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April 15, 2026

**VIA eFILING**

Matthew L. Homsher, Secretary  
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Commonwealth Keystone Building  
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**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 **Reply Brief of Pennsylvania-American Water Company** (the “Reply Brief”).

As evidenced by the Certificate of Service, copies of the Reply 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,



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Enclosures

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

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**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>PENNSYLVANIA PUBLIC UTILITY 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 COMPANY</b>	:	<b>(Wastewater)</b>

**CERTIFICATE OF SERVICE**

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

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**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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**Before Administrative Law Judge Jeffrey A. Watson and  
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## **I. INTRODUCTION AND OVERVIEW**

Pennsylvania-American Water Company (“PAWC” or the “Company”) files this Reply Brief in response to the Main Briefs filed by the Pennsylvania Public Utility Commission (“Commission” or “PUC”) Bureau of Investigation and Enforcement (“I&E”), 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”), and Victory Brewing Company (“Victory”).

The central reason PAWC is seeking rate relief at this time is the Company’s need to invest over \$1 billion in its water and wastewater systems by mid-2027. All parties opposing the proposed rate increase agree that the Company’s planned investments are prudent and reasonable.

To a very large extent, the issues raised in the opposing parties’ Main Briefs were fully addressed in PAWC’s Main Brief, filed on April 6, 2026, and an extensive reanalysis of each subject is, therefore, unnecessary. However, as an aid to the Administrative Law Judges (the “ALJs”), this Reply Brief revisits certain of the key areas of disagreement. Unfortunately, PAWC must also address new arguments and non-record evidence that, as explained below, the OSBA is trying – belatedly and improperly – to interject in this case through its Main Brief.

## **II. SUMMARY OF ARGUMENT**

I&E, the OSBA, and CAUSE-PA oppose PAWC’s requested rate relief, and the OCA presented testimony purporting to show that PAWC should *reduce* its rates by \$12.3

million, despite uncontroverted evidence that by mid-2027, the Company will invest over \$1 billion in new plant and equipment since the end of the fully projected future test year (“FPFTY”) in its last base rate case. No party challenges the prudence or necessity of these investments. Instead, parties seek to reduce the Company’s proposed revenue requirement through a series of adjustments that are unsupported by the record, inconsistent with Commission precedent, or both. The litigation positions of the parties opposing PAWC’s proposed revenue increase are unreasonable for all the reasons discussed in the Company’s Main Brief.

Substantial evidence presented by PAWC fully supports its requested revenue increase, and the Commission should reject each of the adjustments to the Company’s rate base, expenses, and rate of return proposed by the other parties. In many instances, those adjustments would deny recovery of prudently incurred costs contrary to Pennsylvania law.

PAWC’s proposed rate structure and rate design are based on the proper application of well-established principles of cost allocation and will result in just and reasonable rates for all of PAWC’s customers that should be approved by the Commission.

Finally, PAWC’s low-income customer assistance programs are robust, well-designed, and supported by comprehensive affordability analyses of its water and wastewater services. The Commission should approve PAWC’s proposed Rental Assistance Pilot Program (“RAPP”) and reject unwarranted modifications to its H2O Help to Others Program (“H2O Program”). The Commission should also approve PAWC’s proposed Customer Assistance Program (“CAP”) Rider, which will protect the Company

from revenue shortfalls and customers from overcollections resulting from the significant variability in customer enrollment levels in the Company's bill discount program ("BDP").

### III. OVERALL POSITION ON RATE INCREASE

Despite the lack of any opposition to PAWC's necessary investments totaling more than \$1 billion in 2027 or even any criticism of the Company's past investments in utility plant, several parties oppose the Company's rate increase. These parties cite to the frequency of PAWC's rate increases since 2020 and the impact on customers (particularly low-income customers), and raise various objections to PAWC's proposed rates, assistance programs, and other Company mechanisms and proposals.<sup>1</sup> While the specific objections raised by each party are fully addressed in the Company's Main Brief and this Reply Brief, several realities are important for the Commission to recognize in considering the positions of these parties with respect to the Company's overall rate increase.

First, PAWC fundamentally agrees that maintaining affordable water and wastewater service is important.<sup>2</sup> At the same time, PAWC has a core responsibility under the Public Utility Code to operate efficiently and invest in critical water and wastewater infrastructure.<sup>3</sup> PAWC filed this rate case because of the hundreds of projects it needs to

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<sup>1</sup> I&E Main Br., pp. 11-12; OCA Main Br., pp. 8-11; OSBA Main Br., pp. 7-9; CAUSE-PA Main Br., pp. 11-19; Victory Main Br., pp. 4-6.

<sup>2</sup> See PAWC Main Br., pp. 9-11; PAWC St. 2, pp. 9-14; Section XII *infra*.

<sup>3</sup> See 66 Pa.C.S. § 1501 ("Every public utility shall furnish and maintain adequate, efficient, safe, and reasonable service and facilities, and shall make all such repairs, changes, alterations, substitutions, extensions, and improvements in or to such service and facilities as shall be necessary or proper for the accommodation, convenience, and safety of its patrons, employees, and the public."); see also PAWC St. 2, p. 10 ("When mains are not replaced in a timely fashion, or equipment is neglected, our costs rise as unanticipated main

complete through the end of the FPFTY (June 30, 2027), including the repair and replacement of facilities that were installed many decades and in some cases over 100 years ago, as well as the elimination of lead service lines and the removal of chemicals and emerging contaminants like PFAS from drinking water.<sup>4</sup>

While PAWC must continue its investment in these critical infrastructure projects, affordability is always front of mind. PAWC actively pursues project funding through PENNVEST grants and loans, which allows the Company to borrow at below market rates to reduce total project costs. Since 2024, PAWC has received PENNVEST funding of approximately \$156 million with an estimated savings over the life of these low-interest loans of \$100 million for the benefit of customers.<sup>5</sup>

Before filing this rate case, PAWC also conducted an affordability study using U.S. Census data to evaluate how its proposed rates in this case would impact residential customers. In general, water and wastewater bills are considered affordable if they are below 2% and 2.5% of annual household income, respectively.<sup>6</sup> The affordability study shows that median-income households would spend 1.04% of annual income on water service and 1.37% on wastewater service, both well under standard affordability thresholds.<sup>7</sup>

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breaks create water quality issues, unexpected expenses, and disruption to our customers and communities. Similarly, equipment in need of replacement makes workers less efficient and can create safety issues.”)

<sup>4</sup> See generally PAWC St. 4.

<sup>5</sup> PAWC St. 1, pp. 18-19.

<sup>6</sup> PAWC St. 9, pp. 6-7.

<sup>7</sup> *Id.*, pp. 9-11.

While the affordability study demonstrates that the majority of PAWC customers' bills will remain affordable with the proposed increase, the Company recognizes that low-income customers may continue to struggle paying their bills. Importantly, as part of its affordability analysis, PAWC looked at the potential mitigating effect of BDP participation and found that the BDP can deliver an affordable bill for the vast majority of low-income customer participants.<sup>8</sup> For those customers, the Company has expanded all of its customer assistance programs over the last several years, including establishing new discount tiers, increasing the Company's Hardship Fund dollars, and launching an arrearage management program ("AMP") to forgive residential customers' past due balances over time.<sup>9</sup> PAWC's outreach efforts to try to enroll customers in these assistance programs also have been extraordinarily successful based on the Company's over 25% growth in its BDP enrollment since June 2025.<sup>10</sup> While PAWC must continue to make critical infrastructure investments, it likewise remains committed to developing and implementing affordability solutions for its customers.

Second, as discussed in the following sections, the various other "overall" arguments for rate reductions that other parties highlight are not based on substantial evidence. The Company has addressed the flaws in the return on equity ("ROE") proposals of other witnesses, and the depreciation accounting proposal offered by OCA witness David J. Garrett is inconsistent with Commission precedent.<sup>11</sup> Similarly, the OSBA's

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<sup>8</sup> PAWC St. 9, pp. 19-21.

<sup>9</sup> PAWC St. 2, pp. 12-13.

<sup>10</sup> PAWC St. 2-R, p. 13.

<sup>11</sup> See Sections XIII and IX *infra*.

proposal to drastically reduce American Water Works Service Company (“Service Company”) costs to less than the actual, prudently-incurred expense for critical support services during the historic test year (“HTY”) is unreasonable.<sup>12</sup> I&E’s comments regarding the Corporate Alternative Minimum Tax (“CAMT”) are addressed in Section VII. Furthermore, the Company’s proposed rates for all customer classes, including its proposed deduct adjustment, reflect well-established rate design principles of cost causation and gradualism.<sup>13</sup>

In sum, the Commission should approve PAWC’s requested rate increase as just and reasonable to ensure the Company can continue investing in necessary system improvements while maintaining affordable service.

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

In its Main Brief, PAWC provided an overview of its rate base claims and pointed out that only one rate base item remains in dispute.<sup>14</sup> Specifically, the OCA recommends that the Commission deny PAWC’s request to include in rate base its 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”). PAWC responds to the OCA’s discussion of that contested issue below.

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<sup>12</sup> See Section VI.D *infra*.

<sup>13</sup> See Section X *infra*.

<sup>14</sup> See PAWC Main Br., pp. 9-11.

**A. Plant-In-Service**

As confirmed by I&E and the OCA in their Main Briefs, there is no disagreement as to PAWC’s claimed plant-in-service.<sup>15</sup> Nonetheless, the OCA continues to press its proposed disallowances of the Farmington and Manwalamink acquisition adjustments. As discussed in Section IV.B below, PAWC properly included those acquisition adjustments in rate base.

**B. Additions to Rate Base**

**1. Acquisition Adjustments**

Although PAWC anticipated and responded to most of the arguments presented by the OCA in opposition to the Company’s request to include the Farmington and Manwalamink acquisition adjustments in rate base, a few additional points should be noted. The OCA contends that the purchase price for the Manwalamink systems did not result from arm’s length negotiations as required by Section 1327(a)(5) of the Public Utility Code<sup>16</sup> because the purchase price for the systems did not change when NextEra Water Pennsylvania, LLC (“NEWPA”) assigned the Manwalamink purchase agreement to PAWC.<sup>17</sup> The Commission explicitly rejected the OCA’s argument in the Manwalamink acquisition proceeding, stating “[a]ny suggestion that PAWC did not negotiate the purchase price is unsupported by the record.”<sup>18</sup> Before Manwalamink accepted NEWPA’s

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<sup>15</sup> See I&E Main Br., p. 13; OCA Main Br., pp. 4, 9, 11.

<sup>16</sup> 66 Pa.C.S. § 1327(a)(5). 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>17</sup> OCA Main Br., p. 14.

<sup>18</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 Mar. 27, 2025), quoted in PAWC St. 7-R, pp. 8-9.

offer, PAWC had offered the same amount for the Manwalamink systems.<sup>19</sup> This evidence therefore supports PAWC’s position that it negotiated the purchase price for the Manwalamink systems.

The OCA also contends that Manwalamink’s compliance record “vastly improved” by the time PAWC acquired the Manwalamink systems.<sup>20</sup> The evidence does not support this claim. As the testimony of OCA’s witness Lafayette K. Morgan, Jr. shows, MSC’s violations doubled in 2023 compared to 2021 and 2022.<sup>21</sup> This evidence hardly demonstrates a vast improvement in service over time. Moreover, MWC averaged eight violations per year from 2020 through 2023 and one in 2024.<sup>22</sup> The OCA puts far too much weight on the data for one year (2024) and far too little weight on the data for the prior four years.

## **2. Cash Working Capital**

I&E’s Main Brief confirms that it does not dispute the methodology PAWC used to establish its cash working capital requirements.<sup>23</sup> The adjustments proposed by I&E are concomitant to its proposed adjustments to PAWC’s operating and maintenance (“O&M”) expenses. As explained in PAWC’s Main Brief<sup>24</sup> and Section VI below, those proposed O&M expense adjustments should be rejected.

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<sup>19</sup> In addition, Aqua Pennsylvania, Inc. offered a very similar amount for the Manwalamink systems as did NEWPA. *Id.*

<sup>20</sup> OCA Main Br., p. 14.

<sup>21</sup> OCA St. 1SR, p. 17.

<sup>22</sup> *Id.*

<sup>23</sup> *See* I&E Main Br., p. 15.

<sup>24</sup> *See* PAWC Main Br., pp. 19-36.

**C. Deductions from Rate Base**

No other party addressed deductions from rate base in their Main Brief.

**D. Conclusion**

For the reasons set forth above and in PAWC’s Main Brief, the Company’s rate base claim properly includes acquisition adjustments for the Farmington water system and the Manwalamink systems because the criteria set forth in Section 1327 for recognizing acquisition adjustments are fully satisfied in this case.<sup>25</sup>

**V. REVENUES**

The Company’s pro forma revenue claims are described in the Company’s Main Brief<sup>26</sup> and detailed in the direct and rebuttal testimony of Company witness Max McClellan (PAWC Statements 10 and 10-R) and PAWC Exhibit No. 3-A Revised. I&E proposes an increase in the Company’s Other Operating Revenue to reflect additional late payment revenue.<sup>27</sup> This is a concomitant adjustment to I&E’s proposed rate increases for the sanitary sewer system (“SSS”) and combined sewer system (“CSS”) wastewater groups, respectively. PAWC does not oppose I&E’s method of calculating late fee revenues, but the proposed increase in Other Operating Revenues should be rejected if the Commission rejects I&E’s proposed increases in rates for SSS and CSS customers.<sup>28</sup>

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<sup>25</sup> See PAWC Main Br., pp. 11-17.

<sup>26</sup> *Id.*, pp. 18-19.

<sup>27</sup> I&E Main Br., pp. 19-20.

<sup>28</sup> See PAWC St. 10-R, p. 51.

## VI. EXPENSES

In developing its future test year (“FTY”) and FPFTY claims, PAWC adjusted HTY expenses recorded on its books at June 30, 2025 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>29</sup> I&E, the OCA, and the OSBA proposed adjustments to PAWC’s claimed levels of O&M expenses. As discussed at length in PAWC’s Main Brief, the Company’s claims are reasonable and fully supported by record evidence.<sup>30</sup> In contrast, the opposing parties’ recommendations are unsubstantiated and should be rejected. A reanalysis of each issue is unnecessary in light of PAWC’s discussion of the opposing parties’ adjustments in its Main Brief. However, the following comments are offered in response to specific arguments advanced in non-Company Main Briefs.

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

As discussed in PAWC’s Main Brief,<sup>31</sup> the Company accepted I&E witness Vanessa Okum’s proposed 1.25% vacancy rate and updated its labor-related expense claim<sup>32</sup> accordingly. While Ms. Okum accepts that capitalized labor should not be adjusted for a vacancy rate,<sup>33</sup> I&E proposes to reduce labor-related expense by the same amount that Ms.

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<sup>29</sup> See PAWC St. 2, pp. 5-6; PAWC St. 6, pp. 3-4.

<sup>30</sup> See PAWC Main Br., pp. 19-33.

<sup>31</sup> *Id.*, pp. 19-20.

<sup>32</sup> The Company’s claimed labor-related expense includes (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.

<sup>33</sup> I&E St. 1-SR, p. 18.

Okum originally deducted from PAWC's claimed rate base.<sup>34</sup> That adjustment is erroneous because Ms. Okum proposes to remove dollars that are not reflected in PAWC's claimed O&M expense.<sup>35</sup>

The OSBA, in turn, would deny the Company recovery of \$8.7 million that its witness, Jason Hails, contends exceeds the inflation-adjusted employee-related expense for the FPFTY.<sup>36</sup> PAWC's Main Brief explains the errors in Mr. Hails' analysis.<sup>37</sup> The Company's labor-related expense does not correlate with inflation as the OSBA assumes. PAWC's claim is fully substantiated by unrebutted evidence of the staffing level needed to provide safe and reliable service during the FPFTY and merit increases that exceed the Consumer Price Index used by Mr. Hails.

## **B. Performance Compensation**

I&E and the OCA do not challenge the reasonableness of the overall compensation levels for PAWC employees. Nonetheless, in their Main Briefs, the OCA<sup>38</sup> and I&E<sup>39</sup> continue to propose adjustments to PAWC's expense claim to remove portions of Annual Performance Plan ("APP") and Long-Term Performance Plan ("LTPP") compensation based on financial performance metrics that they allege benefit "shareholders" and not customers. The OCA contends that PAWC cannot rely on the PUC's approval of its performance compensation in the Company's last two litigated rate proceedings because

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<sup>34</sup> See I&E Main Br., pp. 28-35.

<sup>35</sup> See PAWC Main Br., pp. 20-21.

<sup>36</sup> See OSBA Main Br., pp. 11-15.

<sup>37</sup> See PAWC Main Br., p. 21.

<sup>38</sup> See OCA Main Br., pp. 17-20.

<sup>39</sup> See I&E Main Br., pp. 38-42.

the Commission recently disallowed certain performance compensation claimed by Columbia Gas of Pennsylvania, Inc. (“Columbia Gas”).<sup>40</sup>

As explained in PAWC’s Main Brief,<sup>41</sup> the PUC has determined that a utility’s performance compensation costs are properly included in operating expenses for ratemaking purposes where the compensation program *as a whole* includes both financial and operating performance goals that benefit customers.<sup>42</sup> In all of those prior decisions, the Commission declined to parse the degree of customer benefit that a performance compensation plan produces, weigh those benefits against alleged “shareholder” benefits, and permit recovery of some – but not all – of the utility’s costs, as I&E and the OCA urge the PUC to do in this case.

The Commission’s decision in *Columbia Gas 2025* does not overturn this long-standing precedent, as I&E and the OCA claim. The Commission’s adjustment to Columbia Gas’s performance compensation in that case was based on the absence of

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<sup>40</sup> See OCA Main Brief, pp. 17-18, 20 (citing *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>41</sup> See PAWC Main Br., pp. 21-25.

<sup>42</sup> See, e.g., *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. 80; *Pa. P.U.C. v. Pa.-Am. Water Co.*, Docket Nos. R-2020-3019369 and R-2020-3019371 (Opinion and Order entered Feb. 25, 2021) (“*PAWC 2021*”), p. 53; *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. 100-01; *Pa. P.U.C. v. UGI Utils., Inc. – Elec. Div.*, Docket No. R-2017-2640058 (Opinion and Order entered Oct. 4, 2018) (“*UGI 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) (“*PPL 2012*”), p. 26; *Pa. P.U.C. v. Aqua Pa., Inc.*, Docket No. R-00072711 (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.

sufficient evidence supporting the utility’s overall performance compensation. In this proceeding, by contrast, PAWC presented unrefuted substantial evidence that (1) its overall compensation levels (base salary and performance compensation (APP and LTPP)) are reasonable and (2) satisfying key financial objectives benefits PAWC customers, not just American Water shareholders.<sup>43</sup> In its Main Brief, OCA fails to even acknowledge, let alone address or rebut, the detailed compensation analysis presented by PAWC witness Robert V. Mustich.<sup>44</sup> Further, while I&E acknowledges PAWC’s analysis, it attempts to side-step the Company’s robust presentation of evidence by taking inconsistent positions. On the one hand, I&E does not dispute the reasonableness of PAWC’s total compensation plan.<sup>45</sup> At the same time, I&E asserts that customers should not have to “shoulder” a portion of that reasonable compensation plan.<sup>46</sup>

In conclusion, PAWC presented a detailed third-party analysis demonstrating that its overall employee compensation, including performance compensation, is reasonable<sup>47</sup> – the same evidence the PUC found to be determinative in *PPL 2012*, *UGI Electric 2018* and *PAWC 2021*. Accordingly, PAWC’s claim to recover 100% of its compensation costs, including performance compensation, should be approved.

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<sup>43</sup> See PAWC Main Br., p. 24.

<sup>44</sup> CONFIDENTIAL PAWC Exhibit RVM-1R.

<sup>45</sup> I&E Main Br., pp. 40-41.

<sup>46</sup> See *id.*

<sup>47</sup> See PAWC St. 16-R, p. 4 (“PAWC’s benchmarking and job matching process follows prevalent market best practices and supports its market based compensation philosophy of targeting the 50th percentile of the market.”)

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

In its last base rate case, PAWC used a three-year average percentage change in plan rates to smooth year-to-year variations in group insurance expense and that approach was not opposed by the OCA.<sup>48</sup> In this case, 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 expense claim.<sup>49</sup> Using a three-year average percentage change continues to be the appropriate approach to address variability in the Company’s group insurance plan rates.

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

PAWC presented extensive testimony in this case describing the important role the Service Company plays in supporting PAWC’s provision of safe and reliable service to its customers.<sup>50</sup> Through the Service Company, PAWC realizes economies of scale in obtaining the equivalent of in-house services in areas such as engineering, water quality, procurement and risk management.<sup>51</sup> If PAWC did not obtain these services from the Service Company and had to replicate them with comparable personnel on its own payroll, the costs for the same functions would be considerably higher.<sup>52</sup>

The OSBA proposes an enormous adjustment (\$27.3 million) to PAWC’s Service Company expense.<sup>53</sup> If the PUC adopts this adjustment, PAWC could not recover even

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<sup>48</sup> PAWC Main Br., p. 25.

<sup>49</sup> OCA Main Br., p. 22.

<sup>50</sup> See PAWC St. 6, pp. 13-17; PAWC St. 6-R, pp. 11-17; PAWC St. 3-R, pp. 13-20.

<sup>51</sup> See PAWC Main Br., p. 26.

<sup>52</sup> *Id.*

<sup>53</sup> See OSBA Main Br., pp. 17-18.

the level of Service Company costs it actually incurred during the HTY, let alone the additional costs attributable to **uncontested** merit increases.<sup>54</sup> In short, the OSBA's proposed adjustment is not credible on its face.

In its Main Brief, the OSBA contends that the Commission should deny over 35% of PAWC's Service Company expense for the FPFTY because the Company has not established that the claimed costs were prudently incurred.<sup>55</sup> The OSBA's argument lacks merit and should be rejected. Pennsylvania law is clear that a utility is entitled to recover all of its "reasonably incurred expenses."<sup>56</sup> Such expenses cannot be disallowed, as the OSBA urges the Commission to do in this case, absent a finding, based upon record evidence, that the utility's management abused its discretion in incurring such expenses.<sup>57</sup> As such, there is an affirmative burden on opposing parties to present evidence of imprudence and the utility is not required to "prove the negative."<sup>58</sup>

The OSBA questions the prudence of the Company's actual HTY Service Company costs based solely on Mr. Hails' opinion that any increases in PAWC's O&M expense per customer, including Service Company charges, should not exceed inflation.<sup>59</sup> However,

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<sup>54</sup> PAWC Main Br., pp. 26-28.

<sup>55</sup> See OSBA Main Br., pp. 16-22.

<sup>56</sup> *UGI Corp. v. Pa. P.U.C.*, 410 A.2d 923, 932 (Pa. Commw. Ct. 1980).

<sup>57</sup> *Nat'l Fuel Gas Distribution Corp. v. Pa. P.U.C.*, 464 A.2d 546, 559 (Pa. Commw. Ct. 1983) ("As general matter, utility management is in hands of the utility and the Public Utility Commission may not interfere with lawful management decisions, including decisions related to necessity and propriety of operating expenses, unless, on basis of record evidence, it finds abuse of utility's managerial discretion.").

<sup>58</sup> See *Pa. P.U.C. v. Pa. Power Co.*, Docket No. R-870732, 1988 Pa. PUC LEXIS 407 at \*13 (May 3, 1988) ("Imprudence cannot be sustained by substituting one's judgement for that of another.").

<sup>59</sup> See OSBA Main Br., pp. 18-21.

Mr. Hails fails to allege or show that PAWC could perform any of the Service Company functions at a lower cost. Mr. Hails did not analyze the functional work activities, labor hours or rates required to deliver each type of service to a standalone water and wastewater utility. Rather, Mr. Hails applies arbitrary reductions to several Service Company functions – such as Legal, Environmental Leadership and Operational Excellence – that he speculates could be delivered with less resources.<sup>60</sup> Mr. Hails’ argument is refuted by the record evidence. For example, Mr. Hails would disallow one-half of costs for legal services provided by the Service Company even though Ms. O’Malley testified that there is no equivalent function at the Company and all legal personnel supporting PAWC are Service Company employees.<sup>61</sup>

PAWC also vigorously objects to the assertion that prior studies performed by Baryenbruch and Company (“Baryenbruch”) represent evidence that the Company’s claimed Service Company costs are imprudent or unreasonable.<sup>62</sup> The OSBA’s focus on the Baryenbruch studies is merely an attempt to detract attention from totally unrebutted evidence that the Service Company provides access to professionals with expertise in various specialized areas while delivering cost savings through centralized services that would be far more expensive for PAWC to obtain on a stand-alone basis.<sup>63</sup>

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<sup>60</sup> See OSBA St. 2, pp. 15-16.

<sup>61</sup> PAWC St. 6-R, p. 18.

<sup>62</sup> See OSBA Main Br., pp. 10, 21-22; OSBA St. 2, pp. 7-14.

<sup>63</sup> See PAWC Main Br., pp. 27-28.

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

In its Main Brief,<sup>64</sup> I&E summarizes Ms. Okum's contentions, all of which were refuted by Ms. O'Malley.<sup>65</sup> PAWC simply notes that the use of a three-year average of actual expense instead of the percentage change understates the Company's current level of waste disposal expense, which has been increasing.<sup>66</sup>

### **F. Transportation Expense**

The adjustment to remove the inflation escalation from PAWC's claim, proposed by both I&E and the OCA,<sup>67</sup> was thoroughly addressed in the Company's Main Brief<sup>68</sup> and no further comment is necessary.

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

The OCA contends that "[t]he risk of a failed transaction is an ordinary business risk that utilities and their shareholders, not ratepayers, must bear."<sup>69</sup> This logic suggests that PAWC seeks rate recovery for transaction costs associated with all failed acquisitions.<sup>70</sup> That is not the case. PAWC is not claiming transaction costs related to any other acquisitions where the transaction was not consummated. As explained in PAWC's Main Brief, the Towamencin acquisition is unusual because the Company abandoned its

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<sup>64</sup> See I&E Main Br., pp. 45-47.

<sup>65</sup> See PAWC Main Br., pp. 28-29.

<sup>66</sup> See PAWC St. 6-R, pp. 21-22; PAWC St. 6-RJ, p. 3.

<sup>67</sup> See I&E Main Br., pp. 47-50; OCA Main Br., pp. 22-23.

<sup>68</sup> See PAWC Main Br., pp. 29-30.

<sup>69</sup> OCA Main Br., p. 27.

<sup>70</sup> See also, OCA St. 1SR pp. 11-12 ("I based my adjustment on the fact that PAWC made a business decision to pursue the acquisition of the Towamencin system, presumably after weighing the risks. *It is not uncommon for proposed mergers or business acquisitions to fall through.* Essentially, this is what happened with the Towamencin system acquisition.") (emphasis added).

plans to purchase the system due to two unforeseen changes in law.<sup>71</sup> As such, PAWC proposes to amortize the Towamencin transaction costs over ten years.<sup>72</sup>

Contrary to the OCA's position, the costs of failed transactions should not always be borne by shareholders. This is particularly true for Section 1329 acquisitions such as PAWC's planned acquisition of the Towamencin system. The General Assembly enacted a fair market value law to encourage public utilities to acquire municipal utility systems. When such acquisitions are terminated as a result of changes in law that were unforeseeable, as a matter of public policy, the Commission should provide a mechanism for the recovery of transaction costs associated with failed acquisitions, in order to encourage regulated water and wastewater public utilities to acquire municipal utility systems consistent with the General Assembly's intent.

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

This issue is fully addressed in PAWC's Main Brief.<sup>73</sup> The OCA's interest expense adjustment should be rejected if the Commission does not adopt the OCA's proposed adjustments to rate base.<sup>74</sup>

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

This issue is fully addressed in PAWC's Main Brief.<sup>75</sup> The OCA's proposed adjustments to amortization expense are concomitant to its proposed disallowance of the

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<sup>71</sup> See PAWC Main Br., pp. 30-32.

<sup>72</sup> PAWC St. 5, p. 18.

<sup>73</sup> See PAWC Main Br., p. 32.

<sup>74</sup> See also Sections IV of this Reply Brief and PAWC's Main Brief.

<sup>75</sup> See PAWC Main Br., p. 32.

Farmington and Manwalamink acquisition adjustments, which should be rejected for the reasons set forth in Section IV.B of this Reply Brief and PAWC's Main Brief.

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

As explained in PAWC's Main Brief,<sup>76</sup> the OCA does not offer any valid reason to reduce third-party call center expense that PAWC necessarily incurs to serve customers simply because the OCA asserts that two collections agencies are not hitting performance metrics that its witness, Barbara R. Alexander, recommends imposing.<sup>77</sup>

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

As detailed in PAWC's Main Brief, pension and OPEB costs determined on an accrual basis are difficult to predict and can materially increase or decrease from year-to-year.<sup>78</sup> This fluctuation occurs because actuarial forecasts consider numerous economic and demographic variables. PAWC's historical practice could result in under- or over-recovery by the Company and corresponding under- or overpayment by customers. Accordingly, PAWC requests PUC approval to defer any amounts above or below the

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<sup>76</sup> *Id.*, pp. 32-33.

<sup>77</sup> The OCA misconstrues the holding of *Popowsky v. Pa. P.U.C.*, 674 A.2d 1149 (Pa. Commw. Ct. 1996) cited at page 16 of its Main Brief. In that case, the Commonwealth Court upheld the PUC's expense disallowance for third-party managerial services fees where the utility did not present any time records or wage information to substantiate the claimed amount. The Commission did not disallow the expense based on allegations of subpar performance of the contractor's work as the OCA appears to suggest.

<sup>78</sup> See PAWC Main Br., pp. 33-36.

forecasted FPFTY level of pension and OPEB expenses for accounting purposes and book the deferred amounts as a regulatory asset or liability.

In their respective Main Briefs, I&E and the OCA voice opposition to PAWC's proposed deferral mechanisms. Their discussion on this issue boils down to two basic arguments: (1) pension and OPEB expenses are normal and recurring costs that do not fall within the scope of the PUC's exception to the prohibition against retroactive ratemaking, and (2) deferred accounting treatment will somehow guarantee recovery of those expenses without any review of prudence and reasonableness in a base rate case.<sup>79</sup> Neither argument is valid.

While I&E and the OCA assert that pension and OPEB costs are "routine" expenses incurred by all utilities, the extraordinary nature of a cost is determined by the event that triggers it.<sup>80</sup> As explained in PAWC's Main Brief,<sup>81</sup> the pension and OPEB costs forecasted by PAWC's actuary are subject to material change based on a myriad of factors outside of the Company's control and are precisely the types of costs the Commission authorizes utilities to defer.

Deferred accounting authorization does not grant PAWC dollar-for-dollar recovery of pension and OPEB expenses as I&E and the OCA contend.<sup>82</sup> Any deferred amounts

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<sup>79</sup> See I&E Main Br., pp. 51-53; OCA Main Br., pp. 28-31.

<sup>80</sup> *E.g.*, *Popowsky v. Pa. P.U.C.*, 868 A.2d 606, 612 (Pa. Commw. Ct. 2004).

<sup>81</sup> See PAWC Main Br., pp. 33-36.

<sup>82</sup> See I&E Main Br., p. 53; OCA Main Br., pp. 30-31.

(and offsets to those amounts) will be subject to detailed ratemaking review to determine prudence and reasonableness when they are claimed by PAWC in its next base rate case.<sup>83</sup>

## VII. TAXES<sup>84</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. Ms. Schlessman's supplemental testimony addressed the impact to the Company's rate request resulting from Internal Revenue Service ("IRS") CAMT guidance that was released on February 18, 2026.<sup>85</sup> At the time the guidance was released, it was unclear whether or not the guidance would have retroactive effect and, therefore, its impact to the Company's rate request was not known.<sup>86</sup>

While no party disputes the manner in which PAWC calculated its federal and state income taxes, I&E raised two issues with respect to the CAMT. First, I&E erroneously states in its Main Brief that the Company is proposing to refund 2024 CAMT amounts.<sup>87</sup> As Ms. Schlessman explains in her supplemental testimony, a change in IRS guidance related to the CAMT caused PAWC to remove approximately \$35 million from the Company's proposed rate base.<sup>88</sup> However, PAWC customers will not be entitled to any refund as a result of this change since, as Ms. Schlessman explains, the change in CAMT

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<sup>83</sup> PAWC Main Br., p. 36.

<sup>84</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.

<sup>85</sup> PAWC St. 8 Supplemental, p. 2.

<sup>86</sup> *See id.*, pp. 3-4

<sup>87</sup> I&E Main Br., p. 9.

<sup>88</sup> PAWC St. 8 Supplemental, pp. 2-4.

guidance will not impact PAWC customers since the Company's 2024 deferred tax asset is not reflected in current rates.<sup>89</sup>

Second, I&E states that it accepts the approximately \$35 million reduction in rate base and the resulting impact to revenue requirement and impact on rates presented by Ms. Schlessman, for this proceeding only, due to the timing of Ms. Schlessman's testimony, and that there should be a further downward adjustment to revenue requirement for PAWC.<sup>90</sup> Ms. Schlessman's testimony was presented to the parties on March 13, 2026<sup>91</sup> and included an attached Exhibit 3-A Revised that showed the revenue impact of the reduction in rate base discussed in Ms. Schlessman's testimony.<sup>92</sup> Ms. Schlessman was available for cross examination at the Evidentiary Hearing that began on March 20, 2026 but no party elected to cross examine Ms. Schlessman or oppose or respond to her Supplemental Testimony in any manner. Thus, the Commission should find that the revenue requirement impact of the rate base reduction described in Ms. Schlessman's testimony was reasonable, no further downward adjustment (other than the adjustment included in Exhibit 3-A Revised) to revenue requirement is required, and such amount should not be subject to review in a future proceeding.

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<sup>89</sup> *Id.*, p. 3, n.2.

<sup>90</sup> I&E Main Br., pp. 11, 54.

<sup>91</sup> *See* PAWC St. 8, Supplemental. The Company's Motion for Leave to File the Supplemental Direct Testimony of Linda Schlessman (March 13, 2026) was not opposed by any party.

<sup>92</sup> *See* Exhibit 3-A Revised (March 13, 2026), p. 1 (the Total Company Proposed Revenues of \$1,321,733,464 was a \$3,760,141 reduction from the \$1,325,493,605 Total Company Proposed Revenues shown in the Exhibit 3-A Revised that accompanied the Rebuttal Testimony of Christina Chard on February 27, 2026).

## VIII. DEPRECIATION

For over 40 years, PAWC has utilized the well-established equal life group (“ELG”) procedure in base rate proceedings, service life study filings, and annual depreciation report filings with the PUC. The Commission most recently accepted the Company’s depreciation claims based on the ELG procedure in PAWC’s 2023 base rate proceeding<sup>93</sup> and very recently affirmed another utility’s continued use of the ELG procedure.<sup>94</sup> In this case, the OCA is critical of the ELG procedure and urges the PUC to require the Company to transition to the Average Life Group (“ALG”) procedure<sup>95</sup> in order to generate an alleged benefit of lower short-term rates.

While PAWC’s Main Brief addresses OCA’s arguments opposing ELG and supporting ALG,<sup>96</sup> the OCA’s Main Brief fails to recognize *any* Company evidence or arguments in support of ELG or the PUC’s very recent rejection of the OCA’s proposal to switch from ELG to ALG in the *Columbia Gas 2025* decision. It is striking that in the 20 pages dedicated to depreciation, the OCA’s Main Brief does not include a single citation to the direct, rebuttal, or rejoinder testimony of PAWC’s expert depreciation witness, John Spanos, or the *Columbia Gas 2025* PUC order. Instead, the OCA summarized and repeated the testimony of its own depreciation witness and highlighted caselaw and Public Utility Code provisions that the OCA believes should give the PUC comfort that it may mandate

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<sup>93</sup> *PAWC 2024*, pp. 43-44, 55-56, 116-117 (PAWC’s claims were accepted subject to some acquisition-related adjustments).

<sup>94</sup> *Columbia Gas 2025*, pp. 106-111.

<sup>95</sup> The ALG methodology is also sometimes referred to as the Average Service Life (or ASL) procedure.

<sup>96</sup> *See* PAWC Main Br., pp. 36-41.

a change in PAWC’s long-standing depreciation methodology. Neither the testimony of OCA witness Garrett nor the authority cited in OCA’s Main Brief warrant (or compel) a departure from the ELG procedure for the Company.

OCA claims that the ELG procedure is unreasonable and should be abandoned because it recovers “excess amounts” of depreciation expense from current customers and results in “intergenerational inequity.”<sup>97</sup> Mr. Spanos squarely addressed the fairness and equity concerns raised by Mr. Garrett by explaining 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 alleged benefit touted by OCA of lower short-term rates<sup>98</sup> is the result of the change in procedure, not from the ALG procedure itself. Importantly, and as confirmed recently by the PUC, ALG depreciation rates will ultimately result in *a higher rate base and higher overall cost to customers*. As explained by the PUC in *Columbia Gas 2025*:

Depreciation impacts customer rates in two ways. First, depreciation expense is a direct component of the revenue requirement; however, accumulated depreciation is also a reduction to rate base. Second, a higher level of accumulated depreciation results in a lower rate base, lower return on rate base, and therefore, lower customer rates when compared to a lower level of accumulated depreciation.

Upon review, we find that the alleged benefit of the ASL procedure proposed by the OCA’s witness, Mr. Garrett, of lower depreciation expense and a short-term reduction in rates

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<sup>97</sup> See, e.g., OCA Main Br., pp. 43-47.

<sup>98</sup> As explained in PAWC’s Main Br. (p. 40), 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. See also PAWC St. 11-R, pp. 22-26; PAWC Hearing Ex. 2, pp. 5-6.

for current customers, is not a result of the procedure itself, but is a result of the proposed change in procedure. As argued by the Company's witness, Mr. Spanos, over time, the depreciation rates generated by the ASL procedure will result in a higher rate base and a higher overall cost to customers in comparison to the continued use of the ELG procedure . . .

[a] switch to the ASL procedure would increase rate base in comparison to the continued use of the ELG procedure (by lowering accumulated depreciation), leading to higher rates in the long run. Therefore, adoption of the ASL procedure would serve as an intergenerational subsidy to current customers at the expense of other generations of customers.<sup>99</sup>

While the OCA conveniently ignores the PUC's recent rejection of the OCA's arguments in support of a switch to the ALG procedure, the cases and authority presented in the OCA's Main Brief also do not support a departure from the ELG procedure. First, OCA dedicates several pages of its Main Brief to argue that the PUC has the authority to adopt a change in depreciation method.<sup>100</sup> To be clear, PAWC has not disputed that the PUC has the authority to adopt properly supported changes to procedures used to determine depreciation expense and accrued depreciation. In this case, as detailed in PAWC's Main Brief and the expert testimony of Mr. Spanos, PAWC has supported the appropriateness of continuing its long-standing use of the ELG procedure and documented the long-term higher costs associated with the ALG procedure.

Next, OCA argues that the ELG procedure is inconsistent with the "matching principle" of ratemaking.<sup>101</sup> The OCA is wrong. As explained in PAWC's Main Brief<sup>102</sup>

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<sup>99</sup> *Columbia Gas 2025*, pp. 108-109.

<sup>100</sup> *See* OCA Main Br., pp. 37-42.

<sup>101</sup> *Id.*, pp. 42-43.

<sup>102</sup> *See* PAWC Main Br., pp. 38-39.

and demonstrated by Mr. Spanos in an illustrative example,<sup>103</sup> 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.

Finally, OCA cites the use of the ALG procedure by PPL Electric Utilities Corp. (“PPL”) and by other utilities outside of Pennsylvania in an attempt to bolster its arguments for a switch to ALG in this case.<sup>104</sup> As explained in PAWC’s Main Brief, PPL is seeking to preserve its long-standing depreciation methodology (ALG) in its pending rate proceeding instead of making a significant methodology switch as OCA is proposing in this proceeding.<sup>105</sup> Further, the utility commission orders 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>106</sup> As the PUC explained in the *Columbia Gas 2025* decision: “other jurisdictions’ differing use of the ALG procedure, as noted by the OCA, is not relevant since these jurisdictions use other depreciation parameters (e.g., whole-life vs. remaining-life, net salvage treatment).”<sup>107</sup>

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<sup>103</sup> PAWC St. 11-R, 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>104</sup> OCA Main Br., pp. 47-50.

<sup>105</sup> See PAWC Main Br., p. 40.

<sup>106</sup> PAWC St. 11-R, pp. 26-28; PAWC Hearing Ex. 2, pp. 4-5.

<sup>107</sup> *Columbia Gas 2025*, p. 110.

In sum, PAWC has supported the continued use of its long-standing ELG procedure while the OCA has failed to provide any reasonable basis – whether based on equity, accuracy or precedent – to compel a switch to the ALG procedure.

## **IX. RATE OF RETURN**

### **A. Summary**

There is no dispute in this proceeding that, under the decisions of the United States Supreme Court and this Commission, PAWC is entitled to earn a reasonable rate of return and that rate of return “must be 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>108</sup> Furthermore, in their Main Briefs, neither I&E nor the OCA dispute the market conditions discussed in detail in PAWC’s Main Brief and the testimony of PAWC witness Bulkley, including the likely continuation of high inflation and interest rates in the wake of the Iran conflict.<sup>109</sup>

Consistent with such market conditions and prior Commission decisions, PAWC witness Ann E. Bulkley, I&E witness D.C. Patel and OCA witness Garrett all used both the Discounted Cash Flow (“DCF”) and Capital Asset Pricing Model (“CAPM”) to determine a recommended cost of equity. But contrary to the claims of the opposing parties, PAWC’s proposed 10.95% ROE and capital structure are entirely reasonable. As

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<sup>108</sup> *Bluefield Waterworks and Imp. Co. v. P.S.C. of West Virginia*, 262 U.S. 679, 692 (1923) (“*Bluefield*”); *Fed. Power Comm’n v. Hope Nat. Gas Co.*, 320 U.S. 591, 603 (1944) (“*Hope*”); PAWC Main Br., pp. 41-42; *cf.* OCA Main Br., pp. 4-5; I&E Main Br., pp. 55-56.

<sup>109</sup> PAWC Main Br., pp. 44-45; PAWC St. 13-RJ, p. 2.

PAWC explained in its Main Brief, correction of the errors in the calculations of I&E's and OCA's recommended ROEs results in substantially different ROEs between 10.26% and 10.66%, respectively, prior to any consideration of superior management performance.<sup>110</sup> In the remainder of this section, the Company addresses the errors in the ROE recommendations of the other parties not already addressed in PAWC's Main Brief.<sup>111</sup>

## **B. Proxy Group**

PAWC witness Bulkley used a proxy group of four water utilities and six gas utilities that met specific screening criteria, including a standard exclusion of any utility involved in a merger transaction or similar transformative transaction.<sup>112</sup> As other public utility commissions have found, the use of a larger proxy group in water utility rate cases that includes other types of utilities is appropriate due to the increasingly small number of water utilities suitable for use in cost of equity analyses.<sup>113</sup>

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<sup>110</sup> See PAWC Main Br., pp. 43-52.

<sup>111</sup> Only I&E and OCA include substantive discussion of ROE issues in their Main Briefs. CAUSE-PA states that it supports OCA's position; OSBA, CCS, and Victory do not address ROE issues. CAUSE-PA Main Br., p. 21; OSBA Main Br., p. 23; Victory Main Br., p. 6.

<sup>112</sup> PAWC Main Br., pp. 46-47. In its Main Brief, I&E asserts that Ms. Bulkley included Essential Utilities, Inc. ("Essential") in her proxy group. I&E Main Br., p. 60. As Ms. Bulkley explained in her direct testimony, she included Essential in her direct testimony analysis as the proposed merger with American Water was announced after the date of the financial data used in that analysis. PAWC St. 13, p. 22 n.29. However, Ms. Bulkley updated her analysis in her rebuttal testimony and in her rejoinder testimony, Essential was not included in those analyses, and it was not a factor in her ultimate recommendations. PAWC Main Br., p. 47, PAWC St. 13-R, pp. 18-19; PAWC Ex. 13-RJ.

<sup>113</sup> PAWC St. 13-R, p. 24.

In PAWC’s last rate case, the Commission relied upon an I&E proxy group consisting of five water utilities. In light of the proposed merger of American Water and Essential, I&E now uses an even smaller proxy group of just four water utilities to support its recommendation.<sup>114</sup> OCA witness Garrett concedes there is an issue of proxy group sample size,<sup>115</sup> but his solution is to violate the standard screening criteria of excluding utilities involved in a merger transaction and include both American Water and Essential in his analyses on the ground that their inclusion does not change his modeling results and he “intuitively” believes (without any analysis) that the proposed merger will reduce PAWC’s risk.<sup>116</sup>

In their Main Briefs, both I&E and OCA argue that the Commission should continue to follow its decision in *PAWC 2024* that the proxy group should be restricted to water utilities, even as the size of the proxy group shrinks (and, as Ms. Bulkley demonstrated, increases in volatility).<sup>117</sup> In support of this argument, both continue to assert that gas companies are less comparable to water utilities such as PAWC for various reasons, including the fact that gas customers can shop more easily for alternative gas supply.<sup>118</sup>

Critically, neither I&E nor the OCA addressed the evidence that *investors* see similar risks in water and gas companies, which must be considered in assessing

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<sup>114</sup> I&E Main Br., p. 60.

<sup>115</sup> OCA St. 2-SR, p. 5.

<sup>116</sup> OCA Main Br., pp. 52-53.

<sup>117</sup> See I&E Main Br., pp. 58-62; OCA Main Br., pp. 52-53; PAWC St. 13-RJ, pp. 3-4 (discussing volatile DCF results for water-only proxy group).

<sup>118</sup> OCA Main Br., pp. 52-53; I&E Main Br., pp. 60-61.

“corresponding risks and uncertainties” under *Bluefield* and *Hope*.<sup>119</sup> As Ms. Bulkley explained, the betas of water and gas distribution companies – which measure the volatility of the prices of a stock as compared with the volatility of the market overall – are comparable, as are Value Line measures of financial strength and stock price stability (“Safety”) and stock price performance (“Timeliness”) shown in the following table of data for her proxy group reflected in both her direct testimony (through September 30, 2025) and rebuttal testimony (through January 31, 2026):

**Comparison of Risk Measures for Water and Natural Gas Utilities<sup>120</sup>**

	Direct Testimony		Rebuttal Testimony	
	Water	Natural Gas	Water	Natural Gas
Safety Ranking	2.00	1.83	2.25	1.83
Timeliness Ranking	3.60	3.80	3.50	3.80
Beta	0.80	0.75	0.78	0.76

Moreover, Ms. Bulkley expressly addressed the assertion of I&E witness Patel regarding the ability of gas customers to shop for gas supply in comparison and differences in risk for water utilities:

**Q. Do you agree with I&E Witness Patel that the fact that customers can shop for gas supply creates greater risk for natural gas utilities than water utilities?**

A. No. It is generally the case that natural gas distribution companies recover the cost of supply through purchased gas adjustment clauses that are intended to “pass through” the actual cost of supply without any incremental return. Therefore, the

<sup>119</sup> *Bluefield*, at 690; *Hope*, at 603; PAWC St. 13-R, p. 20 (discussing lack of response in testimony of I&E witness Patel).

<sup>120</sup> PAWC St. 13-R, pp. 24-25.

fact that the supply source of natural gas that will be distributed by the natural gas utility can be selected by customers is not relevant for the long-term earnings of the Company. The earnings generated by natural gas distribution companies are based on the ability to earn the authorized return on the rate base. Therefore, customer choice with respect to suppliers does not increase the risk of natural gas distribution companies.<sup>121</sup>

I&E's reliance on the Commission's decision in *Columbia Gas 2025* is similarly misplaced.<sup>122</sup> In that decision, the Commission considered the inclusion of electric companies and non-regulated companies in the determination of the rate of return for a gas company for which there was already a large proxy group of seven companies – not the inclusion of gas companies in a proxy group for determination of a rate of return for a water company and a situation where the proxy group would otherwise consist of only four companies.<sup>123</sup> In this case, Ms. Bulkley has not included any electric utilities or non-regulated companies in the proxy group.

Given the small size of I&E's proxy group, and the similar risks of water and gas companies as demonstrated in the unrebutted data presented by Ms. Bulkley, the Commission should join the growing number of public utility commissions that recognize the shrinking and increasingly volatile water-only proxy group and so are using combined utility proxy groups in determining the cost of equity for water and wastewater companies.

### **C. Capital Structure**

As PAWC explained in its Main Brief, the Commission has reinforced that “the use of an actual capital structure represents the Company's decision, in which it has full

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<sup>121</sup> *Id.*, pp. 23-24.

<sup>122</sup> See I&E Main Br., p. 61-62.

<sup>123</sup> *Columbia Gas 2025*, pp. 202-05.

discretion, on how to capitalize its rate base,” and hypothetical capital structures are not appropriate absent a finding that a utility’s capital structure is atypical.<sup>124</sup> PAWC witness Bulkley calculated the Company’s capital structure by using all debt issues and all sources of capital, and then determined the capital structure of both water and wastewater services by using wastewater-specific debt issuances and recalculating the ratios of the remaining capital stock. The resulting capital structures were 55.30% equity, 44.66% long-term debt, with 56.31% equity and 43.68% for water services and 51.52% equity and 41.49% debt for wastewater.<sup>125</sup>

OCA did not address the Company’s capital structure. I&E accepted PAWC’s proposed capital structure for wastewater operations but argued for a 55% equity/45% debt structure for water operations instead of the Company’s proposed 56.31% equity/43.68% debt structure.<sup>126</sup> In its Main Brief, I&E tries to avoid the Commission’s precedent of using utilities’ actual capital structures by arguing that 50% equity is “optimal” and the Commission should consider the different equity ratio of PAWC’s non-utility holding company, but provides no authority or precedent for its argument.<sup>127</sup> While I&E suggests that a capital structure that includes 50% equity is “optimal,” there is no record evidence that demonstrates that this is true. Nor does I&E explain why the capital structure of PAWC’s diversified non-utility holding company is relevant. Further, I&E’s reliance on a

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<sup>124</sup> PAWC Main Br., p. 52 & n.177 (citing *Columbia Gas 2025*).

<sup>125</sup> *Id.*, pp. 49-51.

<sup>126</sup> I&E Main Br., p. 62.

<sup>127</sup> *Id.*, pp. 62-63. I&E includes a table showing the effects of a 50% equity/50% debt capital structure, which is irrelevant in light of I&E’s own proposal.

five-year average of its proxy group underscored the limitations of such a proxy group, as it was based on only four companies, in contrast to Ms. Bulkley’s calculation derived from her larger proxy group of water and gas utilities that met her detailed screening criteria.<sup>128</sup> Consistent with its long-standing precedent, the Commission should accept PAWC’s proposed capital structure for its water operations.

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

I&E witness Patel accepted the Company’s cost of long-term debt, and no other party addressed the issue.<sup>129</sup>

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

In determining the cost of equity during periods of high inflation and interest rates, the Commission found in PAWC’s last rate proceeding that “PAWC correctly noted that more recently the Commission adopted use of both the DCF and CAPM models to determine ROEs” and “PAWC convincingly argued that the conditions that [led] the Commission to its determinations in *Aqua 2022* and *Columbia Water 2024*, i.e., higher inflation and associated higher interest rates and capital costs, still exist and are likely to continue.”<sup>130</sup> Furthermore, “the Commission has determined that the CAPM methodology more accurately captures forward-looking changes in inflation.”<sup>131</sup>

As discussed in Section IX.A, PAWC must continue to raise capital for the FPFTY in a period marked by high interest rates and high inflation, now compounded by the Iran

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<sup>128</sup> PAWC St. 13, pp. 21-22.

<sup>129</sup> PAWC Main Br., p. 52; I&E Main Br., pp. 64-65.

<sup>130</sup> *PAWC 2024*, p. 171.

<sup>131</sup> *Columbia Gas 2025*, pp. 225-26.

conflict. Given this financial landscape, PAWC witness Bulkley determined a DCF range of 10.05% to 11.70%, a CAPM range of 10.94% to 11.23%, and an Empirical CAPM range of 11.41% to 11.64% using market data through February 28, 2026. After taking into account the business, financial, and regulatory risks faced by PAWC, its superior management performance in a variety of areas, including its acquisition of and investment in small and troubled water and wastewater systems, Ms. Bulkley recommended an ROE of 10.95%.<sup>132</sup>

In its Main Brief, PAWC described the flaws in the ROE analyses of both I&E witness Patel and OCA witness Garrett, and the substantial evidence in support of Ms. Bulkley's calculations.<sup>133</sup> In this section, PAWC will address the errors in I&E's and the OCA's criticisms of Ms. Bulkley's analyses in their Main Briefs.

### **1. I&E's Position**

As discussed in PAWC's Main Brief, I&E witness Patel's DCF recommendation of 9.70% is generally flawed due to his four-utility proxy group, his incomplete and inconsistent review of capital market conditions, and his failure to properly consider PAWC's superior management performance.<sup>134</sup> His actual recommendation rests on a series of flawed DCF and CAPM calculations that are further undermined by the fact that Mr. Patel is once again changing his methodology for determining CAPM and his overall

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<sup>132</sup> PAWC St. 13, p. 6; *see generally* PAWC St. 13-RJ; Tr. 1843.

<sup>133</sup> *See* PAWC Main Br., pp. 52-56.

<sup>134</sup> *Id.*, pp. 48-49. 56-62 & 70-71.

recommendation for PAWC in a rate case without justification.<sup>135</sup> I&E’s criticisms of Ms. Bulkley’s calculations in its Main Brief are similarly without foundation.

***PAWC DCF Calculation.*** Although I&E states that it disagrees with PAWC’s DCF calculation, I&E does not actually present any criticism of Ms. Bulkley’s DCF calculation in its Main Brief. Presuming that I&E may offer some criticism in its Reply Brief and argue in favor of using Mr. Patel’s spot stock price and an average earnings-per-share (“EPS”) growth scenario in DCF calculations, the evidence discussed in PAWC’s Main Brief shows that the 30-day average stock price used by both Ms. Bulkley and Mr. Garrett in DCF calculations instead of a volatile stock price is proper.<sup>136</sup> Similarly, Mr. Patel’s counter-argument regarding his preference for using only an average EPS growth rate instead of the low, average and high growth rates provided by analysts because such consideration purportedly “inflates” DCF results was fully addressed by Ms. Bulkley in her rejoinder testimony, where she explained that the use of a range of growth rates more properly captures investor expectations.<sup>137</sup>

***PAWC CAPM Calculation.*** In its Main Brief, I&E relies only on Mr. Patel’s criticism that Ms. Bulkley’s CAPM calculation rests on her use of the yield on the 30-year Treasury note for the CAPM risk-free rate instead of the yield on the 10-year Treasury note, citing the Commission’s prior ruling in favor of the 10-year Treasury note.<sup>138</sup> As

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<sup>135</sup> PAWC Main Br., pp. 56-62.

<sup>136</sup> PAWC St. 13-R, pp. 25-29 and PAWC Main Br., pp. 59-60; *see also* PAWC St. 13-RJ, pp. 1-5 (discussing I&E witness Patel’s surrebuttal testimony regarding market conditions and proxy group).

<sup>137</sup> PAWC St. 13-RJ, pp. 5-6.

<sup>138</sup> I&E Main Br., p. 72.

reflected in her testimony, Ms. Bulkley was fully aware of the Commission’s decision, but believes the 30-year Treasury note remains more appropriate because it is a better match for the life of utility assets.<sup>139</sup> However, Ms. Bulkley notes that Mr. Patel’s reliance on the 10-year Treasury note is undermined by his own use of the 20-year Treasury note in his “second” CAPM analysis, which is nearly the same as the yield on the 30-year Treasury note.<sup>140</sup> Since the 20-year Treasury bond yield is only seven basis points different than the yield on the 30-year Treasury note relied upon by Ms. Bulkley, the tenor of the bond is less of an issue than has been the case in other proceedings. Further, as Ms. Bulkley noted, Morningstar (which was the prior author of the *Ibbotson* data now published by *Kroll*, another source relied upon by Mr. Patel),<sup>141</sup> supports the use of a Treasury security that matches the horizon of the investments, which are often 30 years in duration.

***PAWC ECAPM.*** I&E also disputes Ms. Bulkley’s use of the Empirical Capital Asset Pricing Model (“ECAPM”), suggesting the Commission agreed with the ALJ in that the ECAPM inaccurately defines the Security Market Line (“SML”).<sup>142</sup> Ms. Bulkley provided several academic studies that demonstrate that the CAPM tends to understate the return for stocks such as utilities that have betas less than 1.00.<sup>143</sup> Further, Ms. Bulkley provided evidence demonstrating that the ECAPM is a methodology that has been relied upon by other regulatory commissions including New York and the North Carolina

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<sup>139</sup> PAWC St. 13-R, p. 33.

<sup>140</sup> *Id.*, pp. 33-34.

<sup>141</sup> *Id.*, p. 37.

<sup>142</sup> I&E Main Br., p. 73 (*citing Pa. P.U.C. v. Columbia Water Co.*, R-2023-3040258 (Opinion and Order entered Jan. 18, 2024), p. 105).

<sup>143</sup> *Id.*, p. 76-78.

Utilities Commission which recently found that both adjusted betas in the CAPM and the adjustments in the ECAPM were necessary to correct for different things in the estimation of the cost of equity.<sup>144</sup>

***PAWC Flotation Costs.*** I&E also disputes Ms. Bulkley's explanation that any determination of PAWC's cost of equity should also consider flotation costs on the ground that these are costs of PAWC's parent company and there is indication that American Water will issue new stocks during the FPFTY.<sup>145</sup> However, as Ms. Bulkley explained, flotation costs permanently reduce the total common equity base and therefore investors can only earn their authorized cost of equity if flotation costs are addressed.<sup>146</sup> For this reason, various public utility commissions now approve recovery of such costs and it is appropriate the Commission do so as well.<sup>147</sup>

## **2. OCA's Position**

As with I&E, OCA's Main Brief offers several criticisms of PAWC witness Bulkley's ROE determinations, as well as I&E witness Patel's recommended ROE of 9.7% (which is higher than OCA's proposed 8.7%, well below recent ROEs authorized for PAWC and other water utilities). None of OCA's criticisms have merit.

***PAWC and I&E DCF Calculations.*** OCA witness Garrett calculated an "analyst growth" DCF result of 9.3% using projected dividend-per-share ("DPS") analyst growth rates and a "sustainable growth" DCF result of 6.8% based on forecasted nominal GDP

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<sup>144</sup> *Id.* at 79.

<sup>145</sup> I&E Main Br., p. 74.

<sup>146</sup> PAWC St. 13-R, pp. 82-83.

<sup>147</sup> *Id.*, p. 84.

growth.<sup>148</sup> While OCA correctly notes that growth rates are the primary difference between OCA witness Garrett's DCF calculation and Ms. Bulkley's DCF range of 10.05% to 11.70%, OCA entirely fails to acknowledge or address the flaws in Mr. Garrett's DCF calculations identified by both Ms. Bulkley and Mr. Patel. Mr. Garrett's recommended use of DPS growth rates instead of EPS growth rates is entirely inappropriate. As Ms. Bulkley explained, earnings are the fundamental determinant of a company's ability to pay dividends and are far more relevant to a firm's earnings growth, as reflected in the decisions of this Commission, and I&E witness Patel agreed.<sup>149</sup>

Mr. Garrett's use of a nominal GDP rate and his related assertion that the growth rates used by Ms. Bulkley and Mr. Patel are overstated reflect contradictions in his own analyses. Ms. Bulkley identified several reasons why there was no basis for Mr. Garrett's assertion, including the fact the average projected DPS growth rate for his proxy group was 6.20% – well above Mr. Garrett's assumed nominal growth rate of 3.7%.<sup>150</sup> Moreover, Mr. Garrett's assertion that utilities cannot exceed projected growth of the U.S. economy was both unreasonable and inconsistent with data presented by Ms. Bulkley.<sup>151</sup> As with Mr. Garrett's DPS argument, Mr. Patel made similar observations that confirm that the OCA's criticisms based on Mr. Garrett's modeling are simply wrong.<sup>152</sup>

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<sup>148</sup> OCA Main Br., p. 55.

<sup>149</sup> PAWC St. 13-R, pp. 46-50; I&E St. 2-SR, pp. 44-45.

<sup>150</sup> PAWC St. 13-R, pp. 56-57. Mr. Garrett's sustainable growth DCF result of 6.8% was indicative of the irrelevance of his calculations, as that value is below any authorized ROE for either a water or natural gas utility in a regulatory jurisdiction comparable to Pennsylvania in more than four decades. *Id.*, p. 56.

<sup>151</sup> *Id.*

<sup>152</sup> I&E St. 2-SR, pp. 43-44.

***PAWC's CAPM Calculation.*** OCA's criticism of Ms. Bulkley's CAPM calculation rests on two assertions, neither of which are valid. First, OCA's Main Brief appears to present an argument made by OCA witness Garrett that Value Line raw beta coefficients are "overstated" and need to be adjusted to reflect a utility industry average.<sup>153</sup> But as Ms. Bulkley explained, Mr. Garrett is wrong: no adjustment is required since the Value Line betas are already adjusted to reflect correlation with the broader market and interest rate risk in the utility sector.<sup>154</sup>

Second, OCA criticizes the equity risk premium ("ERP") used by Ms. Bulkley in her CAPM calculation, contending that it is improper because it is above the estimated ERP reported by Kroll, Dr. Damadoran, and an ERP calculated by OCA witness Garrett himself. But as PAWC already explained in its Main Brief, this criticism is misplaced; in particular, the survey results relied upon by Mr. Garrett have consistently failed to produce accurate market risk premium predictions, while Ms. Bulkley's market risk premium is reasonable (as reflected in an extensive survey by the Federal Reserve Bank of New York).<sup>155</sup>

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

As set forth in PAWC's Main Brief, the Commission considers management of performance of a utility under Section 523 of the Code and, where appropriate, may include an upward ROE adjustment for management effectiveness.<sup>156</sup> The Commission has also

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<sup>153</sup> OCA Main Br., p. 57.

<sup>154</sup> PAWC St. 13-R, pp. 59.

<sup>155</sup> *Id.*, pp. 69-72.

<sup>156</sup> 66 Pa.C.S. § 523.

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 awarded under [Section 523].”<sup>157</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>158</sup>

Both I&E and OCA oppose any consideration of PAWC’s superior management performance in determining the Company’s cost of equity. I&E argues that no such adjustment is proper for performing what PAWC is required to do under the Code, any savings the Company achieves through excellent performance are already realized by shareholders, and the Company can recover capital expenditures through its distribution system improvement charge (“DSIC”). I&E also asserts that any increased ROE for management performance is inconsistent with the results of PAWC’s recent management audit.<sup>159</sup> Similarly, OCA asserts that PAWC should not be rewarded for what is required under the Public Utility Code, and PAWC’s performance was not superior in light of customer complaints at public input hearings, customer service performance, and issues associated with PAWC’s service to low-income customers.<sup>160</sup> The OCA also contends that PAWC’s acquisition of and assistance to troubled water systems should not be recognized since PAWC is able to include systems acquired under Section 1329 in rate base.<sup>161</sup>

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<sup>157</sup> 52 Pa. Code § 69.711(a).

<sup>158</sup> *Id.*

<sup>159</sup> I&E Main Br., pp. 74-79.

<sup>160</sup> OCA Main Br., pp. 61-64.

<sup>161</sup> *Id.*, p. 65.

For the most part, PAWC already addressed the arguments of I&E and OCA in its Main Brief. The evidence in this proceeding established that PAWC provided exceptional service to its customers across many areas, including water quality and operational efficiency, and demonstrated exemplary performance in providing solutions to troubled water and wastewater systems in Pennsylvania while also creating cost savings for customers through PENNVEST grants and loans.<sup>162</sup> PAWC also fully rebutted OCA's claims regarding its service to low-income customers, providing detailed evidence regarding the Company's efforts to identify low-income customers, the procedures the Company undertakes before placing customers on deferred payment arrangements, and the additional steps the Company performs to assist customers facing termination.<sup>163</sup> As PAWC witness Matthew W. Prine testified, PAWC makes personal contact with any confirmed low-income customer facing termination of service for nonpayment and provides those customers with the opportunity to enroll in the BDP and the AMP as an alternative to disconnection.<sup>164</sup> The Company also addressed OCA witness Alexander's concerns regarding customer service as well as the complaints of customers at the public input hearings as summarized in the testimony of Mr. Runzer,<sup>165</sup> while OCA ignores the positive testimony of customers and stakeholders who testified about the Company's service and role in their communities. Indeed, the Company estimated that of the 239 participants testified at the 12 public input hearings in this matter, 138 participants provided

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<sup>162</sup> PAWC Main Br., pp. 65-71; PAWC St. 1, pp. 10-19.

<sup>163</sup> PAWC Main Br., pp. 103-106.

<sup>164</sup> PAWC St. 15-R, pp. 22-23.

<sup>165</sup> PAWC Main Br., pp. 113-118 & PAWC St. 3-R, pp. 25-47.

testimony supporting PAWC and its rate increase.<sup>166</sup> And I&E’s emphasis on the recent management audit is just as misplaced: as Dr. Chard explained, 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 most of the recommendations.<sup>167</sup>

The additional arguments I&E and OCA now offer should be given no weight. As noted above, the Commission clearly has the authority to recognize superior performance within the range of recommended ROEs and the Commission has specifically identified the acquisition of small, troubled water and wastewater systems of the type repeatedly undertaken by PAWC and the subsequent work to ensure these systems deliver safe and reasonable service as appropriate for enhanced equity incentives. Nor does the DSIC provide any recognition of superior service or even recovery of capital expenditures associated with such investments; in fact, the eligible property for DSIC recovery available to water and wastewater companies is actually less comprehensive than the eligible property for electric distribution companies (“EDCs”) or natural gas distribution companies (“NGDCs”) and does not apply to many of the investments PAWC has made in the small, troubled or less viable systems it has acquired.<sup>168</sup> Finally, OCA’s assertion that

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<sup>166</sup> PAWC St. 3-R, pp. 44-45.

<sup>167</sup> PAWC Main Br., pp. 70-71.

<sup>168</sup> Compare 66 Pa.C.S. § 1351 definition of “eligible property” for electric distribution companies (including transformers, substation equipment, poles and towers) and for water utilities (including mains and valves as replacements for existing facilities); see PAWC St. 1, p. 13 (describing capital improvements for East Dunkard Water Authority, including a new chlorine feed system and pumps).

PAWC is already granted a ratemaking base under Section 1329 for the systems it has acquired is not correct. Indeed, as PAWC President Justin Ladner explained, all four of the small systems acquired by PAWC since its last rate case (with less than 1,000 customer connection each) were not acquired under Section 1329.<sup>169</sup>

In sum, in light of PAWC's superior performance and in recognition of its exemplary work providing solutions to troubled water and wastewater systems in Pennsylvania, the Commission should approve a rate of return of 10.95%, consistent with the upper end of PAWC witness Bulkley's recommended range.

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

PAWC's rate design proposals were described fully in its Main Brief.<sup>170</sup> Additionally, PAWC discussed the opposing parties' recommendations and explained the Company's position on each. Accordingly, extensive additional discussion of these issues is not necessary. In Sections X.A. to X.D. below, PAWC identifies the issues that remain in dispute and addresses any new averments by the opposing parties, to the extent they are relevant.

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

In its Main Brief, PAWC provides an overview of the cost-of-service evidence presented during the course of this proceeding.<sup>171</sup> As noted therein, PAWC's cost of service studies ("COSSs") for its wastewater operations have not been contested. The

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<sup>169</sup> See OCA Main Br., p. 65; PAWC St. 1, p. 10.

<sup>170</sup> See PAWC Main Br., pp. 71-86.

<sup>171</sup> *Id.*, pp. 71-75.

OCA challenges the maximum day and maximum hour factors employed by Company witness Gregory R. Herbert of Gannett Fleming in the COSS for PAWC’s water operations (“Water COSS”), asserting that they are out of date.<sup>172</sup> None of the active parties in this case support the OCA’s revised demand factors and two parties (in addition to PAWC) – CCS and Victory – affirmatively oppose them.<sup>173</sup>

PAWC’s Main Brief addresses this issue at length.<sup>174</sup> As the Company explained, the alternative system-wide maximum day factor proposed by the OCA is flawed because 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 14-year look-back period the OCA arbitrarily selected. OCA witness Jerome D. Mierzwa also did not offer any valid reason to reject the maximum hour demand factor used in the Water COSS based on a detailed analysis of PAWC’s actual sendouts from water storage tanks conducted from 2013 to 2015. The PUC’s decision in The York Water Company’s (“York Water’s”) recent base rate case cited by the OCA at page 71 of its Main Brief does not support Mr. Mierzwa’s recommended hourly demand factor derived from the Company’s updated study of maximum hour sendouts that had data gaps in 2023. In the York Water case, the demand study that the Commission found unreliable was conducted in the 1970s.<sup>175</sup>

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<sup>172</sup> See OCA Main Br., pp. 65-71.

<sup>173</sup> See CCS Main Br., pp. 2-3; Victory Main Br., p. 8.

<sup>174</sup> See PAWC Main Br., pp. 72-75.

<sup>175</sup> See *Pa. P.U.C. v. The York Water Co.*, Docket No. R-2025-3053442 (Opinion and Order entered Feb. 19, 2026), p. 68.

The OCA's Main Brief also rehashes the position of its witness that PAWC should maintain separate COSSs for all systems acquired pursuant to Section 1329 included in PAWC's revenue requirement in this case.<sup>176</sup> However, as explained in PAWC's Main Brief,<sup>177</sup> the PUC should continue its approach of moving toward single tariff pricing for all PAWC systems, including those acquired under Section 1329, and evaluate the necessity of separate COSSs as part of future acquisition proceedings.

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

PAWC proposes to mitigate the impact of revenue increases on wastewater customers by recovering a portion of the Company's wastewater revenue requirement from its water customer base. When determining the level of Section 1311(c) allocation that is in the public interest, the Commission must consider how the proposed allocation will impact *all* customers.<sup>178</sup> As explained in PAWC's Main Brief, allocating approximately \$53 million of the wastewater revenue requirement is in the public interest and will have a minimal impact on water customers.<sup>179</sup>

## **C. Tariff Structure**

### **1. Customer Charges**

In its Main Brief, the OCA argues that PAWC's residential wastewater charges should remain at their current rates based on Mr. Mierzwa's direct cost analysis that excludes infiltration and inflow costs.<sup>180</sup> As explained in PAWC's Main Brief, the

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<sup>176</sup> See OCA Main Br., pp. 72-73.

<sup>177</sup> See PAWC Main Br., p. 76.

<sup>178</sup> See *PAWC 2021*, p. 82.

<sup>179</sup> See PAWC Main Br., pp. 76-77.

<sup>180</sup> See OCA Main Br., pp. 80-82.

Company's wastewater cost analysis properly reflects a portion of those costs that are driven primarily by precipitation.<sup>181</sup> CAUSE-PA witness Harry S. Geller also opposes any increase in PAWC's fixed monthly customer charge for residential water customers as undermining a household's ability to lower their bills by reducing usage but Mr. Geller did not offer a cost-of-service basis for his recommendation.<sup>182</sup> PAWC witness McClellan explained that volumetric charges appropriately signal usage and conservation incentives and that conservation alone cannot reasonably be expected to eliminate the fixed costs required to maintain continuous access to safe and reliable service.<sup>183</sup> For these reasons, PAWC's proposed residential customer charges supported by Mr. Herbert's direct cost analysis should be accepted.

## **2. Water Rate Design**

In its Main Brief, PAWC discussed the opposing parties' water rate design recommendations and explained the Company's position on each.<sup>184</sup> Accordingly, extensive additional discussion of these issues is not necessary.

## **3. Wastewater Rate Design**

In its Main Brief, PAWC discussed the opposing parties' wastewater rate design recommendations and explained the Company's position on each.<sup>185</sup> Accordingly, extensive additional discussion of these issues is not necessary.

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<sup>181</sup> PAWC Main Br., p. 78.

<sup>182</sup> See CAUSE-PA Main Br., pp. 24-25 (citing CAUSE-PA St. 1, pp. 15-16).

<sup>183</sup> PAWC St. 10-R, p. 24.

<sup>184</sup> See PAWC Main Br., pp. 79-80.

<sup>185</sup> *Id.*, pp. 80-83.

#### 4. Wastewater Deduct Adjustment

The Company's Main Brief addresses the arguments raised by the OCA and CAUSE-PA regarding the Company's wastewater deduct adjustment proposal.<sup>186</sup>

The OCA and CAUSE-PA assert that the deduct adjustment will harm low-income customers since higher-income customers may benefit from the mechanism more so than lower-income customers.<sup>187</sup> Even if higher-income customers benefit from the deduct adjustment, that does not mean low-income customers cannot or will not benefit from the deduct adjustment. Greater seasonal usage during the summer months is not strictly confined to higher-income households. For example, CAUSE-PA states that families with children coming back from college for summer break would unfairly benefit from winter averaging,<sup>188</sup> but a lower-income household with returning students or greater summer usage for any other reason will receive the same benefit as a higher-income household with greater summer usage.

The OCA also argues that the difference between the winter average period usage and the usage during the remaining months is immaterial.<sup>189</sup> However, Mr. McClellan provided usage modeling that shows that there are statistically significant levels of water consumption in the summertime that are specifically tied to changes in weather. Mr. Mierzwa points out that the average usage difference over the past two years is between 119 gallons to 165 gallons and reasons that the difference can be explained by "a few extra

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<sup>186</sup> *See id.*, p. 83.

<sup>187</sup> OCA Main Br., p. 87-88; CAUSE-PA Main Br., pp. 27-32.

<sup>188</sup> CAUSE-PA Main Br., pp. 30-31.

<sup>189</sup> OCA Main Br., p. 87.

showers”.<sup>190</sup> Mr. Mierzwa also states that an average shower uses 17.2 gallons of water, which shows that even on the lower end, the average difference constitutes more than just a few showers.<sup>191</sup> As such, the OCA’s assertion that changes in water usage during the summer are not significant enough to justify the adoption of a deduct adjustment are simply not true.<sup>192</sup> For all these reasons, the Commission should reject the objections to the deduct adjustment raised by the OCA and CAUSE-PA and adopt the Company’s proposal.

## **5. Demand-Based Contract Rates**

The OSBA does not address this issue at all in its Main Brief<sup>193</sup> and the recommendation of its witness Roger D. Cathcart regarding Rider – Demand Industrial Service and Rider – Demand Resale Service customers should be rejected for the reasons set forth in PAWC’s Main Brief.<sup>194</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. In its Main Brief (p. 86), the Company discusses its additional proposals as well as its

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<sup>190</sup> OCA St. 3, p. 41.

<sup>191</sup> OCA Main Br., p. 87.

<sup>192</sup> PAWC St. 10-R, p. 32.

<sup>193</sup> See OSBA Main Br., p. 45.

<sup>194</sup> See PAWC Main Br., pp. 84-86.

position on the opposing parties' scale-back recommendations and explained the Company's position on each. 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.

## **XI. ALTERNATIVE RATEMAKING REQUESTS**

The Company proposed an alternative ratemaking mechanism, the CAP Rider, which should be approved for the reasons set forth in the Company's Main Brief.<sup>195</sup>

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

The record in this proceeding demonstrates that the Company has experienced, and will likely continue to experience, significant volatility in CAP costs<sup>196</sup> due to dramatic fluctuations in enrollment driven by the implementation of a documentation-based income verification process for the Company's low-income programs.<sup>197</sup> As Dr. Chard explained, that new process resulted in a more than 50% decline in BDP enrollment—from approximately 30,000 customers to approximately 14,000 customers in the first quarter of 2025. Extensive customer outreach activity by PAWC to enroll income-eligible customers in the BDP and AMP increased enrollment by more than 50%, to approximately 21,500 customers, by September 2025.<sup>198</sup> As of March 1, 2026, BDP enrollment had increased to just under 25,000 customers.<sup>199</sup> These massive swings in enrollment will continue going

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<sup>195</sup> *See id.*, pp. 87-91.

<sup>196</sup> CAP costs include the Company's BDP discounts, AMP credits, RAPP stipends, and RAPP administrative costs. PAWC St. 2, p. 31.

<sup>197</sup> *See* PAWC Main Br., pp. 87-90.

<sup>198</sup> PAWC St. 2, pp. 32-33.

<sup>199</sup> Tr. 1812-13.

forward due to the Company's income recertification process for BDP and AMP customers,<sup>200</sup> which in turn will cause significant fluctuations in the Company's CAP costs. Furthermore, the Company's RAPP is a new program with uncertain participation and administrative costs and the Company is seeking cost recovery through the CAP Rider and not through base rates.<sup>201</sup>

The CAP Rider will ensure that the Company recovers its actual CAP costs – no more and no less. This a purely symmetrical mechanism that will refund to customers, annually, any overcollection by the Company due to drops in enrollment.<sup>202</sup> On the other hand, if the Company's enrollment efforts cause customers to enroll and/or recertify in PAWC's low-income programs at greater than expected levels – which the OCA, CAUSE-PA, and PAWC all agree would be a good outcome – the Company should not be penalized. As Dr. Chard testified, the Company's success in re-enrolling customers has already left the Company in a precarious position.<sup>203</sup> If the Company continues to grow its BDP enrollment at its 2.5% target growth rate, PAWC will experience a \$10 million shortfall in revenues in the two years after new rates are in effect.<sup>204</sup> If the Company is even more

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<sup>200</sup> See *Petition of Pa.-Am. Water Co. for Approval of an Arrearage Management Plan*; Docket No. P-2021-3028195 (Recommended Decision issued Oct. 13, 2022), p. 13. Zero-income customers will be recertified every six months, variable-income customers will be recertified every two years, and fixed-income customers will be recertified every three years.

<sup>201</sup> PAWC St. 2, p. 34.

<sup>202</sup> *Id.*, p. 31.

<sup>203</sup> The CAP costs built into rates were based on a BDP enrollment level of 19,966 customers as of June 2025. As noted above, enrollment levels had reached approximately 25,000 by March 1, 2026. PAWC St. 2-R, p. 13.

<sup>204</sup> Tr. 1816.

successful at BDP enrollment, consistent with the comments of the OCA and CAUSE-PA, that shortfall in revenues will be even greater.<sup>205</sup> It is in the public interest for PAWC to recover its prudently incurred CAP costs resulting from increases in low-income program enrollment and for customers to be credited for decreases in enrollment.

Despite these clear benefits, the OCA and CAUSE-PA both oppose the CAP Rider. The OCA speculates that use of the CAP Rider may lead to double recovery of costs embedded in rates.<sup>206</sup> CAUSE-PA argues the CAP Rider is “premature” since PAWC does not have all of the components of a universal service program (“USP”).<sup>207</sup> CAUSE-PA also argues that PAWC’s universal service costs should be allocated to all customer classes, and that it is unreasonable to recover such costs from only residential customers.<sup>208</sup>

The Commission should reject the OCA’s and CAUSE-PA’s arguments and approve the CAP Rider. As explained in the Company’s Main Brief, OCA witness Colton’s concerns regarding double recovery are unsupported.<sup>209</sup> Rather, the CAP Rider will prevent over-recovery if low-income program enrollment decreases, which is a very real possibility for the reasons stated above.

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<sup>205</sup> In *Columbia Gas 2025*, the Commission permitted the recovery of approximately \$220,000 of low-income related labor expense through base rates when the Commission denied recovery of such expense through Columbia’s Universal Services Fund (“USF”) rider. See *Columbia Gas 2025*, pp. 167-68. The Company did not include the \$10 million shortfall discussed by Dr. Chard in base rates given the unpredictable nature of the Company’s CAP costs, and to prevent the type of over-recovery that would result from collecting CAP costs when enrollment is lower than forecasted, which further supports approval of the CAP Rider.

<sup>206</sup> OCA Main Br., pp. 89-91.

<sup>207</sup> CAUSE-PA Main Br., pp. 33-39.

<sup>208</sup> *Id.*, pp. 40-42.

<sup>209</sup> See PAWC Main Br., p. 90.

Mr. Colton’s assumption that participation in the Company’s low-income programs will increase is incorrect – the record plainly demonstrates that in just the past year, participation has both dramatically increased and decreased resulting in entirely unpredictable CAP costs.<sup>210</sup> Furthermore, the CAP Rider is designed to work in tandem with the Company’s base rates so that H2O Program costs are recovered or credited to customers, consistent with PAWC’s actual costs, ensuring the CAP Rider reflects the Company’s actual total cost of service.<sup>211</sup>

Further, CAUSE-PA witness Harry Geller’s conclusion that it is “premature” to approve the CAP Rider is entirely based on his incorrect characterization of the Company’s low-income programs as “nascent” and his position that the CAP Rider cannot be approved if the Company does not meet every element of a USP required under the Code for an EDC or NGDC.<sup>212</sup> Mr. Geller also completely ignores the dramatic changes in the Company’s CAP costs over the past year and clear benefit to customers of being refunded any overcollection by the Company resulting from unforeseen drops in enrollment.

As explained by Dr. Chard, the Company’s BDP and AMP are fully implemented and have been accompanied by increased outreach to low-income customers.<sup>213</sup> It is also clear the Company’s documentation-based income verification and reverification requirements will result in unpredictable swings in enrollment efforts.<sup>214</sup>

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<sup>210</sup> PAWC St. 2, p. 32; PAWC St. 2-R, p. 15.

<sup>211</sup> PAWC St. 2-R, p. 15; Tr. 1813.

<sup>212</sup> See CAUSE-PA Main Br., pp. 33-39.

<sup>213</sup> PAWC St. 2-R, p. 15.

<sup>214</sup> Tr. 1856.

Mr. Geller's arguments that the CAP Rider should be denied since the Company's low-income programs are not identical to those of EDCs and NGDCs should also be rejected. The Commission has already decided that there is no statutory or regulatory basis to impose EDC and NGDC USP requirements on PAWC.<sup>215</sup> The Commission also rejected arguments that PAWC should be required to implement a LIURP.<sup>216</sup> The need for the CAP Rider and its symmetrical benefits to customers are clear. It should not be denied because the Company is not subject to EDC and NGDC statutory requirements or regulations.

CAUSE-PA also argues that the Commission's CAP Policy Statement should be considered in reviewing the CAP Rider, and that the policy statement is "more directly applicable" in evaluating the Company's CAP Rider than the Commission's alternative ratemaking factors, which CAUSE-PA chose to ignore.<sup>217</sup> But even under that standard, it is plainly evident that the CAP Rider is necessary to align the Company's revenues and expenses given the unpredictable nature of the Company's CAP costs.<sup>218</sup>

Finally, the Commission should reject CAUSE-PA's argument that PAWC's universal service costs should be allocated to all customers.<sup>219</sup> The Commission previously determined that the Company's AMP and the administrative costs of its H2O Programs were appropriately assigned to the residential class.<sup>220</sup> While the Commission's CAP

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<sup>215</sup> *PAWC 2024*, p. 362-63.

<sup>216</sup> *Id.*, p. 346.

<sup>217</sup> See CAUSE-PA Main Br., p. 38. Schedule CEC-3 included 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>218</sup> See 52 Pa. Code § 69.266.

<sup>219</sup> CAUSE-PA Main Br., pp. 40-42.

<sup>220</sup> *PAWC 2024*, p. 224.

Policy Statement and Order did indicate it is appropriate to consider the recovery of CAP costs from other residential classes,<sup>221</sup> the Commission has also found that continuing to assign such costs to residential customers is appropriate, especially where a party advocating for a change has failed to propose a specific cost allocation or rate design method.<sup>222</sup> CAUSE-PA has not advanced a specific cost allocation proposal or methodology to support a departure from the Company's existing allocation methodology. Therefore, consistent with cost causation principles, the Commission should find that the Company's proposal to recover CAP costs from residential customers remains appropriate.

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

### **A. Summary**

As detailed in the Company's Main Brief, PAWC offers a suite of programs for low-income customers to provide both short-term assistance (Hardship Fund) and longer-term affordability benefits (BDP and AMP).<sup>223</sup> PAWC has demonstrated the affordability benefits available under the BDP as part of the Company's affordability analysis and has also proposed an innovative RAPP to test a new way to assist low-income households. The Company agrees with the OCA and CAUSE-PA that connecting customers with assistance programs is important and therefore utilizes a multi-faceted outreach strategy (e.g., door-

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<sup>221</sup> See *2019 Amendments to Policy Statement on Customer Assistance Program*, 52 Pa. Code § 69.261–69.267, Docket No. M-2019-3012599 (Order entered Nov. 5, 2019), pp. 91-94. See also 52 Pa. Code § 69.266(b).

<sup>222</sup> See, e.g., *Pa. P.U.C. v. PECO Energy Co. – Gas Div.*, Docket No. R-2020-3018929 (Order entered June 17, 2021), pp. 243-57; *Pa. P.U.C. v. Columbia Gas Co. of Pa.*, Docket No. R-2020-3018835 (Order entered Feb. 19, 2021), pp. 232-51; *PAWC 2024*, pp. 219-25.

<sup>223</sup> See PAWC Main Br., pp. 92-112.

to-door canvassing, texting, and media campaigns) as well as policies and procedures with appropriate low-income program touchpoints (e.g., when a customer is seeking payment assistance and/or is facing service termination). Many of the critiques and proposals advanced by the OCA and CAUSE-PA fail to acknowledge the Company's existing practices and the robust record evidence supporting PAWC's actions and positions. The Commission should find that the Company's affordability analysis and proposed low-income customer assistance programs are reasonable and well-supported.

### **B. Affordability Analysis**

In the affordability section of their Main Briefs, OCA<sup>224</sup> and CAUSE-PA<sup>225</sup> continue to express concerns about bill affordability for residential customers, arguing the Company's programs, program enrollment and affordability analysis are all inadequate. The OSBA also raises affordability concerns for small business customers in its Main Brief but fails to put forth even a single record cite to support its positions.<sup>226</sup>

For the reasons explained in the Company's Main Brief,<sup>227</sup> PAWC has demonstrated that its multifaceted affordability analyses provide an appropriate and comprehensive framework for evaluating the scope and depth of affordability issues, including the potential mitigating effect of its assistance programs. Although CAUSE-PA claims that PAWC relied "heavily" on median household income ("MHI") when considering affordability, the Company has explained on multiple occasions that its Community Level

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<sup>224</sup> See OCA Main Br., pp. 93-103.

<sup>225</sup> See CAUSE-PA Main Br., pp. 45-57.

<sup>226</sup> See OSBA Main Br., pp. 47-49.

<sup>227</sup> See PAWC Main Br., pp. 92-95.

Analysis, which is focused on lower-income customers, did not rely on MHI.<sup>228</sup> Many of the other criticisms advanced by the OCA and CAUSE-PA were either grounded in usage information that was not tailored to PAWC customers (e.g., OCA's citation to national end-use studies) or reflected a small customer subgroup thereby precluding assessment of affordability at a standardized usage level (e.g., CAUSE-PA's reliance on confirmed low-income customer usage).<sup>229</sup> The Company further notes that in its Main Brief and this Reply Brief, PAWC addresses individual program concerns as well as customer screening and enrollment proposals in the separate designated sections for those issues.

### **C. Bill Discount Program Design**

As described in the Company's Main Brief,<sup>230</sup> 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. As PAWC witness McClellan explains, 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>231</sup> The Company did not propose any changes to its wastewater discount structure.<sup>232</sup>

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<sup>228</sup> CAUSE-PA Main Br., p. 54; PAWC Main Br., p. 95; PAWC St. 9-R, pp. 7-8.

<sup>229</sup> PAWC Main Br., pp. 94-95.

<sup>230</sup> *Id.*, pp. 96-99.

<sup>231</sup> PAWC St. 10, p. 5; PAWC St. 10-R, p. 3.

<sup>232</sup> PAWC St. 10, p. 5.

The OCA supports PAWC’s proposal, finding that it is reasonable and should be approved.<sup>233</sup> Notably, OCA witness Colton agrees with the Company’s proposal to align fixed and volumetric discounts into a whole-bill discount,<sup>234</sup> and supports the Company’s proposed four-tier discount structure and the specific discount levels proposed by the Company, finding that they fall within a reasonable definition of affordability.<sup>235</sup>

CAUSE-PA, however, recommends the Commission require PAWC to transition from its tiered BDP to a percentage of income payment (“PIP”) structure, and if PAWC cannot implement a PIP structure due to system constraints, asserts the Commission should require PAWC to adopt alternative discount levels proposed by CAUSE-PA witness Geller.<sup>236</sup>

These arguments were squarely addressed in the Company’s Main Brief<sup>237</sup> and should be rejected. First, PAWC has system constraints that impact the feasibility of implementing a PIP structure.<sup>238</sup> However, even if implementing a PIP structure was feasible, it is not necessary since, similar to a PIP structure, the Company’s BDP offers four tiers of discounts with greater discounts for lower-income customers.<sup>239</sup> As noted above, the OCA agrees that the Company’s proposed discount tiers and amounts are appropriate and result in affordable rates.

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<sup>233</sup> OCA Main Br., p. 107.

<sup>234</sup> OCA St. 4, pp. 87-89.

<sup>235</sup> *Id.*, pp. 90-91.

<sup>236</sup> CAUSE-PA Main Br., pp. 61-63

<sup>237</sup> *See* PAWC Main Br., pp. 98-99.

<sup>238</sup> PAWC St. 2-R, pp. 5-6.

<sup>239</sup> *Id.*, p. 5.

Second, Mr. Geller's proposed discount tiers would produce inequitable outcomes. Mr. Geller proposes a 100% service charge discount for all water and wastewater customers.<sup>240</sup> As PAWC witness McClellan explains, this would result in certain BDP participants whose wastewater bills consist of solely a fixed charge and no volumetric component having their entire bill offset by the proposed discounts.<sup>241</sup> PAWC believes this is unreasonable since all customers, including BDP participants, should contribute at least some amount towards fixed charges, and Mr. Geller's proposal would result in fully offsetting charges for certain wastewater BDP participants.<sup>242</sup>

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

The OCA's and CAUSE-PA's proposed modifications to the Company's AMP should be rejected for the reasons set forth in the Company's Main Brief.<sup>243</sup> The OCA recommends modifying the AMP to allow customers to earn a monthly arrearage forgiveness credit for each complete payment, rather than for each timely complete payment, expanding the monthly credit, and more closely tying its AMP and BDP enrollment practices.<sup>244</sup> CAUSE-PA 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, eliminating the current \$5 co-pay, eliminating the requirement that payments be timely in order to receive a payment credit, and either transitioning to a percentage of

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<sup>240</sup> CAUSE-PA St. 1, p. 40.

<sup>241</sup> PAWC St. 10-R, pp. 6-7.

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

<sup>243</sup> *See* PAWC Main Br., pp. 99-103.

<sup>244</sup> OCA Main Br., pp. 107-11.

forgiveness structure to achieve forgiveness over 24 months or, if PAWC cannot implement this, increasing the forgiveness credit.<sup>245</sup> CAUSE-PA further recommends that PAWC automatically enroll all BDP participants with qualifying arrears who are not currently enrolled in the AMP within 90 days of the effective date of rates without any further affirmative action on the part of the customer, and that PAWC be required to confer with its Customer Assistance Advisory Group (“CAAG”) on outreach to these customers.<sup>246</sup>

OCA’s and CAUSE-PA’s criticisms of the AMP disregard the extent to which the program is already integrated into the BDP and the Company’s other low-income programs. As explained by Dr. Chard, when a customer applies for the BDP, they are able to apply for the AMP at the same time.<sup>247</sup> 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 income verification.<sup>248</sup> Therefore, CAUSE-PA’s recommendations for automatic enrollment and a requirement to work with its CAAG on further outreach are unnecessary. The required \$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>249</sup> In addition, the OCA’s and CAUSE-

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<sup>245</sup> CAUSE-PA Main Br., pp. 63-73.

<sup>246</sup> *Id.*, pp. 66-67.

<sup>247</sup> PAWC St. 2-R, p. 6.

<sup>248</sup> *Id.*, pp. 6, 9-10.

<sup>249</sup> PAWC St. 2-R, pp. 9-10. *See also* *Petition of Pa.-Am. Water Co. for Approval of an Arrearage Management Plan*, Docket No. P-2021-3028195 (Order entered Dec. 7, 2023).

PA's recommendation to provide forgiveness credits for untimely payments undermine the program's intent to incentivize timely payment, which is essential to promoting long-term payment discipline and reducing future arrearages.<sup>250</sup> Furthermore, the OCA's and CAUSE-PA's critiques of AMP enrollment levels are misplaced. The AMP was launched in late 2024 and while enrollment has not yet reached parity with the more established BDP, the Company has a framework in place to increase enrollment with the BPD and its other low-income programs.<sup>251</sup> Thus, the Commission should reject the proposed adjustments to the Company's AMP.

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

In their Main Briefs, OCA<sup>252</sup> and CAUSE-PA<sup>253</sup> continue to recommend changes to PAWC's existing policies and procedures for identifying low-income customers and connecting such customers with the H2O Program. CAUSE-PA notes that the PUC recently approved its recommended screening mechanisms in the *Columbia Gas 2025* proceeding<sup>254</sup> while OCA failed to acknowledge, let alone respond to, *any* of the information presented by PAWC witness Prine in rebuttal about the Company's existing policies and procedures.<sup>255</sup>

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<sup>250</sup> PAWC St. 2-R, p. 7.

<sup>251</sup> *Id.*, pp. 8-10.

<sup>252</sup> While OCA's Main Brief (p. 111) states that it "did not address" the screening, outreach and enrollment topic, the OCA's recommendations are discussed in an earlier section related to BDP design. *See* OCA Main Br., pp. 103-06.

<sup>253</sup> *See* CAUSE-PA Main Br., pp. 73-81.

<sup>254</sup> *Id.*, p. 77 (citing *Columbia Gas 2025*).

<sup>255</sup> *See* OCA Main Br., pp. 103-06, where the only record cites provided are to OCA's direct testimony.

As explained in PAWC’s Main Brief,<sup>256</sup> the Company’s existing policies, procedures, customer touchpoints and customer-facing materials are adequate, appropriate and already address many of the concerns raised by CAUSE-PA and OCA (e.g., PAWC already accepts proof of receipt of benefits to confirm low-income status and already offers assistance programs before a customer enters into a deferred payment arrangement). PAWC also believes the Company’s position is distinguishable from Columbia Gas because, unlike Columbia Gas, PAWC does not have a universal service rider in place to address incremental costs that would be associated with a spike in BDP/AMP enrollment driven by broader screening procedures. If the Commission approves CAUSE-PA’s recommended income-screening requirements for PAWC, the Company’s proposed CAP Rider should likewise be approved.<sup>257</sup>

#### **F. Water Conservation and Line Repair and Replacement Assistance**

In its Main Brief, CAUSE-PA continues to recommend that PAWC develop and implement a comprehensive conservation and line repair/replacement program for all customers at or below 250% of FPL that would include targeting high-usage customers, annual reporting and coordination with other utility programs.<sup>258</sup>

For the reasons described in its Main Brief,<sup>259</sup> the low-income usage reduction program (“LIURP”) construct was established for energy utilities and the Commission’s

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<sup>256</sup> See PAWC Main Br., pp. 103-07.

<sup>257</sup> PAWC Main Br., p. 107.

<sup>258</sup> See CAUSE-PA Main Br., pp. 81-88.

<sup>259</sup> See PAWC Main Br., pp. 107-08.

LIURP regulations only apply to EDCs and NGDCs.<sup>260</sup> EDCs and NGDCs receive full and timely cost recovery for their LIURP costs through their USP riders.<sup>261</sup> Notably, CAUSE-PA does not rebut the fact that such programs are not mandated for water and wastewater utilities and further admits that all of the water/wastewater programs that they cite as examples were implemented voluntarily or through settlements.<sup>262</sup> If the PUC believes this type of program should be extended to water and wastewater customers, the PUC should provide a legal basis and a full and timely cost recovery methodology (such as the Company's proposed CAP Rider) similar to the framework available for energy utilities.

### **G. Hardship Fund**

In its Main Brief, CAUSE-PA continues to recommend that PAWC increase its maximum Hardship Fund grant amount from \$500 per service to \$750 per service.<sup>263</sup> While CAUSE-PA acknowledges that no other utility has a maximum grant of \$1,500, it points to average arrearage levels for confirmed low-income customers and BDP participants that were sometimes in excess of \$500.<sup>264</sup>

CAUSE-PA fails to address, or even acknowledge, the testimony of Dr. Chard demonstrating that the current annual cap of \$500 grants for water and wastewater, totaling \$1,000, achieves the Hardship Fund's intended purpose of providing emergency, short-

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<sup>260</sup> *Id.*

<sup>261</sup> *Id.*

<sup>262</sup> CAUSE-PA Main Br., pp. 86-88.

<sup>263</sup> *Id.*, pp. 91-93.

<sup>264</sup> *Id.*, pp. 90-93.

term assistance to customers in need. As explained in the Company’s Main Brief, over the last five completed funding cycles, the highest average grant amount per service was \$403.29 – in 2023 to 2024 – which is almost \$100 below the \$500 per-service annual cap.<sup>265</sup> For this reason, and the reasons further detailed in PAWC’s Main Brief, the Company’s existing Hardship Fund annual cap is reasonable, and CAUSE-PA’s proposal should be rejected.

#### **H. Renter Assistance Pilot Program**

In their Main Briefs, CAUSE-PA continues to oppose the Company’s proposed RAPP<sup>266</sup> and OCA continues to recommend the RAPP be re-submitted to the PUC after further development with PAWC’s CAAG.<sup>267</sup> OCA further contends that PAWC has made irreconcilable statements about the purpose of the RAPP<sup>268</sup> while CAUSE-PA argues that PAWC has not provided a “rational basis” for the geographic focus of the RAPP.<sup>269</sup>

For the reasons detailed in PAWC’s Main Brief,<sup>270</sup> the Commission should authorize the implementation of RAPP in this proceeding as an innovative way to address utility affordability for eligible low-income households. PAWC has been clear that the RAPP is designed to benefit low-income households by providing payments *directly* to the low-income participants. Finally, as a proposed pilot with a limited budget, PAWC explained that it selected Scranton and Butler because: (1) they are locations with high

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<sup>265</sup> PAWC Main Br., pp. 109-110.

<sup>266</sup> See CAUSE-PA Main Br., pp. 93-98.

<sup>267</sup> See OCA Main Br., pp. 111-12.

<sup>268</sup> OCA Main Br., p. 112

<sup>269</sup> CAUSE-PA Main Br., p. 96.

<sup>270</sup> See PAWC Main Br., pp. 110-11.

renter populations; and (2) they are located within different regions of PAWC's service territory.<sup>271</sup>

### **I. Universal Service Plan**

CAUSE-PA's recommendation that the Commission require PAWC to develop a comprehensive USP, including a consumer education and outreach plan,<sup>272</sup> is inconsistent with Pennsylvania law and Commission precedent and should be denied. The Commission determined in *PAWC 2024* that, while USPs are required for EDCs and NGDCs, there is no similar statutory or regulatory authority that requires water companies to file such a universal service plan, and the Commission declined to impose such an obligation on PAWC.<sup>273</sup> The Commission should reach the same conclusion here. CAUSE-PA has not identified any basis to depart from that precedent and acknowledges that USPs are required for EDCs and NGDCs only.<sup>274</sup>

In addition, a formal USP is not necessary as PAWC already maintains a comprehensive suite of customer assistance programs, including the BDP, AMP, hardship grants, and extensive outreach efforts, that function as an integrated customer assistance and affordability program. Details regarding the Company's low-income programs are readily available to customers, the Commission, and all other interested parties in PAWC's tariff, on its website, through the quarterly CAAG meetings, and in various outreach

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<sup>271</sup> PAWC Main Br, p. 110; PAWC St. 2, pp. 16-18.

<sup>272</sup> See CAUSE-PA Main Br., pp. 98-101.

<sup>273</sup> *PAWC 2024*, pp. 362-63.

<sup>274</sup> CAUSE-PA St. 1, p. 54; CAUSE-PA St. 1-SR, p. 25.

materials, and the Company will continue to provide detailed information related to its low-income programs as part of base rate proceedings.<sup>275</sup>

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

#### **A. Summary**

In its Main Brief, the OCA continues to mischaracterize PAWC's customer service performance and re-hash arguments that were unsuccessful in the Company's last base rate proceeding.<sup>276</sup> As described in the following sections, the OCA has largely failed to acknowledge or rebut PAWC's robust evidence regarding service quality and the handling of customer service issues.

The OSBA's Main Brief presents issues and arguments that were not addressed on the record by its witnesses.<sup>277</sup> Specifically, the OSBA now claims that customer service for "small business" customers is inadequate and urges the Commission to condition any "small business" rate increase on undefined "service benchmarks" for call center performance and complaint resolution. In addition, in Section XIII.C (Billing Arrangement with American Water Resources) of its Main Brief, the OSBA raises several issues with how the Company processes payment arrangements with "small business" customers and proposes several requirements, including new disclosures on the customer bill and mandatory training for customer care agents about the availability of payment

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<sup>275</sup> PAWC St. 2-R, p. 16.

<sup>276</sup> See OCA Main Br., pp. 113-24.

<sup>277</sup> See OSBA Main Br., pp. 7, 50-53, 55.

arrangements. None of these issues were mentioned in the direct, rebuttal, or surrebuttal testimony of the OSBA's witnesses.

Section 504 of the Administrative Agency Law<sup>278</sup> provides that an agency's adjudication is not valid unless based on a record created after the parties have been given reasonable notice and the opportunity to be heard.<sup>279</sup> As a Commonwealth agency, the Commission must comply with the Administrative Agency Law, and Pennsylvania appellate courts have reversed PUC orders that were based, even in part, on facts outside the administrative record.<sup>280</sup> Administrative Law Judges have rejected efforts, like that of the OSBA in this case, to introduce new "evidence" in parties' briefs.<sup>281</sup> Accordingly, the positions and arguments advanced by the OSBA at pages 50 to 54 of its Main Brief should be disregarded.

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<sup>278</sup> 2 Pa.C.S. § 504.

<sup>279</sup> *Kovalchik v. Pa. State Police*, 613 A.2d 150, 153 (Pa. Commw. Ct. 1992). The dictates of Section 504 of the Administrative Agency Law are reflected in the Commission's own regulations, which provide: "After the record is closed, additional matter may not be relied upon or accepted into the record unless allowed for good cause shown by the presiding officer or the Commission upon motion." 52 Pa. Code § 5.431(b).

<sup>280</sup> See, e.g., *Equitable Gas Co. v. Pa. P.U.C.*, 405 A.2d 1055, 1059 (Pa. Commw. Ct. 1979) (finding that the PUC erred as a matter of law by determine the value of a utility's securities from evidence outside the record); *United Natural Gas Co. v. Pa. P.U.C.*, 33 A.2d 752, 758 (Pa. Super. Ct. 1943) ("None of these figures appear in the record . . . . No opportunity was afforded appellant to dispute or discuss them or show their inapplicability to the question.")

<sup>281</sup> See, e.g., *Myers v. PPL Elec. Utilities Corp.*, Docket No. C-2017-2620710, 2019 WL 4247028 at \*29-\*31 (Opinion and Order entered Aug. 29, 2019) (disregarding portions of brief introducing documents about cell phone radiation that were not part of the record evidence); *Third Ave. Realty Ltd. Partners v. Pa.-Am. Water Co.*, Docket No. C-2008-2072920, 2010 Pa. PUC LEXIS 1615, at \*14 (Initial Decision issued Oct. 4, 2010) ("I will strike off those portions of the Complainant's reply brief that improperly attempt to introduce new evidence or raise arguments contrary to evidence presented by its witness.").

## **B. Customer Service Performance**

The OCA's discussion of PAWC's customer service performance consists of a summary and repetition of the testimony of its witness, Ms. Alexander, who took issue with Customer Service Organization ("CSO") performance principally because she believes PAWC customers calling the Company are waiting too long to speak to an agent.<sup>282</sup> Based on her opinion about call handling, Ms. Alexander offers several recommendations that she urges the PUC to adopt as a condition to the rate increase granted in this case.<sup>283</sup> Those conditions include performance standards (80% of PAWC customer calls to be answered within 60 seconds and a 8% call abandonment rate), a root cause analysis of all customer complaint data, and additional auditing of CSO call handling.<sup>284</sup>

The flaws in Ms. Alexander's evaluation of PAWC's customer service performance were identified by Company witness Prine in his rebuttal testimony and were further explored by PAWC in its Main Brief.<sup>285</sup> Unfortunately, the OCA largely ignores and does not rebut those deficiencies in its Main Brief.

As discussed in PAWC's Main Brief,<sup>286</sup> the key error in the OCA's evaluation of PAWC's customer service is Ms. Alexander's exclusive reliance on and misapplication of two call handling metrics. The OCA ignores all other drivers of overall customer satisfaction, including first contact resolution. The OCA observes that in 2024 and 2025

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<sup>282</sup> See OCA Main Br., pp. 116-19.

<sup>283</sup> *Id.*, pp. 113-14; see also OCA St. 5, pp. 10-11, 16-17, 25-26.

<sup>284</sup> OCA Main Br., pp. 113-14.

<sup>285</sup> See PAWC Main Br., pp. 113-18.

<sup>286</sup> See *id.*, pp. 114-15.

two collections agencies that handle a small portion of the CSO's overall call volume did not meet PAWC's performance objectives of answering 80% of calls within 60 seconds and maintaining a call abandonment rate of 8% or less.<sup>287</sup> What the OCA conveniently neglects to mention is that, in 2025, overall CSO service levels, including calls handled by third-party contractors, met or exceeded the performance goals recommended by Ms. Alexander.<sup>288</sup>

The OCA relies on the Commission's decisions in *Pennsylvania Public Utility Commission vs. Pennsylvania Gas and Water Company*, 1986 Pa. PUC LEXIS 113 (Apr. 25, 1986) ("*PG&W 1986*") and *Pennsylvania Public Utility Commission v. Philadelphia Gas Works*, 2000 Pa. PUC LEXIS 876 (Nov. 22, 2000) ("*PGW 2000*").<sup>289</sup> The OCA does not discuss the facts of those cases at all, but appears to claim that the PUC's holdings support Ms. Alexander's proposed conditions to address alleged service inadequacy. Even a cursory examination of those cases shows otherwise. *PG&W 1986* involved clearly inadequate service where the water provided to customers was black, contained worms, and was unfit to drink.<sup>290</sup> Similarly, in *PGW 2000*, the Commission found that a gas utility on the brink of financial ruin was not providing safe and reasonable service because, among other things, the main replacement rate was only 0.5% or nine miles per year and its customer billing system was not functioning.<sup>291</sup> Obviously, call wait times that are longer

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<sup>287</sup> OCA Main Br., pp. 117-18.

<sup>288</sup> See PAWC St. 15-R, pp. 11-13.

<sup>289</sup> See OCA Main Br., p. 117 n.499.

<sup>290</sup> See *PG&W 1986*, 1986 Pa. PUC LEXIS 113, at \*11-\*19.

<sup>291</sup> See *PGW 2000*, 2000 Pa. PUC LEXIS 876 at \*34-\*44.

than Ms. Alexander would like do not resemble the serious water quality and service problems presented in those cases. To the contrary, as the record in this case confirms, PAWC provides adequate, efficient, safe, and reasonable service in accordance with Section 1501 of the Code.

The OCA is the only party that takes issue with the Company's process for responding to complaints. PAWC's Main Brief explains why the root-cause analysis proposed by Ms. Alexander is unwarranted in light of the Company's robust complaint analysis process.<sup>292</sup> Further, while OCA noted some service quality concerns and issues raised at the public input hearings,<sup>293</sup> it failed to acknowledge the detailed responsive information provided by PAWC witnesses Runzer and Nokovich, including the individual Company outreach to the customers identified in Appendix A to OCA witness Alexander's direct and supplemental direct testimony.<sup>294</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. AWR's protection plans are not utility services subject to PUC jurisdiction, and the Commission and PAWC have no authority over AWR's pricing and marketing practices.<sup>295</sup> In this case, OCA witness Alexander raises several concerns related to

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<sup>292</sup> See PAWC Main Br., pp. 117-18.

<sup>293</sup> See OCA Main Br., p. 121.

<sup>294</sup> See PAWC Main Br., pp. 117-18.

<sup>295</sup> See *id.*, p. 121 (citing *PPL Elec. Utils. Corp. v. Pa. P.U.C.*, 912 A.2d 386, 408 (Pa. Commw. Ct. 2006) and *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)).

PAWC's billing arrangement with AWR that is largely a reprise of her testimony in the Company's 2023 rate case where the Commission rejected the OCA's request for an investigation of PAWC's relationship with AWR.<sup>296</sup> PAWC's Main Brief addresses all the evidence and arguments that had been developed on the record about the Company's long-standing arrangement with AWR.<sup>297</sup>

The OCA pursued a different course in its Main Brief. The OCA elected to simply reproduce its own witness's testimony, as if PAWC had not presented rebuttal testimony.<sup>298</sup> For that reason, the OCA's Main Brief creates the false impression that Ms. Alexander's concerns had not been rebutted and should be accepted at face value. Nothing is further from the truth. Ms. Alexander's allegations about the Company's relationship with AWR were decisively refuted by Mr. Prine. For the reasons explained in PAWC's Main Brief,<sup>299</sup> none of Ms. Alexander's concerns are valid and therefore do not provide any basis for the Commission to adopt any of her recommendations related to AWR.

The OCA's argument in its Main Brief that PAWC is engaging in "deceptive and discriminatory billing and marketing practices for non-utility services"<sup>300</sup> grossly mischaracterizes the record evidence. First, the OCA argues – as it did in PAWC's 2023 rate case – that AWR's use of PAWC's name and logo for marketing purposes misleads customers and the Company's exclusive billing relationship with AWR discriminates

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<sup>296</sup> See *PAWC 2024*, pp. 379-85.

<sup>297</sup> See *PAWC Main Br.*, pp. 120-25.

<sup>298</sup> See *OCA Main Br.*, pp. 121-24 (repeating verbatim portions of Ms. Alexander's direct testimony regarding AWR).

<sup>299</sup> See *PAWC Main Br.*, pp. 118-25.

<sup>300</sup> See *OCA Main Br.*, p. 121.

against other providers of non-basic services.<sup>301</sup> The Commission rejected those arguments in *PAWC 2024* because AWR's marketing materials include clear disclosures that PAWC and AWR are not affiliated and no other company has sought access to PAWC's bills.<sup>302</sup> The OCA implies that PAWC is marketing non-utility services to its customers.<sup>303</sup> To the contrary, the record shows that PAWC and Service Company employees do not market or promote any AWR services or products.<sup>304</sup> The OCA's discussion of the presentation of AWR charges on the customer bill is similarly misleading.<sup>305</sup> The evidence establishes that PAWC's customer bill clearly differentiates AWR's charges from the Company's charges for utility service.<sup>306</sup>

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<sup>301</sup> *Id.*, pp. 121-22.

<sup>302</sup> *See PAWC 2024*, p. 385.

<sup>303</sup> OCA Main Br., p. 121.

<sup>304</sup> PAWC St. 15-R, p. 20.

<sup>305</sup> *See* OCA Main Br., p. 123.

<sup>306</sup> PAWC St. 15-R, pp. 19-20; PAWC Hearing Ex. 3, pp. 3-4.

#### XIV. CONCLUSION

For the reasons set forth above and in PAWC's Main Brief, the Commission's investigation at Docket Nos. R-2025-3057983 and R-2025-3058051 should be terminated, the various Complaints consolidated therewith should be dismissed, and the Company's proposed rates, terms and conditions should be permitted to become effective without modification.

Respectfully submitted,



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