                            |
| 1 1/2 - Meter            |                 | \$ 140.00                    | \$ 140.00                   | \$ 140.00                       | 0.0%                            |
| 2 - Meter                |                 | \$ 224.00                    | \$ 224.00                   | \$ 224.00                       | 0.0%                            |
| 3 - Meter                |                 | \$ 420.00                    | \$ 420.00                   | \$ 420.00                       | 0.0%                            |
| 4 - Meter                |                 | \$ 701.00                    | \$ 701.00                   | \$ 701.00                       | 0.0%                            |
| 6 - Meter                |                 | \$ 1,401.00                  | \$ 1,401.00                 | \$ 1,401.00                     | 0.0%                            |
| 8 - Meter                |                 | \$ 2,243.00                  | \$ 2,243.00                 | \$ 2,243.00                     | 0.0%                            |
| 10 - Meter               |                 | \$ 3,223.00                  | \$ 3,223.00                 | \$ 3,223.00                     | 0.0%                            |
| 12 - Meter               |                 | \$ 4,625.00                  | \$ 4,625.00                 | \$ 4,625.00                     | 0.0%                            |
| First 5,000 gallons      | \$ -            |                              |                             | \$ -                            | 0.0%                            |
| All Over 5,000 gallons   | \$ 1.5000       |                              |                             | \$ (1.5000)                     | -100.0%                         |
| First 16,000 gallons     |                 | \$ 1.9290                    | \$ 1.9223                   | \$ 1.9223                       | 0.0%                            |
| Next 584,000 gallons     |                 | \$ 1.4853                    | \$ 1.4802                   | \$ 1.4802                       | 0.0%                            |
| All Over 600,000 gallons |                 | \$ 1.1574                    | \$ 1.1534                   | \$ 1.1534                       | 0.0%                            |

**PENNSYLVANIA AMERICAN WATER COMPANY**  
**IDENTIFICATION OF RATE CHANGES OF RESIDENTIAL, COMMERCIAL, INDUSTRIAL CLASSES**

**Water Zone 5 - East Dunkard**

| Residential                 | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|-----------------------------|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| 5/8 - Meter                 | \$ 35.04        | \$ 20.00                     | \$ 20.00                    | \$ (15.04)                      | -42.9%                          |
| 3/4 - Meter                 | \$ 35.04        | \$ 20.00                     | \$ 20.00                    | \$ (15.04)                      | -42.9%                          |
| 1 - Meter                   | \$ 55.04        | \$ 20.00                     | \$ 20.00                    | \$ (35.04)                      | -63.7%                          |
| 1 1/2 - Meter               | \$ 92.54        | \$ 20.00                     | \$ 20.00                    | \$ (72.54)                      | -78.4%                          |
| 2 - Meter                   | \$ 137.54       | \$ 131.70                    | \$ 131.70                   | \$ (5.84)                       | -4.2%                           |
| 3 - Meter                   | \$ 257.54       | \$ 245.50                    | \$ 245.50                   | \$ (12.04)                      | -4.7%                           |
| 4 - Meter                   | \$ 392.54       | \$ 307.70                    | \$ 307.70                   | \$ (84.84)                      | -21.6%                          |
| 6 - Meter                   | \$ 767.54       | \$ 460.40                    | \$ 460.40                   | \$ (307.14)                     | -40.0%                          |
| 8 - Meter                   | \$ 1,217.54     | \$ 891.70                    | \$ 891.70                   | \$ (325.84)                     | -26.8%                          |
| All Usage (per 100 gallons) | \$ 1.3100       | \$ 2.3069                    | \$ 2.2971                   | \$ 0.9871                       | 75.4%                           |

| Commercial              | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|-------------------------|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| 5/8 - Meter             | \$ 35.04        | \$ 20.00                     | \$ 20.00                    | \$ (15.04)                      | -42.9%                          |
| 3/4 - Meter             | \$ 35.04        | \$ 30.20                     | \$ 30.20                    | \$ (4.84)                       | -13.8%                          |
| 1 - Meter               | \$ 55.04        | \$ 50.20                     | \$ 50.20                    | \$ (4.84)                       | -8.8%                           |
| 1 1/2 - Meter           | \$ 92.54        | \$ 82.10                     | \$ 82.10                    | \$ (10.44)                      | -11.3%                          |
| 2 - Meter               | \$ 137.54       | \$ 131.70                    | \$ 131.70                   | \$ (5.84)                       | -4.2%                           |
| 3 - Meter               | \$ 257.54       | \$ 245.50                    | \$ 245.50                   | \$ (12.04)                      | -4.7%                           |
| 4 - Meter               | \$ 392.54       | \$ 307.70                    | \$ 307.70                   | \$ (84.84)                      | -21.6%                          |
| 6 - Meter               | \$ 767.54       | \$ 460.40                    | \$ 460.40                   | \$ (307.14)                     | -40.0%                          |
| 8 - Meter               | \$ 1,217.54     | \$ 891.70                    | \$ 891.70                   | \$ (325.84)                     | -26.8%                          |
| 10 - Meter              | \$ 1,742.54     | \$ 1,291.60                  | \$ 1,291.60                 | \$ (450.94)                     | -25.9%                          |
| 12 - Meter              | \$ -            | \$ 1,846.80                  | \$ 1,846.80                 | \$ 1,846.80                     | 0.0%                            |
| First 16,000 gallons    | \$ 1.3100       | \$ 2.1713                    | \$ 2.1627                   | \$ 0.8527                       | 65.1%                           |
| All Over 16,000 gallons | \$ 1.3100       | \$ 1.6285                    | \$ 1.6220                   | \$ 0.3120                       | 23.8%                           |

| Industrial               | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|--------------------------|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| 5/8 - Meter              | \$ 35.04        | \$ 28.00                     | \$ 28.00                    | \$ (7.04)                       | -20.1%                          |
| 3/4 - Meter              | \$ 35.04        | \$ 42.00                     | \$ 42.00                    | \$ 6.96                         | 19.9%                           |
| 1 - Meter                | \$ 55.04        | \$ 70.00                     | \$ 70.00                    | \$ 14.96                        | 27.2%                           |
| 1 1/2 - Meter            | \$ 92.54        | \$ 140.00                    | \$ 140.00                   | \$ 47.46                        | 51.3%                           |
| 2 - Meter                | \$ 137.54       | \$ 224.00                    | \$ 224.00                   | \$ 86.46                        | 62.9%                           |
| 3 - Meter                | \$ 257.54       | \$ 420.00                    | \$ 420.00                   | \$ 162.46                       | 63.1%                           |
| 4 - Meter                | \$ 392.54       | \$ 701.00                    | \$ 701.00                   | \$ 308.46                       | 78.6%                           |
| 6 - Meter                | \$ 767.54       | \$ 1,401.00                  | \$ 1,401.00                 | \$ 633.46                       | 82.5%                           |
| 8 - Meter                | \$ 1,217.54     | \$ 2,243.00                  | \$ 2,243.00                 | \$ 1,025.46                     | 84.2%                           |
| 10 - Meter               | \$ -            | \$ 3,223.00                  | \$ 3,223.00                 | \$ 3,223.00                     | 0.0%                            |
| 12 - Meter               | \$ -            | \$ 4,625.00                  | \$ 4,625.00                 | \$ 4,625.00                     | 0.0%                            |
| First 16,000 gallons     | \$ 1.3100       | \$ 1.9290                    | \$ 1.9223                   | \$ 0.6123                       | 46.7%                           |
| Next 584,000 gallons     | \$ 1.3100       | \$ 1.4853                    | \$ 1.4802                   | \$ 0.1702                       | 13.0%                           |
| All Over 600,000 gallons | \$ 1.3100       | \$ 1.1574                    | \$ 1.1534                   | \$ (0.1566)                     | -12.0%                          |

**PENNSYLVANIA AMERICAN WATER COMPANY**  
**IDENTIFICATION OF RATE CHANGES OF RESIDENTIAL, COMMERCIAL, INDUSTRIAL CLASSES**

**Water Zone 6 - Audubon**

|                             | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|-----------------------------|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| <b>Residential</b>          |                 |                              |                             |                                 |                                 |
| 5/8 - Meter                 | \$ 16.80        | \$ 20.00                     | \$ 20.00                    | \$ 3.20                         | 19.0%                           |
| 3/4 - Meter                 | \$ 16.80        | \$ 20.00                     | \$ 20.00                    | \$ 3.20                         | 19.0%                           |
| 1 - Meter                   | \$ 42.80        | \$ 20.00                     | \$ 20.00                    | \$ (22.80)                      | -53.3%                          |
| 1 1/2 - Meter               | \$ 72.90        | \$ 20.00                     | \$ 20.00                    | \$ (52.90)                      | -72.6%                          |
| 2 - Meter                   | \$ 116.40       | \$ 131.70                    | \$ 131.70                   | \$ 15.30                        | 13.1%                           |
| 3 - Meter                   | \$ 218.60       | \$ 245.50                    | \$ 245.50                   | \$ 26.90                        | 12.3%                           |
| 4 - Meter                   | \$ 363.90       | \$ 307.70                    | \$ 307.70                   | \$ (56.20)                      | -15.4%                          |
| 6 - Meter                   | \$ 727.80       | \$ 460.40                    | \$ 460.40                   | \$ (267.40)                     | -36.7%                          |
| 8 - Meter                   | \$ 1,164.60     | \$ 891.70                    | \$ 891.70                   | \$ (272.90)                     | -23.4%                          |
| All Usage (per 100 gallons) | \$ 0.8619       | \$ 1.1754                    | \$ 1.1754                   | \$ 0.3135                       | 36.4%                           |
| <b>Commercial</b>           |                 |                              |                             |                                 |                                 |
|                             | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
| 5/8 - Meter                 | \$ 16.80        | \$ 20.00                     | \$ 20.00                    | \$ 3.20                         | 19.0%                           |
| 3/4 - Meter                 | \$ 16.80        | \$ 30.20                     | \$ 30.20                    | \$ 13.40                        | 79.8%                           |
| 1 - Meter                   | \$ 42.80        | \$ 50.20                     | \$ 50.20                    | \$ 7.40                         | 17.3%                           |
| 1 1/2 - Meter               | \$ 72.90        | \$ 82.10                     | \$ 82.10                    | \$ 9.20                         | 12.6%                           |
| 2 - Meter                   | \$ 116.40       | \$ 131.70                    | \$ 131.70                   | \$ 15.30                        | 13.1%                           |
| 3 - Meter                   | \$ 218.60       | \$ 245.50                    | \$ 245.50                   | \$ 26.90                        | 12.3%                           |
| 4 - Meter                   | \$ 363.90       | \$ 307.70                    | \$ 307.70                   | \$ (56.20)                      | -15.4%                          |
| 6 - Meter                   | \$ 727.80       | \$ 460.40                    | \$ 460.40                   | \$ (267.40)                     | -36.7%                          |
| 8 - Meter                   | \$ 1,164.60     | \$ 891.70                    | \$ 891.70                   | \$ (272.90)                     | -23.4%                          |
| 10 - Meter                  | \$ 1,410.60     | \$ 1,291.60                  | \$ 1,291.60                 | \$ (119.00)                     | -8.4%                           |
| 12 - Meter                  | \$ -            | \$ 1,846.80                  | \$ 1,846.80                 | \$ 1,846.80                     | 0.0%                            |
| First 100,000 gallons       | \$ 0.8619       |                              |                             | \$ (0.8619)                     | -100.0%                         |
| All Over 100,000 gallons    | \$ 0.5723       |                              |                             | \$ (0.5723)                     | -100.0%                         |
| First 16,000 gallons        |                 | \$ 1.2000                    | \$ 1.2000                   | \$ 1.2000                       | 0.0%                            |
| All Over 16,000 gallons     |                 | \$ 0.8619                    | \$ 0.8619                   | \$ 0.8619                       | 0.0%                            |

**PENNSYLVANIA AMERICAN WATER COMPANY**  
**IDENTIFICATION OF RATE CHANGES OF RESIDENTIAL, COMMERCIAL, INDUSTRIAL CLASSES**

**Water Zone 6 - Audubon**

| Industrial               | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|--------------------------|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| 5/8 - Meter              | \$ 16.80        | \$ 28.00                     | \$ 28.00                    | \$ 11.20                        | 66.7%                           |
| 3/4 - Meter              | \$ 16.80        | \$ 42.00                     | \$ 42.00                    | \$ 25.20                        | 150.0%                          |
| 1 - Meter                | \$ 42.80        | \$ 70.00                     | \$ 70.00                    | \$ 27.20                        | 63.6%                           |
| 1 1/2 - Meter            | \$ 72.90        | \$ 140.00                    | \$ 140.00                   | \$ 67.10                        | 92.0%                           |
| 2 - Meter                | \$ 116.40       | \$ 224.00                    | \$ 224.00                   | \$ 107.60                       | 92.4%                           |
| 3 - Meter                | \$ 218.60       | \$ 420.00                    | \$ 420.00                   | \$ 201.40                       | 92.1%                           |
| 4 - Meter                | \$ 363.90       | \$ 701.00                    | \$ 701.00                   | \$ 337.10                       | 92.6%                           |
| 6 - Meter                | \$ 727.80       | \$ 1,401.00                  | \$ 1,401.00                 | \$ 673.20                       | 92.5%                           |
| 8 - Meter                | \$ 1,164.60     | \$ 2,243.00                  | \$ 2,243.00                 | \$ 1,078.40                     | 92.6%                           |
| 10 - Meter               | \$ 1,410.60     | \$ 3,223.00                  | \$ 3,223.00                 | \$ 1,812.40                     | 128.5%                          |
| 12 - Meter               | \$ 1,935.00     | \$ 4,625.00                  | \$ 4,625.00                 | \$ 2,690.00                     | 139.0%                          |
| First 100,000 gallons    | \$ 0.8619       |                              |                             | \$ (0.8619)                     | -100.0%                         |
| All Over 100,000 gallons | \$ 0.5723       |                              |                             | \$ (0.5723)                     | -100.0%                         |
| First 16,000 gallons     |                 | \$ 1.2000                    | \$ 1.2000                   | \$ 1.2000                       | 0.0%                            |
| All Over 16,000 gallons  |                 | \$ 0.8619                    | \$ 0.8619                   | \$ 0.8619                       | 0.0%                            |

**PENNSYLVANIA AMERICAN WATER COMPANY**  
**IDENTIFICATION OF RATE CHANGES OF RESIDENTIAL, COMMERCIAL, INDUSTRIAL CLASSES**

**Water Zone 7 - Manwalamink**

| All Charges                              | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|--|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| 5/8 - Meter                              | \$ 8.89         | \$ 9.75                      | \$ 9.75                     | \$ 0.86                         | 9.7%                            |
| 3/4 - Meter                              | \$ 8.89         | \$ 9.75                      | \$ 9.75                     | \$ 0.86                         | 9.7%                            |
| 1 - Meter                                | \$ 23.71        | \$ 26.05                     | \$ 26.05                    | \$ 2.34                         | 9.9%                            |
| 1 1/2 - Meter                            | \$ 47.42        | \$ 52.15                     | \$ 52.15                    | \$ 4.73                         | 10.0%                           |
| 2 - Meter                                | \$ 106.69       | \$ 117.35                    | \$ 117.35                   | \$ 10.66                        | 10.0%                           |
| 3 - Meter                                | \$ 207.44       | \$ 228.15                    | \$ 228.15                   | \$ 20.71                        | 10.0%                           |
| 4 - Meter                                | \$ 355.61       | \$ 307.70                    | \$ 307.70                   | \$ (47.91)                      | -13.5%                          |
| 6 - Meter                                |                 | \$ 460.40                    | \$ 460.40                   | \$ 460.40                       | 0.0%                            |
| 8 - Meter                                |                 | \$ 891.70                    | \$ 891.70                   | \$ 891.70                       | 0.0%                            |
| Residential Usage - 1st 100,000 gallons  | \$ 0.5810       | \$ 0.6385                    | \$ 0.6385                   | \$ 0.0575                       | 9.9%                            |
| Residential Usage - Over 100,000 gallons | \$ 0.4130       | \$ 0.6385                    | \$ 0.6385                   | \$ 0.2255                       | 54.6%                           |
| Nonresidential Usage - 1st 100,000 gal   | \$ 0.5810       | \$ 0.6385                    | \$ 0.6385                   | \$ 0.0575                       | 9.9%                            |
| Nonresidential Usage - Over 100,000 gal  | \$ 0.4130       | \$ 0.4530                    | \$ 0.4530                   | \$ 0.0400                       | 9.7%                            |

**PENNSYLVANIA AMERICAN WATER COMPANY**  
**IDENTIFICATION OF RATE CHANGES OF RESIDENTIAL, COMMERCIAL, INDUSTRIAL CLASSES**

**Water Zone 8 - Appalachian**

|                                    | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|------------------------------------|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| <b>Residential</b>                 |                 |                              |                             |                                 |                                 |
| 5/8 - Meter                        | \$ 11.28        | \$ 14.70                     | \$ 20.00                    | \$ 8.72                         | 77.3%                           |
| 3/4 - Meter                        | \$ 16.93        | \$ 22.00                     | \$ 20.00                    | \$ 3.07                         | 18.1%                           |
| 1 - Meter                          | \$ 28.21        | \$ 36.70                     | \$ 20.00                    | \$ (8.21)                       | -29.1%                          |
| 1 1/2 - Meter                      | \$ 56.43        | \$ 73.40                     | \$ 20.00                    | \$ (36.43)                      | -64.6%                          |
| 2 - Meter                          | \$ 90.29        | \$ 117.40                    | \$ 117.40                   | \$ 27.11                        | 30.0%                           |
| 3 - Meter                          | \$ 169.30       | \$ 220.10                    | \$ 220.10                   | \$ 50.80                        | 30.0%                           |
| 4 - Meter                          | \$ 282.16       | \$ 307.70                    | \$ 307.70                   | \$ 25.54                        | 9.1%                            |
| 6 - Meter                          | \$ 564.33       | \$ 460.40                    | \$ 460.40                   | \$ (103.93)                     | -18.4%                          |
| 8 - Meter                          |                 | \$ 891.70                    | \$ 891.70                   | \$ 891.70                       | 0.0%                            |
| First 16,500 gallons               | \$ 0.7600       | \$ 0.9534                    | \$ 0.9534                   | \$ 0.1934                       | 25.4%                           |
| All Over 16,500 gallons            | \$ 0.3540       | \$ 0.9534                    | \$ 0.9534                   | \$ 0.5994                       | 169.3%                          |
| <b>Commercial &amp; Industrial</b> |                 |                              |                             |                                 |                                 |
|                                    | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
| 5/8 - Meter                        | \$ 11.28        | \$ 14.70                     | \$ 20.00                    | \$ 8.72                         | 77.3%                           |
| 3/4 - Meter                        | \$ 16.93        | \$ 22.00                     | \$ 30.20                    | \$ 13.27                        | 78.4%                           |
| 1 - Meter                          | \$ 28.21        | \$ 36.70                     | \$ 50.20                    | \$ 21.99                        | 78.0%                           |
| 1 1/2 - Meter                      | \$ 56.43        | \$ 73.40                     | \$ 82.10                    | \$ 25.67                        | 45.5%                           |
| 2 - Meter                          | \$ 90.29        | \$ 117.40                    | \$ 117.40                   | \$ 27.11                        | 30.0%                           |
| 3 - Meter                          | \$ 169.30       | \$ 220.10                    | \$ 220.10                   | \$ 50.80                        | 30.0%                           |
| 4 - Meter                          | \$ 282.16       | \$ 307.70                    | \$ 307.70                   | \$ 25.54                        | 9.1%                            |
| 6 - Meter                          | \$ 564.33       | \$ 460.40                    | \$ 460.40                   | \$ (103.93)                     | -18.4%                          |
| 8 - Meter                          |                 | \$ 891.70                    | \$ 891.70                   | \$ 891.70                       | 0.0%                            |
| First 16,500 gallons               | \$ 0.7600       |                              |                             | \$ (0.7600)                     | -100.0%                         |
| All Over 16,500 gallons            | \$ 0.3540       |                              |                             | \$ (0.3540)                     | -100.0%                         |
| First 16,000 gallons               |                 | \$ 0.9534                    | \$ 0.9534                   | \$ 0.9534                       | 0.0%                            |
| All Over 16,000 gallons            |                 | \$ 0.4441                    | \$ 0.9534                   | \$ 0.9534                       | 0.0%                            |

**PENNSYLVANIA AMERICAN WATER COMPANY**  
**IDENTIFICATION OF RATE CHANGES OF RESIDENTIAL, COMMERCIAL, INDUSTRIAL CLASSES**

**Water Zone 9 - Corner Water**

| Residential              | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|--------------------------|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| 5/8 - Meter              | \$ 16.88        | \$ 20.00                     | \$ 20.00                    | \$ 3.12                         | 18.5%                           |
| 3/4 - Meter              | \$ 16.88        | \$ 20.00                     | \$ 20.00                    | \$ 3.12                         | 18.5%                           |
| 1 - Meter                | \$ 24.47        | \$ 20.00                     | \$ 20.00                    | \$ (4.47)                       | -18.3%                          |
| 1 1/2 - Meter            | \$ 37.46        | \$ 20.00                     | \$ 20.00                    | \$ (17.46)                      | -46.6%                          |
| 2 - Meter                | \$ 53.01        | \$ 68.90                     | \$ 68.90                    | \$ 15.89                        | 30.0%                           |
| 3 - Meter                | \$ 89.34        | \$ 116.10                    | \$ 116.10                   | \$ 26.76                        | 30.0%                           |
| 4 - Meter                |                 | \$ 307.70                    | \$ 307.70                   | \$ 307.70                       | 0.0%                            |
| 6 - Meter                |                 | \$ 460.40                    | \$ 460.40                   | \$ 460.40                       | 0.0%                            |
| 8 - Meter                |                 | \$ 891.70                    | \$ 891.70                   | \$ 891.70                       | 0.0%                            |
| First 1,000 gallons      | \$ -            | \$ 0.3493                    | \$ 0.3493                   | \$ 0.3493                       | 0.0%                            |
| Next 9,000 gallons       | \$ 1.1510       | \$ 1.3972                    | \$ 1.3972                   | \$ 0.2462                       | 21.4%                           |
| Next 110,000 gallons     | \$ 0.9870       | \$ 1.3972                    | \$ 1.3972                   | \$ 0.4102                       | 41.6%                           |
| All Over 110,000 gallons | \$ 0.7840       | \$ 1.3972                    | \$ 1.3972                   | \$ 0.6132                       | 78.2%                           |

| Commercial & Industrial  | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|--------------------------|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| 5/8 - Meter              | \$ 16.88        | \$ 20.00                     | \$ 20.00                    | \$ 3.12                         | 18.5%                           |
| 3/4 - Meter              | \$ 16.88        | \$ 21.90                     | \$ 21.90                    | \$ 5.02                         | 29.7%                           |
| 1 - Meter                | \$ 24.47        | \$ 31.80                     | \$ 31.80                    | \$ 7.33                         | 30.0%                           |
| 1 1/2 - Meter            | \$ 37.46        | \$ 48.70                     | \$ 48.70                    | \$ 11.24                        | 30.0%                           |
| 2 - Meter                | \$ 53.01        | \$ 68.90                     | \$ 68.90                    | \$ 15.89                        | 30.0%                           |
| 3 - Meter                | \$ 89.34        | \$ 116.10                    | \$ 116.10                   | \$ 26.76                        | 30.0%                           |
| 4 - Meter                |                 | \$ 307.70                    | \$ 307.70                   | \$ 307.70                       | 0.0%                            |
| 6 - Meter                |                 | \$ 460.40                    | \$ 460.40                   | \$ 460.40                       | 0.0%                            |
| 8 - Meter                |                 | \$ 891.70                    | \$ 891.70                   | \$ 891.70                       | 0.0%                            |
| First 1,000 gallons      | \$ -            | \$ 1.2800                    | \$ 1.2800                   | \$ 1.2800                       | 0.0%                            |
| Next 9,000 gallons       | \$ 1.1510       | \$ 1.2800                    | \$ 1.2800                   | \$ 0.1290                       | 11.2%                           |
| Next 110,000 gallons     | \$ 0.9870       | \$ 1.2800                    | \$ 1.2800                   | \$ 0.2930                       | 29.7%                           |
| All Over 110,000 gallons | \$ 0.7840       | \$ 1.2800                    | \$ 1.2800                   | \$ 0.4960                       | 63.3%                           |

| Commercial - Mobile Home Parks | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|--------------------------------|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| Mobile Home, per unit          | \$ 5.17         | \$ 5.17                      | \$ 5.17                     | \$ -                            | 0.0%                            |
| First 10,000 gallons           | \$ 0.8630       | \$ 0.7400                    | \$ 0.7400                   | \$ (0.1230)                     | -14.3%                          |
| Next 110,000 gallons           | \$ 0.7400       | \$ 0.7400                    | \$ 0.7400                   | \$ -                            | 0.0%                            |
| All Over 110,000 gallons       | \$ 0.5880       | \$ 0.7400                    | \$ 0.7400                   | \$ 0.1520                       | 25.9%                           |

**PENNSYLVANIA AMERICAN WATER COMPANY**  
**IDENTIFICATION OF RATE CHANGES OF RESIDENTIAL, COMMERCIAL, INDUSTRIAL CLASSES**

**Wastewater Zone 1 - PAWC (SSS)**

|  | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|--|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| Residential Service Charge per EDU                         | \$ 15.00        |                              |                             | \$ (15.00)                      | -100.0%                         |
| Residential Service Charge per Customer                    |                 | \$ 20.00                     | \$ 20.00                    | \$ 20.00                        | 0.0%                            |
| Non-Residential Service Charge per EDU                     | \$ 36.70        |                              |                             | \$ (36.70)                      | -100.0%                         |
| Non-Residential Service Charge per Customer                |                 | \$ 45.50                     | \$ 45.50                    | \$ 45.50                        | 0.0%                            |
| Residential Usage (per 100 gallons)                        | \$ 2.9539       | \$ 3.1446                    | \$ 3.1396                   | \$ 0.1857                       | 6.3%                            |
| Non-Residential Usage (per 100 gallons)                    | \$ 2.1986       | \$ 2.3417                    | \$ 2.3351                   | \$ 0.1365                       | 6.2%                            |
| Residential Unmetered Flat Rate per EDU                    | \$ 110.00       |                              |                             | \$ (110.00)                     | -100.0%                         |
| Residential Unmetered Flat Rate per Customer               |                 | \$ 120.00                    | \$ 119.00                   | \$ 119.00                       | 0.0%                            |
| Non-Residential Unmetered Flat Rate per EDU                | \$ 150.00       | \$ 162.00                    | \$ 161.00                   | \$ 11.00                        | 7.3%                            |
| Non-Res Upper Pottsgrove Service Charge                    | \$ 36.70        | \$ 45.50                     | \$ 45.50                    | \$ 8.80                         | 24.0%                           |
| Non-Res Upper Pottsgrove Volumetric Charge                 | \$ 2.1986       | \$ 2.3417                    | \$ 2.3351                   | \$ 0.1365                       | 6.2%                            |
| Rainbow Washhouse Service Charge                           | \$ 75.00        | \$ 76.73                     | \$ 76.73                    | \$ 1.73                         | 2.3%                            |
| Rainbow Washhouse Usage (per 100 gallons)                  | \$ 0.2226       | \$ 0.2277                    | \$ 0.2277                   | \$ 0.0051                       | 2.3%                            |
| Cleveland-Cliffs & Victory Brewing Service Charge          | \$ 456.50       | \$ 456.50                    | \$ 456.50                   | \$ -                            | 0.0%                            |
| Cleveland-Cliffs & Victory Brewing Usage (per 100 gallons) | \$ 1.4800       | \$ 1.4800                    | \$ 1.4800                   | \$ -                            | 0.0%                            |
| Knouse Foods Flat Rate                                     | \$ 8,683.00     | \$ 8,683.00                  | \$ 8,683.00                 | \$ -                            | 0.0%                            |
| Penn State Special Metals Flat Rate                        | \$ 2,988.00     | \$ 2,988.00                  | \$ 2,988.00                 | \$ -                            | 0.0%                            |
| PSC Metals Flat Rate                                       | \$ 1,156.00     | \$ 1,156.00                  | \$ 1,156.00                 | \$ -                            | 0.0%                            |
| Ipsco Koppel Tubilers Flat Rate                            | \$ 17,948.00    | \$ 17,948.00                 | \$ 17,948.00                | \$ -                            | 0.0%                            |

**Wastewater Zone 1a - Royersford**

|  | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|--|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| Residential Service Charge per Meter         | \$ 15.00        | \$ 20.00                     | \$ 20.00                    | \$ 5.00                         | 33.3%                           |
| Non-Residential Service Charge per Meter     | \$ 36.70        | \$ 45.50                     | \$ 45.50                    | \$ 8.80                         | 24.0%                           |
| Residential Usage (per 100 gallons)          | \$ 1.4150       | \$ 2.0334                    | \$ 2.0334                   | \$ 0.6184                       | 43.7%                           |
| Non-Residential Usage (per 100 gallons)      | \$ 0.7500       | \$ 1.0890                    | \$ 1.0890                   | \$ 0.3390                       | 45.2%                           |
| Residential Unmetered Flat Rate per EDU      | \$ 75.00        |                              |                             | \$ (75.00)                      | -100.0%                         |
| Residential Unmetered Flat Rate per Customer |                 | \$ 84.00                     | \$ 84.00                    | \$ 84.00                        | 0.0%                            |
| Non-Residential Unmetered Flat Rate per EDU  | \$ 113.00       | \$ 157.00                    | \$ 157.00                   | \$ 44.00                        | 38.9%                           |

**PENNSYLVANIA AMERICAN WATER COMPANY**  
**IDENTIFICATION OF RATE CHANGES OF RESIDENTIAL, COMMERCIAL, INDUSTRIAL CLASSES**

**Wastewater Zone 1b - York**

|   | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|---|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| Residential Service Charge per Customer     | \$ 15.00        | \$ 20.00                     | \$ 20.00                    | \$ 5.00                         | 33.3%                           |
| Residential First 2,000 Gallons             | \$ 0.7500       | \$ 1.7345                    | \$ 1.7345                   | \$ 0.9845                       | 131.3%                          |
| Residential All Over 2,000 Gallons          | \$ 2.9539       | \$ 3.1446                    | \$ 3.1396                   | \$ 0.1857                       | 6.3%                            |
| Non-Residential Service Charge per Customer | \$ 36.70        | \$ 45.50                     | \$ 45.50                    | \$ 8.80                         | 24.0%                           |
| Non-Residential First 2,000 Gallons         | \$ 0.4000       | \$ 2.3417                    | \$ 2.3351                   | \$ 1.9351                       | 483.8%                          |
| Non-Residential All Over 2,000 Gallons      | \$ 2.1986       | \$ 2.3417                    | \$ 2.3351                   | \$ 0.1365                       | 6.2%                            |

**Wastewater Zone 1c - Foster**

|  | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|--|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| Residential Unmetered Flat Rate per EDU      | \$ 110.00       |                              |                             | \$ (110.00)                     | -100.0%                         |
| Residential Unmetered Flat Rate per Customer |                 | \$ 120.00                    | \$ 119.00                   | \$ 119.00                       | 0.0%                            |
| Non-Residential Unmetered Flat Rate per EDU  | \$ 150.00       | \$ 162.00                    | \$ 161.00                   | \$ 11.00                        | 7.3%                            |

**Wastewater Zone 1d - Butler**

|   | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|---|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| Residential Flat Rate Per EDU               | \$ 45.50        |                              |                             | \$ (45.50)                      | -100.0%                         |
| Residential Service Charge per Customer     |                 | \$ 20.00                     | \$ 20.00                    | \$ 20.00                        | 0.0%                            |
| Residential Usage (per 100 gallons)         |                 | \$ 1.6058                    | \$ 1.6070                   | \$ 1.6070                       | 0.0%                            |
| Residential Flat Rate Per Customer          |                 | \$ 70.00                     | \$ 70.00                    | \$ 70.00                        | 0.0%                            |
| Non-Residential Flat Rate Per EDU           | \$ 45.50        | \$ 55.00                     | \$ 55.00                    | \$ 9.50                         | 20.9%                           |
| Non-Residential Service Charge per Customer |                 | \$ 45.50                     | \$ 45.50                    | \$ 45.50                        | 0.0%                            |
| Non-Residential Usage (per 100 gallons)     |                 | \$ 1.7705                    | \$ 1.7715                   | \$ 1.7715                       | 0.0%                            |

**Wastewater Zone 1e - Sadsbury**

|                                   | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|-----------------------------------|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| Residential Flat Rate per EDU     | \$ 128.33       | \$ 128.33                    | \$ 128.33                   | \$ -                            | 0.0%                            |
| Non-Residential Flat Rate per EDU | \$ 128.33       | \$ 162.00                    | \$ 161.00                   | \$ 32.67                        | 25.5%                           |

**Wastewater Zone 1f - Farmington**

|   | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|---|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| Residential Flat Rate Per EDU               | \$ 53.50        |                              |                             | \$ (53.50)                      | -100.0%                         |
| Residential Service Charge per Customer     |                 | \$ 20.00                     | \$ 20.00                    | \$ 20.00                        | 0.0%                            |
| Residential Usage (per 100 gallons)         |                 | \$ 1.7345                    | \$ 1.7345                   | \$ 1.7345                       | 0.0%                            |
| Residential Flat Rate Per Customer          |                 | \$ 74.00                     | \$ 74.00                    | \$ 74.00                        | 0.0%                            |
| Non-Residential Flat Rate Per EDU           | \$ 53.50        | \$ 74.00                     | \$ 74.00                    | \$ 20.50                        | 38.3%                           |
| Non-Residential Service Charge per Customer |                 | \$ 53.50                     | \$ 53.50                    | \$ 53.50                        | 0.0%                            |
| Non-Residential Usage (per 100 gallons)     |                 | \$ 1.5400                    | \$ 1.5400                   | \$ 1.5400                       | 0.0%                            |

**PENNSYLVANIA AMERICAN WATER COMPANY**  
**IDENTIFICATION OF RATE CHANGES OF RESIDENTIAL, COMMERCIAL, INDUSTRIAL CLASSES**

**Wastewater Zone 1g - Manwalamink**

|  | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|--|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| Residential Service Charge per Customer        | \$ 16.92        | \$ 18.60                     | \$ 18.60                    | \$ 1.68                         | 9.9%                            |
| Residential First 10,000 Gallons               | \$ 0.6590       | \$ 0.7240                    | \$ 0.7240                   | \$ 0.0650                       | 9.9%                            |
| Residential All Over 10,000 Gallons            | \$ 0.2530       | \$ 0.2780                    | \$ 0.2780                   | \$ 0.0250                       | 9.9%                            |
| Residential Flat Rate Per Customer             | \$ 44.80        | \$ 49.20                     | \$ 49.20                    | \$ 4.40                         | 9.8%                            |
| Non-Residential Service Charge per Customer    | \$ 16.92        | \$ 18.60                     | \$ 18.60                    | \$ 1.68                         | 9.9%                            |
| Non-Residential First 10,000 Gallons           | \$ 0.6590       | \$ 0.7240                    | \$ 0.7240                   | \$ 0.0650                       | 9.9%                            |
| Non-Residential All Over 10,000 Gallons        | \$ 0.2530       | \$ 0.2780                    | \$ 0.2780                   | \$ 0.0250                       | 9.9%                            |
| Non-Residential Flat Rate Per Customer         | \$ 58.00        | \$ 63.75                     | \$ 63.75                    | \$ 5.75                         | 9.9%                            |
| Ridge Top Recreation Area Pool Flat Rate       | \$ 124.29       | \$ 136.70                    | \$ 136.70                   | \$ 12.41                        | 10.0%                           |
| River Village Recreational Area Pool Flat Rate | \$ 124.29       | \$ 136.70                    | \$ 136.70                   | \$ 12.41                        | 10.0%                           |
| Sun Mountain Recreational Area Pool Flat Rate  | \$ 124.29       | \$ 136.70                    | \$ 136.70                   | \$ 12.41                        | 10.0%                           |
| Shawnee Mountain Ski Area Flat Rate            | \$ 426.12       | \$ 468.70                    | \$ 468.70                   | \$ 42.58                        | 10.0%                           |

**Wastewater Zone 2 - PAWC (CSS)**

|   | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|---|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| Residential Service Charge per Customer     | \$ 20.00        | \$ 25.00                     | \$ 25.00                    | \$ 5.00                         | 25.0%                           |
| Residential Usage (per 100 gallons)         | \$ 2.6117       | \$ 3.1340                    | \$ 3.1746                   | \$ 0.5629                       | 21.6%                           |
| Residential Flat Rate Per Customer          | \$ 104.00       | \$ 124.00                    | \$ 125.00                   | \$ 21.00                        | 20.2%                           |
| Non-Residential Service Charge per Customer | \$ 40.00        | \$ 50.00                     | \$ 50.00                    | \$ 10.00                        | 25.0%                           |
| Non-Residential Usage (per 100 gallons)     | \$ 2.1320       | \$ 2.5700                    | \$ 2.6016                   | \$ 0.4696                       | 22.0%                           |
| Non-Residential Flat Rate Per Customer      | \$ 104.00       | \$ 124.00                    | \$ 125.00                   | \$ 21.00                        | 20.2%                           |

**Wastewater Zone 2a - Scranton**

|   | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|---|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| Residential Service Charge per EDU      | \$ 20.00        | \$ 20.19                     | \$ 20.21                    | \$ 0.21                         | 1.1%                            |
| Residential Usage (per 100 gallons)     | \$ 2.6117       | \$ 2.6368                    | \$ 2.6394                   | \$ 0.0277                       | 1.1%                            |
| Residential Flat Rate per EDU           | \$ 104.00       | \$ 105.00                    | \$ 105.10                   | \$ 1.10                         | 1.1%                            |
| Non-Residential Service Charge per EDU  | \$ 40.00        | \$ 40.38                     | \$ 40.42                    | \$ 0.42                         | 1.1%                            |
| Non-Residential Usage (per 100 gallons) | \$ 2.1320       | \$ 2.1525                    | \$ 2.1546                   | \$ 0.0226                       | 1.1%                            |

**Wastewater Zone 2a - Elizabeth Borough**

|   | PRESENT<br>RATE | As Filed<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>RATE | Updated<br>PROPOSED<br>INCREASE | Updated<br>PROPOSED<br>INCREASE |
|---|-----------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| Residential Service Charge per EDU      | \$ 35.00        | \$ 35.00                     | \$ 35.00                    | \$ -                            | 0.0%                            |
| Residential Usage (per 100 gallons)     | \$ 0.8000       | \$ 1.3412                    | \$ 1.3412                   | \$ 0.5412                       | 67.7%                           |
| Non-Residential Service Charge per EDU  | \$ 35.00        | \$ 45.50                     | \$ 45.50                    | \$ 10.50                        | 30.0%                           |
| Non-Residential Usage (per 100 gallons) | \$ 0.8000       | \$ 1.0400                    | \$ 1.0400                   | \$ 0.2400                       | 30.0%                           |