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VIA eFILING

April 6, 2026

Matthew L. Homsher, Secretary
Pa. Public Utility Commission
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:

Attached please find the Main Brief of Cleveland-Cliffs Steel for filing in the above-captioned proceedings.

Copies will be served on all known parties in these proceedings, as indicated on the attached Certificate of Service.

Respectfully submitted,

/s/ Kurt J. Boehm

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Hon. Emily I. DeVoe @ edvoe@pa.gov
Cert. of Service

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**MAIN BRIEF OF
CLEVELAND-CLIFFS STEEL**

I. INTRODUCTION

Comes now, Cleveland-Cliffs Steel (“Cleveland-Cliffs”) and submits this Brief in support of its arguments in the above-captioned proceeding. Cleveland-Cliffs submitted the Rebuttal Testimony of its expert witness, Richard A. Baudino on February 28, 2026. Cleveland-Cliffs’ Brief will address the issues of Cost-of-Service and Industrial Rate Design and will follow the Common Outline agreed to by the parties.

X. RATE STRUCTURE

A. Cost-of-Service Studies.

1. Water Operations

a. Cleveland-Cliffs Recommends That The Commission Adopt The Class Cost-Of-Service Methodology And Allocation Proposed by PAWC.

Cleveland-Cliffs supports the cost-of-service allocation methodology sponsored by Pennsylvania American Water Company (“PAWC” or “Company”) witness, Gregory R. Herbert. Mr. Herbert’s study appropriately applies generally accepted

cost-of-service principles and procedures to allocate the total revenue requirement to the residential, commercial, industrial, public, other water utilities, private fire protection, and public fire protection classifications. This study is consistent with previous cost-of-service studies approved by the Commission and should be accepted in this proceeding.

b. Cleveland-Cliffs Recommends That The Commission Not Accept The Various Adjustments To PAWC's Cost-Of-Service Study Proposed By The Office Of Consumer Advocate ("OCA") And The Bureau Of Investigation And Enforcement ("I&E").

OCA witness Jerome Mierzwa challenged the maximum-day and maximum-hour extra capacity factors used by PAWC in its class cost-of-service study, asserting they are outdated. He recommended lower factors based on more recent data provided in PAWC schedules and Mr. Herbert's testimony.¹

However, Mr. Herbert's capacity factors are entirely appropriate and consistent with Commission precedent. As Mr. Herbert explained, water systems must accommodate peak demands that could occur at any time, not just historical peaks. Due to long construction lead times and the long service life of water infrastructure, capacity factors should be based on a consistent, multi-year approach. Mr. Herbert noted the following on pages 10 and 11 of his Direct Testimony:

A water system must be designed to meet the highest peak demand that potentially could be experienced – not just the highest peak demand that was experienced within a recent historical period. Peak demands can vary based on contingencies that do not reoccur on a regular or predictable basis. The facilities needed to produce and distribute water have a long lead-time to

¹ Direct Testimony of Jerome Mierzwa at 14.

design and construct and have a correspondingly long service life. Given those inherent characteristics of water utility facilities, responsible waterworks practice necessitates building a system that can meet peak demands whenever they may occur because the system cannot be expanded (or contracted) to meet only those demands that appear within a limited historical study period, such as a ten-year look-back. Additionally, the water usage on the maximum days in areas within the Company's overall water operations are often more than 1.4 times the average usage for that year. Given PAWC's obligation to furnish safe and reliable service, the Company must be prepared to meet customers' peak demands whenever they occur and, therefore, it is not reasonable to ignore the maximum day ratios that the Company has actually experienced.

Regarding the maximum hour factor, PAWC noted data gaps in 2021–2022, with improved accuracy in 2023–2024. Mr. Herbert concluded that at least three years of accurate hourly data are necessary before revising system maximum hour factors.² Mr. Herbert stated that the customer class extra capacity factors remain the same as in the Company's last rate case, derived from the 2017 demand study using 2013–2015 data. He also noted that the Company filed a feasibility study for a new demand study on July 25, 2025, and that, pending Commission and party approval of the scope and cost, a full-scale study would be conducted before the next rate case.³ Maintaining the existing factors is reasonable because they reflect recent, validated data and provide continuity in rate design. Updating the factors through a new demand study before the next rate case ensures that any future adjustments will be based on the most current and accurate customer usage patterns.⁴

In sum, the Commission should not adopt Mr. Mierzwa's lower extra capacity factors. Mr. Herbert's reasoning supports the continued use of the Company's

² Direct Testimony of Gregory R. Herbert at 12.

³ Direct Testimony of Gregory R. Herbert at 14.

⁴ Rebuttal Testimony of Richard Baudino at 4.

maximum day and hour factors. For the maximum hour factor, analyzing at least three years of accurate data is prudent before any changes. If the Commission updates these factors, PAWC should first conduct a new demand study to revise customer class factors before updating system factors in a future class cost-of-service study.

B. Revenue Allocation/Act 11 Shift

1. Mr. Mierzwa's Class Cost-Of-Service Study And Revenue Allocation Should Not Be Accepted.

The Commission should reject Mr. Mierzwa's proposed class cost-of-service study and associated revenue allocation. As Cleveland-Cliff's witness Richard Baudino detailed in his Rebuttal Testimony, Mr. Mierzwa's revenue allocation relies on a class cost-of-service study that is flawed, as it uses his lower recommended maximum day and maximum hour extra capacity factors than is appropriate given system planning considerations. Before any changes to the maximum hour factor are considered, additional data analysis is clearly warranted. Moreover, as noted by Mr. Baudino, Mr. Mierzwa did not propose updating the class extra capacity factors, which contradicts his recommendation to revise the system extra capacity factors.⁵

Mr. Mierzwa's class cost-of-service study also results in significant increases for the industrial rate classes without a large corresponding decrease to Residential and Commercial customers. Table 1 below compares the class cost responsibilities

⁵ Rebuttal Testimony of Richard Baudino at 4.

under both Mr. Mierzwa’s and PAWC’s class cost-of-service study, showing the shifts from Mr. Mierzwa’s proposal and the corresponding percentage changes.

TABLE 1

Comparison of PAWC and OCA Class Cost Allocations

	<u>PAWC CCOSS</u>	<u>OCA CCOSS</u>	<u>Difference</u>	<u>Percentage Difference</u>
Residential	\$682,920,439	\$675,657,224	\$(7,263,215)	-1.1%
Commercial	\$245,729,206	\$241,688,665	\$(4,040,541)	-1.6%
Industrial	\$45,903,121	\$51,079,540	\$5,176,419	11.3%
Industrial - Contract Sales	\$5,383,847	\$5,636,175	\$ 252,328	4.7%
Public (Municipal)	\$25,209,837	\$27,383,917	\$2,174,080	8.6%
Other Water Utilities	\$8,674,412	\$9,204,645	\$ 530,233	6.1%
Private Fire Protection	\$7,794,783	\$9,199,248	\$1,404,465	18.0%
Public Fire Protection	<u>\$14,138,879</u>	<u>\$15,905,110</u>	\$1,766,231	12.5%
Total	\$1,035,754,524	\$1,035,754,524	\$ -	

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As shown above, the shifts for Residential and Commercial classes are minor, but the Industrial class experiences an 11.3% increase, resulting in a recommended increase of 24.1% versus a system average of 14.1%. Due to flawed assumptions, incomplete data, and unsubstantiated rate impacts, Cleveland-Cliffs recommends rejection of Mr. Mierzwa’s proposed class cost-of-service study and revenue allocation.

⁶ Rebuttal Testimony of Richard Baudino at 5.

C. Tariff Structure

1. Customer Charges

a. **I&E Revenue Scaling Recommendation Would Result In Lower Customer Charges For Industrial Customers Relative To Usage Charge Than Is Supported By Cost-Of-Service.**

I&E's recommendation to reduce both customer charges and usage charges if the Commission approves a lower revenue requirement should be rejected. While PAWC could have proposed increases to the Industrial customer charges that were equal to its proposed increases to usage charges, it did not. Therefore, the entirety of PAWC's proposed increase was already being collected through usage charges. Decreasing the customer charge further will require greater increases to usage charges than would result if customer charges were left static as proposed by PAWC.⁷

The current customer charges for the Industrial class were established by the Commission in the Company's previous rate case. While fixed costs have risen since that case, PAWC has recommended maintaining the customer charges at their existing levels. Therefore, if the Commission approves a lower revenue requirement for the Industrial class in this case, any reduction should be applied solely to usage charges, not customer charges.

⁷ Rebuttal Testimony of Richard Baudino at 5-6.

XIV. CONCLUSION

Cleveland-Cliffs supports PAWC's methodology for maximum day and hour extra capacity factors and recommends rejection of OCA's class cost-of-service study and revenue allocation. Any adjustments to system factors should be preceded by a comprehensive new demand study. Industrial class customer charges should remain constant, with only usage charges adjusted if revenue requirements change.

Respectfully submitted,

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April 6, 2026

CERTIFICATE OF SERVICE

I hereby certify that I have served a true copy of the Main Brief of Cleveland-Cliffs Steel upon the parties listed below in accordance with the requirements of 52 Pa. Code §1.54 (relating to service by a party) via electronic mail on this 6th day of April, 2026.

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