



COMMONWEALTH OF PENNSYLVANIA

April 15, 2026

**E-FILED**

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

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

Dear Secretary Homsher:

Enclosed please find the Reply Brief, on behalf of the Office of Small Business Advocate (“OSBA”), in the above-referenced proceedings.

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

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

Sincerely,

*/s/ Rebecca Lyttle*

Rebecca Lyttle  
Assistant Small Business Advocate  
Attorney ID No. 201399

*Enclosures*

cc: Jason Hails  
Roger Cathcart  
Joseph Kubas  
Parties of Record

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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**REPLY BRIEF  
ON BEHALF OF THE  
OFFICE OF SMALL BUSINESS ADVOCATE**

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**Date: April 15, 2026**

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## I. INTRODUCTION

The Office of Small Business Advocate (“OSBA”) is authorized and directed by the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50, to represent the interests of Small Business customers of utility services in matters before the Pennsylvania Public Utility Commission (“Commission”).

In the original filing, Pennsylvania-America Water Company (“PAWC” or “Company”) proposed a total annual increase to its water and wastewater rates from approximately \$1,156.6 million to \$1,325.3 million, a total increase of \$168.7 million or approximately 14.6% based on a fully projected future test year (FPFTY) ending June 30, 2027.<sup>1</sup> The total increase of approximately \$168.7 million was comprised of an increase in water revenue of approximately \$152.4 million and an increase in wastewater revenue of approximately \$16.3 million [PAWC Volume 3, Sch. 3-A].<sup>2</sup>

In rebuttal, the Company revised the filing so that the total increase requested was approximately \$159.6 million, comprised of an increase in water revenue of approximately \$143.4 million and an increase in wastewater revenue of approximately \$16.2 million [PAWC Rebuttal Sch. 3-A, Revised].

In the original filing and in rebuttal, the Company reflected a total Act 11 subsidy of approximately \$53 million [PAWC Volume 3, Sch. 3-A; PAWC Rebuttal Sch. 3-A, Revised].

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<sup>1</sup> PAWC Schedules CEC-1 and CEC-2.

<sup>2</sup> OSBA Statement No. 1, Direct Testimony of Joe Kubas, Page 3.

**A. Procedural History**

Section I.A. “Procedural History” of the OSBA’s Main Brief is incorporated by reference herein as if fully set forth herein.

**B. Legal Standards**

Section I.B. “Legal Standards” of the OSBA’s Main Brief is incorporated by reference herein as if fully set forth herein.

**II. SUMMARY OF ARGUMENT**

Section II. “Summary of Argument” of the OSBA’s Main Brief is incorporated by reference herein as if fully set forth herein. But for the convenience of the reader, the OSBA summarizes the “Summary of Argument” as follows:

Proportional Scale-Back Of Revenue should be applied principally to water rates; that if revenue requirement is reduced, the class increases be scaled back proportionately based on each class’ proportion of the total; that for Future Cost Of Service Studies, the Company recover the wastewater Act 11 revenue shortfall from the corresponding class in water; in consideration of Gradualism, the rate increase in Zones 1-5 in these cases should be moderated to no more than double the system average or 32%.

PAWC’s Main Brief Operating & Maintenance Expenses should be reduced by \$36.0 million; Act 11 Allocation should be reduced to \$24.303 million; and Customer Service needs improvement.

**III. OVERALL POSITION ON RATE INCREASE: DECREASE SUBSTANTIALLY**

Section III. “Overall Position of Rate Increase” of the OSBA’s Main Brief is incorporated

by reference herein as if fully set forth herein.

**IV. RATE BASE A-D**

OSBA has no Reply comment.

**V. REVENUES**

OSBA repeats its position on “Revenues” as set forth in Section V. of its Main Brief as if incorporated herein.

**VI. EXPENSES SHOULD BE REDUCED BY \$36.0 MILLION**

**A. Labor-Related Expense Should be Reduced by \$8.7 Million**

For the convenience of the reader, the OSBA repeats its position on “Labor-Related Expense” as set forth in Section VI of its Main Brief as if incorporated herein.

<b>Figure 3 - Employee Related Expenses</b>				
<b>PAWC O&amp;M Expenses (\$)</b>	<b>Actuals</b>		<b>FTY</b>	<b>FPFTY</b>
	<b>6/30/2024</b>	<b>6/30/2025</b>	<b>6/30/2026</b>	<b>6/30/2027</b>
Employee Related Expenses	84,337,520	86,348,118	100,414,920	103,769,189
Number of Customers	778,989	806,143	810,574	814,365
Employee Related Expenses per Customer (PAWC Provided)	108.3	107.1	123.9	127.4
Inflation**	N/A	3.2%	2.4%	2.1%
Inflation-Adjusted Employee Related Expenses per Customer*	N/A	111.7	114.4	116.8
Calculated Inflation-adjusted Employee Expenses*	84,337,520	90,027,265	92,694,663	95,083,823
OSBA Recommended Reduction				8,685,366
* from 2024 Base Year				
* Inflation Data Sources				
2021 - 2025 - US Bureau of Labor Statistics - <a href="https://data.bls.gov/timeseries/CUUR0100SA0?amp%253bdata_tool=XGtable&amp;output_view=data&amp;include_graphs=true">https://data.bls.gov/timeseries/CUUR0100SA0?amp%253bdata_tool=XGtable&amp;output_view=data&amp;include_graphs=true</a>				
2026 - 2027 - US Federal Reserve - <a href="https://www.federalreserve.gov/monetarypolicy/fomcprojtab120250618.htm">https://www.federalreserve.gov/monetarypolicy/fomcprojtab120250618.htm</a>				

In the Company’s Main Brief<sup>3</sup>, it restates Ms. O’Malley’s argument in Rebuttal that Mr. Hails’ proposed adjustment relies solely on a theoretical inflation-based benchmark and ignores

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3 PAWC Main Brief, Page 21.

the FPFTY staffing level (i.e., 1,278 positions) that PAWC had determined is needed to support the continued provision of safe, adequate, efficient and reliable service, and that Mr. Hails' use of Consumer Price Index ("CPI") inflation rates that are lower than PAWC's actual and projected merit increases is unreasonable. The Company also alleged that those merit increases were not disputed.

Both purported issues identified by the Company were dispelled by Mr. Hails in surrebuttal and within the OSBA's Main Brief.

First, per-customer metric intentionally and inherently accounts for scale and efficiency, including any changes in staffing relative to the growing customer base.<sup>4</sup> If PAWC's staffing level is justified and necessary for continuance of safe, adequate, reliable, and notably "efficient" service, as Ms. O'Malley claims, one would expect per customer labor costs at minimum to remain relatively stable, or perhaps decline modestly due to economies of scale from serving more customers with a proportionally smaller or more efficient workforce.

Staffing levels are an input to cost determination, but the OSBA analysis evaluates the resulting output of expense levels per customer. Its testimony does not dictate a specific headcount, nor is it a direct analysis of whether 1,278 positions are needed like Ms. O'Malley claims. The analysis is a benchmark comparison showing that total employee-related spending has grown disproportionately from 2024 to FPFTY 2027, clearly demonstrating that the escalation in employee-related expenses has far outpaced inflation, even after normalizing for

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<sup>4</sup> OSBA Statement No. 2-SR, Surrebuttal Testimony of Jason Hails, Pages 2-4.

customer growth.

In its application, PAWC maintains the burden to demonstrate that its proposed employee-related are just and reasonable. PAWC did not quantitatively justify escalated staffing levels that result in proportionately higher costs per customer, and it did not explain why it is forecasting significant declines in per-customer productivity from 2024 to FPFTY 2027.

Second, regarding the use of CPI versus the Company's actual/projected merit increases, as noted in the OSBA's Statement No. 2-SR, pages 5-6, employee expense increases, including non-union merit raises, negotiated collective agreements, hiring decisions, and overall compensation strategy, are squarely within management's control and discretion. Small Business customer ratepayers should not automatically bear above-inflation employee-related expense escalations without strong justification that they are prudent and necessary, and it is management's responsibility to measure productivity, right-size the organization, and develop and implement strategies to moderate cost increases. A per-customer increase in employee-related expenses from \$107.11 in 2025 to \$127.42 in 2027 is wholly unreasonable, representing a 19% increase in a two-year span. This large, requested increase demonstrates that management has not met its burden to moderate increasing costs for customers, let alone introduce efficiencies to improve customer value for FPFTY 2027.

Further, CPI provides a reasonable, neutral benchmark for general inflationary pressures affecting the broader economy, including wages in many sectors. Small Business ratepayers expect PAWC to manage costs prudently and demonstrate that deviations from general inflation are justified. PAWC's reliance on its own historical and budgeted merit increases, which exceed

CPI, resulting in the 19% per-customer cost increase over two years noted above, effectively asks Small Business ratepayers to fund the Company's self-determined employee-related expense policy without sufficient validation or moderation. In addition, non-union merit increases, used by Ms. O'Malley for comparison, are only one factor in overall employee-related expenses, so it is therefore not appropriate in isolation to compare to a per-customer metric inclusive of all employee-related costs.

In summary, as noted in OSBA's Main Brief, the staffing level assertion is invalid because the OSBA's per-customer approach normalizes for scale and tests reasonableness against inflation; metrics that capture efficiency regardless of absolute headcount. Management retains accountability for controlling employee-related cost growth, and above-inflation increases should be moderated where they exceed prudent levels, absent compelling evidence of necessity that was not provided by the Company.

**B. Performance Compensation (PAWC)**

OSBA has no Reply comment.

**C. Group Insurance Expense**

OSBA has no Reply comment.

**D. Service Company Expense Should be Reduced by \$27.3 million.**

As noted in OSBA's Main Brief, PAWC is seeking recovery of Service Company expense of \$77.9 million for FPFTY 2027, which is massive 30.4% increase from 2024 levels, or an

equivalent 9.24% compound average growth rate over the three years.<sup>5</sup> The 2025 year saw a very large 19.1% increase from \$59.8 million to \$71.2 million, and this increase is followed by increases of 5.8% and 3.4% for FTY 2026 and FPFTY 2027, respectively, resulting in the \$77.9 million FPFTY request.

In the Company's Main Brief and Surrebuttal evidence, it is noted that the OSBA's proposed \$27.3 million adjustment would 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>6</sup> This is correct and intentional. Based on Mr. Hails' review of Company evidence and his analysis of prior justification noted above, levels of Service Company costs have not been adequately supported, particularly for the 19.1% one-year increase in Service Company costs from 2024 to 2025 and the 12.8% one-year increase in costs from 2020 to 2021. This means that the Company has over-recovered Service Company costs since 2020.

Service Company costs are proposed by the Company to escalate from \$59.8 million in 2024 to \$77.9 million in 2027, an increase of 30.3% over a 3-year period.<sup>7</sup> This represents a compound growth rate of 9.24% each year. Pursuant to Pennsylvania Public Utility Code (66 Pa.C.S. § 1301 et seq.), utilities must show rates are just and reasonable, and despite the large increases in Service Company costs, PAWC did not conduct a Service Company cost study like they did for 2023 and 2020 Service Company costs. In addition, in review of PAWC's evidence,

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<sup>5</sup> PAWC Main Brief, Page 26.

<sup>6</sup> PAWC Main Brief, Page 27.

<sup>7</sup> OSBA Statement No. 2, Direct Testimony of Jason Hails, Exhibit JH-1, Line 4.

including the Testimony of O'Malley, Runzer and Prine<sup>8</sup>, the Mr. Hails could not find any evidence that Service Company costs were delivered at an appropriate level of service or at an appropriate and reasonable cost. While the Company contends that "Mr. Hails disregards Company evidence in favor of his proposed adjustment methodology but does not specifically identify any Service Company services that are unnecessary, unreasonable, or too costly..."<sup>9</sup>, Mr. Hails notes there was no evidence to disregard. Each witness of the Company provides narrative descriptions of services provided, but little to no evidence to support the service levels or appropriateness of the quantum of Service Company costs. Mr. Hails' analysis in Figure 2 inherently identifies services that are too costly, and his analysis offers a proxy level of resources that would remain in place for each service post-adjustment.

Further, PAWC does not explain why O&M productivity on a per-customer basis drops with costs that significantly exceed inflation, particularly over the past four (4) years. Mr. Runzer in his rebuttal testimony outlines qualitative descriptions of the benefits of Service Company services<sup>10</sup> and other operational efficiency measures undertaken by PAWC but does not offer any quantitative value applied to purported benefits. Per-customer analysis for O&M costs shows quite the opposite; not only is PAWC not demonstrating scale efficiencies as it grows its customer base, but analysis also shows that PAWC is getting less efficient and productive; the opposite of Company claims. Further to OSBA analysis, applying per-customer O&M cost metrics, PAWC

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8 PAWC Main Brief, Page 28.

9 PAWC Main Brief, Page 28.

10 PAWC Statement No. 3-R, Pages 13 to 20.

has incurred \$102.8 million of O&M expenses more than inflation in the 4 years from 2024 to FPPTY 2027<sup>11</sup>, including \$36 million in FPPTY 2027 alone.

As it relates to the use of inflation as a benchmark metric, as with Employee-Related costs, in the absence of adequate justification of the reasonability of PAWC overall O&M and Service Company costs, the use of CPI inflation is a reasonable and neutral benchmark to assess the escalation of costs over time. To allow for the scale associated with customer growth, the OSBA adjusted inflation analysis to account for increased customers, expecting that costs will escalate to meet the needs of a larger customer base.

In addition, despite suggesting the ‘theoretical’ inflation-based benchmark is not reasonable, Ms. O’Malley does not suggest alternative benchmarks for comparison or defend the prudence of O&M costs with any quantifiable alternative metric.

Regarding the assessment of the Baryenbruch study, OSBA analysis and testimony pertaining to the studies could not be more relevant to this proceeding. Its critique of the Baryenbruch study is based on a comprehensive set of guidelines that should be used by PAWC to assess the prudence of Service Company costs, either internally or preferably by a truly independent third party. The OSBA provides a list of requirements for an assessment of prudence on pages 9 and 10 of OSBA Statement No. 2, Direct Testimony of Jason Hails. PAWC did not pursue any of these measures in attempting to justify the large Service Company cost increases. While the OSBA did not entirely eliminate any cost categories from the list of Service Company

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<sup>11</sup> OSBA Statement No. 2, Direct Testimony of Jason Hails, Exhibit JH-1, Line 22.

functions based on the needs of a standalone utility, several categories yield highly speculative value for ratepayers, and without PAWC justification of the levels of expense allocated, the OSBA assigned reasonable reductions based on judgement and experience with utility shared service models using a cost per FTE benchmark to represent the approximate level of service received by PAWC remaining post-adjustment.

In response to Ms. O'Malley's rebuttal suggestion the "*Commission should rely on the testimonies and schedules submitted into the record in this proceeding, which explain the nature of the Service Company costs, how they are allocated to the Company, and why they are reasonable and appropriate for recovery*"<sup>12</sup>, the OSBA agrees. While the Company explained in many cases the nature of \$77.9 million of Service Company costs, and showed the mechanics of how the services were allocated, these two undertakings in no way establish that the costs or reasonable or appropriate for recovery. The Company did not apply any meaningful assessments or evidentiary depth to justify the levels of service, or the amount charged, and Small Business ratepayers should not be burdened with excessive controllable costs in the absence of this critical requirement.

The OSBA recommends that the Company conduct an objective third-party review of Service Company costs in its next base rate application, and that the review incorporate all elements of scope identified in Mr. Hails in his direct testimony.<sup>13</sup>

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12 PAWC Statement No. 6-R, Page 10, Lines 12-14.

13 OSBA Statement No. 2, Direct Testimony of Jason Hails, Pages 7-14 include a detailed review of the Baryenbruch study.

**E.-K.** OSBA has no Reply comment.

## **VII. TAXES**

OSBA has no Reply comment.

## **VIII. DEPRECIATION**

OSBA has no Reply comment.

## **IX. RATE OF RETURN A-F**

OSBA has no Reply comment.

## **X. RATE STRUCTURE**

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

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

OSBA has no Reply comment.

#### **2. Wastewater Operations**

OSBA has no Reply comment.

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

Although PAWC disagrees in its Main Brief that there should be separate cost of service studies,<sup>14</sup> OSBA recommended three additional COSS provisions that should apply in all future wastewater COSSs.

First, OSBA recommended that the Company split off the Tariff Rate Commercial customers that pay a customer charge, usage rate or Equivalent Dwelling Unit (EDU) into a

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<sup>14</sup> PAWC Main Brief, page 75.

separate class of service (excluding the Special Rate customers). Second, OSBA recommended that the Company evaluate where the Special Rate customers and other named customers are grouped for revenue and COSS purposes, evaluate where they should be included, and create a new class of Special Rate customers if needed. Finally, OSBA recommended the Company evaluate where the customers currently listed as “Bulk Customers” are grouped in the COSSs (OSBA Statement No. 1, Page 43). The full rationale was provided in the OSBA Main Brief.<sup>15</sup>

The Company agreed to these provisions in its rebuttal testimony and Main Brief.<sup>16</sup> Since the Company agreed to these provisions, the Commission should affirm these provisions for all future wastewater COSSs.

**B. Revenue Allocation / Act 11 Shift Should be Reduced to \$24.303 million**

Further to the OSBA’s Main Brief, because of the Company’s rebuttal, OSBA proposes that the amount be reduced to approximately \$24.303 million<sup>17</sup> using reasonable ratemaking as supported in the Water and Wastewater Rate Design sections below.

The Company believes that allocating approximately \$53 million of wastewater costs to water customers is in the public interest.<sup>18</sup> The Company’s proposal is premised on the erroneous belief that the average bill of a residential water customer should be “comparable” to the average bill of a residential wastewater customer, that maintaining gradual, predictable changes in

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15 OSBA Main Brief, Pages 24-25.

16 PAWC Main Brief, Page 76.

17 OSBA Statement No. 1, Direct Testimony of Joe Kubas, Exhibit JK-1 and 2.

18 PAWC Main Brief, Page 76.

customer's bills, and minimizing significant rate increases should be the goal in ratemaking.<sup>19</sup> As described by OSBA witness Kubas, there is no reason for this to be the ratemaking goal, especially since the Company proposed higher percentage increases in some of its water zones than the OSBA proposed in the wastewater zones.<sup>20</sup>

## **C. Tariff Structure**

### **1. Customer Charges**

The OSBA's customer charge analysis is embedded within the Water Rate Design and Wastewater Rate Design sections below.

### **2. Water Rate Design**

Section X.C.2. "Water Rate Design" of the OSBA's Main Brief is incorporated by reference herein as if fully set forth herein.

#### **a. Meter Charges**

In its Main Brief,<sup>21</sup> PAWC witness McClellan defends the 79.8% increase in Rate Zone 6 Audubon commercial ¾ inch meter charge, calling it reasonable<sup>22</sup> and citing the lack of municipal customers in the zone as support. OSBA disagrees with Mr. McClellan's assessment and consider the lack of municipal customers in this case irrelevant. Excessive increases create rate shock for Small Businesses.

OSBA recommends a clear limit, capping Rate Zone 6 Audubon commercial ¾ inch meter

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19 PAWC Statement No. 10-R, Pages 18-19.

20 OSBA Statement No. 1-SR, Pages 7-8.

21 PAWC Main Brief, Pages 79-80.

22 PAWC Statement No. 10-R, Page 24.

charge increases at no more than double the system average increase. This rule should apply across zones. It protects commercial customers whereby applying gradualism promotes affordability while allowing full recovery of fixed costs over time. The OSBA recommends that the fixed charge increase be limited to no more than double the system average, or 32%, and the fixed charge should increase to \$17.69 per month.

b. Volumetric Rates

The Company notes in its Main Brief<sup>23</sup> that pursuant to Company witness Mr. McLellan's rebuttal testimony, 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>24, 25</sup>

Mr. Cathcart has conducted further analysis to assess the broader impact of both the proposed fixed and volumetric charge changes. PAWC argues that the 65.7% volumetric increase in Rate Zone 5 East Dunkard commercial service remains reasonable because the commercial rate for the 5/8-inch meter charge drops from \$35.04 to \$20.00 dollars per month. The fixed charge reduction simply standardizes rates across zones. It does not justify or adequately offset the separate volumetric hike. Fixed charges cover customer-specific costs, such as the meter and service line.

Volumetric charges cover usage driven costs. Although looking at global impacts is

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23 PAWC Main Brief, Page 79.

24 PAWC Main Brief, Page 80.

25 PAWC Statement No. 10-R, Page 26-27.

helpful, each element needs its own consideration. A commercial customer who uses 16,000 gallons monthly sees a current bill of about \$244 rise to \$367 under the proposal, which equates to a net increase over 50%. The offset from the reduced fixed monthly charge masks the true impact on higher-volume users. The volumetric rate requires moderation on its own merits. The fixed charge reduction helps only at very low usage. Most Small Commercial customers use higher volumes. An assessment of impacts at different monthly volumes is noted in Table RC1 below.

**Table RC1: PAWC Proposed Combined Rate Change - East Dunkard Zone 5**

<b>Monthly Usage (gallons)</b>	<b>Current Bill (\$)</b>	<b>Proposed Bill (\$)</b>	<b>Net Change (\$)</b>	<b>Percent Change (%)</b>
4,000	87.44 <sup>26</sup>	106.85 <sup>27</sup>	19.41	22.2
6,000	113.64	150.28	36.64	32.2
8,000	139.84	193.70	53.86	38.5
10,000	166.04	237.13	71.09	42.8
16,000	244.64	367.41	122.77	50.2
20,000	296.04	454.26	158.22	53.4

With the calculations based on Rate Zone 5 East Dunkard commercial rates, the breakeven point occurs at approximately 1,746 gallons per month. Above this level the

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26 Current bill = \$35.04 + (monthly gallons / 100) × 1.31.

27 Proposed bill = \$20.00 + (monthly gallons / 100) × 2.1713 (65.7% Increase).

volumetric increase drives a net bill rise for most small commercial customers.

Table RC2 below shows the moderated approach. It limits rate shock while still moving rates closer to cost recovery. See impacts when the volumetric increase stays at 32 percent limit.

**Table RC2 - OSBA Proposed Combined Rate Change - East Dunkard Zone 5**

<b>Monthly Usage (gallons)</b>	<b>Current Bill (\$)</b>	<b>Proposed Bill (\$)</b>	<b>Net Change (\$)</b>	<b>Percent Change (%)</b>
4,000	87.44 <sup>28</sup>	89.17 <sup>29</sup>	1.73	2.0
6,000	113.64	123.75	10.12	8.9
8,000	139.84	158.34	18.50	13.2
10,000	166.04	192.92	26.88	16.2
16,000	244.64	296.67	52.03	21.3
20,000	297.04	365.00	85.57	24.5

Breakeven point occurs at approximately 3,588 gallons per month. Above this level the bill rises, but the net increase stays far lower than the original proposal.

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

OSBA disagrees with the Company’s Main Brief.<sup>30</sup> OSBA explained why the \$53 million should be reduced on OSBA Statement No. 1<sup>31</sup>, while the Company’s Rebuttal testimony on Act

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28 Current bill = \$35.04 + (monthly gallons / 100) × 1.31.

29 Proposed bill = \$20.00 + (monthly gallons / 100) × 1.792 (32% increase).

30 PAWC Main Brief, Page 81.

31 OSBA Statement No. 1, Pages 4-7.

11 was addressed on OSBA Statement No.1-SR.<sup>32</sup> How the \$53 million should be reduced is addressed below in the SSS, CSS, BASA and EBMA Operations.

In the original filing, the Company did not accurately reflect the Act 11 subsidy by class. Therefore, OSBA compiled a schedule showing what the allocation should be after the OSBA rate structure proposals are applied. The amounts were revised slightly in the OSBA Surrebuttal analysis. OSBA determined that the \$17,428,978 needed to subsidize the Residential wastewater class should come from the Residential water class.

Also, the \$6,874,504 needed to subsidize the Non-Residential wastewater class should come from the Non-Residential water classes. The Company claims that it's not possible to identify Act 11 wastewater amounts by customer class and assign them to the same classes for water service because the customer classes around which 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>33</sup>

As described above, in the next cases, the Company agreed to separate out the Commercial class in the wastewater COSS. Since the Company already separates the Residential class, and if the Company properly assigns larger customers and bulk wastewater customers to the proper class, the Company should be able to reasonably assign costs from the wastewater classes to the appropriate water classes.

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32 OSBA Statement No. 1-SR, Pages 6-7.

33 PAWC Main Brief, Pages 77-78.

a. SSS Operations

OSBA disagrees with the Company's Main Brief.<sup>34</sup> In the original filing, the Company proposed SSS Operations revenue increase \$7,329,642. In rebuttal, the Company revised this amount to \$7,016,727. As a result of the Company's rebuttal OSBA revised this increase to \$17,977,570. To achieve this higher increase, OSBA proposed various customer charges and usage rates in the SSS Operation rates on OSBA Exhibit JK-3, column D that produces the additional \$10,960,843 (\$17,977,570 - \$7,016,727) revenue described above.<sup>35</sup>

i. *Customer Charges*

OSBA determined that the Company failed to justify increasing the Residential and Non-Residential customer charges because Inflow and Infiltration is not an expense that should be recovered in the customer charges.

For Zone 1f-Farmington, the current monthly charge includes some allowance. Therefore, OSBA accepted the Company's proposal to eliminate the allowance, but proposed the Residential customer charge be \$15.00 per month, and the Non-Residential customer charge be \$36.70 per month to be consistent with Zone 1. For flat rate customers, OSBA recommended a flat rate of \$75.00 per month.<sup>36</sup> For Zone 1f-Manwalmink, the current monthly Residential and Non-Residential charge are both \$16.92 per month. Therefore, OSBA proposed a Residential customer charge of \$15.00 per month and a Non-Residential customer charge of \$20.00 per month, moving

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34 PAWC Main Brief, Page 80.

35 OSBA Main Brief, Pages 33-34.

36 OSBA Statement No. 1, Direct Testimony of Joe Kubas, Exhibit JK-3, page 2, line 50.

the Non-Residential customer charge towards the Zone 1 Non-Residential customer charge of \$36.70 per month.<sup>37</sup>

The specific flat rates for Residential and Non-Residential customers were described in the OSBA Main Brief.<sup>38</sup> The specific rates OSBA proposed for Special Rate customers were also described in the OSBA Main Brief.<sup>39</sup>

The Company clings to the erroneous belief that the cost of I&I should be recovered in the customer charge because I&I is independent of a customer's usage.<sup>40</sup> Both OSBA witness Kubas and OCA witness Mierzwa described why this is not the criteria for determining what is to be recovered in a customer charge, and why it should be rejected.<sup>41</sup> Finally, the Company failed to provide a customer cost analysis in the CSS, BASA, or EBMA Operations, thus providing no support for any of the proposed customer charges in these Operations.

*ii. Flat -Residential Unmetered Rates*

OSBA determined for Zone 1 Residential customers flat rate or unmetered customers should pay \$135.00 per month, which approximately equals the average bill of a Zone 1 Residential customer. Other flat Residential rates were increased towards this target rate of \$135.00 per month.<sup>42</sup>

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37 OSBA Statement No. 1, Direct Testimony of Joe Kubas, Exhibit JK-3, page 2, lines 54 and 55.

38 OSBA Main Brief, Pages 34-35.

39 OSBA Main Brief, Pages 35-36.

40 PAWC Main Brief, Page 78.

41 OSBA Main Brief, Page 33, OSBA Statement No. 1-SR, page 11, and OCA MB, page 80.

42 OSBA Statement No. 1, Direct Testimony of Joe Kubas, Exhibit JK-3, page 1, line 25 and page 2, lines 34, page 2, lines 44, 47, 50 and 56.

*iii. Flat -Non-Residential Unmetered Rates*

OSBA determined for Zones 1 Non-Residential customer flat rate or unmetered customers should pay \$179.00 per month, which results in an increase of 19.3% and moves the flat rate towards the average bill of a Non-Residential customer.<sup>43</sup>

*iv. Special Rate Customers*

For Special Rate or so called “Named Customers” OSBA proposed various increases to the flat and usage rates these customers pay. For Cleveland Cliff and Victory Brewing, OSBA recommended that the monthly charge and usage rate increase 19.6%, which is the same percentage increase proposed for the Non-Residential usage rate. For Knouse Food, Penn State Special Metals, PSC Metals Ipsco Kopper Tubilers, and Strattanville Borough, OSBA recommended that each flat rate increase 19.6% which also is the same percentage increase OSBA proposed for the Non-Residential usage rate.<sup>44</sup>

The revenue from the two Large Industrial customers, Victory Brewing and Cleveland Cliffs is less than the cost of providing service to these two customers, thus justifying an even larger increase for this class and no scale back for the relatively low proposed usage rate of \$1.77 per hundred gallons.<sup>45</sup>

The OSBA proposed flat rates/customer charges and usage rates that produce reasonable revenue by class that results in the Residential and Non-Residential class relative rate of return of

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43 OSBA Statement No. 1, Direct Testimony of Joe Kubas, Pages 14-15 and OSBA Exhibit JK-3, page 1, lines 5, 17 and 28, page 2, lines 35, 45, 48 and 57.

44 OSBA Main Brief, Page 35.

45 OSBA Statement 3-SR, Pages 11-17.

1.17 for both classes. No party disputed this analysis.<sup>46</sup>

The Company continues to recommend that the Special Rate customer's flat rate not be increased. The Company claims that it's improper to base an increase of a flat rate customer on the percentage increase of a usage rate.<sup>47</sup> OSBA addressed this issue, stating that since these flat rate customers also pay for usage, it is perfectly reasonable to provide at least some increase in these rates, plus the fact that they make up 25% of the Industrial class revenue, that no increase of these rates is simply not reasonable.<sup>48</sup> The Company failed to provide any rate structure alternative that would produce the same amount of revenue from these two customers. Therefore, the rates proposed by OSBA for these two customers should be approved.

The OSBA proposed flat rates/customer charges and usage rates produce reasonable monthly increases for the average Residential and Commercial customers. The Company's claim that the average bill increases in the SSS Operations than OSBA proposed are misplaced given the Company has no problem proposing that the average Residential water bill in Zone 4 increase 40%.<sup>49</sup>

The Company failed to address this argument, nor provide any testimony comparing the average bill increases of the various wastewater customers, or state that any specific average wastewater bill increase proposed by the OSBA was unreasonable. Therefore, the SSS Operations rates proposed by the OSBA should be approved.

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46 OSBA Main Brief, Page 36.

47 PAWC Main Brief, Page 81.

48 OSBA Statement 1-SR, Page 12.

49 OSBA Main Brief, Page 36.

Victory Brewing also disagreed with the OSBA recommendation to increase the customer charge and usage rate that it pays stating that the increases are inappropriate and unsupported. To support this belief, Victory Brewing believes that its construction of pre-treatment facilities should be taken into consideration. Finally, Victory Brewing believes that since the Company did not propose any increase, no increase should be approved.<sup>50</sup>

Contrary to Victory Brewing, OSBA provided several valid reasons for increasing the customer charge and usage rate paid by Victory Brewing. The first reason is that the revenue under proposed rates from the Large Industrial class to which Victory Brewing is a part of is less than the cost of providing service to the Large Industrial class, justifying an even higher increase.<sup>51</sup> This shows that OSBA did consider the cost of providing service to the Large Industrial class. Victory Brewing did not dispute the SSS Operations COSS and failed to address the COSS issue.

The second reason is that the actions of one customer is not readily known and unless they are in a class by themselves does not generally impact that class.<sup>52</sup> Therefore, if Victory Brewing is in the Large Industrial class, the rates they pay should be based upon the cost of providing service to the Large Industrial class. Also, the usage rate of \$1.77 per hundred gallons that I proposed is much less than \$2.63 per hundred-gallon usage rate the OSBA proposed for the Non-Residential class.<sup>53</sup>

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50 Victory Brewing Main Brief, Pages 11-12.

51 OSBA Statement No. 1-SR, Page 14-15.

52 OSBA Statement No. 1-SR, Page 16.

53 OSBA Statement 1-SR, Page 17.

Finally, the claim that since the Company did not propose a change in these rates, no party should be able to challenge these rates is misplaced. First, it appears that the Company's rate structure witness believed that Victory Brewing and Cleveland Cliff were classified as Non-Residential customers in the COSS, where no increase may have been justified, when they were classified as Large Industrial customers to which some increase would have been justified.<sup>54</sup> This should be rectified in future COSSs. Second, as described herein, most wastewater rates proposed by the Company should be adjusted, and these rates are no exception. Therefore, the special rate flat and usage rate for Victory Brewing proposed by the OSBA should be approved.

In conclusion, the customer charges/flat rates and usage rates proposed by the OSBA in the SSS Operations should be approved.

b. CSS Operations

In rebuttal, the Company stated that its CSS Operations revenue should be increased by \$3,527,533. As a result of the Company's rebuttal OSBA revised this increase to \$21,952,430.<sup>55</sup>

OSBA proposed various customer charges and usage rates in the CSS Operation rates on OSBA Exhibit JK-8, column D that produces the additional \$18,424,897 (\$21,952,430 - \$3,527,533) revenue described above.

i. *Zone 2 - Residential and Non-Residential Rates*

The OSBA proposed the Zone 2 Residential and Non-Residential rates increase as shown on OSBA Exhibit JK-8, lines 1-5. Because the Company didn't dispute these rates, they should be

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54 OSBA Exhibit JK-7.

55 OSBA Statement No. 1-SR, Surrebuttal Testimony of Joe Kubas, Exhibit JK-2SR Column G.

approved.

*ii. Zone 2a- Scranton Residential and Non-Residential Rates*

The Company proposed not to increase the Scranton 2a rates (except for the minimal “roll-in” of the DSIC charge). The Company believes that it’s bound by a prior agreement not to increase the rates the former Scranton customers pay.<sup>56</sup> However, the Commission left open the rate making treatment of this promise including the recovery of the revenue shortfall. Therefore, the Company proposed that other ratepayers should pay higher rates and “pick up” the recovery of the approximately \$12 million revenue shortfall thus reimbursing PAWC for this promise.

OSBA’s primary recommendation is that the Company absorbs the revenue shortfall, which under the OSBA proposed rates is approximately \$16 million. As an alternative, OSBA proposed that Zone 2a – Scranton rates be increased and made consistent with the other Residential and Non-Residential rates in Zone 2.<sup>57</sup>

Both I&E and OSBA described why it’s improper to limit the increase in the Scranton system to a “DSIC roll-in”.<sup>58</sup> The Company failed to address why it should not absorb the revenue shortfall that results from the promise that it made. The Company also failed to address why rates should be bifurcated, and a new sub-zone should be created, contrary to its stated goal of rate consolidation. Finally, the Company states that the foundation of its rate design is “cost causation.”<sup>59</sup>

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56 PAWC Main Brief, Pages 80-81.

57 OSBA Main Brief, Page 37-38.

58 OSBA Statement No. 1-SR, Page 19 and I&E Statement No. 4, Pages 47-49.

59 PAWC Main Brief, Footnote 295.

These Company proposed Scranton rates completely contradict “cost causation” principles. The Company failed to explain why having similar customers pay lower rates, when its stated goal is that rates should be based on the cost of service, makes no sense. The Company failed to address why making its rate structure discriminatory and more complex is reasonable.

*iii. Customer Charges*

Since the Company failed to provide a customer cost analysis for the CSS Operations, OSBA determined that the Company failed to justify increasing the Residential and Non-Residential customer charges.<sup>60</sup>

*iv. Flat-Residential Unmetered Rates*

OSBA determined for Zones 2 Residential customers flat rate or unmetered customers should pay \$136.00 per month, which approximately equals the average bill of a Zone 2 Residential customer.<sup>61</sup>

*v. Bulk Rates*

OSBA determined for Zones 2 monthly bulk rate should remain at \$86.00 per month and the usage rate should be increased slightly to \$1.800 per hundred gallons. The OSBA determined for Zones 2a the monthly Bulk and usage rates should not be increased.<sup>62</sup> The recommendation for a minimal increase in the Zone 2 Bulk usage rate and no other Bulk rate increases is based upon the CSS COSS which indicates that the relative rate of return for the Bulk class is 1.38, well

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60 OSBA Statement No. 1, Direct Testimony of Joe Kubas, Pages 26-28.

61 OSBA Statement No. 1, Direct Testimony of Joe Kubas, Page 25 and OSBA Exhibit JK-8, lines 2 and 9.

62 OSBA Statement No. 1, Direct Testimony of Joe Kubas, Exhibit JK-8, lines 6-7 and 13-16.

above the target relative rate of return of 1.00.<sup>63</sup>

The Company failed to address why making its rate structure discriminatory and more complex is reasonable.<sup>64</sup> The OSBA proposed flat rates/customer charges and usage rates that produce reasonable revenue by class that results in the Residential and Non-Residential class relative rate of return of 0.96 for both classes.<sup>65</sup> No other party objected to this analysis.

The OSBA proposed flat rates / customer charges and usage rates produce reasonable monthly increases for the average Residential customer which is 31.1% and Commercial customers which is 24.2%.<sup>66</sup> The Company's concern that the average bill increases in the CSS Operations that Mr. Kubas proposed are too high is misplaced, given the Company has no problem proposing that the average Residential water bill in Zone 4 increases by 40.0%.<sup>67</sup>

vi. *BASA Operations*

In rebuttal, the Company proposed BASA Operations revenue to be increased by \$5,067,072.<sup>68</sup> As a result of the Company's rebuttal OSBA revised this increase to \$4,056,332.<sup>69</sup>

OSBA proposed various customer charges and usage rates in the BASA Operation rates on OSBA Exhibit JK-9SR, column D that produces \$1,010,740 (\$5,067,072 - \$4,056,332) less revenue than \$5,067,072 the Company proposed described above.<sup>70</sup>

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63 OSBA Statement No. 1, Direct Testimony of Joe Kubas, Exhibit JK-10, Column G.

64 OSBA Statement No. 3-SR, Surrebuttal Testimony of Roger Cathcart, Page 19.

65 OSBA Statement No. 1, Direct Testimony of Joe Kubas, Exhibit JK-10.

66 OSBA Statement No. 1, Direct Testimony of Joe Kubas, Exhibit JK-11.

67 OSBA Main Brief, Pages 39-40.

68 PAWC Rebuttal Sch. 3-A, Revised.

69 OSBA Statement No. 1-SR, Surrebuttal Testimony of Joe Kubas, Exhibit JK-2SR Column F.

70 OSBA Statement No. 1-SR, Surrebuttal Testimony of Joe Kubas, Exhibit JK-9SR, Column D.

The OSBA proposed customer charges and usage rates produce reasonable revenue by class that results in the Residential and Non-Residential class relative rate of return of 0.99 and 1.01 respectively. No party disputed the change in usage rates proposed by OSBA. Therefore, they should be approved.<sup>71</sup>

The OSBA proposed customer charges and usage rates produce reasonable monthly bills which are below Zone 1 and reasonable increases for the average Residential and Commercial customers.<sup>72</sup>

The Company continues to argue that the Non-Residential customer charge should remain at the present level of \$45.50 per month.<sup>73</sup> However, as described above, the Company failed to provide a customer cost analysis to support any BASA customer charges.<sup>74</sup> Therefore, reducing this present higher customer charge to \$36.70 per month proposed by the OSBA will help to consolidate rates, since the present Zone 1 customer charge is \$36.70 per month.<sup>75</sup>

*vii. EBMA Operations*

In the original filing, the Company proposed EBMA Operations revenue increase \$529,866.<sup>76</sup> In rebuttal, the Company revised this amount to \$555,808.<sup>77</sup> OSBA proposed that the amount be increased to \$817,861.<sup>78</sup> There was a slight change in the result of the Company's

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71 OSBA Main Brief, Pages 41-42

72 OSBA Main Brief, Page 42.

73 PAWC Main Brief, Page 81.

74 OSBA Statement No. 1, Page 33.

75 OSBA Exhibit JK-3SR.

76 PAWC Volume 3, Sch. 3-A.

77 PAWC Rebuttal Sch. 3-A, Revised.

78 OSBA Statement No. 1, Direct Testimony of Joe Kubas, Exhibit JK-2 Column F.

rebuttal OSBA revised this increase to \$817,863.<sup>79</sup>

The OSBA proposed customer charges and usage rates that produce reasonable revenue by class that results in the Residential and Non-Residential class relative rate of return of 1.04 and 0.881 respectively.<sup>80</sup> No party disputed the change in usage rates proposed by OSBA. Therefore, they should be approved.

a. EMBA Bulk Customers

OSBA also addressed that Bulk customers should not be subsidized since they represent non-jurisdictional customers. The Company did not dispute this analysis or claim in its Main Brief that this premise was incorrect. Therefore, the OSBA analysis and bulk rates should be approved.<sup>81</sup>

The Company appears to claim that since the proposed EBMA rates are consistent with the EBMA settlement, no party can challenge the rates proposed for EBMA by PAWC.<sup>82</sup> A review of the EBMA settlement agreement indicates that OSBA was not a signatory.<sup>83</sup> Therefore, OSBA is not bound by any EBMA settlement agreement, and the reasonable rates proposed by the OSBA should be approved.

b. Miscellaneous Revenue – Late Payment Revenue

In the original filing, the Company based the additional Late Payment Revenue on the

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79 OSBA Statement No. 1-SR, Exhibit JK-2SR Column H.

80 OSBA Statement No. 1, Direct Testimony of Joe Kubas, Exhibit JK-19.

81 OSBA Main Brief, Pages 43-44.

82 PAWC Main Brief, Pages 82-83.

83 Settlement Agreement A-2025-3052983, June 27, 2025.

amount of revenue for each wastewater Operations. OSBA accepted this methodology, but reflected higher late payment revenue for the SSS, CSS, and EBMA Operations, since OSBA proposed higher revenue in these Operations. The OSBA proposed slightly lower late payment revenue for the BASA Operations since the OSBA proposed a slightly lower increase in the BASA Operations.<sup>84</sup> The Company agreed with the OSBA methodology but disagreed with the amount of the increase proposed in each wastewater Operation.<sup>85</sup>

Therefore, the Commission should approve the methodology and base late payment revenue on the proposed revenue in each wastewater Operation.

**4. Wastewater Deduct Adjustment**

OSBA has no Reply comment.

**5. Demand-Based Contract Rates**

OSBA has no Reply comment.

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

If revenue requirement for water is reduced, the OSBA recommends that the class increases be scaled back proportionately based on each class' proportion of the total "OSBA Proposed Increase".<sup>86</sup>

In direct testimony, OSBA provided a schedule showing the present rate revenue, wastewater revenue request, scale back of revenue at various steps, the increase in revenue

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84 OSBA Statement No. 1, Direct Testimony of Joe Kubas, page 41.

85 PAWC Statement No. 10-R, Page 51.

86 OSBA Statement No. 3, Schedule Q-4 (W).

at each step and the percentage increase at each step.

As a result of the Company's changes to present rate revenue and the OSBA change in the BASA revenue, OSBA provided a revised JK-20 as OSBA Exhibit JK-SR14.

In summary, OSBA proposed that the rates and revenue in the BASA and EBMA Operations should not be scaled back since the proposed rates in these systems are so far below the corresponding rates in the SSS and CSS Operations respectively. OSBA also recommended that any rate in the SSS Operations that is below the corresponding Zone 1 rate, that rate should not be scaled back.

The OSBA scale back is a reasonable proposal that results in the SSS and CSS Operations receiving approximately the same percentage increase if the Commission grants an increase of 90% of the revised increase (a 10% scale back). For a larger decrease, the OSBA scale back proposal continues to be reasonable since the SSS and CSS Operations will each receive the same percentage increase if the Commission grants an increase of 80% (or less than 80%) of the revised increase (a 20% or greater scale back).<sup>87</sup>

OSBA believes that the Company generally agreed with these scale-back recommendations but described a few specific scale back proposals including the proposal that propose rates for water Rate Zone 4 Farmington, wastewater Rate Zones 1, 1d BASA, and 1f Farmington be excluded from any scale back. The Company believes that its proposed scale-back results in a just and reasonable outcome for all customer groups and,

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<sup>87</sup> OSBA Main Brief, Pages 45-47.

therefore, should be approved by the Commission.<sup>88</sup>

OSBA disagrees that Zone 1 rate should not be scaled back. OSBA does agree that the rates in Zones 1d, 1f, and BASA, should not be scaled back. OSBA also believes that the OSBA proposed rates in Zone 1g, Manwalamink and the OSBA proposed rates in the EBMA Operation not be scaled back.<sup>89</sup> Finally, since OSBA proposed different rates for these and other zone that the scale back be based upon the rates proposed by the OSBA.

## **XI. ALTERNATIVE RATEMAKING REQUESTS**

### **A. Customer Assistance Program (“CAP”) Rider**

OSBA has no Reply comment.

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

**A.-I.** OSBA has no Reply comments.

## **XIII. SERVICE QUALITY AND CUSTOMER SERVICE ISSUES**

**A.-C.** OSBA has no Reply comment.

## **XIV. CONCLUSION**

Therefore, the OSBA respectfully requests that the ALJ and Commission:

- A. Decrease or eliminate any rate increase.
- B. If revenue requirement for water is reduced, the OSBA recommends that the class increases be scaled back proportionately based on each class’ proportion of the total

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88 PAWC Main Brief, Page 86.

89 OSBA Main Brief, Page 46.

“OSBA Proposed Increase.”<sup>90</sup>

- C. In all future cost of service studies, the Company should recover the wastewater Act 11 revenue shortfall from the corresponding class in water. This will prevent cross subsidization of the classes. For example, it will prevent Commercial water customers from subsidizing Residential wastewater customers.<sup>91</sup>
- D. If the Commission were to approve a lower revenue requirement than PAWC has proposed, that the decrease apply principally to the water rates. So long as the approved cost-based wastewater revenue requirement exceeds PAWC’s proposed wastewater rates, the OSBA suggests that PAWC’s proposed wastewater rates are not reduced.<sup>92</sup>

While the OSBA agrees with the proposed level of consolidation for Rate Zones 1-5 in principle, some of the proposed changes appear to result in excessive rate increases from the customer’s existing rate. In consideration of gradualism, the rate increase in these cases should be moderated to no more than double the system average or 32%. This would achieve rate consolidation over a reasonable time frame without causing rate shock for these customers.<sup>93</sup>

- E. There should be at least a \$36.0 million reduction in FPFTY O&M expenses.<sup>94</sup>

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90 OSBA Statement No. 3, Schedule Q-4 (W).

91 OSBA Statement No. 3, Direct Testimony of Roger Cathcart, Page 18.

92 OSBA Statement No. 3, Direct Testimony of Roger Cathcart, Pages 16-17.

93 OSBA Statement No. 3, Direct Testimony of Roger Cathcart, Page 8.

94 OSBA Statement No. 2, Direct Testimony of Jason Hails, Page 18.

- F. Act 11 allocation from wastewater to water be reduced to approximately \$24.303 million.<sup>95</sup>
- G. Encourage the Company to offer training to their employees and transparency about the OSBA and the Company's Small Business late payment program.

Respectfully submitted,

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Dated: April 15, 2026

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95 OSBA Statement No. 1, Direct Testimony of Joe Kubas, Exhibit JK-1 and 2.

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>Pennsylvania Public Utility Commission</b>	:	
	:	<b>Docket Nos. R-2025-3057983 (Water)</b>
v.	:	<b>R-2025-3058051 (Wastewater)</b>
	:	<b>C-2025-3058770 (Water)</b>
<b>Pennsylvania-American Water Company</b>	:	<b>C-2025-3058771 (Wastewater)</b>

**CERTIFICATE OF SERVICE**

I hereby certify that true and correct copies of the foregoing have been served via email (*unless otherwise noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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