

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2025-3057983
Office of Consumer Advocate	:	C-2025-3058806
Office of Small Business Advocate	:	C-2025-3058770
Rik Bhattacharyya	:	C-2025-3058701
Curran Mitchell	:	C-2025-3058705
Michael Leone	:	C-2025-3058733
Zachary Bugay	:	C-2025-3058769
Mary Naydan	:	C-2025-3058792
Brian Dugas	:	C-2025-3058818
David R. Hurlbrink	:	C-2025-3058843
Patricia A. Finley	:	C-2025-3058864
Connie Horhut	:	C-2025-3058873
William Balint	:	C-2025-3058984
Jay S. Croft	:	C-2025-3059030
Brooke Birckbichler	:	C-2025-3059057
Marc Wills and Angelia Koser	:	C-2025-3059143
Neil Allen Brown	:	C-2025-3059169
David and Lynn Griffith	:	C-2025-3059164
Jeffrey Reichart	:	C-2025-3059136
Keith Sauer	:	C-2025-3059144
CAUSE-PA	:	C-2025-3059141
Karen W. Harris	:	C-2025-3059042
Deanna Pilkerton	:	C-2025-3059154
Angela McCloy	:	C-2025-3059209
Paul Heiken	:	C-2025-3059211
John Arty	:	C-2025-3059254
Kevin Clinebell	:	C-2025-3059159
James C. Davies	:	C-2025-3059113
Christopher Cappuccitti	:	C-2025-3059093
Carolann Hunt	:	C-2025-3059080
David Dubos	:	C-2025-3059090
Ralf Neckien	:	C-2025-3059089
Amy Stalnecker	:	C-2025-3059188
Paul Walaski	:	C-2025-3059341
Mary Tanealian	:	C-2025-3059342
Scott Retalla	:	C-2025-3059302
Kathleen Schwartz	:	C-2025-3059350
Amanda Johnsen	:	C-2025-3059381
Larry and Irene Mistik	:	C-2025-3059421

Tacy M. Rutherford	:	C-2025-3059426
Felipe Ortiz	:	C-2025-3059452
Grace Nucciarone	:	C-2025-3059484
Violet B. Kern	:	C-2025-3059446
Jayne Fitzpatrick	:	C-2025-3059490
Mark Schlosser	:	C-2025-3059494
Thomas Ziman	:	C-2025-3059499
Wayne W. Hedrick	:	C-2025-3059501
Amity Township Board of Supervisors	:	C-2025-3059538
John Erbiecella	:	C-2025-3059507
John Messina	:	C-2025-3059527
Robert and Patricia Boni	:	C-2026-3059592
James B. Dworchak	:	C-2026-3059603
John P. Dolekary	:	C-2026-3059574
Dazhe Wang	:	C-2026-3059556
Shawn Cieniewicz	:	C-2026-3059631
Adam Thomas	:	C-2026-3059694
Michelle Kazar	:	C-2026-3059697
Naomi Conte	:	C-2026-3059647
Dana Ullmann	:	C-2026-3059695
Carla Seidel	:	C-2026-3059689
Michael Vallonio	:	C-2026-3059710
Alicia W. Shussett	:	C-2026-3059712
Heather Zeh	:	C-2026-3059716
Shaun Keperling	:	C-2026-3059707
Steve Comuso	:	C-2026-3059709
Jedidiah Chappell	:	C-2026-3059766
Diane Martellacci	:	C-2026-3060020
Jennifer Breton	:	C-2026-3059732
Scott Bogust	:	C-2026-3059735
Sherri and Scott High	:	C-2026-3059742
Rebecca Carsto	:	C-2026-3059746
Anna Smallwood	:	C-2026-3059741
Theodore Gardella	:	C-2026-3059731
Sergio Castaneda	:	C-2026-3059734
Stephanie Mosteller	:	C-2026-3059737
Paedrick Holohan	:	C-2026-3059743
Ahn Weisner	:	C-2026-3059755
Lauren Hoover	:	C-2026-3059758
Jeffrey Bezler	:	C-2026-3059762
Patricia Istenes	:	C-2026-3059761
Patricia May Phillips	:	C-2026-3059779
Joshua and Bryn Hoyt	:	C-2026-3059778

Richard Matijasich	:	C-2026-3059812
Kendra Robinson	:	C-2026-3059801
David Barnett	:	C-2026-3059818
Christopher Nicholson	:	C-2026-3059819
Robert Peiffer	:	C-2026-3059824
William Dobron	:	C-2026-3059821
Exeter Township School District	:	C-2026-3059827
Kathleen Townsend	:	C-2026-3059845
Donald and Roberta Baker	:	C-2026-3060105
Edward C. Padgelek	:	C-2026-3060463
Frank Shaffer	:	C-2026-3060734
James Docherty	:	C-2026-3060880
Judy Wojanis	:	C-2026-3060881
Kathy Levanga	:	C-2026-3059739
Ramkrishna Sen	:	C-2026-3061359
	:	
v.	:	
	:	
Pennsylvania-American Water Company	:	

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2025-3058051
Office of Consumer Advocate	:	C-2025-3058810
Office of Small Business Advocate	:	C-2025-3058771
Curran Mitchell	:	C-2025-3058707
Elaine L. Bowman	:	C-2025-3058815
Joel Jackson	:	C-2025-3059064
Patricia A. Finley	:	C-2025-3058826
David R. Hurlbrink	:	C-2025-3058845
Jay S. Croft	:	C-2025-3059031
Brooke Birckbichler	:	C-2025-3059053
Marc Wills and Angelia Koser	:	C-2025-3059147
Neil Allen Brown	:	C-2025-3059170
David and Lynn Griffith	:	C-2025-3059165
Jeffrey Reichart	:	C-2025-3059137
Keith Sauer	:	C-2025-3059146
CAUSE-PA	:	C-2025-3059142
Karen W. Harris	:	C-2025-3059148

Deanna Pilkerton	:	C-2025-3059172
Angela McCloy	:	C-2025-3059213
Paul Heiken	:	C-2025-3059212
John Arty	:	C-2025-3059250
Christopher Cappuccitti	:	C-2025-3059094
Carolann Hunt	:	C-2025-3059087
Ralf Neckien	:	C-2025-3059117
Linda Allison	:	C-2025-3059122
Amy Stalneckner	:	C-2025-3059189
Theresa McGee	:	C-2025-3059334
Mary Tanealian	:	C-2025-3059295
Kathleen Schwartz	:	C-2025-3059353
Amanda Johnsen	:	C-2025-3059377
Larry and Irene Mistick	:	C-2025-3059447
James Lyle	:	C-2025-3059442
Wayne W. Hedrick	:	C-2025-3059502
Mark Schlosser	:	C-2025-3059492
John Erbicella	:	C-2025-3059508
John Messina	:	C-2025-3059528
Robert and Patricia Boni	:	C-2026-3059593
Stephen M. Citrullo	:	C-2026-3059602
Karen Bates	:	C-2026-3059699
Adam Thomas	:	C-2026-3059693
Joey and Lisa Inmon	:	C-2026-3059682
Naomi Conte	:	C-2026-3059650
Dana Ullmann	:	C-2026-3059692
Carla Seidel	:	C-2026-3059703
Colleen Vallonio	:	C-2026-3059711
Alicia W. Shussett	:	C-2026-3059714
Heather Zeh	:	C-2026-3059715
Laurel Miller	:	C-2026-3059733
Scott Bogust	:	C-2026-3059738
Stephanie Lamison	:	C-2026-3059745
Anna Smallwood	:	C-2026-3059744
Paedrick Holohan	:	C-2026-3059751
Anh Weisner	:	C-2026-3059757
Lauren Hoover	:	C-2026-3059759
Patricia Istenes	:	C-2026-3059756
Sherrie Greene	:	C-2026-3059764
Exeter Township Board of Supervisors	:	C-2026-3059765
Douglas Berguson	:	C-2026-3059767
Jeffrey Bezeler	:	C-2026-3059763
Amber Dinnella	:	C-2026-3059768

John Phio	:	C-2026-3059773
Richard Matijasich	:	C-2026-3059811
Kendra Robinson	:	C-2026-3059815
Sujata Shakya	:	C-2026-3059817
Christopher Nicholson	:	C-2026-3059822
Patricia May Phillips	:	C-2026-3059797
Denise E. Prowse	:	C-2026-3059816
Kathleen Townsend	:	C-2026-3059844
Diane Martellacci	:	C-2026-3060028
Floyd Gault Jr	:	C-2026-3060025
Paul Brown	:	C-2026-3060188
Frank Shaffer	:	C-2026-3060717
	:	
v.	:	
	:	
Pennsylvania-American Water Company	:	
Wastewater Division	:	

RECOMMENDED DECISION

Before
Emily I. DeVoe
Administrative Law Judge

Jeffrey A. Watson
Administrative Law Judge

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I. INTRODUCTION

This Recommended Decision recommends that the rate increases, adjustments and proposals set forth in Pennsylvania-American Water Company's proposed Supplement No. 58 to Tariff Water-PA P.U.C. No. 5, which would increase PAWC's total annual operating revenues for water service by approximately \$152.4 million, or 16.1%, and proposed Supplement No. 61 to Tariff Wastewater PA P.U.C. No. 16, which would increase PAWC-WD's total annual operating revenues for wastewater service by approximately \$16.3 million, or 7.8%, both be denied because the Company has not met its burden of proving by a preponderance of the evidence the justness and reasonableness of every element of its requested increases.

In the event the Commission determines that Pennsylvania-American Water Company has met its burden of proof regarding any particular proposals, rates, rules, and regulations, we alternatively recommend the approval of the rate increase and other proposals set forth in Supplement No. 58 to Tariff Water-PA P.U.C. No. 5, and proposed Supplement No. 61 to Tariff Wastewater PA P.U.C. No. 16, as set forth in the alternate recommendation set forth below and as more fully detailed in the Ordering Paragraphs below.

Our alternative recommendation recommends a maximum annual water revenue increase of approximately \$51.5 million or an approximate 5.4% increase in water operating revenue. This water revenue increase, when combined with adjusted pro forma present rate water revenues, results in an allowable annual revenue of approximately \$1 billion for PAWC's water service. This alternate recommendation also recommends a maximum wastewater revenue increase of approximately \$31.2 million or 14.9%. This wastewater revenue increase, when combined with adjusted pro forma

present rate wastewater revenues results in a total allowable annual revenue of \$240.2 million.

To determine customer bill impacts, PAWC must incorporate each revenue requirement, cost allocation, and rate design adjustment into its cost allocation and rate design models, then file its proposed rates, proof of revenues, and supporting calculations with the Commission pursuant to 52 Pa. Code § 5.592(a). In the Ordering Paragraphs below, the Recommended Decision recommends PAWC make this filing consistent with the Commission’s Opinion and Order and Order.

Our recommended revenue requirement is as follows:

Water Operations

Rate Base	\$5,145,466,752
Present ROR	7.05%
Net Operating Income at Present Rates	\$362,844,436
Proposed ALJ ROR	7.46%
Net Operating Income at Proposed ALJ Rates	\$383,851,820
Income Shortfall	\$21,007,384
Revenue Requirement	\$982,244,485
Revenue Increase	\$29,146,096

General SSS Wastewater Operations

Rate Base	\$657,380,383
Present ROR	5.80%
Net Operating Income at Present Rates	\$38,098,857
Proposed ALJ ROR	7.11%
Net Operating Income at Proposed ALJ Rates	\$46,739,745
Income Shortfall	\$8,640,888
Revenue Requirement	\$120,654,314
Revenue Increase	\$11,988,553

BASA Wastewater Operations

Rate Base	\$245,234,435
Present ROR	-2.60%
Net Operating Income at Present Rates	\$(6,367,420)
Proposed ALJ ROR	7.11%
Net Operating Income at Proposed ALJ Rates	\$17,436,168
Income Shortfall	\$23,803,589
Revenue Requirement	\$45,786,706
Revenue Increase	\$33,025,610

CSS Wastewater Operations

Rate Base	\$522,740,784
Present ROR	6.39%
Net Operating Income at Present Rates	\$33,379,869
Proposed ALJ ROR	7.11%
Net Operating Income at Proposed ALJ Rates	\$37,166,870
Income Shortfall	\$3,787,001
Revenue Requirement	\$91,097,522
Revenue Increase	\$5,254,166

Elizabeth CSS Wastewater Operations

Rate Base	\$28,376,827
Present ROR	-1.16%
Net Operating Income at Present Rates	\$(327,844)
Proposed ALJ ROR	7.11%
Net Operating Income at Proposed ALJ Rates	\$2,017,592
Income Shortfall	\$2,345,436
Revenue Requirement	\$5,021,376
Revenue Increase	\$3,254,109

The suspension period for this proceeding ends on August 13, 2026. Therefore, the Commission must act on these filings no later than its Public Meeting on August 6, 2026.

II. HISTORY OF THE PROCEEDING

On November 14, 2025, Pennsylvania-American Water Company (PAWC), filed Supplement No. 58 to Tariff Water-PA P.U.C. No. 5 (Supplement No. 58) with the Pennsylvania Public Utility Commission (Commission) at Docket No. R-2025-3057983 to become effective January 13, 2026. Supplement No. 58, as proposed by PAWC, would increase PAWC's total annual operating revenues for water service by approximately \$152.4 million, or 16.1%.

Also on November 14, 2025, Pennsylvania-American Water Company – Wastewater Division (PAWC-WD), filed Supplement No. 61 to Tariff Wastewater PA P.U.C. No. 16 (Supplement No. 61) with the Pennsylvania Public Utility Commission (Commission) at Docket No. R-2025-3058051 to become effective January 13, 2026. Supplement No. 61 would increase PAWC-WD's total annual operating revenues for wastewater service by approximately \$16.3 million, or 7.8%.

The Commission's Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance and Formal Complaints were filed against PAWC and PAWC-WD's tariff filings by the Office of Consumer Advocate (OCA), the Office of Small Business Advocate (OSBA), as well as various PAWC and PAWC-WD customers.¹ Numerous comments were filed by interested individuals and entities. Additionally,

¹ Approximately 91 individuals filed formal complaints regarding the PAWC water filing at Docket No. R-2025-3057983. A complete listing of these individual complaints, including the filing date and docket number for each, is set forth in the attachment to this Recommended Decision which is made a part hereof and marked as Appendix A.

Approximately 67 individuals filed formal complaints regarding the PAWC wastewater filing at Docket No. R-2025-3058051. A complete listing of these individual complaints, including the filing date and docket number for each, is set forth in the attachment to this Recommended Decision which is made a part hereof and marked as Appendix B.

Petitions to Intervene were filed by the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA), Victory Brewing Company (Victory Brewing), and Cleveland-Cliffs Steel (Cleveland-Cliffs).²

During the course of this proceeding, PAWC customers filed Formal Complaints to the Proposed Rate Increase, as well as Public Comment, and Oppositions to the Rate Increase, which are a part of the record that the Commission considers in making a determination in this rate proceeding.

Proceedings Before the Commission

On December 4, 2025, by separate Orders, the Commission suspended the filings by operation of law until August 13, 2026, pursuant to Section 1308(d) of the Public Utility Code, unless permitted by the Commission to become effective at an earlier date. In both Orders, the Commission stated that investigation and analysis of the proposed tariff supplements and the supporting data indicate that the proposed changes in rates, rules and regulations may be unlawful, unjust, unreasonable, and contrary to the public interest. The Commission also determined that consideration should be given to

² Exeter Township School District filed a filed a Formal Complaint on January 17, 2026, at Docket No. C-2026-3059827. On March 12, 2026, eleven days prior to the first day of hearing and the day before surrebuttal testimony was due, Exeter Township School District filed a Petition to Intervene Out of Time, as well as a Motion to participate in the hearing and present evidence by telephone.

On March 16, 2026, PAWC filed an Answer to the Petition to Intervene Out of Time and the Motion. On March 19, 2026, we filed an Interim Order denying the Motion to participate and present evidence by telephone.

On March 20, 2026, we issued an Interim Order granting in part and denying in part the Petition to Intervene Out of Time. The Petition was granted in that we permitted Exeter Township School District to conduct cross-examination of the witnesses at the evidentiary hearing, file objections to any settlement, and timely file main and reply briefs. Ultimately, the Exeter Township School Board of Supervisors did not participate in these proceedings.

the reasonableness of PAWC's and PAWC-WD's existing rates, rules, and regulations. As a result, the Commission ordered that an investigation be instituted in response to both filings to determine the lawfulness, justness, and reasonableness of the rates, rules, and regulations contained in the proposed tariff filings, as well as a consideration of the lawfulness, justness and reasonableness of the existing rates, rules, and regulations. The Commission assigned the cases to the Office of Administrative Law Judge for the prompt scheduling of hearings as may be necessary culminating in the issuance of Recommended Decisions.

On December 5, 2024, a hearing notice was issued for both filings establishing a telephonic prehearing conference for these matters for December 12, 2025, at 10:00 a.m. and assigning us as the Presiding Officers. A Prehearing Conference Order was issued on December 5, 2025, setting forth rules that would govern the prehearing conference and explaining how individuals and entities could become active parties or otherwise participate in this proceeding.

OCA and CAUSE-PA filed prehearing memoranda on December 10, 2025, and I&E and OSBA filed their prehearing memoranda on December 11, 2025.

On December 11, 2025, the Company filed a Petition of Pennsylvania-American Water Company for Consolidation of Rate Proceedings and a Petition of Pennsylvania-American Water Company for Protective Order.

The telephone prehearing conference was convened on December 12, 2025, as scheduled. The Company, OCA, OSBA, I&E, and CAUSE-PA participated and were represented by Counsel. Individual Complainant Joel Jackson also participated, without counsel.

On December 17, 2025, a Prehearing Order was entered which, *inter alia*, granted the Company's Consolidation Petition, adopted a litigation schedule, and addressed various procedural matters.

On December 19, 2025, and January 9, 2026, the Commission issued public input hearing notices for a series of twelve public input hearings to be held as follows:

- January 13, 2026 – two in-person public input hearings in Washington County, PA;
- January 15, 2026 – two in-person public input hearings in Scranton, PA;
- January 16, 2026 – two in-person public input hearings in Harrisburg, PA;
- January 20, 2026 – two in-person public input hearings in Reading, PA;
- January 21, 2026 – telephonic public input hearings;
- January 29, 2026 – two in-person public input hearings in Coatesville, PA.

The public input hearings were held as scheduled.³ Approximately 217 people testified during the public input hearings. Their testimony is summarized in this Recommended Decision below in Part IV, and a comprehensive discussion is attached as Appendix C.

On February 26, 2026, after the public input hearings concluded, OSBA filed a Petition for Interlocutory Review seeking a determination from the Commission to clarify whether only utility consumers are permitted to testify at public input hearings.⁴

³ Commissioner Kathryn L. Zerfuss attended the Harrisburg public input hearings, but she did not participate in the preparation of this Recommended Decision.

⁴ On March 9, 2026, the Company filed its Brief in Opposition to the Petition for Interlocutory Review. On March 26, 2026, an Opinion and Order was entered by the Commission declining to answer the Material Question presented by OSBA in its Petition for Interlocutory Review.

On December 30, 2025, a Further Telephonic Prehearing Conference Notice was entered scheduling a Prehearing Conference for January 7, 2026.

On January 7, 2026, the Further Prehearing Conference was held whereby the Parties discussed public input hearings and agreed to further modify the litigation schedule.

On January 9, 2026, a Protective Order was entered in this proceeding.

On January 26, 2026, an In-Person Evidentiary Hearing Notice was issued scheduling an in-person evidentiary hearing for March 23, 2026, through March 25, 2026, in Harrisburg, Pennsylvania.

The Prehearing Order and litigation schedule were subsequently modified.

On March 5, 2026, an Interim Order was entered confirming the requirements for the conduct of the evidentiary hearing and requiring all active Parties to exchange a written summary of any testimony and a copy of any written testimony, exhibits or evidence of any kind, not later than Friday March 13, 2026.

The evidentiary hearings were convened as scheduled on March 23, 2026. During the hearing, the following occurred: PAWC, I&E, OCA, OSBA, CAUSE-PA, Victory Brewing, and Cleveland-Cliffs moved for the admission of their pre-served testimony and exhibits into the record; PAWC presented oral and written rejoinder testimony; witnesses for PAWC were cross-examined; and various housekeeping matters were discussed. The list of pre-served testimony and exhibits admitted into the record at the evidentiary hearings are attached as Appendix D to this Recommended Decision.

On March 24, 2026, a Hearing Cancellation Notice was issued cancelling the Evidentiary Hearing scheduled for March 24 and 25, 2026.

On April 6, 2026, we received Main Briefs from PAWC, I&E, OCA, OSBA, CAUSE-PA, Victory Brewing, and Cleveland-Cliffs.

On April 15, 2026, we received Reply Briefs from PAWC, OCA, I&E, OSBA, and CAUSE-PA.

III. FINDINGS OF FACT

Introduction

1. Pennsylvania-American Water Company (PAWC or Company) is a Pennsylvania public utility that furnishes water and wastewater services to approximately 810,000 customers (an estimated population of 2.4 million people) in a service territory covering portions of 38 counties across the Commonwealth.⁵

2. On November 14, 2025, the Company initiated this rate case pursuant to 66 Pa.C.S. § 1308(d)⁶ by filing Supplement No. 58 to Tariff Water – Pa. P.U.C. No. 5 and Supplement No. 61 to Tariff Wastewater – Pa. P.U.C. No. 16 requesting a \$168.7 million increase in its total annual operating revenues to become effective January 13, 2026.⁷

⁵ PAWC St. 3, p. 3.

⁶ Hereafter all references to a “Section” are to the Pennsylvania Public Utility Code (“Code”), 66 Pa.C.S. §§ 101 *et seq.*, unless indicated otherwise.

⁷ PAWC St. 2, p. 3.

3. The Pennsylvania Public Utility Commission (Commission or PUC) initiated an investigation of the Company's existing and proposed rates by Order entered December 4, 2025.

4. Pursuant to Section 1308(d), the Company's rate request was suspended by operation of law to August 13, 2026.

5. In addition to the Commission's Bureau of Investigation and Enforcement (I&E), several parties participated actively in this proceeding, including: the Office of Consumer Advocate (OCA), the Office of Small Business Advocate (OSBA), Cleveland-Cliffs Steel (CCS or Cleveland-Cliffs), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA), Exeter Township School District (Exeter School District or School District), and Victory Brewing Company (Victory or Victory Brewing).

6. A total of 12 public input hearings and an evidentiary hearing were held in this proceeding.

7. The Company evaluated the impact of the proposed rate increases on its customers and concluded a Zone 1 residential customer using 109 gallons of water per day would pay approximately \$3.18 per day for water under the Company's proposal.⁸

8. PAWC is requesting an overall revenue increase of \$159,597,595 (\$90.4 million for water and \$69.2 million for wastewater).⁹

9. This rate increase was filed on November 14, 2025, less than two years after the Commission granted PAWC a combined \$99,329,013 (\$88,121,069 for

⁸ *Id.*, p. 10.

⁹ PAWC Ex. 3-A Revised at 2.

water and \$11,207,944 for wastewater) increase on July 11, 2024, in a case where PAWC requested a \$203.9 million increase based on a Fully Projected Future Test Year (FPFTY) ending June 30, 2025.¹⁰

10. PAWC has a claimed capital spend of \$1.2 billion for a new or replacement plant and equipment during the future test year (FTY) ending June 30, 2026, and its FPFTY ending June 30, 2027.¹¹

11. PAWC seeks deferred accounting treatment for pension and other post-employment benefit (OPEB) expenses for tracking and recovery in future rate cases.¹²

Rate Base

A. Plant-In-Service

12. PAWC's revenue requirement includes utility-plant-in-service claims in the FPFTY for six not yet completed acquisitions.¹³ PAWC's final claimed rate base of \$6,603,960,239¹⁴ consists of the depreciated original cost of its utility plant in service at June 30, 2027, together with rate base additions and deductions.¹⁵

¹⁰ *Pa. PUC v. PAWC*, R-2023-3043189, Order at 5, 26, 391 (July 11, 2024).

¹¹ PAWC St. of Reasons at 1; PAWC St. 1 at 7.

¹² OCA St. 1 at 25-26; OCA St. 1SR at 3-7.

¹³ PAWC Ex. 3-A; OCA St. 2 at 18-19; OCA St. 2SR at 24.

¹⁴ Sum of Water, Wastewater ("WW") Sanitary Sewer System ("SSS") General, WW Combined Sewer System ("CSS"), Elizabeth Borough Municipal Authority WW ("EBMA") and Butler Area Sewer Authority WW ("BASA") Operations.

¹⁵ *See* PAWC St. 5, pp. 9-21; PAWC Ex. 3-A Revised, pp. 26R2, 94R2, 145R2, 192R2, 237R2.

13. The Company is estimating that it will add approximately \$488,705,042 of plant additions in the FTY ending June 30, 2026 and approximately \$676,410,111 of plant additions in the FPFTY.¹⁶

14. For ratemaking purposes, cash working capital is the capital needed to operate a utility between the rendition of service and the receipt of revenues in payment for services rendered.¹⁷

I&E proposes the following operation and maintenance (O&M) adjustments¹⁸:

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

15. All adjustments to the Company's claims for revenues, expenses, taxes, and rate base must be continually brought together for each operating unit in the Commission's Final Order to prevent the determination of a precise calculation until all adjustments have been made to the Company's claims.¹⁹

¹⁶ I&E St. No. 3, p. 3.

¹⁷ I&E St. No. 1, p. 47.

¹⁸ I&E St. No. 1-SR, p. 55.

¹⁹ *Id.* at 58.

16. PAWC proposes to include the following systems in rate base for the first time: Farmington Township Water and Wastewater, Audubon Water Company, Butler Area Sewer Authority, East Dunkard Water Authority, Elizabeth Borough Municipal Authority, Manwalamink Sewer Company, Manwalamink Water Company, Appalachian Utilities, Sadsbury Township Municipal Authority, and Corner Water Supply and Service Corporation. These systems were acquired pursuant to 66 Pa. C.S. Sections 1329 or 1102.²⁰

17. The only acquired system being added to rate base in this case that was a troubled system was the East Dunkard Water Authority (EDWA).²¹

18. PAWC and EDWA had already made plans for PAWC to acquire the EDWA system and executed the acquisition agreement before PAWC was appointed as a receiver for the EDWA system due to an operational failure.²²

19. PAWC is seeking to recover acquisition costs for the following systems: Audubon Water Company (AWC), Farmington Township water system (Farmington), and Manwalamink Water Company (MWC) and Manwalamink Sewer Company (MSC) (together, Manwalamink).²³

20. As part of the AWC acquisition proceeding, the parties, including the OCA, waived their rights to challenge PAWC's request to recover the acquisition premium.²⁴

²⁰ OCA St. 1 at 6; PAWC St. 7 at 3-13.

²¹ PAWC St. 1 at 11-13.

²² PAWC St. 1 at 11-13.

²³ OCA St. 1 at 9.

²⁴ OCA St. 1SR at 13-14.

21. The Application for PAWC’s acquisition of Manwalamink was filed under Section 1102(a) of the Pennsylvania Public Utility Code.²⁵

22. The purchase price allocated \$1,809,000 for the water system and \$2,191,000 for the wastewater system.²⁶

23. In the Manwalamink acquisition proceeding, testimony showed that day-to-day operations were handled by a third-party operator, and that the sale was motivated by the owners’ age rather than any service failure.²⁷

24. While the Manwalamink systems had a number of violations of the Safe Drinking Water Act (SDWA), these violations were largely monitoring and reporting issues. Manwalamink showed improvement over time, with 5 violations in 2023 down from 17 in 2021, and they were not tied to customer harm or service degradation.²⁸

25. By the time of PAWC’s Application to acquire Manwalawink’s assets, Manwalawink’s compliance improved.²⁹

26. The purchase price of the Manwalamink systems was derived from a pre-existing agreement negotiated by a previous potential buyer.³⁰

²⁵ OCA St. 1 at 8.

²⁶ OCA St. 1 at 8.

²⁷ OCA St. 1 at 8.

²⁸ OCA St. 1SR at 15, 17-19.

²⁹ OCA St. 1SR at 15, 17-19.

³⁰ OCA St. 1 at 19.

27. PAWC paid an 111% premium over book value for the Manwalamink systems.³¹

28. PAWC's projections showed revenue deficiencies post-acquisition.³²

29. The application for PAWC's acquisition of Farmington was filed under Section 1102(a).³³

30. The purchase price allocated \$2,621,312 for the water system and \$2,923,688 for the wastewater system.³⁴

31. PAWC is seeking inclusion of an acquisition adjustment for Farmington's water system in this case.³⁵

32. At the time PAWC acquired the Manwalamink systems, PAWC's net utility plant in service per customer was \$7,345 for water customers and \$12,271 for wastewater customers, and the purchase price per customer (PP/C) for the Manwalamink Systems was \$1,577.³⁶

33. The PP/C for MWC and MSC were below the average PP/C for the twelve Section 1102 acquisitions that PAWC made since 2019.³⁷

³¹ OCA St. 1SR at 14-15.

³² OCA St. 1SR at 14-15.

³³ OCA St. 1 at 7.

³⁴ OCA St. 1 at 7.

³⁵ OCA St. 1SR at 18.

³⁶ *Id.*, pp. 46-47.

³⁷ PAWC St. 7-R, p. 10.

34. At the time of its acquisition, Manwalamink had one operational employee and utilized an operations and management company.³⁸

35. Cash working capital represents the funds needed to pay O&M expenses and taxes that, on average, are incurred in advance of the utility's receipt of revenues. PAWC calculated its cash working capital requirement using the lead-lag method.³⁹

B. Revenues

36. The Company's pro forma revenues under present rates in the FPFTY are \$1,162,135,869.⁴⁰

37. Company adjustments made in developing the Company's pro forma revenue claims are detailed in PAWC Ex. No. 3-A Revised.⁴¹

38. The Company is projecting it will collect \$3,072,167 of other operating revenue in SSS Operations.⁴²

39. I&E reflected an increase of \$39,156 in other operating revenue.⁴³

³⁸ PAWC St. 7-R, p. 11.

³⁹ PAWC St. 5, pp. 15-17.

⁴⁰ Sum of Water, WW SSS General, WW CSS, EBMA and BASA Operations.

⁴¹ On March 13, 2026, the Company submitted updated pages to Ex. 3-A Revised that accompanied the rebuttal testimony of Dr. Christina E. Chard to address the impact of recently released Internal Revenue Service guidance related to the Corporate Alternative Minimum Tax. The impact of that guidance and the basis for those updates to Ex. 3-A Revised are described in the supplemental testimony of Linda Schlessman.

⁴² PAWC Ex. 10-B, p. 34.

⁴³ I&E Ex. No. 4, Schedule 2, Column O, Line 21.

40. Included in the Company's calculation of other operating revenues is an amount for late payment revenues. Late payment revenues are calculated as a percentage of proposed revenues.⁴⁴

C. Expenses

41. The Company's pro forma O&M expenses, at present rate levels, equal \$339,539,564⁴⁵ for the FPFTY.

42. A three-year average vacancy rate of 1.25% is appropriate.⁴⁶

43. The Company's claim for regulatory asset/liability treatment for Pension and OPEB expense as presented in this proceeding is inappropriate as these are normal, expected recurring costs.⁴⁷

44. The Company's labor-related expense allowance for the FPFTY⁴⁸ was developed based on PAWC's proposed complement of 1,278 equivalent employees.⁴⁹

⁴⁴ PAWC Ex. 10-B, p. 34.

⁴⁵ Sum of Water, WW SSS General, WW CSS, BASA, and EBMA Operations.

⁴⁶ I&E Ex. No. 1, Schedule 3.

⁴⁷ I&E St. No. 1, p. 47 and I&E St. No. 1-SR, p. 51-52.

⁴⁸ PAWC's labor-related expense claim reflects: (1) salaries and wages (including performance compensation); (2) group insurance; (3) other benefits (401k, Defined Contribution Plan and Employee Stock Purchase Plan); and (4) payroll taxes. PAWC St. 6, pp. 4-6.

⁴⁹ *Id.*, pp. 5-8. *See also* PAWC St. 3, p. 59.

45. I&E witness Okum proposed an adjustment to salaries and wages, as well as derivative reductions to benefits expense and payroll taxes, to reflect a 1.25% vacancy rate.⁵⁰

46. In rebuttal testimony, PAWC accepted Ms. Okum's vacancy rate adjustment to expenses, and reduced its overall O&M expense claim by \$1,515,312.⁵¹ After employing a 1.25% vacancy rate, PAWC adjusted its final labor-related expense claim to be \$107,221,845.

47. In determining the portion of labor-related costs (salaries and wages, benefits and related payroll taxes) charged to expense, PAWC deducted 42.81% (water operations) and 19.78% (wastewater operations), the average proportion of direct labor costs charged to capital accounts during 2023 through 2025.⁵²

48. PAWC uses a mix of fixed and variable (i.e., performance-based) compensation to attract and retain customer-committed, dedicated and highly qualified employees.⁵³

49. Mr. Morgan proposes using a single data point, – 2026 group insurance rates – to derive its FPFTY group insurance expense claim, in lieu of the three-year average percentage change in rates PAWC employed.⁵⁴

⁵⁰ I&E St. 1, pp. 15-19, 28-36. OCA witness Morgan also proposed an adjustment to reflect the Company's employee complement at the end of HTY. Mr. Morgan withdrew this adjustment in his surrebuttal testimony in light of PAWC's acceptance of I&E's recommended vacancy rate. *See* OCA St. 1SR, p. 19.

⁵¹ PAWC Ex. 3-A Revised, pp. 48R, 49R, 52R, 69R, 110R, 111R, 113R, 129R, 158R, 159R, 161R, 174R, 207R, 208R, 210R and 225R; *see also* PAWC Ex. LNO-1R.

⁵² PAWC St. 6, p. 6; PAWC St. 6-RJ, p. 3.

⁵³ PAWC St. 3, pp. 59-62; PAWC St. 3-R, pp. 2-5.

⁵⁴ OCA St. 1, p. 23.

50. PAWC used a three-year average percentage change to smooth year-to-year variations in group insurance plan.⁵⁵

51. American Water Works Service Company, Inc. (Service Company) provides services to PAWC and other American Water subsidiaries on a shared basis.⁵⁶

52. Service Company costs related to PAWC are charged directly to PAWC.

53. PAWC is seeking recovery of approximately \$77.9 million in Service Company expense for the FPFTY.⁵⁷

54. I&E witness Okum proposed an adjustment to reduce PAWC's claim for waste disposal expense by \$2,850,894 by using a historical three-year average of waste disposal costs rather than the three-year average percentage change of those costs.⁵⁸

55. In addition to fleet management costs per vehicle, PAWC's transportation expense includes costs for fuel, titling and registration fees, maintenance expense, and reimbursement for Company use of personal vehicles.⁵⁹

⁵⁵ PAWC St. 6-R, p. 6.

⁵⁶ PAWC St. No. 6, pp. 13-17; PAWC St. No. 6-R, pp. 11-17; PAWC St. No. 3-R, p. 13-20.

⁵⁷ PAWC St. 6, pp. 16-17; *see also* PAWC St. 6-R, pp. 6, 20; PAWC Ex. 3-A Revised, pp. 61R, 121R, 168R and 218R (removing \$64,830 in lobbying expense and penalties that was erroneously included in the Company's initial claim and further corrections for allocated interest expense).

⁵⁸ I&E St. 1, pp. 38-39.

⁵⁹ PAWC St. 6, p. 22.

56. PAWC included an adjustment for CPI Transportation Services (i.e., inflation) increases to fuel and maintenance expense.⁶⁰

57. In its rebuttal case, PAWC updated its claimed transportation expense by applying the June 2025 inflation rate of 3.11% instead of the three-year average of 6.94%.⁶¹

58. Both Ms. Okum and Mr. Morgan object to the expense as presented and to the inflation escalation proposed by PAWC.⁶²

Towamencin Transaction Costs

59. PAWC seeks to recover \$660,138, amortized over 10 years, for transaction costs incurred for the attempted acquisition of the Towamencin Township (Towamencin) wastewater system.

60. PAWC filed an Application with the Commission seeking approval of the acquisition and ultimately withdrew the Application regarding the transaction which was not consummated.⁶³

61. PAWC is requesting recovery of its expenses in this rate case.⁶⁴

⁶⁰ PAWC St. 6-R, p. 20.

⁶¹ PAWC St. 6-R, pp. 20-21; PAWC Ex. 3-A, pp. 58R, 118R, 165R and 215R; *see also* PAWC Ex. LNO-6R.

⁶² *See* OCA St. 1SR, p. 20; OCA Ex. LKM-7W-SR; I&E St. 1-SR, pp. 47-49.

⁶³ PAWC St. 5, p. 7.

⁶⁴ The Commission did not approve the withdrawal of PAWC's application to acquire the Towamencin system until September 24, 2024. *See* PAWC St. 7-R, pp. 15-17.

62. On May 15, 2023, PAWC filed an application with the Commission under Sections 1102(a) and 1329 of the Code, for approval of the right to acquire substantially all of the wastewater system assets of Towamencin.⁶⁵

63. The Commission approved the use of a revised RRR (Reasonable Review Ratio) in a Final Supplemental Implementation Order issued on July 2, 2024, which was after PAWC filed its application, but before the transaction was finalized.⁶⁶

64. On September 12, 2024, PAWC and Towamencin filed a letter with the Commission indicating that the Applicants had mutually agreed to terminate the underlying transaction of the Joint Application and requested leave to withdraw the Joint Application.⁶⁷

Interest Synchronization

65. Interest synchronization is used in ratemaking to determine the amount of interest expense to be used in the calculation of income tax.⁶⁸

66. PAWC's claim for income tax expense is set forth in PAWC Ex. 3-A Revised and is calculated using the Company's proposed rate base and weighted cost of debt.⁶⁹

⁶⁵ OCA St. 1 at 21.

⁶⁶ PAWC St. 7R at 15.

⁶⁷ OCA St. 1 at 21.

⁶⁸ OCA St. 1 at 24-25.

⁶⁹ See PAWC Ex. 3-A Revised, pp. 71R2, 72R2, 131R2, 132R2, 176R2, 177R2, 227R2, 228R2, 256R2, 257R2.

67. Mr. Morgan proposes an interest expense adjustment concomitant to the OCA's proposed adjustments to rate base and the weighted average cost of debt.⁷⁰

68. The OCA proposed an adjustment to eliminate \$283,651 from PAWC's O&M expense claim related to third-party call handling agencies.⁷¹

69. Projections of PAWC's pension and OPEB costs, were revised to reflect a pension claim expense of \$1,072,810 and an OPEB claim to an income⁷² of \$5,885,345.⁷³

70. The Company also requested Commission approval to defer and record any amounts above or below the projected level of pension and OPEB expenses into regulatory asset or liability accounts until its next base rate proceeding.⁷⁴

71. PAWC originally calculated its payroll expense assuming a full complement of employees without consideration of vacant positions.⁷⁵

⁷⁰ OCA Ex. LKM-10W-SR; OCA Ex. LKM-9WSS-SR.

⁷¹ OCA St. 1SR, p. 21; OCA Ex. LMK-12WSR; OCA St. 5, pp. 8-9.

⁷² Most Pennsylvania utilities base their claims for pension and OPEB costs on cash contributions to their pension and OPEB plans, which can never be less than zero. However, in the PUC's final order in PAWC's 2017 base rate case, it approved the Company's request to cease using cash contributions as the ratemaking measure of pension and OPEB costs and, instead, follow GAAP accounting under Financial Accounting Standards Board Accounting Standard Codification Topic 715 ("ASC 715") (formerly Financial Accounting Standard 87). Under ASC 715, net changes in the actuarial determination of pension and OPEB obligations and associated plan funding levels directly impact the bottom line on a company's income statement for the applicable accounting period. Based on the direction and magnitude of the factors that drive the annual performance of a company's pension and OPEB plans, the amount reflected on the income statement in any given year can be either expense or income. PAWC St. 6, p. 11.

⁷³ PAWC St. 6-R, p. 6; Ex. 3-A Revised, pp. 50R, 51R.

⁷⁴ PAWC St. 2, pp. 29-30.

⁷⁵ OCA St. 1 at 20.

72. PAWC has accepted the adjustment proposed by I&E witness Okum to reflect a vacancy rate of 1.25% using the average vacancy of the three years ended June 30, 2025.⁷⁶

73. PAWC has implemented a compensation policy under which a portion of employee pay is tied to performance metrics.⁷⁷

74. One aspect of the compensation policy emphasizes the achievement of earnings goals, and it is primarily aimed at enhancing shareholder value and conferring benefits to shareholders.⁷⁸

75. Performance pay related to achievement of earnings goals is not tied to ratepayer benefits such as meeting quality of service, operational efficiency, or conservation goals.⁷⁹

76. Shareholder value has a correlation to earnings, so when improved earnings are reported, shareholder value improves but rates do not go down.⁸⁰

77. When share prices increase, the value of the shareholders' investment in the Company increases.⁸¹

⁷⁶ PAWC St. 6R at 2.
⁷⁷ OCA St. 1 at 20.
⁷⁸ OCA St. 1 at 20.
⁷⁹ OCA St. 1 at 20-21.
⁸⁰ OCA St. 1 at 20-21.
⁸¹ OCA St. 1SR at 9-10.

78. Rates paid by customers are fixed until changed by the Commission.⁸²

79. If the performance-based compensation plan results in higher earnings, i.e., ROR (Rate of Return), customers do not receive a rebate or a rate reduction.⁸³

80. PAWC's adjustment of its group insurance cost is "based on the January 2026 premiums annualized for the future test year number of employees, less the annualized employee contribution, and adjusted for the portion not charged to operations. The fully projected future test year was developed by adjusting the annualized 2026 amount by a 3-year average of 3.74%."⁸⁴

81. The 3.74% average was applied as a growth rate instead of a normalization adjustment.⁸⁵

82. PAWC derived its FPFTY transportation expense from the number of units in PAWC's fleet, the average monthly leasing fees, and the inclusion of other transportation expenses.⁸⁶

83. PAWC also applied a 6.94% inflation factor to certain expenses based on a three-year average (2023-2025) of the Consumer Price Index (CPI) for transportation services.⁸⁷

⁸² OCA St. 1SR at 9-10.

⁸³ OCA St. 1SR at 9-10.

⁸⁴ PAWC Workpaper 4d Group Insurance Adjustment Revised.

⁸⁵ OCA St. 1SR at 19.

⁸⁶ OCA St. 1 at 23.

⁸⁷ OCA St. 1 at 23.

84. According to data presented by the Company between December 2023 and December 2024, the transportation CPI increased by an annual rate of 7.47%. Between December 2024 and December 2025, the transportation CPI increased by an annual rate of 1.72%.⁸⁸

85. The Company's fuel expenses decreased from the historical period to 2025.⁸⁹

86. Titling and registration fees are generally fixed until changed by jurisdictional authority.⁹⁰

87. In PAWC witness O'Malley's rebuttal testimony, she acknowledged the change in inflation factor pointed out by Mr. Morgan and recommended applying the June 2025 inflation rate of 3.11% instead of the three-year average of 6.94%.⁹¹

D. Taxes and Depreciation

88. PAWC's claim for accrued depreciation related to its utility plant-in-service was developed and presented by PAWC witness John J. Spanos. Mr. Spanos completed depreciation studies to estimate the annual depreciation accruals related to water and wastewater plant-in-service for ratemaking purposes and to estimate the Company's book reserve as of June 30, 2025, June 30, 2026 and June 30, 2027.⁹²

⁸⁸ OCA St. 1 at 23-24.

⁸⁹ OCA St. 1 at 23-24.

⁹⁰ OCA St. 1 at 23-24.

⁹¹ PAWC St. 6R at 21.

⁹² *See generally* PAWC St. 11; PAWC Ex. Nos. 11-A through 11-N. In rebuttal, Mr. Spanos presented updated water and wastewater depreciation accrual rates that resulted from DSIC related adjustments to water and wastewater plant. PAWC St. 11-R, p. 30; PAWC Exs. JJS-2R-JJS-7R.

89. PAWC's claimed annual depreciation accrual applicable to plant-in-service at June 30, 2027 is \$289,738,866.⁹³

90. The Company uses the straight line, remaining life depreciation method with the Equal Life Group (ELG) procedure, to determine depreciation expense.⁹⁴

91. OCA witness David Garrett's proposed Average Life Group (ALG) procedure.⁹⁵

92. Annual depreciation expense is the return of a utility's investment in a plant which collected through the life of the plant.⁹⁶

93. Employing a grouping procedure allows for a composite application of depreciation rates to groups of similar property, rather than excessively conducting calculations for each unit.⁹⁷

94. PAWC uses the ELG procedure.⁹⁸

95. Under the ALG procedure, a constant accrual rate is calculated based on the average life of all property in the group.⁹⁹

⁹³ See Ex. 3-A Revised, pp. 1R2, 75R2, 135R2, 180R2, 231R2.

⁹⁴ PAWC St. 11, p. 6; PAWC St. 11-R, p. 12; PAWC Hearing Ex. 2, p. 1.

⁹⁵ See OCA St. 2, pp. 46-56.

⁹⁶ OCA St. 2 at 42; OCA St. 2SR at 25.

⁹⁷ OCA St. 2, App. C at 3.

⁹⁸ OCA St. 2 at 46.

⁹⁹ OCA St. 2 at 46.

96. Use of the ALG procedure results in the same depreciation rate applied to each age interval.¹⁰⁰

97. Under the ELG procedure property is divided into subgroups (also referred to as ‘vintages’) that each have a common life.¹⁰¹

98. PAWC claimed depreciation expenses balance was \$263,028,483.¹⁰²

99. OCA witness Garrett recommended a downward adjustment to PAWC’s claimed depreciation of \$49,897,598.¹⁰³

100. The basic components of a depreciation system are: 1) method of allocation; 2) a procedure for applying the method; 3) a technique of applying the depreciation rate; and 4) a model for analyzing the characteristics of vintage property groups.¹⁰⁴

101. Depreciation rates calculated under the ELG procedure result in higher depreciation rates in early years relative to later years.¹⁰⁵

102. OCA witness Garrett used the straight-line method, the average life group procedure, the remaining life technique, and the broad group model.¹⁰⁶

¹⁰⁰ OCA St. 2 at 47.

¹⁰¹ OCA St. 2 at 46.

¹⁰² OCA St. 2 at 5 (Figure 3).

¹⁰³ OCA St. 2 at 5 (Figure 3).

¹⁰⁴ OCA St. 2 at 45-46.

¹⁰⁵ OCA St. 2 at 46.

¹⁰⁶ OCA St. 2 at 46.

103. OCA witness Garrett calculated that, if PAWC's depreciation expense were calculated using the ALG procedure instead of the ELG procedure, then the annual depreciation accrual charged to customers would be reduced by \$50.1 million in 2025 by \$50.2 million in 2026, and by \$49.9 million in the 2027.¹⁰⁷

E. Rate of Return

104. PAWC witness Bulkley recommended a Return on Equity (ROE) of 10.95%.¹⁰⁸

105. Ms. Bulkley considered natural gas utilities that met her screening criteria for the proxy group due to the small number of water utilities.¹⁰⁹

106. Ms. Bulkley's proxy group consisted of the following entities:¹¹⁰

Atmos Energy Corporation
Chesapeake Utilities Corporation
NiSource Inc.
Northwest Natural Gas Company
ONE Gas, Inc.
Southwest Gas Corporation
American States Water Company
California Water Service Group
Middlesex Water Company
H2O America (SJW Group)

¹⁰⁷ OCA St. 2 at 4.

¹⁰⁸ *Id.*, pp. 5, 70-71.

¹⁰⁹ PAWC St. 13, pp. 23-26.

¹¹⁰ PAWC St. 13-R, p. 18; *see generally* PAWC St. 13-R & 13-RJ.

107. Mr. Garrett's proxy group consisted of six water companies, and included Essential Utilities and American Water and excluded gas companies from his proxy group.¹¹¹

Capital Structure

108. In developing her recommended reasonable rate of return, Ms. Bulkley employed the Company's anticipated year-end capital structure ratios for the FPFTY.¹¹²

109. Ms. Bulkley calculated the capital structure of PAWC and both its water and wastewater services. She calculated the total-Company capital structure first, using all debt issuances and all sources of capital. She calculated the capital structure for water service by removing the wastewater-specific debt and recalculating the ratios of the remaining capital stock. The wastewater-specific capital structure was then calculated by applying the total company debt ratio to the wastewater rate base, excluding the wastewater-specific debt issuances.¹¹³ Her capital structures are shown in the following table:¹¹⁴

¹¹¹ PAWC St. 13-RJ, pp. 12-13.

¹¹² PAWC St. 13, pp. 64-65.

¹¹³ *Id.*, pp. 66 & 69.

¹¹⁴ *Id.*, p. 65.

Total Company	
Common Equity	55.33%
Preferred Stock	0.01%
Long-Term Debt	44.66%
Water Services	
Common Equity	56.31%
Preferred Stock	0.01%
Long-Term Debt	43.68%
Wastewater Services	
Common Equity	51.52%
Preferred Stock	0.01%
Long-Term Debt	41.49%
WW Specific Debt	6.88%

110. For the Company's water operations, Mr. Patel recommended that PAWC's cost of equity should not exceed 55%.¹¹⁵

111. The Company's cost of long-term debt of 4.71% was calculated by Ms. Bulkley using specific debt identified for wastewater services and calculating the water services capital structure and associated water services long-term debt by removing the wastewater services debt.¹¹⁶

Return on Equity

112. Ms. Bulkley considered the results of both the discounted cash flow (DCF) model and the capital asset pricing model (CAPM).¹¹⁷

¹¹⁵ *Id.*

¹¹⁶ PAWC St. 13, p. 70.

¹¹⁷ PAWC St. 13, pp. 30-33.

113. The DCF model used by Ms. Bulkley is known as the Constant Growth DCF model, and relies on various assumptions, including a growth rate for earnings and dividends.¹¹⁸

114. Ms. Bulkley calculated average dividend yields for the proxy group for the 30-, 90- and 180-day trading days as of September 30, 2025.¹¹⁹ Since utility dividends generally increase from year to year and are paid quarterly, not continuously, she adjusted her findings to capture one-half of the anticipated dividend growth.¹²⁰ Once the dividend yield is calculated, the proper growth rate must be developed. Ms. Bulkley considered long-term growth rates and calculated results using minimum, average, and high growth rates from these sources, leading to a DCF range of 9.66% to 11.22% based on market data through January 31, 2026.¹²¹

115. The CAPM is a forward-looking risk premium approach that estimates the cost of equity for a given security as a function of a risk-free return plus a risk premium to compensate investors for the non-diversifiable or “systematic” risk of that security. Systematic risk is the risk inherent in the entire market or market segment, which cannot be diversified away using a portfolio of assets.¹²²

116. To estimate the risk-free rate or return, Ms. Bulkley used the current 30-day yield on 30-year Treasury bonds and projected 30-year Treasury bond yields for the first quarter of 2026 through the first quarter of 2027 and for the period 2027 through 2031.¹²³ Ms. Bulkley used beta coefficients for the proxy group companies as reported by Value Line, which are based on five years of weekly returns relative to the New York

¹¹⁸ PAWC St. 13, pp. 33-34.

¹¹⁹ *Id.*, p. 34.

¹²⁰ *Id.*, p. 35.

¹²¹ PAWC St. 13-R, p. 10.

¹²² PAWC St. 13, p. 39.

¹²³ *Id.*, pp. 40-41.

Stock Exchange Composite Index (Value Line).¹²⁴ She estimated the market risk premia based on the expected return on the S&P 500 Index as of September 30, 2025, with a range of 8.55% to 8.94% – a range she concluded was reasonable in light of the fact that the historical market risk premia between 1926 through 2024 was at or above that range.¹²⁵

117. In addition, Ms. Bulkley considered the results of another form of CAPM (Empirical CAPM). This methodology addresses the tendency of the “traditional” CAPM to underestimate the cost of equity for companies with low beta coefficients, such as regulated utilities.¹²⁶ Ms. Bulkley’s analysis indicated a traditional CAPM range of returns from 11.42% to 11.61%, with Empirical CAPM ROEs of 11.99% to 12.13% using market data through January 31, 2026.¹²⁷

118. I&E witness Patel initially recommended an ROE of 9.8% and revised his recommendation to 9.7%.¹²⁸

119. PAWC recommended the Commission grant a 10.95% return on equity.¹²⁹

120. The OCA recommended a return on equity of 8.7%.¹³⁰

¹²⁴ *Id.*, p. 41.

¹²⁵ *Id.*, p. 42.

¹²⁶ *Id.*, p. 43.

¹²⁷ PAWC St. 13-R, p. 11.

¹²⁸ I&E St. 2-SR, pp. 26-27.

¹²⁹ OCA St. 2 at 2.

¹³⁰ Ex. DJG-12.

121. The OCA recommended an overall weighted Rate of Return of 6.96% for water operations and 6.59% for wastewater operations.¹³¹

122. The OCA's Discount Cash Flow (DCF) cost of equity analysis results are 9.3% for the Analysts Growth Model and 6.8% for the Sustainable Growth Model.¹³²

123. The OCA's Capital Asset Pricing Model (CAPM) cost of equity analysis results are 8.7%.¹³³

124. PAWC witness Bulkley's earnings risk premium (ERP) was significantly higher than the ERPs estimated by expert surveys, Kroll (formerly Duff & Phelps), Dr. Damodaran, and that calculated by OCA witness Garrett.¹³⁴

125. PAWC is completing a multiyear project to construct a public water system for the residents of Dimock, Pennsylvania, who have not had access to safe drinking water for nearly 20 years due to unsafe levels of methane and other contaminants. In conjunction with the Office of Attorney General, PAWC is nearing completion of this system at no cost to its customers.¹³⁵

¹³¹ OCA St. 2 at 2-3.

¹³² OCA St. 2 at 41.

¹³³ OCA Ex. DJG-12.

¹³⁴ OCA St. 2 SR at 12.

¹³⁵ PAWC St. 1, pp. 16-17; PAWC St. 2-R, p. 22.

Rate Structure and Rate Design

126. The Company is estimating that it will add approximately \$488,705,042 of plant additions in the FTY ending June 30, 2026 and approximately \$676,410,111 of plant additions in the FPFTY.¹³⁶

127. For ratemaking purposes, cash working capital is the capital needed to operate a utility between the rendition of service and the receipt of revenues in payment for services rendered.¹³⁷

128. I&E proposed the following O&M adjustments:¹³⁸

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

¹³⁶ I&E St. No. 3, p. 3.

¹³⁷ I&E St. No. 1, p. 47.

¹³⁸ I&E St. No. 1-SR, p. 55.

129. PAWC submitted five separate cost-of-service studies (COSSs), one for its water operations and four for its wastewater operations.¹³⁹

130. Gregory R. Herbert prepared PAWC's COSS for its water operations (Water COSS) using the base-extra capacity method for allocating costs to customer classifications.¹⁴⁰

131. OCA witness Jerome D. Mierzwa disagrees with the system-wide demand factors used in the Company's Water COSS.¹⁴¹

132. For SSS operations, Mr. Herbert's COSSs were prepared using a modified functional cost allocation methodology described in "Financing and Charges for Wastewater Systems," Manual of Practice No. 27, published by the Water Environment Federation. That allocation methodology was modified to determine the incremental cost related to handling stormwater for PAWC's combined sewer system (CSS) operations.¹⁴²

133. The Company's proposed revenue allocation to customer class was presented by Mr. McClellan and set forth in PAWC Ex. 3-A.¹⁴³

134. I&E, OCA, and OSBA opposed PAWC's proposal, including the Company's proposal to use Section 1311(c) to mitigate the impact of revenue increases

¹³⁹ PAWC St. 12, pp. 3-5.

¹⁴⁰ *Id.*, pp. 6-18; PAWC Ex. 12-A (Water Operations).

¹⁴¹ OCA Sts. 4, pp. 14-18, & 4SR, pp. 2-5.

¹⁴² PAWC St. 12, pp. 16-31; PAWC Exs. 12-B Revised (Wastewater SSS General Operations), 12-C Revised (BASA) & 12-E Revised (Wastewater CSS Operations).

¹⁴³ *See* PAWC St. 10, pp. 46-52; PAWC St. 10-R, pp. 7-9.

on wastewater customers by recovering a portion of the Company's wastewater revenue requirement from its total water and wastewater customer base.¹⁴⁴

135. Increasing the fixed charge portion of a bill undermines the ability for consumers to reduce their bills by reducing their usage.¹⁴⁵ PAWC's proposed increase to its fixed charges would raise the residential (Zone 1) fixed charge for water service by 6% and wastewater service by 25%.¹⁴⁶

136. For low-income households, the ability to conserve to reduce bills is an important affordability tool.¹⁴⁷

137. Residential ratepayers are already taking extraordinary steps to reduce their bills through conservation at current rates, and it is critical that Pennsylvania households retain the ability to reduce their bills through conservation.¹⁴⁸

138. OCA's COSS shows Residential customers will be paying a difference of \$7.2 million dollars based on PAWC's as-filed revenue amount.¹⁴⁹

139. Extra Capacity Costs are costs associated with meeting usage requirements in excess of average usage, which includes operating and capital costs for additional plant and system capacity beyond that required for average usage.¹⁵⁰

¹⁴⁴ See I&E St. 4, p. 21; OCA St. 3-R, pp. 4-5; OSBA St. 1, p. 10; OSBA St. 3, pp. 13-14.

¹⁴⁵ *Id.* at 15: 13-15.

¹⁴⁶ *Id.* at 15: 8-10.

¹⁴⁷ *Id.* at 15: 15-18.

¹⁴⁸ OCA St. 5, Ex. BA-2.

¹⁴⁹ OCA St. 3 at 18.

¹⁵⁰ OCA St. 3 at 12-13.

140. Extra capacity costs in the Company's study have been subdivided into costs necessary to meet maximum day extra demand and maximum hour extra demand.¹⁵¹

141. These extra capacity costs were allocated to customer classes on the basis of each class's maximum day and maximum hour usage in excess of average usage.¹⁵²

142. PAWC used a system-wide maximum day extra-capacity demand factor of 1.4 and a system-wide maximum hour extra capacity factor of 2.1 in its water COSS.¹⁵³

143. The extra-capacity factors used by PAWC in this proceeding are the same factors utilized in PAWC's 2023 base rate proceeding.¹⁵⁴

144. The system-wide maximum day extra capacity demand factor used in PAWC's COSS was last experienced in 2003, or almost 25 years ago.¹⁵⁵

145. Since 2003, PAWC's water demand has changed due to aggressive water conservation, legislation, development, and changing land uses.¹⁵⁶

¹⁵¹ OCA St. 3 at 12-13.

¹⁵² OCA St. 3 at 12-13.

¹⁵³ OCA St. 3 at 14.

¹⁵⁴ OCA St. 3 at 15.

¹⁵⁵ OCA St. 3 at 15.

¹⁵⁶ OCA St. 3 at 15.

146. PAWC's 1.4 maximum day extra-capacity demand factor is reflective of actual maximum day to average day demands observed for the years 1988, 1995, 1996, 1999 and 2003.¹⁵⁷

147. The maximum hour extra capacity demand factor of 2.1 is based on an analysis of peak hour consumption experienced by PAWC in its three largest operating districts.¹⁵⁸

148. This peak hour analysis was conducted in 1988, nearly 40 years ago.¹⁵⁹

149. OCA recommended utilizing system-wide extra day and extra hour demand factors of 1.2 and 1.5 respectively.¹⁶⁰

150. The extra day factor is based on the systems' usage going back to 2011.¹⁶¹

151. PAWC included new maximum hour demand data and developed updated maximum hour extra capacity factors based on that data.¹⁶²

152. PAWC did not utilize those updated capacity factors in its COSS.¹⁶³

¹⁵⁷ OCA St. 3 at 14; PAWC Ex. No. 12-A, Schedule G.

¹⁵⁸ OCA St. 3 at 14.

¹⁵⁹ OCA St. 3 at 14.

¹⁶⁰ OCA St. 3 at 15.

¹⁶¹ OCA St. 3 at 17.

¹⁶² OCA St. 3 at 16-17. PAWC St. No. 12 at 12, Table 1, Table 2.

¹⁶³ OCA St. 3 at 17.

153. In accordance with the American Water Works Association’s Manual, M1, Principles of Water Rates, Fees, and Charges (AWWA M1 Manual), development of demand factors should be based off a representative number of recent years.¹⁶⁴

154. There has been a pervasive decline in PAWC customer usage over the last 10 years. PAWC St. 10 at 50-56. The OCA recommends no direct adjustments to PAWC’s Wastewater COSS.¹⁶⁵

155. PAWC proposed to charge \$53 million in its calculated wastewater revenue requirement to water customers.¹⁶⁶

156. Without shifting the revenue requirement amount, the direct cost of service for BASA and EBMA would increase 277.5% and 197.3% respectively.¹⁶⁷

157. Without the shift, SSS and CSS wastewater operations would experience rate increases of 18.5% and 12.1%, respectively.¹⁶⁸

158. With the Act 11 shift, SSS and CSS wastewater operations would experience rate increases of 6.8% and 3.9%.¹⁶⁹

159. With the Act 11 shift, BASA and EBMA wastewater operations would experience rate increases of 40.0% and 30.0%, respectively.¹⁷⁰

¹⁶⁴ OCA St. 3SR at 2.
¹⁶⁵ OCA St. 3 at 19.
¹⁶⁶ OCA St. 3 at 20-21.
¹⁶⁷ OCA St. 3 at 25.
¹⁶⁸ OCA St. 3 at 25.
¹⁶⁹ OCA St. 3 at 25.
¹⁷⁰ OCA St. 3 at 25.

160. Without PAWC's proposed Act 11 shift, the amount of revenue requirement assigned to the SSS and CSS wastewater systems in this proceeding is at parity with PAWC's water operations at 18.5% and 12.1%, respectively.¹⁷¹

161. Approximately 90% of PAWC's water customers are not wastewater customers.¹⁷²

162. Under PAWC's proposal, Residential water customers would be responsible for a portion of the costs associated with serving Residential wastewater customers.¹⁷³

163. Residential water customers are largely not directly responsible for these wastewater costs.¹⁷⁴

164. PAWC currently provides SSS wastewater service in eight different rate zones and CSS wastewater service in two different rate zones.¹⁷⁵

165. PAWC is including an additional CSS rate zone for the EBMA system, which PAWC completed acquiring December 16, 2025. The Company has included EBMA in this case as Rate Zone 2b.¹⁷⁶

¹⁷¹ OCA St. 3 at 25.

¹⁷² OCA St. 3 at 27.

¹⁷³ OCA St. 3 at 27.

¹⁷⁴ OCA St. 3 at 27.

¹⁷⁵ OCA St. 3 at 6-7.

¹⁷⁶ OCA St. 3 at 7.

166. Factoring in I&I costs means including a component that is largely a function of precipitation and does not vary directly with the addition or subtraction of a customer.¹⁷⁷

167. Under PAWC's as-filed COSS, the direct Residential cost of service under the Company's COSS is \$682,920,439, or 65.93% of the total direct cost of service.¹⁷⁸

168. Under Mr. Mierzwa's COSS, the direct Residential cost of service under the OCA's cost of service study is \$675,757,224, or 65.23% of the total direct cost of service study.¹⁷⁹

169. The total direct cost of service of the customer classes receiving an Act 11 assignment of the wastewater revenue requirement is \$1,005,008,593.¹⁸⁰

170. Under an assignment of the Act 11 shift to water service customer classes based on a cost of service, Residential customers would receive an assignment of 67.23% of the Act 11 assignment authorized by the Commission.¹⁸¹

171. Under the proposal, PAWC would bill a customer for whichever is less: the actual metered water usage for month or the average water consumption for that customer in the winter months.¹⁸²

¹⁷⁷ OCA St. 3 at 44.

¹⁷⁸ OCA St. 3 at 35.

¹⁷⁹ OCA St. 3 at 35.

¹⁸⁰ OCA St. 3 at 35.

¹⁸¹ OCA St. 3 at 35.

¹⁸² PAWC St. 10 at 25.

172. In the 2023 rate proceeding, the OCA demonstrated a difference of 100 gallons to 173 gallons per month between the Company's winter months versus the remaining 9 months of the year.¹⁸³

173. In this rate proceeding, the OCA demonstrated a difference of 119 gallons to 165 gallons per month.¹⁸⁴

174. Low-income customers are less likely to be residents of homes with substantial outdoor summer consumption.¹⁸⁵

175. The highest usage for PAWC customers was not necessarily in the non-winter months and the lowest usage was not necessarily in the winter months.¹⁸⁶

176. PAWC's proposed rate design for water and wastewater services are set forth in PAWC Exhibits MWM-1 and MWM-2.¹⁸⁷

177. The Company proposed several changes to its water and wastewater tariffs described by Dr. Chard in PAWC Statement No. 1 (pp. 35-46) and Mr. Wiczenski in PAWC Statement No. 7 (pp. 32-41).

¹⁸³ OCA St. 3 at 42.

¹⁸⁴ OCA St. 3 at 42.

¹⁸⁵ OCA St. 4 at 109.

¹⁸⁶ OCA St. 4 at 106-108.

¹⁸⁷ *See* PAWC St. 10, pp. 6-8. The foundation of PAWC's rate design is cost causation. PAWC developed revenue targets for customer classes, to be recovered through rate design, based on the results of PAWC's cost of service analysis, which allocates revenue requirements to customer class based on cost-causation principles, also taking into account gradualism, revenue stability, avoidance of discrimination, affordability, efficiency of use, avoidance of discrimination, and simplicity and feasibility in arriving at a rate design that is fair to all customer groups and that is just and reasonable.

178. OCA witness Mierzwa's recommended keeping existing customer charges at the current rate level for residential wastewater customers.¹⁸⁸

179. PAWC offers water service in eight rate zones. The eight rate zones are: Rate Zone 1 – General Statewide Rate, Rate Zone 2 – Valley, Rate Zone 3 – Turbotville, Rate Zone 4 – Farmington, Rate Zone 5 – East Dunkard, Rate Zone 6 – Audubon, Rate Zone 7 – Manwalamink, and Rate Zone 8 – Appalachian.¹⁸⁹ Additionally, The Company is including a pending acquisition of territories previously served by Corner Water in this case and refers to this rate zone as Rate Zone 9 – Corner Water.¹⁹⁰

180. PAWC proposes to consolidate Rate Zones 2-5 to Rate Zone 1 rates. The Company is also proposing to move Rate Zone 6-9 toward Rate Zone 1 rates and rate structures. The Company's proposed changes to its rate design are set forth in Exhibit MWM-1.

181. PAWC provides wastewater service to the following SSS: Rate Zone 1 – PAWC Statewide, Rate Zone 1a – Royersford, Rate Zone 1b – York, Rate Zone 1c – Foster, Rate Zone 1d – BASA, Rate Zone 1e – Sadsbury, Rate Zone 1f – Farmington, and Rate Zone 1g – Manwalamink. PAWC St. 10, p. 17. PAWC provides wastewater service to the following Combined Sewer Systems (CSS): Rate Zone 2 – Kane and McKeesport, and Rate Zone 2a – Scranton.¹⁹¹ The Company is including a pending acquisition of the CSS currently owned and operated by Elizabeth Borough

¹⁸⁸ PAWC St. 12-R, p. 11.

¹⁸⁹ PAWC St. 10, pp. 8-9.

¹⁹⁰ *Id.*, pp. 8-17.

¹⁹¹ PAWC St. 10, p. 17.

Municipal Authority and refers to this rate zone as Rate Zone 2b – EBMA. Rate Zone 2b EBMA is a combined sewer system.¹⁹²

182. The Company’s proposed changes to its wastewater rate design are set forth in Exhibit MWM-2.

183. I&E and OSBA proposed various changes to SSS rates.¹⁹³

184. The Company proposes to utilize a deduct adjustment.¹⁹⁴

185. PAWC currently has special contract rates to attract and retain large customers that have competitive alternatives to water service from PAWC. The Company negotiates contracts at rates, with specified minimum and maximum levels, for these customers, as set forth in Rider DIS – Demand Based Industrial Service and Rider DRS – Demand Based Resale Service.¹⁹⁵

186. The requirements for service specified by those riders include documentation, to the Company’s satisfaction, of the existence of a competitive alternative.¹⁹⁶

187. OSBA recommends that the Company re-evaluate the negotiated rates relative to competitive alternatives when Rider DIS and DRS contracts are up for renewal, and increase the contract rates to up to 90% of the cost of the competitive alternative.¹⁹⁷

¹⁹² *Id.*, pp. 17-29.

¹⁹³ I&E St. 4, Schedule 3; OSBA Ex. JK-3.

¹⁹⁴ *Id.*, pp. 27-28.

¹⁹⁵ PAWC St. 7-R, p. 18.

¹⁹⁶ *Id.*

¹⁹⁷ OSBA St. 3, pp. 9-10.

188. OSBA made a recommendation concerning two existing PAWC water tariffs, Rider DIS – Demand Based Industrial Service and Rider DGS – Demand Based Governmental Service.¹⁹⁸

189. I&E, OCA, and OSBA all submitted alternative scale back proposals.¹⁹⁹

190. PAWC is proposing structural changes and new rate designs for water Rate Zone 4 Farmington, wastewater Rate Zones 1, 1d BASA, and 1f Farmington, and requests that these rates be excluded from any scale-back.²⁰⁰

191. Pennsylvania-American’s actual capital structure for water operations includes 43.68% Long-Term Debt and 56.31% Common Equity.²⁰¹

192. Pennsylvania-American’s actual capital structure for wastewater operations includes 41.59% Long-Term Debt, 6.88% Wastewater Specific Debt, and 51.52% Common Equity.²⁰²

193. Pennsylvania-American’s cost of long-term debt is 4.71%.²⁰³

¹⁹⁸ PAWC St. 7-R, p. 18, n.17.

¹⁹⁹ See I&E St. 3, pp. 15-18; I&E St. 4, pp. 57-58; OCA St. 3, p. 32; OSBA St. 3, p. 15; OSBA St. 1, pp. 47-52.

²⁰⁰ *Id.*, pp. 20-21.

²⁰¹ PAWC Statement No. 13, p. 65, lines 10-11 and PAWC Exhibit No. 13-A, Schedules 16 and 17.

²⁰² PAWC St. No. 13, p. 65, lines 10-11 and PAWC Ex. No. 13-A, Schedules 16 and 17.

²⁰³ I&E St. No. 2 p. 24.

194. Pennsylvania-American proposes a cost of common equity for water operations of 10.95%.²⁰⁴

195. Pennsylvania-American proposes a cost of common equity for wastewater operations of 10.95%.²⁰⁵

196. Based on a capital structure of 44.99% long-term debt and 55% common equity, cost of long-term debt, and cost of common equity, the appropriate rate of return for water operations is 7.46%.²⁰⁶

197. Based on the actual capital structure, cost of long-term debt, and cost of common equity, the appropriate rate of return for wastewater operations is 7.11%.²⁰⁷

198. A management performance adjustment to the return on equity is not appropriate for Pennsylvania-American.²⁰⁸

Rate Impacts

199. PAWC's existing rates are unaffordable for many low-income families.²⁰⁹ Currently, PAWC's combined water and wastewater rates are the highest in Pennsylvania.²¹⁰

²⁰⁴ PAWC Ex. No. 13-A, Schedules 16 and 17.

²⁰⁵ PAWC Ex. No. 13-A, Schedules 16 and 17.

²⁰⁶ I&E St. No. 2-SR, p. 39.

²⁰⁷ I&E St. No. 2-SR, p. 40.

²⁰⁸ I&E St. No. 2, pp. 70-81, and I&E St. No. 2-SR, pp. 32-38.

²⁰⁹ CAUSE-PA St. 1 at 6-8.

²¹⁰ *Id.* at 19: 2-3.

200. At PAWC’s existing rates, a family of four at 50% Federal Poverty Level (FPL) using 6,000 gallons/month have a combined water/wastewater burden of 24%.²¹¹ At PAWC’s proposed rates, a family of four at 50% FPL using 6,000 gallons/per month would have a combined water/wastewater burden of 27%.²¹²

201. Pennsylvania consumers have faced profound and growing economic pressure in recent years. From December 2024 to December 2025, consumer prices increased overall by 2.7%, with essential needs categories rising sharply.²¹³

202. PAWC customers have faced a series of rate increases in recent years. PAWC having been awarded more than \$300 million in rate increases since 2020 and now seeks an additional \$169 million.²¹⁴ If approved, the average PAWC residential water will be 65% higher than it was in 2020 and the average PAWC residential wastewater bill will be 81% higher.²¹⁵ These increases in the cost of essential service further exacerbates the inability of low income customers to maintain safe services to their home.

203. Without access to running water, Pennsylvanians cannot perform basic life functions.²¹⁶ Lack of access to consistent water/wastewater services threatens the health and stability of customers, their families, and their communities – triggering

²¹¹ *Id.* at 23: 18-20.

²¹² *Id.* at 23:20 - 24:2.

²¹³ *Id.* at 7.

²¹⁴ Pa. PUC v. PAWC, Opinion and Order, Docket Nos. R-2023-3043189, R-2023-3043190, et al, (Opinion and Order, July 22, 2024). Pa. PUC v. PAWC, Order on Reconsideration, Docket Nos. R-2023-3043189, R-2023-3043190, et al. (Order, September 26, 2024).

²¹⁵ CAUSE-PA St. 1 at 35.

²¹⁶ *Id.* at 25: T. 5.

short- and long-term consequences, including eviction, condemnation, and family separation.²¹⁷

204. A utility bill burden – in this case a water/wastewater burden – is a common metric applied to determine the affordability of utility service and comprises the percentage of household income required to cover the cost of the bill.²¹⁸ At current rates, PAWC’s lowest income customers shoulder the highest utility burdens.²¹⁹

205. The high water/wastewater burdens at proposed and existing rates leave insufficient funds to pay for housing, energy, food, medicine, childcare, and other basic needs – and lead to cascading consequences to health, safety, and stability of Pennsylvania’s economically vulnerable families.²²⁰

206. While Pennsylvania has not adopted statewide water and wastewater burden standards, it is generally accepted that the combined cost for water and wastewater service should not exceed 4% of household income.²²¹

Alternative Ratemaking Requests

A. Customer Assistance Program (CAP) Rider

207. PAWC currently collects the costs of its Bill Discount Program (BDP), Arrearage Management Program (AMP), and associated administrative costs through rates and directly assigns those costs to residential ratepayers.²²²

²¹⁷ *Id.*

²¹⁸ *Id.* at 22: 10-12.

²¹⁹ *Id.* at 23: 13-14.

²²⁰ *Id.* at 24: 3-7.

²²¹ *Id.* at 22: 14-16.

²²² CAUSE-PA St. 1 at 18-19.

208. It is not possible to determine the extent to which, if at all, PAWC's total cost of service has increased as a result of the increased BDP/AMP costs.²²³

209. Changes in participation in the BDP/AMP will affect both revenues and expenses.²²⁴

Low-Income Customer Assistance

A. Affordability of Water and Wastewater Service

210. Water is vital to maintaining hygiene and health.²²⁵

211. The lack of water has a particularly negative impact on children, the elderly, women, and persons suffering from an illness or chronic health condition.²²⁶

212. The fundamental need for affordable water is recognized not only by laws relating to the protection of children, but also by laws relating to the habitability of homes.²²⁷

213. PAWC conducted an analysis of the affordability of its water and wastewater services.²²⁸

²²³ OCA St. 4SR at 34.

²²⁴ OCA St. 4SR at 35.

²²⁵ OCA St. 4 at 8-9.

²²⁶ OCA St. 4. at 8-9.

²²⁷ OCA St. 4 at 9-10.

²²⁸ PAWC Ex. DFA-1 and DFA-2.

214. PAWC prepared (for both water and wastewater services), an Enterprise-Level analysis of affordability, which considered the affordability of service at a high-level over a multi-year period, and a Community-Level analysis, which presents a focused analysis for individual groups of customers under current and proposed rates and current economic conditions.²²⁹

215. PAWC does not use a process to identify end uses and the water consumption associated with those end uses.²³⁰

216. PAWC's definition of "basic water service" of 40 gallons per household member per day ignores differences based on factors such as age or number of children in the household, or the age or number of adults in the household and considers no individual circumstances of the household.²³¹

217. While there is monthly variation for both low-income and residential customers generally in water usage, that variation does not evidence the seasonal variation which PAWC identifies.²³²

218. Increases in PAWC rates have been substantial since 2020, wherein rates have increased nearly 35% from 2020 through 2024.²³³

²²⁹ PAWC St. 9, p. 24. *See also* PAWC St. 9, pp. 9-13 (results of Water and Wastewater Enterprise-Level Analysis), 8-9 (results of Wastewater Enterprise-Level Analysis), 19-21 (results of Water and Wastewater Community-Level Analyses). PAWC St. 9, p. 24. *See also* PAWC St. 9, pp. 9-13 (results of Water and Wastewater Enterprise-Level Analysis), 8-9 (results of Wastewater Enterprise-Level Analysis), 19-21 (results of Water and Wastewater Community-Level Analyses).

²³⁰ OCA St. 4 at 13.

²³¹ OCA St. 4 at 13.

²³² OCA St. 4SR at 7-8.

²³³ OCA St. 4 at 15-16.

219. The constant flow of rate increases being sought by PAWC is difficult not only for ratepayers generally but for the delivery of affordability assistance to low-income ratepayers in particular.²³⁴

220. The cost-of-living for moderate income households, and thus the ability of these PAWC customers to absorb the rate increase sought in this proceeding, varies widely across the PAWC service territory.²³⁵

221. The number of Pennsylvania residents within income below the Asset-Limited, Income-Constrained, Employed (ALICE) threshold has grown more than three times faster than the number of households with income below poverty.²³⁶

222. There is a significant population in PAWC's service territory living with incomes greater than the federal poverty level but less than what is needed to meet basic living expenses and the affordability of PAWC bills could well depend in substantial part on the cost-of-living in different parts of the PAWC service territory.²³⁷

223. As bills become increasingly unaffordable, the payment difficulties of those customers who face unaffordability become increasingly substantial as well.²³⁸

224. In all, 75 individuals and 15 public officials provided testimony at the public input hearings regarding the affordability of water and/or wastewater service provided by PAWC.²³⁹

²³⁴ OCA St. 4 at 16-17 (citations omitted).

²³⁵ OCA St. 4 at 27.

²³⁶ OCA St. 4 at 32.

²³⁷ OCA St. 4 at 33.

²³⁸ OCA St 4 at 34.

²³⁹ OCA St. 5 App. A at 1-9; OCA St. 5 App. A Supp. at 1-4.

225. Under the Company's proposal, the total bill for a residential water customer purchasing 3,263 gallons of water per month would see increases ranging by Rate zone, between 9.8% to 41.1%.²⁴⁰

226. The total bill for a residential wastewater customer purchasing 3,164 gallons of water per month would see increases, ranging by Rate Zone, between 8% to 54%.²⁴¹

227. Customers stated that they were using various methods to reduce water usage, including short showers, purchasing bottled water, not using in-home washing machines and dishwashers, and refraining from watering lawns and washing cars. Some even testified to reducing the amount of times they flush toilets.²⁴²

228. Only one-in-ten estimated low-income customers on the PAWC system have been identified as low-income.²⁴³

229. Roughly 134,000 PAWC low-income customers are not receiving PAWC's low-income services.²⁴⁴

230. PAWC has disconnected low-income customers, or sent them a disconnection notice, at rates five to more than six times higher than residential customers as a whole.²⁴⁵

²⁴⁰ OCA St. 5 at 4.

²⁴¹ OCA St. 5 at 3.

²⁴² See generally, OCA St. 5 App. A; OCA St. 5-Supp. App. A.

²⁴³ OCA St. 4 at 36-37.

²⁴⁴ OCA St. 4 at 37.

²⁴⁵ OCA St. 4 at 38-39.

231. While PAWC received roughly 70 payments for each 100 bills rendered to identified low-income customers from 2023 through 2025, it received roughly 90 payments for each 100 bills issued to residential customers as a whole.²⁴⁶

232. To the extent the disconnected customers are not being reconnected, PAWC is losing revenue due to nonpayment.²⁴⁷

B. Bill Discount Program (BDP) Design

233. PAWC's existing BDP provides income-qualified customers with tiered discounts based on household income expressed as a percentage of the FPL.²⁴⁸ The program includes four tiers—0–50%, 51–100%, 101–150%, and 151–200% of FPL—and applies graduated discounts to both water and wastewater service.²⁴⁹

234. Water customers are eligible for different percentage discounts for their water service and volumetric charges, while wastewater customers are eligible for a total bill discount.²⁵⁰

235. PAWC proposed limited modifications to the water portion of its BDP, consolidating the existing fixed charge and volumetric charge discounts into a single, total bill discount by tier. The proposed discounts—82%, 67%, 44%, and 22% for water customers across the four income tiers—closely approximate the overall level of assistance provided under the current structure while simplifying the program for customers and improving administrative efficiency.²⁵¹

²⁴⁶ OCA St. 4 at 41.

²⁴⁷ OCA St. 4 at 42-43.

²⁴⁸ PAWC St. 10, p. 4. *See also* PAWC St. 2-R, p. 13.

²⁴⁹ PAWC St. 10-R, pp. 2-3.

²⁵⁰ PAWC St. 10, p. 4; PAWC St. 10-R, p. 3.

²⁵¹ PAWC St. 10, p. 5; PAWC St. 10-R, p. 3.

236. Consolidating the two discounts into a single total bill discount will produce substantially similar total bill impacts.²⁵² The change will further enhance transparency by allowing customers to more easily understand the level of assistance they will receive and will reduce operational complexity for the Company without undermining affordability.²⁵³

237. The Company did not propose any changes to its wastewater discount structure.²⁵⁴

238. The Company's BDP is structured to provide greater benefits to lower-income customers, like a percentage of income payment plan (PIPP), because the BDP offers four tiers of discounts with greater discounts for lower-income customers.²⁵⁵

239. PAWC has system constraints impacting the feasibility of a PIPP.²⁵⁶

240. It is not reasonable to require PAWC to incur the costs associated with upgrading its IT systems and overhauling its BDP to adopt a PIPP structure when the current BDP structure already offers four tiers of discounts tailored to customers based on their household income levels.²⁵⁷

241. Under CAUSE-PA's proposal, wastewater customers whose bills consist solely of fixed charges would have their entire bills offset and would pay nothing for service, and would not contribute anything towards the fixed costs necessary to

²⁵² PAWC St. 10, p. 5.

²⁵³ *Id.*

²⁵⁴ PAWC St. 10, p. 5.

²⁵⁵ PAWC St. 2-R, p. 5.

²⁵⁶ *Id.*, pp. 5-6.

²⁵⁷ *Id.*, p. 6.

maintain system availability for all customers that other BDP participants would continue to pay for.²⁵⁸

242. Fixed charges are designed to recover costs that are incurred to serve all customers regardless of usage. It is therefore appropriate that all customers, including BDP participants, contribute at least some amount toward these costs.²⁵⁹

C. Arrearage Management Program (AMP)

243. The Company's arrearage management program ("AMP") is a part of the Company's H2O Help to Others Program and is designed to provide meaningful assistance to low-income customers while encouraging sustainable payment behavior.²⁶⁰

244. Any customer enrolled in the Company's BDP who has an outstanding balance equal to or greater than \$150 that is at least sixty days past due is eligible to enroll in the AMP.²⁶¹

245. The AMP is structured as a payment arrangement under which a customer is responsible for their current charges plus a \$5 co-payment: for each month that an enrolled customer pays their bill on time and in full, the customer receives a \$25 forgiveness credit.²⁶²

246. PAWC's arrearage management program is not successful in retiring arrears.²⁶³

²⁵⁸ PAWC St. 10-R, p. 7.

²⁵⁹ *Id.*, pp. 6-7.

²⁶⁰ PAWC St. 2-R, p. 6.

²⁶¹ *Id.*

²⁶² PAWC St. 2-R, p. 6.

²⁶³ OCA St. 4 at 66.

247. As of November 2025, 18,539 BDP participants were in active arrears, 11,000 carrying balances for more than 60 days.²⁶⁴

248. 93% of BDP enrollees are carrying a balance, but fewer than 20% are also enrolled in AMP.²⁶⁵

249. PAWC has issued over 20,000 payment arrangements to BDP participants since the AMP began.²⁶⁶

250. PAWC's arrearage forgiveness program should be modified to allow customers to earn a monthly arrearage forgiveness credit for each complete payment the customer makes, similar to the policy the Commission has adopted for Pennsylvania's energy utilities.²⁶⁷

251. The Commission's arrearage forgiveness policy for energy utilities is that forgiveness credits should be provided for full and timely payments, and in addition, retroactive credits should be provided once the household pays its in-program balance in full.²⁶⁸

252. PAWC's policies on when, or whether, to grant AMP credits has resulted in the program being largely ineffective in delivering arrearage relief to low-income customers.²⁶⁹

²⁶⁴ CAUSE-PA St. 1 at 43.

²⁶⁵ CAUSE-PA St. 1 at 43.

²⁶⁶ PAWC St. 2-R at 22: 8-20.

²⁶⁷ OCA St. 4 at 67.

²⁶⁸ OCA St. 4 at 67-68.

²⁶⁹ OCA St. 4 at 68-69.

253. PAWC's current AMP policies provide no incentive for customers to make partial payments in order to facilitate retiring their entire bill in a future month.²⁷⁰

254. A \$25 monthly credit will not allow low-income customers to retire their pre-program arrears in a reasonable time period given the level of pre-existing arrears they are bringing into the program.²⁷¹

255. It would take in excess of four years to retire arrears assuming that customers received their arrearage forgiveness credits in every month they participated in the program.²⁷²

256. AMP participants had participated in the program for an average of 6.3 months and virtually no participant reduced pre-existing arrears to \$0.²⁷³

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

257. Given the improved low-income payment patterns generated by enrollment of low-income customers in the Company's BDP and AMP, identifying low-income customers and enrolling those customers in CAP can reasonably be expected to have a positive financial impact on PAWC.²⁷⁴

²⁷⁰ OCA St. 4 at 70.

²⁷¹ OCA St. 4 at 73.

²⁷² OCA St. 4 at 74.

²⁷³ OCA St. 4 at 75-76.

²⁷⁴ OCA St. 4 at 47.

258. It is important to assess the extent to which PAWC has both: (1) identified its low-income population; and (2) enrolled its low-income customers into the BDP/AMP where possible and appropriate.²⁷⁵

259. PAWC enrolls customers into its BDP who have pre-existing arrears without at the same time enrolling those customers in the Company's AMP.²⁷⁶

260. PAWC's outreach and other information provided by the company regarding promotion of the BDP and AMP does not address shortcomings and, in particular, does not allow customers to make decisions regarding whether to enter into a deferred payment arrangement or to enroll in the arrearage forgiveness program with informed consent.²⁷⁷

261. PAWC's outreach and other information provided by the company regarding promotion of the BDP and AMP assists customers to not only know that a program exists, but information on how to access the program.²⁷⁸

262. The enrollment of low-income customers is important for purposes other than the actual enrollment in BDP and AMP but also such information would be helpful in referring customers to hardship funds and assist in other data gathering purposes.²⁷⁹

²⁷⁵ OCA St. 4 at 49-50.

²⁷⁶ OCA St. 4 at 79.

²⁷⁷ OCA St. 4 at 63.

²⁷⁸ OCA St. 4 at 63.

²⁷⁹ OCA St. 4SR at 17.

E. Water Conservation and Line Repair and Replacement Assistance

263. Low-income usage reduction programs (LIURPs) are required under Pennsylvania law for electric distribution companies (EDCs) and natural gas distribution companies (NGDCs) only and are part of their broad universal service plans.²⁸⁰ There are detailed LIURP regulations addressing many of the items recommended by Mr. Geller, including prioritizing high users, reporting, and utility coordination.²⁸¹

264. To implement a LIURP-type program, PAWC would have to hire additional staff and manage costs associated with repairing and replacing the leaking lines and infrastructure of low-income customers.²⁸²

265. The line repair/conservation programs or pilots of other water utilities in Pennsylvania referenced by Mr. Geller were derived through voluntary settlements and not Commission-imposed mandates.²⁸³

²⁸⁰ PAWC St. 15-R, p. 25.

²⁸¹ See 52 Pa. Code §§ 58.1, *et seq.*

²⁸² PAWC St. 15-R, p. 25.

²⁸³ See *Petition of The Pittsburgh Water and Sewer Auth. for Approval of Pilot Private Service Line Leak Repair and Expanded Conservation Program for Eligible Low Income Customers and Authorization to Track Costs as a Regulatory Asset for Future Base Rate Recovery*, Docket No. P-2022-3030253 (Order entered March 2, 2023); *Pa. P.U.C. v. Veolia Water Pa., Inc.*, Docket Nos. R-2024-3045192 and R-2024-3045193 (Order entered October 10, 2024); *Joint Application of Aqua America, Inc., Aqua Pa., Inc., Aqua Pa. Wastewater, Inc., Peoples Natural Gas Co. LLC and Peoples Gas Co. LLC for All of the Authority and the Necessary Certificates of Pub. Convenience to Approve a Change in Control of Peoples Natural Gas Co. LLC and Peoples Gas Co. LLC by Way of the Purchase of All of LDC Funding, LLC's Membership Interests by Aqua America, Inc.*, Docket Nos. A-2018-3006061, A-2018-3006062 and A-2018-3006063 (Order entered Jan. 24, 2020).

F. Hardship Fund

266. PAWC's Hardship Fund is a bill-paying assistance program funded by PAWC shareholders, donations from customers, and others who want to help customers in need. For the 2025 to 2026 program year, the Company is contributing \$1.45 million to the Hardship Fund.^{284, 285}

267. The current annual cap per customer of \$500 grants for water and wastewater, totaling \$1,000, achieves the Hardship Fund's intended purpose of providing emergency, short-term assistance to customers in need.²⁸⁶

268. Over the last five completed funding cycles, the highest average grant amount per service was \$403.29 - in 2023-2024.²⁸⁷

269. The annual cycle of the Hardship Fund runs from October to September, meaning that new shareholder funds for a particular cycle are added to the fund balance in October. Therefore, it is not surprising that months closer to the beginning of the cycle, like December, would have a larger balance than later months. As of March 19, 2026, the Hardship Fund balance was approximately \$750,000 – or about \$500,000 less than the December 2025 Hardship Fund balance.²⁸⁸

²⁸⁴ PAWC St. 2, p. 13.

²⁸⁵ PAWC's donations to the Hardship Fund are at an increased level for a five-year period consistent with the settlement approved in the Company's application to acquire the BASA wastewater system, at Docket No. A-2022-3037047.

²⁸⁶ PAWC St. 2-R, p. 10.

²⁸⁷ Tr. 1819.

²⁸⁸ Tr. 1819.

G. Renter Assistance Pilot Program

270. Low-income residents who live in master-metered buildings do not pay their utility directly for their utility service and therefore are not eligible for customer assistance programs such as the BDP or AMP. PAWC is proposing to assist this population through a Rental Assistance Pilot Program (“RAPP”) that would provide eligible residents with quarterly stipends that are approximately equivalent to what the resident would be receiving if they were enrolled in the BDP based on an average level of residential customer usage.²⁸⁹

271. The Company intends to recover RAPP costs through PAWC’s proposed CAP rider (with a \$1 million annual cap on RAPP stipends) and to administer the RAPP for a minimum of two years in locations in different regions with high renter populations: Scranton and Butler.²⁹⁰

272. PAWC’s proposed RAPP represents a substantial change in regulatory policy in that it proposes to use ratepayer money to provide assistance to non-ratepayers.²⁹¹

H. Universal Service Plan

273. The Code only requires gas and electric utilities to implement USPs.²⁹²

²⁸⁹ PAWC St. 2, pp. 15-18; PAWC St. 2-R, pp. 10-12.

²⁹⁰ PAWC St. 2, pp. 16-18.

²⁹¹ OCA St. 4 at 82.

²⁹² CAUSE-PA St. 1, p. 54; CAUSE PA St. 1-SR, p. 25.

274. Details regarding the Company’s low-income programs are available in its tariff, on its website, and in various outreach materials, and the Company will continue to provide detailed information related to its low-income programs as part of base rate proceedings.²⁹³

Service Quality and Customer Service Issues

A. Customer Service Performance

i. Call Center Performance

275. The Customer Service Organization (“CSO”) operated by Service Company supports the customer service needs of PAWC and the other American Water utility subsidiaries, including customer call handling and billing.²⁹⁴

276. The CSO consistently seeks ways to improve the customer experience and maintain high levels of customer satisfaction.²⁹⁵

277. The CSO’s hiring and recruitment efforts over the past several years have reduced wait times and the call abandonment rate for customers that do not utilize the courtesy call back (“CCB”) feature.²⁹⁶

²⁹³ PAWC St. 2-R, p. 16.

²⁹⁴ PAWC St. 15-R, pp. 3-6. The CSO is operated by Service Company employees, which provides support for several functions of PAWC and other American Water utility subsidiaries.

²⁹⁵ *Id.*, pp. 7-9.

²⁹⁶ *Id.*, pp. 11-13.

278. The CSO continually refines the myWater portal to help PAWC customers efficiently manage their account online and efforts to expand adoption of paperless billing to increase customer engagement and, ultimately, satisfaction.²⁹⁷

279. PAWC and the CSO identify trends from customer feedback provided via transaction surveys, including from customers seeking bill assistance, requesting payment arrangements, raising inability-to-pay issues, or responding to disconnection notices.²⁹⁸

280. The CSO's hiring and recruitment efforts over the past several years have reduced wait times and the call abandonment rate for customers that do not utilize the courtesy call back ("CCB") feature.²⁹⁹

281. At the public input hearings multiple customers testified regarding customer service issues with PAWC's call center, with one consumer testifying they called PAWC regarding poor water quality, and were placed on hold for over 20 minutes waiting to speak to a supervisor, and that no supervisor picked up the phone.³⁰⁰

282. The 2024 and 2025 annual average percentage of calls answered within 60 seconds was 47% and 44%, respectively, for one contractor, and 31% and 22%, respectively, for the other contractor.³⁰¹

283. The annual average abandonment rate is: 19% for one contractor for both 2024 and 2025, and 20% in 2024 and 23% in 2025, for the other contractor.³⁰²

²⁹⁷ PAWC St. 9, pp. 9-13; PAWC St. 9-R, pp. 3-4.

²⁹⁸ PAWC St. 9-R, p. 10.

²⁹⁹ PAWC St. 9, pp. 9-13 & 9-R, pp. 3-4.

³⁰⁰ Tr. at 1418-1419; OCA St. 5 App. A at 13.

³⁰¹ OCA St. 5 at 11.

³⁰² OCA St. 5 at 11.

284. The CSO conducts training of its agents on Pennsylvania rules and regulations before they are permitted to handle calls from PAWC customers. This training includes an 80-page training module and a knowledge test, and the CSO has a quality assurance process focused on Customer Care Associate (CCA) adherence to Chapter 14 of the Code and Chapter 56 of the PUC's regulations.³⁰³

285. The existence of training materials does not necessarily evidence whether those materials are understood or complied with.³⁰⁴

286. The CSO utilizes processes to reinforce training including its internal quality assurance ("QA") process, which involves reviewing all calls with low satisfaction scores from customers and any call that did not resolve the customer's concern in the first contact.³⁰⁵ The QA team evaluates whether the agent followed the process specified in the applicable training materials, and if it is a PAWC customer call, the QA team reviews compliance with Pennsylvania regulations as part of the evaluation.³⁰⁶

287. The QA process relies entirely on customer identification of their overall call status in a survey response.³⁰⁷ PAWC's QA process does not proactively evaluate its customer calls to determine compliance with training materials.³⁰⁸

³⁰³ PAWC St. 9, pp. 6-7 & 9-R, pp. 8-9.

³⁰⁴ OCA St. 5SR at 10.

³⁰⁵ PAWC St. 15-R, p. 7; PAWC Hearing Ex. No. 3, p. 2.

³⁰⁶ PAWC Hearing Ex. No. 3, p. 2.

³⁰⁷ OCA St. 5SR at 13

³⁰⁸ *Id.*

ii. Customer Complaints

288. Several consumers testified to purchasing bottled water or special reverse osmosis filters for drinking, water that has black specks, white specks, or is brown, and consumers complained about chemical, chlorine, and rotten egg smells.³⁰⁹

B. Billing Arrangement with American Water Resources

289. For over two decades, American Water Resources (AWR) has offered optional products and services, such as water line and sewer line protection plans, to PAWC customers. After enrolling with AWR, customers are charged a monthly fee on their PAWC bills so that if their water or sewer line breaks, AWR will deploy a contractor to fix the water or sewer line under the warranty program at minimal up-front cost to the customer.³¹⁰

290. AWR has historically used PAWC's trademark and logo for marketing purposes, which is standard industry practice when a utility partners with another entity to offer warranty products and services.³¹¹

291. Disclosures are included on all marketing materials explaining that AWR is not affiliated with PAWC, its products and services are optional, and AWR's prices are not determined by PAWC.³¹²

³⁰⁹ Tr. 402-405; 548-549; 917; 930-931; 978-979; 1033; 1033; 1116; 1145 1362;1418-1422; See also OCA St. 5 App. A; and OCA St. No. 5 Supp. App. A.

³¹⁰ PAWC St. 15-R, pp. 15-16.

³¹¹ *Id.*, pp. 18-19.

³¹² PAWC St. 15-R, pp. 16-17.

292. PAWC includes the charges provided by AWR on its bills as a separate line item – the “Account Summary” that appears directly below the total amount due on the first page of PAWC’s customer bill itemizes the balance for “Service Related Charges” and “Protection Programs.”³¹³

293. The customer bills do not explicitly state that AWR is unaffiliated with PAWC or its parent company.³¹⁴

294. No customers’ service is terminated for non-payment of AWR charges.³¹⁵

295. PAWC and Service Company employees do not market or promote any AWR services or products.³¹⁶

296. Customer calls related to non-basic services are redirected to AWR’s toll-free number and website that includes clear disclosures that it is not affiliated with American Water and that AWR’s services are optional.³¹⁷

297. The calculations, rates, and provisions set forth in the rate tables which are attached hereto and made apart hereof, and marked as Appendix E, set forth all the determinations and calculations made in this proceeding, each of which shall constitute a specific finding of fact as if more fully set forth hereinafter at length.

³¹³ PAWC Hearing Ex. 3, pp. 3-4.

³¹⁴ OCA Ex. BA-3.

³¹⁵ *Id.*, pp. 19-20.

³¹⁶ PAWC St. 15-R, p. 20.

³¹⁷ *Id.*

IV. PUBLIC INPUT HEARINGS³¹⁸

Over the course of this proceeding, ten in-person public input hearings were held in Washington, Scranton, Harrisburg, Reading, and Chester, as well as two telephonic public input hearings.³¹⁹ Areas of concern raised by customers, public officials and the general public included, *inter alia*, affordability of service, frequency of rate increases, impact from data centers, customer service, water quality, and service disruptions. In addition to the testimony received at the public input hearings, as of March 25, 2026, a total of 159 formal and 572 informal complaints and objections have been made against PAWC.

In all, approximately 75 individuals and 15 public officials testified at public input hearings about their concerns regarding the affordability of water and/or wastewater service provided by PAWC.³²⁰ A Pennsylvania American customer stated during one public input hearing that moving to an area where PAWC provides water service might have been a mistake.³²¹ Numerous customers over the course of the 12 public hearings stated that they were using various and often extreme methods to reduce water usage, including, short showers, purchasing bottled water, not using in-home washing machines and dishwashers, refraining from watering lawns and washing cars, reducing the amount of times they flush toilets, and some even testified they would go to the bathroom outside in order to limit toilet flushing.³²² Several witnesses also raised

³¹⁸ This summary was prepared using HData, an Artificial Intelligence program which the Commission provides to its employees. The information found in Appendix C was prepared by us from the transcripts of the public input hearings and entered into HData for it to provide a summary.

³¹⁹ OCA St. 5 at App. A.

³²⁰ OCA St. 5 App. A at 1-9; OCA St. 5 App. A Supp. at 1-4.

³²¹ OCA St. 5-Supp. App. A at 2; Tr. 1514-1516

³²² *See generally*, OCA St. 5 App. A; OCA St. 5-Supp. App. A.

concerns about the number of rate increases filed by PAWC and granted by the Commission over the last several years.

PAWC customers also testified throughout the public input hearings, regarding the poor customer service they received from interactions with PAWC as well as to the poor quality of water and service disruptions. Approximately 24 customers and 3 public officials testified concerning these issues.³²³ Several consumers testified to purchasing bottled water or reverse osmosis filters, water that has black specks, white specks, or is brown, and chemical, chlorine, and a rotten egg like odor.³²⁴

Testimony was also provided by witnesses supporting the rate increase generally focusing on their experience working with PAWC as contractors, chamber of commerce and related officials and members of organizations and nonprofit entities who received contributions or assistance from the Company. Many of these witnesses supported infrastructure investments in order to ensure reliable, safe, and efficient water and wastewater services. Many of these witnesses, including residential water customers like Jeff Nobers and Joe Casilli, emphasized that these investments create jobs for local skilled labor, stimulate the regional economy, and contribute to community growth. Business owners and contractors, such as Bob Bielich and Andy Cardosi, who work with PAWC, spoke to the company's commitment to upgrading aging systems, maintaining safety standards, and fostering community partnerships. Several residential and business water and/or wastewater customers, including William Thomeier and David Rhome, supported the rate increase, citing PAWC's role as a good corporate citizen, its assistance programs, and the long-term benefits of proactive infrastructure maintenance, which they argued is more cost-effective than emergency repairs.

³²³ *Id.*

³²⁴ Tr. 402-405; 548-549; 917; 930-931; 978-979; 1033; 1033; 1116; 1145 1362;1418-1422; *See also* OCA St. 5 App. A; and OCA St. No. 5 Supp. App. A.

Representatives from various organizations and chambers of commerce, many of whom were business or residential water customers or non-customers but partners of PAWC, also expressed support, highlighting PAWC's community involvement, financial contributions, and its commitment to economic development and public health. They supported the rate adjustments to fund projects such as lead service line replacement and system modernization. Witnesses like Glen Sponaugle, a water and wastewater customer, stated they were not opposed to an increase that supports quality service, while others, like John Brutz, a non-customer, justified the increase by contrasting PAWC's efficiency with that of some municipal systems. Overall, supporters of the rate increase, testified in support of investments in maintaining service quality, public safety, and economic vitality.

Conversely, witnesses opposing the rate increase, many of whom were water and/or wastewater customers, expressed significant concerns about the financial burden, particularly on seniors, fixed-income families, and low-income households. Deborah Lee, a retired residential water customer, and Donna Nedelk, a water customer, cited frequent double-digit increases, questioned high executive compensation, and argued against ratepayers funding corporate profits or infrastructure for new industrial users like data centers. Many residential water and/or wastewater customers, such as Judy Wojanis, Tom Murray, and Ed Padgelek, raised issues of perceived mismanagement, lack of transparency, and rates being significantly higher than other local providers.

State Representatives and Senators, like Jim Haddock, Kyle Donahue, and Bridget Kosierowski, highlighted the unaffordability of current and proposed increases, noting that water and sewer services are essential with no alternative providers. Witnesses from Exeter Township, including Karen Bates and Carla Seidel, both wastewater or water and wastewater customers, detailed drastic bill increases since PAWC acquired their systems, with some seeing monthly charges jump from

approximately \$30 to approximately \$200. Concerns about water quality, despite high costs, were frequently raised by customers like Doris Koloski, a water customer, and Kathleen Schwartz, a water and wastewater customer, who resorted to filters or bottled water.

Several customers described taking extreme measures to conserve water, such as limiting toilet flushing, showering at fitness centers, or reusing rainwater, as highlighted by Gary Duncan, Shawn Keperling, and Patria Istenis, all water and wastewater customers.

Finally, other concerned customers including George Bell and John Hashern, both water and wastewater customers, pointed to cumulative rate increases and/or the perception that PAWC acquires failing systems and then burdens captive ratepayers struggling on limited incomes to pay the repair costs for failing systems acquired by PAWC. Many customers questioned the justification for these frequent and proposed increases given American Water's substantial profits and high executive compensation benefits. Terry Maenza, a retired water and wastewater customer, specifically highlighted American Water's promise of high annual growth to Wall Street, leading PAWC to plan rate cases every two years and suggested that the Commission demand a "stay out" provision limiting the ability of Pennsylvania American to continue to request future increases.³²⁵

V. LEGAL STANDARD/BURDEN OF PROOF

Under the Public Utility Code, rates charged by public utilities must be just and reasonable and cannot result in unreasonable rate discrimination. 66 Pa.C.S. §§ 1301

³²⁵ See Tr. pp. 113-1739 for the complete testimony from the public input hearings, summarized above.

and 1304. PAWC bears the burden of proof to establish the justness and reasonableness of every element of its rate increase request. 66 Pa.C.S. § 315(a); *Pa. Pub. Util. Comm'n v. Aqua Pa., Inc.*, Docket No. R-00038805, 236 P.U.R.4th 218, 2004 Pa. PUC LEXIS 39 (Aug. 5, 2004). However, a public utility, in proving that its proposed rates are just and reasonable, does not have the burden to affirmatively defend claims made in its filing that no other party has questioned. As the Commonwealth Court has explained:

While it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged.

Allegheny Ctr. Assocs. v. Pa. Pub. Util. Comm'n, 570 A.2d 149, 153 (Pa. Cmwlth. 1990).

Although the ultimate burden of proof does not shift from the utility seeking a rate increase, a party proposing an adjustment to a ratemaking claim of a utility bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment. *See, e.g., Pa. Pub. Util. Comm'n v. PECO*, Docket No. R-00891364, 1990 Pa. PUC LEXIS 155 (Opinion and Order entered May 16, 1990); *Pa. Pub. Util. Comm'n v. Breezewood Tel. Co.*, Docket No. R-00901666, 1991 Pa. PUC LEXIS 45 (Opinion and Order entered Jan. 31, 1991). Purely speculative assumptions are insufficient. *Pa. Pub. Util. Comm'n v. Pa. Power & Light Co.*, 1995 WL 803507 (Opinion and Order entered Sept. 27, 1995).

Further, a party that raises an issue that is not included in a public utility's general rate case filing bears the burden of proof. *Pa. Pub. Util. Comm'n v. Metro. Edison Co.*, Docket No. R-00061366, 2007 Pa. PUC LEXIS 5 (Order entered Jan. 11, 2007). The proponent of a rule or order bears the burden of proof pursuant to Section 332(a) of the Public Utility Code, 66 Pa.C.S. § 332(a), which provides that the party seeking a rule or order from the Commission has the burden of proof in that proceeding.

It is axiomatic that “[a] litigant’s burden of proof before administrative tribunals as well as before most civil proceedings is satisfied by establishing a preponderance of evidence which is substantial and legally credible.” *Samuel J. Lansberry, Inc. v. Pa. Pub. Util. Comm’n*, 578 A.2d 600, 602 (Pa. Cmwlth. 1990). The preponderance of the evidence standard requires proof by a greater weight of the evidence. *Cmwlth. v. Williams*, 732 A.2d 1167 (Pa. 1999).

Additionally, any finding of fact necessary to support an adjudication of the Commission must be based on substantial evidence. *Met-Ed Indus. Users Group v. Pa. Pub. Util. Comm’n*, 960 A.2d 189 (Pa. Cmwlth. 2008) (citing 2 Pa.C.S. § 704). Substantial evidence is such relevant evidence as a reasonable mind might accept as adequate to support a conclusion. *Borough of E. McKeesport v. Special/Temporary Civil Serv. Comm’n*, 942 A.2d 274 (Pa. Cmwlth. 2008). Although substantial evidence must be “more than a scintilla and must do more than create a suspicion of the existence of the fact to be established,” *Kyu Son Yi v. State Bd. of Vet. Med.*, 960 A.2d 864, 874 (Pa. Cmwlth. 2008) (citation omitted), the “presence of conflicting evidence in the record does not mean that substantial evidence is lacking.” *Allied Mech. & Elec., Inc. v. Pa. Prevailing Wage Appeals Bd.*, 923 A.2d 1220, 1228 (Pa. Cmwlth. 2007) (citation omitted).

If the complainant has established a *prima facie* case, the burden of persuasion shifts to the utility to rebut with evidence that is at a minimum co-equal. *Waldron v. Philadelphia Electric Co.*, 1980 WL 140964 (Pa.P.U.C. March 19, 1980). If the utility presents a sufficient rebuttal, the burden of persuasion then shifts back to the complainant to rebut the utility’s evidence by a preponderance of the evidence. *Hurley v. Hurley*, 754 A.2d 1283 (Pa. Super. 2000) However, the burden of proof remains on the party seeking affirmative relief with the Commission. *Milkie v. Pa. Pub. Util. Comm’n*, 768 A.2d 1217 (Pa. Cmwlth. 2001).

The Commission is not required to consider expressly and at length each contention and authority brought forth by each party to the proceeding. *Univ. of Pa. v. Pa. Pub. Util. Comm'n.*, 485 A.2d 1217 (Pa. Cmwlth. 1984). “A voluminous record does not create, by its bulk alone, a multitude of real issues demanding individual attention” *Application of Midwestern Fidelity Corp.*, 363 A.2d 892, 902, n.6 (Pa. Cmwlth. 1976). Further, a Commission decision is adequate where, on each of the issues raised, the Commission was merely presented with a choice of actions, each fully developed in the record, and its choice on each issue amounted to an implicit acceptance of one party's thesis and rejection of the other party's contention. *Popowsky v. Pa. Publ. Util. Comm'n.*, 706 A.2d 1197 (Pa. 1997).

VI. RATE BASE

A. Plant-In-Service

1. PAWC's Position

According to PAWC, the increase in utility plant-in-service since its last base rate case is the single largest factor driving the Company's request for an increase in revenue, as since the end of the FPFTY in its last case (June 30, 2025), through the end of the FPFTY in this case (June 30, 2027), it will have invested \$1.05 billion in new or replacement plant, and the overwhelming portion of this investment is in source of supply, treatment, distribution and collection assets³²⁶. According to PAWC, part of this investment is also being used to improve service to small and troubled water and

³²⁶ PAWC St. 2, pp. 3-4; PAWC St. 4, pp. 4-5

wastewater systems acquired by PAWC³²⁷. PAWC asserts no party disputes PAWC's claimed plant-in-service as of the end of the FPFTY.³²⁸

2. I&E's Position

I&E explains it did not make any adjustments to plant-in-service. However, I&E recommends that the Company provide I&E and the OCA with updates to PAWC Ex. 3-A, pp. 27 and 95, Summary of Detailed Plant Accounts for each separate revenue requirement no later than December 1, 2027, under this docket number. I&E submits PAWC's updates should include actual plant additions and retirements for the twelve months ending June 30, 2026, and for the twelve months ending June 30, 2027.

As the Company estimates it will add approximately \$488,705,042 of plant additions in the FTY ending June 30, 2026 and approximately \$676,410,111 of plant additions in the FPFTY, I&E explains this information can help determine how closely Pennsylvania-American's projected investments in future facility comport with the actual investments that are made by the end of the FTY and the FPFTY. I&E asserts that determining the correlation between the projected and actual plant additions and retirements will help verify the validity of Pennsylvania-American's projections.

I&E submits, PAWC has agreed to provide the updates as I&E requested.³²⁹

³²⁷ PAWC St. 1, pp. 10-18; PAWC St. 2, p. 4.

³²⁸ I&E witness Vanessa Okum's originally proposed reductions to capitalized labor costs associated with her vacancy rate adjustment are addressed in Section VI.A. below.

³²⁹ PAWC St. No. 5-R, p. 10.

3. OCA's Position

OCA has no adjustments to PAWC's plant-in-service as the OCA has made no adjustments to any of PAWC's expenditures on utility infrastructure or maintenance³³⁰.

4. OSBA's Position

OSBA did not specifically address this issue.

5. CAUSE-PA's Position

CAUSE-PA did not specifically address this issue.

6. Victory Brewing's Position

Victory Brewing did not specifically address this issue.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not specifically address this issue.

8. ALJs' Recommendation

I&E explains that PAWC has agreed to provide I&E and OCA with updates to PAWC Ex. 3-A, pp. 27 (Water) and 95 (General SSS), Summary of Detailed Plant Accounts for each separate revenue requirement no later than December 1, 2027 under

³³⁰ OCA MB at 11.

Docket Numbers R-2025-3057983 and R-2025-3058051, with updates to include actual plant additions and retirements for the twelve months ending June 30, 2026 and for the twelve months ending June 30, 2027. I&E's recommendation will help determine projected and actual investments made by the Company and therefore I&E's proposal is adopted in this Recommended Decision, as if specifically set forth in the Ordering Paragraphs below.

However, we also recommend that PAWC be required to provide similar updates for its BASA, CSS, and Elizabeth CSS Operations, so that the Commission and interested parties can evaluate and compare PAWC's plant additions and retirements for all Operations included in PAWC's revenue requirement with PAWC's projections. Therefore, we recommend that PAWC file with the Commission's Secretary's Bureau and provide the Commission's Bureau of Technical Utility Services, I&E and OCA with updates to PAWC Ex. 3-A, pp. 27 (Water), 95 (General SSS), 146 (BASA), 193 (CSS) and 238 (Elizabeth CSS) Summary of Detailed Plant Accounts no later than December 1, 2027 under Docket Number R-2025-3058051 with updates to include actual plant additions and retirements for the twelve months ending June 30, 2026 and for the twelve months ending June 30, 2027.

B. Additions to Rate Base

1. PAWC's Position

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

related to water and wastewater plant-in-service for ratemaking purposes and, using PUC-approved procedures, to estimate the Company's book reserve as of June 30, 2023, June 30, 2024, and June 30, 2025.³³¹ PAWC's annual depreciation accrual applicable to plant-in-service at June 30, 2025, is \$265,476,224.³³²

In addition to the depreciated original cost of net utility plant-in-service,³³³ PAWC explains it has included in its claimed rate base cash working capital, materials and supplies, accrued taxes net of prepaid taxes, as well as the utility plant acquisition adjustments (UPAAs), transaction costs, and other amortizations described in the direct testimony of Company witness Deason.³³⁴ According to PAWC, the only rate base additions that remain in dispute are PAWC's acquisition adjustments that it recorded upon its acquisition of the Farmington water system and the Manwalamink systems³³⁵.

Acquisition Adjustments

PAWC requests that it be allowed to include in rate base, and thereby earn a return on, approximately \$2.1 million UPAAs that it recorded upon its acquisition of the Farmington water assets and the Manwalamink water and wastewater assets,³³⁶ and that it be permitted a return of its Farmington and Manwalamink acquisition adjustments through a 10-year amortization.³³⁷

³³¹ See generally PAWC St. 11.

³³² PAWC M.B. at 17-18.

³³³ See PAWC M.B. at 10.

³³⁴ PAWC St. No. 5.

³³⁵ PAWC M.B. at 11.

³³⁶ PAWC St. 5, p. 18; PAWC Ex. 3-A Revised, pp. 66R, 126R; PAWC Ex. 3-C. PAWC's other claimed positive UPAAs, described in Company witness Don Wieczenski's direct testimony (PAWC St. 7, pp. 21-32), were not contested in testimony or exhibits.

³³⁷ PAWC St. 5, pp. 22-25; PAWC Ex. 3-A Revised, pp. 66R, 126R.

PAWC submits, pursuant to 66 Pa.C.S. § 1327, that generally a purchase price in excess of the original cost less depreciation of an acquired system is presumed to be reasonable and entitled to be included in rate base if the enumerated criteria are met.³³⁸

PAWC explains criterion Number 3 in Section 1327(a) requires a showing that the acquired system at the time of its acquisition was not “furnishing and maintaining adequate, efficient, safe and reasonable service and facilities.”³³⁹

PAWC witness Wieczenski testified that the Farmington water system was operating in violation of DEP Safe Drinking Water Act regulations, with 41 notices of violation between 2018 and 2023 for failure to conduct required monitoring of water samples.³⁴⁰ PAWC asserts regular routine monitoring is required to detect any increase in contaminants in the water system and allow the water system to take corrective action to eliminate or mitigate the contaminants.³⁴¹

PAWC asserts the Farmington water system’s failure to issue public notices in a timely manner meant that customers were unaware of possible concerns with the drinking water’s quality, and some of Farmington’s violations involved Tier 2 notification requirements. DEP regulations define a Tier 2 notification as specific types of violations “with potential to have serious adverse effects on human health.”³⁴²

PAWC further argues that the parties in the Farmington acquisition proceeding entered into a stipulation of facts that demonstrates that Farmington was not, at the time of acquisition, furnishing and maintaining adequate, efficient, safe and

338 66 Pa. C.S. § 1327(a)(1)-(8).

339 66 Pa.C.S. § 1327(a).

340 PAWC St. 7-R, pp. 3-4; PAWC Ex. DW-1R.

341 PAWC St. 7-R, p. 5.

342 25 Pa. Code § 109.407(b)(2).

reasonable service and facilities,³⁴³ including a stipulation that, at the time of its acquisition, the Farmington water system had non-revenue water (NRW) of more than 30%,³⁴⁴ and that Farmington did not contemplate or budget for improvements to the system.³⁴⁵

PAWC witness Wieczenski also provided testimony regarding violations of DEP's regulatory requirements pertaining to the safety of the service provided by Manwalamink and the failure to test its water to determine whether it was safe for customers to consume and was not informing its customers about those violations.³⁴⁶

Criterion number 6 in Section 1327(a)(6) provides that an acquiring public utility must show that the "actual purchase price is reasonable."³⁴⁷ With respect to the Manwalamink purchase price (\$1,809,000 for the water system and \$2,191,000 for the wastewater system), OCA witness Morgan testified that the purchase price was unreasonable and testified the price was 111% in excess of the systems' combined book value.³⁴⁸

PAWC asserts that during the Manwalamink acquisition proceeding, the Commission noted PAWC's net utility plant-in-service per customer was \$7,345 for water customers and \$12,271 for wastewater customers, whereas the purchase price per customer (PP/C) for the Manwalamink Systems was only \$1,577.³⁴⁹

³⁴³ PAWC St. 7-R, pp. 4-7.

³⁴⁴ PAWC Ex. DW-1R, ¶ 48.

³⁴⁵ *Id.*, ¶ 50.

³⁴⁶ PAWC St. 7-R, pp. 11-12; PAWC Ex. DW-3R.

³⁴⁷ 66 Pa.C.S. § 1327(a)(6).

³⁴⁸ OCA St. 1, p. 19. Mr. Morgan did not take issue with the purchase price for the Farmington water system.

³⁴⁹ *Id.*, pp. 46-47.

Cash Working Capital

PAWC submits it calculated its cash working capital requirement using the lead-lag method.³⁵⁰ PAWC submits no party disputed the methodology the Company employed or challenged its proposed revenue lag, expense lag or net lag (revenue lag minus expense lag). However, PAWC notes O&M expenses are an input to the calculation of cash working capital and therefore, I&E witness Okum proposes adjustments to PAWC's requested cash working capital that are concomitant to her proposed adjustments to O&M expenses. I&E's proposed expense adjustments are addressed below³⁵¹. PAWC explains if any changes are made to PAWC's proposed O&M expenses, its cash working capital would need to be recalculated.

2. I&E's Position

I&E did not provide testimony on this topic.

3. OCA's Position

a. Utility System Acquisitions

i. New Systems Added to Rate Base

OCA explains that as a result of acquisitions since PAWC's last base rate case, PAWC proposes to include the following systems in rate base for the first time:³⁵²

³⁵⁰ PAWC St. 5, pp. 15-17.

³⁵¹ See PAWC M.B. at 17,19.

³⁵² OCA St 1 at 6.

Water	Wastewater
Farmington Township	Farmington Township
Audubon Water Company	Butler Area Sewer Authority
East Dunkard Water Authority	Elizabeth Borough Municipal Authority
Manwalamink Water Company	Manwalamink Sewer Company
Appalachian Utilities, Inc.	Sadsbury Township Municipal Authority
Corner Water Supply and Service Corporation	

OCA explains all of the above systems were acquired pursuant to 66 Pa. C.S. Sections 1329 or 1102,³⁵³ and not under Section 529.

OCA submits the only instance in which PAWC was a receiver of a troubled system among the above transactions was with the East Dunkard Water Authority (EDWA).³⁵⁴ However, PAWC and EDWA had already made plans for PAWC to acquire the EDWA system and executed the acquisition agreement when, in an unrelated development, the system experienced an operational failure.³⁵⁵ Because EDWA lacked the funds to address the issue, PAWC was appointed as receiver for the EDWA system.³⁵⁶ Aside from that one instance, OCA asserts the system acquisitions PAWC seeks to include in rate base in this case did not involve troubled systems. The OCA does not oppose the addition of the above systems to rate base.

ii. Acquisition Adjustments

PAWC is seeking to recover acquisition costs for the following systems: Audubon Water Company (AWC), Farmington Township water system (Farmington), and Manwalamink Water Company (MWC) and Manwalamink Sewer Company (MSC) (together, Manwalamink).³⁵⁷

³⁵³ PAWC St. 7 at 3-13.

³⁵⁴ PAWC St. 1 at 11-13.

³⁵⁵ *Id.*

³⁵⁶ *Id.*

³⁵⁷ OCA St. 1 at 9.

- **Audubon Water Company**

OCA explains as part of the AWC acquisition proceeding, the parties waived their rights to challenge PAWC’s request to recover the acquisition premium.³⁵⁸ Accordingly, the OCA does not oppose PAWC’s request to recover the acquisition costs for AWC.

- **Manwalamink**

On March 27, 2025, the Commission approved PAWC’s acquisition of Manwalamink’s water and wastewater systems.³⁵⁹ The application for PAWC’s acquisition of Manwalamink was filed under Section 1102(a) of the Pennsylvania Public Utility Code (the Code), 66 Pa. C.S. Section 1102(a).³⁶⁰

OCA argues PAWC’s proposed acquisition adjustment for the Manwalamink systems should be removed from PAWC’s rate base as PAWC has not met the criteria under Section 1327(a)(3) necessary to support its inclusion as PAWC did not demonstrate that Manwalamink was providing inadequate, inefficient, unsafe or unreasonable service at the time of acquisition when it made a generalized claim that the system’s elderly owners were unable to maintain operations.³⁶¹ According to OCA, PAWC’s assertion is contradicted by the acquisition record, where no party, including PAWC, alleged deficient service.³⁶² OCA submits testimony instead showed that day-to-

³⁵⁸ OCA St. 1SR at 13-14.

³⁵⁹ *Application of Pennsylvania-American Water Co., pursuant to Section 1102 of the Public Utility Code to Acquire Manwalamink Water Company and Manwalamink Sewer Company Assets*, Docket Nos. A-2023-3044418 et al., Order (Mar. 27, 2025).

³⁶⁰ *Id.*

³⁶¹ OCA St. 1 at 18.

³⁶² *Id.*

day operations were handled by a third-party operator, and that the sale was motivated by the owners' age rather than any service failure.³⁶³ While the Manwalamink systems had a number of violations of the Safe Drinking Water Act (SDWA), OCA asserts these violations were largely monitoring and reporting issues, Manwalamink showed improvement overtime, with 5 violations in 2023 down from 17 in 2021, and they were not tied to customer harm or service degradation.³⁶⁴ By the time of PAWC's Application to acquire Manwalawink's assets, OCA argues Manwalawink's compliance vastly improved³⁶⁵ and OCA concludes the evidence does not meet the statutory threshold required for an acquisition adjustment.

OCA also argues PAWC failed to establish that the purchase price was reasonable and the product of an arm's length negotiation as required under 66 Pa. C.S. Sections 1327(a)(5) and (6) as the purchase price of the Manwalamink systems was derived from a pre-existing agreement negotiated by a previous potential buyer, which PAWC adopted.³⁶⁶ PAWC also paid an 111% premium over book value for a system it now claims was deficient, yet failed to demonstrate any corresponding benefits such as increased earnings or growth.³⁶⁷ OCA submits PAWC's own projections showed revenue deficiencies post-acquisition, undermining any claim that the premium was justified.³⁶⁸

Since PAWC cannot demonstrate that Manwalamink was not providing adequate service at the time of the acquisition and failed to establish that the purchase price was reasonable and the result of an arm's length negotiation, OCA concludes the requirements of Section 1327 have not been met and PAWC's proposal for a positive

³⁶³ *Id.* at 19.

³⁶⁴ OCA St. 1SR at 15, 17-19.

³⁶⁵ *Id.*

³⁶⁶ OCA St. 1 at 19.

³⁶⁷ OCA St. 1SR at 14-15.

³⁶⁸ *Id.*

acquisition adjustment should be rejected, and its rate base claim should be decreased by \$380,725.

- **Farmington**

On September 26, 2024, the Commission approved PAWC's acquisition of Farmington's water and wastewater systems.³⁶⁹ The purchase price allocated \$2,621,312 for the water system and \$2,923,688 for the wastewater system.³⁷⁰ The application for PAWC's acquisition of Farmington was filed under Section 1102(a).³⁷¹ PAWC is only seeking inclusion of an acquisition adjustment for Farmington's water system in this case.³⁷²

OCA asserts PAWC's proposed acquisition adjustment for the Farmington water system should be removed from PAWC's rate base as PAWC has not met the criteria under Section 1327(a)(3) necessary to support its inclusion – that Farmington was providing inadequate, inefficient, unsafe or unreasonable service at the time of acquisition when it claimed that Farmington's SDWA violations for failure to collect weekly water samples constituted inadequate and unreliable service.³⁷³

Since PAWC cannot demonstrate that Farmington was not providing adequate service at the time of the acquisition, OCA argues the requirements of Section 1327 have not been met and PAWC's proposal for a positive acquisition adjustment should be rejected, and its rate base should be decreased by \$23,586.

³⁶⁹ *Application of Pennsylvania-American Water Co., pursuant to Section 1102 of the Public Utility Code to Acquire Township of Farmington Water and Wastewater Assets*, Docket Nos. A-2023-3042587 et al., Order (Sep. 26, 2024).

³⁷⁰ OCA St. 1 at 7.

³⁷¹ *Id.*

³⁷² OCA St. 1SR at 18.

³⁷³ OCA St. 1 at 13.

4. OSBA's Position

OSBA did not specifically address this issue.

5. CAUSE-PA's Position

CAUSE-PA did not specifically address this issue that explains it supports the positions advanced by the OCA.

6. Victory Brewing's Position

Victory Brewing took no specific position on PAWC's rate base.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not specifically address this issue.

8. ALJs' Recommendation

The burden of proof is on PAWC with regard to the elements of its rate claim³⁷⁴. For all the reasons addressed by OCA above, we agree with OCA that PAWC did not meet its burden of proof for positive acquisition adjustments for the Manwalamink sewer and water systems and Farmington Water system, resulting in rate base decreases of \$1,051,330 for Water Operations for Manwalamink water, \$961,320 for General SSS Operations for Manwalamink wastewater, and \$123,028 for Water Operations for Farmington pursuant to Section 1327 of the Code.

³⁷⁴ Sec 66 Pa. C.S. § 315.

Notwithstanding PAWC failing to meet its burden of proof for these Section 1327 acquisition adjustments, PAWC should be permitted to recover its claimed transaction and closing costs for the Manwalamink water and wastewater systems, the Farmington water system, and the remaining water and wastewater systems acquired by PAWC and identified in PAWC Ex. 3-A.³⁷⁵ This excludes PAWC's Towamencin transaction costs, which are discussed further below. While PAWC's acquisition of these systems provides affirmative public benefits for both existing and acquired customers, as detailed by PAWC, these benefits do not support providing PAWC with unnecessary acquisition premiums that are in addition to allowable transaction and closing costs.

C. Deductions from Rate Base

1. PAWC's Position

PAWC submits no party contests any of PAWC's deductions from rate base, which were described in Mr. Deason's direct testimony.³⁷⁶

2. I&E's Position

a. Cash Working Capital (CWC)

I&E accepts the Company's use of the lead/lag method but disagrees with the Company's CWC claim. I&E witness Okum presented an update to her CWC recommendation to reflect certain adjustments that she withdrew. Based on the

³⁷⁵ See PAWC Ex. 3-A Revised, Pages 37R (Water) 104R (General SSS), 153R (BASA) and 244R (Elizabeth CSS).

³⁷⁶ See *id.*, pp. 8, 19-21.

Company’s updated CWC claim and Ms. Okum’s updated O&M adjustments, the following table shows I&E’s CWC recommendation³⁷⁷:

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

I&E submits its proposed allowance of \$29,748,223, or a reduction of \$346,865 (\$29,748,223 - \$29,401,358)³⁷⁸ to the Company’s FPFTY claim is reasonable.

I&E witness Okum testified “[a]ll adjustments to the Company’s claims for revenues, expenses, taxes, and rate base must be continually brought together for each operating unit in the Recommended Decision and again in the Commission’s Final Order. According to I&E this process, known as iteration, effectively prevents the determination of a precise calculation until all adjustments have been made to the Company’s claims,”³⁷⁹ and this number would be subject to change based on any other expense adjustments the Commission may adopt³⁸⁰.

³⁷⁷ I&E St. No. 1-SR, p. 55, I&E M.B. p.15.

³⁷⁸ I&E St. No. 1-SR, p. 52.

³⁷⁹ *Id.* at 58.

³⁸⁰ I&E M.B., p.16

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

I&E explains witness Okum made several O&M Expense adjustments that have a corresponding adjustment to rate base. These include Performance Pay, Payroll Tax Expense, and Transportation Expense. These adjustments are detailed in the corresponding O&M Expense sections below.³⁸¹

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

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

Regarding Payroll Tax, for which I&E witness Okum recommended an adjustment, I&E also recommends a reduction to rate base of \$163,977 to correspond

³⁸¹ *Id.* at 17.

with the rate base portion of the performance pay adjustment impacting payroll tax, broken down by operation as follows:

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

Regarding Transportation Expense, to correspond with the expense adjustment made by I&E witness Okum, I&E recommends the following rate base adjustments³⁸²:

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

³⁸² I&E M.B., p. 18.

Since these adjustments contain both an expense and rate base adjustment, they are further discussed in the Expense section below.

3. OCA's Position

OCA did not specially address this issue in its testimony.

4. OSBA's Position

OSBA has no comment.

5. CAUSE-PA's Position

CAUSE-PA did not offer independent testimony with regard to rate base in this proceeding, though it supports the positions advanced by the OCA.

6. Victory Brewing's Position

Victory Brewing did not specifically address this issue.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not address this issue.

8. ALJs' Recommendation

a. Cash Working Capital

As I&E explained in its reply brief, for ratemaking purposes, CWC is the capital needed to operate a utility between the rendition of service and the receipt of revenues in payment for services rendered³⁸³, and covers the lag between the payment of operating expenses and the receipt of revenues from ratepayers. As cash-based expenses are included in the Company's overall CWC claim, any adjustments to the Company's O&M expense claims impact the CWC allowance.³⁸⁴

I&E witness Okum's proposed CWC adjustments were concomitant to her O&M Expense adjustments,³⁸⁵ and accordingly, "If any change are made to PAWC's proposed O&M expenses, its cash working capital would need to be recalculated."³⁸⁶ I&E explains that all adjustments to the Company's claims for revenues, expenses, taxes, and rate base must be continually brought together for each operating unit in the Recommended Decision and in the Commission's Final Order.³⁸⁷ The process, referred to as iteration, effectively prevents the determination of a precise calculation until all adjustments have been made to the Company's claims.³⁸⁸ As a result, this number would be subject to change based on any other expense adjustments set forth in this Recommended Decision, or those that the Commission may adopt in their final Order.

383 I&E St. No. 1, p. 37.

384 I&E Reply Brief, pp. 7-8.

385 PAWC M.B., p. 17.

386 *Id.*

387 I&E Reply Brief, p. 8.

388 I&E St. No. 1-SR, p. 58.

The following table shows I&E’s CWC adjustments, based on the Company’s updated CWC claim and Ms. Okum’s updated O&M adjustments, as recommended by I&E³⁸⁹:

	FPFTY Claim	I&E Allowance	Adjustment
Water Operations	\$24,869,831	\$24,556,348	(\$313,483)
Wastewater SSS Operations	\$2,269,221	\$2,254,066	(\$15,155)
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Total	<u>\$29,748,223</u>	<u>\$29,401,358</u>	<u>(\$346,865)</u>

I&E submits and we agree that CWC adjustments should be adopted for any expense adjustments adopted by the Commission. As detailed in Sheets IV, V, and VI of the Rate Case Tables attached to this Recommended Decision, each adjustment that is recommended to be adopted by the Commission has a corresponding cash working capital impact that is calculated based on the results of PAWC’s lead/lag study. The adjustments that are recommended to be adopted are discussed further below.

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

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

³⁸⁹ I&E St. No. 1-SR, p. 55.

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

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

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

	I&E Rate Base Adjustment
Water Operations	(\$155,714)
Wastewater SSS Operations	(\$3,950)
Wastewater CSS Operations	(\$3,154)

	I&E Rate Base Adjustment
BASA Wastewater Operations	<u>(\$1,159)</u>
Total	<u>(\$163,977)</u>

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

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

I&E explains since these adjustments contain both an expense and rate base adjustment, they are further discussed below in the Expense section.³⁹⁰

³⁹⁰ I&E Reply Brief, pp. 9-11.

D. Conclusion

1. PAWC's Position

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

2. I&E's Position

I&E recommends the following: First, I&E recommends that the Company provide I&E and the OCA with updates to PAWC Ex. 3-A, pp. pp. 27 and 95, Summary of Detailed Plant Accounts for each separate revenue requirement no later than December 1, 2027, under this docket number. Second, I&E submits its expense adjustments are prudent for the reasons discussed herein, and accordingly a corresponding CWC adjustment must also be made. I&E recommends an allowance of \$29,748,223, or a reduction of \$346,865 ($\$29,748,223 - \$29,401,358$)³⁹¹ to the Company's FPFTY claim. However, attached to this recommendation is the caveat that any adjustments to the Company's claims for revenues, expenses, taxes, and rate base must be continually brought together for each operating unit in the Recommended Decision and again in the Commission's final Order. As a result, the CWC adjustment would be subject to change based on any other expense adjustments adopted in the Recommended Decision or in the final Order. In addition, there are certain O&M adjustments that also require a corresponding rate base which are detailed further in the O&M sections below.

³⁹¹ I&E St. No. 1-SR, p. 52.

3. OCA's Position

OCA submits that PAWC has not met its burden of proof on all of its rate base claims, and the OCA's adjustments are reasonable.

4. OSBA's Position

OSBA has no comment.

5. CAUSE-PA's Position

CAUSE PA did not specifically address this issue.

6. Victory Brewing's Position

Victory Brewing did not specifically address this issue.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not specifically address this issue.

8. ALJs' Recommendation

Based upon the record evidence and for all of the reasons advanced by I&E as set forth above, we agree with I&E and conclude the following adjustments are reasonable and appropriate and should be adopted. Accordingly, first, we recommend that the Company file with the Commission and provide I&E and the OCA with updates to PAWC Ex. 3-A, pp. 27 and 95, Summary of Detailed Plant Accounts for each separate

revenue requirement no later than December 1, 2027, under this docket number.³⁹² Second, as detailed in Sheets IV, V, and VI of the Rate Case Tables attached to this Recommended Decision, each adjustment that is recommended to be adopted by the Commission has a corresponding cash working capital impact that is calculated based on the results of PAWC's lead/lag study.

VII. REVENUES

1. PAWC's Position

PAWC explains in Appendix A, PAWC's pro forma revenues, at present rate levels, equal \$1,162,135,869³⁹³ for the FPFTY. The Company developed this claim using the level of water and wastewater sales revenue generated during the historic test year (HTY) ended June 30, 2025, as adjusted, as detailed in PAWC Ex. 3-A Revised, to eliminate non-recurring items and to annualize the effect of known or anticipated changes, including adjustments to eliminate unbilled revenue; to annualize revenues associated with acquired systems; to reflect changes affecting the consumption of specific large customers; and to reflect changes in the number of customers during the HTY and as projected for the future test year (FTY) ending June 30, 2026, and the FPFTY. Additionally, for residential, commercial, and municipal customers, PAWC proposed adjustments to the actual FTY billing determinants related to trends in declining use, weather normalization, and the impact of the COVID-19 pandemic on water consumption. In his direct and rebuttal testimony,³⁹⁴ company witness Max McClellan describes all the adjustments made in developing PAWC's pro forma revenue claims.

³⁹² See Section VI A above.

³⁹³ Sum of Water, WW SSS General, WW CSS, EBMA and BASA Operations.

³⁹⁴ PAWC St. 10 and 10R.

PAWC adjusted operating revenues for each water and wastewater Operation by applying a penalty rate of 0.5199% to total billed water/wastewater sales.³⁹⁵

2. I&E's Position

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

3. OCA's Position

OCA did not address this issue in its testimony.

4. OSBA's Position

OSBA's proposed reductions in revenue are presented in the Expenses section below.

5. CAUSE-PA's Position

CAUSE-PA did not offer independent testimony with regard to PAWC's claimed revenues but supports the position of OCA that PAWC's rates should be decreased. CAUSE-PA notes that OCA witnesses Morgan and Garrett each raised substantial evidence and data demonstrating that PAWC's revenue proposals are unjust, unreasonable, and contrary to the public interest – including, *inter alia*, the acquisition costs that PAWC proposes to include in base rates,³⁹⁶ its proposed incentive

³⁹⁵ See PAWC Ex. 3-A Revised, Pages 25R2 (Water), 93R2 (General SSS), 144R2 (BASA), 191R2 (CSS), and 236R2 (Elizabeth CSS).

³⁹⁶ See OCA St. 1 at 7-20.

compensation expense,³⁹⁷ and its excessive proposed return on equity.³⁹⁸ CAUSE-PA asserts PAWC's proposal to dramatically increase rates and revenue for basic water/wastewater services, if approved, will negatively affect the accessibility of service for residential customers, especially low income customers who already struggle to maintain service to their homes. CAUSE-PA submits it is not just, reasonable, or in the public interest to permit PAWC to increase its revenue when doing so will result in rates which are categorically unaffordable for low income households – pricing tens of thousands of families out of the market for basic, life-essential water and wastewater services. Thus, CAUSE-PA concludes that PAWC's revenue proposal must be rejected, as PAWC has failed to show that its proposals will result in rates that are just, reasonable, and in the public interest.

6. Victory Brewing's Position

Victory Brewing takes no specific position on PAWC's revenues.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs takes no specific position on PAWC's revenues.

8. ALJs' Recommendation

PAWC includes industrial pretreatment revenue, late payment fees, and miscellaneous revenue in other operating revenue and projects it will collect \$3,072,167 of other operating revenue in SSS Operations.³⁹⁹ I&E's recommendation reflects an

³⁹⁷ OCA St. 1 at 20:17-23.

³⁹⁸ OCA St. 2 at 40-42.

³⁹⁹ Pennsylvania-American Ex. 10-B, p. 34.

increase of \$39,156 in other operating revenue.⁴⁰⁰ Included in the Company's calculation of other operating revenues is an amount for late payment revenues.⁴⁰¹ Because the I&E rate recommendations result in an increase to proposed revenues, I&E explains there will be a corresponding increase to late payment revenues. I&E also submits that, in the electronic files provided by the Company at the beginning of the proceeding, PAWC identified a late payment fee percentage of 0.5199%. I&E witness Cline multiplied the total proposed rate revenue as a result of his rate recommendations by that 0.5199% to determine the other operating revenues under proposed rates ($\$7,531,477 \times 0.5199\% = \$39,156$).⁴⁰² I&E submits the Company agreed that changes in late fee revenues should ultimately be based on changes in proposed rates as ordered by the Commission in this proceeding.⁴⁰³

Therefore, as I&E explained, the final other operating revenues should be adjusted based on the proposed rate revenue eventually approved by the Commission.⁴⁰⁴ These increases should be reflected in the Company's proof of revenues filed with the Commission pursuant to 52 Pa. Code § 5.592(a), and should be calculated consistent with the Commission's final authorized rate revenues for each water and wastewater Operation.

⁴⁰⁰ I&E Ex. No. 4, Schedule 2, Column O, line 21.

⁴⁰¹ Pennsylvania-American Ex. 10-B, p. 34.

⁴⁰² I&E Ex. No. 4, Schedule 2; I&E Reply Brief, pp. 11-12.

⁴⁰³ PAWC St. No. 10-R, p. 51; I&E Reply Brief, p. 12.

⁴⁰⁴ I&E St. No. 4, pp. 44-45.

VIII. EXPENSES

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

1. PAWC's Position

PAWC explains as shown in Appendix A, PAWC's pro forma O&M expenses, at present rate levels, equal \$339,539,564⁴⁰⁵ for the FPFTY. PAWC submits its labor-related expense allowance for the FPFTY⁴⁰⁶ was developed based on PAWC's projected complement of 1,278 equivalent employees.⁴⁰⁷ I&E proposed an adjustment to salaries and wages, as well as derivative reductions to benefits expense and payroll taxes, to reflect a 1.25% vacancy rate,⁴⁰⁸ which was accepted by the Company and reduced the overall O&M expense claim by \$1,515,312.⁴⁰⁹ After employing a 1.25% vacancy rate, PAWC's final labor-related expense claim, including associated payroll taxes, is \$107,221,845. Two labor related expense issues remain outstanding⁴¹⁰.

⁴⁰⁵ Sum of Water, WW SSS General, WW CSS, BASA, and EBMA Operations.

⁴⁰⁶ PAWC's labor-related expense claim reflects: (1) salaries and wages (including performance compensation); (2) group insurance; (3) other benefits (401k, Defined Contribution Plan and Employee Stock Purchase Plan); and (4) payroll taxes. PAWC St. 6, pp. 4-6.

⁴⁰⁷ *Id.*, pp. 5-8. *See also* PAWC St. 3, p. 59.

⁴⁰⁸ I&E St. 1, pp. 15-19, 28-36. OCA witness Morgan also proposed an adjustment to reflect the Company's employee complement at the end of HTY. Mr. Morgan withdrew this adjustment in his surrebuttal testimony in light of PAWC's acceptance of I&E's recommended vacancy rate. *See* OCA St. 1SR, p. 19.

⁴⁰⁹ PAWC Ex. 3-A Revised, pp. 48R, 49R, 52R, 69R, 110R, 111R, 113R, 129R, 158R, 159R, 161R, 174R, 207R, 208R, 210R & 225R. *See also* PAWC Ex. LNO-1R.

⁴¹⁰ PAWC M.B., p.20.

First, I&E witness Okum initially proposed an adjustment to rate base for capitalized labor costs based on a 1.25% vacancy rate.⁴¹¹ However, PAWC submits its claim for capitalized labor is based on estimated work hours to complete projected plant additions and those costs are not a function of the amount of total projected labor included in PAWC's O&M expense claim.⁴¹² Ms. Okum contends that the expense portion of PAWC's labor claim must be reduced by the amount originally allocated to rate base (\$610,685) to fully reflect the vacancy rate adjustment.⁴¹³ The Company asserts Ms. Okum's position is incorrect because PAWC did not include the capitalized portion of labor-related expense in its claimed O&M expense in this case.⁴¹⁴ To determine the portion of labor-related costs (salaries and wages, benefits and related payroll taxes) charged to expense, PAWC deducted 42.81% (water operations) and 19.78% (wastewater operations), which is the average proportion of direct labor costs charged to capital accounts from 2023 to 2025.⁴¹⁵ PAWC argues Ms. Okum proposes to remove amounts that are not reflected in the proposed rate allowance for O&M expense⁴¹⁶.

Second, OSBA witness Jason Hails recommends an \$8.7 million reduction to PAWC's labor-related expense claim to "moderate" the Company's revenue requirement,⁴¹⁷ concluding PAWC's actual and projected per-customer employee-related expense from 2021 to 2027 is "excessive" compared to the inflation-escalated O&M costs calculated in the analysis set forth in OSBA Ex. JH-1.⁴¹⁸ PAWC submits those merit increases were not disputed by the OSBA or any other Party⁴¹⁹.

⁴¹¹ I&E St. 1, pp. 15-19, 28-36.

⁴¹² PAWC St. 5-R, p. 6.

⁴¹³ I&E St. 1-SR, pp. 18-19.

⁴¹⁴ PAWC St. 6-RJ, pp. 2-3.

⁴¹⁵ PAWC St. 6, p. 6; PAWC St. 6-RJ, p. 3.

⁴¹⁶ PAWC M.B., p.21.

⁴¹⁷ OSBA St. 2, pp. 3, 17-18. Mr. Hails also proposes a \$27.3 million adjustment to service company charges that is discussed in Section VI.D below.

⁴¹⁸ See OSBA St. 2, pp. 3-5; OSBA Ex. JH-1.

⁴¹⁹ PAWC M.B. p. 21.

2. I&E's Position

a. O&M Expenses

I&E asserts operating and maintenance (O&M) expenses, if properly incurred, may justify a rate increase proposal. However, if expenses are unreasonable, e.g., overstated, abnormal, unnecessary, or simply have not been incurred for the test year, they should not be relied upon.

I&E witness Okum addresses the Company's O&M expenses and the tables below show her recommendations, which are discussed below:

Water Operations:⁴²⁰

	<u>Company Claim</u>	<u>Recommended Allowance</u>	<u>I&E Adjustment</u>
O&M Expenses:			
Salaries and Wages	\$59,632,332	\$59,067,291	(\$565,041)
Performance Pay	\$5,144,184	\$2,463,535	(\$2,680,649)
Payroll Taxes	\$5,025,070	\$4,773,204	(\$251,866)
Group Insurance	\$12,094,513	\$11,979,913	(\$114,600)
401k	\$1,709,357	\$1,693,160	(\$16,197)
Defined Contribution Plan	\$2,294,399	\$2,272,659	(\$21,740)
Waste Disposal	\$4,216,691	\$3,039,714	(\$1,122,977)
Transportation	\$3,095,090	\$2,864,899	<u>(\$230,191)</u>

⁴²⁰ I&E St. No. 1-SR, p. 5.

Total O&M Expense Adjustments			<u>(\$5,003,261)</u>
Rate Base:			
Performance Pay			(\$2,006,620)
Payroll Taxes			(\$155,714)
Transportation	\$2,316,544	\$2,144,542	(\$172,012)
Cash Working Capital	\$24,869,831	\$24,556,348	<u>(\$313,483)</u>
Total Rate Base Adjustments			<u>(\$2,647,829)</u>

Wastewater SSS Operations:⁴²¹

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

⁴²¹ I&E St. No. 1-SR, p. 6.

Wastewater CSS Operations:⁴²²

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

⁴²² I&E St. No. 1-SR, p. 7.

BASA Wastewater Operations:⁴²³

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

I&E notes I&E witness Okum did not make any adjustments to the revenue requirement for Elizabeth Borough as I&E is not providing a table with Elizabeth Borough claims. Only I&E witness DC Patel addresses the revenue requirement for

⁴²³ I&E St. No. 1-SR, p. 8.

Elizabeth Borough through a recommended adjustment to the rate of return, concluding there is not enough historical data to support adjustments to other claims for this recently acquired system.

b. Salaries and Wage Expense

I&E explains its salaries and wages adjustment was started by calculating an average vacancy rate for the Company as a whole. A budgeted headcount was used along with vacancy data provided by PAWC in response to I&E-RE-18⁴²⁴ which resulted in a three-year average vacancy rate of 1.25%.⁴²⁵ The calculated vacancy rate was then applied to each operation's O&M expense claim and rate base claim for salaries and wages by multiplying the FPFTY claim by the vacancy rate to determine the vacancy adjustment⁴²⁶.

I&E witness Okum recommends an O&M allowance for salaries and wages expense, based on the calculated vacancy rate of 1.25% across all business operations,⁴²⁷ of \$74,256,028, or a reduction of \$939,949 (\$75,195,977 - \$74,256,028) to the Company's claim and capitalized salaries and wages of \$48,244,018, or a reduction of \$610,685 (\$48,854,703 - \$48,244,018) to the Company's claim broken down by operation as follows:

⁴²⁴ I&E Ex. No. 1, Schedule 2.

⁴²⁵ I&E Ex. No. 1, Schedule 3.

⁴²⁶ I&E M.B., p. 26.

⁴²⁷ I&E St. No. 1, pp. 16-18.

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

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

PAWC's claim for salaries and wages expense includes base pay, overtime, shift premium, and meal compensation,⁴²⁸ and claims total FPFTY salaries and wages expense broken down by operation as follows:

⁴²⁸ I&E Ex. No. 1, Schedule 1, p. 1. I&E M.B., pp. 26-28.

	FPFTY Claim⁴²⁹	Capitalization Rate⁴³⁰	O&M Claim	Rate Base Claim
Water Operations	\$105,590,439	42.81%	\$60,387,172	\$45,203,267
Wastewater SSS Operations	\$6,862,453	19.78%	\$5,505,060	\$1,357,393
Wastewater CSS Operations	\$8,832,512	19.78%	\$7,085,441	\$1,747,071
BASA Wastewater Operations	<u>\$2,765,276</u>	19.78%	<u>\$2,218,304</u>	<u>\$546,972</u>
Total	<u>\$124,050,680</u>		<u>\$75,195,977</u>	<u>\$48,854,703</u>

In rebuttal testimony, PAWC witness O'Malley states that the Company has accepted I&E's recommended adjustment to reflect an average vacancy rate of 1.25% and has adjusted O&M expenses accordingly for each business operation. However, the Company rejected I&E's recommended adjustment to rate base.⁴³¹ PAWC witness Deason states that I&E erroneously assumed that in developing its claim for FPFTY plant additions the Company adjusted the estimated cost of those additions to reflect a portion of the pro-forma payroll-related increase deemed to be capital-related. Mr. Deason states that to develop the estimated cost of plant additions, the Company included appropriate estimates of labor costs based on actual work hours that will be required to construct those additions. He asserts that the labor costs capitalized as part of projected plant additions are not a function of the amount of total projected labor included in the Company's O&M expense claim and should not be reduced in relation to the recommended vacancy adjustment.⁴³²

I&E witness Okum accepted Mr. Deason's assertion that capitalized labor should not be adjusted in relation to the vacancy adjustment, and I&E recommends a total

⁴²⁹ PAWC No. 3-B, p. 3.

⁴³⁰ PAWC Ex. No. 3-B, p. 2.

⁴³¹ PAWC St. No. 6-R, pp. 2-3.

⁴³² PAWC St. No. 5-R, pp. 5-6.

FPFTY O&M allowance of \$73,645,342 for salaries and wages expense, or a reduction of \$610,685 (\$74,256,027 - \$73,645,342) to the Company’s updated claim.⁴³³ I&E submits since the Company updated its claim to reflect only a portion of the vacancy adjustment, the I&E updated adjustment will further reduce the Company’s expense claim, as shown in the following table, to include the portion of the adjustment originally allocated to rate base:

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

c. 401k Expense

I&E witness Okum recommends an expense adjustment for 401k expense to match with her salaries and wages expense adjustment.⁴³⁴ I&E witness Okum recommended an O&M expense allowance for 401k expense of \$2,084,225, or a reduction of \$26,382 (\$2,110,607- \$2,084,225) to the Company’s claim and capitalized 401k expense of \$1,371,985, or a reduction of \$17,366 (\$1,389,351 - \$1,371,985) to the Company’s claim broken down by operation as follows:

⁴³³ I&E St. No. 1-SR, p. 18.

⁴³⁴ I&E St. No. 1, pp. 32-33.

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

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

I&E submits this recommendation was made to align with salaries and wages expense and was based on a calculated vacancy rate of 1.25% across all business operations.⁴³⁵

⁴³⁵ I&E St. No. 1, pp. 31-32.

PAWC witness O'Malley states that the Company has accepted the recommended adjustment to reflect an average vacancy rate of 1.25% to align with salaries and wages expense and has adjusted O&M expenses accordingly for each business operation, but has rejected the recommended adjustment to rate base.⁴³⁶ PAWC witness Deason states that to develop the estimated cost of plant additions, the Company included appropriate estimates of actual labor costs based on actual work hours that will be required to construct those additions. He asserts that the labor costs capitalized as part of projected plant additions are not a function of the amount of total projected labor included in the Company's O&M expense claim and should not be reduced in relation to the recommended vacancy adjustment.⁴³⁷

I&E acknowledges capitalized labor should not be adjusted in relation to the recommended vacancy adjustment and should be reflected entirely in O&M expense,⁴³⁸ and recommends a total FPFTY O&M allowance of \$2,066,857 for 401k expense, or a reduction of \$17,366 (\$2,084,223 - \$2,066,857) to the Company's updated claim.⁴³⁹ Since the Company updated its claim to reflect only a portion of the vacancy adjustment, the updated adjustment further reduces the Company's claim, as shown in the following table, to include the portion of the adjustment that was originally allocated to rate base:

⁴³⁶ PAWC St. No. 6-R, pp. 2-3.
⁴³⁷ PAWC St. No. 5-R, pp. 5-6.
⁴³⁸ I&E M.B., p. 31.
⁴³⁹ I&E St. No. 1-SR, pp. 37-38.

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

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

d. Defined Contribution Plan (DCP) Expense

Pennsylvania-American's claim for DCP expense includes Company contributions to employees' DCP, which is a retirement savings program for those employees ineligible for the defined benefit plan.⁴⁴⁰ I&E recommended an O&M allowance for DCP expense of \$2,959,056, or a reduction of \$37,456 (\$2,996,512-\$2,959,056) to the Company's claim and capitalized DCP expense of \$1,881,375, or a reduction of \$23,815 (\$1,905,190 - \$1,881,375) to the Company's claim broken down by operation as follows:

⁴⁴⁰ PAWC St. No. 6, p. 10, I&E M.B., p.32.

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

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

I&E asserts this recommendation was made to align with salaries and wages expense and was based on a calculated vacancy rate of 1.25% across all business operations.⁴⁴¹

PAWC witness O'Malley states that the Company has accepted the recommended adjustment to reflect an average vacancy rate of 1.25% to align with salaries and wages expense and has adjusted O&M expenses accordingly for each

⁴⁴¹ I&E St. No. 1, pp. 33-34.

business operation, but has rejected I&E's recommended adjustment to rate base.⁴⁴² PAWC witness Deason states that to develop the estimated cost of plant additions, the Company included appropriate estimates of labor costs based on actual work hours that will be required to construct those additions.⁴⁴³

I&E witness Okum accepts Mr. Deason's assertion that capitalized labor should not be adjusted in relation to the recommended vacancy adjustment.⁴⁴⁴ As a result, the entire recommended adjustment is reflected in O&M expense⁴⁴⁵.

I&E recommends the Commission adopt I&E's adjustment for a total FPFTY O&M allowance of \$2,935,339 for DCP expense, or a reduction of \$23,815 (\$2,959,054 - \$2,935,339) to the Company's updated claim.⁴⁴⁶ I&E explains since the Company updated its claim to reflect only a portion of the vacancy adjustment, I&E's updated adjustment will further reduce the Company's claim, as shown in the following table, to include the portion of the adjustment originally allocated to rate base:

⁴⁴² PAWC St. No. 6-R, pp. 2-3.

⁴⁴³ PAWC St. No. 5-R, pp. 5-6.

⁴⁴⁴ I&E St. No. 1-SR, p. 41.

⁴⁴⁵ I&E M.B., p.34.

⁴⁴⁶ I&E St. No. 1-SR, p. 42.

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

e. Payroll Tax Expense

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

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

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

This recommendation was made to align with witness Okum’s recommended adjustments to salaries and wages, and performance pay expense and was based on a calculated effective tax rate for each business operation.⁴⁴⁷ I&E adjusted this recommendation as set forth below.

PAWC witness O’Malley states that the Company has accepted witness Okum’s recommended adjustment to reflect an average vacancy rate of 1.25% to align

⁴⁴⁷ I&E St. No. 1, pp. 17-18.

with salaries and wages expense and has adjusted O&M expenses accordingly for each business operation, but has rejected witness Okum's recommended adjustment to rate base.⁴⁴⁸ PAWC witness Jared Deason states that to develop the estimated cost of plant additions, the Company included appropriate estimates of labor costs based on actual work hours that will be required to construct those additions. He asserts that the labor costs capitalized as part of projected plant additions should not be reduced in relation to the recommended vacancy adjustment.⁴⁴⁹

As performance pay adjustments will also affect payroll tax, and because I&E recommended a reduction to both O&M expense and rate base for that adjustment, I&E recommends a corresponding rate base adjustment for payroll tax. Since changes have been made by both I&E and the Company which affect payroll tax, I&E has updated its recommended adjustment in surrebuttal testimony as set forth below. I&E recommends a total FPFTY O&M allowance of \$5,962,102 for payroll tax expense, or a reduction of \$288,992 (\$6,251,094 - \$5,962,102) broken down by operation as shown below⁴⁵⁰.

⁴⁴⁸ PAWC St. No. 6-R, pp. 2-3.

⁴⁴⁹ PAWC St. 5-R, pp. 5-6.

⁴⁵⁰ I&E St. No. 1-SR, pp. 29-30; I&E M.B., pp.36-37.

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

I&E explains this was calculated by applying the effective tax rates of each operating unit to the total amount of the vacancy and performance pay adjustments. Accordingly, I&E also recommend a reduction to rate base of \$163,977 to correspond with the rate base portion of the performance pay adjustment impacting payroll tax, broken down by operation as follows⁴⁵¹:

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

⁴⁵¹ I&E M.B., p.37.

3. OCA's Position

OCA submits PAWC has not affirmatively demonstrated by a preponderance of evidence that the expenses the OCA challenges are reasonably necessary to provide services or are prudently incurred.⁴⁵² OCA argues the Commission should exclude PAWC's claimed expenses as unreasonable and adopt the OCA's adjustments to the expenses.

PAWC originally calculated its payroll expense assuming a full complement of employees without consideration of vacant positions.⁴⁵³ Since then, PAWC has accepted the adjustment proposed by I&E witness Okum to reflect a vacancy rate of 1.25% using the average vacancy of the three years ended June 30, 2025.⁴⁵⁴ The OCA does not oppose this adjustment⁴⁵⁵.

4. OSBA's Position

a. O&M Expense

OSBA recommends reductions in the FPFTY revenue requirement as follows:

⁴⁵² *City of Lancaster Sewer Fund v. Pa. PUC*, 793 A.2d 978, 982 (Pa. Cmwlt. 2002); *Popowsky v. Pa. PUC*, 674 A.2d 1149, 1154 (Pa. Cmwlt. 1996).

⁴⁵³ OCA St. 1 at 20.

⁴⁵⁴ PAWC St. 6R at 2.

⁴⁵⁵ OCA M.B., pp. 16-17.

Service Company Expense Reduction	\$27.3 million
Employee Related Expense Reduction	<u>\$ 8.7 million</u>
Total O&M Expense Reduction	\$36.0 million ⁴⁵⁶

The OSBA reduction is based on analysis that compared actual overall O&M expenses on a per-customer basis from 2021 to 2027 with per-customer O&M expenses escalated by inflationary increases over that same time.⁴⁵⁷

Acknowledging that PAWC’s customer base grows from 749,673 in 2021 to a forecast of 814,365 for 2027, an increase of 64,692 over the 6 years⁴⁵⁸, subject to offsetting efficiencies of scale, one might expect that O&M costs would naturally increase over that same timeframe to look after the needs of larger customer base. OSBA concluded that assessing operating expenses without factoring for Small Business customer growth by itself would be unsuitable, therefore focusing on the metric of O&M expense per customer.⁴⁵⁹

Using the inflation-adjusted per-customer O&M expenses⁴⁶⁰, the OSBA calculated total inflation-adjusted O&M expenses⁴⁶¹ and compared these inflation-adjusted amounts with total PAWC actual and forecast O&M from 2021 to 2027.⁴⁶² Using this annual differential between PAWC actual/forecast O&M expenses and

⁴⁵⁶ OSBA St. No. 2, Direct Testimony of Jason Hails, pp. 18-19.

⁴⁵⁷ OSBA St. No. 2, Direct Testimony of Jason Hails, pp. 3-4.

⁴⁵⁸ OSBA St. No. 2, Direct Testimony of Jason Hails, Ex. JH-1, Line 1.

⁴⁵⁹ OSBA St. No. 2, Direct Testimony of Jason Hails, Ex. JH-1, Line 16.

⁴⁶⁰ OSBA St. No. 2, Direct Testimony of Jason Hails, Ex. JH-1, Line 19.

⁴⁶¹ OSBA St. No. 2, Direct Testimony of Jason Hails, Ex. JH-1, Line 22.

⁴⁶² OSBA St. No. 2, Direct Testimony of Jason Hails, Ex. JH-1, Line 25.

inflation-adjusted O&M expenses, the OSBA then calculated the cumulative differential over time.⁴⁶³

OSBA submits cumulative calculation serves to recognize and smooth the effects of both the June PAWC year-ends and any lags in the inflationary effects on cost, and show the cumulative differential between actual/forecast O&M costs and inflation-escalated O&M costs⁴⁶⁴.

According to OSBA, the result of the analysis shows that PAWC will have cumulatively overspent on O&M costs from 2021 to 2027 compared to inflation by approximately \$80 million, with \$103 million in overspending from 2024 to 2027 being slightly offset by underspending on the same basis from 2021 to 2023 of \$23 million.⁴⁶⁵ OSBA submits for the FPFTY 2027, PAWC is forecasting to spend \$36 million more than they would have spent had O&M costs escalated by actual and forecast inflation from 2021 to 2027⁴⁶⁶.

b. Labor-Related Expense

As seen with Figure 3 below⁴⁶⁷, Employee Related expenses have increased by \$19.4 million from 2024 to FPFTY 2027. According to OSBA, this difference includes a \$14.1 million or 16.3% increase from 2025 to FTY 2026 alone, and a \$17.4 million or 20.2% increase from 2025 actuals to the 2027 FPFTY⁴⁶⁸.

⁴⁶³ OSBA St. No. 2, Direct Testimony of Jason Hails, Ex. JH-1, Line 26.

⁴⁶⁴ OSBA M.B., p.10.

⁴⁶⁵ OSBA St. No. 2, Direct Testimony of Jason Hails, Ex. JH-1, Line 26.

⁴⁶⁶ OSBA M.B., 10.

⁴⁶⁷ OSBA St. No. 2, Direct Testimony of Jason Hails, Figure 3, Page 18.

⁴⁶⁸ OSBA M.B., p.11.

OSBA submits that significant rate pressures on Small Business customers – a \$17.4 million increase over 2 years for Employee Related expenses (the bulk of which occurs in a 1-year period), are excessive, considering the large overall \$168.7 million requested increase for FPFTY 2027⁴⁶⁹.

OSBA explains its recommendation includes an Employee-Related expense-per-customer using the base year 2024, escalates this expense-per-customer value by inflation from that base year, and recalculates total Employee-Related expenses by multiplying the inflation-escalated per-customer value by the larger customer base each year. Using this approach, the OSBA recommends a reduction in allowed Employee-Related expenses to \$95.1 million, which is an \$8.7 million reduction from PAWC request to recover \$103.8 million.⁴⁷⁰

Figure 3 (from OSBA St. No. 2, Direct Testimony of Jason Hails)

Figure 3 - Employee Related Expenses				
PAWC O&M Expenses (\$)	Actuals		FTY	FPFTY
	6/30/2024	6/30/2025	6/30/2026	6/30/2027
Employee Related Expenses	84,337,520	86,348,118	100,414,920	103,769,189
Number of Customers	778,989	806,143	810,574	814,365
Employee Related Expenses per Customer (PAWC Provided)	108.3	107.1	123.9	127.4
Inflation**	N/A	3.2%	2.4%	2.1%
Inflation-Adjusted Employee Related Expenses per Customer*	N/A	111.7	114.4	116.8
Calculated Inflation-adjusted Employee Expenses*	84,337,520	90,027,265	92,694,663	95,083,823
OSBA Recommended Reduction				8,685,366
* from 2024 Base Year				
* Inflation Data Sources				
2021 - 2025 - US Bureau of Labor Statistics - https://data.bls.gov/timeseries/CUUR0100SA0?amp%253bdata_tool=XGtable&output_view=data&include_graphs=true				
2026 - 2027 - US Federal Reserve - https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20250618.htm				

OSBA submits that PAWC did not quantitatively justify escalated staffing levels that result in proportionately higher costs per customer, and it did not explain why

⁴⁶⁹ OSBA M.B., p. 11.

⁴⁷⁰ OSBA St. No. 2, Direct Testimony of Jason Hails, pp. 16-18.OSBA M.B., pp.11-12.

it is forecasting significant declines in per-customer productivity from 2024 to FPFTY 2027⁴⁷¹.

As noted in the OSBA's Statement No. 2-SR, pages 5-6, OSBA argues employee expense increases, including non-union merit raises, negotiated collective agreements, hiring decisions, and overall compensation strategy, are squarely within management's control and discretion, and that small business customer ratepayers should not automatically bear above-inflation employee-related expense escalations without strong justification that they are prudent and necessary, and it is management's responsibility to measure productivity, right-size the organization, and develop and implement strategies to moderate cost increases. OSBA concludes the per-customer escalation in employee-related expenses demonstrates that management has not met this expectation for FPFTY 2027.

Further, OSBA argues CPI provides a reasonable, neutral benchmark for general inflationary pressures affecting the broader economy, including wages in many sectors, and PAWC's reliance on its own historical and budgeted merit increases, which exceed CPI, effectively asks small business ratepayers to fund the Company's self-determined employee-related expense policy without sufficient validation or moderation⁴⁷².

OSBA concludes the staffing level assertion is a red herring because the OSBA's per-customer approach normalizes for scale and tests reasonableness against inflation – metrics that capture efficiency regardless of absolute headcount. Management retains accountability for controlling employee-related cost growth, and above-inflation

⁴⁷¹ OSBA M.B., p.14.

⁴⁷² OSBA M.B., pp. 14-15.

increases should be moderated where they exceed prudent levels, absent compelling evidence of necessity⁴⁷³.

5. CAUSE-PA's Position

CAUSE-PA did not offer independent testimony with regard to PAWC's claimed expenses, though it supports the positions advanced by OCA.

6. Victory Brewing's Position

Victory Brewing takes no specific position on PAWC's expenses.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs takes no specific position on PAWC's expenses.

8. ALJs' Recommendation

A public utility is entitled to recover all of its reasonably incurred expenses necessary to provide service to customers.⁴⁷⁴ The public utility requesting a rate increase and seeking to recover expenses has the burden of showing that the rate requested, including all claimed expenses, is just and reasonable.⁴⁷⁵ To the extent that expenses are

⁴⁷³ OSBA M.B. p. 15.

⁴⁷⁴ *Butler Township Water Company v. Pa. P.U.C.*, 473 A.2d 219, 221 (Pa. Cmwlth. 1984); *UGI Corp. v. Pa. P.U.C.*, 410 A.2d 923, 932 (Pa. Cmwlth. 1980); *Western Pennsylvania Water Company v. Pa. P.U.C.*, 422 A.2d 906, 908 (Pa. Cmwlth. 1980).

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

not reasonably incurred, imprudently incurred, or abnormally overstated during the test year, they should be disallowed and found not recoverable through rates.⁴⁷⁶

We agree, based upon the record evidence and the arguments advanced by I&E and OCA, that certain I&E and OCA positions on O&M expense adjustments are reasonable and appropriate, as outlined below.

a. Salaries and Wages

I&E explained its salaries and wages adjustment was started by calculating an average vacancy rate for the Company as a whole of 1.25%.⁴⁷⁷ PAWC accepted this vacancy rate.⁴⁷⁸ I&E witness Okum accepted PAWC witness Deason's position that capitalized labor should not be adjusted in relation to the vacancy adjustment and I&E recommended a total FPFTY O&M allowance of \$73,645,342 for salaries and wages expense, or a reduction of \$610,685 (\$74,256,027 - \$73,645,342) to the Company's updated claim.⁴⁷⁹ The Company updated its claim to reflect only a portion of the vacancy adjustment, and I&E's updated adjustment further reduces the Company's expense claim, as shown in the following table, to include the portion of the adjustment originally allocated to rate base:

⁴⁷⁶ Cupp v. PA. P.U.C. 556 A.2 d 470 (Pa.Commw.1989)

⁴⁷⁷ I&E Ex. No. 1, Schedule 3.

⁴⁷⁸ PAWC Ex. 3-A Revised.

⁴⁷⁹ I&E St. No. 1-SR, p. 18.

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

PAWC asserts I&E's adjustment is incorrect because PAWC did not include the capitalized portion in its claims, and concludes that I&E is improperly proposing to remove amounts that are not reflected in the O&M proposed rate allowance.⁴⁸⁰ PAWC contends that the labor costs capitalized as part of projected plant additions are not a function of the amount of total projected labor included in the Company's O&M expense claim and should not be reduced in relation to the recommended vacancy adjustment.⁴⁸¹

I&E argues its witness Okum never claimed PAWC included capitalized labor in its O&M expense claim for labor-related expenses and simply removes the full vacancy adjustment from the O&M portion of the labor related expenses based on her acceptance of PAWC witness Deason's point. I&E argued the impact of the adjustment is lessened when you apply the capitalization rate but because there is no direct rate base claim related to that, it gets lost. In order to prevent this, I&E witness Okum reduced O&M by the full amount. I&E explains it is not proposing to remove amounts not reflected in the O&M proposed rate allowance.

⁴⁸⁰ PAWC MB, pp. 20-21.

⁴⁸¹ PAWC St. No. 5-R, pp. 5-6.

Based on the record evidence and the arguments advanced by the parties we agree with PAWC that I&E's adjustment is incorrect. I&E calculated its adjustment by applying the 1.25% vacancy rate to the capitalized portion of PAWC's initial salaries and wages expense claim.⁴⁸² However, the capitalized portion of PAWC's salaries and wages claim is not included in PAWC's salaries and wages expense claim. Thus, it would not be appropriate to adjust PAWC's salaries and wages expense claim by an amount that is not included in that claim. As noted by PAWC and accepted by I&E, labor costs capitalized as part of projected plant additions are not a function of the amount of total projected labor included in the Company's O&M expense claim and should not be reduced in relation to the recommended vacancy adjustment.

b. 401K Expense

I&E argues the Company's claim for 401k expense includes costs incurred when matching employee contributions to 401k accounts.⁴⁸³ This expense claim is calculated for each position based on projected wages, employee contribution levels, and level of match. I&E witness Okum recommends an expense adjustment for 401k expense to match with her salaries and wages expense adjustment.

⁴⁸² See PAWC Ex. 3-B, p. 2. I&E did not recalculate its adjustment in surrebuttal to conform with PAWC's updated salaries and wages expense claims identified in PAWC St. No. 6, LNO-1R, p. 1. For example, applying a 42.91% capitalization rate and a 1.25% vacancy rate to PAWC's updated salaries and wages expense claim for Water Operations of \$104,270,558 would provide an adjustment of \$557,978 ($\$104,270,558 \text{ updated FPFTY claim} \times 0.4281 \text{ capitalization rate} \times 0.0125 \text{ vacancy rate} = \$557,978$), compared with I&E's initial adjustment of \$565,041 based on PAWC's initial salaries and wages expense claim for Water Operations of \$105,590,439 ($\$105,590,439 \text{ initial FPFTY claim} \times 0.4281 \text{ capitalization rate} \times 0.0125 \text{ vacancy rate} = \$565,041$). Similar recalculations would be needed for each wastewater Operation and for concomitant expense adjustments proposed by I&E.

⁴⁸³ PAWC St. No. 6, p. 9.

Due to her acceptance of PAWC witness Deason's assertion that capitalized labor should not be adjusted in relation to the recommended vacancy adjustment and should be reflected entirely in O&M expense, I&E witness Okum recommends a total FPFTY O&M allowance of \$2,066,857 for 401k expense, or a reduction of \$17,366 (\$2,084,223 - \$2,066,857) to the Company's updated claim.⁴⁸⁴

PAWC argued that the I&E adjustment was incorrect because Pennsylvania-American did not include the capitalized portion in its claims, and concluded that I&E is proposing to remove amounts that are not reflected in the O&M proposed rate allowance.⁴⁸⁵

I&E submits witness Okum never claimed PAWC included capitalized labor in its O&M expense claim for labor-related expenses, but that witness Okum's adjustment simply removes the full vacancy adjustment from the O&M portion of the labor related expenses based on her acceptance of PAWC witness Deason's point. I&E argues the impact of the adjustment is lessened when you apply the capitalization rate but because there is no direct rate base claim related to that, it gets lost. In order to prevent this, I&E witness Okum reduced O&M by the full amount. I&E also asserts it is not proposing to remove amounts not reflected in the O&M proposed rate allowance.

As noted in the Salaries and Wages Expense section above, we do not believe that it is appropriate to adjust PAWC's salaries and wages expense claim by an amount that is not included in that claim. Since this expense adjustment matches with I&E's salaries and wages expense adjustment, we will deny this adjustment.

⁴⁸⁴ I&E St. No. 1-SR, pp. 37-38.

⁴⁸⁵ PAWC MB, pp. 20-21.

c. Defined contribution Plan (DCP) Expense

PAWC's claim for DCP expense includes Company contributions to employees' DCP, which is a retirement savings program for those employees ineligible for the defined benefit plan.⁴⁸⁶ I&E witness Okum recommends an adjustment to DCP expense to align with her adjustment to salaries and wages expense.

Because I&E witness Okum accepts PAWC witness Deason's assertion that capitalized labor should not be adjusted in relation to the recommended vacancy adjustment, I&E updated its adjustment.⁴⁸⁷ As a result, the entire recommended adjustment is reflected in O&M expense.

Accordingly, I&E recommends, based upon the evidence presented and the arguments of I&E, I&E's proposal is reasonable and appropriate for a total adjustment to FPFTY O&M allowance of \$2,935,339 for DCP expense, or a reduction of \$23,715 (\$2,959,054 - \$2,935,339) to the Company's updated claim.⁴⁸⁸

PAWC argued that the I&E adjustment is incorrect because PAWC did not include the capitalized portion in its claims and concludes that I&E is proposing to remove amounts that are not reflected in the O&M proposed rate allowance.⁴⁸⁹

I&E asserts witness Okum never claimed Pennsylvania-American included capitalized labor in its O&M expense claim for labor-related expenses and that witness Okum's adjustment simply removes the full vacancy adjustment from the O&M portion of the labor related expenses based on her acceptance of witness Deason's point.

⁴⁸⁶ PAWC St. No. 6, p. 10.

⁴⁸⁷ I&E St. No. 1-SR, p. 41.

⁴⁸⁸ I&E St. No. 1-SR, p. 42.

⁴⁸⁹ PAWC M.B., pp. 20-21.

I&E asserts the impact of the adjustment is lessened when you apply the capitalization rate but because there is no direct rate base claim related to that, it gets lost. In order to prevent this, I&E explains witness Okum reduced O&M by the full amount. I&E further explains it is not proposing to remove amounts not reflected in the O&M proposed rate allowance.

As noted in the Salaries and Wages Expense section above, we do not believe that it is appropriate to adjust PAWC's salaries and wages expense claim by an amount that is not included in that claim. Since this expense adjustment matches with I&E's salaries and wages expense adjustment, we will deny this adjustment.

d. Payroll Tax Expense

PAWC's claim for payroll tax expense includes its share of federal and state payroll taxes including Social Security, Medicare, and federal and state unemployment taxes. I&E recommends an adjustment to payroll tax expense to align with the I&E adjustment to salaries and wages expense.

I&E accepted PAWC's assertion that capitalized labor should not be adjusted with regard to the vacancy rate adjustment which affects payroll tax. However, I&E submits performance pay adjustments will also affect payroll tax, and because I&E recommended a reduction to both O&M expense and rate base for that adjustment, I&E recommends a corresponding rate base adjustment for payroll tax. Since changes have been made by both I&E and the Company which affect payroll tax, I&E explains it has updated its recommended adjustment as set forth below. I&E recommends a total

FPFTY O&M allowance of \$5,962,102 for payroll tax expense, or a reduction of \$288,992 (\$6,251,094 - \$5,962,102) broken down by operation as shown below⁴⁹⁰:

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

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

⁴⁹⁰ I&E St. No. 1-SR, pp. 29-30.

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

PAWC argues that the I&E adjustment is incorrect because PAWC did not include the capitalized portion in its claims and concludes that I&E is proposing to remove amounts that are not reflected in the O&M proposed rate allowance.⁴⁹¹

I&E asserts witness Okum never claimed PAWC included capitalized labor in its O&M expense claim for labor-related expenses and that witness Okum's adjustment simply removes the full vacancy adjustment from the O&M portion of the labor related expenses based on her acceptance of witness Deason's point.

According to I&E, the impact of the adjustment is lessened when you apply the capitalization rate but because there is no direct rate base claim related to that, it gets lost. In order to prevent this, I&E witness Okum reduced O&M by the full amount. I&E notes it is not proposing to remove amounts not reflected in the O&M proposed rate allowance.

As noted in the Salaries and Wages Expense section above, we do not believe that it is appropriate to adjust PAWC's salaries and wages expense claim by an

⁴⁹¹ PAWC MB, pp. 20-21.

amount that is not included in that claim. Since this expense adjustment matches with I&E's salaries and wages expense adjustment, we will deny this adjustment.

B. Performance Compensation (PAWC)

1. PAWC's Position

PAWC explains it uses a mix of fixed and variable (i.e., performance-based) compensation to attract and retain customer-committed, dedicated and highly qualified employees.⁴⁹² I&E and OCA recommend adjustments, based in part because the portion of performance compensation at issue hinges on corporate financial performance and stock price and, therefore exclusively benefits shareholders.⁴⁹³

PAWC submits the performance compensation challenged by Ms. Okum and Mr. Morgan is an integral part of the total market-based compensation package paid to employees which is necessary to compete for and retain qualified employees so that customers continue to receive safe and reliable service.⁴⁹⁴ PAWC asserts the proper focus for ratemaking purposes is the reasonableness of overall compensation awards, and not the size or nature of individual pieces of the compensation package.⁴⁹⁵

⁴⁹² PAWC St. 3, pp. 59-62; PAWC St. 3-R, pp. 2-5.

⁴⁹³ See I&E St. 1, pp. 20-24; I&E St. 1-SR, pp. 19-26; OCA St. 1, pp. 20-21; OCA St. 1SR, pp. 7-11.

⁴⁹⁴ PAWC St. 3, pp. 59-62; PAWC St. 3-R, pp. 2-13.

⁴⁹⁵ See, e.g., *Pa. P.U.C. v. Aqua Pa., Inc.*, Docket Nos. R-2021-3027385 and R-2021-3027386 (Opinion and Order entered May 16, 2022) ("*Aqua 2022*"), pp. 100-101; *Pa. P.U.C. v. UGI Utils., Inc. – Elec. Div.*, Docket No. R-2017-2640058 (Opinion and Order entered Oct. 4, 2018), pp. 73-74; *Pa. P.U.C. v. PPL Elec. Utils. Corp.*, Docket No. R-2012-2290597 (Opinion and Order entered Dec. 28, 2012), p. 26; *Pa. P.U.C. v. Aqua Pa., Inc.*, Docket No. R00072711 (Order entered July 31, 2008), pp. 20-21; *Pa. PUC v. PPL Gas Utils. Corp.*, Docket No. R-00061398 (Order entered Feb. 8, 2007), p. 40.

2. I&E's Position

I&E explains performance pay is a component of total compensation that PAWC witness O'Malley defines as an annual and long-term performance compensation for eligible employees,⁴⁹⁶ consisting of two components, the Annual Performance Plan (APP) and the Long-Term Performance Plan (LTPP). I&E's recommended adjustment was based on removing 50% of the Company's claim related to cash awards paid out under the APP and 70% of the Company's claim related to stock-based compensation under the LTPP,⁴⁹⁷ asserting PAWC has not demonstrated how these financial metrics benefit ratepayers and, as a result, these should not be funded by ratepayers.

I&E witness Okum recommended an O&M expense allowance for performance pay of \$2,920,640, or a reduction of \$3,144,758 (\$6,065,398 - \$2,920,640) to the Company's claim and capitalized performance pay of \$1,971,394, or a reduction of \$2,139,157 (\$4,110,551 - \$1,971,394) broken down by operation as follows:⁴⁹⁸

⁴⁹⁶ PAWC St. No. 6, p. 8.

⁴⁹⁷ I&E St. No. 1, p. 21.

⁴⁹⁸ I&E St. No. 1, pp. 19-23.

	FPFTY O&M Claim	I&E O&M Allowance	I&E O&M Adjustment
Water Operations	\$5,209,300	\$2,492,591	(\$2,716,709)
Wastewater SSS Operations	\$409,090	\$204,545	(\$204,545)
Wastewater CSS Operations	\$326,668	\$163,334	(\$163,334)
BASA Wastewater Operations	<u>\$120,340</u>	<u>\$60,170</u>	<u>(\$60,170)</u>
Total	<u>\$6,065,398</u>	<u>\$2,920,640</u>	<u>(\$3,144,758)</u>
	FPFTY Rate Base Claim	I&E Rate Base Allowance	I&E Rate Base Adjustment
Water Operations	\$3,899,461	\$1,865,848	(\$2,033,613)
Wastewater SSS Operations	\$100,870	\$50,435	(\$50,435)
Wastewater CSS Operations	\$80,547	\$40,274	(\$40,273)
BASA Wastewater Operations	<u>\$29,673</u>	<u>\$14,837</u>	<u>(\$14,836)</u>
Total	<u>\$4,110,551</u>	<u>\$1,971,394</u>	<u>(\$2,139,157)</u>

In rebuttal, PAWC witness O'Malley presents an updated claim for performance pay based on the 1.25% vacancy rate adjustment to salaries and wages⁴⁹⁹ and PAWC witness Runzer states that it is inappropriate to disallow recovery of a portion of reasonable market-based employee compensation simply because part of it is awarded through a performance pay component. I&E submits it has not disputed that performance pay is an acceptable method of compensation, but argues that the portion of performance pay that is not based on safety, customer satisfaction, or other operational goals but is

⁴⁹⁹ PAWC Ex. LNO-1R, p. 46, and PAWC Ex. No. 3-B, p. 2.

based on financial goals, specifically earnings per share is necessary to provide utility service and should not be shouldered by ratepayers.

I&E explains its argument is not against PAWC's total compensation plan or either performance plan as a whole, but specifically the portion of the performance plans that is based on earnings per share and whether that should be recovered from ratepayers. While there is an interdependence between a Company's financial performance and its operational success, I&E asserts financial metrics in performance pay align employees primarily with shareholder interests, whereas operational metrics align employees with customers. Therefore, ratepayers should not be required to fund the payout of such metrics.

Since the Company has updated its claim, I&E has updated its recommendation to reflect this update. The same methodology that was used by witness Okum in direct testimony was used here, but witness Okum applied the new claim to the calculation. As a result, I&E recommends a total allowance to FPFTY O&M expense of \$2,886,234 for performance pay expense, or a reduction of \$3,103,348 (\$5,989,581 - 2,886,234) to the Company's updated claim broken down by operation as follows:⁵⁰⁰

⁵⁰⁰ I&E St. No. 1-SR, p. 24.

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

Additionally, I&E submits that unlike the vacancy related adjustment where the Company argued that rate base should not be impacted because the budget for capitalized labor was created based on the number of work hours needed, and that will not change with vacancies, that argument should not apply to performance pay. I&E argues that most employees are eligible for performance pay, including the employees performing capitalized labor. Regardless of how the capitalized labor budget was created, a portion of performance pay will be capitalized. I&E recommends a corresponding reduction to rate base of \$2,110,846 which represents the portion of the estimated capitalized performance pay expense that should not be recovered from ratepayers, and is broken down by operation as shown⁵⁰¹:

⁵⁰¹ I&E St. No. 1-SR, pp. 25-26.

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

3. OCA's Position

OCA witness Morgan testified that PAWC's performance pay related to achievement of earnings goals should not be recoverable from ratepayers for several reasons. First, Mr. Morgan explained that such incentives should be self-funding, meaning that the measures that achieve additional cost savings, increase revenue, or otherwise improve financial results should generate the necessary income to cover the incentive plan payments.⁵⁰² Mr. Morgan further testified that these incentives lack a sufficient nexus to ratepayer benefits and instead primarily benefit shareholders.⁵⁰³

OCA witness Morgan recommended that the component of PAWC's performance pay related to achievement of earnings goals be removed from rates⁵⁰⁴ and proposes a \$3,325,873 adjustment to PAWC's claimed incentive compensation expense.⁵⁰⁵

⁵⁰² OCA St. 1 at 20.

⁵⁰³ *Id.* at 20-21.

⁵⁰⁴ *Id.* at 20.

⁵⁰⁵ App. A, OCA Tables; OCA St. 1SR at 2.

4. OSBA's Position

OSBA has no comment.

5. CAUSE-PA's Position

CAUSE-PA did not offer independent testimony with regard to PAWC's claimed expenses.

6. Victory Brewing's Position

Victory brewing takes no specific position on PAWC's expenses.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs takes no specific position on PAWC's expenses.

8. ALJs' Recommendation

PAWC has implemented a compensation policy under which a portion of employee pay is tied to performance metrics.⁵⁰⁶ One aspect of the compensation policy emphasizes the achievement of earnings goals, and it is primarily aimed at enhancing shareholder value and conferring benefits to shareholders.⁵⁰⁷ It is well established that only where an incentive compensation plan is reasonable, prudently incurred, not excessive, and there is a benefit to ratepayers, a Company may recover the expense of

⁵⁰⁶ OCA St. 1 at 20.

⁵⁰⁷ *Id.*

that program.⁵⁰⁸ The Commission has approved incentive compensation plans where employees eligible for the compensation “have direct responsibilities for customer service and regulatory compliance or are otherwise responsible for ensuring safe and reliable service to customers.”⁵⁰⁹ Having a financial metric component to the incentive compensation plan does not disqualify it from inclusion in the utility’s revenue requirement if the incentive plan establishes that eligibility for the incentive “is based on performance duties and metrics directly related to the provision of service.”⁵¹⁰

As I&E explained, performance pay is a component of total compensation that PAWC witness O’Malley defines as an annual and long-term performance compensation for eligible employees⁵¹¹ consisting of the Annual Performance Plan (APP) and the Long-Term Performance Plan (LTPP). I&E’s recommended adjustment was based on removing 50% of the Company’s claim related to cash awards paid out under the APP and 70% of the Company’s claim related to stock-based compensation under the LTPP.⁵¹² I&E concluded and we agree that PAWC did not demonstrate by credible record evidence how these financial metrics are reasonable or that they benefit ratepayers and, as a result, these expenses should not be funded by ratepayers.

Based on the Company’s rebuttal testimony, I&E updated its recommendations in surrebuttal testimony, recommending a total allowance to FPFTY O&M expense of \$2,886,234 for performance pay expense, or a reduction of \$3,103,348

⁵⁰⁸ *Pa. PUC v. PPL Elec. Util. Corp.*, R-2012-2290597, Order (Dec. 28, 2012) (*PPL 2012*).

⁵⁰⁹ *Pa. PUC v. PAWC*, 2021 PA. PUC LEXIS 55 at *59 (Feb. 25, 2021) (*PAWC 2021*).

⁵¹⁰ *Id.* at *60.

⁵¹¹ PAWC St. No. 6, p. 8.

⁵¹² I&E St. No. 1, p. 21.

(\$5,989,581 - 2,886,234) to the Company's updated claim broken down by operation as follows⁵¹³:

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

In addition, as I&E explained, unlike the vacancy related adjustment where the Company argued that rate base should not be impacted because the budget for capitalized labor was created based on the number of work hours needed and that will not change with vacancies, that argument should not apply to performance pay. Most employees are eligible for performance pay, including the employees performing capitalized labor. Regardless of how the capitalized labor budget was created, a portion of performance pay will be capitalized. Therefore, I&E recommended a corresponding reduction to rate base of \$2,110,846 which represents the portion of the estimated capitalized performance pay expense that should not be recovered from ratepayers, and is broken down by operation as shown⁵¹⁴:

⁵¹³ I&E St. No. 1-SR, p. 24.

⁵¹⁴ I&E St. No. 1-SR, pp. 25-26.

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

I&E explained its argument is not against PAWC's total compensation plan or either performance plan as a whole, but specifically the portion of the performance plans that is based on earnings per share and whether that should be recovered from ratepayers. I&E concluded, while there is an interdependence between a Company's financial performance and its operational success, financial metrics in performance pay align employees primarily with shareholder interests, whereas operational metrics align employees with customers, and accordingly, ratepayers should not be required to fund the payout of such metrics.

OCA recommended that the Commission remove the component of PAWC's performance pay tied to the achievement of earnings goals, resulting in a \$3,325,873 rate reduction, as this component solely benefits shareholders rather than customers.⁵¹⁵

As OCA asserts, where an incentive compensation plan is reasonable, prudently incurred, not excessive, and there is a benefit to ratepayers, a Company may

⁵¹⁵ OCA M.B. at 20.

recover the expense of that program.⁵¹⁶ PAWC did not establish that the incentive compensation programs are reasonable, that they provide a benefit to ratepayers, that they are focused on improving operational effectiveness⁵¹⁷ or that employees eligible for the compensation “have direct responsibilities for customer service and regulatory compliance or are otherwise responsible for ensuring safe and reliable service to customers.”⁵¹⁸

As OCA further explained, while the inclusion of financial metrics does not automatically preclude recovery, such recovery is appropriate only where the incentive plan establishes that eligibility “is based on performance duties and metrics directly related to the provision of service.”⁵¹⁹ We agree with OCA that the record evidence demonstrates PAWC did not establish that is the case in this proceeding.

OCA argued its adjustment is narrowly targeted to remove only the portion of performance pay tied to the achievement of earnings goals because that component primarily benefits shareholders, not ratepayers, as OCA witness Morgan explained, “the achievement of earnings goals is a benefit that is primarily targeted towards increasing shareholder value and benefitting shareholders,” and therefore “these costs are not properly recoverable from ratepayers.”⁵²⁰ Based upon the testimony of OCA witness Morgan, OCA concluded that its adjustment properly allocates costs based on who receives the benefits. Mr. Morgan explained that shareholders, not customers, are the primary beneficiaries of earnings-based incentives. He testified “if the performance-

⁵¹⁶ See OCA M.B. at 17 citing *Pa. PUC v. PPL Elec. Util. Corp.*, R-2012-229059, Order (Dec. 28, 2012) (*PPL 2012*).

⁵¹⁷ OCA M.B. at 17 citing *PPL 2012* at 26 (citing *Pa. PUC v. Aqua*, 2008 Pa. PUC LEXIS 50, *24; *Pa. PUC v. Duquesne Light Co.*, 1987 Pa. PUC LEXIS 342 at *99-100).

⁵¹⁸ OCA M.B. at 17-18 citing *Pa. PUC v. PAWC*, 2021 PA. PUC LEXIS 55 at *59 (Order Feb. 25, 2021) (*PAWC 2021*).

⁵¹⁹ *Id.*

⁵²⁰ OCA St. 1SR at 7.

based compensation plan results in higher earnings ... customers do not receive a rebate or a rate reduction,” whereas “share prices linked to earnings,” and increased earnings “drive up share prices” and shareholder wealth.⁵²¹ He further explained that consistent earnings growth can increase dividends, further benefitting shareholders.⁵²² Therefore, assigning 100% of these costs to ratepayers is inequitable because it ignores the disproportionate benefit flowing to shareholders.

We further agree with OCA that PAWC’s reliance on generalized claims of customer benefits is insufficient to meet its burden of proof. As OCA witness Morgan testified, PAWC acknowledges that performance-based compensation benefits “customers, employees, and shareholders,” yet “ignores, and does not acknowledge, the benefit shareholders receive” when assigning costs.⁵²³

The adjustments proposed by I&E and OCA attempt to correct this imbalance by ensuring that shareholders bear a fair share of costs associated with benefits they receive.

We agree with I&E that PAWC has failed to meet its burden of proof establishing that the Company’s claim in allocated performance compensation expenses are fair and necessary, or that they pertain to providing safe, adequate, and reliable service to customers.⁵²⁴ As I&E explained, while there is an interdependence between a Company’s financial performance and its operational success, financial metrics in performance pay align employees primarily with shareholder interests, whereas operational metrics align employees with customers. Therefore, ratepayers should not be required to exclusively fund the payout of such metrics as PAWC has not established that

⁵²¹ *Id.* at 10.

⁵²² *Id.*

⁵²³ *Id.* at 8-9.

⁵²⁴ *Id.* at 126.

these costs are fair and necessary, or that they pertain to providing safe, adequate, and reliable service to customers.

OCA recommends the removal of performance pay related to achievement of earnings goals, resulting in a \$3,325,873 adjustment to PAWC's claimed compensation expense.⁵²⁵ I&E recommends a total allowance to FPFTY O&M expense of \$2,886,234 for performance pay expense, or a reduction of \$3,103,348 (\$5,989,581 - 2,886,234) to the Company's updated claim.⁵²⁶

OCA asserts and we agree, while the inclusion of financial metrics does not automatically preclude recovery, such recovery is appropriate only where the incentive plan establishes that eligibility "is based on performance duties and metrics directly related to the provision of service."⁵²⁷ PAWC did not establish that is the case in this proceeding. For the reasons set forth above, we agree with the adjustments proposed by I&E and OCA and recommend the removal of performance pay related to achievement of earnings goals. Specifically, we agree with I&E's removal of 50% of the Company's claim related to cash awards paid out under the APP and 70% of the Company's claim related to stock-based compensation under the LTPP, and we agree with OCA's removal of related payroll taxes. This results in the following adjustments that are recommended for approval and that are detailed in the Rate Case Tables attached to this Recommended Decision:

⁵²⁵ OCA St. 1SR at 9.

⁵²⁶ I&E St. No. 1-SR, p. 24.

⁵²⁷ *Id.*

Performance Compensation Adjustment Working Papers - Table WP-1

Line No.	Operation	PAWC Total Exp. 2027 (1) \$ (a)	PAWC O&M Cap. % (1) (b)	PAWC O&M 2027 \$ (c)=(a)x(b)	ALJ O&M Adj. Rate (2) (d)	ALJ O&M Adjust \$ (e)=(c)x(d)	ALJ Payroll Tax Rate (3) (f)	ALJ Payroll Tax Adjust \$ (g)=(e)x(f)	ALJ Total Adjust (h)=(e)+(g)
1	Water	8,994,901	57.19%	5,144,184	52.11%	2,680,649	7.65%	205,070	2,885,719
2	General SSS	503,586	80.22%	403,977	50.00%	201,988	7.65%	15,452	217,440
3	BASA	148,138	80.22%	118,836	50.00%	59,418	7.65%	4,545	63,964
4	CSS	402,125	80.22%	322,585	50.00%	161,292	7.65%	12,339	173,631
5									
6	Total	<u>10,048,750</u>		<u>5,989,582</u>		<u>3,103,348</u>		<u>237,406</u>	<u>3,340,754</u>

Notes:

- (1) See PAWC Ex. 3-A, pgs. 48R (Water), 110R (General SSS), 158R (BASA), and 207R (CSS), and I&E St. No. 1-SR, pgs. 21 and 25.
- (2) See I&E St. No. 1, p. 21, and I&E St. No. 1-SR, p. 25. Remove 50% of APP and 70% of LTPP.
- (3) See OCA St. No. 1-SR, Exh. LKM-5W-SR, Line Nos. 6, 12, 18, and 24.

Similar to the concern noted in the Salaries and Wages Expense section above, we do not believe that it is appropriate to adjust PAWC’s rate base for the estimated portion of performance pay that will be capitalized, and we will deny an additional rate base adjustment.

These adjustments are reasonable and are recommended for adoption.

C. Group Insurance Expense

1. PAWC’s Position

PAWC explains in its last base rate case, PAWC used a three-year average percentage change to smooth year-to-year variations in group insurance plan rates. Using a three-year average percentage change according to PAWC continues to be the appropriate approach to smooth year-over-year variations in plan rates.

2. I&E's Position

I&E witness Okum recommends an adjustment to group insurance expense to align with the I&E salaries and wages expense adjustment. The group insurance expense adjustment was calculated by applying the same vacancy rate, 1.25%, as applied to salaries and wages, to group insurance expense. I&E recommended in direct testimony an O&M expense allowance for group insurance expense of \$15,432,628, or a reduction of \$195,350 (\$15,627,978 - \$15,432,628) to the Company's claim and capitalized group insurance expense of \$9,876,523, or a reduction of \$125,019 (\$10,001,542 - \$9,876,523) to the Company's claim broken down by operation as follows:

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

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

I&E explains this recommendation was made to align with salaries and wages expense and was based on a calculated vacancy rate of 1.25% across all business operations.⁵²⁸

In rebuttal testimony, PAWC witness O'Malley states that the Company has accepted the recommended adjustment to reflect an average vacancy rate of 1.25% to align with salaries and wages expense, and has adjusted O&M expenses accordingly for each business operation. However, I&E submits the Company has rejected the recommended adjustment to rate base.⁵²⁹ PAWC witness Deason states that to develop the estimated cost of plant additions, the Company included appropriate estimates of labor costs based on actual work hours that will be required to construct those additions.⁵³⁰

I&E accepts PAWC witness Deason's assertion that capitalized labor should not be adjusted in relation to the vacancy adjustment. Therefore, I&E recommends a total FPFTY O&M allowance of \$15,307,608 for group insurance

⁵²⁸ I&E St. No. 1, pp. 28-29.

⁵²⁹ PAWC St. No. 6-R, pp. 2-3.

⁵³⁰ PAWC St. No. 5-R, pp. 5-6.

expense, or a reduction of \$125,019 (\$15,432,627 - \$15,307,608) to the Company’s updated claim.⁵³¹ I&E explains the Company updated its claim to reflect only a portion of the vacancy adjustment, this I&E updated adjustment will further reduce the Company’s claim, as shown in the following table, to include the portion of the adjustment that was originally allocated to rate base:

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

3. OCA’s Position

OCA explains PAWC’s adjustment of its group insurance cost is “based on the January 2026 premiums annualized for the future test year number of employees, less the annualized employee contribution, and adjusted for the portion not charged to operations. The fully projected future test year was developed by adjusting the annualized 2026 amount by a 3 year average of 3.74%.”⁵³² The 3.74% average was applied as a growth rate instead of a normalization adjustment.⁵³³ OCA asserts PAWC’s characterization of its method as a “normalizing” adjustment is inaccurate.⁵³⁴ According

⁵³¹ I&E St. No. 1-SR, pp. 33-34.

⁵³² PAWC Workpaper 4d Group Insurance Adjustment Revised.

⁵³³ OCA St. 1SR at 19.

⁵³⁴ *Id.*

to OCA, rather than smoothing fluctuations, PAWC applies the historical average as a growth factor to increase projected costs.⁵³⁵ OCA witness Morgan testified that this is not a normalization technique, but a forecasting method that compounds historical changes without demonstrating that those changes will persist into the FPFTY, and introduces unnecessary speculation into the ratemaking process.

OCA argues this is different from the recommendation the OCA made in PAWC's last base rate case, adopted by the Commission in its Opinion and Order, that a three-year average percentage change should be used to normalize the group insurance expense.⁵³⁶

Here, OCA witness Morgan recommends an adjustment to the group insurance expense to reflect the 2026 group insurance rates, because they are the most recent, known rates, and are more aligned with current actuarial considerations.⁵³⁷ OCA witness Morgan explained,

[I]t is inappropriate to use the historical change in insurance costs as a basis for insurance projections because insurance projections should be based on actuarial methods. The past historical changes in costs could have been affected by the population size of the group, demographics, or events in the economy. As a result, OCA maintains that FPFTY group insurance expense should be based on the most recent, actual insurance rates.⁵³⁸

⁵³⁵ *Id.*

⁵³⁶ OCA St. 1 SR at 19.

⁵³⁷ OCA St. 1 at 23.

⁵³⁸ OCA St. 1SR at 19-20.

OCA argues the Commission should reject PAWC's proposed group insurance expense calculation and instead calculate group insurance expense based solely on the 2026 rates, resulting in a recommended adjustment of \$566,573.⁵³⁹

4. OSBA's Position

OSBA has no comment.

5. CAUSE-PA's Position

CAUSE-PA takes no specific position on PAWC's expenses.

6. Victory Brewing's Position

Victory Brewing takes no specific position on PAWC's expenses.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs takes no specific position on PAWC's expenses.

8. ALJs' Recommendation

PAWC's claim for group insurance expense includes several insurance coverages that the Company provides for employees. The two primary categories include: (1) basic life, short-term disability, long-term disability, and accidental death and disability insurance; and (2) medical, dental, prescription, and vision insurance.⁵⁴⁰

⁵³⁹ App. A, OCA Tables; OCA St. 1SR at 2.

⁵⁴⁰ PAWC St. No. 6, p. 8.

I&E recommends an adjustment to group insurance expense to align with their proposed salaries and wage expense adjustment.

The group insurance expense adjustment was calculated by applying the same vacancy rate – 1.25% – as applied to salaries and wages to group insurance expense. I&E recommends a total FPFTY O&M allowance of \$15,307,608 for group insurance expense, or a reduction of \$125,019 (\$15,432,627-\$15,307,608) to the Company’s updated claim.

OCA recommends calculating group insurance expense based solely on the 2026 rates resulting in a recommended adjustment of \$566,229 concluding the 2026 rates are the most recent, known rates and more aligned with current actuarial considerations.⁵⁴¹

As noted in the Salaries and Wages Expense section above, we do not believe that it is appropriate to adjust PAWC’s salaries and wages expense claim by an amount that is not included in that claim. Since this expense adjustment matches with I&E’s salaries and wages expense adjustment, we will deny this adjustment.

However, based upon the record evidence and for the reasons set forth by OCA above, we agree with OCA and recommend that OCA’s proposed total FPFTY O&M allowance of \$14,866,398 for group insurance expense, or a reduction of \$566,229 (\$15,432,627 - \$14,876,399 rounded) to the Company’s updated claim be accepted.⁵⁴² As OCA explained, PAWC used a forecasting method that compounds historical changes without demonstrating that those changes will persist into the FPFTY. This results in the

⁵⁴¹ OCA St. No. 1SR, Ex. LKM-6W-SR.

⁵⁴² OCA St. No. 1SR, Ex. LKM-6W-SR.

following adjustments that are recommended for approval and that are detailed in the Rate Case Tables attached to this Recommended Decision:

	Updated FPFTY O&M Claim⁵⁴³	OCA O&M Allowance⁵⁴⁴	OCA O&M Adjustment⁵⁴⁵
Water Operations	\$12,094,513	\$11,658,598	(\$435,915)
Wastewater SSS Operations	\$1,294,602	\$1,247,942	(\$46,661)
Wastewater CSS Operations	\$1,550,475	\$1,494,592	(\$55,883)
BASA Wastewater Operations	<u>\$493,037</u>	<u>\$475,267</u>	<u>(\$17,770)</u>
Total	<u>\$15,432,627</u>	<u>\$14,876,399</u>	<u>(\$556,229)</u>

D. Service Company Expense

1. PAWC's Position

According to PAWC, the Service Company provides a wide range of essential support services to PAWC and other American Water utility subsidiaries on a shared basis.⁵⁴⁶ Such services, which include customer service, water quality, engineering, environmental compliance, human resources, information technology,

⁵⁴³ See PAWC St. No. 2-R, Ex. 3-A, pp. 49R (Water), 111R (General SSS Wastewater), 159R (BASA), and 208R (CSS) at Line No. 3.

⁵⁴⁴ See PAWC St. No. 2-R, Ex. 3-A, pp. 49R (Water), 111R (General SSS Wastewater), 159R (BASA), and 208R (CSS) at Line No. 7.

⁵⁴⁵ See OCA St. No. 1SR, Ex. LKM-6W-SR, and PAWC St. No. 2-R, Ex. 3-A, pp. 49R (Water), 111R (General SSS Wastewater), 159R (BASA), and 208R (CSS) at Line No. 8, and the Rate Case Tables, Table II for each Operation.

⁵⁴⁶ See PAWC St. 6, pp. 13-17; PAWC St. 6-R, pp. 11-17; PAWC St. 3-R, pp. 13-20.

finance, accounting, legal, supply chain, and risk management services, are provided at cost with no element of profit to the Service Company.⁵⁴⁷

The Company contends if it were to try to maintain a full complement of comparably qualified personnel directly, without the Service Company, the total cost to PAWC would be considerably higher. Resources such as equipment, training, monitoring, and supervision can be sourced more efficiently on a consolidated basis, and it is possible to exploit economies of scale, which mitigates the costs ultimately borne by customers.⁵⁴⁸

PAWC seeks recovery of approximately \$77.9 million in Service Company expense for the FPFTY.⁵⁴⁹

PAWC concludes the adjustment proposed by the OSBA should be rejected and the Commission should approve PAWC's claim for Service Company charges of \$77,936,149.

2. I&E's Position

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

⁵⁴⁷ PAWC St. 6, p. 14; PAWC St. 6-R, p. 8.

⁵⁴⁸ *See* PAWC St. 3-R, pp. 13, 18-20; PAWC St. 15-R, p. 6.

⁵⁴⁹ PAWC St. 6, pp. 16-17; *see also* PAWC St. 6-R, pp. 6, 20; PAWC Ex. 3-A Revised, pp. 61R, 121R, 168R and 218R (removing \$64,830 in lobbying expense and penalties that was erroneously included in the Company's initial claim and further corrections for allocated interest expense). PAWC witness O'Malley also detailed how Service Company costs are allocated to PAWC using "Tier One" and "Tier Two" allocation factors. PAWC St. 6, p. 15.

3. OCA's Position

OCA did not address this issue in its testimony.

4. OSBA's Position

OSBA submits Service Company costs are not allocated appropriately, the risk is that PAWC overpays for services, does not receive commensurate value for services, and effectively subsidizes the operations of affiliate companies. According to OSBA, to mitigate this risk, companies typically have an independent third party assess the efficacy of Service Company allocations, with somewhat industry-standardized tests applied to various aspects of the allocation model and services in question. PAWC did not direct a third-party assessment of Service Company costs for this application, however it provided prior assessments of Baryenbruch & Company, LLC for the years 2020 and 2023, and noted that no changes have been made to the cost allocation methodology since the last PAWC rate case. PAWC is therefore relying on the findings of the 2023 report to support the veracity of Service Company costs for FPFTY. In addition, PAWC noted that no recommendations were made from these prior assessments.

OSBA submits that PAWC did not provide an appropriate justification for escalating FPFTY Service Company costs. This contention is based on a) an extensive critical review of the Baryenbruch report; b) that PAWC has not justified the excessive increases in Service Company costs; and c) that the Company has not established the need for the levels of service and function costs allocated by the Service Company.⁵⁵⁰

⁵⁵⁰ OSBA St. No. 2, Direct Testimony of Jason Hails, Pages 7-14 include a detailed review of the Baryenbruch study.

Based on this conclusion, per Figure 2 below, the OSBA recommends a Service Company expense reduction in the revenue requirement O&M recovery of \$27.3 million.⁵⁵¹

Figure 2 (from OSBA Statement No. 2, Direct Testimony of Jason Hails)

Figure 2 - OSBA Service Company Allocation Reduction						
Service Company Function	PAWC		OSBA Reduction (%)	OSBA Reduction (\$)	OSBA 2027 Revised	Approximate Remaining FTEs @ \$125,000 per FTE
	6/30/2025*	6/30/2027**				
Business Development	1,208,803	1,323,898	50.0%	661,949	661,949	5.3
Central Lab	758,612	830,842	22.5%	187,048	643,794	5.2
Corporate Admin	5,132,482	5,621,165	80.0%	4,496,932	1,124,233	9.0
Corporate Security	2,189,913	2,398,423	22.5%	539,958	1,858,465	14.9
Customer Service	15,571,640	17,054,276	22.5%	3,839,438	13,214,837	105.7
Environmental Leadership	1,357,070	1,486,282	80.0%	1,189,025	297,256	2.4
External Affairs & Public Policy	2,381,113	2,607,828	50.0%	1,303,914	1,303,914	10.4
Facilities	1,993,000	2,182,761	22.5%	491,406	1,691,355	13.5
Finance	11,199,666	12,266,029	22.5%	2,761,458	9,504,571	76.0
HR	5,302,686	5,807,575	22.5%	1,307,462	4,500,113	36.0
Investor Relations	328,705	360,002	50.0%	180,001	180,001	1.4
Legal	4,141,435	4,535,757	50.0%	2,267,878	2,267,878	18.1
Operational Excellence	3,985,514	4,364,990	80.0%	3,491,992	872,998	7.0
Regulated Ops	2,451,627	2,685,056	50.0%	1,342,528	1,342,528	10.7
Safety	524,440	574,374	22.5%	129,309	445,065	3.6
Supply Chain	889,618	974,322	22.5%	219,350	754,972	6.0
Technology and Innovation	11,726,882	12,843,443	22.5%	2,891,451	9,951,992	79.6
	71,143,206	77,917,024	35.0%	27,301,101	50,615,923	404.9

*2025 Totals from OSBA II-013 Attachment 3
**OSBA Extrapolated at the Individual Account Level

According to OSBA, the Corporate Admin function is comprised largely of American Water Works CEO & Board costs (2025 cost = \$3.2 million) and would not be fully required for PAWC as a stand-alone utility given it has its own leadership team and governance structure. With respect to Operational Excellence, without demonstrable value supplied by PAWC to justify this incremental expenditure, OSBA argues an 80% reduction is appropriate. Any prior Service Company expenditures on Operational Excellence should have yielded performance results that do not necessitate PAWC’s excessive request to recover \$168.7 million in additional revenue for FPFTY 2027.

⁵⁵¹ OSBA St.No. 2, Direct Testimony of Jason Hails, Figure 2, Page 15.

OSBA asserts much of this work to drive analysis and savings according to OSBA can be accomplished by operations staff embedded within PAWC, as they have the day-to-day awareness of the PAWC system, challenges, and opportunities for improvement, while the Service Company can support with seven (7) full-time equivalents (FTE) remaining post-reduction for Operational Excellence. The functions that have been assigned 50% reductions include Business Development, External Affairs & Public Policy, Investor Relations, Legal and Regulated Operations. As a standalone utility, limited to the jurisdiction of Pennsylvania and avoiding multi-jurisdictional complexity, the costs assigned to PAWC for PFPTY at the 50% level are arguably sufficient to provide full or near-full function coverage when translating reduced Service Company costs into FTEs using \$125,000 per FTE as a benchmark for estimate purposes.

OSBA asserts Service Company costs are proposed by the Company to escalate from \$59.8 million in 2024 to \$77.9 million in 2027, an increase of 30.3% over a 3-year period.⁵⁵² This represents a compound growth rate of 9.24% each year. Pursuant to Pennsylvania Public Utility Code (66 Pa.C.S. § 1301 et seq.), utilities must show rates are just and reasonable, and in spite of the large increases in Service Company costs, PAWC did not conduct a Service Company cost study like they did for 2023 and 2020 Service Company costs.

OSBA argues further, PAWC does not explain why O&M productivity on a per-customer basis drops with costs that significantly exceed inflation, particularly over the past four (4) years. OSBA further argues applying per-customer O&M cost metrics, PAWC has incurred \$102.8 million of O&M expenses in excess of inflation in the 4 years from 2024 to FPPTY 2027⁵⁵³, including \$36 million in FPPTY 2027 alone.

⁵⁵² OSBA St. No. 2, Direct Testimony of Jason Hails, Ex. JH-1, Line 4.

⁵⁵³ OSBA St. No. 2, Direct Testimony of Jason Hails, Ex. JH-1, Line 22.

OSBA explained while the Company explained in many cases the nature of \$77.9 million of Service Company costs, and showed the mechanics of how the services were allocated, these two undertakings in no way establish that the costs were reasonable or appropriate for recovery. The Company did not apply any meaningful assessments or evidentiary depth to justify the levels of service, or the amount charged, and Small Business ratepayers should not be burdened with excessive controllable costs in the absence of this critical requirement.

5. CAUSE-PA's Position

CAUSE-PA did not offer independent testimony with regard to PAWC's claimed expenses.

6. Victory Brewing's Position

Victory Brewing did not specifically address this issue.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not specifically address this issue.

8. ALJs' Recommendation

PAWC is a subsidiary of American Water Works (AWK). The American Water Works Service Company, Inc. (Service Company), also a subsidiary of AWK, provides certain management and operational services to PAWC and other AWK affiliate operating companies, including customer service, water quality testing, environmental compliance, human resources, communications, information technology, finance,

accounting, legal, engineering, supply chain, and risk management.⁵⁵⁴ The Service Company serves PAWC on an at-cost, not-for-profit basis in accordance with a management and service agreement.

The evidence establishes, where costs incurred by the Service Company are exclusive to PAWC, the Service Company bills PAWC with direct charges. Costs the Service Company incurs in rendering services in common to a group of companies and not exclusively to PAWC are charged to each service recipient in the relevant group based on an allocation.⁵⁵⁵

PAWC is seeking recovery of Service Company expense of \$77.9 million for FPFTY 2027, which is 30.4% increase from 2024 levels. The 2025 year saw a 19.1% increase from \$59.8 million to \$71.2 million, and this increase is followed by increases of 5.8% and 3.4% for FTY 2026 and FPFTY 2027, respectively, resulting in the \$77.9 million FPFTY request.

OSBA opposed PAWC's service company charges of \$77,936,149. Although OSBA raised significant issues and concerns regarding the claims of PAWC and the evidence presented to support the claims of the Company, we conclude that, despite the deficiencies in the evidence provided by the Company, as identified by OSBA, PAWC has established that the claimed Service Company expense is reasonable and appropriate in this proceeding, based upon the totality of the evidence presented, including in the testimony of witnesses O'Malley, Runzer, and Prine and accompanying schedules.

⁵⁵⁴ PAWC St. No. 6, Direct Testimony of Lori O'Malley, p. 13.

⁵⁵⁵ *Id.* at 15.

E. Waste Disposal Expense

1. PAWC's Position

PAWC asserts I&E witness Okum proposed an adjustment to reduce PAWC's claim for waste disposal expense by \$2,850,894 by using a historical three-year average of waste disposal costs rather than the three-year average percentage change of those costs.⁵⁵⁶ PAWC submits the use of a historical three-year average of costs masks the upward trend in PAWC's waste disposal costs. PAWC explains it experienced a \$3.6 million waste disposal expense from 2021 to 2025.⁵⁵⁷ Ms. Okum contends that the three-year historical data does not necessarily depict an upward trend because the costs did not increase by 13.76% each year,⁵⁵⁸ which PAWC submits is refuted by actual future test year data through December 2025, which shows a 24.48% increase in waste disposal costs in 2025 compared to 2024.⁵⁵⁹

2. I&E's Position

I&E submits the Company's claim for waste disposal expense includes costs associated with properly disposing of treatment residuals.⁵⁶⁰ I&E recommends an adjustment based on a 3-year average of actual waste disposal expense rather than a 3-year average of the change in expense, with an exception of the BASA system, which only has 1 year of actual date. I&E witness Okum asserts PAWC did not provide a basis for the assumption that this expense will continue to rise annually. Therefore, I&E recommends an allowance of \$7,386,760 for waste disposal expense, or a reduction of

⁵⁵⁶ I&E St. 1, pp. 38-39.

⁵⁵⁷ *Id.*, pp. 21-22.

⁵⁵⁸ I&E St. 1-SR, pp. 44-45.

⁵⁵⁹ PAWC St. 6-RJ, p. 3.

⁵⁶⁰ PAWC St. No. 3, p. 26.

\$2,850,893 (\$10,237,653 - \$7,386,760) to the Company's claim, broken down as follows:⁵⁶¹

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

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

In rebuttal testimony, PAWC witness O'Malley states that the Company is currently experiencing increasing dredging costs and acknowledged that the Company's waste disposal costs fluctuate year to year, but notes that there has been a \$3.6 million increase from 2021 through 2025.

I&E submits that while waste disposal expense did rise overall in recent historical years, it has not consistently done so, and the Company has not provided any evidence to show that this expense will continue to rise at a rate of 13.76% each year. I&E notes this is a significant increase and is speculative in nature. Accordingly, I&E recommends a total FPPTY allowance of \$7,386,760 for waste disposal expense, or a reduction of \$2,850,893 (\$10,237,653 - \$7,386,760) to the

⁵⁶¹ I&E St. No. 1, pp. 35-37.

Company's claim, based on a three-year average of historical costs.⁵⁶² I&E witness Okum testified there is no clear upward trajectory of this expense for all operations,⁵⁶³ therefore, the historic average is the best predictor of this expense.

3. OCA's Position

OCA did not address this issue in its testimony.

4. OSBA's Position

OSBA has no comment.

5. CAUSE-PA's Position

CAUSE -PA did not specifically address this issue.

6. Victory Brewing's Position

Victory Brewing did not specifically address this issue.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not specifically address this issue.

⁵⁶² I&E St. No. 1-S, p. 45.

⁵⁶³ I&E St. No. 1, p. 38.

8. ALJs' Recommendation

PAWC argues 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.⁵⁶⁴ I&E explained the Company's claim for waste disposal expense includes costs associated with properly disposing of treatment residuals.⁵⁶⁵ I&E recommends an adjustment based on a 3-year average of actual waste disposal expense rather than a 3-year average of the change in expense. The exception being the BASA system which only has 1-year of actual data. I&E witness Okum testified PAWC has not provided a basis for the assumption that this expense will continue to rise annually. Therefore, I&E recommends an allowance of \$7,386,760 for waste disposal expense, or a reduction of \$2,850,893 (\$10,237,653 - \$7,386,760) to the Company's claim, broken down as follows:⁵⁶⁶

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

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

⁵⁶⁴ See PAWC St. 6-R, pp. 21-22; PAWC St. 6-RJ, p. 3.

⁵⁶⁵ PAWC St. No. 3, p. 26.

⁵⁶⁶ I&E St. No. 1, pp. 35-37.

The Company alleges that the use of a historical three-year average of costs masks the upward trend in PAWC's waste disposal costs.⁵⁶⁷ However, we agree with I&E that PAWC has failed to establish an upward trajectory of this expense for all operations or evidence to establish PAWC's claim. We agree that simply because a cost has increased by a certain percentage from one year to the next does not demonstrate that this trend will continue.

We conclude, in this proceeding, the evidence supports I&E's position that a 3-year average of actual waste disposal expense rather than a change in the expense is appropriate and should be adopted, with an exception for the BASA system which only has 1 year of actual data. I&E recommends a reduction of \$2,850,893 for an allowance of \$7,386,760, which we recommend be approved. However, we note that I&E's identified waste disposal expense adjustment for "Wastewater SSS Operations" included data for CSS Wastewater Operations, and its adjustment for "Wastewater CSS Operations" included data for General SSS Wastewater Operations.⁵⁶⁸ Resultingly, we recommend the following adjustments:

⁵⁶⁷ PAWC MB, p. 29.

⁵⁶⁸ See I&E Ex. 1, Schedule 5 and PAWC Ex. 3-A, pp. 116 (General SSS) and 213 (CSS).

Waste Disposal Expense:	PAWC FPFTY Claim⁵⁶⁹	ALJ Allowance⁵⁷⁰	ALJ Adjustment⁵⁷¹
Water Operations	\$4,216,691	\$3,093,714	(\$1,122,977)
General SSS Wastewater Operations	\$4,008,056	\$2,740,027	(\$1,268,029)
CSS Wastewater Operations	\$1,673,584	\$1,254,740	(\$418,844)
BASA Wastewater Operations	<u>\$339,322</u>	<u>\$298,279</u>	<u>(\$41,043)</u>
Total PAWC Expense	<u>\$10,237,653</u>	<u>\$7,386,760</u>	<u>(\$2,850,893)</u>

F. Transportation Expense

1. PAWC's Position

In addition to fleet management costs per vehicle, PAWC submits its transportation expense includes costs for fuel, titling and registration fees, maintenance expense, and reimbursement for Company use of personal vehicles.⁵⁷² PAWC included an adjustment for CPI Transportation Services (i.e., inflation) increases to fuel and maintenance expense.⁵⁷³ In rebuttal, PAWC recognized the decrease in the Transportation Services inflation rate as of the end of the HTY and updated its claimed transportation expense by applying the June 2025 inflation rate of 3.11% instead of the three-year average of 6.94%.⁵⁷⁴ I&E witness Okum and OCA witness Morgan object to the use of an inflation escalation.⁵⁷⁵

⁵⁶⁹ See PAWC Ex. 3-A, pp. 56 (Water), 116 (General SSS), 164 (BASA), and 213 (CSS), at Line No. 1.

⁵⁷⁰ See I&E St. No. 1, p. 38, as modified to switch data for General SSS Wastewater Operations and CSS Wastewater Operations.

⁵⁷¹ See *Id* and the Rate Case Tables, Table II for each Operation.

⁵⁷² PAWC St. 6, p. 22.

⁵⁷³ PAWC St. 6-R, p. 20.

⁵⁷⁴ *Id.*, pp. 20-21; PAWC Ex. 3-A, pp. 58R, 118R, 165R & 215R; *see also* PAWC Ex. LNO-6R.

⁵⁷⁵ See OCA St. 1SR, p. 20; OCA Ex. LKM-7W-SR; I&E St. 1-SR, pp. 47-49.

PAWC witness O'Malley testified fuel and maintenance expenses fluctuate from year to year, and those costs generally increase over time. PAWC asserts it included an inflation escalation in its claimed transportation expense in the Company's last base rate case (Docket Nos. R-2023-3043189 and R-2023-3043190). PAWC contends the escalation factor applied by PAWC witness O'Malley to PAWC's transportation expense is a reasonable means of reflecting increases in fuel and maintenance costs.

2. I&E's Position

I&E explains PAWC's claim for transportation expense includes fleet management cost per vehicle, costs for fuel, title and registration fees, maintenance expense, and reimbursement for personal vehicle use.⁵⁷⁶ PAWC witness O'Malley testified the forecast of fleet management expense is based on the number of vehicles claimed in the FPFTY, and the change in the number of vehicles from the HTY to the FPFTY is reflected in the cost for fuel, title and registration fees, and maintenance expense. Additionally, all these costs, along with reimbursement for use of personal vehicles, are adjusted by using a three-year average of the Transportation Services Consumer Price Index (CPI) Factor, or 6.94%, which is applied from HTY to FTY, and again from FTY to FPFTY.⁵⁷⁷

I&E witness Okum recommends removing the CPI transportation inflation adjustment added by PAWC. I&E submits when forecasting expenses in the FPFTY, all adjustments to expenses should be known and measurable, and adjustments for inflation are inherently speculative and therefore do not meet the standard of known and measurable and should be rejected. I&E witness Okum also recommended an O&M

⁵⁷⁶ PAWC St. No. 6, p. 22.

⁵⁷⁷ *Id.*

expense allowance for transportation expense of \$3,454,752, or a reduction of \$539,775 (\$3,994,527- \$3,454,752) to the Company’s claim and capitalized transportation expense of \$2,289,983, or a reduction of \$361,885 (\$2,651,868 - \$2,289,983) to the Company’s claim broken down by operation as follows:⁵⁷⁸

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

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

⁵⁷⁸ I&E St. No. 1, pp. 38-40.

This recommendation was based on removing the CPI transportation inflation adjustment added by PAWC. I&E witness Okum disagrees that any inflation factor, whether a three-year average or the Company’s updated factor, is generally appropriate to project future costs. When forecasting FPFTY expenses, I&E asserts all adjustments to expenses should be known and measurable, and that adjustments for inflation are inherently speculative and therefore do not meet the standard of known and measurable and should be rejected. I&E recommend reducing both O&M expense and rate base for this adjustment.

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

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

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

I&E submits this adjustment is reasonable, and it should be adopted by the Commission.

3. OCA's Position

PAWC derived its FPFTY transportation expense from the number of units in PAWC's fleet, the average monthly leasing fees, and the inclusion of other transportation expenses,⁵⁷⁹ and applied a 6.94% inflation factor to certain expenses based on a three-year average (2023-2025) of the Consumer Price Index (CPI) for transportation services.⁵⁸⁰ OCA witness Morgan recommends an adjustment that removes the inflation escalation effect from the projected FPFTY.

⁵⁷⁹ OCA St. 1 at 23.

⁵⁸⁰ *Id.*

OCA explains that in PAWC witness O'Malley's rebuttal testimony, she acknowledged the change in inflation factor pointed out by OCA witness Morgan and recommended applying the June 2025 inflation rate of 3.11% instead of the three-year average of 6.94%.⁵⁸¹ OCA submits PAWC should remove the inflation escalation because past inflation is not a good predictor of future inflation rates, and PAWC's historical data does not follow the inflation trend.⁵⁸² OCA recommends that the Commission deny the inflation adjustment included in PAWC's transportation expense adjustment, resulting in a \$217,216 reduction.⁵⁸³

4. OSBA's Position

OSBA has no comment.

5. CAUSE-PA's Position

CAUSE-PA did not specifically address this issue.

6. Victory Brewing's Position

Victory Brewing did not specifically address this issue.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not specifically address this issue.

⁵⁸¹ PAWC St. 6R at 21.

⁵⁸² OCA St. 1SR at 20.

⁵⁸³ *Id.* at 2; App. A, OCA Tables.

8. ALJs' Recommendation

PAWC's claim for transportation expense includes fleet management cost per vehicle, costs for fuel, title and registration fees, maintenance expense, and reimbursement for personal vehicle use.⁵⁸⁴ According to PAWC, the forecast of fleet management expense is based on the number of vehicles claimed in the FPFTY, and the change in the number of vehicles from the HTY to the FPFTY is reflected in the cost for fuel, title and registration fees, and maintenance expense. Additionally, all these costs, along with reimbursement for use of personal vehicles, are adjusted by using a three-year average of the Transportation Services Consumer Price Index (CPI) Factor, or 6.94%, which was initially applied from HTY to FTY, and again from FTY to FPFTY.⁵⁸⁵

I&E witness Okum recommends removing the CPI transportation inflation adjustment added by PAWC. When forecasting expenses in the FPFTY, all adjustments to expenses should be known and measurable. I&E submits adjustments for inflation are inherently speculative and therefore do not meet the standard of known and measurable and should be rejected.

In direct testimony, I&E witness Okum recommended an O&M expense allowance for transportation expense of \$3,454,752, or a reduction of \$539,775 (\$3,994,527- \$3,454,752) to the Company's claim and capitalized transportation expense of \$2,289,983, or a reduction of \$361,885 (\$2,651,868 - \$2,289,983) to the Company's claim.⁵⁸⁶ This recommendation was based on removing the CPI transportation inflation adjustment added by PAWC.

⁵⁸⁴ PAWC St. No. 6, p. 22.

⁵⁸⁵ PAWC St. No. 6, p. 22.

⁵⁸⁶ I&E St. No. 1, pp. 38-40.

In rebuttal, PAWC acknowledges that the CPI transportation services inflation factor has decreased as of June 2025 and states that the Company will use an inflation rate of 3.11%, which represents the annual inflation for the year ending June 30, 2025.⁵⁸⁷ However, I&E disagrees that any inflation factor, whether a three-year average or the Company’s updated factor, is generally appropriate to project future costs. When forecasting FPFTY expenses, all adjustments to expenses should be known and measurable. Adjustments for inflation are inherently speculative and therefore do not meet the standard of known and measurable and should be rejected.

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

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

⁵⁸⁷ PAWC St. No. 6-R, pp. 20-21.

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

OCA recommended that the Commission deny the inflation adjustment included in PAWC’s transportation expense adjustment, resulting in a \$217,216 reduction because historical inflation rates are not good predictors of future inflation and many of PAWC’s claimed transportation expenses are fixed costs not affected by inflation.⁵⁸⁸

OCA argues PAWC’s inclusion of an inflation escalation in its transportation expense should be rejected because it is speculative and unsupported by the Company’s own data.

OCA witness Morgan also demonstrated, transportation CPI increased by 7.47% between December 2023 and December 2024, but only 1.72% between December 2024 and December 2025, highlighting the volatility and declining trend in inflation.⁵⁸⁹ Even PAWC acknowledged this by reducing its proposed escalation from a 6.94% three-

⁵⁸⁸ OCA M.B. at 22-23.

⁵⁸⁹ *Id.*

year average to 3.11%, further underscoring the uncertainty inherent in relying on historical averages.⁵⁹⁰ In addition, PAWC's own historical expense data does not track inflation trends: fuel costs decreased over the period, and other components such as titling and registration fees are largely fixed and not subject to inflationary pressures.⁵⁹¹

Under these circumstances, OCA asserts applying an across-the-board inflation factor artificially inflates projected expenses without a demonstrated basis.⁵⁹² OCA concludes that the Commission should reject PAWC's inflation escalation and rely on known, measurable costs, consistent with Mr. Morgan's recommended adjustment of \$217,216.⁵⁹³

Based on the record, we believe I&E's updated proposed transportation expense adjustment is reasonable. When forecasting FPFTY expenses, all adjustments to expenses should be known and measurable. Adjustments for inflation are inherently speculative and therefore do not meet the standard of known and measurable and should be rejected. PAWC's historical expense data does not track inflation trends and other components such as titling and registration fees are largely fixed and not subject to inflationary pressures.

In addition, unlike other I&E rate base adjustments discussed above that are not proposed to be adopted, PAWC's direct testimony and rebuttal workpapers reflect capitalization amounts that are determined by transportation expense claims.⁵⁹⁴ As such, we will recommend adopting I&E's updated rate base adjustments to remove additional

⁵⁹⁰ PAWC St. 6R at 21.

⁵⁹¹ OCA St. 1 at 23-24.

⁵⁹² *Id.*

⁵⁹³ OCA St. 1SR at 2; OCA M.B. App. A, OCA Tables.

⁵⁹⁴ See PAWC Ex. 3-B, pp. 301-304, and PAWC St. No. 6, Ex. LNO-6R.

amounts capitalized due to speculative increases for inflation. Resultingly, we recommend the following adjustments:

Transportation Expense:	PAWC FPFTY Claim⁵⁹⁵	ALJ Allowance⁵⁹⁶	ALJ Adjustment⁵⁹⁷
Water Operations	\$3,095,090	\$2,864,899	(\$230,191)
General SSS Wastewater Operations	\$157,572	\$146,436	(\$11,136)
CSS Wastewater Operations	\$412,698	\$389,081	(\$23,617)
BASA Wastewater Operations	\$57,569	<u>\$54,336</u>	<u>(\$3,233)</u>
Total PAWC Expense	<u>\$3,722,929</u>	<u>\$3,454,752</u>	<u>(\$268,177)</u>

Transportation Rate Base:	PAWC FPFTY Claim⁵⁹⁸	ALJ Allowance⁵⁹⁹	ALJ Adjustment⁶⁰⁰
Water Operations	\$2,316,554	\$2,144,542	(\$172,012)
General SSS Wastewater Operations	\$38,863	\$36,107	(\$2,756)
CSS Wastewater Operations	\$101,786	\$95,936	(\$5,850)
BASA Wastewater Operations	\$14,199	\$13,398	(\$801)
Total PAWC Rate Base	\$2,471,402	\$2,289,983	(\$181,419)

⁵⁹⁵ See PAWC Ex. 3-A, pp. 58R (Water), 118R (General SSS), 165R (BASA), and 215R (CSS), at Line No. 3, and PAWC Ex. 3-B, pp. 302.

⁵⁹⁶ See I&E MB, pp. 50, and PAWC Ex. 3-B, pp. 301-304.

⁵⁹⁷ See *Id.* and the Rate Case Tables, Table II for each Operation.

⁵⁹⁸ See I&E MB, pp. 50, and PAWC St. No. 6, Ex. LNO-6R.

⁵⁹⁹ *Id.*

⁶⁰⁰ See *Id.* and the Rate Case Tables, Table II for each Operation.

G. Towamencin Transaction Costs

1. PAWC's Position

PAWC requested recovery of \$660,138, amortized over ten years, in transaction costs for the acquisition of the Towamencin Township (Towamencin) wastewater system.⁶⁰¹ PAWC entered into an Asset Purchase Agreement with Towamencin, filed an Application with the Commission seeking approval of the acquisition, but ultimately withdrew the Application and the transaction was not consummated.⁶⁰²

PAWC witness Wieczenski testified the application was withdrawn due to unforeseen and extraordinary circumstances that were outside any business risk that PAWC assumed in pursuing the acquisition, which led PAWC and Towamencin to withdraw the Application.⁶⁰³ PAWC further submits it is requesting recovery of its expenses in the first rate case in which it had the opportunity to do so.⁶⁰⁴

PAWC argues all the transaction costs were prudently incurred at the time they were incurred and should still be recoverable where, as here, the transaction did not close, in part, because of unforeseen changes in law.

⁶⁰¹ PAWC St. 5, p. 7.

⁶⁰² PAWC St. 7-R, pp. 15-17.

⁶⁰³ PAWC St. 7-R, pp. 15-17. After the parties signed an Asset Purchase Agreement, a local referendum was passed prohibiting the privatization of Towamencin's wastewater system through the adoption of a Home Rule Charter. In addition, after PAWC filed its application, the Commission adopted a Reasonableness Review Ratio ("RRR") for reviewing acquisitions pursuant to Section 1329. *See Valuation of Acquired Municipal Water and Wastewater Systems – Act 12 of 2016 Implementation*, Docket No. M-2016-2543193 (Final Supplemental Implementation Order entered Jul. 2, 2024).

⁶⁰⁴ The Commission did not approve the withdrawal of PAWC's application to acquire the Towamencin system until September 24, 2024.

2. I&E's Position

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

3. OCA's Position

As the Towamencin acquisition was abandoned, OCA submits the associated transaction costs did not and will not contribute to the provision of utility service, either presently or during the forecast test year. Accordingly, OCA concludes these costs fail the threshold “used and useful” standard and must be excluded.

PAWC asserts the Commission’s Final Supplemental Implementation Order, which adopted the use of a Reasonableness Review Ratio (RRR) for reviewing acquisitions pursuant to Section 1329, which is used to determine the reasonableness of the transaction price.⁶⁰⁵ The Commission approved the use of a revised RRR in a Final Supplemental Implementation Order (*2024 FSIO*) issued on July 2, 2024, which was after PAWC filed its Application, but before the transaction was finalized.⁶⁰⁶ PAWC submits the Commission’s adoption of the RRR affected its ability to consummate the transaction, however OCA explains the Commission in its *2024 FSIO* noted the following:

To be clear, the provisions of this Order are not retroactive. The public hearing, rate impact notice, and default appraisal weight provisions of the 2024 FSIO will go into effect 30 days after the entry of this Order with respect to all acquisitions where an APA has not been executed. For acquisitions where an APA has been executed, including those for which a Section 1329 application has been filed, but not finally accepted, we will consider the unique facts

⁶⁰⁵ *Id.* at 15-16.

⁶⁰⁶ *Id.* at 15 (internal citations omitted).

and circumstances of each acquisition and take into account the dates on which the APAs were executed and applications were filed.⁶⁰⁷

As PAWC had already executed its Asset Purchase Agreement (APA) and filed its Section 1329 before the issuance of the FSIO, the 2024 FSIO would not have applied retroactively to the Towamencin acquisition proceeding. PAWC's classification of the 2024 FSIO as an "extraordinary circumstance" that led to the failure of the transaction is unsupported.

The second "extraordinary circumstance" claimed by PAWC was a local referendum that was effective July 1, 2023, that prohibited the privatization of Towamencin assets through the adoption of a Home Rule Charter.⁶⁰⁸ According to PAWC, this "Home Rule Charter arguably could not have retroactively negated an existing contract," but PAWC and Towamencin chose not to litigate the issue.⁶⁰⁹

OCA argues the risk of a failed transaction is an ordinary business risk that utilities and their shareholders, not ratepayers, must bear, particularly where that risk never results in property that will be used and useful in providing service to ratepayers.⁶¹⁰ The Application was withdrawn, no assets were acquired, and no service benefits were ever realized or will be realized by PAWC customers for the foreseeable future.

For all of these reasons, OCA argues the Commission should deny PAWC's request to include Towamencin transaction costs in rates, thus reducing PAWC's requested rate base by \$61,638.

⁶⁰⁷ *Valuation of Acquired Municipal Water and Wastewater Systems Act 126 of 2016*, M-2016-2543193 Order at 114 (July 2, 2024) (2024 FSIO).

⁶⁰⁸ PAWC St. 7R at 16.

⁶⁰⁹ *Id.*

⁶¹⁰ *Id.*

4. OSBA's Position

OSBA has no comment.

5. CAUSE-PA's Position

CAUSE-PA did not specifically address this issue.

6. Victory Brewing's Position

Victory Brewing did not specifically address this issue.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs Position did not specifically address this issue.

8. ALJs' Recommendation

On May 15, 2023, PAWC filed an Application with the Commission under Sections 1102(a) and 1329 of the Code, for approval of the right to acquire substantially all of the wastewater system assets of Towamencin.⁶¹¹ On September 12, 2024, PAWC and Towamencin filed a letter with the Commission indicating that the Applicants had mutually agreed to terminate the underlying transaction of the Joint Application and requested leave to withdraw the Joint Application.⁶¹²

⁶¹¹ OCA St. 1 at 21 *citing Commission Letter to the Joint Applicants legal representatives*, Docket Nos. A-2023-3039900 & A-2024-3050135 (Sept. 24, 2024).

⁶¹² *Id.* at 22.

What constitutes “used and useful property” is committed to the wide discretion of the Commission, and if the Commission reasonably finds that the property will not be used and useful in serving the public, it may make adjustments to exclude the value of the property from rate base and disallow the utility’s return on that property.⁶¹³ The adjustments must be supported with a reasonable degree of specificity in findings and reasoning.⁶¹⁴

To determine whether property will be “used and useful” in the FPFTY, a utility must sufficiently demonstrate by the close of the record that the utility property is reasonably certain to be used and useful in the FPFTY.⁶¹⁵ In *UGI 2018*, the Commission agreed with the ALJs’ Recommendation to reject the utility’s \$17.3 million utility plant in service claim and related expenses associated with the planned construction of a new operations center by the end of the FPFTY because: (1) the utility did not demonstrate that its planned operations center would be in operation by the end of the FPFTY; and (2) there was no “reasonable certainty that it [would] be in operation in the FPFTY.”⁶¹⁶ In affirming the Commission’s decision in *UGI 2018*, the Commonwealth Court in *McCloskey 2020* observed that the Commission properly excluded the proposed operations center and reduced the utility’s rate base by over \$17.3 million “on the basis that there was insufficient evidence to support that it would be in service during the FPFTY.”⁶¹⁷

⁶¹³ *Pa. Power & Light Co. v. Pa. PUC*, 516 A.2d 426, 430 (Pa. Cmwlth. 1985) (citations omitted); see also *UGI Corp. v. Pa. PUC*, 410 A.2d 923, 929 (Pa. Cmwlth. 1980) (*UGI 1980*).

⁶¹⁴ *Phila. Suburban Water Co. v. Pa. PUC*, 394 A.2d 1063, 1066-67 (Pa. Cmwlth. 1978).

⁶¹⁵ *Pa. PUC v. UGI Utils., Inc. – Elec. Div.*, Docket No. R-2017-2640058, Order (Oct. 25, 2018) (*UGI 2018*).

⁶¹⁶ *UGI 2018* at 27-31 citing R.D. at 22-24, 79.

⁶¹⁷ *McCloskey 2020* at 207, n.9.

OCA asserts in PAWC’s last base rate case, the Commission concluded that proposed systems acquisitions that were not finalized should not be included in rate base because “there must be reasonable certainty by the close of the record in the rate case that the property claimed in rate base will be used and useful by the end of the FPFTY.”⁶¹⁸

We agree with OCA that the risk of a failed transaction as presented in this proceeding is an ordinary business risk that utilities and their shareholders and not ratepayers and customers must bear. Accordingly, PAWC’s request to include the Towamencin transaction costs in rates is denied. However, OCA’s main brief presents an inconsistent adjustment for denying the acquisition adjustment, with the brief stating a reduced rate base of \$61,638 in the body⁶¹⁹, and identifying only an adjustment to amortization of \$60,513 in the tables⁶²⁰. Upon review of the record, we find the proper adjustment to PAWC’s request to be a reduction in rate base by \$599,626 and amortization by \$60,513. Accordingly, we recommend the following adjustments:

Towamencin Rate Base:	PAWC FPFTY Claim⁶²¹	ALJ Allowance	ALJ Adjustment⁶²²
General SSS Wastewater Operations	\$599,626	\$0	(\$599,626)
Total PAWC Rate Base	\$599,626	\$0	(\$599,626)

⁶¹⁸ PAWC 2023 at 37.

⁶¹⁹ See OCA M.B. P. 28.

⁶²⁰ See OCA M.B., App. A p. 4, line 5

⁶²¹ See PAWC Ex. 3-A, pp. 104R, Line No. 18.

⁶²² See the Rate Case Tables, Table II - General SSS Wastewater Operation.

Towamencin Amortization:	PAWC FPFTY Claim⁶²³	ALJ Allowance	ALJ Adjustment⁶²⁴
General SSS Wastewater Operations	\$60,513	\$0	(\$60,513)
Total PAWC Amortization	\$60,513	\$0	(\$60,513)

H. Interest Synchronization

1. PAWC's Position

PAWC's claim for income tax expense is set forth in PAWC Exhibit 3-A Revised and is based, in part, on an interest expense deduction calculated using the Company's proposed rate base and weighted cost of debt.⁶²⁵ OCA witness Morgan proposes an interest expense adjustment concomitant to the OCA's proposed adjustments to rate base and the weighted average cost of debt,⁶²⁶ which PAWC submits should be rejected.

2. I&Es Position

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

⁶²³ See PAWC Ex. 3-A, pp. 104R, Line No. 18.

⁶²⁴ See the Rate Case Tables, Table II - General SSS Wastewater Operation.

⁶²⁵ See PAWC Ex. 3-A Revised, pp. 71R2, 72R2, 131R2, 132R2, 176R2, 177R2, 227R2, 228R2, 256R2, 257R2.

⁶²⁶ OCA Ex. LKM-10W-SR; OCA Ex. LKM-9WSS-SR.

3. OCA's Position

OCA witness Morgan multiplied the OCA's adjusted rate base by the weighted cost of debt included in the OCA recommended capital structure.⁶²⁷ He asserts the interest synchronization adjustment is necessary to ensure that the amount of income taxes claimed by PAWC are properly matched to its rate base and weighted cost of debt.⁶²⁸

4. OSBA's Position

OSBA has no comment.

5. CAUSE-PA's Position

CAUSE-PA did not specifically address this issue.

6. Victory Brewing's Position

Victory Brewing did not specifically address this issue.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs Steel did not specifically address this issue.

⁶²⁷ OCA St. 1 at 24-25.

⁶²⁸ *Id.*

8. ALJs' Recommendation

Interest synchronization is used in ratemaking to determine the amount of interest expense to be used in the calculation of income tax. The adjustment ensures the tax-deductible interest expense for ratemaking is properly matched with the rate base and weighted cost of debt.

The OCA recommended that the Commission adopt OCA witness Morgan's interest synchronization adjustment calculation.⁶²⁹ PAWC opposes OCA witness Morgan's proposed interest expense adjustment as it is "concomitant to the OCA's proposed adjustments to rate base and weighted costs of debt," which PAWC rejects.⁶³⁰ As this recommendation deems that various adjustments to rate base and PAWC's weighted cost of debt are reasonable, a concomitant interest synchronization adjustment should be adopted in this proceeding.⁶³¹ Resultingly, we recommend the interest synchronizations adjustments that detailed in Sheet III of the Rate Case Tables attached to this Recommended Decision.

I. Amortization Expense

1. PAWC's Position

PAWC submitted the OCA's proposed adjustments to amortization expense related to the Company's Farmington and Manwalamink acquisition adjustments should be rejected.

⁶²⁹ OCA M.B. at 28.

⁶³⁰ PAWC M.B. at 32.

⁶³¹ OCA M.B. at 28; OCA St. 1 at 24-25. See Table III.

2. I&E's Position

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

3. OCA's Position

OCA did not specifically address this issue in its testimony.

4. OSBA's Position

OSBA has no comment.

5. CAUSE-PA's Position

CAUSE-PA did not specifically address this issue.

6. Victory Brewing's Position

Victory Brewing did not specifically address this issue.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs Steel did not specifically address this issue.

8. ALJs' Recommendation

PAWC submits OCA's proposed adjustments to amortization are concomitant to its proposed disallowance of the Farmington and Manwalamink acquisition adjustments and should be rejected.

As we adopted OCA's proposed adjustment to disallow the acquisition adjustments for Manwalamink and Farmington, we will adopt the concomitant adjustments to amortization, resulting in decreases in the revenue requirement for Water Operations of \$106,097 for Manwalamink water and \$12,416 for Farmington, and a decrease in the revenue requirement for General SSS Wastewater Operations of \$97,014 for Manwalamink wastewater. In addition, as discussed above, PAWC-WD's revenue requirement for General SSS Wastewater Operations should also exclude Towamencin transaction amortization costs of \$60,513.

J. Third-Party Call Center Expense

1. PAWC's Position

OCA proposed an adjustment to eliminate \$283,651 from PAWC's O&M expense claim related to third-party call handling agencies.⁶³² PAWC submits if it did not utilize third-party call handling agencies, the Company would incur additional expense for staffing increases to handle the call volumes previously answered by third-party contractors.⁶³³ PAWC argues OCA's recommendation that the expense incurred by PAWC to serve customers should be excluded for ratemaking purposes is inappropriate.

2. I&E's Position

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

⁶³² OCA St. 1SR, p. 21; OCA Ex. LMK-12WSR.

⁶³³ PAWC St. 2-R, pp. 20-21.

3. OCA's Position

OCA addresses this issue in Section XIII of its main brief, and its position is set forth in addressing service quality and customer service issues below.

4. OSBA's Position

OSBA has no comment.

5. CAUSE-PA's Position

CAUSE-PA did not specifically address this issue.

6. Victory Brewing's Position

Victory Brewing did not specifically address this issue.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs Steel did not specifically address this issue.

8. ALJs' Recommendation

OCA witness Alexander recommended that PAWC's actual costs included in its revenue requirement for third party call centers be penalized in the form of a 10% reduction in response to the oversight failures and poor performance we have documented.⁶³⁴

⁶³⁴ OCA St. 5 at 16-17; OCA M.B., pp. 113, 115-119.

Sections 523, 1501, and 1505 of the Public Utility Code provide pertinent legal standards to assess when evaluating PAWC individual call center performance.

Pursuant to Section 523:

The commission shall consider, in addition to all other relevant evidence of record, the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates under this title. On the basis of the commission's consideration of such evidence, it shall give effect to this section by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate. Any adjustment made under this section shall be made on the basis of specific findings upon evidence of record, which findings shall be set forth explicitly, together with their underlying rationale, in the final order of the commission.⁶³⁵

PAWC requests that the Commission's adopt the higher end of its requested return on equity based on its management performance.⁶³⁶

In addition to Section 523, Section 1501 of the Public Utility Code provides in pertinent part, "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."⁶³⁷ Furthermore, if the Commission finds that services or facilities of a public utility are "unreasonable, unsafe, inadequate, insufficient, or unreasonably discriminatory" Section 1505 of the Public Utility Code gives the

⁶³⁵ 66 Pa. C.S. § 523.

⁶³⁶ OCA St. 5 at 6.

⁶³⁷ 66 Pa. C.S. § 1501

Commission the authority to “determine and prescribe by regulations or order, the reasonable, safe, adequate, sufficient, services or facilities to be observed, furnished, enforced, or employed, including all such repairs, changes, alterations, extensions, substitutions, or improvements in facilities as shall be reasonably necessary and proper for the safety, accommodation, and convenience of the public.”⁶³⁸

OCA witness Alexander testified that PAWC’s call center performance is inadequate and has been inadequate for some time, based on (1) high call-answer times, (2) high call abandonment rates, and (3) and customer complaints.⁶³⁹ According to OCA witness Alexander, “[t]he call centers perform at a dramatically lower level of performance than should be tolerated...”⁶⁴⁰ PAWC’s inadequate call center performance supports the OCA’s recommendations to disallow certain call center expenses and should be considered in relation to the ROE, as discussed below, rather than as part of an expense adjustment for this cost. This is also supported by Section 1501 and Section 1505 of the Public Utility Code. In addition, the OCA’s recommendations to improve call center and complaint handling should be implemented by PAWC as a part of any authorized rate increase to ensure that consumers are receiving adequate service.⁶⁴¹

PAWC outsources its call center and customer service functions to its affiliate, the Service Company, and it does not provide appropriate managerial oversight thereof.⁶⁴² OCA witness Alexander testified that “[t]he 2024 and 2025 annual average percentages of calls answered within 60 seconds is 47% and 44%, respectively, for one

⁶³⁸ 66 Pa. C.S. § 1505.

⁶³⁹ OCA St. 5 at 5, 10-11, 16-17, 32-33; OCA Ex. BA-2; OCA St. 5, App. A

⁶⁴⁰ OCA St. 5 at 10-11

⁶⁴¹ 66 Pa. C.S. §§ 523, 1501, 1505; *Pa. PUC v. Pa. Gas & Water Co.*, 74 *PUR*4th 238 (*Pa. PUC* 1986); *Pa. PUC v. Philadelphia Gas Works*, 2000 *Pa. PUC LEXIS* 876 (*Order Nov. 22, 2000*).

⁶⁴² OCA St. 5 at 8-10.

contractor, and 31% and 22%, respectively, for the other contractor.”⁶⁴³ Further, “[t]he annual average abandonment rate reflects similarly poor and unacceptable performance: 19% for one contractor for both 2024 and 2025, and 20% in 2024 and 23% in 2025, for the other contractor.”⁶⁴⁴ At the public input hearings, one consumer testified that they called PAWC regarding poor water quality, were placed on hold for over 20 minutes waiting to speak to a supervisor, and that no supervisor picked up the phone.⁶⁴⁵

The Commission requires electric and natural gas distribution companies to report call center performance for the percentage of calls answered within 30 seconds and the call abandonment rate.⁶⁴⁶ The Commission’s 2023 Management Audit found that PAWC had a decline in call handling, which led PAWC to state it would strive to achieve 80% of calls answered within 60 seconds by December 2024.⁶⁴⁷ OCA witness Alexander testified that “the typical performance reported by these public utilities is to answer 80% of the calls within 30 seconds (not 60 seconds), much higher than PAWC.”⁶⁴⁸ Ms. Alexander further testified “PAWC’s stated objective for 2026 is to answer 80% of the calls within 60 seconds and experience an abandonment rate of 8% or less. Clearly, PAWC’s contractors, the costs for which are included in its revenue requirement in this proceeding, fail to come close to these performance objectives.”⁶⁴⁹

⁶⁴³ *Id.* at 11

⁶⁴⁴ *Id.*

⁶⁴⁵ Tr. at 1418-1419; OCA St. 5 App. A at 13.

⁶⁴⁶ PA. PUC Bureau of Consumer Services, *2024 Customer Service Performance Report, Pennsylvania Electric & Natural Gas Distribution Companies*, 6-7 (Dec. 2025) (<https://www.puc.pa.gov/media/3762/2024-customer-service-performance-report-final.pdf>).

⁶⁴⁷ Pa. PUC Bureau of Audits, *Pennsylvania American Water Co. Management and Operations Audit*, 80-84 (Oct. 2023) (<https://www.puc.pa.gov/pcdocs/1810662.pdf>).

⁶⁴⁸ OCA St. 5 at 11; See generally Pa. PUC Bureau of Audits, *Pennsylvania American Water Co. Management and Operations Audit*, 80-84 (Oct. 2023) (<https://www.puc.pa.gov/pcdocs/1810662.pdf>).

⁶⁴⁹ OCA St. 5 at 11.

OCA submits, even though call center performance has been subpar, PAWC has failed to conduct a proper root-cause analysis or any analysis to determine trends and failed to take corrective actions related to proven inadequate call center performance. OCA witness Alexander testified that “A root cause analysis is a fact-based exercise in which the underlying cause or causes of an undesirable outcome are identified then specific remedial steps are identified and determined to result in correcting or improving the previously identified undesirable result.”⁶⁵⁰ OCA witness Alexander further testified that conducting a root cause analysis would allow PAWC “to audit the performance of the contractor from time-to-time, thus ensuring compliance with PAWC’s statutory and regulatory obligations. This would allow PAWC to impose contractual remedies, including termination of the contract, should the contractor’s performance not be satisfactory.”⁶⁵¹

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

1. PAWC’s Position

Based on the actuarial report furnished by WTW for 2026 after the initial filing, PAWC explains it revised its pension claim to an expense of \$1,072,810 and its

⁶⁵⁰ OCA St. 5 at 13.

⁶⁵¹ *Id.* at 12.

OPEB claim to an income⁶⁵² of \$5,885,345.⁶⁵³ On a net total basis, PAWC's updated claims produce income of \$4,812,535 to offset its overall revenue requirement.

According to PAWC no party disagrees with PAWC's claimed annual level of pension and OPEB expense under proposed rates.

PAWC asserts the pension and OPEB costs that it calculates are subject to material change based on a variety of economic and demographic variables described by Company witness John Popiolek, that are outside the Company's control.⁶⁵⁴ According to PAWC, actuaries must make reasonable assumptions to supply the values for those variables, including interest rates, salary increases, inflation, and the performance of the investment markets.⁶⁵⁵ Accordingly, from year-to-year, actual expenses can be lower or higher than the amounts embedded in the Company's base rates, and PAWC is asking for Commission permission to defer and record any amounts above or below the projected level of pension and OPEB expenses into regulatory asset or liability accounts until its next base rate proceeding.⁶⁵⁶

⁶⁵² Most Pennsylvania utilities base their claims for pension and OPEB costs on cash contributions to their pension and OPEB plans, which can never be less than zero. However, in the PUC's final order in PAWC's 2017 base rate case, it approved the Company's request to cease using cash contributions as the ratemaking measure of pension and OPEB costs and, instead, follow GAAP accounting under Financial Accounting Standards Board Accounting Standard Codification Topic 715 ("ASC 715") (formerly Financial Accounting Standard 87). Under ASC 715, net changes in the actuarial determination of pension and OPEB obligations and associated plan funding levels directly impact the bottom line on a company's income statement for the applicable accounting period. Based on the direction and magnitude of the factors that drive the annual performance of a company's pension and OPEB plans, the amount reflected on the income statement in any given year can be either expense or income. PAWC St. 6, p. 11.

⁶⁵³ PAWC St. 6-R, p. 6; PAWC Ex. 3-A Revised, pp. 50R, 51R.

⁶⁵⁴ PAWC St. 14, pp. 3-4, 6-8.

⁶⁵⁵ *Id.*, pp. 6-8.

⁶⁵⁶ PAWC St. 2, pp. 29-30.

PAWC asserts the Commission regularly authorizes utilities to defer costs for accounting purposes arising from events that are unanticipated and outside the utility's control to provide the utility an opportunity to claim those costs for recovery in a future rate proceeding,⁶⁵⁷ and concludes deferred accounting authorization is a fair way to ensure customers and PAWC only bear *actual* costs incurred for pension and OPEB expenses.⁶⁵⁸

⁶⁵⁷ See, e.g., *Petition of Pa.-American Water Co. for Auth. to Defer and Record as Regulatory Assets for Future Recovery: (1) Incremental Expenses Incurred Because of the Effects of the COVID-19 Emergency; (2) Revenue Reductions Attributable to the Effects of the COVID-19 Emergency; and (3) Carrying Charges on the Amounts Deferred*, Docket No. P-2020-3022426 (Opinion and Order entered Sept. 15, 2021), pp. 12-13, 30-32, 42, 49-50 (approving deferral of COVID-19–related financial impacts); *Petition of Pa.-American Water Co. for Auth. to Defer Expenses Incurred to Pay New Regulatory Fees Imposed by the Pa. Dep't of Env'tl. Prot.*, Docket No. P-2019-3008253 (Opinion and Order entered May 9, 2019), pp. 3-4 (approving deferral of \$840,000 of expenses incurred for new annual fees imposed by the PaDEP); *Petition of Pa.-American Water Co. for Auth. to Defer for Accounting and Financial Reporting Purposes Expenses Relating to a Water Customer Class Demand Study*, Docket No. P-2012-2308982 (Opinion and Order entered Aug. 20, 2012) (approving deferral of \$463,000 in expenses related to a demand study agreed to in settlement of PAWC's 2011 rate case); *Petition of Columbia Gas of Pa., Inc. for Auth. to Defer, for Accounting Purposes, Certain Costs Associated With A Regulatory Asset Related to Other Post-Retirement Benefits Provided by NiSource Corporate Serv. Co.*, Docket No. P-2011-2275383 (Opinion and Order entered May 24, 2012) (approving deferral of \$903,000 expenses related to an accounting change for certain retirement-related management fees paid to an affiliate); *Petition of the Newtown Artesian Water Co. for Permission to Defer and Record Unrecovered Purchased Water Costs*, Docket No. P-2010-221420 (Order entered June 1, 2011) (approving deferral of unrecovered purchased water costs totaling \$351,929 related to rate increases implemented by the Bucks County Water and Sewer Authority in between rate cases); *Petition of Citizens Utils. Water Co. of Pa.*, Docket No. P-00930746 (Order entered Feb. 25, 1994) (approving deferral of SFAS 106 costs); *Pa. P.U.C. v. Consumers Pa. Water Co. – Roaring Creek Div.*, Docket No. R-932655 (Order entered Feb. 3, 1994) (same).

⁶⁵⁸ PAWC St. 2-R, pp. 17-18.

PAWC also submits that the parties will have an opportunity to review the pension and OPEB expense incurred by PAWC to ensure that those costs have been prudently incurred.⁶⁵⁹

2. I&E's Position

According to I&E, the Company's proposal would compare its actual pension and OPEB expenses incurred to the amount included within base rates. The difference between the two would be deferred to a regulatory asset or liability, and the net balance would be addressed in the Company's next base rate case.⁶⁶⁰ I&E asserts this methodology assumes that PAWC claims related to pension and OPEBs will be specifically approved by the Commission in the event of any black box settlements.

I&E recommends that the Commission disallow the proposed pension and OPEB expense regulatory asset/liability treatment in its entirety.⁶⁶¹ I&E asserts the costs are not extraordinary because pension and OPEB costs are routine expenses incurred by PAWC as well as many other water and wastewater utilities. These expenses are not one-time expenses and occur year after year. In addition, I&E argues the costs are not unanticipated because they are a part of contractual agreements with past employees. Finally, I&E submits I&E concludes the expenses cannot be categorized as non-recurring while also being forecasted on an annual basis. As the Company's pension and OPEB expenses may have met one of four criteria to be considered for regulatory asset treatment, I&E argues it is not appropriate for the Commission to grant approval for the Company to defer these costs.

⁶⁵⁹ PAWC St. 2-R, pp. 17-18.

⁶⁶⁰ PAWC St. No. 2, p. 27.

⁶⁶¹ I&E St. No. 1, p. 46.

3. OCA's Position

OCA submits this same issue arose with PAWC's last base rate case. In its Order dated July 11, 2024, the Commission rejected similar requests for pension/OPEB trackers that were made by PAWC.⁶⁶² Pertaining these requests, the Commission stated as follows:

We agree with the ALJs and I&E that pension and OPEB costs are not extraordinary, unanticipated, or non-recurring. R.D. at 131 (citing I&E M.B. at 31-32). As discussed by I&E, pension and OPEB costs are routine expenses that can be forecasted on an annual basis and are part of contractual agreements with past employees. *See*, I&E M.B. at 32. Therefore, costs for pension and OPEB expense do not qualify for deferred accounting treatment. Indeed, as noted by the ALJs, the OCA, and PAWLUG, to allow deferred recovery for such routine costs would raise concerns of single-issue ratemaking.⁶⁶³

OCA notes it opposes PAWC's ancillary requests for Commission approval of deferred regulatory accounting treatment for pension and OPEB expenses. OCA submits PAWC has not met its burden to demonstrate that these accounting mechanisms are necessary or just and reasonable, and that the requested treatments of isolated expenses for deferred recovery in future base rate cases are squarely impermissible single-issue ratemaking.⁶⁶⁴ According to OCA, single-issue ratemaking is similar to

⁶⁶² *PAWC 2023* at 128.

⁶⁶³ *See*, R.D. at 131 (citing OCA M.B. at 44-45; PAWLUG M.B. at 7-8).

⁶⁶⁴ *See Nat'l Fuel Gas Dist. Corp. v. Pa. PUC*, 464 A.2d 546, 567 (Pa. Cmwlth. 1983) (in the context of tariff supplements, the consideration of expense and revenue items in isolation could result in confiscatory rates); *see also Phila. Elec. Co. v. Pa. PUC*, 502 A.2d 722, 727-28 (Pa. Cmwlth. 1985) (holding that there should be no line-by-line examination of items in a rate case and an isolated item of revenue or expense may not be, without more, the subject of a refund or recovery).

retroactive ratemaking and, in general, is prohibited if it impacts on a matter that is normally considered in a base rate case.⁶⁶⁵

PAWC has not presented any new arguments or asserted materially different facts in this base rate case, OCA argues, and the Commission should, consistent with its determination in the prior base rate proceeding, disallow PAWC's ancillary requests for approval of deferred regulatory accounting treatment for pension and OPEB expenses for recovery in a future rate case.

4. OSBA's Position

OSBA has no comment.

5. CAUSE-PA's Position

CAUSE-PA did not offer independent testimony with regard to PAWC's claimed expenses.

6. Victory Brewing's Position

Victory Brewing did not specifically address this issue.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs Steel did not specifically address this issue.

⁶⁶⁵ *Pa. Indus. Energy Coalition v. Pa. PUC*, 653 A.2d 1336, 1350 (Pa. Cmwlth. 1995), *aff'd*, 543 Pa. 307, 670 A.2d 1152 (1996) (*PIEC*).

8. ALJs' Recommendation

PAWC is requesting Commission authorization to establish regulatory assets for its pension and OFEB expenses. PAWC requested deferred accounting treatment for Pension and OPEB expenses, claiming that pension and OPEB expenses “are difficult to predict and can materially increase or decrease from year-to-year because pension and OPEB costs are based on actuarial forecasts that take into account a number of economic and demographic factors.”⁶⁶⁶

The Commission has stated “the standard which a utility must meet when seeking Commission authorization for deferral accounting is whether, based on Commission precedent, the expense item appears to be within the scope of the type of items that the Commission has allowed as an exception to the general rule against retroactive recovery of past expense.”⁶⁶⁷ Deferred accounting treatment may be granted if the expense is: 1) extraordinary; 2) unanticipated; 3) non-recurring; and 4) substantial.⁶⁶⁸ In *Popowsky v. Pa. P.U.C.* , it was noted that:

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

⁶⁶⁶ PAWC St. 2 at 27.

⁶⁶⁷ *Petition of Columbia Gas of Pa., Inc. for Authority to Defer for Accounting and Financial Purposes Certain Start Up Expenses Assoc. with the Redesign of Upgrade of Financial Processes and Info. Systems*, Docket No. P-2012-2319920 (Order Entered December 5, 2012).

⁶⁶⁸ *Id.*

in rates because, like the weather-related expenses, it would be normalized out of the test year as abnormal.⁶⁶⁹

Pension and OPEB expenses are normal, expected, recurring costs for which the Company cannot expect a virtually guaranteed dollar-for-dollar recovery. Pensions and OPEB costs do not meet the requirements for deferral treatment, and accordingly we agree with I&E that the Company's request should be denied.

IX. TAXES

1. PAWC's Position

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. According to PAWC, no party disputes the manner in which PAWC calculated its federal and state income taxes.

2. I&E's Position

I&E's adjustment for Payroll Tax Expense is detailed in the corresponding O&M expense adjustment section above. Apart from this adjustment, I&E made no specific recommendations related to adjustments to taxes. Any such adjustments would simply be the result of the flow-through of other I&E adjustments. I&E notes "[a]ll adjustments to the Company's claims for revenues, expenses, taxes, and rate base must be continually brought together in the Recommended Decision and again in the Commission's Final Order."⁶⁷⁰ Accordingly, there may be adjustments to taxes related to

⁶⁶⁹ *Popowsky v. Pa. Publ. Util. Comm'n*, 642 A.2d 648, 652 (Pa. Cmmwlth 1994).

⁶⁷⁰ I&E St. No. 1-SR, p. 50.

the Recommended Decision and the Final Commission Order that occur as a result of this principle that must be incorporated in the final revenue requirement approved in this proceeding.

I&E further explains that PAWC witness Schlessman presented supplemental direct testimony related the Corporate Alternative Minimum Tax (CAMT), where she proposed to refund the 2024 CAMT payments and remove the deferred tax asset from rate base which is reflected as a \$35,620,052 reduction in rate base.⁶⁷¹ I&E accepted this adjustment in end result only noting the timing of this supplemental testimony did not afford I&E the opportunity to fully analyze this claim. Therefore, I&E reserves its right to address similar claims in any future proceedings. I&E also explained that the result of this adjustment have not been reflected in the I&E testimony and spreadsheets in this proceeding, and would have been reflected as a downward adjustment to the revenue requirement. I&E recommends the ALJs and the Commission similarly reflect this adjustment as a downward adjustment to the revenue requirement for PAWC.

3. OCA's Position

OCA did not address this issue in its testimony.

4. OSBA's Position

OSBA has no comment.

⁶⁷¹ PAWC St. No. 8 Supplemental, p. 4.

5. CAUSE-PA's Position

CAUSE-PA did not specifically address this issue.

6. Victory Brewing's Position

Victory Brewing did not specifically address this issue.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not specifically address this issue.

8. ALJs' Recommendation

As I&E explained, adjustments to the Companies claims for revenues, expenses, taxes, and rate base will be brought together in the Recommended Decision and Final Order of the Commission. In addition, the proposed refund to the 2024 CAMT payments and removal of the deferred tax asset from rate base is reflected as a \$35,620,052 reduction in rate base. We acknowledge that I&E has reserved the right to address similar claims as identified in I&E's Main Brief, in future proceedings.

We agree with I&E's position regarding the recommendation by PAWC's witness to remove the deferred tax asset associated with the 2024 CAMT payments for \$35,620,052 and note that the adjustment has already been included in the revised rate tables provided by PAWC in Exhibit 3-A Revised; therefore, no additional adjustment to the revenue requirement is necessary.

X. DEPRECIATION

1. PAWC's Position

PAWC's claim for accrued depreciation related to its utility plant-in-service was developed and presented by PAWC witness Spanos of Gannett Fleming Valuation and Rate Consultants, LLC. The details underlying the methodology employed by Mr. Spanos, together with all supporting calculations and documentation, are set forth in Exhibit Nos. 11-A through 11-N. Mr. Spanos completed depreciation studies to estimate the annual depreciation accruals related to water and wastewater plant-in-service for ratemaking purposes and to estimate the Company's book reserve as of June 30, 2025, June 30, 2026 and June 30, 2027.⁶⁷² PAWC's annual depreciation accrual applicable to plant-in-service at June 30, 2027, is \$289,738,866.⁶⁷³

Mr. Spanos utilized the equal life group (ELG) procedure in his studies for all depreciable accounts and installation years of water and wastewater plant.⁶⁷⁴ The Commission most recently accepted the Company's depreciation claims based on the ELG methodology in PAWC's 2023 base rate proceeding – subject to some acquisition-related adjustments,⁶⁷⁵ and the ELG procedure has also been utilized in PAWC's five-year service life study reports submitted to the PUC since the mid-1980s and in PAWC's annual depreciation reports to the PUC.⁶⁷⁶

⁶⁷² See generally PAWC St. 11. In rebuttal, Mr. Spanos presented updated water and wastewater depreciation accrual rates that resulted from DSIC related adjustments to water and wastewater plant. PAWC St. 11-R, p. 30; PAWC Exs. JJS-2R-JJS-7R.

⁶⁷³ See Ex. 3-A Revised, pp. 1R2, 75R2, 135R2, 180R2, 231R2.

⁶⁷⁴ PAWC St. 11, p. 6; PAWC St. 11-R, p. 12; PAWC Hearing Ex. 2, p. 1.

⁶⁷⁵ PAWC 2024, pp. 43-44, 55-56, 116-117.

⁶⁷⁶ PAWC St. 11-R, pp. 12-13.

PAWC submits, even if the ALG method were to be applied as proposed by OCA, PAWC witness Spanos explains that OCA witness Garrett's proposed ALG rates for the FTY and FPFTY are incorrect because he is using depreciation reserve balances that are based on projected ELG accruals. Consequently, PAWC argues OCA witness Garrett erred in his statement that the difference between the two procedures is \$49.9 million as of June 30, 2027, because he applied an inappropriate methodology for forecasted test years and utilizes past approved calculations to misrepresent the true procedural changes.⁶⁷⁷

2. I&E's Position

I&E presented no testimony on this topic.

3. OCA's Position

OCA argues PAWC's use of the nationally atypical ELG depreciation procedure instead of the ALG procedure will result in current customers paying nearly \$60 million per year more than they otherwise would.⁶⁷⁸

According to OCA, PAWC's proposed depreciation rates amount to a total annual depreciation accrual of \$263 million based on plant balances at June 30, 2027,⁶⁷⁹ and if the Commission adopts Mr. Garrett's recommendation to use the Average Life Group Procedure or ALG it will reduce the annual depreciation accrual charged to customers by \$50.1 million in 2025 by \$50.2 million in 2026, and by \$49.9 million in 2027.⁶⁸⁰

⁶⁷⁷ PAWC St. 11-R, pp. 22-26; PAWC Hearing Ex. 2, pp. 5-6.

⁶⁷⁸ OCA St. 2 SR at 14.

⁶⁷⁹ OCA St. 2 at 3.

⁶⁸⁰ *Id.* at 4.

OCA witness Garrett recommended that the Commission reject PAWC's use of the ELG procedure.⁶⁸¹ Under the ELG procedure, property is divided into subgroups, called vintages, that each have a common life.⁶⁸² Using ELG results in higher depreciation rates in the early years of a vintage's life.⁶⁸³ By contrast the ALG procedure results in the same depreciation rate applied to each age interval.⁶⁸⁴ Mr. Garrett testified that use of the ELG procedure results in current customers overpaying.⁶⁸⁵ Second, Mr. Garrett testified that the ELG procedure can result in unreasonably high depreciation rates as it results in higher present cash flow to PAWC, which is likely the primary motivation for PAWC proposing the ELG procedure.⁶⁸⁶

OCA explains, this issue is squarely within the Commission's ratemaking discretion, as no state or federal law prohibits the Commission's adoption of the ALG procedure. OCA asserts, adopting the use of the ALG procedure will permit PAWC to recover reasonable amounts charged to operating expenses for depreciation so that it is fully recovered, and the integrity of its investments maintained while ensuring that consumers pay no more than necessary. According to OCA, through adoption of the ALG procedure, the excess amounts charged in rates for depreciation expense will be removed.

OCA explains current legal standards do not mandate a specific procedure when conducting depreciation analysis.⁶⁸⁷ The standards direct that analysts use a system for estimating depreciation rates that will result in the systematic and rational allocation

681 OCA St. 2.

682 *Id.* at 46.

683 *Id.*

684 OCA St. 2 at 47.

685 OCA St. 2SR at 18.

686 OCA St. 2 at 49; OCA St. 2SR at 17.

687 OCA St. 2 at 45.

of capital recovery for the utility.⁶⁸⁸ A depreciation study may be defined by several primary parameters, including 1) method of allocation; 2) a procedure for applying the method; 3) a technique of applying the depreciation rate; and 4) a model for analyzing the characteristics of vintage property groups.⁶⁸⁹ OCA witness Garrett used the straight-line method, ALG procedure, the remaining life technique, and the broad group model.⁶⁹⁰

OCA asserts under the ELG procedure, depreciation expense will always be higher in early years when utilities make recent capital investments.⁶⁹¹ OCA argues PAWC's use of ELG instead of ALG results in current customers paying nearly \$60 million per year more than they otherwise would.⁶⁹² If the Commission authorizes the depreciation methodology used by the vast majority of jurisdictions, the Commission can provide current customers significant financial relief. OCA witness Garrett summarized his application of the ALG procedure to PAWC's depreciation studies as follows:

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Id.

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OCA St. 2 at 45-46.

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Id. at 46.

691

OCA St. 2 at 50.

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Id. at 14.

Figure 1:

Summary Depreciation Accrual Adjustment – 2025 Study

Plant Operations	PAWC Accrual	OCA Accrual	OCA Adjustment
Water Operations	\$ 190,896,455	\$ 154,040,446	\$ (36,856,009)
Wastewater Sanitary Sewer System (SSS)	26,745,064	20,638,871	(6,106,193)
Butler Area Sewer Authority (BASA)	10,875,378	7,071,721	(3,803,657)
Wastewater Combined Sewer System (CSS)	19,043,262	15,662,376	(3,380,886)
TOTAL PLANT STUDIED	\$ 247,560,159	\$ 197,413,414	\$ (50,146,745)

Figure 2:

Summary Depreciation Accrual Adjustment – 2026 Study

Plant Operations	PAWC Accrual	OCA Accrual	OCA Adjustment
Water Operations	\$ 194,622,280	\$ 157,589,083	\$ (37,033,197)
Wastewater Sanitary Sewer System (SSS)	26,421,463	20,632,278	(5,789,185)
Butler Area Sewer Authority (BASA)	10,716,015	6,833,684	(3,882,331)
Wastewater Combined Sewer System (CSS)	18,983,484	15,870,260	(3,113,224)
Elizabeth Borough Wastewater	1,064,881	732,425	(332,456)
TOTAL PLANT STUDIED	\$ 251,808,123	\$ 201,657,731	\$ (50,150,392)

Figure 3

Summary Depreciation Accrual Adjustment – 2027 Study

Plant Operations	PAWC Accrual	OCA Accrual	OCA Adjustment
Water Operations	\$ 204,148,039	\$ 167,195,229	\$ (36,952,810)
Wastewater Sanitary Sewer System (SSS)	26,943,479	21,141,801	(5,801,678)
Butler Area Sewer Authority (BASA)	11,299,118	7,431,909	(3,867,209)
Wastewater Combined Sewer System (CSS)	19,602,347	16,619,156	(2,983,191)
Elizabeth Borough Wastewater	1,035,500	742,790	(292,710)
TOTAL PLANT STUDIED	\$ 263,028,483	\$ 213,130,885	\$ (49,897,598)

While PAWC is entitled to recover depreciation expense to ensure the utility is whole and the integrity of its investment maintained, the utility bears the burden of demonstrating that its claimed amounts to recover in expenses are not excessive.⁶⁹³

In addition, the Commission is not bound by any particular methodology or procedure in determining annual depreciation expense. The Commonwealth Court stated as follows:

The [Commission] is not bound to accept any particular method in estimating accrued depreciation which is essentially a judgment figure. If the Commission based its finding on substantial evidence, it is binding upon appellate review.⁶⁹⁴

The only limitation on procedure is that the Commission must provide for the computation of a utility's accumulated depreciation and annual depreciation expense on a reasonably consistent basis. Indeed, the Commonwealth Court in *Pa. Power* held that “[i]n a rate case, both annual depreciation expense allowance and accrued depreciation should be calculated on a reasonably consistent basis.”⁶⁹⁵ Moreover, “[a]lthough the PUC may be guided by its finding of accrued and annual depreciation in a prior case or cases, in determining such items in a rate case currently before it, such prior findings are not res judicata.”⁶⁹⁶

⁶⁹³ 66 Pa. C.S. § 315(a); *Lindheimer v. Illinois Bell Tel. Co.*, 292 U.S. 151, 169 (1934) (*Lindheimer*); *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 606 (1944) (*Hope*).

⁶⁹⁴ *Pa. Power & Light Co. v. Pa. PUC*, 311 A.2d 151, 158 (Pa. Cmwlth. 1973) (*Pa. Power*).

⁶⁹⁵ *Pa. Power* at 158.

⁶⁹⁶ *Id.* (emphasis added).

OCA asserts both accrued and annual depreciation must be reasonably consistent with each other, which is accomplished by ALG,⁶⁹⁷ and explains the Public Utility Code does not require that a utility’s currently utilized depreciation procedure for a certain plant must be accepted indefinitely.⁶⁹⁸

The purpose of the Commission’s regulations regarding annual depreciation reports, service life studies, and capital investments plans is “to establish uniform and industry wide reporting requirements designed to improve the Commission’s ability to monitor on a regular basis the depreciation practices and capital planning of electric, telephone, gas and water public utilities subject to Commission jurisdiction.”⁶⁹⁹

According to OCA, the Commission’s regulations must be read in the context of Section 1301(a)’s mandate that all rates be “just and reasonable”⁷⁰⁰ and Section 315(a)’s placing of the burden of proof on the utility to establish the justness and reasonableness of every element of a propose rate increase.⁷⁰¹ Additionally, the U.S. Supreme Court stated that the public utility bears the burden of proof regarding operating expenses for depreciation:

The point is as to the necessity for the annual charges for depreciation, as made or claimed by the Company, in order to avoid confiscation through the rates in suit. On that point the Company has the burden of proof. We find that this burden has not been sustained. Nor is the result changed by figuring the allowances at the somewhat reduced amounts fixed by the court below.

⁶⁹⁷ *Id.*

⁶⁹⁸ 52 Pa. Code § 73.9(c) (emphasis added).

⁶⁹⁹ 52 Pa. Code § 73.1

⁷⁰⁰ 66 Pa. C.S. § 1301(a).

⁷⁰¹ 66 Pa. C.S. 315(a).

We find this point to be a critical one. The questionable amounts annually charged to operating expenses for depreciation are large enough to destroy any basis for holding that it has been convincingly shown that the reduction in income through the rates in suit would produce confiscation.⁷⁰²

PAWC has the burden of proof to show that its rates are just and reasonable. As PAWC's rates have become increasingly unaffordable, OCA argues PAWC's continued use of ELG due to PAWC's current use ELG is unjust and unreasonable.

OCA also submits the well-established "matching principle" of ratemaking requires that expenses, revenue, and rate base match over the same time period.⁷⁰³ For example, if post-test year additions to expenses and revenues are allowed, "the balance established by the test year is lost and the matching principle is violated."⁷⁰⁴ Two basic principles of public utility ratemaking are that: 1) a public utility only earns money from its rate base and 2) a public utility does not earn money on its expenses.⁷⁰⁵ "A utility is not permitted to pad its estimates of annual depreciation so as to meet unknown contingencies, or to compensate for possible future errors in judgment."⁷⁰⁶

⁷⁰² *Lindheimer* at 175.

⁷⁰³ *Pa. PUC v. NFGD*, 1994 Pa. PUC LEXIS 135, *13 (Order Oct. 7, 1994) (*NFGD*).

⁷⁰⁴ *Id.*; see also *Re. Niagra Mohawk Power Co.*, 1986 N.Y. PUC LEXIS 3, *97 (Dec. 19, 1986) (a plant running for 50 years but packing all of its depreciation accruals into the first 40 years would violate generational equity and the matching principle).

⁷⁰⁵ *Pa. Power* at 159.

⁷⁰⁶ *Id.* at 157.

OCA witness Garrett testified that ELG results in higher depreciation rates for current customers.⁷⁰⁷ Mr. Garrett further testified that, “[t]he larger the amount of the investments, the larger the discrepancy will be between the two procedures.”⁷⁰⁸

According to OCA, PAWC’s use of the ELG procedure results in intergenerational inequity. As stated in *Re Minnegasco, Inc.*, “[a]s a general rule, it is inequitable and economical [sic] unsound to ask one ‘generation’ of captive ratepayers to bear the cost of providing service to another.”⁷⁰⁹ OCA submits PAWC’s ratepayers should not be required to pay accelerated depreciation costs for the potential that years from now those rates may be lower to future customers, who may or may not be the same customers paying accelerated rates now. Moreover, Section 1304 of the Public Utility Code, which prohibits discrimination in rates, provides:

No public utility shall, as to rates, make or grant any unreasonable preference or advantage to any person, corporation, or municipal corporation, or subject any person, corporation, or municipal corporation to any unreasonable prejudice or disadvantage. No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service.⁷¹⁰

Under Section 1304, PAWC’s current customers, according to OCA, are being unreasonably disadvantaged because they are subject to PAWC’s preferred depreciation procedure. Consumers, on their own, cannot readily negotiate with a utility and must “rely upon” the Commission to provide “a complete, permanent, and effective

⁷⁰⁷ OCA St. 2SR at 15

⁷⁰⁸ OCA St. 2 at 50.

⁷⁰⁹ *Re Minnegasco, Inc.*, 143 PUR4th 419, 426 (May 3, 1993) (Re Minnegasco is not available on LEXIS and is attached as Appendix D); see also *Re Limerick Nuclear Generating Station*, 1982 Pa. PUC LEXIS 102, *65 Order (May 7, 1982).

⁷¹⁰ 66 Pa. C.S. § 1304.

bond of protection from excessive rates and charges” of the public utility.⁷¹¹ The Commission’s “responsibilities include the protection of future, as well as present, consumer interests.”⁷¹²

OCA argues the ALG procedure simplifies the Commission’s ability to monitor depreciation practices and capital planning for regulated utilities, it furthers the Commission’s regulations regarding depreciation “to establish uniform and industry-wide reporting requirements designed to improve the Commission’s ability to monitor on a regular basis the depreciation practices and capital planning of electric, telephone, gas and water public utilities subject to Commission jurisdiction.”⁷¹³

OCA also asserts that the use of the ALG procedure will permit PAWC’s recovery of reasonable amounts charged to operating expenses for annual depreciation, but will remove excess amounts from being charged in rates. Specifically, OCA witness Garrett testified that PAWC’s depreciation expense balance should be set in the FPFTY at \$213,130,885 in contrast with PAWC’s claimed depreciation expense balance of \$263,028,483.⁷¹⁴ OCA argues Mr. Garrett’s adjustment of \$49,897,598 essentially removes the excess amounts charged to operating expense for annual depreciation based on use of the ELG procedure.⁷¹⁵ Further, Mr. Garrett testified that PAWC’s use of ELG unnecessarily increases the depreciation accrual charged to customer by approximately \$1.4 million.⁷¹⁶

⁷¹¹ *Permian Basin Area Rate Cases*, 390 U.S. 747, 794-95 (1968) (*Permian Basin*) (citing *Atlantic Ref. Co. v. Pub. Serv. Comm’n*, 360 U.S. 378, 388 (1981)).

⁷¹² *Permian Basin*, 390 U.S. at 797.

⁷¹³ 52 Pa. Code § 73.1.

⁷¹⁴ OCA St. 2 at 5 (Figure 3).

⁷¹⁵ *Id.*

⁷¹⁶ OCA St. 2 at 47.

By contrast, OCA asserts, the use of the ALG procedure will permit PAWC’s accumulated depreciation and annual depreciation to be calculated on a reasonably consistent basis in accordance with *Pa. Power*. OCA witness Garrett testified, “the ALG procedure is used by analysts and adopted by regulators in the vast majority of jurisdiction and in the vast majority of cases”.⁷¹⁷

OCA argues PAWC’s continued use of ELG will charge customers with nearly \$60 million of additional depreciation expense per year.⁷¹⁸ Conversely, ALG will simplify the Commission’s ability to monitor depreciation practices and capital planning for regulated utilities, it furthers the Commission’s regulations regarding depreciation “to establish uniform and industry-wide reporting requirements designed to improve the Commission’s ability to monitor on a regular basis the depreciation practices and capital planning of electric, telephone, gas and water public utilities subject to Commission jurisdiction.”⁷¹⁹

According to OCA, there are multiple examples of regulatory commissions moving away from the ELG procedure in favor of ALG. The Indiana Utility Regulatory Commission found that the ELG procedure resulted in unreasonable rates as follows:

First, with respect to the question of whether the ELG or ALG method should be used, we find the evidence presented by OUCC witness Mr. Garrett and Industrial Group witness Mr. Andrews persuasive, as both witnesses showed that the ELG method results in unreasonably high depreciation rates. ALG depreciation rates result in systematical and rational cost recovery with near term customer rate relief and full cost recovery of utility investments. While we have determined in the past that the ELG methodology was appropriate and acknowledge the

⁷¹⁷ OCA St. 2 at 48.

⁷¹⁸ *Id.* at 18.

⁷¹⁹ 52 Pa. C.S. § 73.1.

weight given to precedent in many prior decisions, we always evaluate each case as it comes before us and do not need to approve the same methodology based on prior decisions, especially in light of a changed landscape. The use of ELG in a higher than average investment cycle has the effect of unnecessarily increasing the near term depreciation expense as compared to the use of ALG.⁷²⁰

Similarly, the Kentucky Public Service Commission (Kentucky PSC) found that the ELG procedure front-loads depreciation expense in earlier years and decreases it in later years, resulting in a mismatch between revenues and expenses.⁷²¹

OCA asserts PAWC's proposed ELG methodology does not properly match revenues to expenses in order to produce just and reasonable rates. The Kentucky PSC found that Duke Kentucky's continued use of the ELG procedure resulted in unjust and unreasonable rates due to a \$6.920 million difference to Duke Kentucky's depreciation expense balance between using ALG instead of ELG.⁷²² Here, according to OCA, the difference between the ELG and ALG procedure results in charging customers nearly a \$60 million difference per year.⁷²³

OCA concludes PAWC's continued use of the ELG procedure imposes an unjustified and unreasonable \$58.7 million revenue requirement burden on ratepayers who already are facing difficulties.⁷²⁴ The Commission has the authority to protect ratepayers from unjustified rate increase proposals, including PAWC's proposal to use

⁷²⁰ OCA St. 2 at 49-50 citing *Petition of Duke Energy Indiana, LLC.*, Case No. 45253, Order at 90 (June 29, 2020) (*Duke Indiana*).

⁷²¹ OCA St. 2 at 49-50 citing *Application of Duke Energy Kentucky, Inc.*, Case No. 2017-00321, Order at 26-27 (Apr. 13, 2018) (*Duke Kentucky*).

⁷²² *Id.*

⁷²³ OCA St. 2SR at 18.

⁷²⁴ OCA St. 1 SR at 3.

the ELG procedure.⁷²⁵ Further, continued use of the ELG procedure is not required by law or regulation.⁷²⁶

OCA argues substantial record evidence demonstrates that the ALG procedure produces just and reasonable rates while the ELG procedure is a form of accelerated depreciation.⁷²⁷ OCA witness Garrett's depreciation rates were calculated using the same service life parameters proposed in PAWC's depreciation study.⁷²⁸ No service life adjustments were recommended by OCA witness Garrett.⁷²⁹ The only difference is that OCA witness Garrett uses the ALG procedure while PAWC witness Spanos uses the ELG procedure.⁷³⁰

OCA submits, rejecting PAWC's proposal to continue using ELG is not only legally sound, it is essential in preventing the systematic overcharging of customers due to PAWC's choice of depreciation procedure to provide PAWC with a higher immediate cash flow at the expense of its ratepayers. By requiring PAWC to switch to the ALG procedure, the Commission will ensure reasonable consistency between annual depreciation and accrued depreciation.

4. OSBA's Position

OSBA has no comment.

⁷²⁵ See Section VII.C.1.

⁷²⁶ See Section VII.C.2.

⁷²⁷ See Section VII D.

⁷²⁸ OCA St. 2 at 56.

⁷²⁹ *Id.* at 55.

⁷³⁰ *Id.* at 56.

5. CAUSE-PA's Position

CAUSE-PA did not offer independent testimony with regard to depreciation in this proceeding, though it supports the positions advanced by the OCA.

6. Victory Brewing's Position

Victory Brewing takes no specific position on depreciation.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not specifically address this issue.

8. ALJs' Recommendation

The Public Utility Code does not require that a utility's currently utilized depreciation procedure for certain plant be accepted indefinitely. As OCA explained, the Code provides the following regarding depreciation:

a) Accounts.--Every public utility shall carry on its books or records of account, proper and reasonable sums representing the annual depreciation on its property used or useful in the public service, which sums shall be based upon the average estimated life of each of the several units or classes of depreciable property. The commission, by appropriate order, after hearing, shall, except where found to be inappropriate, establish for each class of public utilities, the units of depreciable property, the loss upon the retirement of which shall be charged to the depreciation reserve.

(b) Statements.--Every public utility shall file with the commission, at such times and in such form as the commission may prescribe, statements setting forth the details supporting its computation of annual depreciation,

as recorded on the books or records of accounts of the public utility. If the commission, upon review of such statements, is of the opinion that the amount of annual depreciation so recorded by any public utility is not reasonable and proper, it may, after hearing, require that provision be made for annual depreciation in such sums as may be found by it to be reasonable and proper. In making its findings, the commission shall give consideration to the experience of the public utility, and the predecessors of the public utility in accumulating depreciation reserves, the retirements actually made, and such other factors as may be deemed relevant.

(c) Use of estimates.--The commission shall not be bound in rate proceedings to accept, as just and reasonable for rate-making purposes, estimates of annual depreciation established under the provisions of this section, but in such rate proceedings it shall give consideration to statements submitted under this section, in addition to such other factors as may be relevant.⁷³¹

The Public Utility Code does not require that a utility's currently utilized depreciation procedure for a certain plant must be accepted indefinitely.

The Commission's regulations provide:

(c) In subsequent ratemaking proceedings, the most recent annual depreciation report or service life study approved or deemed approved for accounting purposes only under this chapter, constitutes a rebuttable presumption as to the reasonableness of the accrued depreciation claimed for ratemaking purposes, and the burden of proving the unreasonableness of the accrued depreciation shall be on the challenging party.⁷³²

⁷³¹ 66 Pa. C.S. § 1703 (emphasis added).

⁷³² 52 Pa. Code § 73.9(c) (emphasis added).

PAWC's annual depreciation accrual applicable to plant in service at June 30, 2027 is \$289,738,866. PAWC utilized the equal life group or ELG procedure for all depreciable accounts and installation years of water and wastewater plants.

OCA proposed a total water and wastewater reduction in depreciation expense of \$49.9 million using the average life group or ALG procedure. OCA submits the ALG procedure is fairer and avoids current customers paying a disproportionately higher share of costs relative to future customers.

PAWC submits, even if the ALG method were to be applied as proposed by OCA, that OCA's proposed ALG rates for the FTY and FPFTY are incorrect because they use depreciation reserve balances that are projected ELG accruals. Accordingly, PAWC argues OCA erred in determining the difference between the two procedures is \$49.9 million as of June 30, 2027, alleging OCA witness Garrett applied an inappropriate methodology for forecasting test years and utilizes past approve calculations to misrepresent the true procedural changes.

OCA recommends that the Commission reject PAWC's use of the ELG procedure, arguing ELG results in higher depreciation rates in the early years of a vintage life, where the ALG procedure results in the same depreciation rates applied to each age interval. OCA asserts the use of ELG results in current customers overpaying and can result in unreasonably high depreciation rates as it results in higher present cash flow to PAWC. OCA asserts using ELG instead of ALG results in current customers paying substantially more per year than they otherwise would and that using the ALG method would provide current customers with significant financial relief.

It appears undisputed that the Commission is not bound by any particular methodology or procedure in determining annual depreciation expense and the

Commission must provide for the computation of a utilities accumulated depreciation and annual depreciation expense on a reasonably consistent basis.

OCA asserts a number of regulatory commissions are moving away from the ELG procedure in favor of the ALG method in order to achieve more reasonable rates. OCA concludes that the ALG procedure produces just and reasonable rates, while the ELG is a form of accelerated depreciation that overcharges current customers.

The argument advanced by OCA is that use of the ALG depreciation method by PAWC results in unjust and unreasonable rates. In summary, OCA argues that PAWC's use of the ELG depreciation method unjustly accelerates cost recovery and inflates current rates, resulting in intergenerational inequity. OCA concludes replacing the ELG procedure with the ALG procedure would lessen or eliminate the mismatch between revenues and expenses, provide a consistent annual expense, and adhere to the matching principle and avoid intergenerational inequity between current and future customers.

Depreciation rates are determined in a depreciation study using a depreciation system. The average life and equal life procedures appear to be two common depreciation procedures used. The issue here is whether the longstanding use of the ELG procedure by PAWC should be changed to the ALG procedure in this proceeding.

Depreciation impacts customer rates in two important 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 return on rate base and therefore lower customer rates when compared to a lower level of accumulated depreciation.

Despite the evidence presented by OCA, we agree with PAWC that neither the testimony of OCA witness Garrett nor the authority cited in OCA's Briefs warrant 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."⁷³³ Mr. Spanos stated 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 rates⁷³⁴ is the result of the change in procedure, not from the ALG procedure itself. As recently explained by the Commission, 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 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

⁷³³ See, e.g., OCA M.B, pp. 43-47.

⁷³⁴ As explained in PAWC M.B., 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.

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.⁷³⁵

We agree with the Company that the cases and authority presented by OCA do not support a departure from the ELG procedure.⁷³⁶ 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. In addition, OCA argues that the ELG procedure is inconsistent with the “matching principle” of ratemaking,⁷³⁷ however, as explained in PAWC’s Main Brief⁷³⁸ 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.

Accordingly, we conclude that 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.

⁷³⁵ *Columbia Gas 2025*, pp. 108-109.

⁷³⁶ *See* OCA M.B., pp. 37-42.

⁷³⁷ *Id.*, pp. 42-43.

⁷³⁸ *See* PAWC M.B., pp. 38-39.

XI. RATE OF RETURN

A. Summary

1. PAWC's Position

In support of its proposed increase, the Company presented testimony of PAWC witness Bulkley. After noting that the Commission has recently used both the DCF and CAPM models because the DCF can understate the cost of equity in times of high inflation and interest rates,⁷³⁹ Ms. Bulkley applied the ROE models accepted by the Commission using a proxy group of comparable utilities. Based on the results of those models, and after accounting for current capital market conditions and the Company's business, regulatory and financial risk as well as PAWC's superior management performance, Ms. Bulkley recommends an ROE of 10.95%.⁷⁴⁰

2. I&E's Position

I&E witness DC Patel recommends the following rate of return for PAWC:⁷⁴¹

⁷³⁹ *Id.*, p. 31.

⁷⁴⁰ *Id.*, pp. 5, 70-71.

⁷⁴¹ I&E St. No. 2-SR, p. 39.

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

In addition, I&E witness Patel recommends the following rate of return for Pennsylvania-American wastewater division:⁷⁴²

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

I&E witness Patel accepts PAWC's claimed cost rates of long-term debt as these cost rates are based on projected actual costs and are representative of the industry.⁷⁴³ Mr. Patel also recommends using a capital structure of 55% common equity and 45% long-term debt for the water operations and the Company's claimed capital

⁷⁴² I&E St. No. 2-SR, p. 40.

⁷⁴³ I&E St. No. 2, pp. 24-25.

structure for wastewater operations.⁷⁴⁴ However, I&E witness Patel rejects the Company's method for calculating return on common equity, and calculates his recommended return on equity pursuant to the Discounted Cash Flow (DCF) methodology frequently used by the Commission while using the Capital Asset Pricing Model (CAPM) as an alternate means to verify the reasonableness of his return.

3. OCA's Position

PAWC proposed an excessive 10.95% return on equity (ROE).⁷⁴⁵ OCA submits the Commission should adopt an overall weighted Rate of Return of 6.96% for water operations and 6.59% for wastewater operations with no adjustments to PAWC's proposed capital structure, and an 8.7% ROE based on OCA witness Garrett's discounted cash flow (DCF) and capital asset pricing model (CAPM), which produce a range of 6.8% to 9.3%.⁷⁴⁶

OCA witness Morgan testified that the primary driver of PAWC's rate increase is PAWC's requested 10.95% ROE,⁷⁴⁷ with a difference between the OCA's 8.7% ROE, and PAWC's 10.95% ROE has a \$113.9 million impact on PAWC's rate increase request.⁷⁴⁸ OCA witness Garrett testified that every 10 basis point change in the ROE in this case results in approximately \$5.3 million of impact to the revenue requirement at PAWC's as-filed case.⁷⁴⁹ Mr. Garrett further testified that the market based evidence shows that PAWC's authorized ROE should be lower than their current authorized ROE of 9.45% and not more than 100 basis points higher as proposed by

⁷⁴⁴ I&E St. No. 2, p. 19.

⁷⁴⁵ OCA St. 2 at 2.

⁷⁴⁶ *Id.* at 2-3; Ex. DJG-12.

⁷⁴⁷ OCA St. 1SR at 3.

⁷⁴⁸ *Id.*

⁷⁴⁹ OCA St. 2SR at 2.

PAWC witness Bulkley.⁷⁵⁰ Mr. Garrett testified that if PAWC is awarded a 9.45% ROE, it would reduce PAWC's revenue requirement to \$17.3 million.⁷⁵¹ Adopting Mr. Garrett's recommended adjustment to ROE would result in a \$113.9 million reduction to PAWC's requested revenue requirement.⁷⁵²

OCA requests the Commission accept the OCA's 8.7% ROE as producing just and reasonable rates.

4. OSBA's Position

OSBA has no comment.

5. CAUSE-PA's Position

CAUSE-PA did not offer independent testimony with regard to PAWC's proposed rate of return in this proceeding, though it supports the positions advanced by the OCA.

6. Victory Brewing's Position

Victory Brewing takes no specific position on PAWC's rate of return.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not specifically address this issue.

⁷⁵⁰ *Id.*

⁷⁵¹ OCA St. 2 at 41. A revenue requirement of \$17.3 million assumes all other OCA adjustments to the revenue requirement are adopted by the Commission.

⁷⁵² OCA St. 1SR at 3.

8. ALJs' Recommendation

As a public utility whose facilities and assets have been dedicated to public service, PAWC is entitled to an opportunity to earn a reasonable rate of return on its investment.⁷⁵³

The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.⁷⁵⁴ These principles are applied by the PUC⁷⁵⁵ and have been adopted by Pennsylvania appellate courts in numerous cases.⁷⁵⁶

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

. . . a return on the value of the [utility's] property which it employs for the convenience of the public equal to that generally being made at the same time on investments in other business undertakings which are attended by corresponding risks and uncertainties. . . .⁷⁵⁷

⁷⁵³ *Bluefield Waterworks and Imp. Co. v. P.S.C. of W. Virginia*, 262 U.S. 679, 690 (1923) (“*Bluefield*”).

⁷⁵⁴ *Id.*, p. 693.

⁷⁵⁵ *See, e.g., Aqua 2022*, p. 6.

⁷⁵⁶ *See, e.g., Lower Paxton Twp. v. Pa. P.U.C.*, 317 A.2d 917 (Pa. Commw. Ct. 1974).

⁷⁵⁷ *Bluefield*, p. 692.

Determining a reasonable rate of return requires reviewing many factors, including (1) the earnings necessary to assure confidence in the financial integrity of the company and maintain its credit standing; (2) the need to pay dividends and interest; and (3) the amount of the investment, the size and nature of the utility, its business and financial risks, and the circumstances attending its origin, development and operation.⁷⁵⁸

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

- A utility is entitled to a return similar to that being earned by other enterprises with corresponding risks and uncertainties, but not as high as those earned by highly profitable or speculative ventures;
- A utility is entitled to a return level reasonably sufficient to assure financial soundness;
- A utility is entitled to a return sufficient to maintain and support its credit and raise necessary capital;
- A fair return can change (increase or decrease) along with economic conditions and capital markets.⁷⁵⁹

PAWC Witness Bulkley recommends an ROE of 10.95%. I&E witness Patel recommends an ROE of 9.7% and OCA witness Garrett proposes an ROE of 8.70%.

I&E witness Patel accepts PAWC's claimed cost rates of long term debt as these cost rates are based on projected actual costs and are representative of the industry.

⁷⁵⁸ *Pa. P.U.C. v. Pennsylvania Gas and Water Co. - Water Div.*, 341 A.2d 239 (Pa. Commw. Ct. 1975); *Lower Paxton Twp., supra*; see also *Pa. P.U.C., et al. v. Columbia Gas of Pennsylvania Inc.*, Docket Nos. R-2025-3043499, *et al.* (Opinion and Order entered Dec. 24, 2025) (explaining that “[w]hen determining the cost of capital, the [Commission] must give consideration to the utilities financial structure, credit standing, dividends, interests, risks, regulatory lag, wasting assets and any peculiar features of the utility involved”) (internal quotation and citations omitted).

⁷⁵⁹ I&E St. No. 2, p. 4. See also *Pennsylvania Gas & Water Company v. Pa. P.U.C.*, 341 A.2d 239, 249-252 (Pa. Cmwlt. 1975).

Mr. Patel recommends using a capital structure of 55% common equity and 45% long term debt for the water operations and the Company's claimed capital structure for wastewater operations. I&E witness Patel rejects the Company's method for calculating return on common equity and calculates his recommended return on equity pursuant to the DCF methodology frequently used by the Commission while using the CAPM as an alternate means to verify the reasonableness of his return.

OCA submits the Commission should adopt an overall weighted Rate of Return of 6.96% for water operations and 6.59% for wastewater operations with no adjustments to PAWC's proposed capital structure, and an 8.7% ROE based on OCA witness Garrett's DCF and CAPM which produce a range of 6.8% to 9.3%.

OCA Witness Garrett testified the primary driver of PAWC's rate increase is PAWC's requested 10.95 ROE and explains the difference between OCA's ROE of 8.7% and PAWC's 10.95 ROE, is that PAWC's proposed ROE of 10.95% has a \$119.9 million impact on PAWC's rate increase request.

OCA witness Garrett testified that the market based evidence shows that PAWC's authorized ROE should be lower than their current authorized ROE of 9.45% and not more than 100 basis points higher as proposed by PAWC witness Bulkley. OCA submits that adopting OCA witness Garrett's recommended adjustment to ROE would result in a \$113.9 million reduction to PAWC's requested revenue requirement.

B. Proxy Group

1. PAWC's Position

In selecting her proxy group, PAWC witness Bulkley applied specific criteria to a group of U.S. utilities to identify utilities that have similar risk.⁷⁶⁰ Ms. Bulkley originally included Essential Utilities in her proxy group of five companies but excluded PAWC's parent, American Water.⁷⁶¹ In her updated analysis accompanying her rebuttal testimony, Ms. Bulkley excluded Essential Utilities because of its announced merger with American Water, explaining excluding entities involved in mergers is appropriate as the existence of a merger can influence the assumptions used in cost of equity models."⁷⁶²

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

⁷⁶⁰ PAWC St. 13, pp. 21-22.

⁷⁶¹ *Id.*, p. 22.

⁷⁶² PAWC St. 13-RJ, pp. 12-13.

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

In her Rejoinder Testimony, Ms. Bulkley updated the results of her models and provided median results for three proxy groups: water utilities, natural gas utilities and the combined proxy group. The median DCF result for the water utility proxy group was notably higher with updated data, but the increase further underscores that the smaller water-only proxy group can produce more volatile results than the larger proxy groups of natural gas companies and the combined proxy group which had the same median.⁷⁶³

PAWC asserts OCA witness Garrett used the same water utilities selected by Ms. Bulkley but included American Water and added in Essential “to increase the sample size” despite American Water’s circularity and both American Water and Essential being involved in a merger⁷⁶⁴ and concluded that the results of his analyses

⁷⁶³ PAWC St. 13-RJ, pp. 3-4.

⁷⁶⁴ OCA St. 2, p. 11.

were not materially different with the inclusion of gas utilities.⁷⁶⁵ In contrast, I&E witness Patel excluded both American Water and Essential in light of the proposed merger, but then relied upon a proxy group consisting of only four companies.⁷⁶⁶

PAWC submits, in light of the small size of the proxy group of Mr. Patel and the flawed composition of Mr. Garrett's proxy group enlarged with merging companies to address sample size, the Commission should rely upon the expanded proxy group determined by Ms. Bulkley consistent with the practice of several other public utility commissions.

2. I&E's Position

I&E witness Patel explains I&E selected his proxy group based on the following criteria:⁷⁶⁷

1. Fifty percent or more of the company's revenues must be generated from the regulated water utility industry;
2. The company's stock must be publicly traded;
3. Investment information for the company must be available from more than one source, which includes Value Line;
4. The company must not be currently involved in an announced merger or material acquisition; and
5. The company must have four consecutive years of historic earnings data.

⁷⁶⁵ OCA St. 2-SR, p. 6. The flaws in Mr. Garrett's cost of equity analyses are addressed in Section IX.E.

⁷⁶⁶ I&E St. 2, p. 10.

⁷⁶⁷ I&E St. No. 2, pp. 9-10.

I&E explains witness Patel's proxy group comprises American States Water Company, California Water Services Group, Middlesex Water Company, and H2O America (formerly known as SJW Group).⁷⁶⁸

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

1. Pay consistent quarterly cash dividends because companies that do not cannot be analyzed using the Constant Growth DCF model.
2. Have investment grade long-term issuer ratings.
3. Have positive long-term earnings growth forecasts from at least two equity analysts.
4. Derive more than 70% of their total operating income from regulated operations.
5. Were not parties to a merger or transformative transaction during the analytical periods relied on.⁷⁶⁹

I&E submits the Company's proxy group contains 11 companies consisting of: Atmos Energy Corporation, Chesapeake Utilities Corporation, NiSource, Inc., Northwest Natural Gas Company, ONE Gas, Inc., Southwest Gas Corporation, Inc., American States Water Company, California Water Service Group, Middlesex Water Company, H2O America, and Essential Utilities, Inc.⁷⁷⁰

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

⁷⁶⁸ I&E St. No. 2, p. 11.

⁷⁶⁹ PAWC St. No. 13, p. 21.

⁷⁷⁰ PAWC St. No. 13, p. 27.

dissimilar to water and wastewater utilities because customer can shop for a supplier.⁷⁷¹ Simply put, the water and wastewater utilities in Pennsylvania have less risk of losing customers than gas companies whose customers have the option to look for supply alternatives or to switch fuel sources. In addition, Mr. Patel notes that each different utility industry faces different operational, safety, and weather-related risk.⁷⁷² I&E submits gas utilities are not substantially similar to water and wastewater utilities, and, thus, including them in the proxy group off which to base the rate of return and return on equity would not be appropriate.

I&E recommends the use of its proxy group that excludes all gas utilities, and includes American States Water Company, California Water Services Group, Middlesex Water Company, and H2O America. Citing the 2025 Columbia Gas of Pennsylvania, Inc. (Columbia) rate case,⁷⁷³ where the Commission concurred with I&E and the ALJ that it is appropriate to apply a proxy group comprised exclusively of natural gas utilities in setting the rate of return for Columbia. The Commission specifically noted that non-gas distribution utilities and non-utility companies with unrelated or entirely dissimilar business segments are simply not comparable to gas distribution utilities in terms of business risk and financial risk profiles. Similarly, I&E submits it would be inappropriate to include non-water or non-wastewater utilities in Pennsylvania-American's proxy group, which would preclude the use of Pennsylvania-American witness Bulkley's proxy group.

⁷⁷¹ I&E St. No. 2, pp. 15-16.

⁷⁷² I&E St. No. 2, p. 16.

⁷⁷³ *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499 (Order Entered December 9, 2025). See generally Fair Rate of Return, Proxy Groups - Disposition, pp. 204 and 205.

3. OCA's Position

OCA witness Garrett's proxy group contains exclusively water utilities.⁷⁷⁴ In PAWC's last BRC, just two years ago, the Commission rejected a similar proxy group proposed by PAWC in this proceeding stating:

On review, we find that I&E's proxy group, comprised solely of water utilities, is the proxy group proffered in this proceeding that most closely resembles PAWC. Therefore, we shall deny PAWC's Exceptions on this issue, consistent with the following discussion.⁷⁷⁵

Here, OCA witness Garrett testified that, unlike PAWC witness Bulkley, he chose not to include gas companies because they are less comparable to PAWC than water utilities.⁷⁷⁶ Mr. Garrett used American States Water Co., American Water works Company, Inc., California Water Service Group, Essential Utilities, Inc., Middlesex Water Co. and H2O America for his proxy group.⁷⁷⁷ PAWC witness Bulkley critiqued OCA witness Garrett for including American Water and Essential Utilities in his proxy group due to the pending merger before the Commission.⁷⁷⁸ Mr. Garrett testified that the merger could significantly reduce PAWC's risk.

OCA witness Garrett's proxy group contains utilities that are comparable to PAWC, which I&E asserts is reasonable.

⁷⁷⁴ OCA witness Garrett included Essential Utilities Inc. in his proxy group which has Aqua Pennsylvania as well as Peoples Natural Gas. Essential Utilities is in the process of being acquired by American Water Works Company.

⁷⁷⁵ *Pa. PUC v. Pa.-American Water Co.*, Docket Nos. R-2023-3043189 *et al.*, Order at 28 (July 22, 2024) (*PAWC 2023*) (internal citations omitted).

⁷⁷⁶ OCA St. 2 at 11

⁷⁷⁷ OCA Ex. DJG-8.

⁷⁷⁸ OCA St. 2SR at 5.

4. OSBA's Position

OSBA has no comment.

5. CAUSE-PA's Position

CAUSE-PA did not offer independent expert testimony with regard to PAWC's proposed rate of return in this proceeding, though it supports the positions advanced by the OCA.

6. Victory Brewing's Position

Victory Brewing takes no specific position on PAWC's rate of return.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not specifically address this issue.

8. ALJs' Recommendation

As the Commission has explained, "a proxy group is a group of companies that act as a benchmark for determining a utility's cost of equity."⁷⁷⁹ Rate of return analyses incorporate a proxy group because:

A proxy group is generally preferred over the use of data from any one company because it has the effect of smoothing out potential anomalies associated with a similar company and, therefore, is a more reliable measure. A proxy group also satisfies the long-established principle of

⁷⁷⁹ *Columbia Water 2024*, p. 69.

utility regulation that seeks to provide the utility with the opportunity to earn a return equal to that of enterprises of similar risk.⁷⁸⁰

A proxy (or barometer) group is a group of companies that act as a benchmark for determining the utility's rate of return. A proxy group is also typically used because using data exclusively from one company may be less reliable than using a group of companies because the data for one company may be subject to short-term anomalies that distort its return on equity. Use of a proxy group smooths these potential anomalies. Use of a proxy group also satisfies the long-established principle of utility regulation that seeks to provide the utility the opportunity to earn a return equal to that of similar risk enterprises.⁷⁸¹

PAWC witness Bulkley included several gas utilities in her original and updated proxy groups. She provided median results for 3 proxy groups: water utilities, natural gas utilities and the combined proxy group.

I&E witness Patel's proxy group comprises American States Water Company, California Water Services Group, Middlesex Water Company and H2O America. I&E submits companies that are in the water industry are the most representative of the financial and operational risks faced by PAWC, noting the inclusion of gas utilities can distort the information, noting gas customers can shop for a supplier. OCA notes water and wastewater utilities in Pennsylvania have less risk of losing customers than gas companies whose customers can look for supply alternatives or to switch fuel sources. He also notes gas and water utilities face different operational, safety and weather related risks. I&E also cites the 2025 Columbia rate case where the Commission concurred with I&E and the ALJs that it was appropriate there to apply a

⁷⁸⁰ *Id.*

⁷⁸¹ I&E St. No. 2, p. 8.

proxy group comprised exclusively of natural gas utilities in setting the rate of return for Columbia.

We agree with I&E and OCA. I&E submits it is inappropriate to include non-water and non-wastewater utilities in the PAWC proxy group, which would preclude the use of PAWC witness Bulkley's proxy group. The proxy groups proposed I&E are reasonable and appropriate based on the record evidence in this case.

OCA witness Garrett's proxy group contains exclusively water utilities. OCA witness Garrett testifies he chose not to include gas companies as they are less comparable to PAWC than water utilities. Mr. Garrett used American States Water Co., American Water Works Company, California Water Service Gp., Essential Utilities Inc., Middlesex Water Co., and H2O America for his proxy group. Mr. Garrett explained his proxy group is reasonable and contains utilities that are comparable to PAWC.

I&E maintains that it is better to have a smaller proxy group of similarly situated companies than it is to have a larger proxy group of dissimilar companies.

I&E witness Patel's proxy group comprises American States Water Company, California Water Services Group, Middlesex Water Company, and H2O America (formerly known as SJW Group).⁷⁸² I&E maintains that the proxy group developed by I&E witness Patel is the appropriate proxy group to use in this proceeding and are the most representative of the financial and operational risks faced by Pennsylvania-American. Using gas utilities in the proxy group can distort the information that the proxy group provides. As Mr. Patel notes, gas utilities are dissimilar to water and wastewater utilities because customers can shop for a supplier.⁷⁸³ Simply

⁷⁸² I&E St. No. 2, p. 11.

⁷⁸³ I&E St. No. 2, pp. 15-16.

put, the water and wastewater utilities in Pennsylvania have less risk of losing customers than gas companies whose customers have the option to look for supply alternatives or to switch fuel sources.

In addition, Mr. Patel notes that each different utility industry faces different operational, safety, and weather-related risks.⁷⁸⁴ As demonstrated, gas utilities are not substantially similar to water and wastewater utilities, and thus, including them in the proxy group off which to base the rate of return and return on equity would not be appropriate.

In the most recent *Columbia 2025* rate case,⁷⁸⁵ the Commission concurred with I&E and the ALJ that it is appropriate to apply a proxy group comprised exclusively of natural gas utilities in setting the rate of return for Columbia. The Commission specifically noted that non-gas distribution utilities and non-utility companies with unrelated or entirely dissimilar business segments are simply not comparable to gas distribution utilities in terms of business risk and financial risk profiles. Similarly, it would be inappropriate to include non-water or non-wastewater utilities in Pennsylvania-American's proxy group.

PAWC witness Bulkley used a proxy group of four water utilities and six gas utilities. 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.

⁷⁸⁴ I&E St. No. 2, p. 16.

⁷⁸⁵ *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499 (Order Entered Dec. 9, 2025). See generally Fair Rate of Return, Proxy Groups - Disposition, pp. 204 and 205.

OCA recommended that the Commission should continue utilizing a proxy group consisting exclusively of water utilities consistent with PAWC's prior rate case.⁷⁸⁶

It appears that the Commission's determination in PAWC's previous base rate case supports using the OCA and I&E proxy group.⁷⁸⁷ OCA witness Garrett used six companies in his proxy group calculations, which is a larger sample size than what the Commission used in PAWC's previous base rate case.⁷⁸⁸

C. Capital Structure

1. PAWC's Position

In developing her recommended reasonable rate of return, PAWC witness Bulkley employed the Company's anticipated year-end capital structure ratios for the FPFTY.⁷⁸⁹

PAWC witness Bulkley calculated the capital structure of PAWC and both its water and wastewater services. She calculated the total-Company capital structure first, using all debt issuances and all sources of capital. She calculated the capital structure for water service by removing the wastewater-specific debt and recalculating the ratios of the remaining capital stock. The wastewater-specific capital structure was then calculated by applying the total company debt ratio to the wastewater rate base, excluding the wastewater-specific debt issuances.⁷⁹⁰ The resulting capital structures are shown in the following table:⁷⁹¹

⁷⁸⁶ OCA M.B. at 52-53.
⁷⁸⁷ OCA M.B. at 51.
⁷⁸⁸ OCA St. 2SR at 5.
⁷⁸⁹ PAWC St. 13, pp. 65-66.
⁷⁹⁰ *Id.*, p. 66.
⁷⁹¹ *Id.*, p. 65.

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

For the Company’s water operations, I&E witness Patel recommended that PAWC’s cost of equity should not exceed 55% because he asserted that a capital structure closer to 50% equity / 50% debt is “commonly considered optimal when trying to balance the financial integrity of a utility and its impact on ratepayers.”⁷⁹²

PAWC submits its proposed capital structure recognizes the composition of the financing that PAWC is currently using to fund its investments and obligations, and

⁷⁹² I&E St. 2, p. 20. Later in his testimony, Mr. Patel referenced statements of Vice Chair Barrow in *Columbia Gas 2025* expressing concern about “equity heavy” capital structures and noted that the OCA and CAUSE-PA argued for a hypothetical 50/50 capital structure in that proceeding. I&E St. 2, pp. 21-22. Mr. Patel did not note that the Commission adopted Columbia Gas’ capital structure in that proceeding and neither the OCA nor CAUSE-PA provided testimony on the Company’s capital structure in this proceeding.

Ms. Bulkley's testimony established that this capital structure was well within the range of equity ratios of her proxy group of utilities.⁷⁹³

2. I&E's Position

I&E witness Patel recommends using a capital structure of 55% common equity and 45% long-term debt for water operations and the Company's claimed capital structure wastewater operations.⁷⁹⁴

I&E asserts PAWC's claimed actual capital structure for water operations is unreasonable for ratemaking purposes, as the Company's equity ratio is well above the highest end of the I&E proxy group's equity ratios. According to I&E, the Company's proposed equity ratio for water operations falls outside the range of the I&E proxy group's 2024 capital structures, where the most recent five-year average range contains individual company capital structure ratios from 44.39% to 57.13% long-term debt and 42.87% to 55.61% equity, with an overall five-year average of 48.21% long-term debt and 51.72% common equity.⁷⁹⁵ I&E argues generally, an optimal capital structure is 50% debt and 50% equity, although it is not always possible. I&E asserts a balance must be struck between rewarding a company for carrying more equity and reducing the costs that would be passed on to ratepayers, and as a result, a company's capital structure should generally not exceed 55% equity.

Mr. Patel notes that PAWC's claimed capital structure of 56.31% equity and 43.68% debt for water operations is significantly more equity-heavy than PAWC's

⁷⁹³ PAWC St. 13, p. 67.

⁷⁹⁴ I&E St. No. 2, p. 19.

⁷⁹⁵ I&E Exh. No. 2, Schedule 2.

parent company's historic five-year average capital structure of 42.69% equity and 57.31% long-debt.⁷⁹⁶

3. OCA's Position

OCA did not address this issue in its testimony.

4. OSBA's Position

OSBA has no comment.

5. CAUSE-PA's Position

CAUSE-PA did not offer independent testimony with regard to PAWC's proposed rate of return in this proceeding, though it supports the positions advanced by the OCA.

6. Victory Brewing's Position

Victory Brewing did not specifically address this issue.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not specifically address this issue.

⁷⁹⁶ I&E Ex. No. 2, Schedule 2.

8. ALJs' Recommendation

A utility's capital structure is comprised of long-term debt and common equity and represents how the utility has financed its rate base with various sources of funds. PAWC's claimed capital structure for Water Operations consists of 43.68% long-term debt and 56.31% common equity. PAWC's Wastewater Operations claimed capital structure consists of 41.59% long-term debt, 6.88% wastewater specific debt, and 51.52% equity.

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

I&E witness Patel recommended that PAWC's cost of equity should not exceed 55% and asserted that a capital structure closer to 50% equity and 50% debt is commonly considered optimal when trying to balance the financial integrity of a utility and its impact on ratepayers.

PAWC submits its proposed capital structure recognizes the composition of the financing that PAWC is currently using to fund its investments and obligations, and is well within the range of equity ratios of her proxy group of utilities.

PAWC's claimed capital structure for water operations consists of 43.68% long term debt and 56.31% common equity and for wastewater operations consists of 41.59% long term debt, 6.88% wastewater specific debt and 51.52% equity.

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

structure for water operations is unreasonable for ratemaking purposes and the Company's equity ratio is well above the high end of the I&E proxy groups equity ratios.

I&E witness Patel recommends using a capital structure of 55% common equity and 45% long-term debt for water operations and the Company's claimed capital structure wastewater operations.⁷⁹⁷ I&E argues, for the purposes of determining the rate of return for water operations, it is imperative that the Commission employ a capital structure of 55% common equity and 45% long-term debt, which I&E asserts will save ratepayers a considerable amount of money.

The OCA accepts PAWC's capital structure.

I&E asserts and we agree that the record evidence supports a conclusion that PAWC's claimed actual capital structure for water operations is unreasonable for ratemaking purposes and the Company's equity ratio is well above the high end of the I&E proxy groups equity ratios.

Accordingly, PAWC's claimed capital structure for water operations consists of 43.68% long term debt and 56.31% common equity and for wastewater operations consists of 41.59% long term debt, 6.88% wastewater specific debt and 51.52% equity, will be rejected. We conclude that the capital structure proposed by I&E is reasonable and appropriate.

We conclude that I&E's recommendations regarding capital structure for water operations of 55% common equity, 44.99% long-term debt, and 0.01% preferred stock is most appropriate. We agree with PAWC's capital structure for wastewater operations of 41.59% long-term debt, 6.88% wastewater specific debt, 51.52% common

⁷⁹⁷ I&E St. No. 2, p. 19.

equity, and 0.01% preferred stock. I&E's witness describes that a hypothetical 50% common equity ratio and 50% long-term debt ratio would be optimal. However, PAWC has a high actual equity ratio, which is an important way to help save ratepayers money by showing more investment occurring in the utility itself. Therefore, I&E's proposal of 55% common equity makes sense for both the utility and ratepayers.

D. Cost of Long-Term Debt

1. PAWC's Position

PAWC witness Bulkley calculated a long-term debt cost for water service of 4.71%, with wastewater services debt projected in two components: specific issuances having a projected debt cost of 2.20% for the FPFTY and the remainder to be financed at the total company rate of 4.71%.⁷⁹⁸ The, the Company's cost of long-term debt presented by Ms. Bulkley was not opposed by OCA witness Garrett and I&E witness Patel.

2. I&E's Position

I&E explains it accepts PAWC's claimed cost rate of long-term debt of 4.71% for water and wastewater, as well as the 2.20% cost rate of long-term debt for wastewater specific issuances.⁷⁹⁹ I&E witness Patel explains the Company's claimed cost rate of long-term debt is reasonable as it is representative of the industry. The implied long-term cost of debt range of I&E witness Patel's proxy group is 3.95% to 6.21%.⁸⁰⁰ The Company's cost rate of long-term debt of 4.76% falls within the proxy group. While the 2.20% is below this range, I&E submits it is also reasonable and therefore is appropriate to use for this proceeding.

⁷⁹⁸ PAWC St. 13, p. 70.

⁷⁹⁹ I&E St. No. 2, p. 24.

⁸⁰⁰ I&E St. No. 2, p. 24.

3. OCA's Position

OCA did not address this issue in its testimony.

4. OSBA's Position

OSBA has no comment.

5. CAUSE-PA's Position

CAUSE-PA did not offer independent testimony with regard to PAWC's proposed rate of return in this proceeding, though it supports the positions advanced by the OCA.

6. Victory Brewing's Position

Victory Brewing did not specifically address this issue.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not specifically address this issue.

8. ALJs' Recommendation

PAWC witness Bulkley calculated a long-term debt cost for water service of 4.7%, with wastewater services debt projected in two components: specific instance having a projected debt cost of 2.20% for the FPFTY and the remainder to be financed at the total company rate of 4.71%.

I&E accepts as reasonable PAWC's claimed cost rate of long-term debt of 4.7% for water and wastewater, and the 2.2% cost rate of long-term debt for wastewater specific issuances.

The remaining Parties did not present specific testimony to address this issue. We agree with I&E regarding the cost of long-term debt.

E. Return on Equity

1. PAWC's Position

Given PAWC's capital needs, PAWC submits a ROE that is adequate to attract capital on reasonable terms is essential for PAWC to continue to provide safe, reliable water and wastewater service.⁸⁰¹

The Company explains that PAWC witness Bulkley considered the results of both the DCF and the CAPM. PAWC explains the DCF approach is based on the theory that a stock's current price represents the present value of all expected future cash flows.⁸⁰² Because "dollars received in the future are worth less than the dollars received today, the cash flow must be 'discounted' back to the present value at the investor's rate of return."⁸⁰³ The DCF model or Constant Growth DCF model, used by Ms. Bulkley, relies on various assumptions, including a growth rate for earnings and dividends.⁸⁰⁴

⁸⁰¹ *Id.*, p. 11.

⁸⁰² PAWC St. 13, p. 33.

⁸⁰³ *Columbia Gas 2025*, p. 216; PAWC St. 13, pp. 33-34.

⁸⁰⁴ PAWC St. 13, pp. 33-34.

Ms. Bulkley initially calculated average dividend yields for the proxy group for the 30-, 90- and 180-day trading days as of September 30, 2025 in her direct testimony.⁸⁰⁵ Since utility dividends generally increase from year to year and are paid quarterly, not continuously, she adjusted her findings to capture one-half of the anticipated dividend growth.⁸⁰⁶ Once the dividend yield is calculated, the proper growth rate must be developed. Ms. Bulkley considered an updated DCF range of 10.05% to 11.70% based on market data through February 28, 2026.⁸⁰⁷

To estimate the risk-free rate or return, PAWC witness Bulkley used the current 30-day yield on 30-year Treasury bonds and projected 30-year Treasury bond yields for the first quarter of 2026 through the first quarter of 2027 and for the period 2027 through 2031.⁸⁰⁸ Bulkley used beta coefficients for the proxy group companies as reported by Value Line, which are based on five years of weekly returns relative to the New York Stock Exchange Composite Index (Value Line).⁸⁰⁹ She initially estimated the market risk premia based on the expected return on the S&P 500 Index as of September 30, 2025, with a range of 8.55% to 8.94% – a range she concluded was reasonable in light of the fact that the historical market risk premia between 1926 through 2024 was at or above that range.⁸¹⁰ In addition, she considered the results of another form of CAPM (the Empirical CAPM). This methodology addresses the tendency of the “traditional” CAPM to underestimate the cost of equity for companies with low beta coefficients, such as regulated utilities.⁸¹¹ Ms. Bulkley’s updated analysis indicated a traditional CAPM

805 *Id.*, p. 34.

806 *Id.*, p. 35.

807 PAWC Ex. 13-RJ, Schedule 1.

808 *Id.*, pp. 40-41.

809 *Id.*, p. 41.

810 *Id.*, p. 42.

811 *Id.*, p. 43.

range of returns from 10.94% to 11.23%, with Empirical CAPM ROEs of 11.41% to 11.64% using market data through February 28, 2026.⁸¹²

In light of the results of both the DCF and CAPM models, and after considering the business, financial and regulatory risks faced by PAWC and the Company's superior management performance PAWC witness Bulkley recommends a ROE of 10.95%.⁸¹³

According to the Company, Mr. Patel's recommended ROE of 9.70% is unreasonable and understates the cost of equity⁸¹⁴ Mr. Garrett's recommended ROE of 8.70% is unreasonable and understates the cost of equity for PAWC.⁸¹⁵

2. I&E's Position

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

⁸¹² PAWC Ex. 13-RJ, Schedule 1, p. 1.

⁸¹³ PAWC St. 13, pp. 6, 59; PAWC St. 13-R, p. 11.

⁸¹⁴ With respect to business risks, Mr. Patel asserted that PAWC did not have any unique regulatory risks in light of its ability to file rate cases as needed as well as other regulatory mechanisms, such as the FPFTY and the DSIC. I&E St. 2, pp. 68-69. However, as Ms. Bulkley explained, nearly all the proxy group companies have such regulatory mechanisms so that the presence of those mechanisms in Pennsylvania does not lower PAWC's business and regulatory risk relative to the proxy group. PAWC St. 13-R, pp. 81-82. And with respect to recovery of flotation costs, which Mr. Patel also opposes, Ms. Bulkley describes both regulatory and academic support for consideration of flotation costs in authorizing an ROE. *Id.*, pp. 82-84.

⁸¹⁵ *Id.*

ROE based on the use of the DCF and CAPM methods averaged together as the primary methods to determine the cost of common equity.

I&E explains it employed the DCF method as well as a traditional CAPM analysis and a Kroll CAPM analysis. I&E averaged the two CAPM analyses to arrive at a composite CAPM. As a result, I&E recommends a cost of common equity of 9.70% $[(10.09\% \text{ DCF} + 9.31\% \text{ Composite CAPM}) \div 2]$.⁸¹⁶

a. I&E's Discounted Cash-Flow Analysis

I&E asserts the DCF is the “dividend discount model” of financial theory, which maintains that the value (price) of any security or commodity is the discounted present value of all future cash flows. The DCF model assumes that investors evaluate stocks in the classical economic framework, which maintains that the value of a financial asset is determined by its earning power, or its ability to generate future cash flows.⁸¹⁷

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

I&E witness Patel recommends a cost of common equity of 9.70% for both the water and wastewater divisions.⁸¹⁸ This recommendation includes a dividend yield of

⁸¹⁶ I&E St. No. 2-SR, p. 27.

⁸¹⁷ I&E St. No. 2, p. 25.

⁸¹⁸ I&E Ex. No. 2-SR, pp. 39-40.

2.96% and a recommended growth rate of 7.13%.⁸¹⁹ I&E witness Patel's analysis uses a spot dividend yield, a 52-week dividend yield, and earnings growth forecasts. I&E witness Patel employs the standard DCF model formula, $K = D_1/P_0 + g$, where K = the cost of equity, D_1 = the dividend expected during the year; P_0 = the current price of the stock; and g = the expected growth rate. When a forecast of D_1 is not available, D_0 (the current dividend) must be adjusted by $\frac{1}{2}$ the expected growth rate in order to account for changes in the dividend paid in period 1.⁸²⁰ However, according to I&E since forecasts were available for all companies in Mr. Patel's proxy group, no dividend adjustments were necessary.

b. Dividend Yields

I&E representative yield must be calculated over a time frame sufficient to avoid short-term anomalies and stale data. I&E witness Patel's dividend yield calculation places equal emphasis on the most recent spot dividend yield of 3.03% and the 52-week average dividend yield of 2.88% resulting in an average dividend yield of 2.96%.⁸²¹

c. Growth Rates

I&E witness Patel used earnings growth forecasts to calculate his expected growth rate. His earnings forecasts are developed from projected growth rates using 5-year estimates from established forecasting entities for his proxy group of companies, yielding an average 5-year growth forecast of 7.13%.⁸²²

⁸¹⁹ I&E St. No. 2, pp. 33-34.

⁸²⁰ I&E St. No. 2, pp. 32-33.

⁸²¹ I&E St. No. 2, p. 33.

⁸²² I&E St. No. 2, p. 34.

d. CAPM

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

I&E witness Patel's analysis of a return on equity using the traditional CAPM methodology uses the standard CAPM formula $K = R_f + \beta(R_m - R_f)$, where K = the cost of equity, R_f = the risk-free rate of return; β = beta, which measures the systematic risk of an asset, and R_m = the expected rate of return on the overall stock.⁸²³

For the traditional CAPM analysis, I&E witness Patel chose the risk-free rate of return (R_f) from the projected yield on 10-year Treasury Bonds as the most stable risk-free measure. With this choice, I&E witness Patel balanced issues related to use of long-term bonds and short-term T-Bills. For his beta, I&E witness Patel used the average of the betas from the Value Line Investment Survey.⁸²⁴ The average beta for Mr. Patel's proxy group was 0.78.⁸²⁵ To arrive at a representative expected return on the overall stock market, I&E witness Patel reviewed Value Line's 1700 stocks and the S&P 500 Index. The result of the overall stock market returns based on I&E witness Patel's analysis is 11.61%.⁸²⁶ This, in turn, yields a cost of equity result of 9.96%.⁸²⁷

⁸²³ I&E St. No. 2, pp. 34-35.

⁸²⁴ I&E St. No. 2, p. 36.

⁸²⁵ I&E St. No. 2, p. 36.

⁸²⁶ I&E St. No. 2, pp. 37-38.

⁸²⁷ I&E St. No. 2, p. 38.

Additionally, I&E witness Patel performed a CAPM analysis using Kroll's (formerly Duff & Phelps) recommended U.S. Equity Risk Premium (ERP) paired with the 20-year U.S. Treasury yield. Kroll is a trusted and publicly available source that bases its recommended ERP on current and forecasted economic and financial market conditions.⁸²⁸ Kroll recommends an ERP of 5.00%.⁸²⁹

I&E explains the inputs of the DCF capture all known economic factors, including inflation. However, in the interest of capturing the Commission's recently preferred use of more than one model for the appropriate ROE, I&E recommends an average of the DCF and CAPM in this proceeding.⁸³⁰

e. Conclusion Regarding I&E's ROE

In consideration of the above and the record evidence presented, I&E recommends that the Company should be afforded the opportunity to earn an overall rate of return of 7.46% for Water Operations and 7.11% for Wastewater Operations. I&E recommends an overall ROE for both Water and Wastewater Operations of 9.70%. PAWC witness Bulkley relies on the DCF, CAPM, and Empirical Capital Asset Pricing Model (ECAPM) methodologies in presenting her recommended return on equity. Based on these various methods, Ms. Bulkley arrives at an ROE of 10.95%.⁸³¹

I&E explains it disagrees with witness Bulkley's recommendation for several reasons. First, I&E disagrees with her application of the DCF, CAPM, and ECAPM in determining a ROE for PAWC. Additionally, I&E witness Patel disagrees with the purported claimed risks resulting from the Company's capital expenditure

⁸²⁸ I&E St. No. 2, p. 38.

⁸²⁹ I&E St. No. 2-SR, p. 26.

⁸³⁰ I&E St. No. 2, pp. 39-40.

⁸³¹ Pennsylvania-American St. No. 13, p. 6.

program and adherence to environmental and water quality regulations. I&E disagrees with Ms. Bulkley's recommendation to include an implied adjustment, which is unquantified, to the cost of equity for stock flotation costs and her recognition of exemplary management performance.

Further, as stated above in the discussion of proxy groups, I&E asserts PAWC witness Bulkley's selected proxy group is flawed making her results unusable.

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

I&E asserts Bulkley performs several variations of analyses for her CAPM. She provides six CAPM, including ECAPM, analyses results using three risk-free rates: (a) the current 30-day average yield on 30-year U.S. Treasury Bonds, (2) the near term projected 30-year U.S. Treasury Bond yield for Q1-2026 through Q1-2027, and (3) the long term projected 30-year U.S. Treasury Bond yield for 2027-2031 and applying two subsets of Value Line beta. She calculates the expected return on the S&P 500 Index for each company in the entire S&P 500 Index applying the Constant DCF model based on data published by Bloomberg Professional. Finally, Ms. Bulkley includes an ECAPM analysis paired with each result of her standard CAPM analysis for the combined proxy group companies.⁸³²

⁸³² PAWC St. No. 13, pp. 40-43.

I&E witness Patel recommends the Commission reject PAWC witness Bulkley's method of calculating the risk-free rate used for her CAPM analysis.⁸³³ According to I&E, PAWC witness Bulkley's claim is based upon expected yields on 30-year U.S. Treasury Bonds. I&E asserts the use of 30-year treasury bonds is not appropriate, as long-term Treasury Bonds have substantial maturity risk associated with the market risk and the risk of unexpected inflation and normally offer higher yields to compensate investors for these risks.⁸³⁴ Using the 10-year Treasury Note, according to I&E, is more appropriate to balance the short-term volatility risk and the long-term inflation risk.

Additionally, the Commission has recognized the 10-year Treasury Note as the superior measure for the risk-free rate.⁸³⁵

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

I&E witness Patel excluded the ECAPM method from his analysis asserting it has essentially the same flaws as the CAPM but with a further measure of subjectivity.⁸³⁶ Additionally, in the Columbia base rate proceeding, I&E asserts the Commission did not consider Columbia's ECAPM and RP analyses results in determining an appropriate ROE,⁸³⁷ as generally the Commission has not used the ECAPM results in determining a ROE.

⁸³³ I&E St. No. 2, pp. 47.

⁸³⁴ I&E St. No. 2, p. 48.

⁸³⁵ *Pa. P.U.C. v. UGI Utilities, Inc. – Elec. Div.*, Docket No. R-2017-2640058, p. 99 (Order entered Oct. 25, 2018).

⁸³⁶ I&E St. No. 2, p. 50.

⁸³⁷ *Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket No. R-2025-3053499 (Order Entered Dec. 9, 2025) pp. 225-226.

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

Upon our consideration of the record evidence, we agree with the ALJs' determination that Columbia's ECAPM is inappropriate. The ALJs heavily relied on I&E's criticism of the ECAPM to justify its rejection. We agree with I&E's rationale, particularly that the ECAPM adds subjectivity to the CAPM as an attempt to refine its predicted SML. Additionally, we are persuaded by I&E's assertion that while some studies indicate that the ECAPM inaccurately defines the SML, the degree to which the CAPM requires adjustment is variable.⁸³⁸

Additionally, PAWC witness Bulkley asserts that flotation costs are part of the invested costs of the utility that are properly reflected on the balance sheet under 'paid in capital' and they are not current expenses, and therefore, are not reflected on the income statement.⁸³⁹ She asserts that since PAWC is a wholly owned subsidiary of AWK, it is appropriate to consider flotation costs because wholly owned subsidiaries receive equity capital from their parent and provide returns on the capital that roll up to the parent.⁸⁴⁰ I&E disagrees.

I&E submits generally, the flotation costs of the parent company are accounted for and recovered as O&M expenses or amortized over a certain period in the books of the issuer company. PAWC does not issue stocks to the general public in the capital market, and the parent company issues stocks for a variety of reasons and uses,

⁸³⁸ *Pa. P.U.C. v. Columbia Water Co.*, Docket No. R-2023-3040258, p. 105 (Order entered Jan. 18, 2024).

⁸³⁹ PAWC St. No. 13, p. 56, lines 16-18.

⁸⁴⁰ PAWC St. No. 13, p. 58, lines 3-5.

and they are not entirely issued and used for the benefit of PAWC. I&E submits there is no indication that PAWC's parent company will issue new stocks during the FPFTY when the new rates will be effective. I&E concludes PAWC witness Bulkley's claim for the flotation cost impact in recommending an ROE for FPFTY ratemaking is improper and unsupported, when the claim for such cost is based on the historical flotation cost of the parent company.

Because of the flaws associated with these PAWC witness Bulkley's analysis identified by I&E the results of PAWC witness Bulkley's analysis should be disregarded.

3. OCA's Position

OCA recommends an 8.7% ROE based on OCA witness Garrett's discounted cash flow (DCF) and capital asset pricing model (CAPM). Mr. Garrett's DCF produced a range of possible reasonable ROE's from 6.8% to 9.3%.⁸⁴¹ Mr. Garrett's CAPM analysis produced an ROE of 8.7%, confirming the range provided in his DCF model is reasonable.⁸⁴²

In 2023, PAWC requested a 10.95% ROE.⁸⁴³ In its previous base rate proceeding, PAWC requested a 25 basis point adder to its ROE based on superior management.⁸⁴⁴ The Commission rejected PAWC's management performance adder.⁸⁴⁵ The Commission also rejected PAWC's 10.95% ROE and found that a 9.45% ROE was appropriate by averaging I&E's DCF and CAPM which ranged from 8.45% to 10.44%.⁸⁴⁶

⁸⁴¹ OCA Ex. DJG-12.

⁸⁴² *Id.*

⁸⁴³ *Id.* at 189.

⁸⁴⁴ *Id.* at 174.

⁸⁴⁵ *Id.* at 185.

⁸⁴⁶ *Id.* at 194

In this proceeding, PAWC again requests a 10.95% ROE.⁸⁴⁷ According to OCA witness Morgan the primary driver of this BRC is related to PAWC's ROE stating:

For the combined water and wastewater operations, these two components account for approximately \$173 million of the OCA's recommended reduction in the proposed rate increase. The revenue requirement effect of the OCA's change in the Company's requested return on equity ("ROE") accounts for \$113.9 million ...and the OCA's change in depreciation rates accounts for \$58.7 million.⁸⁴⁸

a. DCF Model

OCA witness Garrett applied a DCF analysis based on analyst growth projections and another based on sustainable growth projections.⁸⁴⁹ The Analyst Growth DCF Model resulted in a 9.3% ROE and the Sustainable Growth DCF Model resulted in a 6.8% ROE.⁸⁵⁰

There are three primary inputs in the DCF Model: 1) stock price; 2) dividend; and 3) the long term growth rate.⁸⁵¹ OCA witness Garrett used a 30-day average of stock prices for each company in the proxy group to calculate stock price.⁸⁵²

⁸⁴⁷ OCA St. 2 at 2.
⁸⁴⁸ OCA St. 1SR at 3.
⁸⁴⁹ OCA St. 2 at 18-27.
⁸⁵⁰ *Id.* at 41.
⁸⁵¹ OCA St. 2 at 19.
⁸⁵² *Id.*

OCA witness Garrett used forward-looking annualized dividends published by Yahoo! Finance.⁸⁵³ Mr. Garrett testified that the stock price and dividend inputs for each proxy group are not a significant issue in this case.⁸⁵⁴

OCA explains none of PAWC witness Bulkley's DCF results indicate a 10.95% ROE, with the highest being 10.45%.⁸⁵⁵ Bulkley's DCF produced an average result of 10.42%.⁸⁵⁶

Mr. Garrett testified that the primary difference between his DCF and Ms. Bulkley's is Ms. Bulkley's use of unsustainably high growth rates in her proxy group.⁸⁵⁷ Ms. Bulkley considered average growth rates as high as 13% for individual companies in her proxy group.⁸⁵⁸ These growth rates are significantly higher than projected annual U.S. GDP growth over the long run.⁸⁵⁹ OCA witness Garrett explained that "growth rates that exceed GDP effectively suggest that the individual earnings of a single company will eventually surpass U.S. GDP, which is impossible."⁸⁶⁰ OCA witness Garrett further testified that it is reasonable to assume that a regulated utility would grow at a rate less than the U.S. economic growth rate because, unlike competitive firms which can increase their growth through a new product line, franchising, or expanding into developing markets, utility operating companies with defined service territories grow similarly.⁸⁶¹

853 OCA St. 2 at 20.

854 *Id.*

855 *Id.*

856 OCA St. 2 at 26.

857 OCA St. 2 at 26.

858 *Id.* at 27.

859 *Id.*

860 OCA St. 2 at 27.

861 *Id.*

b. CAPM

The CAPM is used as a check on the reasonableness of the DCF.⁸⁶² In calculating the CAPM, OCA witness Garrett determined the appropriate values of ranges of the three model inputs: 1) risk-free rate; (2) beta, and; (3) equity risk premium.⁸⁶³ OCA witness Garrett’s CAPM resulted in an 8.7% cost of equity.⁸⁶⁴

i. Risk Free Rate Based on U.S. Treasuries

The risk-free rate is the level of return investors can achieve without assuming any risk.⁸⁶⁵ OCA witness Garrett testified that, even though no investment is technically devoid of risk, investors often use U.S. Treasury securities to represent the risk-free rate because they accept that those securities essentially contain no default risk.⁸⁶⁶ Mr. Garrett noted “long-term Treasury bonds are usually used to represent the risk-free rate in the CAPM.”⁸⁶⁷ OCA witness Garrett considered a 30-day average of daily U.S. Treasury yield curve rates on 30-year Treasury bonds for the risk-free rate, which result in a risk-free rate of 4.66%.⁸⁶⁸

ii. OCA Witness Garrett Uses the Most Recent Value Line Beta

Beta represents the sensitivity of a given security to movements in the overall market.⁸⁶⁹ An index, such as the S&P 500, is used as a proxy for the market

⁸⁶² *Pa. PUC v Aqua Pa., Inc.*, 2022 Pa. PUC LEXIS 161, *83, (Order May 16, 2022) (*Aqua 2022*).

⁸⁶³ OCA St. 2 at 28.

⁸⁶⁴ *Id.* at 36.

⁸⁶⁵ *Id.* at 28.

⁸⁶⁶ *Id.*

⁸⁶⁷ *Id.*

⁸⁶⁸ *Id.*

⁸⁶⁹ *Id.*

portfolio.⁸⁷⁰ A security with a beta greater than 1.0 is more sensitive to market risk than the average stock while a security with a beta less than 1.0 is less sensitive to market risk.⁸⁷¹

OCA witness Garrett used betas recently published by Value Line Investment Survey.⁸⁷² The beta for each proxy company as less than 1.0 with the average beta for the total proxy group being 0.78.⁸⁷³ OCA witness Garrett testified that this survey objectively proves that utility stocks are less risky than the average stock in the market.⁸⁷⁴

iii. Reliance on Expert Surveys is Reasonable

According to OCA Equity Risk Premium (ERP) is the most important factor in estimating the cost of capital through the CAPM.⁸⁷⁵ OCA witness Garrett used two methods to estimate the ERP: (1) expert surveys and (2) calculating the implied ERP.⁸⁷⁶

OCA explains expert survey approach to estimating ERP relies on surveys of professors, analysts, chief financial officers, and other executives, asking what experts think the ERP is.⁸⁷⁷ The IESE Business School conducts an expert survey every year and its 2025 survey reported an average ERP of 5.5%.⁸⁷⁸

⁸⁷⁰ *Id.*

⁸⁷¹ *Id.* at 29-30.

⁸⁷² *Id.* at 30.

⁸⁷³ *Id.*

⁸⁷⁴ *Id.*

⁸⁷⁵ *Id.*

⁸⁷⁶ *Id.* at 32

⁸⁷⁷ *Id.* at 33.

⁸⁷⁸ *Id.*

OCA witness Garrett considered the results of expert surveys, the estimated ERP reported by Kroll, the estimated ERP calculated by Dr. Damodaran, and the implied ERP based on Mr. Garrett's calculations.⁸⁷⁹ The results were as follows:

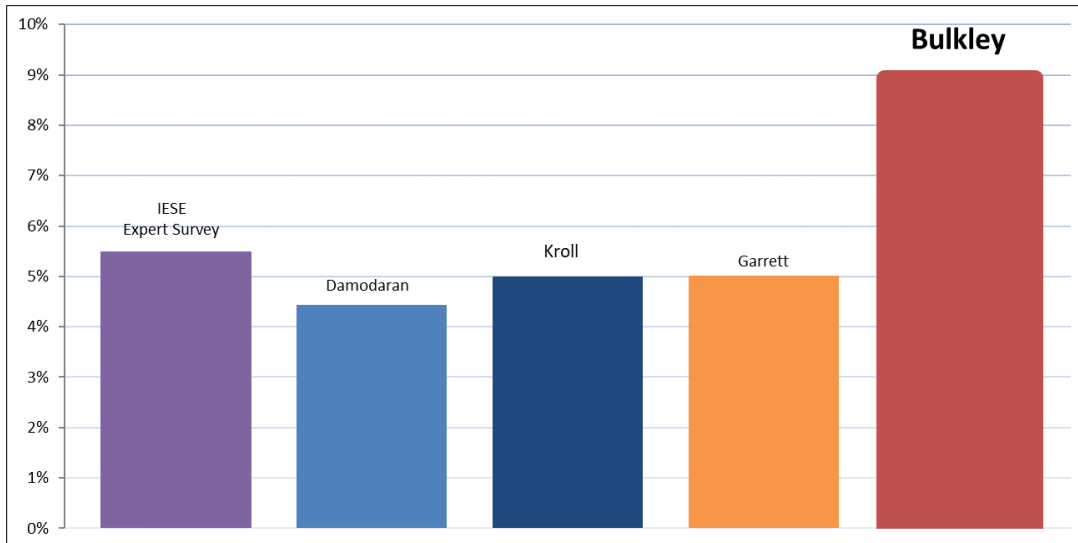
IESE Business School Survey	5.5%
Kroll (Duff & Phelps) Report	5.0%
Damodaran (average)	4.4%
Garrett	5.0%
Average	5.0%

OCA witness Garrett used the average from these sources to arrive at the 5.0% ERP for his CAPM.⁸⁸⁰ Mr. Garrett's ERP estimate is reasonable and falls within an appropriate range of possibilities. By contrast, PAWC witness Bulkley's used an ERP estimate as high as 8.94% in her CAPM analysis.⁸⁸¹ OCA submits the following table illustrates the significant variance between PAWC witness Bulkley, OCA witness Garrett, and leading scholars/institutions:

⁸⁷⁹ *Id.* at 36.

⁸⁸⁰ *Id.*

⁸⁸¹ OCA St. 2 at 38.



OCA witness Garrett testified as follows:

When compared with other independent sources for the ERP (as well as my estimate), which do not have a wide variance, Ms. Bulkley’s ERP estimate is clearly not within the range of reasonableness. Ms. Bulkley offers various criticisms of these sources, and basically argues the Commission should accept her estimate over the opinions of hundreds of CEOs, CFOs, scholars, and an international corporate finance advising company. I would argue that investors are more likely to rely on these types of sources for the ERP than Ms. Bulkley’s personal ERP estimate. Effectively, Ms. Bulkley is suggesting the Commission should adopt her ERP estimate over the opinions of thousands of unbiased experts, Kroll (a global financial advisory firm), and one of the world’s leading experts on the ERP.⁸⁸²

Thus, OCA concludes the Commission should find that PAWC’s CAPM analysis utilized an inappropriately high ERP.

882 *Id.*

iv. Reasonableness of the OCA's Proposed ROE

In response to critique regarding his recommended ROE, OCA witness
Garrett:

In this case, if I simply averaged the analyst-growth variation of my DCF Model (9.3%) and the results of my CAPM (8.7%), the result would be 9.0%. An authorized ROE of 9.0% would certainly be much fairer than the ROE proposed by the Company...However, my recommended ROE of 8.7% is notably higher than my modeling average. In that regard, an authorized ROE of 8.7% is still likely higher than PAWC's market-based cost of equity. Thus, my proposed ROE is not simply a low result that would reduce rates for customers, but rather it would be a fair outcome for both the Company and customers that would reduce the excess transfer of wealth from customers to shareholders that would otherwise occur under the Company's proposed ROE.⁸⁸³

I&E recommended an ROE of 9.8% based on the results of I&E witness Patel's DCF and CAPM which were 10.09% and 9.51% respectively.⁸⁸⁴ OCA witness Garrett testified that I&E's proposed ROE was much higher due to I&E witness Patel's use of unsustainably high growth rates.⁸⁸⁵ Mr. Patel used a composite growth rate for the proxy group of 7.13%, which assumes that PAWC can achieve dividend and/or earnings growth at a rate nearly double the projected annual GDP growth every year in perpetuity.⁸⁸⁶ OCA witness Garrett testified "from a strict mathematical standpoint this suggests that the annual earnings of the proxy group would eventually surpass total U.S. GDP, which is impossible."⁸⁸⁷

883 OCA St. 2SR at 2-3 (emphasis added).

884 OCA St. 2R at 1.

885 OCA St. 2R at 3.

886 *Id.*

887 *Id.*

On cross examination, PAWC witness Bulkley testified that increased inflationary concerns negatively impact PAWC ratepayers.⁸⁸⁸ Ms. Bulkley further testified that as increases in fuel prices due to inflation and the conflict in Iran, PAWC ratepayers need to pay more for fuel like gasoline, diesel, and heating oils.⁸⁸⁹ OCA submits the Commission should account for the rising affordability concerns of PAWC ratepayers in determining a just and reasonable ROE, and that PAWC failed their burden of proof that a 10.95% ROE is reasonable.

4. OSBA's Position

OSBA has no comment.

5. CAUSE-PA's Position

CAUSE-PA did not offer independent expert testimony with regard to PAWC's proposed rate of return in this proceeding, though it supports the positions advanced by the OCA.

6. Victory Brewing's Position

Victory Brewing takes no specific position on PAWC's rate of return.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not specifically address this issue.

⁸⁸⁸ Tr. at 1831.

⁸⁸⁹ Tr. at 1829-1830.

8. ALJs' Recommendation

Based on the results of both the DCF and CAPM models and considering factors including business, financial and regulatory risks described by PAWC and including a management enhancement, PAWC witness Bulkley recommended a ROE of 10.95%.

I&E witness Patel recommends a 9.70% return on common equity based on the use of a similarly situated proxy group of companies which I&E asserts balances the interest of ratepayers and the Company. I&E recommends an ROE based on the use of the DCF and CAPM methods averaged together as the primary methods to determine the cost of common equity.

I&E recommends that the Company should be afforded the opportunity to earn an overall rate of return of 7.46% for water operations and 7.11% for wastewater operations. I&E recommends an overall ROE for both water and wastewater operations of 9.70%.

OCA recommends an 8.7% ROE based on witness Garrett's DCF and CAPM. OCA witness Garrett applied DCF analysis based on analyst growth projections and another based on sustainable growth projections. Mr. Garrett explained the primary difference between his DCF and PAWC witness Bulkley's is her use of unsustainably high growth rates in her proxy group.

The CAPM is used as a check on the reasonableness of the DCF. OCA witness Garrett's CAPM results in an 8.7% cost of equity. OCA also asserts the Commission should account for rising affordability concerns of PAWC rate payers in

determining ROE and that PAWC failed to meet their burden of proof that a 10.95% ROE is reasonable.

PAWC argues it must continue to raise capital for the FPFTY in a period marked by high interest rates and high inflation, now compounded by the Iran 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. PAWC witness Bulkley recommended an ROE of 10.95%.⁸⁹⁰

I&E witness Patel submits a 9.70% return on common equity for both PAWC water operations and wastewater operations, based upon I&E witness Patel's use of a similarly situated proxy group of companies, best balances the interests of the ratepayers and the Company. He argues the Company's calculation begins with a flawed proxy group and as a result, the Company's ROE calculation cannot be relied upon.

OCA recommended an 8.7% ROE based on the DCF and CAPM.⁸⁹¹ OCA's ROE has a significant \$113.9 million impact on PAWC's revenue requirement increase, given that an increase to PAWC's ROE is the primary driver behind PAWC's revenue requirement increase request.⁸⁹² Every 10 basis point change to the ROE results in approximately \$5.3 million of impact to the revenue requirement at PAWC's as-filed rates.⁸⁹³ In the event the Commission grants PAWC a 9.45% ROE and accepts all other OCA adjustments, PAWC's revenue requirement increase would be reduced to \$17.3 million.

⁸⁹⁰ PAWC St. 13, p. 6; *see generally* PAWC St. 13-RJ; Tr. 1843.

⁸⁹¹ OCA M.B. at 53.

⁸⁹² OCA M.B. at 51.

⁸⁹³ OCA M.B. at 51.

We agree that PAWC has failed to meet their burden of proof for a 10.95% ROE and, based upon the record evidence as discussed above, we recommend that I&E's ROE of 9.7% be adopted in this proceeding. In addition, we are persuaded by the argument of I&E above and recommend the adoption of I&E's proxy group. We conclude that I&E's recommended ROE is properly in alignment with its proxy group and I&E's position reasonably reflects the interests of the ratepayers and the utility.

F. Management Performance

1. PAWC's Position

PAWC submits it has provided exceptional effective management in delivering water and wastewater services to its customers. PAWC witness Runzer testified PAWC has been consistently recognized for its water quality achievements and has undertaken a wide variety of actions to improve its facilities as well as educate and protect customers from lead service lines and proactively address per and polyfluoroalkyl (PFAS).⁸⁹⁴ The Company asserts it has numerous programs in place to increase and enhance operational efficiency, including leak detection, main replacement and repair programs, and customer demand-side strategies.⁸⁹⁵

PAWC President Justin Ladner testified regarding the extensive work of the Company as a solution provider for troubled water and wastewater systems. The Company has also completed the acquisitions of systems that PAWC submits at the time of acquisition, were not providing adequate, efficient, safe and reasonable service, including Delaware Sewer Company, Winola Water Company, and East Dunkard Water

⁸⁹⁴ PAWC St. 3, pp. 5-10.

⁸⁹⁵ *Id.*, pp, 24-30.

Authority (EDWA). Following these acquisitions, the Company made capital investments in these systems.⁸⁹⁶

The Company also acted as the receiver for Rock Spring Water Company (Rock Spring) and Indian Springs Water Company (Indian Springs). As receiver, PAWC submits it substantially improved Rock Spring's operations.⁸⁹⁷ As a resolution for the Commission's Section 529 investigation into Indian Springs, PAWC submits it coordinated a plan for all customers to have an adequate alternative supply of water from private wells and offset all of its receivership costs and a significant portion of the costs that customers had to pay for private wells by negotiating a sale of land owned by Indian Springs, to the benefit of PAWC customers and Indian Springs customers.⁸⁹⁸ PAWC also submits it had a positive impact on communities through acquisitions of larger systems such as the McKeesport, Scranton, York, and EBMA wastewater systems where significant investments were made to address environmental challenges and aging infrastructure with resulting environmental benefits.⁸⁹⁹

PAWC also submits it assisted with improvements to the troubled water and wastewater systems with EDWA, as receiver, and subsequently as owner of the assets of the EDWA system, to provide water that complies with relevant safe drinking water standards.⁹⁰⁰

PAWC asserts it provided drinking water solutions throughout the Commonwealth PAWC's including multiyear project to construct a public water system for the residents of Dimock, Pennsylvania, who have not had access to safe drinking

⁸⁹⁶ *Id.*

⁸⁹⁷ *Id.*, p. 15.

⁸⁹⁸ *Id.*, pp. 10-11.

⁸⁹⁹ *Id.*, p. 11.

⁹⁰⁰ *Id.*, pp. 12-13.

water for nearly 20 years due to unsafe levels of methane and other contaminants. In conjunction with the Office of Attorney General, PAWC submits it is nearing completion of this system at no cost to its customers.⁹⁰¹

PAWC asserts while there is no requirement for customer service performance metric commitments to demonstrate exceptional management performance, Dr. Chard explained that the Company voluntarily committed to call answering metrics that are even better those used for electric distribution companies (EDCs) and natural gas distribution companies (NGDCs) by the Commissions Bureau of Consumer Services.⁹⁰² The Commission, according to PAWC should therefore recognize PAWC's superior management performance by approving an ROE at the higher end of PAWC Bulkley's recommended ROE range.

2. I&E's Position

PAWC witness Bulkley states that similar to other business risks, she has not quantified or made a specific basis point adjustment for management performance, but she considered this factor in setting the overall ROE range (10.25% to 11.25%) and recommended the ROE of 10.95% within the range.⁹⁰³

I&E explains the Commission affirmed the Administrative Law Judge's denial of management performance points in *Columbia Gas 2021*. The Commission summarized the Recommended Decision and stated:

[The ALJ] agreed with I&E, the OCA, and the OSBA that Columbia failed to provide sufficient evidence to support its proposal for an additional twenty-basis points for

⁹⁰¹ PAWC St. 1, pp. 16-17.

⁹⁰² Tr. 1820-21.

⁹⁰³ PAWC St. No. 13, pp. 6-8.

“strong management performance.” The ALJ reasoned that while effective operating and maintenance cost measures should flow through to ratepayers and/or investors, Columbia’s proposal defeats the purpose of cutting expenses to benefit ratepayers, particularly during a pandemic when so many ratepayers have experienced reduced household income from job loss or reduction in hours. Therefore, the ALJ recommended that no upward management effectiveness adjustment be made to the Company’s cost of equity.⁹⁰⁴

I&E submits PAWC witnesses Bulkley and Ladner refer to Sections 523(a) and (b) that lists efficiency, effectiveness, and adequacy of service factors as well as the management effectiveness and operating efficiency that the Commission shall consider in evaluating the performance of water and wastewater utilities. They also refer to 52 Pa. Code § 69.711, which outlines the Commission’s acquisition incentives, including rate of return premiums, acquisition adjustments, deferral of acquisition improvement costs and plant improvement surcharges to encourage the acquisition of troubled water and wastewater systems by viable utilities. Ms. Bulkley largely defers to Mr. Ladner’s testimony (PAWC St. No. 1) to support the Company’s management performance claims. Ultimately, Ms. Bulkley suggests that an ROE at the upper end of her range, specifically an ROE of 10.95%, is reasonable to account for the Company’s claimed excellent management performance. PAWC witness Ladner supports PAWC witness Bulkley’s recommended ROE of 10.95% in recognition of claimed superior management performance.⁹⁰⁵

I&E rejects the Company’s arguments that it deserves a higher ROE based on management performance and asserts that, many of the arguments presented by PAWC fall within the categories of reliability, customer satisfaction, and safety which are

⁹⁰⁴ *Pa. P.U.C. v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835, p. 134 (Order entered February 19, 2021).

⁹⁰⁵ PAWC St. No. 1, p. 2.

required of every public utility company under 66 Pa. C.S.A. § 1501.⁹⁰⁶ Second, the Company passes on capital expenditures to its ratepayers via base or it can utilize a Distribution System Improvement Charge (DSIC) for capital expenditure recovery.⁹⁰⁷ Additionally, I&E submits if the Company is effective at controlling operating and maintenance costs those savings should flow through to ratepayers and/or investors, but through this adder, the claimed savings to the ratepayers would likely be offset by the addition of basis points for management performance as ratepayers would have to fund the additional costs. This would defeat the purpose of cutting expenses to benefit ratepayers.

According to I&E, a review of the Management and Operations Audit Report, prepared by the Commission's Bureau of Audits, illustrates the following summary of findings which demonstrates that out of the twelve functional areas, Pennsylvania-American does not meet expectations in any area.⁹⁰⁸

⁹⁰⁶ I&E St. No. 2, p. 72.

⁹⁰⁷ I&E St. No. 2, p. 72.

⁹⁰⁸ Management and Operations Audit of Pennsylvania-American Water Company, prepared by The Pennsylvania Public Utility Commission, Bureau of Audits at Docket No. D-2022-3035217, October 2023, Pennsylvania-American Statement No. 1, p. 2.

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

I&E acknowledges that in its Order in the most recent Aqua Pennsylvania base rate case (*Aqua 2022*) the Commission granted Aqua an award of 25 basis points for management performance.⁹⁰⁹ The Commission explained that the additional 25 basis points were appropriate given that “...Aqua carries a roster of large and complex emergency aid matters *unlike any other Pennsylvania utility* (emphasis added).”⁹¹⁰ I&E points out the Commission has specifically distinguished Aqua from other Pennsylvania utilities as taking on matters that other utilities do not.

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

3. OCA’s Position

PAWC requests that the Commission adopt a rate of return on equity of 10.95%, the upper end of PAWC witness Bulkley’s recommended range, in recognition of PAWC’s superior management performance.⁹¹¹ However, OCA notes PAWC witness Bulkley does not provide a specific amount of ROE as a management adder.⁹¹² PAWC’s alleged superior management performance is partially encompassed by what PAWC

⁹⁰⁹ *Pa. P.U.C. v. Aqua Pa., Inc.*, Docket Nos. R-2021-3027385 and R-2021-3047386 (Order entered May 16, 2022).

⁹¹⁰ *Id.* at 173.

⁹¹¹ OCA St. 2 at 41-42.

⁹¹² *Id.*

witness Ladner testified to as “efforts in many areas across the business that benefit customers.”⁹¹³ OCA submits the voluminous amount of formal and informal complaints, public input hearing testimony, and the testimonies of OCA witness Alexander regarding customers service and OCA witness Colton regarding PAWC’s service to its low-income customers does not support PAWC’s claim.

OCA witness Garrett testified that “[t]he performance of company management should not be a factor when determining a fair authorized ROE for the Company.”⁹¹⁴ Mr. Garrett explained that the authorized ROE should be based on the cost of equity and that the cost of equity is not impacted by management performance.⁹¹⁵ Mr. Garrett testified that above-average managerial performance would actually have a decreasing effect on the cost of equity due to its risk reducing effect.⁹¹⁶

OCA submits throughout the public input hearings PAWC customers testified to the poor customer service they received from interactions with PAWC as well as to the poor quality of water and service disruptions.⁹¹⁷ Additionally, OCA witness Alexander testified that PAWC’s call center performance is inadequate and has been inadequate for some time.⁹¹⁸

OCA witness Colton testified that several provisions of PAWC’s service as reasons why that management performance does not warrant using a higher return on equity in this proceeding. First, Mr. Colton notes that PAWC has not been successful in identifying its low-income customer population.⁹¹⁹ As noted previously, PAWC has

⁹¹³ PAWC St. 1 at 9.

⁹¹⁴ OCA St. 2 at 42.

⁹¹⁵ *Id.*

⁹¹⁶ *Id.*

⁹¹⁷ *See generally* OCA St. 5 at App. A.

⁹¹⁸ OCA St. 5 at 5, 10-11, 16-17, 32-33.

⁹¹⁹ OCA St. 4 at 112.

developed no mechanism to identify roughly 90% of the low-income population in its service territory.⁹²⁰

OCA witness further testified PAWC continues to offer Deferred Payment Arrangements (DPAs) to low-income customers which are largely ineffective at providing an opportunity for those customers to retire their arrears. Mr. Colton testified that “[f]rom a management perspective, however, it is the failure to respond to this high level of defaults to determine why those defaults occur and thus to examine what the Company might do differently to improve its performance.”⁹²¹ PAWC is entering into tens of thousands of payment arrangements which default and yet PAWC has made no effort to determine why, or to examine what might be done differently to improve its performance.⁹²²

OCA witness Colton also opposes a management adder and high ROE because of PAWC’s reliance on the disconnection of service to control its unpaid bills. Mr. Colton’s examination revealed that “for every one nonpayment disconnection PAWC pursues, ... it issues 15 disconnect notices” and that “a significant number of the Company’s identified low-income customers maintain arrearage balances of 91 days or more, despite receiving disconnection notices.”⁹²³ Mr. Colton concludes that “not only are PAWC disconnection notices ineffective in preventing the disconnection of service for nonpayment, the notices are also ineffective at promoting payments that reduce long-term arrears.”⁹²⁴ The management implication regarding disconnection notices is not only a recognition of PAWC’s continued reliance on a collection process that is

⁹²⁰ OCA St. 4 at 113 *citing Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket Number R-891468, Order at 159 (Sept. 19, 1990).

⁹²¹ OCA St. 4 at 113.

⁹²² OCA St. 4 at 114.

⁹²³ OCA St. 4 at 114-115.

⁹²⁴ OCA St. 4 at 117.

demonstrably ineffective, but is also the failure to consider or address the reason why the practice is ineffective that demonstrates less than superior management performance.⁹²⁵

OCA further submits PAWC's disregard of the winter shutoff moratorium also warrants not including a performance adder for ROE or a high ROE. According to Mr. Colton's analysis, despite the fact that nonpayment disconnections of customers with incomes of 250% of the federal poverty level or less are barred by law, PAWC continues to issue disconnect notices warning of an impending disconnection in the absence of a customer payment.⁹²⁶ PAWC's disconnection notice does not make any mention of the availability of protections offered by the shutoff moratorium. Mr. Colton characterized this as a "serious management failure" that contradicts Commission regulations.⁹²⁷

PAWC's response to the impact of management performance on return on equity according to OCA is limited to focusing solely on PAWC's acquisition of troubled systems.⁹²⁸ However, under Section 1329, a system does not have to be troubled to be acquired.⁹²⁹ Acquisitions under Section 1329 already grant PAWC a ratemaking rate base under fair market value and thus should have no impact on PAWC's ROE.⁹³⁰ Troubled systems are generally acquired under Section 529.⁹³¹ In this proceeding there is only one acquisition being proposed by PAWC that was acquired under Section 529,

⁹²⁵ OCA St. 4 at 117 *citing* OCA-04-031 (the Company does not have documents that assess why nonpaying residential customers do not make contact with the utility when, in response to bill nonpayment, those nonpaying customers receive a request or notice to contact a utility to avoid the disconnection of service.)

⁹²⁶ OCA St. 4 at 118-120; OCA Ex. RDC-5.

⁹²⁷ OCA St. 4 at 121, *citing*, 52 Pa. Code § 56.99 ("A public utility may not threaten to terminate service when it has no present intent to terminate service or when actual termination is prohibited under this chapter").

⁹²⁸ PAWC St. 2-R at 21-22 and 24-26.

⁹²⁹ 66 Pa. C.S. § 1329.

⁹³⁰ OCA St. 1 at 10; *McCloskey v. Pa. PUC*, 195 A.3d 1055, 1066 (Pa. Cmwlth. 2018).

⁹³¹ 66 Pa. C.S. § 529.

namely Rock Springs, where all other systems were acquired under Sections 1102 or 1329.⁹³²

4. OSBA's Position

OSBA has no comment.

5. CAUSE-PA's Position

CAUSE-PA did not offer independent testimony with regard to PAWC's proposed rate of return in this proceeding, though it supports the positions advanced by the OCA.

6. Victory Brewing's Position

Victory Brewing did not specifically address this issue.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not specifically address this issue.

8. ALJs' Recommendation

Under Section 523 of the Code, the Commission considers management of performance of a utility and, where appropriate, may include an upward ROE adjustment for management effectiveness.⁹³³ The Commission is not obligated to increase PAWC's

⁹³² See PAWC St. 1 at 10-15, PAWC St. 7 at 3-11.

⁹³³ 52 Pa. Code § 523; see also *Aqua 2022*, pp. 167-68.

ROE. Under the constitutional standards, the return needs to be “equal to that being made at the same time on investments in other businesses undertakings which are attended by corresponding risks and uncertainties⁹³⁴ and “commensurate with returns on investments in other enterprises having corresponding risks” while being sufficient “to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital.”⁹³⁵

PAWC argues it provided superior management performance which would justify an upward ROE adjustment for management effectiveness. PAWC concludes the Commission should recognize PAWC’s superior management performance by approving an ROE at the higher end of PAWC witness Bulkley’s recommended ROE range.

I&E argues PAWC has not presented evidence to establish the appropriateness to award additional basis points for management performance. I&E concludes PAWC failed to demonstrate that it is entitled to management performance points added to its ROE or why its customers should be burdened by the cost. OCA explains that PAWC witness Bulkley does not provide a specific amount of ROE as a management adder and that the evidence of customer service issues related does not warrant approval of PAWC’s claim.

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. I&E also asserts that any increased ROE for

⁹³⁴ *Bluefield* at 692.

⁹³⁵ *Hope* at 603.

management performance is inconsistent with the results of PAWC's recent management audit.⁹³⁶

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.⁹³⁷ 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.⁹³⁸

PAWC argues it 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.⁹³⁹

OCA argues PAWC's proposal to increase its return on equity due to its management performance and a performance adder is not warranted.⁹⁴⁰ OCA notes in this proceeding there have been 159 formal complaints and 572 informal complaints filed with the Commission.⁹⁴¹ The OCA also notes that, similar to PAWC's previous base rate case, many complaints are from customers in PAWC's Northeastern Service territory. The OCA has not opposed in this proceeding recovery in rate base of systems acquired under Sections 1102 or 1329.

⁹³⁶ I&E M.B., pp. 74-79.

⁹³⁷ OCA M.B., pp. 61-64.

⁹³⁸ *Id.*, p. 65.

⁹³⁹ PAWC M.B., pp. 65-71; PAWC St. 1, pp. 10-19.

⁹⁴⁰ OCA M.B. at 61-65.

⁹⁴¹ OCA M.B. at 119.

The Indian Springs acquisition was finalized in 2022, prior to PAWC's previous base rate case.⁹⁴² Further, the Commission stated that the Indian Springs proceeding was not a typical 529 acquisition proceeding as follows:

Under the Settlement, it will not result in a Commission-ordered acquisition of a troubled system by a capable public utility where the acquiring entity will continue operating the system as a public utility. Rather, by Commission Order, PAWC has served as the Receiver of the system and has operated the system and provided potable water to residents from the date of the August 8, 2019 Order to the present. The Joint Petitioners in this proceeding are seeking Commission approval for the abandonment of service to ISWC's remaining five customers and the conversion of those remaining customers to an alternate water supply. If the Settlement is approved, the ISWC system will not continue operating as an ongoing public utility. As a result, the considerations required under a typical Section 529 analysis are inapplicable here.⁹⁴³

Further, under a settlement term approved by the Commission, PAWC was to receive reimbursement from Indian Springs Water Company for costs associated from its receivership.⁹⁴⁴ If PAWC did not receive full reimbursement for all costs of receivership from Indian Springs Water Company, PAWC could claim unreimbursed costs in a subsequent base rate case.⁹⁴⁵ The next available base rate case for PAWC to file costs associated with the acquisition would have been in their previous base rate case in 2023. PAWC should not receive additional ROE for a system to which they have been fully reimbursed and no longer serve.

⁹⁴² *Pa. PUC v. Indian Springs Water Co.*, Docket No. M-2019-3011972, Order (Oct. 7, 2021).

⁹⁴³ *Id.* at 8-9.

⁹⁴⁴ *Id.* at 9-10.

⁹⁴⁵ *Id.*

Regarding the Rock Springs receivership, PAWC argued that it reduced unaccounted-for water by 25%.⁹⁴⁶ PAWC witness Ladner testified that Rock Springs unaccounted-for water has been 50-70% in recent years.⁹⁴⁷ Mr. Ladner correctly testified that anything above 20% is deemed excessive by the Commission.⁹⁴⁸ By reducing unaccounted-for water by 25%, Rock Springs unaccounted-for water is now between 25-45% by PAWC's own admission.⁹⁴⁹ PAWC should not receive additional millions of ratepayer-funded dollars in enhanced return on equity for its shareholders because it improved Rock Spring's operations.

Based on the record evidence presented and the arguments advanced by the Parties, we agree with I&E and OCA that PAWC failed to meet its burden of proof in establishing that an adder for superior management performance or that adopting a rate of return on equity at the upper end of PAWC witness Bulkley's recommended range is reasonable or appropriate and accordingly PAWC's claim should be denied.

⁹⁴⁶ PAWC M.B. at 67.

⁹⁴⁷ PAWC St. 1 at 14.

⁹⁴⁸ PAWC St. 1 at 14.

⁹⁴⁹ *Id.*

XII. RATE STRUCTURE

A. Cost-of-Service Studies

1. Water Operations

a. PAWC's Position

Gregory R. Herbert prepared PAWC's COSS for its water operations (Water COSS) using the base-extra capacity method for allocating costs to customer classifications.⁹⁵⁰

PAWC explains its proposed system-wide maximum day demand factor (1.4) reflects the maximum daily send-out of the Company since its formation in 1987. As PAWC witness Herbert testified, the Company's actual maximum day send out was 1.4 times average day send out in each of the years 1988, 1995, 1996, 1999, and 2003, and PAWC experienced system-wide maximum day factors close to that value in other years since 1987.⁹⁵¹ Additionally, PAWC submits the water usage on the maximum day of 2022, 2023, and 2024 in several areas within PAWC's overall water operations was more than 1.4 times the average usage for that year.⁹⁵²

PAWC argues the Commission's recent decision in The York Water Company's (York Water) base rate case at Docket Nos. R-2025-3053442 and R-2025-305373 does not provide a basis to alter the demand factors employed in PAWC's Water COSS. PAWC submits it provides water service to many non-contiguous geographic

⁹⁵⁰ *Id.*, pp. 6-18; PAWC Ex. 12-A (Water Operations).

⁹⁵¹ PAWC St. 12, pp. 10-11; PAWC St. 12-R, pp. 3-4; *see also* PAWC Ex. 12-A, Sch. E, p. 5.

⁹⁵² PAWC Ex. GRH-2R.

areas across the Commonwealth, whereas York Water’s system is centralized in the City of York and its surrounding communities.⁹⁵³ If all PAWC water system facilities were designed to handle 1.2 times the average daily send-outs as Mr. Mierzwa proposes, PAWC asserts several Company service areas would experience supply constraints.⁹⁵⁴

b. I&E’s Position

Regarding the COSS for Water Operations, I&E witness Sakaya made no recommended changes. The Company provided two customer cost analyses for the FPFTY.⁹⁵⁵ According to I&E, the results of the first cost analysis include all costs being allocated to the customer cost function and results in a unit cost of \$31.87 per month in the FPFTY. Additionally, PAWC provided a second customer cost analysis that relies on the allocation of costs more directly applicable to customers. I&E submits the result of the more direct customer cost analysis is \$26.15 per month per customer in the FPFTY.⁹⁵⁶

I&E recommends the second customer cost analysis, or the more direct customer cost analysis, be utilized for setting customer charges. I&E witness Sakaya reasons, that costs that are recovered from customers are continuously increasing, even between rate cases, with surcharges such the DSIC. Therefore, it is appropriate to limit the increase in the customer charges and to consider the affordability of rates through a lower customer charge and higher usage rates, which allows customers greater control over their bills through conservation. Additionally, I&E submits the Commission has traditionally relied on customer cost analyses based on direct cost allocations to determine customer charges. Accordingly, I&E recommends the Commission to reject the fully allocated customer cost analysis and base the customer charges instead on the

⁹⁵³ PAWC St. 12-RJ, p. 2.

⁹⁵⁴ *Id.*

⁹⁵⁵ PAWC Ex. 12-A, Appendix A, Attachment RS1j.

⁹⁵⁶ PAWC Ex. 12-A, Appendix A, Attachments RS1j, p. 2.

direct cost customer cost analysis provided by the Company on PAWC Ex. 12-A, Appendix A, Attachments RS1j, p. 2 of 3.

c. OCA's Position

OCA witness Mierzwa testified that PAWC's water class cost of service study needs to be revised to include more recent system-wide maximum day and maximum hour demand factors, otherwise PAWC's rates fail to meet the just and reasonable standard.⁹⁵⁷ According to OCA without this adjustment, Residential customers will be overpaying \$7.2 million based on PAWC's as-filed revenue amount.⁹⁵⁸

OCA submits the system-wide extra-capacity demand factors PAWC applied to its COSS in this case are outdated and do not reflect current customer usage.⁹⁵⁹ The system-wide maximum day extra capacity demand factor used in PAWC's COSS was last experienced in 2003, or almost 25 years ago.⁹⁶⁰ Since 2003, OCA submits PAWC's water demand has changed due to aggressive water conservation, legislation, development, and changing land uses.⁹⁶¹ PAWC's 1.4 maximum day extra-capacity demand factor is reflective of actual maximum day to average day demands observed for the years 1988, 1995, 1996, 1999 and 2003.⁹⁶² OCA witness Mierzwa testified that the maximum hour extra capacity demand factor of 2.1 is based on an analysis of peak hour consumption experienced by PAWC in its three largest operating districts.⁹⁶³ This peak hour analysis was conducted in 1988, nearly 40 years ago.⁹⁶⁴

⁹⁵⁷ OCA St. 3 at 14; 66 Pa. C.S. §§ 1301, 1304.

⁹⁵⁸ OCA St.3 at 18.

⁹⁵⁹ *Id.*

⁹⁶⁰ *Id.*

⁹⁶¹ *Id.*

⁹⁶² *Id.* at 14.

⁹⁶³ *Id.*

⁹⁶⁴ *Id.*

OCA witness Mierzwa recommends utilizing system-wide extra day and extra hour demand factors of 1.2 and 1.5 respectively. The extra day factor is based on the actual systems' usage going back to 2011.⁹⁶⁵ Mr. Mierzwa likewise based the extra hour factor on the recent actual demands experienced by PAWC as reflected on Table 1 and Table 2 presented by Mr. Herbert in his Direct Testimony.⁹⁶⁶

Mr. Mierzwa included the following table to illustrate the difference between using his extra capacity factors, based on more recent system usage, or PAWC's extra capacity factors, which he submits is based off of obsolete data:

⁹⁶⁵ *Id.* at 17.

⁹⁶⁶ *Id.* at 17 (*citing* PAWC St. 1 at 12).

Table 1. Water Direct Cost of Service Study Comparison⁹⁶⁷

Classification	Initial		
	Company	OCA	Difference
Residential	\$682,920,439	\$675,657,224	(\$7,263,215)
Commercial	245,729,206	241,688,665	(4,040,541)
Industrial	45,903,121	51,079,540	5,176,419
Industrial – Contract Sales	5,383,847	5,636,175	252,328
Public (Municipal)	25,209,837	27,383,917	2,174,080
Other Water Utilities – Group A	1,188,981	1,266,060	77,079
Other Water Utilities – Group B	29,187	23,821	(5,366)
Other Water Utilities – Contract			
Sales	7,456,244	7,914,764	458,520
Private Fire Protection	7,794,783	9,199,248	1,404,465
Public Fire Protection	14,138,879	15,905,110	1,766,231
Total:	\$1,035,754,523	\$1,035,754,523	\$0

OCA argues Mr. Mierzwa’s revisions bring PAWC’s water COSS to just and reasonable standard and the Commission should agree for the following three reasons.

First, PAWC used the same maximum day and maximum hour system-wide maximum capacity factors in its 2023 rate case. Mr. Mierzwa was the OCA’s witness in that proceeding and raised the same concerns about PAWC using outdated information in its COSS.⁹⁶⁸ In its Order, the Commission found PAWC’s COSS to be

⁹⁶⁷ *Id.* at 18. (Mr. Mierzwa’s comparison below is based on PAWC’s as-filed requested revenue requirement claim but excludes any Act 11 shift of the wastewater revenue requirement to water service customers).

⁹⁶⁸ OCA St. 3 at 16.

“adequate” and did not require any changes, but agreed the extra capacity factors to be outdated.⁹⁶⁹ The Commission stated:

Although, for the purposes of this proceeding, we have found that the Company’s water COSS should be accepted as adequate given the data available in this case, we acknowledge that PAWC has not updated its analysis of system-wide maximum hour extra capacity demands since 1988. As indicated by the Company, the system-wide maximum day extra capacity demand factor used in its water COSS was last experienced in 2003, which was over twenty (20) years ago. Since 2003, water demand on the PAWC system has changed due to water conservation, legislation, development, and changing land uses. Therefore, since PAWC does not have recent actual maximum peak hour demand data for its water system, we agree with the ALJs’ recommendation that PAWC should be required to update this analysis prior to its next base rate proceeding and include the results of that analysis in the COSS filed in the next base rate proceeding.⁹⁷⁰

OCA submits PAWC nominally complied with the Commission’s order and included new maximum hour demand data in in Table 1 and Table 2 on page 12 of Mr. Herbert’s testimony (PAWC St.No. 12) and developed updated maximum hour extra capacity factors based on that data.⁹⁷¹ However, OCA asserts PAWC did not utilize those updated capacity factors in its COSS. According to OCA, the Commission should not permit PAWC to continue reusing stale extra capacity demand factors in its COSS and use the results of Mr. Mierzwa’s COSS.

⁹⁶⁹ *Id.*

⁹⁷⁰ *Pa. PUC v. Pa. American Water Co.*, R-2023-3043189, Order at 209 (July 11, 2024).

⁹⁷¹ OCA St. 3 at 16-17.

Second, in accordance with the American Water Works Association’s Manual, M1, Principles of Water Rates, Fees, and Charges (AWWA M1 Manual), development of demand factors should be based off a “representative number of recent years.”⁹⁷² OCA witness Mierzwa developed his up-to-date demand factors according to the manual and stated “I believe that 14 years meets the standard identified in the AWWA M1 Manual, and the more than 25 years relied upon by PAWC does not.” “OCA argues Demands experienced over 25 years ago are not representative of current demands.”⁹⁷³ PAWC witness Herbert countered by testifying that a water system must be designed to meet the highest peak demand that potentially could be experienced – not just the highest peak demand that was experienced within a recent historical period,⁹⁷⁴ but draws on historical data that show the demand factors in PAWC’s COSS were once applicable to the PAWC system, therefore they continue to be applicable to PAWC’s system.⁹⁷⁵

OCA argues PAWC witness Herbert’s observations are not based on recent information, therefore his primary argument about *potential* peaks should be afforded little consideration. To emphasize this point, OCA witness Mierzwa observed that “PAWC witness Max McClellan presents evidence on pages 50-56 of his direct testimony that indicates that there has been a pervasive decline in customer usage over the last 10 years, and Mr. McClellan believes that this trend will continue.”⁹⁷⁶ OCA asserts this statement supports Mr. Mierzwa’s methodology for developing maximum day and maximum hour extra capacity factors because they are consistent for how PAWC’s system currently operates.

⁹⁷² OCA St. 3 SR at 2.

⁹⁷³ *Id.*

⁹⁷⁴ PAWC St. 12 R at 3-4.

⁹⁷⁵ *Id.*

⁹⁷⁶ OCA St. 3SR at 2-3.

OCA explains in a recent proceeding, the Commission agreed with the OCA that The York Water Company needed to update its maximum day and maximum hour extra capacity factors because the data they are based off are outdated.⁹⁷⁷ OCA submits like this case, York Water Company was utilizing data decades old and like this case, Mr. Mierzwa proposed using extra capacity factors based off of system usage from more recent years.⁹⁷⁸ The Commission wrote in its order:

We also agree with the ALJs that York Water has not satisfied its burden of proof to demonstrate that its proposed COSS is reasonable. That is, we find that York Water did not justify that data from a customer class demand study conducted in the 1970s is useful and reliable, given how the Company's customers utilize York Water's current system. We are not persuaded by York Water's decision not to conduct a demand study to inform its COSS in the instant proceeding. As observed by the ALJs, York Water's demand data does not meet the "over a representative number of recent years" standard from the AWWA Manual. Indeed, as the ALJs observed, York Water's decision not to conduct a demand study contributed to the Company's failure to meet its burden of proving the justness and reasonableness of its COSS. See R.D. at 114-16 (emphasis in original). We concur.⁹⁷⁹

OCA concludes the Commission should likewise reject PAWC's COSS and utilize OCA witness Mierzwa's, which includes more recent maximum capacity demand factors.

⁹⁷⁷ *Pa. PUC v. York Water Co.*, R-2025-3053442, Order (Feb. 19, 2026).

⁹⁷⁸ *Id.*

⁹⁷⁹ *Id.* at 75.

d. OSBA’s Position

OSBA has no comment.

e. CAUSE-PA’s Position

CAUSE-PA did not offer independent testimony with regard to PAWC’s Cost of Service Study, though it supports the positions advanced by the OCA.

f. Victory Brewing’s Position

Victory Brewing submits the COSSs for water and wastewater service presented by PAWC are well-supported and are consistent with those approved by the Commission in prior rate cases.

Victory Brewing submits that OCA witness Mierzwa’s COSS should be rejected, as PAWC’s water COSS is consistent with the methods that the Commission has approved in prior rate cases and is reasonable and well supported. Victory Brewing agrees with the testimony presented by Cleveland-Cliffs witness Baudino explaining that Mr. Mierzwa’s COSS is flawed and should be rejected.⁹⁸⁰

g. Cleveland-Cliffs’ Position

Cleveland-Cliffs explains it supports the cost-of-service allocation methodology sponsored by PAWC witness Herbert, as this study is consistent with previous cost-of-service studies approved by the Commission.

⁹⁸⁰ Cleveland-Cliffs St. No. R-1 at 2–5.

OCA witness Jerome Mierzwa challenged the maximum-day and maximum-hour extra capacity factors used by PAWC in its class cost-of-service study, asserting they are outdated, and recommended lower factors based on more recent data provided in PAWC schedules and Mr. Herbert’s testimony.⁹⁸¹ However, Cleveland-Cliffs submits Mr. Herbert’s capacity factors are appropriate and consistent with Commission precedent, explaining water systems must accommodate peak demands that could occur at any time, not just historical peaks.

Regarding the maximum hour factor, PAWC noted data gaps in 2021–2022, with improved accuracy in 2023–2024. Mr. Herbert concluded that at least three years of accurate hourly data are necessary before revising system maximum hour factors.⁹⁸² Mr. Herbert stated that the customer class extra capacity factors remain the same as in the Company’s last rate case, derived from the 2017 demand study using 2013–2015 data. He also noted that the Company filed a feasibility study for a new demand study on July 25, 2025, and that, pending Commission and party approval of the scope and cost, a full-scale study would be conducted before the next rate case.⁹⁸³ According to Cleveland-Cliffs, maintaining the existing factors is reasonable because they reflect recent, validated data and provide continuity in rate design. Updating the factors through a new demand study before the next rate case ensures that any future adjustments will be based on the most current and accurate customer usage patterns.⁹⁸⁴

h. ALJs’ Recommendation

When a utility files for a rate increase and the proposed increase exceeds \$1 million, the utility must include with its filing an allocated class cost-of-service study

⁹⁸¹ Direct Testimony of Jerome Mierzwa at 14.
⁹⁸² Direct Testimony of Gregory R. Herbert at 12.
⁹⁸³ Direct Testimony of Gregory R. Herbert at 14.
⁹⁸⁴ Rebuttal Testimony of Richard Baudino at 4.

(“COSS”) in which it assigns to each customer class a portion of the proposed rate increase, based upon operating costs that it incurred in providing that service.⁹⁸⁵ While cost of service studies are the touchstone for reasonable allocations of revenue responsibility among rate classes,⁹⁸⁶ the Commission has often stated that cost of service and revenue allocation analyses require a considerable amount of judgment and are more of an accounting/engineering art rather than a science.⁹⁸⁷ For that reason, Pennsylvania appellate courts have repeatedly held that the Commission, in crafting a reasonable rate structure, is “invested with a flexible limit of judgment” and may establish just, reasonable and non-discriminatory rates within a “range of reasonableness.”⁹⁸⁸

As explained by I&E, an important element of designing rates is the relative rate of return. The rate of return is the Commission authorized return on rate base that is determined in a base rate proceeding; this is the return the Company and shareholders earn on the rate base investment. A relative rate of return indicates how the rate of return of each customer class compares to the system average rate of return. In general, a relative rate of return that provides revenue equal to its cost to serve would have a relative rate of return equal to 1.0. If a class of service has a relative rate of return below 1.0, the revenue received from that class does not cover the cost of providing service to that class. If a class of service has a relative rate of return above 1.0, the revenue received from that class exceeds the cost of providing service to that class.

⁹⁸⁵ 52 Pa. Code § 53.53.

⁹⁸⁶ *Lloyd v. Pa. Pub. Util. Comm’n*, 904 A.2d 1019, 1021 (Pa. Commw. Ct. 2006).

⁹⁸⁷ *Application of Metropolitan Edison Co.*, Docket No. R-00974008 (Order entered June 30, 1998); *Pa. Pub. Util. Comm’n v. Pa. Power & Light Co.*, 55 PUR 4th 185, 1983 WL 913509 (Order dated Aug. 19, 1983).

⁹⁸⁸ *U.S. Steel Corp. v. Pa. Pub. Util. Comm’n*, 390 A.2d 865, 874 (Pa. Commw. Ct. 1978).

PAWC submitted five separate cost-of-service studies (COSS), one for its water operations and four for its wastewater operations⁹⁸⁹ as detailed on Schedule A of PAWC Ex. 12-A to 12-E. PAWC’s water COSS uses the base-extra capacity method.⁹⁹⁰ No party disputes the use of the base-extra capacity (BEC) method and Commission precedent recognizes it as a reasonable method to determine cost of service and method for allocation.⁹⁹¹

A key functional cost category in the BEC method is the “Extra Capacity Costs,” which OCA witness Mierzwa explains as follows:

Extra Capacity Costs are costs associated with meeting usage requirements in excess of average usage. This includes operating and capital costs for additional plant and system capacity beyond that required for average usage. Extra capacity costs in the Company’s study have been subdivided into costs necessary to meet maximum day extra demand and maximum hour extra demand. These extra capacity costs were allocated to customer classes on the basis of each class’s maximum day and maximum hour usage in excess of average usage.⁹⁹²

To calculate Extra Capacity Costs, PAWC developed numerical factors which it incorporates into its COSS.⁹⁹³ In this case, PAWC used a system-wide maximum day extra-capacity demand factor of 1.4 and a system-wide maximum hour extra capacity factor of 2.1 in its water COSS.⁹⁹⁴ The extra-capacity factors used by

⁹⁸⁹ PAWC St. 12, pp.3-5.

⁹⁹⁰ PAWC St. 12 at 6.

⁹⁹¹ *Pa. PUC v. York Water Co.*, R-2025-3053442, Order at 70 (Feb. 19, 2026) citing *Pa. PUC v. Aqua Pa. Inc.*, R-2021-3027385, Order (May 16, 2022).

⁹⁹² OCA St. 3 at 12-13.

⁹⁹³ PAWC St. 12-R at 3-6.

⁹⁹⁴ OCA St. 3 at 14.

PAWC in this proceeding are the same factors utilized in PAWC's 2023 base rate proceeding.⁹⁹⁵

PAWC's proposed system-wide maximum day demand factor (1.4) reflects the maximum daily sendout of the Company since its formation in 1987. PAWC witness Herbert testified the Company's actual maximum day sendout was 1.4 times the average day sendout in each of the years 1988, 1995, 1996, 1999, and 2003, and that PAWC experienced system-wide maximum day factors close to that value in other years since 1987, and that water usage on the maximum day of 2022, 2023, and 2024 in several areas within its overall water operations was more than 1.4 times the average usage for that year. PAWC submits the Company must be prepared to meet customer's peak demands whenever they occur because the system cannot be expanded to meet only those demands that appear within a limited historical study period, such as the 14-year look-back period selected by OCA witness Mierzwa.

I&E witness Sakaya made no recommended changes regarding the COSS for water operations. I&E explains that PAWC provided an allocated customer cost analysis yielding a unit cost of \$31.87 per month in the FPFTY and a second customer cost analysis that relies on the allocation of costs more directly applicable to customers. I&E submits the result of the more direct second customer cost analysis is \$26.15 per month per customer in the FPFTY and recommends this second customer cost analysis to be utilized for setting customer charges, as often approved by the Commission.

I&E recommends that the Commission reject the fully allocated customer cost analysis and base the customer charges instead on the direct cost customer cost analysis provided on PAWC Ex. 12-A, Appendix A Attachments RS1j, p. 2 of 3.

⁹⁹⁵ *Id.* at 15 (*Pa. PUC v. Pa. American Water Co.*, R-2023-3043189 (July 11, 2024)).

OCA witness Mierzwa testified PAWC's water class COSS needs to be revised to include more recent system-wide maximum day and maximum hour demand factors, otherwise PAWC's rate fails to meet the just and reasonable standards and residential customers will be overpaying \$7.2 million based on PAWC's as-filed revenue amount. OCA argues the system-wide extra capacity demand factors that PAWC applied to its COSS are outdated and do not reflect current customer usage, and was actually last experienced in 2003, almost 25 years ago. OCA submits since then, water demand has changed due to aggressive water conservation, legislation, development and changing land uses. OCA witness Mierzwa recommends using a system-wide extra day and extra hour demand factor of 1.2 and 1.5 respectively. The extra day factor is based on the actual systems' usage going back to 2011 and the extra hour factor is recent actual demand experienced by PAWC.⁹⁹⁶

OCA argues, among other factors, there has been a pervasive decline in customer usage over the last 10 years and there is evidence that this trend will continue. OCA concludes PAWC's extra capacity factors are based on outdated data and are not consistent with how PAWC's system currently operates. OCA concludes PAWC's COSS should be rejected, and that OCA witness Mierzwa's COSS should be adopted.

Victory Brewing submits the COSS for water and wastewater service proposed by PAWC are well-supported and are consistent with those approved by the Commission in prior rate cases and should be adopted.

Cleveland-Cliffs submits that PAWC's cost of service allocation methodology is consistent with previous cost-of-service studies approved by the

⁹⁹⁶ OCA §3 at 17.

Commission and should be accepted. Cleveland-Cliffs Steel notes the Company has filed a feasibility study for a new demand study on July 25, 2025 and pending Commission and party approval of the scope and cost a full-scale study would be conducted before the next case.

For all of the reasons set forth above and as presented by OCA witness Mierzwa, we agree with OCA's recommendation to utilize system-wide extra day and extra hour demand factors of 1.2 and 1.5, respectively. PAWC has failed to meet its burden of proof that its water COSS is just and reasonable and will be rejected in this proceeding based upon the record evidence presented.

In addition, we agree with I&E witness Sakaya's assessment that costs that are recovered from customers are continuously increasing, even between rate cases, with surcharges such as the DSIC. Therefore, it is appropriate to limit the increase in the customer charges and to consider the affordability of rates through a lower customer charge and higher usage rates, which allows customers greater control over their bills through conservation. Additionally, the Commission has traditionally relied on customer cost analyses based on direct cost allocations to determine customer charges. For these reasons, we are persuaded that the record evidence supports I&E's recommendation that the Commission reject the fully allocated customer cost analysis and direct PAWC to calculate its water customer charges based on the direct cost customer cost analysis provided by the Company on PAWC Ex. 12-A, Appendix A, Attachments RS1j, p. 2 of 3, except for specific rates that are identified in our recommendations for rate design that are discussed below.

2. Wastewater Operations

a. PAWC's Position

For SSS operations, PAWC witness Herbert asserts COSSs were prepared using the functional cost allocation methodology described in “Financing and Charges for Wastewater Systems,” Manual of Practice No. 27, published by the Water Environment Federation⁹⁹⁷, and that allocation methodology was modified to determine the incremental cost related to handling stormwater for PAWC's CSS operations.⁹⁹⁸

b. I&E's Position

I&E asserts the Company proposed to include approximately two-thirds of its inflow and infiltration (I&I) costs in its customer cost analysis, which is the same amount that the Commission rejected in its Order resolving this issue in the 2023 base rate case.⁹⁹⁹ I&E explained the Commission determined in the 2023 PAWC base rate case that the I&I cost recovery in the customer charge should be limited and approved recovery of approximately 3.6% of the Company's I&I costs in the customer charge in that proceeding. Therefore, to determine the appropriate amount of I&I costs to include in the customer cost analysis, I&E witness Cline multiplied the total cost related to I&I of \$39,657,608¹⁰⁰⁰ by 3.6%, which results in \$1,427,674 of I&I costs to be allocated to the customer charge. This amount divided by the 817,672 annualized service equivalents results in an I&I related cost per bill of \$1.75 ($\$1,427,674 / 817,672$). This \$1.75 plus the \$9.87 meter related cost per bill and the \$3.68 customer accounting cost per bill provided

⁹⁹⁷ PAWC St. 12, pp. 19-24; PAWC Exs. 12-B (WW SSS General Operations), 12-D (BASA).

⁹⁹⁸ PAWC St. 12, pp. 24-31; PAWC Exs. 12-C (WW CSS Operations), 12-E (EBMA).

⁹⁹⁹ PAWC Ex. 12-B, Appendix A, RS1-j Attachment, p. 2.

¹⁰⁰⁰ PAWC Ex. 10-C, RS1-j. Attachment, p. 2 of 3.

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

c. OCA's Position

OCA recommends no direct adjustments to PAWC's Wastewater COSS.¹⁰⁰¹

d. OSBA's Position

OSBA determined that the Company's Customer Cost Analysis does not support any increase in the Residential customer charge.¹⁰⁰² As shown on PAWC Vol. 17, Ex. 12-B, Schedule RS1j., Attachment p. 2, the direct wastewater customer costs total \$13.55 (\$9.87 + \$3.68) per month, which is below the current monthly Residential customer charge of \$15.00 per month. Since I&I is volume based, and not dependent on the number of customers, no I&I costs should be recovered in the customer charge. In addition, OSBA averred that since PAWC failed to provide a customer cost analysis for the BASA, CSS, and Elizabeth CSS Wastewater Operations, there is no justification for increasing the monthly Residential and Non-Residential customer charges.¹⁰⁰³

e. CAUSE-PA's Position

CAUSE-PA did not specifically address this specific issue.

¹⁰⁰¹ OCA St. 3 at 19.

¹⁰⁰² See OSBA St. 1 at 13.

¹⁰⁰³ See OSBA St. No. 1,

f. Victory Brewing's Position

Victory Brewing submits the Company's wastewater COSS is reasonable and should be adopted.

g. Cleveland-Cliffs' Position

Cleveland-Cliffs addresses this issue above

h. ALJs' Recommendation

We agree with I&E and OSBA, based on the record evidence, that an increase to the customer charge proposed by PAWC, which under present rates is \$15, is unsupported by the evidence and is unreasonable.

I&E recommends and we agree that the second customer cost analysis, or the more direct customer cost analysis, be utilized for setting customer charges. I&E witness Sakaya explained that costs that are recovered from customers are continuously increasing, even between rate cases, with surcharges such as the DSIC. Therefore, it is appropriate to limit the increase in the customer charges and to consider the affordability of rates through a lower customer charge and higher usage rates, which allows customers greater control over their bills through conservation. Additionally, the Commission has traditionally relied on customer cost analyses based on direct cost allocations to determine customer charges. For these reasons, we are persuaded that the record evidence supports I&E's and OSBA's recommendation that the Commission reject the fully allocated customer cost analysis and direct PAWC-WD to maintain its existing wastewater customer charges, except as detailed in our recommendations for wastewater rate design that are discussed below.

3. Cost of Service Studies for Future General Rate Increases

a. PAWC's Position

OCA argues that PAWC should maintain separate cost of service studies in accordance with the Commission's directive in *PAWC 2024* for all systems acquired pursuant to Section 1329 that are included in PAWC's revenue requirement in this case.¹⁰⁰⁴ PAWC asserts this recommendation should be rejected.¹⁰⁰⁵

b. I&E's Position

I&E did not present testimony on this topic.

c. OCA's Position

OCA submits the Commission should direct PAWC to continue preparing separate COSSs in the first base rate case that includes those systems, unless the utility shows in the underlying Section 1329 proceeding that a separate COSS should not be required. The Commission's Order in PAWC's 2023 base rate case provides:

We agree with the ALJs' recommendation that, not only should PAWC continue to prepare separate COSSs for new Section 1329 acquisitions in the first base rate proceeding where those systems are included in PAWC's revenue requirement, but for Section 1329 acquisitions that are included in the present base rate case, PAWC should continue to prepare separate COSSs either individually for

¹⁰⁰⁴ OCA St. 4, p. 20. In future wastewater COSSs, PAWC will create a separate class for commercial customers and evaluate how certain bulk and "named customers" are classified as recommended by OSBA witness Joseph Kubas. *See* PAWC St. 12-R, pp. 9-10; OSBA St. 1-SR, pp. 25-26.

¹⁰⁰⁵ PAWC St. 2, pp. 29-31.

each acquisition or as a group. This requirement is reasonable given the amount of revenue requirement at issue and the principle that rates should be reasonably cost-based . . . We find that this requirement allows for greater transparency of the system in order to determine whether an Act 11 reallocation to subsidize a revenue shortfall is actually in the public interest.¹⁰⁰⁶

OCA witness Mierzwa testified that this an important practice to continue: “This requirement is reasonable given the amount of revenue requirement at issue and the principle that rates should be reasonably cost-based.¹⁰⁰⁷” PAWC witness Chard testified requesting that the Commission “reconsider” this practice and claiming among other reasons, it is inconsistent with the goals of single tariff pricing and that it adds costs that are passed on to customers.¹⁰⁰⁸ OCA submits PAWC’s reasons do not address the problem of determining whether rates are cost-based.¹⁰⁰⁹

OCA asserts PAWC should continue to provide separate COSS for the Section 1329 systems either individually or (for non-CSS Wastewater only) as a group and where Section 1311(c) is used to require water customers to subsidize revenue shortfall for systems acquired under Section 1329, the amount of that subsidy should be known and transparent, so a determination can be made whether the proposed Act 11 reallocation is in the “public interest.”¹⁰¹⁰

¹⁰⁰⁶ *Pa. PUC v. Pa. American Water Co.*, R-2023-3043189, Order at 217-218 (July 11, 2024).

¹⁰⁰⁷ OCA St. 3 at 20.

¹⁰⁰⁸ PAWC St. 2 at 9.

¹⁰⁰⁹ *Id.*

¹⁰¹⁰ 66 Pa. C.S. § 1311(c).

d. OSBA's Position

The OSBA recommends for future cost of service studies that the Company recover the wastewater Act 11 revenue shortfall from the corresponding class in water, thereby preventing cross subsidization of the classes. For example, it will prevent Commercial water customers from subsidizing Residential wastewater customers and vice versa.¹⁰¹¹

OSBA explains in the wastewater COSS, particularly the SSS Operations, the Company grouped Commercial customers in a class with municipal, industrial and some so called "named customers".¹⁰¹²

To determine if the revenue from Commercial customers is more or less than the cost of providing service to Commercial customers, the OSBA recommended three additional COSS provisions that should apply in all future wastewater COSSs. First, OSBA recommended that the Company split off the Tariff Rate Commercial customers that pay a customer charge, usage rate or Equivalent Dwelling Unit (EDU) into a separate class of service (excluding the Special Rate customers). Second, OSBA recommended that the Company evaluate where the Special Rate customers and other named customers are grouped for revenue and COSS purposes, evaluate where they should be included, and create a new class of Special Rate customers if needed. Finally, OSBA recommended the Company evaluate where the customers currently listed as "Bulk Customers" are grouped in the COSSs.¹⁰¹³

¹⁰¹¹ OSBA Statement No. 3, Direct Testimony of Roger Cathcart, p. 18.

¹⁰¹² OSBA St. No. 1, Direct Testimony of Joe Kubas, pp. 41-42.

¹⁰¹³ *Id.* at 43.

OSBA submits PAWC did not object to the OSBA recommendations above (PAWC St. No. 12-R, pp. 9-10), and that the Commission should direct the Company to follow these recommendations in all future wastewater COSS.

e. CAUSE-PA's Position

CAUSE-PA did not specifically address this issue, but did address COSS issues above.

f. Victory Brewing's Position

Victory Brewing takes no specific position at this time on COSSs for future general rate increases.

g. Cleveland-Cliffs' Position

Cleveland-Cliffs did not specifically address this but did address COSS issues above.

h. ALJs' Recommendation

OCA asserts PAWC should maintain separate cost of service studies for all systems acquired pursuant to Section 1329 that are included in PAWC's revenue requirement in this case. PAWC argues that this recommendation should be rejected, and the Commission should continue its approach of moving forward single tariff pricing for all PAWC systems including those acquired under Section 1329 and evaluate the necessity of separate COSS as part of future acquisition proceedings. OSBA recommends that the company record the wastewater Act 11 revenue shortfall from the corresponding class in water which will prevent cross subsidization of the classes.

OCA argues that an Act 11 shift is warranted for the Butler Area Sewer Authority and Elizabeth Borough Municipal Authority in part because PAWC's filing included separate COSSs.¹⁰¹⁴ This is one example why OCA argues it's important that PAWC continue including separate COSSs for its Section 1329 acquisitions.¹⁰¹⁵ PAWC asserts that the Commission should reject the OCA's recommendations so PAWC can move towards single tariff pricing¹⁰¹⁶ for all PAWC systems.¹⁰¹⁷ However, OCA asserts filing separate COSSs does not prohibit PAWC from proposing consolidating acquired systems within its Sanitary Sewer System (SSS) and Combined Sewer System (CSS) divisions – separate COSSs simply help all parties evaluate the reasonableness of proposed rates, revenue requirement shifts, or consolidation proposals. As such, OCA argues the Commission should adopt the OCA's recommendation that PAWC continue preparing separate wastewater COSSs for its existing Section 1329 acquisitions, either individually for each acquisition or as a group, and separate COSS studies for new acquisitions not included in the current rate case.¹⁰¹⁸

OSBA recommends that the Company recover the wastewater Act 11 revenue shortfall from the corresponding class in water, which will prevent cross subsidization of the classes and recommends 3 additional COSS provisions that should apply in all future wastewater COSSs. OSBA recommends 1) that the Company split off the Tariff Rate Commercial Customers that pay a customer charge, usage rate or EDU into a separate class of service; 2) that the Company evaluate where the Special Rate Customers and other named customers are grouped for revenue and COSS purposes, evaluate where they should be included, and create a new class of Special Rate

¹⁰¹⁴ OCA M.B. at 73-78.

¹⁰¹⁵ OCA M.B. 72-73.

¹⁰¹⁶ *Id.*

¹⁰¹⁷ PAWC M.B. at 76.

¹⁰¹⁸ OCA St. 3 at 8.

Customers if needed; and 3) to evaluate where the customers currently listed as Bulk Customers are grouped in the COSSs.

We agree with OCA's recommendation that the Commission should direct PAWC to continue to prepare separate COSSs for Section 1329 acquisitions pursuant to *PAWC 2024*. In addition, we agree with OSBA's recommendation that the Commission should direct PAWC to: (1) split off the Tariff Rate Commercial Customers that pay a customer charge, usage rate or EDU into a separate class of service; (2) evaluate where the Special Rate Customers and other named customers are grouped for revenue and COSS purposes, evaluate where they should be included, and create a new class of Special Rate Customers if needed; and (3) evaluate where the customers currently listed as Bulk Customers are grouped in the COSSs. Finally, to ensure that PAWC complies with these filing requirements and to better inform interested stakeholders about the results of PAWC's evaluations, we recommend that the Commission should direct PAWC to provide testimony with its next general rate increase filed with the Commission that includes the results of PAWC's evaluation of the grouping of Special Rate Customers, other named customers, and Bulk Customers. We adopt OCA's recommendation, as set forth in this paragraph, in the Ordering Paragraphs below.

B. Revenue Allocation / Act 11 Shift

1. PAWC's Position

PAWC asserts allocating approximately \$53 million of the wastewater revenue requirement,¹⁰¹⁹ is in the public interest.¹⁰²⁰ In addition, PAWC submits its proposed rates would make reasonable progress in moving the rates of its separate

¹⁰¹⁹ See PAWC St. 2, p. 24.

¹⁰²⁰ See *Pa. P.U.C. v. Pa.-American Water Co.*, Docket Nos. R-2020-3019369 and R-2020-3019371 (Opinion and Order entered Feb. 25, 2021) ("*PAWC 2020*"), p. 82.

wastewater rate zones closer to a single consolidated wastewater rate design for all of the Company’s wastewater operations.¹⁰²¹ It submits that its proposal promotes gradualism, avoiding rate escalation that may otherwise be experienced absent reallocation, ensures approximate parity to residential bills for water service and wastewater service at average usage levels, and promotes affordability of wastewater.¹⁰²²

Finally, PAWC asserts it cannot cleanly identify Act 11 wastewater amounts by customer class and assign them to the same classes for water service because the customer classes around which wastewater rates are developed are not the same as the customer classes used to develop water rates – it is simply not possible to reallocate to water service customers on a perfect class-to-class match as Mr. Mierzwa suggests.¹⁰²³

2. I&E’s Position

I&E witness Cline recommends that the Act 11 subsidy proposal of OSBA be adopted.¹⁰²⁴ The Act 11 subsidy generated by the rate proposal of OSBA witness Kubas is \$24,303,471.¹⁰²⁵ The following table shows the OSBA Act 11 subsidy by system as shown on OSBA Ex. JK-2SR.

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

¹⁰²¹ PAWC St. 2, p. 24.

¹⁰²² PAWC St. 10, pp. 32-36; PAWC St. 10-R, pp. 7-8; *see also* OCA St. 4, p. 22 (noting that absent any Act 11 allocation, PAWC’s wastewater rates would need to increase, on average, by 40.4%).

¹⁰²³ OCA St. 3-R, pp. 4-5.

¹⁰²⁴ I&E St. No. 3-SR, p. 15.

¹⁰²⁵ OSBA Ex. JK-2SR.

I&E explains since Act 11 of 2012 was signed into law, PAWC has submitted five base rate cases, not including the present case, which have been resolved either through litigation or settlement. The total amount that PAWC has requested to be allocated to water customers over the years, not including the request in the present proceeding, is \$163,867,510 and the total amount allocated by the Commission is \$90,849,981.¹⁰²⁶ I&E submits almost an entire base rate case increase worth of wastewater funds has been allocated across water customers since Act 11 was enacted as demonstrated in the table¹⁰²⁷ below. I&E's position is that the wastewater allocation should be as limited as possible without causing rate shock to wastewater customers.

¹⁰²⁶ I&E St. No. 4, p. 117.

¹⁰²⁷ I&E St. No. 4, p. 18.

Case Docket No.	PAWC Proposed Act 11 Allocation	Commission approved Allocation
R-2013-2355276	\$9,092,115 ¹⁰²⁸	\$5,411,134 ¹⁰²⁹
R-2017-2595853	\$13,805,187 ¹⁰³⁰	\$4,700,000 ¹⁰³¹
R-2020-3019369 and R-2020-3019371	\$32,851,597 (Rate Year 1) \$35,171,958 (Rate Year 2) ¹⁰³²	\$29,296,281 (Step 1) \$21,480,685 (Step 2) ¹⁰³³
R-2022-3031672 and R-2022-3031673	\$72,946,653 ¹⁰³⁴	\$26,961,883 ¹⁰³⁵
R-2023-3043189 and R-2023-3043190	\$71,087,394 ¹⁰³⁶	\$23,321,384 ¹⁰³⁷
Total:	\$234,954,904	\$111,171,367

¹⁰²⁸ Pennsylvania-American base rate filing at Docket No. R-2013-2355276, Pennsylvania-American Statement No. 1, p. 11.

¹⁰²⁹ *Pa. PUC vs. Pennsylvania-American Water Company*, Docket No. R-2013-2355276, Opinion and Order (Order Entered December 19, 2013), p. 17.

¹⁰³⁰ Pennsylvania-American base rate filing at Docket No. R-2017-2595853 Pennsylvania-American Ex. No. 3-A, Water and Wastewater Revenue Requirement Summary.

¹⁰³¹ *Pa. PUC vs. Pennsylvania-American Water Co.*, Docket No. R-2017-2595853, Recommended Decision, p. 31, Dated Nov. 20, 2017.

¹⁰³² Pennsylvania-American base rate filing at Docket Nos. R-2020-3019369 and R-2020-3019371, Pennsylvania-American Ex. No. 3-A, Combined Water and Wastewater Revenue Requirement Summary.

¹⁰³³ *Pa. PUC vs. Pennsylvania-American Water*, Docket Nos. R-2020-3019369 and R-2020-3019371, Joint Petition for Non-Unanimous Settlement of Rate Investigation, p. 20.

¹⁰³⁴ Pennsylvania-American base rate filing at Docket Nos. R-2022-3031672 and R-2022-3031673, Pennsylvania-American Ex. No. 3-A, Combined Water and Wastewater Revenue Requirement Summary.

¹⁰³⁵ *Pa. PUC vs. Pennsylvania-American Water Company*, Docket Nos. R-2022-3031672 and R-2022-3031673, Joint Petition for Settlement of Rate Investigation, p. 23.

¹⁰³⁶ Pennsylvania-American base rate filing at Docket Nos. R-2023-3043189 and R-2023-3043190 Pennsylvania-American Ex. No. 3-A, Water and Wastewater Revenue Requirement Summary.

¹⁰³⁷ *Pa. PUC vs. Pennsylvania-American Water Company*, Docket Nos. R-2023-3043189 and R-2023-3043190, Opinion and Order (Order Entered July 22, 2024), Table Act 11.

Accordingly, as I&E continues to support the other OSBA rate proposals and concludes the OSBA Act 11 shift should be adopted as well.

3. OCA’s Position

Pursuant to Section 1311(c), the Commission allows a public utility like PAWC to allocate a portion of its Wastewater revenue requirement to its combined Water and Wastewater customer base, if it is in the public interest.¹⁰³⁸ In its filing, PAWC proposed to charge \$53 million in its calculated wastewater revenue requirement to water customers.¹⁰³⁹ OCA witness Mierzwa provided the following table, which illustrates how the funds collected from water customers would be allocated among PAWC’s wastewater systems:¹⁰⁴⁰

	Direct Cost of Service	Water Allocation	Total Revenue Requirement
Sanitary Systems	\$128,602,237	(12,710,621)	\$115,891,616
Combined Systems	96,162,959	(7,062,475)	89,100,484
BASA	48,125,644	(30,280,040)	17,845,604
EBMA	5,254,181	(2,957,046)	2,297,135
Total	\$278,145,021	\$(53,010,182)	\$225,134,839
Percent	100.0%	19.1%	80.9%

¹⁰³⁸

Id.

¹⁰³⁹

OCA St. 3 at 3-4.

¹⁰⁴⁰

OCA St. 3 at 22 (Table 2).

OCA submits the proposed water allocation shift for Butler Area Sewer Authority (BASA) and Elizabeth Borough Municipal Authority (EBMA) meets the public interest standard. Conversely, the proposed shift for PAWC’s Sanitary Sewer Systems (SSS) and Combined Sewer Systems (CSS) failed to meet the same standard. OCA explains the determination of what is in the public interest in Section 1311(c) is within the Commission’s discretion,¹⁰⁴¹ and PAWC’s impacted water and wastewater customers are key constituencies when considering what is in the public interest.¹⁰⁴² OCA witness Mierzwa testified “the public interest should remain a flexible concept, but could include a consideration of policies that promote the cost-effective provision of safe and reliable water and wastewater service throughout the Commonwealth as well as questions about rate shock and affordability.”¹⁰⁴³

Mr. Mierzwa examined how PAWC is proposing to divide the funds taken from water customers by class and apply them toward the wastewater customers, also by class,¹⁰⁴⁴ and found “PAWC has generally directly assigned the wastewater Act 11 shift costs tied to a specific wastewater customer class to the same water class.”¹⁰⁴⁵ For example, Mr. Mierzwa testified that an Act 11 shift from the Residential wastewater class has been assigned to the Residential water customer Class.¹⁰⁴⁶ To illustrate what PAWC is proposing with its Act 11 shift, Mr. Mierzwa included the following Table to compare the revenue increases that would be experienced by SSS, CSS, BASA, and EBMA wastewater operations with and without the Act 11 shift:

¹⁰⁴¹ OCA St. 3 at 23.

¹⁰⁴² *Id.* at 22.

¹⁰⁴³ *Id.* at 22-23.

¹⁰⁴⁴ *Id.* at 24.

¹⁰⁴⁵ *Id.*

¹⁰⁴⁶ *Id.*

Table 3. Impact of Act 11 Shift on Wastewater Rate Increases¹⁰⁴⁷

	Direct Cost of Service			Total Revenue Requirement	
	Present Rates	Increase	Percent	Increase	Percent
Sanitary Systems	\$108,561,975	\$20,040,262	18.5%	\$7,329,641	6.8%
Combined Systems	85,758,589	10,404,370	12.1%	3,341,895	3.9%
BASA	12,748,475	35,377,169	277.5%	5,097,129	40.0%
EBMA	1,767,267	3,486,914	197.3%	529,868	30.0%
Total	\$208,836,306	\$69,308,715	33.2%	\$16,298,533	7.8%

OCA explains as shown above, without shifting the revenue requirement amount, the direct cost of service for BASA and EBMA would increase 277.5% and 197.3% respectively. Without the shift, SSS and CSS wastewater operations would experience rate increases of 18.5% and 12.1%, respectively. With the Act 11 shift, SSS and CSS wastewater operations would experience rate increases of 6.8% and 3.9%, respectively, and BASA and EBMA wastewater operations would experience rate increases of 40.0% and 30.0%, respectively.

OCA further explains that without PAWC's proposed Act 11 shift, the amount of revenue requirement assigned the SSS and CSS wastewater systems in this proceeding is at parity with PAWC's water operations at 18.5% and 12.1%, respectively.¹⁰⁴⁸ Mr. Mierzwa testified that:

The actual revenue requirement increases approved by the Commission for SSS and CSS wastewater operations will likely be less than PAWC's requested revenue requirement increases, and would reduce the increases experienced by SSS and CSS wastewater operations to less than the 18.5% and 12.1% that would occur, respectively, under the Company's requested revenue requirement and thus not

¹⁰⁴⁷ *Id.* at 24-25.

¹⁰⁴⁸ OCA St. 3 at 25.

require mitigation compared to PAWC's entire customer base.¹⁰⁴⁹

Comparatively, Mr. Mierzwa testified that “the 277.5% and 197.3% rate increases that would be experienced by BASA and EBMA wastewater operations, respectively, without an Act 11 shift, would be extreme, inconsistent with the principal of gradualism, and requires mitigation.¹⁰⁵⁰” OCA therefore accepts the Act 11 shift. To the extent the Commission authorizes revenue requirements for BASA and EBMA wastewater operations that are less than PAWC's requested revenue requirements, the Act 11 shift to water customers should proportionately be reduced to reflect the reduced revenue requirements.

Additionally, OCA argues PAWC's proposed allocation to the various water customer classes is not reasonable. Mr. Mierzwa testified:

Approximately 90% of PAWC's water customers are not wastewater customers. Under PAWC's proposal, Residential water customers would be responsible for a portion of the costs associated with serving Residential wastewater customers. Residential water customers are largely not directly responsible for these wastewater costs. I recommend that the Act 11 shift be assigned to the customer classes PAWC has initially assigned these costs to, based on each customer class's cost of service as determined by the OCA's revised COSS.¹⁰⁵¹

¹⁰⁴⁹ OCA St. 3 at 26.

¹⁰⁵⁰ *Id.*

¹⁰⁵¹ *Id.* at 27.

4. OSBA's Position

The OSBA proposed that the Act 11 allocation from wastewater to water be reduced to approximately \$24.268 million.¹⁰⁵² As a result of the Company's rebuttal, OSBA proposes that the amount be reduced to approximately \$24.303 million,¹⁰⁵³ as discussed in the Water Rate Design and Wastewater Rate Design sections below.

5. CAUSE-PA's Position

CAUSE PA asserts the Company's Act 11 proposal improperly shifts an extraordinary amount of its wastewater revenue requirement to its water customers. OSBA asserts most PAWC water customers are served by a different wastewater provider and, thus, by shifting *PAWC's wastewater customers'* revenue requirement to its water customers, the Company is choosing to place an additional burden on its water customers wherein they are paying for both their own wastewater costs *and* the wastewater costs of PAWC's water customers.¹⁰⁵⁴ CAUSE PA asserts the record in this case does not show that a shift of this magnitude is in the public interest as required by 66 Pa. C.S. § 1311(c).

CAUSE PA explains, of PAWC's total \$168.9 million revenue requirement increase requested in this case, PAWC proposes to allocate \$99.4 million to water operations and \$69.3 million to wastewater operations *before* application of the Act 11 shift.¹⁰⁵⁵ According to CAUSE PA, PAWC proposes to shift \$53 million of its proposed wastewater revenue – a full 76% – to water customers, increasing the revenue proposal

¹⁰⁵² OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-1 and 2.

¹⁰⁵³ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-1 and 2.

¹⁰⁵⁴ CAUSE-PA St. 1 at 14: 10-13.

¹⁰⁵⁵ *Id.* at 14: 1-3.

for water customers to \$152.4 million and reducing the revenue proposal for wastewater customers to \$16.3 million.¹⁰⁵⁶

CAUSE-PA asserts there are inherent equity issues related to PAWC's Act 11 proposals and modifications,¹⁰⁵⁷ asserting most PAWC water customers are served by a different wastewater provider, and by shifting PAWC's proposed wastewater revenue to its water customers, the Company is masking the true impact of its costly wastewater acquisitions, and saddling many of its water-only customers with additional costs for wastewater systems that they do not use.¹⁰⁵⁸

CAUSE-PA submits at the same time as PAWC proposes to shift wastewater costs onto water customers through Act 11, it is also proposing to shift wastewater costs from higher income customers to lower income customers through its proposed deduct adjustment,¹⁰⁵⁹ discussed below.

In determining whether PAWC's Act 11 proposal is in the public interest, CAUSE-PA requests that the Commission review PAWC's Act 11 proposal to shift 76% of its wastewater revenue requirement to water customers, in the context of the overall equity considerations raised by CAUSE-PA in this proceeding. CAUSE-PA asserts PAWC has failed to meet its burden to prove that its rate proposals will result in just and equitable rates.

¹⁰⁵⁶ *Id.*; PAWC St. 10 at 31: 3-7.

¹⁰⁵⁷ CAUSE-PA St. 1 at 11-12.

¹⁰⁵⁸ *Id.* at 14: 9-13.

¹⁰⁵⁹ *Id.* at 17: 19 – 18:2.

6. Victory Brewing's Position

Victory Brewing takes no specific position on PAWC's proposed Act 11 shift and addresses revenue allocation herein.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs asserts the Commission should reject Mr. Mierzwa's proposed class cost-of-service study and associated revenue allocation, arguing that Mr. Mierzwa's revenue allocation relies on a class cost-of-service study that is flawed, as it uses lower recommended maximum day and maximum hour extra capacity factors than are appropriate given system planning considerations. Cleveland-Cliffs asserts before any changes to the maximum hour factor are considered, additional data analysis is warranted and noted that Mr. Mierzwa did not propose updating the class extra capacity factors, which contradicts his recommendation to revise the system extra capacity factors.¹⁰⁶⁰

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

¹⁰⁶⁰ Rebuttal Testimony of Richard Baudino at 4.

showing the shifts from Mr. Mierzwa’s proposal and the corresponding percentage changes.

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

Cleveland-Cliffs submits the shifts for Residential and Commercial classes are minor, but the Industrial class experiences an 11.3% increase, resulting in a recommended increase of 24.1% versus a system average of 14.1%. Due to flawed assumptions, incomplete data, and unsubstantiated rate impacts, Cleveland-Cliffs

recommends rejection of Mr. Mierzwa’s proposed class cost-of-service study and revenue allocation.

8. ALJs’ Recommendation

Revenue allocation is described as the allocation of revenue responsibility between rate classes.¹⁰⁶¹ It is routinely accepted that for class revenue allocation purposes, cost of service is the “polestar.”¹⁰⁶²

Section 1311(c) of the Public Utility Code,¹⁰⁶³ referred to as Act 11, permits utilities that provide both water and wastewater service to combine the revenue requirements by allocating a portion of the wastewater revenue requirement to the water customer base if doing so is in the “public interest.”¹⁰⁶⁴ Section 1311(c) , however, does not specify how the Commission should determine rates, nor does it dictate the percent or amount of revenue that should be allocated or shifted, leaving the Commission wide latitude in applying Act 11.¹⁰⁶⁵ What is required, however, is that it must be in the public interest for the utility to allocate a portion of its wastewater revenue requirement to the combined water and wastewater customer base.¹⁰⁶⁶

Pursuant to Section 1311 (c), the Commission allows a public utility like PAWC to allocate a portion of its Wastewater revenue requirement to its combined Water and Wastewater customer base if it is in the public interest.¹⁰⁶⁷ In its filing, PAWC

¹⁰⁶¹ *Ratemaking Guide*, p. 138.

¹⁰⁶² *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010 (Pa. Commw.2006).

¹⁰⁶³ 66 Pa. C.S. § 1311(c).

¹⁰⁶⁴ *Id.*

¹⁰⁶⁵ *Ratemaking Guide*, p. 141.

¹⁰⁶⁶ 66 Pa. C.S. § 1311(c).

¹⁰⁶⁷ *Id.*

proposed to charge \$53 million in its calculated wastewater revenue requirement to water customers.¹⁰⁶⁸

Section 1311(c) of the Public Utility Code provides that – as a general rule – the cost of furnishing different types of utility services by the same provider must be segregated for the purpose of establishing base rates.¹⁰⁶⁹ Act 11 added a narrow exception to this rule for combined water and wastewater utilities, and allows that “[t]he Commission, when setting base rates, after notice and an opportunity to be heard, *may* allocate a portion of the wastewater revenue requirement to the combined water and wastewater customer base *if in the public interest.*”¹⁰⁷⁰

PAWC proposes allocating approximately \$53 million of the wastewater revenue requirement to customer classes based on the COSS presented by PAWC witness Herbert. PAWC submits its rate would make reasonable progress in moving together the rates of its separate wastewater rate design for all of the Company’s wastewater operations.

I&E witness Cline recommends that the Act 11 subsidy proposal of OSBA be adopted in the amount of \$24,303,471.

OCA submits the proposed water allocation shift for Butler BASA and Elizabeth EBMA meets the public interest standard, however the proposed shift for PAWC’s sanity sewer systems SSS and Combined Sewer Systems CSS failed to meet the same standard.¹⁰⁷¹

¹⁰⁶⁸ OCA St. 3 at 3-4.

¹⁰⁶⁹ 66 Pa. C.S. § 1311(c).

¹⁰⁷⁰ *Id.*

¹⁰⁷¹ See OCA St. 3 at 22 Table 2.

OSBA proposes that the Act 11 allocation from wastewater to water be reduced to approx. \$24.303 million.

CAUSE-PA asserts the Company's Act 11 proposal improperly shifts an extraordinary amount of its wastewater revenue requirement to its water customers placing an additional burden on its water customers where they are paying for both their own wastewater costs and the wastewater costs of PAWC's water customers. CAUSE-PA submits a shift of this magnitude is not in the public interest and requests that PAWC's Act 11 proposal be denied and that OCA or I&E's proposal be adopted, thereby allowing a more measured approach to address this issue.

Cleveland-Cliffs urges that OCA's proposed class cost of service study and associated revenue allocation be rejected. Cleveland-Cliffs Steel asserts the shifts proposed by Witness Mierzwa would result in a substantial increase to the Industrial Class.

We find that PAWC's Act 11 allocation approach to recover wastewater subsidies from water users in a revenue neutral manner and by customer class, in combination with OSBA's Act 11 allocation amounts and scaleback method discussed below, provides a reasonable result that appropriately balances cost causation principles with gradualism and affordability while avoiding unreasonable discrimination in rates. Resultingly, we recommend the following adjustments to PAWC's Act 11 Allocation claim:

Act 11 Allocation:	PAWC FPFTY Claim¹⁰⁷²	ALJ Allowance¹⁰⁷³	ALJ Adjustment¹⁰⁷⁴
Water Operations	\$53,010,182	\$22,344,590	(\$30,665,592)
General SSS Wastewater Operations	(\$12,710,621)	\$0	\$12,710,621
CSS Wastewater Operations	(\$7,062,475)	\$11,632,644	(\$18,695,119)
BASA Wastewater Operations	<u>(\$30,280,040)</u>	<u>(\$31,308,183)</u>	<u>(\$1,028,143)</u>
Elizabeth CSS Operations	<u>(\$2,957,046)</u>	<u>(\$2,669,051)</u>	<u>\$287,995</u>
Total Act 11 Allocation	<u>\$53,010,182</u>	<u>\$22,344,590</u>	<u>(\$30,665,592)</u>

We agree with the position advanced by OSBA regarding the SSS and CSS percentage increases and generally agree with OSBA's proposal and the majority of I&E's rate changes as set forth in detail in our calculations attached to this decision. We also agree with the result proposed by CAUSE-PA and the result CAUSE-PA purposes to make through its recommendation.

C. Tariff Structure

PAWC's proposed rate design for water and wastewater services are set forth in PAWC Exhibits MWM-1 and MWM-2.¹⁰⁷⁵

¹⁰⁷² See PAWC MB, Table Act 11.

¹⁰⁷³ See Rate Case Tables, Table Act 11, OSBA Ex. JK-14SR.

¹⁰⁷⁴ Difference between PAWC MB, Table Act 11 and Rate Case Tables, Table Act 11.

¹⁰⁷⁵ See PAWC St. 10, pp. 6-8. The foundation of PAWC's rate design is cost causation. PAWC developed revenue targets for customer classes, to be recovered through rate design, based on the results of PAWC's cost of service analysis, which allocates revenue requirements to customer class based on cost-causation principles, also taking into account gradualism, revenue stability, avoidance of discrimination, affordability, efficiency of use, avoidance of discrimination, and simplicity and feasibility in arriving at a rate design that is fair to all customer groups and that is just and reasonable.

1. Customer Charges

a. PAWC's Position

PAWC contends that its proposed meter charges are reasonable and the Commission should reject the alternative proposals from OSBA and CAUSE-PA.¹⁰⁷⁶

Additionally, PAWC believes that the Commission should reject the alternative proposals from I&E, except for I&E witness Sakaya's recommendation for Rate Zone 8 Appalachian meter charges moving customer charges for meters up to 1 – 1/2" to those of Rate Zone 1, which the Company finds reasonable as doing so would accelerate consolidation with Rate Zone 1.¹⁰⁷⁷ PAWC averred that Mr. Sakaya's recommendation for Rate Zone 7 is in conflict with a Commission-approved settlement that applies to that zone.¹⁰⁷⁸ OSBA witness Cathcart's proposal to moderate Rate Zone 6's commercial/municipal 3/4" meter charge fails to consider that there are no municipal customers in Rate Zone 6.¹⁰⁷⁹

Finally, the Company argues CAUSE-PA witness Geller's proposal should be rejected because PAWC's proposed customer charges align rates with cost causation recovering the fixed costs required to provide service regardless of the volume of water a customer uses (i.e., metering, billing, customer service, and system readiness).¹⁰⁸⁰ PAWC witness Herbert testified the OCA's direct cost analysis improperly omits infiltration and inflow (I/I) costs. PAWC argues the drivers of I/I are largely independent of a customer's usage, and adding customers can increase impervious surface area, which

¹⁰⁷⁶ See OSBA St. 3, p. 7; CAUSE-PA St. 1, pp. 15-16.

¹⁰⁷⁷ See I&E St. 3, pp. 9-11.

¹⁰⁷⁸ PAWC St. 10-R, p. 23.

¹⁰⁷⁹ *Id.* at 24.

¹⁰⁸⁰ *Id.*

in turn, would increase I/I that is primarily caused by precipitation. Accordingly, PAWC concludes its proposed residential wastewater customer charges that include I/I costs should be accepted.

b. I&E's Position

i. Water Customer Charges

PAWC provided two customer cost analyses for the FPFTY.¹⁰⁸¹ The second customer cost analysis that relies on the allocation of costs more directly applicable to customers, results in a \$26.15 per month per customer charge in the FPFTY.¹⁰⁸²

I&E witness Sakaya recommends that the second customer cost analysis which relies on the allocation of costs more directly applicable to customers be used to determine the customer charge for water customers.¹⁰⁸³ I&E argues that costs that are recovered from customers are continuously increasing, even between rate cases, with surcharges such as the DSIC and therefore, it is appropriate to limit the increase in the customer charges and to consider the affordability of rates through a lower customer charge and higher usage rate.

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

¹⁰⁸¹ PAWC Ex. 12-A, Appendix A, Attachment RS1j, p. 1.

¹⁰⁸² *Id* at 2.

¹⁰⁸³ I&E St. No. 3, p. 6.

Zone 9.¹⁰⁸⁴ However, I&E witness Sakaya recommended changing the proposed customer charges in Rate Zones 7 and 8.¹⁰⁸⁵

Regarding Rate Zone 7, witness Sakaya recommends:

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

I&E asserts this will serve to accelerate the ultimate goal of consolidation of these rates within Rate Zone 1.

Regarding Rate Zone 8, I&E witness Sakaya recommended Rate Zone 8 customer charges for meters up to 1-1/2” be moved to those recommended for Rate Zone 1 to accelerate consolidation with Rate Zone 1.¹⁰⁸⁶ I&E explains PAWC witness McClellan accepted I&E’s recommendation to move the customer charges for meters up to 1-1/2” in Rate Zone 8 to those recommended for Rate Zone 1.¹⁰⁸⁷

¹⁰⁸⁴ I&E St. No. 3, p. 5.

¹⁰⁸⁵ I&E St. No. 3, pp. 9-10.

¹⁰⁸⁶ I&E St. No. 3-SR, p. 7.

¹⁰⁸⁷ PAWC St. No. 10-R, p. 23.

ii. Wastewater Charges

I&E generally supports the rate design proposals as set forth by OSBA.¹⁰⁸⁸

c. OCA's Position

OCA witness Mierzwa testified that PAWC's Residential customers charges for its water customers should be based on the customer charges initially proposed by PAWC for the Residential class, proportionately reduced to reflect the total direct water cost of service increase authorized by the Commission in this proceeding.¹⁰⁸⁹

OCA argues PAWC's wastewater rate design proposals need to be recalibrated to include customer charges that reflect accurate cost-based principles.¹⁰⁹⁰ PAWC currently provides SSS wastewater service in eight different rate zones and CSS wastewater service in two different rate zones.¹⁰⁹¹ PAWC is including an additional CSS rate zone for the EBMA system, which PAWC completed acquiring December 16, 2025.¹⁰⁹² PAWC has included EBMA in this case as Rate Zone 2b.¹⁰⁹³ Those rate zones and PAWC's proposed customer charges are as follows:

PAWC's SSS Rate Zones:

- Rate Zone 1 – General Statewide Rate | Rate Zone 1a – Royersford | Rate Zone 1b – York
 - The current Residential monthly service charge in SSS Rate Zones 1, 1a and 1b is \$15.00, and PAWC is proposing to set that charge at \$20.00.

¹⁰⁸⁸ I&E St. No. 3-SR, p. 13.

¹⁰⁸⁹ OCA St. 3 at 35.

¹⁰⁹⁰ See OCA St. 3 at 43-45.

¹⁰⁹¹ OCA St. 3 at 6-7.

¹⁰⁹² OCA St. 3 at 7.

¹⁰⁹³ *Id.*

- Rate Zone 1c – Foster | Rate Zone 1e – Sadsbury
 - In SSS Rate Zones 1c and 1e customers are currently assessed a flat charge, and PAWC does not assess separate customer service and usage charges.
 - In SSS Rate Zone 1c, PAWC is proposing to increase the Residential flat rate charge from \$110.00 to \$120.00, and PAWC is proposing to maintain the current Residential flat rate charge for Rate zone 1e at \$128.33.
- Rate Zone 1d – Butler Area Sewer Authority
 - In SSS Rate Zone 1d, the current Residential monthly customer charge is \$45.50, and PAWC is proposing to reduce that charge to \$20.00.
- Rate Zone 1f – Farmington
 - In SSS Rate Zone 1f, PAWC is proposing to reduce the Residential customer charge from \$53.50 to \$20.00.
- Rate Zone 1g – Manwalamink
 - In SSS Rate zone 1g, PAWC is proposing to increase the current Residential monthly customer charge of \$16.92 to \$18.60.¹⁰⁹⁴

PAWC’s CSS Zones:

- Rate Zone 2 – Kane and McKeesport
 - In CSS Rate Zone 2, the Company is proposing to increase the current monthly customer charge of \$20.00 to \$25.00
- Rate Zone 2a – Scranton
 - In CSS Rate Zone 2a the Company is proposing to maintain the current Residential monthly customer charge of \$20.19
- Rate Zone 2b Elizabeth Borough Municipal Authority
 - In CSS EMBA Rate Zone 2b, the Company is proposing to maintain the current Residential monthly customer charge of \$35.00.¹⁰⁹⁵

¹⁰⁹⁴ OCA St. 3 at 43.

¹⁰⁹⁵ *Id.*

OCA witness Mierzwa testified that the proposed customer charges for Rate Zones 1, 1a, 1b, 1d, and 1f are not rooted in an accurate cost-based analysis.¹⁰⁹⁶ PAWC's direct customer charge calculation includes the costs associated with collecting and treating Infiltration and Inflow (I&I).¹⁰⁹⁷ OCA explains factoring in I&I costs means including a component that is largely a function of precipitation and does not vary directly with the addition or subtraction of a customer¹⁰⁹⁸ and argues only costs that vary directly with the addition or subtraction of a customer should be included in the calculation of customer charges.¹⁰⁹⁹

Mr. Mierzwa recommended that SSS wastewater Rate Zones 1, 1a, and 1b retain its Residential customer charge of \$15.00 and the SSS Residential customer charge in Rate Zones 1d, 1f, and 1g be reduced to \$15.00.¹¹⁰⁰

Mr. Mierzwa testified that his observations are based upon an industry recognized authority as follows:

According to the WEF Manual of Practice No. 27, Infiltration is the flow entering the sanitary sewer system resulting from high groundwater or precipitation that occurred days or weeks before the observed flow in the sanitary system, and inflow results from the rainfall that enters the sanitary collection system through a number of direct connections such as catch basins, roof drains, foundation drains, and manhole covers.¹¹⁰¹

¹⁰⁹⁶ OCA St. 3 at 44.

¹⁰⁹⁷ *Id.*

¹⁰⁹⁸ *Id.*

¹⁰⁹⁹ *Id.*

¹¹⁰⁰ OCA St. 3 at 44-45.

¹¹⁰¹ OCA St. 3 at 44.

PAWC witness Herbert agreed in Rebuttal that I&I is primarily driven by precipitation, and because of this, claimed there is no meaningful relationship between I&I and a customer's wastewater flows.¹¹⁰² For this reason, he opines that it is inappropriate to recover I&I-related costs through volumetric rates.¹¹⁰³ Mr. Mierzwa testified that precipitation is not affected by the number of customers served by PAWC.¹¹⁰⁴ Therefore, OCA concludes I&I related costs should not be included in a customer charge calculation.¹¹⁰⁵

OCA also argues some Residential SSS ratepayers are already over-contributing to the wastewater system. Mr. Mierzwa testified that the current monthly Residential customer charge for SSS wastewater Rate Zones 1, 1a, and 1b is \$15.00.¹¹⁰⁶ However, excluding I&I, the direct cost is \$13.55.¹¹⁰⁷ Yet, PAWC is proposing to increase its customer charge to \$20.00.¹¹⁰⁸ OCA asserts the Commission should reject PAWC's SSS Residential Customer Charge proposals and adopt the OCA's revision.¹¹⁰⁹

According to OCA, PAWC's proposed customer charge for CSS Residential customer charges in Rate Zones 2, 2a, and 2b is likewise not rooted in an accurate cost-based analysis¹¹¹⁰ Mr. Mierzwa testified:

In response to data request OCA 08-018, the Company presented a customer cost analysis for CSS service similar to the analysis it presented in PAWC Exhibit No. 12-13, Attachment RS1j, page 2, for SSS service. The response to

1102 *Id.*
1103 *Id.*
1104 OCA St. 3-SR at 7.
1105 *Id.*
1106 OCA St. 3 at 44.
1107 *Id.*
1108 *Id.*
1109 *Id.*
1110 OCA St. 3 at 45.

OCA-08-018 is attached to my testimony as Schedule JDM-2. The Company CSS cost analysis indicates that a cost based monthly customer charge for a 5/8-inch meter would be \$57.50. However, as with the Company's SSS customer cost analysis, the Company's CSS customer cost analysis improperly included I/I. Excluding I/I costs from the Company's CSS customer analysis indicates a customer cost of \$4.59.¹¹¹¹

Mr. Mierzwa recommended that the existing CSS monthly customer charges in Rate Zones 2, 2a, and 2b be maintained.¹¹¹²

d. OSBA's Position

OSBA explains its customer charge analysis is embedded within the Water Rate Design and Wastewater Rate Design sections below.

e. CAUSE-PA's Position

CAUSE-PA submits PAWC's proposal to increase its fixed customer charges for water (6%) and wastewater (20%) should be rejected, as it will undermine the ability of low and moderate income households to reduce their bill through conservation.

CAUSE-PA explains the Company charges a fixed service charge to all active customers on metered service, regardless of usage. The current fixed service charge for residential water customers in Zone 1 is \$18.80 and the current fixed service charge for residential wastewater customers in Zone 1 is \$15.00.¹¹¹³ In this proceeding, the Company is proposing to increase its fixed service charge for residential water

¹¹¹¹ OCA St. 3 at 45.

¹¹¹² *Id.*

¹¹¹³ *Id.* at 15: 3-6.

customers in Zone 1 to \$20 (6%), and increase its fixed charge for residential wastewater customers in Zone 1 to \$20 (25%).¹¹¹⁴

CAUSE-PA is opposed to this increase, and argues any increase in fixed charges, not tied to usage, undermines a household's ability to reduce their bills by reducing their usage.¹¹¹⁵ CAUSE-PA witness Geller testified that increasing the fixed charge will erode achievable bill savings through conservation, such as shorter showers, low flow appliances, and limited outdoor watering.¹¹¹⁶ In light of PAWC's unaffordable rates, and the disproportionate risk of termination faced by low income customers, CAUSE-PA submits it is critical that customers "retain the ability to reduce their bills by conserving wherever possible."¹¹¹⁷

CAUSE-PA explains for households struggling to make ends meet, the ability to conserve to reduce bills is an important affordability tool. Customers will still be paying for the overall costs of the distribution system even if more of those costs are shifted to volumetric rates, as compared to PAWC's proposal to increase the unavoidable, fixed portion of a customer's bill.¹¹¹⁸

CAUSE-PA explains the public input hearing testimony shows low and moderate income households in PAWC's service territory are *already* taking extraordinary steps to reduce their bills through conservation at *current* rates.¹¹¹⁹ Given that low income households are disproportionately at risk of termination as a result of unaffordable rates, it is critical that they retain the ability to reduce their bills by conserving wherever possible. Thus, CAUSE-PA submits the Commission should reject

¹¹¹⁴ *Id.* at 15: 8-10.

¹¹¹⁵ *Id.* at 15: 13-15.

¹¹¹⁶ *Id.* at 15: 15-18.

¹¹¹⁷ *Id.* at 16: 1-3.

¹¹¹⁸ CAUSE-PA St. 1-SR at 9: 4-7.

¹¹¹⁹ See OCA St. 5, Ex. BA-2.

PAWC's proposal to increase its water and wastewater fixed charges, as it will deprive households of the ability to reduce their bill through conservation and such a result is unjust, inequitable, and contrary to the public interest.

f. Victory Brewing's Position

Victory Brewing takes no specific position on PAWC's proposed customer charges. However, Victory Brewing notes its responds to OSBA's arguments regarding special wastewater rates and related monthly charges below.

g. Cleveland-Cliffs' Position

Cleveland-Cliffs argues I&E's recommendation to reduce both customer charges and usage charges if the Commission approves a lower revenue requirement should be rejected and asserts while PAWC could have proposed increases to the Industrial customer charges that were equal to its proposed increases to usage charges, it did not. Therefore, Cleveland-Cliffs argues the entirety of PAWC's proposed increase was already being collected through usage charges. Decreasing the customer charge further it asserts will require greater increases in usage charges than would result if customer charges were left static as proposed by PAWC.¹¹²⁰

Cleveland-Cliffs concludes if the Commission approves a lower revenue requirement for the Industrial class in this case, any reduction should be applied solely to usage charges, not customer charges.

¹¹²⁰ Rebuttal Testimony of Richard Baudino at 5-6.

h. ALJs' Recommendation

A customer cost analysis is a part of a cost of service study that is used to determine the appropriate fixed customer charges for the various classes and meter sizes. It is necessary to perform a customer cost analysis because a fixed customer charge represents the revenue that the Company is guaranteed to receive each month, regardless of the level of usage. As acknowledged in the seventh edition of the American Water Works Association M1 Manual, there is a tradeoff between revenue stability from a high customer charge, and affordability and conservation from a low customer charge and higher usage rates.¹¹²¹

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

OCA witness Mierzwa recommends keeping existing customer charges at the current rate level for residential wastewater customers, based on his analysis of direct customer costs.¹¹²² PAWC witness Herbert testified OCA's direct cost analysis

¹¹²¹ AWWA Manual of Water Supply Practices M1 Principles of Water Rates, Fees, Charges, Seventh Edition. pp. 154-155.

¹¹²² OCA St. 4, pp. 44-45; OCA St. 1-SR, p. 7.

improperly omits infiltration and inflow (I/I) costs,¹¹²³ asserting the drivers of I/I are largely independent of a customer's usage, and adding customers can increase impervious surface area, which in turn, would increase I/I that is primarily caused by precipitation.¹¹²⁴ PAWC argues its proposed residential wastewater customer charges that include I/I costs should be accepted.

I&E explains the Company provided two customer cost analyses for the FPFTY¹¹²⁵ and asserts the second customer cost analysis that relies on the allocation of costs more directly applicable to customers results in a \$26.15 per month per customer in the FPFTY.¹¹²⁶ I&E witness Sakaya recommends that the second customer cost analysis which relies on the allocation of costs more directly applicable to customers be used to determine the customer charge for water customers,¹¹²⁷ as costs that are recovered from customers are continuously increasing, even between rate cases, with surcharges such as the DSIC. Therefore, it is appropriate to limit the increase in the customer charges and to consider the affordability of rates through a lower customer charge and higher usage rate. I&E notes the Commission has traditionally relied on customer cost analyses based on direct cost allocations to determine customer charges.

I&E witness Sakaya recommended accepting the Company's proposed customer charges in Rate Zones 1 through 6 and Rate Zone 9.¹¹²⁸ However, I&E witness Sakaya recommended changing the proposed customer charges in Rate Zones 7 and 8.¹¹²⁹

¹¹²³ PAWC St. 12-R, p. 11.

¹¹²⁴ *Id.*

¹¹²⁵ PAWC Ex. 12-A, Appendix A, Attachment RS1j, p. 1.

¹¹²⁶ PAWC Ex. 12-A, Appendix A, Attachments RS1j, p. 2.

¹¹²⁷ I&E St. No. 3, p. 6.

¹¹²⁸ I&E St. No. 3, p. 5.

¹¹²⁹ I&E St. No. 3, pp. 9-10.

Regarding Rate Zone 7, witness Sakaya recommends:

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

I&E explains this will serve to accelerate consolidation of these rates within Rate Zone 1.

Regarding Rate Zone 8, I&E witness Sakaya recommended Rate Zone 8 customer charges for meters up to 1-1/2” be moved to those recommended for Rate Zone 1 to accelerate consolidation with Rate Zone 1.¹¹³⁰ PAWC witness McClellan accepted I&E’s recommendation to move the customer charges for meters up to 1-1/2” in Rate Zone 8 to those recommended for Rate Zone 1.¹¹³¹

I&E generally supports the wastewater rate design proposals as set forth by OSBA.¹¹³²

¹¹³⁰ I&E St. No. 3-SR, p. 7.

¹¹³¹ PAWC St. No. 10-R, p. 23.

¹¹³² I&E St. No. 3-SR, p. 13.

OCA submits there is no meaningful relationship between I&I and a customer's wastewater flows¹¹³³ and it is inappropriate to recover I&I-related costs through volumetric rates.¹¹³⁴ Mr. Mierzwa testified that precipitation is not affected by the number of customers served by PAWC¹¹³⁵ and therefore, I&I related costs should not be included in a customer charge calculation.¹¹³⁶

OCA also asserts that some Residential SSS ratepayers are already over-contributing to the wastewater system with the current monthly Residential customer charge for SSS wastewater Rate Zones 1, 1a, and 1b paying \$15.00.¹¹³⁷ However, excluding I&I, the direct cost is \$13.55.¹¹³⁸ Despite this, PAWC is proposing to increase its customer charge to \$20.00.¹¹³⁹ OCA argues the Commission should reject PAWC's SSS Residential Customer Charge proposals and adopt the OCA's revision.¹¹⁴⁰

PAWC's proposed customer charge for CSS Residential customer charges in Rate Zones 2, 2a, and 2b. OCA asserts these charges are also not rooted in an accurate cost-based analysis¹¹⁴¹. Mr. Mierzwa recommends that the existing CSS monthly customer charges in Rate Zones 2, 2a, and 2b be maintained.¹¹⁴²

CAUSE-PA argues PAWC's proposal to increase its fixed customer charges for water (6%) and wastewater (20%) should be rejected, as it will undermine the ability of low and moderate income households to reduce their bill through conservation.

1133 *Id.*

1134 *Id.*

1135 OCA St. 3-SR at 7.

1136 *Id.*

1137 OCA St. 3 at 44.

1138 *Id.*

1139 *Id.*

1140 *Id.*

1141 OCA St. 3 at 45.

1142 *Id.*

CAUSE-PA explains the Company charges a fixed service charge to all active customers on metered service, regardless of usage. The current fixed service charge for residential water customers in Zone 1 is \$18.80 and the current fixed service charge for residential wastewater customers in Zone 1 is \$15.00.¹¹⁴³ In this proceeding, the Company is proposing to increase its fixed service charge for residential water customers in Zone 1 to \$20 (6%), and increase its fixed charge for residential wastewater customers in Zone 1 to \$20 (25%).¹¹⁴⁴ CAUSE-PA is opposed to this increase, as it explains any increase in fixed charges, not tied to usage, undermines a household’s ability to reduce their bills by reducing their usage.¹¹⁴⁵ CAUSE-PA witness Geller explained in testimony, increasing the fixed charge will erode achievable bill savings through conservation – such as shorter showers, low flow appliances, and limited outdoor watering.¹¹⁴⁶ In light of PAWC’s unaffordable rates, and the disproportionate risk of termination faced by low income customers, CAUSE-PA asserts it is critical that customers “retain the ability to reduce their bills by conserving wherever possible.”¹¹⁴⁷

CAUSE-PA submits, for households struggling to make ends meet, the ability to conserve to reduce bills is an important affordability tool. Customers will still be paying for the overall costs of the distribution system even if more of those costs are shifted to volumetric rates, as compared to PAWC’s proposal to increase the unavoidable, fixed portion of a customer’s bill.¹¹⁴⁸

As presented in the public input hearing testimony of current PAWC customers, low and moderate income households in PAWC’s service territory are *already*

¹¹⁴³ *Id.* at 15: 3-6.

¹¹⁴⁴ *Id.* at 15: 8-10.

¹¹⁴⁵ *Id.* at 15: 13-15.

¹¹⁴⁶ *Id.* at 15: 15-18.

¹¹⁴⁷ *Id.* at 16: 1-3.

¹¹⁴⁸ CAUSE-PA St. 1-SR at 9: 4-7.

taking extraordinary steps to reduce their bills through conservation at *current* rates.¹¹⁴⁹ CAUSE-PA asserts, given that low income households are disproportionately at risk of termination as a result of unaffordable rates, it is critical that they retain the ability to reduce their bills by conserving wherever possible. CAUSE-PA concludes the Commission should reject PAWC's proposal to increase its water and wastewater fixed charges, as it will deprive households of the ability to reduce their bill through conservation and such a result is unjust, inequitable, and contrary to the public interest.

i. Water Customer Charges

We agree with I&E witness Sakaya's assessment that costs that are recovered from customers are continuously increasing, even between rate cases, with surcharges such as the DSIC. Therefore, it is appropriate to limit the increase in the customer charges and to consider the affordability of rates through a lower customer charge and higher usage rates, which allows customers greater control over their bills through conservation. Additionally, the Commission has traditionally relied on customer cost analyses based on direct cost allocations to determine customer charges.

For these reasons, we are persuaded that the record evidence supports I&E's recommendation that the Commission reject the fully allocated customer cost analysis and direct PAWC to calculate its water customer charges based on the direct cost customer cost analysis provided by the Company on PAWC Ex. 12-A, Appendix A, Attachments RS1j, p. 2 of 3. Therefore, the Commission should accept the customer charges recommended by I&E and PAWC for Rate Zones 1 through 6, 8, and 9, and by I&E for Rate Zone 7.

¹¹⁴⁹ See OCA St. 5, Ex. BA-2.

We agree that, when compared to the 16.82% increase for residential customers and 17.34% increase for commercial and municipal customers in Rate Zone 1, this recommendation moves Rate Zone 7 towards consolidation with Rate Zone 1 in future base rate cases. In addition, since larger meter sizes have no customers, there is no cost or gradualism basis to delay consolidation of these customer charges.

ii. b. Wastewater Customer Charges

Consistent with the discussion in the cost of service section above, we are persuaded that the record evidence supports I&E's and OSBA's recommendation that the Commission reject PAWC-WD's fully allocated customer cost analysis and direct PAWC-WD to maintain its existing wastewater customer charges, except as detailed in our recommendations for wastewater rate design that are discussed below.

2. Water Rate Design

a. PAWC's Position

i. Meter Charges

PAWC's submits its proposed meter charges are reasonable and the Commission should reject the alternative proposals from OSBA and CAUSE-PA,¹¹⁵⁰ and argues the alternative proposals from I&E, except for I&E witness Sakaya's recommendation for Rate Zone 8 Appalachian meter charges moving customer charges for meters up to 1 – 1/2" to those of Rate Zone 1, are reasonable. PAWC argues Mr. Sakaya's recommendation for Rate Zone 7 is in conflict with a Commission-approved

¹¹⁵⁰ See OSBA St. 3, p. 7; CAUSE-PA St. 1, pp. 15-16.

settlement that applies to that zone.¹¹⁵¹ PAWC argues OSBA witness Cathcart’s proposal to moderate Rate Zone 6’s commercial/municipal 3/4” meter charge fails to consider that there are no municipal customers in Rate Zone 6,¹¹⁵² and CAUSE-PA witness Geller’s proposal should be rejected because PAWC’s proposed customer charges align rates with cost causation recovering the fixed costs required to provide service regardless of the volume of water a customer uses (i.e., metering, billing, customer service, and system readiness).¹¹⁵³

ii. Volumetric Charges

PAWC argues the alternative volumetric rates proposed by OSBA should be rejected.¹¹⁵⁴ Additionally, the Commission should reject the alternative proposals from I&E, except for I&E witness Sakaya’s recommendation for Rate Zone 8 Appalachian volumetric rates moving to a uniform block structure and setting rates closer to those of Rate Zone 1, which the Company finds reasonable as doing so would accelerate consolidation with Rate Zone 1.¹¹⁵⁵ Mr. Sakaya’s recommendation for Rate Zone 7 is in conflict with a Commission-approved settlement that applies to that zone.¹¹⁵⁶ PAWC also submits OSBA witness Cathcart’s proposal to moderate Rate Zone 5’s East Dunkard commercial volumetric rate fails to consider all relevant factors, including that Rate Zone 5’s 5/8” commercial meter charge is proposed to be reduced by approximately \$15 per month.¹¹⁵⁷

1151 PAWC St. 10-R, p. 23.

1152 *Id.* at 24.

1153 *Id.*

1154 *See* OSBA St. 3, pp. 6-7.

1155 PAWC St. 10-R, p. 26.

1156 *Id.*

1157 *Id.*, pp. 26-27.

b. I&E's Position

I&E explains it accepts the Company's proposal to merge Rate Zones 2, 3, 4, and 5 into Rate Zone 1, and accepts the Rate Zone 6 and 9 proposals but recommends certain modifications to the Company request to move Rate Zones 7 and 8 toward Rate Zone 1, as detailed below.

i. Rate Zone 7 – Manwalamink Usage Rates

To move Rate Zone 7 residential rates towards consolidation with Rate Zone 1 rates, I&E recommends setting the customer charges for Rate Zone 7 5/8-inch, 3/4-inch, 1-inch, and 1-1/2-inch meter sizes to \$15.00 per month and setting the larger meter sizes, which have no customers, equal to Rate Zone 1 rates. For usage, I&E also recommended increasing the residential usage rate for the first 100,000 gallons to \$0.7500 per hundred gallons and eliminating the second block usage rate by setting it equal to the first 100,000 gallons usage block. For the Rate Zone 7 commercial and municipal rates, I&E recommended the customer charges be set equal to those of Rate Zone 1 and both usage block rates be set to \$0.8000 per hundred gallons, which would eliminate the second block usage rate. This will allow the creation of commercial and municipal declining usage block rates split at the 16,000-gallon usage level that exists in Rate Zone 1. This would result in an increase in the average bill of 41.74%¹¹⁵⁸ for the residential customers and 39.82%¹¹⁵⁹ for the commercial and municipal customers. When compared to the 16.82%¹¹⁶⁰ increase for residential customers and 17.34%¹¹⁶¹ increase for commercial and municipal customers in Rate Zone 1, this recommendation moves Rate Zone 7 towards consolidation with Rate Zone 1 in future base rate cases.

¹¹⁵⁸ I&E Ex. No. 3, Schedule 2, p. 1.

¹¹⁵⁹ I&E Ex. No. 3, Schedule 2, p. 3.

¹¹⁶⁰ PAWC Ex. 10A, p. 78.

¹¹⁶¹ PAWC Ex. 10A, p. 87.

ii. Rate Zone 8 – Appalachian Usage Rates

I&E recommends keeping the same usage rate proposed by PAWC for the first 16,500 gallons of \$0.9534 and over 16,500 gallons of \$0.9534. This would slightly increase the average bill for customers with average usage of 3,263 gallons to \$51.11 per month as opposed to \$45.81 per month.¹¹⁶² PAWC witness McClellan agreed with the recommendation to move Rate Zone 8 volumetric charges to a uniform block structure to facilitate the consolidation of usage rates of Rate Zone 8 with Rate Zone 1 in a future rate case.¹¹⁶³

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

c. OCA's Position

In addition to OCA's position stated above, Mr. Mierzwa recommended that the direct cost of service for each customer class, with the exception of the Industrial Contract Sales, Other Water Utilities Contract Sales, and Other Water Utilities Group B customer classes, should be proportionately scaled back to reflect the direct water cost of service, or revenue requirement, approved by the Commission in this proceeding without the Act 11 wastewater adjustment.¹¹⁶⁴ The direct cost of service for each customer class should then be adjusted to account for the Act 11 wastewater cost of service assigned to water service as determined by the Commission based on the direct cost of service for

¹¹⁶² I&E Ex. No. 3, Schedule 2, p. 3.

¹¹⁶³ PAWC St. No. 10-R, p. 26.

¹¹⁶⁴ OCA St. 3 at 32.

each class with the exception of the two Contract Sales customer classes, the Other Water Utilities Group A and B customer classes, and Public Fire Protection service.¹¹⁶⁵

Under PAWC's as-filed COSS, the direct Residential cost of service under PAWC's COSS is \$682,920,439, or 65.93% of the total direct cost of service.¹¹⁶⁶ Under Mr. Mierzwa's COSS, the direct Residential cost of service under the OCA's cost of service study is \$675,757,224, or 65.23% of the total direct cost of service study. To determine the direct cost of service to assign the Residential class based on the Commission's authorized revenue requirement increase, the total direct cost of service authorized should be multiplied by 65.23%.¹¹⁶⁷

d. OSBA's Position

OSBA agrees with the rate-making guidelines and principles as set out by Mr. McClellan of PAWC, including Cost Causation, Revenue Stability, Gradualism, Avoidance of Discrimination, Simplicity and Feasibility, and Affordability. Mr. McClellan states that the cost causation is the foundation of the Company's rate design. Layered on top of cost causation, OSBA submits Mr. McClellan considers principles of gradualism, revenue stability, avoidance of discrimination and affordability.

OSBA agrees with the proposed level of consolidation for Rate Zones 1-5 in principle; however, upon review, OSBA submits some of the proposed changes appear to result in excessive rate increases from the customer's existing rate. For example, in Rate Zone 5 (East Dunkard), the commercial first 16,000 gallons volumetric rate is increasing by 65.7%, or over four times the overall average rate. Also, the proposed movement of Zone 6 (Audubon) would result in an increase in the proposed monthly rate

¹¹⁶⁵ *Id.*

¹¹⁶⁶ OCA St. 3 at 35.

¹¹⁶⁷ *Id.*

for the commercial / municipal $\frac{3}{4}$ meter of \$13.40 or 79.8%¹¹⁶⁸, which is almost five times the average overall requested rate increase. The proposed changes bring these particular rate classes to Zone 1 rates. In consideration of gradualism, OSBA submits the rate increase in these cases should be moderated to no more than double the system average or 32% and that this would achieve rate consolidation over a reasonable time frame without causing rate shock for these customers. The OSBA in surrebuttal agreed with Company witness McClellan's assertion that customer charges appropriately recover fixed costs associated with service readiness. OSBA explains its suggestion for moderation is intended only to ensure that the pace of those increases remains consistent with gradualism while still allowing full cost recovery over time.¹¹⁶⁹

OSBA asserts the Company offers a limited number of special rates designed to retain and attract the load of larger customers in Rate Zone 1 that have competitive alternatives to service from the Company. Currently, the Company serves customers on two of those rates: the Demand-Based Industrial Service rate and the Demand-Based Resale Service rate.¹¹⁷⁰ The Company currently serves industrial and other Utilities through these specific contracts with negotiated pricing for water service. The Company has not applied for any rate increases for existing contract sales customers, based on the current rate design where customers are being subsidized.

OSBA recommends that when contracts are up for renewal, PAWC should evaluate the current charged rates relative to these contracts with competitive offerings. Where there is an opportunity, OSBA submits the contract rates should be increased to up to 90 percent of the competitive offering rates, reducing any gap between service rates and competitive rates, which would reduce the subsidy being afforded these customers.

¹¹⁶⁸ PAWC St. No. 10, Direct Testimony of Max McClellan, Ex. MHM-1.

¹¹⁶⁹ OSBA St. No. 3-SR, Surrebuttal Testimony of Roger Cathcart, Page 11.

¹¹⁷⁰ Vol. 9 St. No. 10, Direct Testimony of Max McClellan, Page 11.

e. CAUSE-PA’s Position

CAUSE-PA did not offer independent expert testimony with regard to PAWC’s water rate design, though it supports the positions advanced by the OCA.

f. Victory Brewing’s Position

As explained in Victory Brewing witness Shirley’s rebuttal testimony, OCA witness Mierzwa’s proposals would result in a *significantly* higher increase for industrial customers like Victory Brewing as compared to PAWC’s proposal as it pushes costs away from residential and commercial customers and onto industrial customers and would result in an increase of 24.1% for industrial customers, as opposed to the 11.9% increase proposed by PAWC.¹¹⁷¹

Victory Brewing suggests Mr. Mierzwa’s water COSS should be rejected and his proposed allocation to industrial customer should likewise be rejected. Victory Brewing asserts Mr. Mierzwa’s proposal would result in unreasonably shifting a significant proportion of the increase onto industrial customers like Victory Brewing.¹¹⁷² While Victory Brewing recognizes that Mr. Mierzwa’s proposal includes a variety of factors, such as his proposed Act 11 shift, Victory Brewing submits the result would unreasonably shift a significant additional increase away from residential and commercial customers and onto industrial customers.¹¹⁷³ Victory Brewing concludes PAWC’s original allocation proposal is more reasonable and consistent with the approach approved by the Commission in prior rate cases, and therefore the Commission should

4. ¹¹⁷¹ OCA St. No. 3 at 30–31, Tables 4 and 5; Victory Brewing St. No. 1-R at 3–

¹¹⁷² Victory Brewing St. No. 1-R at 4.

¹¹⁷³ Victory Brewing St. No. 1-R at 4.

reject OCA’s proposed water revenue allocation that would result in a 24.1% increase for industrial customers like Victory Brewing.

g. Cleveland-Cliffs’ Position

Cleveland-Cliffs did not specifically address this issue in testimony.

h. ALJs’ Recommendation

PAWC currently has eight rate zones and is adding an additional rate zone, nine, for its in-process Corner Water acquisition. Those rate zones are as follows:

Zone 1 – General Statewide Rate	Zone 6 – Audubon
Zone 2 – Valley	Zone 7 – Manwalamink
Zone 3 – Turbotville	Zone 8 – Appalachian
Zone 4 – Farmington	Zone 9 – Corner Water
Zone 5 – East Dunkard	(Acquisition in process)

The majority of the Company’s customers are now being billed under the same set of rates for metered service rate zone 1, with over 99% of the Company’s total water revenue.¹¹⁷⁴

PAWC proposes to consolidate rate zones, moving several zones toward Rate Zone 1 rates. The Company proposes to move Rate Zone 2 (Valley), Rate Zone 3

¹¹⁷⁴ PAWC Vol. 9 St. No. 10, Direct Testimony of Max McClellan, pp, 8-9.

(Turbotville), Rate Zone 4 (Farmington), and Rate Zone 5 (East Dunkard) to Rate Zone 1 rates. The Company also proposes to move Rate Zone 6 (Audubon), Rate Zone 7 (Manwalamink), Rate Zone 8 (Appalachian), and Rate Zone 9 (Corner Water) toward Rate Zone 1 rates and rate structures.

The purpose of revenue allocation is to establish the responsibility of each customer class for a portion of the revenue requirements that are approved by the Commission. A key factor in determining the appropriate portion of the revenue requirements that is allocated to each class is the COSS.¹¹⁷⁵

i. Water Customer Charge Rates

Consistent with the discussion in the customer charge section above, we agree with I&E witness Sakaya's assessment that costs that are recovered from customers are continuously increasing, even between rate cases, with surcharges such as the DSIC. Therefore, it is appropriate to limit the increase in the customer charges and to consider the affordability of rates through a lower customer charge and higher usage rates, which allows customers greater control over their bills through conservation. Additionally, the Commission has traditionally relied on customer cost analyses based on direct cost allocations to determine customer charges. For these reasons, we are persuaded that the record evidence supports I&E's recommendation that the Commission reject the fully allocated customer cost analysis and direct PAWC to calculate its water customer charges based on the direct cost customer cost analysis provided by the Company on PAWC Ex. 12-A, Appendix A, Attachments RS1j, p. 2 of 3. Therefore, we conclude the Commission should accept the customer charges recommended by I&E and PAWC for Rate Zones 1 through 6, 8, and 9, and by I&E for Rate Zone 7, which are hereby adopted.

¹¹⁷⁵ *Lloyd*, 904 A.2d at 1019–21.

We also agree with I&E that, when compared to the 16.82% increase for residential customers and 17.34% increase for commercial and municipal customers in Rate Zone 1, I&E's recommendation appropriately moves Rate Zone 7 towards consolidation with Rate Zone 1 in future base rate cases. In addition, since larger meter sizes have no customers, there is no cost or gradualism basis to delay consolidation of these customer charges, and I&E's position is hereby adopted.

In addition, we note that PAWC witness Wieczenski testified that the East Dunkard system serves approximately 92 public fire hydrants.¹¹⁷⁶ However, Exhibit 10-A reflected zero public fire hydrants in the East Dunkard system.¹¹⁷⁷ Therefore, we recommend that PAWC file detailed calculations with its tariff filings, which shall include the revenues received from the 92 public fire hydrants in the East Dunkard system.

ii. Water Usage Rates

We agree with I&E's recommendations for Rate Zone 7 usage rates. Setting both usage block rates to \$0.8000 per 100 gallons would eliminate the second block usage rate, allowing for the creation of the same commercial and municipal declining usage block rate schedule split at the 16,000 gallon usage level that exists in Rate Zone 1. This recommendation further moves Rate Zone 7 towards consolidation with Rate Zone 1.

Similarly, we agree with I&E's recommendations for Rate Zone 8 usage rates. I&E's recommendation would slightly increase the average bill for customers with

¹¹⁷⁶ PAWC St. 10.

¹¹⁷⁷ PAWC Ex. 10-A, p.41.

average usage of 3,263 gallons to \$51.11 per month as opposed to \$45.81 per month, facilitating the consolidation of Rate Zone 8 with Rate Zone 1.

3. Wastewater Rate Design

a. PAWC's Position

i. General SSS Operations

I&E and OSBA proposed various increases to SSS rates.¹¹⁷⁸ PAWC argues Mr. Cline's and Mr. Kubas' recommendations are largely driven by the goal of eventual consolidation of rate zones and the reduction of PAWC's Act 11 subsidy, which should be rejected. PAWC submits Mr. Cline's proposal to increase industrial rates as there is no cost-basis justification for separate or higher Industrial rates should be rejected.¹¹⁷⁹ Additionally, PAWC asserts Mr. Cline's recommendations increasing the proposed rates, as well as rejecting the rate delay provision, for Rate Zone 1g (Manwalamink) should be rejected as such are in conflict with a Commission-approved settlement that applies to that zone, and Mr. Mierzwa's and Mr. Kubas' proposals to keep existing customer charges at the current rate level should be rejected for the reasons set forth above in Section C.1. PAWC argues the Commission should also reject Mr. Kubas' proposed increase for special flat rate customers as raising flat rates using a volumetric rate is inappropriate.¹¹⁸⁰

¹¹⁷⁸ See I&E St. 4, Schedule 3; OSBA Ex. JK-3.

¹¹⁷⁹ See PAWC Ex. 12-B.

¹¹⁸⁰ PAWC St. 10-R, p. 43.

ii. BASA Operations

PAWC asserts Mr. Kubas' proposed volumetric rate for Rate Zone 1d is higher than the Company's proposal and is inconsistent with a pre-existing agreement associated with the BASA acquisition, and should therefore be rejected,¹¹⁸¹ and that Mr. Kubas' proposed non-residential customer charge should be rejected. PAWC argues the Company's proposal to maintain the BASA Non-Residential customer charge at \$45.50 is appropriate and consistent with the Company's Rate Zone 1 service charge and the current flat rate charged to a Non-Residential BASA customer with one equivalent dwelling unit.¹¹⁸²

iii. CSS Operations

PAWC argues Mr. Cline and Mr. Kubas propose to increase rates for Rate Zone 2a (Scranton) in order to reduce the Act 11 subsidy,¹¹⁸³ which should be rejected for the reasons set forth above in Section B. The Company argues its proposal to maintain rates for Rate Zone 2a (Scranton) are in accordance with a pre-existing agreement that currently applies to Scranton, and therefore should be accepted.¹¹⁸⁴ In addition, PAWC asserts the Commission should reject Mr. Mierzwa's proposal with respect to the residential service charge for the same reasons described above relative to the SSS customer charge.¹¹⁸⁵

1181 OSBA St. 1, p. 33.

1182 PAWC St. 10-R, p. 44.

1183 I&E St. 4, pp. 47-48; OSBA St. 1, p. 24.

1184 PAWC St. 10-R, pp. 48-49.

1185 *Id.*, p. 48.

iv. EBMA CSS Wastewater Operations

PAWC argues Mr. Kubas' and Mr. Cline's recommendations to increase the proposed rates for Rate Zone 2b higher than the rates proposed by the Company should be rejected. According to the Company, its proposal for Rate Zone 2b is in accordance with a Commission-approved settlement in PAWC's acquisition of EBMA's wastewater collection and treatment system pursuant to Section 1329.¹¹⁸⁶ In his proposal to increase rates for Rate Zone 2b, Mr. Kubas argues that rates are established in base rate cases, not in a prior Application docket.¹¹⁸⁷ The Company submits, while it is true that the rate base of a selling utility is incorporated into the rate base of the acquiring utility during the acquiring utility's next base rate case, it is also true that the rate base will be established in the manner provided by law – a purchase price that is within the fair market valuations for Section 1329 acquisitions.¹¹⁸⁸ The fair market valuation of the EBMA system, as well as the rate base amount PAWC can include, was agreed to by the settling parties in that acquisition proceeding.¹¹⁸⁹ The Company submits its proposed Elizabeth Borough rates are consistent with the settlement commitments agreed to by the parties, and approved by the Commission, and should therefore be accepted.

b. I&E's Position

I&E generally supports the rate design proposals as set forth by OSBA.¹¹⁹⁰

¹¹⁸⁶ See PAWC St. 7, p. 5.

¹¹⁸⁷ OSBA St. 1-SR, p. 25.

¹¹⁸⁸ 66 Pa.C.S. § 1329(c)(i) (“The ratemaking rate base of the selling utility shall be incorporated into the rate base of (i) the acquiring public utility during the acquiring public utility’s next base rate case”).

¹¹⁸⁹ Customer notice was provided to the acquired customers and PAWC's legacy customers in the application proceeding.

¹¹⁹⁰ I&E St. No. 3-SR, p. 13.

c. OCA’s Position

i. Sanitary System Allocation

Mr. Mierzwa recommended that the SSS revenue increase authorized by the Commission in this proceeding be assigned to each SSS rate zone based on the percentage share of the SSS increase initially assigned to each rate zone by PAWC.¹¹⁹¹ Mr. Mierzwa also recommended that the SSS revenue requirement increase amount authorized by the Commission be assigned to each class based on the same percentage PAWC assigned.¹¹⁹²

ii. Combined Sewer System Allocation

For CSS Rate Zones 2 and 2a (Scranton), Mr. Mierzwa recommended that each rate zone be assigned a percentage increase equal to the overall CSS percentage rate increase authorized by the Commission.¹¹⁹³ In the Scranton application proceeding, the Commission approved an Amended Asset Purchase Agreement.¹¹⁹⁴ PAWC is proposing no increase for Scranton to comply with the Amended Asset Purchase Agreement.¹¹⁹⁵ However Mr. Mierzwa proposed an increase for Scranton equal to the overall system average CSS increase authorized by the Commission in this proceeding.¹¹⁹⁶ Mr. Mierzwa noted that, in the 2023 rate proceeding, PAWC also proposed no rate increase for Scranton for the same reasons it is proposing no increase in this proceeding.¹¹⁹⁷ The

1191 OCA St. 3 at 35.

1192 OCA St. 3 at 37.

1193 OCA St. 3 at 36.

1194 *Id.*

1195 *Id.*

1196 OCA St. 3 at 38.

1197 *Id.*

Commission found that an increase for Scranton was reasonable.¹¹⁹⁸ The Commission has the power to assign rates that differ from those identified in PAWC's Amended Asset Purchase Agreement with Scranton.¹¹⁹⁹ The OCA's proposed increase for Scranton is that it should be equal to the overall system average CSS increase authorized by the Commission in this proceeding.¹²⁰⁰

For the CSS rate zones, OCA recommended that the revenue allocation proposed by PAWC for the Bulk customer class be maintained. For the remaining CSS customer classes, OCA recommended that the revenue requirement increase be assigned to each customer class in proportion to the increase initially assigned to each customer class by PAWC, including assigning a portion of the increase to the customer classes in Rate Zone 2A (Scranton).¹²⁰¹

iii. Butler Area Sewer Authority and Elizabeth Borough Municipal Authority Allocations

For Butler Area Sewer Authority (BASA) and Elizabeth Borough Municipal Authority (EBMA), PAWC has assigned the same percentage increase to each customer class based on the overall increases requested for BASA and EBMA, and Mr. Mierzwa recommended that the increase for each customer class be based on the overall increases authorized by the Commission for the BASA and EBMA rate zones.¹²⁰²

1198

Id.

1199

66 Pa. C.S. § 508.

1200

OCA St. 3 at 38.

1201

OCA St. 3 at 37.

1202

OCA St. 3 at 37.

d. OSBA's Position

i. Revenue Allocation/Act 11 Shift

OSBA explained why \$53 million should be reduced at OSBA Statement No. 1, pp. 4-7. The Company's Rebuttal testimony on Act 11 was addressed on OSBA Statement No.1-SR, p. 6-7. OSBA's position regarding how the \$53 million should be reduced is addressed below in the SSS, CSS, BASA and EBMA Operations.

ii. Act 11 Allocation by Class

OSBA argues that, in the original filing, the Company did not accurately reflect the Act 11 subsidy by class. Therefore, OSBA compiled a schedule showing what the allocation should be after the OSBA rate structure proposals are applied. The amounts were revised slightly in the OSBA Surrebuttal analysis.¹²⁰³ OSBA submits this exhibit shows that the \$17,428,978 needed to subsidize the Residential Wastewater class should come from the Residential Water class. Also, OSBA submits, the \$6,874,504 needed to subsidize the Non-Residential wastewater class should come from the Non-Residential water classes.

iii. SSS Operations

In the original filing, the Company proposed a SSS Operations revenue increase of \$7,329,642, revised in rebuttal to \$7,016,727.¹²⁰⁴ OSBA proposed that the

¹²⁰³ OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-1SR.

¹²⁰⁴ PAWC Rebuttal Sch. 3-A, Revised.

amount be increased to \$18,081,364.¹²⁰⁵ As a result of the Company's rebuttal OSBA revised this increase to \$17,977,570.¹²⁰⁶

OSBA accepted the Company's revision to change present rate revenue from \$108,561,975 to \$108,665,751. OSBA proposed various customer charges and usage rates in the SSS Operation rates on OSBA Statement No. 1, Exhibit JK-3, Column D that produces the additional \$10,960,843 (\$17,977,570 - \$7,016,727) revenue described above.

iv. SSS Operations – Customer Charges

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

For Zone 1f (Farmington), the current monthly charge includes some allowance. Therefore, OSBA accepted the Company's proposal to eliminate the allowance, but proposed the Residential customer charge be \$15.00 per month, and the non-residential customer charge be \$36.70 per month to be consistent with Zone 1. For flat rate customers, OSBA recommended a flat rate of \$75.00 per month.¹²⁰⁷ For Zone 1f (Manwalamink), the current monthly Residential and Non-Residential charge are both \$16.92 per month. Therefore, OSBA proposed a Residential customer charge of \$15.00 per month and a Non-Residential customer charge of \$20.00 per month, moving the Non-

¹²⁰⁵ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-2, Column E.

¹²⁰⁶ OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-2SR, Column E.

¹²⁰⁷ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-3, page 2, line 50.

Residential customer charge towards the Zone 1 Non-Residential customer charge of \$36.70 per month.¹²⁰⁸

v. SSS Operations – Flat-Residential Unmetered Rates

OSBA determined for Zone 1 Residential customers flat rate or unmetered customers should pay \$135.00 per month, which approximately equals the average bill of a Zone 1 Residential customer. Other flat Residential rates were increased towards this target rate of \$135.00 per month.¹²⁰⁹

vi. SSS Operations – Flat-Non-Residential Unmetered Rates

OSBA determined for Zone 1, Non-Residential customer flat rate or unmetered customers should pay \$179.00 per month, which results in an increase of 19.3% and moves the flat rate towards the average bill of a Non-Residential customer.¹²¹⁰

vii. SSS Operations – Special Rate Customers

For Special rate or “Named Customers” OSBA proposed various increases to the flat and usage rates these customers pay shown on (OSBA Ex. JK-3, pp. 1-2).

For Cleveland-Cliffs and Victory Brewing, OSBA recommended that the monthly charge and usage rate increase 19.6%, which is the same percentage increase proposed for the Non-Residential usage rate. For Knouse Food, Penn State Special

¹²⁰⁸ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-3, page 2, lines 54 and 55.

¹²⁰⁹ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-3, page 1, line 25 and page 2, lines 34, page 2, lines 44, 47, 50 and 56.

¹²¹⁰ OSBA St. No. 1, Direct Testimony of Joe Kubas, pp. 14-15 and OSBA Ex. JK-3, page 1, lines 5, 17 and 28, page 2, lines 35, 45, 48 and 57.

Metals, PSC Metals, Ipsco Kopper Tubilers, and Strattanville Borough, OSBA recommended each flat rate increase 19.6% which also is the same percentage increase OSBA proposed for the Non-Residential usage rate.

As described in OSBA Statement No. 3-SR, pp. 11-17, the revenue from the two Large Industrial customers, Victory Brewing and Cleveland-Cliffs is less than the cost of providing service to these two customers, thus justifying an even larger increase for this class and no scale back for the relatively low proposed usage rate of \$1.77 per hundred gallons.

OSBA submits its proposed flat rates / customer charges and usage rates produce reasonable revenue by class that results in the Residential and Non-Residential class relative rate of return of 1.17 for both classes.¹²¹¹ No party disputed this analysis. The OSBA proposed flat rates / customer charges and usage rates produce reasonable monthly increases for the average Residential and Commercial customers. As described on OSBA St. No. 1-SR, pp. 7-8, the Company's claim that the average bill increases in the SSS Operations that OSBA proposed are misplaced given the Company has no problem proposing that the average Residential water bill in Zone 4 increase 40%.

viii. CSS Operations

In the original filing, the Company proposed CSS Operations revenue increase \$3,341,896. In rebuttal, the Company revised this amount to \$3,527,533. OSBA proposed that the amount be increased to \$22,037,015. OSBA revised this

¹²¹¹ OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-5SR.

increase to \$21,952,430¹²¹² and accepted the Company's revision to change present rate revenue from \$85,758,589 to \$85,843,172.¹²¹³

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

ix. CSS Operations – Zone 2 – Residential and Non-Residential Rates

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

x. CSS Operations – Zone 2a – Scranton Residential and Non-Residential Rates

The Company proposed not to increase the Scranton 2a rates (except for the minimal "roll-in" of the DSIC charge), as the Company asserts it is bound by a prior agreement not to increase the rates the former Scranton customers pay (PAWC St. No. 10, page 24). However, OSBA submits the Commission left open the rate making treatment of this promise including the recovery of the revenue shortfall. Therefore, the Company proposed that other ratepayers should pay higher rates and "pick up" the recovery of the approximately \$12 million revenue shortfall thus reimbursing PAWC for this promise. OSBA's primary recommendation is that the Company absorbs the revenue shortfall, which under the OSBA proposed rates is approximately \$16 million.¹²¹⁴ As an

¹²¹² OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-2SR Column G.

¹²¹³ OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-2SR Column G.

¹²¹⁴ OSBA St. No. 1, Direct Testimony of Joe Kubas, pp. 23-24.

alternative, OSBA proposed that Zone 2a (Scranton) rates be increased and made consistent with the other Residential and Non-Residential rates in Zone 2.¹²¹⁵

xi. CSS Operations – Customer Charges

Since the Company failed to provide a customer cost analysis for the CSS Operations, OSBA determined that the Company failed to justify increasing the Residential and Non-Residential customer charges.¹²¹⁶

xii. CSS Operations – Flat-Residential Unmetered Rates

OSBA determined for Zones 2 Residential customers flat rate or unmetered customers should pay \$136.00 per month, which approximately equals the average bill of a Zone 2 Residential customer.¹²¹⁷

xiii. CSS Operations – Bulk Rates

OSBA determined for Zones 2 monthly bulk rate should remain at \$86.00 per month and the usage rate should be increased slightly to \$1.800 per hundred gallons. The OSBA determined for Zones 2a the monthly Bulk and usage rates should not be increased.¹²¹⁸ The recommendation for a minimal increase in the Zone 2 Bulk usage rate and no other Bulk rate increases is based upon the CSS COSS which indicates that the

¹²¹⁵ OSBA St. No. 1, Direct Testimony of Joe Kubas, pp. 24-16 and Ex. JK-8, column D.

¹²¹⁶ OSBA St. No. 1, Direct Testimony of Joe Kubas, pp. 26-28.

¹²¹⁷ OSBA St. No. 1, Direct Testimony of Joe Kubas, Page 25 and OSBA Ex. JK-8, lines 2 and 9.

¹²¹⁸ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-8, lines 6-7 and 13-16.

relative rate of return for the Bulk class is 1.38, well above the target relative rate of return of 1.00.¹²¹⁹

OSBA submits the Company failed to address why making its rate structure discriminatory and more complex is reasonable.¹²²⁰ The OSBA proposed flat rates / customer charges and usage rates that produce reasonable revenue by class that results in the Residential and Non-Residential class relative rate of return of 0.96 for both classes.¹²²¹ No other party specifically objected to this analysis.

OSBA submits its proposed flat rates / customer charges and usage rates produce reasonable monthly increases for the average Residential customer which is 31.1% and Commercial customers which is 24.2%.¹²²² As described on OSBA Statement No. 1-SR, pp. 7-8, the Company's concern that the average bill increases in the CSS Operations that OSBA proposed are too high is misplaced, given the Company has no problem proposing that the average Residential water bill in Zone 4 increases by 40.0%.

xiv. BASA Operations

In the original filing, the Company proposed BASA Operations revenue increase \$5,097,589.¹²²³ In rebuttal, the Company revised this amount to \$5,067,072.¹²²⁴ OSBA proposed that the amount be decreased to \$4,104,184.¹²²⁵ OSBA revised this increase to \$4,056,332¹²²⁶ and accepted the Company's revision to change present rate

¹²¹⁹ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-10, Column G.

¹²²⁰ OSBA St. No. 3-SR, Surrebuttal Testimony of Roger Cathcart, Page 19.

¹²²¹ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-10.

¹²²² OSBA St.No. 1, Direct Testimony of Joe Kubas, Ex. JK-11.

¹²²³ PAWC Vol. 3, Sch. 3-A.

¹²²⁴ PAWC Rebuttal Sch. 3-A, Revised.

¹²²⁵ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-2 Column F.

¹²²⁶ OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-2SR Column F.

revenue from \$12,748,475 to \$12,761,080.¹²²⁷ OSBA proposed various customer charges and usage rates in the BASA Operation on OSBA Statement 1, Exhibit JK-13, column D.

In Rebuttal, the Company disagreed with the OSBA proposal to increase the VA Hospital usage rate to \$1.682 per hundred gallons.¹²²⁸ To satisfy Mr. McClellan's concerns, OSBA revised the usage rate for the VA Hospital to \$1.28 per hundred gallons to match the \$1.28 per hundred-gallon Non-Residential usage rate.¹²²⁹ This revision results in the BASA Operations revenue increasing to \$16,817,412 which is an increase of \$4,056,332.¹²³⁰

OSBA proposed various customer charges and usage rates in the BASA Operation rates on OSBA Exhibit JK-9SR, column D that produces \$1,010,740 (\$5,067,072 - \$4,056,332) less revenue than the \$5,067,072 the Company proposed described above. This \$1,010,740 decrease is made up by increasing the rates and revenue in the CSS Operations above the cost of providing service to the CSS Operations.

The OSBA-proposed customer charges and usage rates produce reasonable revenue by class that results in the Residential and Non-Residential class relative rate of return of 0.99 and 1.01 respectively.¹²³¹ No party disputed the change in usage rates proposed by OSBA.

¹²²⁷ OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-2SR
Column F.

¹²²⁸ PAWC St. No. 10-R, p. 44-45.

¹²²⁹ OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-9SR, line 8.

¹²³⁰ OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-10SR, Column G, lines 8-9.

¹²³¹ OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-11SR.

The OSBA-proposed customer charges and usage rates produce reasonable monthly bills which are below Zone 1 and reasonable increases for the average Residential and Commercial customers.¹²³² As described on OSBA Statement No. 1 pp. 33-34, if Act 11 did not exist, the Residential bill increase will be approximately 376.6% and the Commercial bill increase will be approximately 311.3%.¹²³³

xv. EBMA Operations

In the original filing, the Company proposed an EBMA Operations revenue increase of \$529,866.¹²³⁴ In rebuttal, the Company revised this amount to \$555,808¹²³⁵ and OSBA proposed that the amount be increased to \$817,861.¹²³⁶ There was a slight change in the result of the Company's rebuttal, and OSBA revised this increase to \$817,863.¹²³⁷

OSBA accepted the Company's present rate revenue of \$1,767,267 which did not change because of the Company's rebuttal testimony.¹²³⁸ OSBA proposed various customer charges and usage rates in the EBMA Operation on OSBA Exhibit JK-17, column H.

OSBA submits its proposed customer charges and usage rates that produce reasonable revenue by class that results in the Residential and Non-Residential class

¹²³² OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-16.

¹²³³ OSBA Ex. 16, lines 3-4.

¹²³⁴ PAWC Vol. 3, Sch. 3-A.

¹²³⁵ PAWC Rebuttal Sch. 3-A, Revised.

¹²³⁶ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-2 Column F.

¹²³⁷ OSBA St. No. 1-SR, Ex. JK-2SR Column H.

¹²³⁸ OSBA St. No. 1-SR, Ex. JK-2SR Column H.

relative rate of return of 1.04 and 0.881 respectively.¹²³⁹ No party disputed the change in usage rates proposed by OSBA.

xvi. EBMA Bulk Customers

In its direct testimony, the OSBA addressed how the Company should have presented the subsidy needed to provide service to the Bulk customers.¹²⁴⁰ OSBA recommended that the subsidy be adjusted so that the rate of return for the Bulk class is equal to 1.00. Doing this will show the true subsidy the Bulk class receives. The Company did not dispute this claim.

OSBA also addressed that Bulk customers should not be subsidized since they represent non-jurisdictional customers in OSBA Statement No 1, pp. 37-39. The Company did not dispute this claim.

The OSBA proposed that revenue from the EBMA Bulk customers be increased 46.3% since after the change in how the subsidy is calculated described above is applied, the Bulk class will still receive a subsidy of \$1,613,607.¹²⁴¹ The Company did not dispute this claim.

The OSBA proposed Residential and Non-Residential customer charges and usage rates that produce reasonable monthly bills which are below the corresponding bills in Zone 2 and result in reasonable increases for the average EBMA Residential and Commercial customers.¹²⁴² If Act 11 did not exist, OSBA submits the Residential bill

¹²³⁹ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-19.

¹²⁴⁰ OSBA St. No. 1, Direct Testimony of Joe Kubas, pp. 39-40.

¹²⁴¹ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-18, column F.

¹²⁴² OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-20.

increase will be approximately 201.8% and the Commercial bill increase will be approximately 624.6%.¹²⁴³

xvii. **Miscellaneous Revenue – Late Payment Revenue**

In the original filing, the Company based the additional Late Payment Revenue on the amount of revenue for each wastewater Operations. OSBA accepted this methodology, but reflected higher late payment revenue for the SSS, CSS, and EBMA Operations, since OSBA proposed higher revenue in these Operations. The OSBA proposed slightly lower late payment revenue for the BASA Operations since the OSBA proposed a slightly lower increase in the BASA Operations.¹²⁴⁴ The Company agreed with the OSBA methodology but disagreed with the amount of the increase proposed in each wastewater Operation.¹²⁴⁵

e. CAUSE-PA's Position

CAUSE-PA did not offer independent testimony with regard to PAWC's wastewater rate design, though it supports the position advanced by the OCA.

f. Victory Brewing's Position

Victory Brewing currently pays a special rate for wastewater service that consists of a \$456.50 monthly service charge and a usage charge of \$1.48 per 100 gallons. This special rate has been approved by the Commission and is included in PAWC's current wastewater tariff.¹²⁴⁶ PAWC has not proposed any change to the special

¹²⁴³ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. 20, lines 3-4.

¹²⁴⁴ OSBA St. No. 1, Direct Testimony of Joe Kubas, page 41.

¹²⁴⁵ PAWC St. No. 10-R, Page 51.

¹²⁴⁶ PAWC, Tariff Wastewater PA P.U.C. No. 16, Page No. 11.1.

wastewater rates in its tariff, which apply to Victory Brewing and other large industrial customers.¹²⁴⁷

OSBA witness Kubas argues that the monthly charges for wastewater service to Victory Brewing and Cleveland-Cliffs should be increased by 19.6%.¹²⁴⁸ Specifically, Mr. Kubas testified that the monthly service charge should increase from \$456.50 to \$546.00 and the usage charge should increase from \$1.49 to \$1.77 per 100 gallons. He argues that since he is proposing a 19.6% increase for other non-residential customers, the Victory Brewing and Cleveland-Cliffs special wastewater rate should also increase by 19.6%.¹²⁴⁹

Victory Brewing asserts OSBA's argument should be rejected as it is inappropriate and unsupported. Victory Brewing submits OSBA's position that an increase for non-residential customers applied across the board ignores important differences between Victory Brewing and other non-residential customers.¹²⁵⁰ For example, OSBA's position does not take into account the fact that Victory Brewing is currently constructing a multimillion-dollar wastewater pre-treatment facility that will significantly reduce costs to PAWC for treatment of wastewater from Victory Brewing's facilities.¹²⁵¹ Victory Brewing explains the wastewater treatment facility is intended to pretreat the wastewater effluent from the process of brewing beer before it enters PAWC's wastewater system.¹²⁵² According to Victory Brewing, this project has cost Victory Brewing over \$8 million and is expected to be completed by July of 2026, meaning that the pre-treatment plant is expected to be online before any rate increase

¹²⁴⁷ See Victory Brewing St. No. 1-R at 5.

¹²⁴⁸ OSBA St. No. 1 at 16; OSBA Ex. JK-3, page 1, lines 9–10.

¹²⁴⁹ *Id.*

¹²⁵⁰ Victory Brewing St. No. 1-R at 5–6.

¹²⁵¹ Victory Brewing St. No. 1-R at 5–6.

¹²⁵² Victory Brewing St. No. 1-R at 6.

resulting from this proceeding would be effective.¹²⁵³ Victory Brewing further submits the pre-treatment plant represents a significant investment by Victory Brewing, which will in turn reduce PAWC's wastewater treatment costs.¹²⁵⁴ OSBA's position does not account for either Victory Brewing's multi-million-dollar investment or the resulting reduction in costs for PAWC, and OSBA generally fails to consider the unique aspects of wastewater service to Victory Brewing.

Victory Brewing further submits that the current special wastewater rate appropriately considers the specific and unique factors that apply to Victory Brewing as one of the largest industrial customers in PAWC's service territory, and the special rate with PAWC should not be disturbed, particularly not for such cursory reasons as OSBA's desire to implement the same percentage increase across the board for non-residential customers.¹²⁵⁵

g. Cleveland-Cliffs' Position

Cleveland-Cliffs addresses these issues generally in this section.

h. ALJs' Recommendation

General SSS Operations

I&E and OSBA proposed various increases to SSS rates.¹²⁵⁶ PAWC asserts Mr. Cline's and Mr. Kubas' recommendations are largely driven by the goal of eventual consolidation of rate zones and the reduction of PAWC's Act 11 subsidy, which should

¹²⁵³ Victory Brewing St. No. 1-R at 6.

¹²⁵⁴ Victory Brewing St. No. 1-R at 6.

¹²⁵⁵ Victory Brewing St. No. 1-R at 6.

¹²⁵⁶ See I&E St. 4, Schedule 3; OSBA Ex. JK-3.

be rejected, and Mr. Cline’s proposal to increase industrial rates as there is no cost-basis justification for separate or higher Industrial rates should be rejected.¹²⁵⁷ PAWC further submits that Mr. Cline’s recommendations increasing the proposed rates, as well as rejecting the rate delay provision, for Rate Zone 1g (Manwalamink) should be rejected as such are in conflict with a Commission-approved settlement that applies to that zone. PAWC argues Mr. Mierzwa’s and Mr. Kubas’ proposals to keep existing customer charges at the current rate level should be rejected for the reasons set forth above and that the Commission should reject Mr. Kubas’ proposed increase for special flat rate customers as raising flat rates using a volumetric rate is inappropriate.¹²⁵⁸

BASA Operations

PAWC argues the Commission should accept PAWC’s proposed rate design for BASA,¹²⁵⁹ asserting that Mr. Kubas’ proposed volumetric rate for Rate Zone 1d is higher than the Company’s proposal and is inconsistent with a pre-existing agreement associated with the BASA acquisition, and should therefore be rejected.¹²⁶⁰ PAWC argues Mr. Kubas’ proposed Non-Residential customer charge should be rejected as the Company’s proposal to maintain the BASA Non-Residential customer charge at \$45.50 is appropriate and consistent with the Company’s Rate Zone 1 service charge and the current flat rate charged to a Non-Residential BASA customer with one equivalent dwelling unit.¹²⁶¹

¹²⁵⁷ See PAWC Ex. 12-B.

¹²⁵⁸ PAWC St. 10-R, p. 43.

¹²⁵⁹ PAWC St. 10, p. 20.

¹²⁶⁰ OSBA St. 1, p. 33.

¹²⁶¹ PAWC St. 10-R, p. 44.

CSS Operations

PAWC argues Mr. Cline and Mr. Kubas' proposal to increase rates for Rate Zone 2a (Scranton) in order to reduce the Act 11 subsidy¹²⁶² should be rejected for the reasons set forth above, and that the Company's proposal to maintain rates for Rate Zone 2a (Scranton) in accordance with a pre-existing agreement that currently applies to Scranton, and should be accepted.¹²⁶³ PAWC also asserts the Commission should reject Mr. Mierzwa's proposal with respect to the residential service charge for the same reasons described above relative to the SSS customer charge.¹²⁶⁴

EBMA CSS Wastewater Operations

PAWC argues Mr. Kubas' and Mr. Cline's recommendations to increase the proposed rates for Rate Zone 2b higher than the rates proposed by the Company should be rejected, as the Company's proposal for Rate Zone 2b is in accordance with a Commission-approved settlement in PAWC's acquisition of EBMA's wastewater collection and treatment system pursuant to Section 1329.¹²⁶⁵ PAWC argues that the rate base will be established in the manner provided by law such as a purchase price that is within the fair market valuations for Section 1329 acquisitions.¹²⁶⁶ PAWC argues the fair market valuation of the EBMA system, as well as the rate base amount PAWC can include, was agreed to by the settling parties in that acquisition proceeding.¹²⁶⁷ In addition, the Company submits its proposed Elizabeth Borough rates are consistent with

¹²⁶² I&E St. 4, pp. 47-48; OSBA St. 1, p. 24.

¹²⁶³ PAWC St. 10-R, pp. 48-49.

¹²⁶⁴ *Id.*, p. 48.

¹²⁶⁵ *See* PAWC St. 7, p. 5.

¹²⁶⁶ 66 Pa.C.S. § 1329(c)(i) ("The ratemaking rate base of the selling utility shall be incorporated into the rate base of (i) the acquiring public utility during the acquiring public utility's next base rate case").

¹²⁶⁷ Customer notice was provided to the acquired customers and PAWC's legacy customers in the application proceeding.

the settlement commitments agreed to by the parties, and approved by the Commission, and should therefore be accepted.

I&E explains that it generally supports the rate design proposals as set forth by OSBA.¹²⁶⁸

With regard to Revenue Allocation/Act 11 Shift, OSBA asserts the \$53 million should be reduced on OSBA Statement No. 1, pp. 4-7. The Company's Rebuttal testimony on Act 11 was addressed on OSBA Statement No.1-SR, pp. 6-7. OSBA's position regarding how the \$53 million should be reduced is addressed below in the SSS, CSS, BASA and EBMA Operations.

Act 11 Allocation by Class

OSBA asserts, in the original filing, the Company did not accurately reflect the Act 11 subsidy by class. Therefore, OSBA compiled a schedule showing what the allocation should be after the OSBA rate structure proposals are applied. The amounts were revised slightly in the OSBA Surrebuttal analysis.¹²⁶⁹ According to OSBA, this exhibit shows that the \$17,428,978 needed to subsidize the Residential wastewater class should come from the Residential water class. Also, the \$6,874,504 needed to subsidize the Non-Residential wastewater class should come from the Non-Residential water classes.

¹²⁶⁸ I&E St. No. 3-SR, p. 13.

¹²⁶⁹ OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-1SR.

SSS Operations

In the original filing, the Company proposed SSS Operations revenue increase \$7,329,642. In rebuttal, the Company revised this amount to \$7,016,727.¹²⁷⁰ OSBA proposed that the amount be increased to \$18,081,364.¹²⁷¹ As a result of the Company's rebuttal, OSBA revised this increase to \$17,977,570.¹²⁷²

OSBA accepted the Company's revision to change present rate revenue from \$108,561,975 to \$108,665,751. OSBA proposed various customer charges and usage rates in the SSS Operation rates on OSBA Statement No. 1, Exhibit JK-3, Column D that produces the additional \$10,960,843 (\$17,977,570 - \$7,016,727) revenue described above.

Customer Charges

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

For Zone 1f (Farmington), the current monthly charge includes some allowance. Therefore, OSBA accepted the Company's proposal to eliminate the allowance, but proposed the Residential customer charge be \$15.00 per month, and the Non-Residential customer charge be \$36.70 per month to be consistent with Zone 1. For flat rate customers, OSBA recommended a flat rate of \$75.00 per month.¹²⁷³ For Zone 1f

¹²⁷⁰ PAWC Rebuttal Sch. 3-A, Revised.

¹²⁷¹ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-2, Column E.

¹²⁷² OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-2SR, Column E.

¹²⁷³ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-3, p. 2, line 50.

(Manwalamink), the current monthly Residential and Non-Residential charge are both \$16.92 per month. OSBA proposed a Residential customer charge of \$15.00 per month and a Non-Residential customer charge of \$20.00 per month, moving the Non-Residential customer charge towards the Zone 1 Non-Residential customer charge of \$36.70 per month.¹²⁷⁴

Flat -Residential Unmetered Rates

OSBA determined for Zone 1 Residential customers flat rate or unmetered customers should pay \$135.00 per month, which approximately equals the average bill of a Zone 1 Residential customer. Other flat Residential rates were increased towards this target rate of \$135.00 per month.¹²⁷⁵

Flat -Non-Residential Unmetered Rates

OSBA determined for Zone 1, Non-Residential customer flat rate or unmetered customers should pay \$179.00 per month, which results in an increase of 19.3% and moves the flat rate towards the average bill of a Non-Residential customer.¹²⁷⁶

Special Rate Customers

For Special rate or so called “Named Customers” OSBA proposed various increases to the flat and usage rates these customers pay shown on OSBA Ex. JK-3, pp. 1-2.

¹²⁷⁴ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-3, p. 2, lines 54 and 55.

¹²⁷⁵ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-3, p. 1, line 25 and p. 2, lines 34, p. 2, lines 44, 47, 50 and 56.

¹²⁷⁶ OSBA St. No. 1, Direct Testimony of Joe Kubas, pp. 14-15 and OSBA Ex. JK-3, p. 1, lines 5, 17 and 28, p. 2, lines 35, 45, 48 and 57.

For Cleveland-Cliffs and Victory Brewing, OSBA recommended that the monthly charge and usage rate increase 19.6%, which is the same percentage increase proposed for the Non-Residential usage rate. For Knouse Food, Penn State Special Metals, PSC Metals, Ipsco Kopper Tubilers, and Strattanville Borough, OSBA recommends each flat rate increase 19.6% which also is the same percentage increase OSBA proposed for the Non-Residential usage rate.

OSBA submits in OSBA Statement No. 3-SR, pp. 11-17, the revenue from the two Large Industrial customers, Victory Brewing and Cleveland-Cliffs is less than the cost of providing service to these two customers, thus justifying an even larger increase for this class and no scale-back for the relatively low proposed usage rate of \$1.77 per hundred gallons.

OSBA further argues that it proposed flat rates / customer charges and usage rates that produce reasonable revenue by class that results in the Residential and Non-Residential class relative rate of return of 1.17 for both classes,¹²⁷⁷ and argued no party disputed this analysis.

OSBA submits it proposed flat rates / customer charges and usage rates produce reasonable monthly increases for the average Residential and Commercial customers. As described on OSBA Statement No. 1-SR, pp. 7-8, the Company's claim that the average bill increases in the SSS Operations proposed are misplaced, given the Company has no problem proposing that the average Residential water bill in Zone 4 increase 40%.

¹²⁷⁷ OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-5SR.

CSS Operations

In the original filing, the Company proposed a CSS Operations revenue increase of \$3,341,896. In rebuttal, the Company revised this amount to \$3,527,533. OSBA proposed that the amount be increased to \$22,037,015. As a result of the Company's rebuttal, OSBA revised this increase to \$21,952,430.¹²⁷⁸ OSBA accepted the Company's revision to change present rate revenue from \$85,758,589 to \$85,843,172.¹²⁷⁹

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

Zone 2 - Residential and Non-Residential Rates

OSBA submits the proposed the Zone 2 Residential and Non-Residential rates increase as shown on OSBA Exhibit JK-8, lines 1-5 should be approved.

Zone 2a- Scranton Residential and Non-Residential Rates

OSBA asserts the Company proposed not to increase the Scranton 2a rates (except for the minimal "roll-in" of the DSIC charge). The Company believes that it is bound by a prior agreement not to increase the rates the former Scranton customers pay.¹²⁸⁰ However, OSBA submits the Commission left open the rate making treatment including the recovery of the revenue shortfall. Therefore, the Company proposed that

¹²⁷⁸ OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-2SR
Column G.

¹²⁷⁹ OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-2SR
Column G.

¹²⁸⁰ PAWC St. No. 10, p. 24

other ratepayers should pay higher rates and “pick up” the recovery of the approximately \$12 million revenue shortfall, thus reimbursing PAWC for this promise. OSBA explains its primary recommendation is that the Company absorbs the revenue shortfall, which under the OSBA proposed rates is approximately \$16 million.¹²⁸¹ As an alternative, OSBA proposed that Zone 2a (Scranton) rates be increased and made consistent with the other Residential and Non-Residential rates in Zone 2.¹²⁸²

Customer Charges

Since the Company failed to provide a customer cost analysis for the CSS Operations, OSBA submits that the Company failed to justify increasing the Residential and Non-Residential customer charges.¹²⁸³

Flat-Residential Unmetered Rates

OSBA submits for Zones 2 Residential customers flat rate or unmetered customers should pay \$136.00 per month, which approximately equals the average bill of a Zone 2 Residential customer.¹²⁸⁴

Bulk Rates

OSBA determined the Zone 2 monthly bulk rate should remain at \$86.00 per month and the usage rate should be increased slightly to \$1.800 per hundred gallons. The OSBA determined for Zone 2a the monthly Bulk and usage rates should not be

¹²⁸¹ OSBA St. No. 1, Direct Testimony of Joe Kubas, pp.23-24.

¹²⁸² OSBA St. No. 1, Direct Testimony of Joe Kubas, pp. 24-16 and Ex. JK-8, column D.

¹²⁸³ OSBA St. No. 1, Direct Testimony of Joe Kubas, pp. 26-28.

¹²⁸⁴ OSBA St. No. 1, Direct Testimony of Joe Kubas, Page 25 and OSBA Ex. JK-8, lines 2 and 9.

increased.¹²⁸⁵ OSBA explains the recommendation for a minimal increase in the Zone 2 Bulk usage rate and no other Bulk rate increases is based upon the CSS COSS which indicates that the relative rate of return for the Bulk class is 1.38, well above the target relative rate of return of 1.00.¹²⁸⁶

OSBA submits the Company failed to address why making its rate structure discriminatory and more complex is reasonable.¹²⁸⁷ The OSBA proposed flat rates / customer charges and usage rates that produce reasonable revenue by class that results in the Residential and Non-Residential class relative rate of return of 0.96 for both classes.¹²⁸⁸ OSBA submits no other party objected to this analysis.

As OSBA explained, it proposed flat rates / customer charges and usage rates produce reasonable monthly increases for the average Residential customer which is 31.1% and Commercial customers which is 24.2%.¹²⁸⁹ As described on OSBA St. No. 1-SR, pp. 7-8, the Company's concern that the average bill increases in the CSS Operations proposed by OSBA are too high is misplaced, given the Company has no problem proposing that the average Residential water bill in Zone 4 increases by 40.0%.

BASA Operations

In the original filing, the Company proposed BASA Operations revenue increase \$5,097,589.¹²⁹⁰ In rebuttal, the Company revised this amount to \$5,067,072.¹²⁹¹

¹²⁸⁵ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-8, lines 6-7 and 13-16.

¹²⁸⁶ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-10, Column G.

¹²⁸⁷ OSBA St. No. 3-SR, Surrebuttal Testimony of Roger Cathcart, Page 19.

¹²⁸⁸ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-10.

¹²⁸⁹ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-11.

¹²⁹⁰ PAWC Vol. 3, Sch. 3-A.

¹²⁹¹ PAWC Rebuttal Sch. 3-A, Revised.

OSBA proposed that the amount be decreased to \$4,104,184.¹²⁹² As a result of the Company's rebuttal, OSBA revised this increase to \$4,056,332.¹²⁹³

OSBA explains it accepted the Company's revision to change present rate revenue from \$12,748,475 to \$12,761,080.¹²⁹⁴ OSBA proposed various customer charges and usage rates in the BASA Operation on OSBA Statement 1, Exhibit JK-13, column D. In Rebuttal, the Company disagreed with the OSBA proposal to increase the VA Hospital usage rate to \$1.682 per hundred gallons.¹²⁹⁵ To satisfy Mr. McClellan's concerns, OSBA revised the usage rate for the VA Hospital to \$1.28 per hundred gallons to match the \$1.28 per hundred-gallon Non-Residential usage rate.¹²⁹⁶ This revision results in the BASA Operations revenue increasing to \$16,817,412, which is an increase of \$4,056,332.¹²⁹⁷

OSBA proposed various customer charges and usage rates in the BASA Operation rates on OSBA Exhibit JK-9SR, column D that produces \$1,010,740 (\$5,067,072 - \$4,056,332) less revenue than \$5,067,072 the Company proposed described above. This \$1,010,740 decrease is made up by increasing the rates and revenue in the CSS Operations above the cost of providing service to the CSS Operations.

OSBA submits its proposed customer charges and usage rates produce reasonable revenue by class that results in the Residential and Non-Residential class

¹²⁹² OSBA, St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-2 Column F.
¹²⁹³ OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-2SR
Column F.

¹²⁹⁴ OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-2SR
Column F.

¹²⁹⁵ PAWC St. No. 10-R, page 44-45.

¹²⁹⁶ OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-9SR, line 8.

¹²⁹⁷ OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-10SR, Column G, lines 8-9.

relative rate of return of 0.99 and 1.01 respectively.¹²⁹⁸ OSBA submits no party disputed the change in usage rates proposed by OSBA.

The OSBA-proposed customer charges and usage rates produce reasonable monthly bills which are below Zone 1 and reasonable increases for the average Residential and Commercial customers.¹²⁹⁹ OSBA submits as described on OSBA Statement No. 1 pp. 33-34 if Act 11 did not exist, the Residential bill increase will be approximately 376.6% and the Commercial bill increase will be approximately 311.3%.¹³⁰⁰

EBMA Operations

In the original filing, the Company proposed EBMA Operations revenue increase \$529,866.¹³⁰¹ In rebuttal, the Company revised this amount to \$555,808.¹³⁰² OSBA proposed that the amount be increased to \$817,861.¹³⁰³ There was a slight change in the result of the Company's rebuttal OSBA revised this increase to \$817,863.¹³⁰⁴

OSBA accepted the Company's present rate revenue of \$1,767,267, which did not change because of the Company's rebuttal testimony.¹³⁰⁵ OSBA proposed various customer charges and usage rates in the EBMA Operation on OSBA Ex. JK-17, column H.

¹²⁹⁸ OSBA St. No. 1-SR, Surrebuttal Testimony of Joe Kubas, Ex. JK-11SR.
¹²⁹⁹ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-16.
¹³⁰⁰ OSBA Ex. 16, lines 3-4.
¹³⁰¹ PAWC Vol. 3, Sch. 3-A.
¹³⁰² PAWC Rebuttal Sch. 3-A, Revised.
¹³⁰³ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-2 Column F.
¹³⁰⁴ OSBA St. No. 1-SR, Ex. JK-2SR Column H.
¹³⁰⁵ OSBA St. No. 1-SR, Ex. JK-2SR Column H.

OSBA submits its proposed customer charges and usage rates produce reasonable revenue by class that results in the Residential and Non-Residential class relative rate of return of 1.04 and 0.881 respectively.¹³⁰⁶ OSBA submits no party disputed the change in usage rates proposed by OSBA.

EMBA Bulk Customers

In its direct testimony, the OSBA addressed how the Company should have presented the subsidy needed to provide service to the Bulk customers.¹³⁰⁷ OSBA recommended that the subsidy be adjusted so that the rate of return for the Bulk class is equal to 1.00. OSBA submits doing this will show the true subsidy the Bulk class receives and that the Company did not dispute this claim.

OSBA also addressed that Bulk customers should not be subsidized since they represent non-jurisdictional customers in OSBA St. No 1, pp. 37-39. OSBA submits the Company did not dispute this claim.

OSBA proposed that revenue from the EBMA Bulk customers be increased 46.3% since after the change in how the subsidy is calculated described above is applied, the Bulk class will still receive a subsidy of \$1,613,607.¹³⁰⁸ OSBA submits the Company did not dispute this claim. We agree the OSBA analysis should be approved.

¹³⁰⁶ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-19.

¹³⁰⁷ OSBA St. No. 1, Direct Testimony of Joe Kubas, pp. 39-40.

¹³⁰⁸ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-18, Column F.

OSBA provided an example of how the Bulk rates can be structured to generate \$1,871,927 in total revenue (the 46.3% increase)¹³⁰⁹, but would accept different rates if the total Bulk revenue is \$1,871,927.

OSBA submits the proposed Residential and Non-Residential customer charges and usage rates that produce reasonable monthly bills which are below the corresponding bills in Zone 2 and result in reasonable increases for the average EBMA Residential and Commercial customers.¹³¹⁰ If the Act 11 did not exist, according to OSBA, the Residential bill increase will be approximately 201.8% and the Commercial bill increase will be approximately 624.6%.¹³¹¹

Miscellaneous Revenue – Late Payment Revenue

In the original filing, the Company based the additional Late Payment Revenue on the amount of revenue for each wastewater Operations. OSBA accepted this methodology, but reflected higher late payment revenue for the SSS, CSS, and EBMA Operations, since OSBA proposed higher revenue in these Operations. OSBA proposed slightly lower late payment revenue for the BASA Operations since the OSBA proposed a slightly lower increase in the BASA Operations.¹³¹² The Company agreed with the OSBA methodology but disagreed with the amount of the increase proposed in each wastewater Operation.¹³¹³

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

¹³⁰⁹ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-19, Column F, line 3.

¹³¹⁰ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-20.

¹³¹¹ OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. 20, lines 3-4.

¹³¹² OSBA St. No. 1, Direct Testimony of Joe Kubas, page 41.

¹³¹³ PAWC St. No. 10-R, Page 51.

Victory Brewing submits OSBA's argument should be rejected, as the argument for a 19.6% increase for non-residential customers should be applied across the board ignores important differences between Victory Brewing and other non-residential customers.¹³¹⁴ Victory Brewing submits OSBA's position does not take into account that Victory Brewing is currently constructing a multimillion-dollar wastewater pre-treatment facility that will significantly reduce costs to PAWC for treatment of wastewater from Victory Brewing's facilities,¹³¹⁵ which is intended to pretreat the wastewater effluent from the process of brewing beer before it enters PAWC's wastewater system.¹³¹⁶ This project has cost Victory Brewing over \$8 million and is expected to be completed by July of 2026, meaning that the pre-treatment plant is expected to be online before any rate increase resulting from this proceeding would be effective.¹³¹⁷ Victory Brewing submits the pre-treatment plant represents a significant investment by Victory Brewing, which will in turn reduce PAWC's wastewater treatment costs.¹³¹⁸ Victory Brewing submits OSBA's position does not account for either Victory Brewing's multi-million-dollar investment or the resulting reduction in costs for PAWC, and OSBA generally fails to consider the unique aspects of wastewater service to Victory Brewing.

Victory Brewing explains PAWC did not propose any change to Victory Brewing's current special wastewater rate and submits that the current special wastewater rate appropriately considers the specific and unique factors that apply to Victory Brewing as one of the largest industrial customers in PAWC's service territory. Victory Brewing submits this rate should not be disturbed, particularly not for such cursory reasons as

¹³¹⁴ Victory Brewing St. No. 1-R at 5–6.

¹³¹⁵ Victory Brewing St. No. 1-R at 5–6.

¹³¹⁶ Victory Brewing St. No. 1-R at 6.

¹³¹⁷ Victory Brewing St. No. 1-R at 6.

¹³¹⁸ Victory Brewing St. No. 1-R at 6.

OSBA's desire to implement the same percentage increase across the board for non-residential customers.¹³¹⁹

Cleveland-Cliffs addressed the proposed customer charges in its main brief, arguing I&E's recommendation to reduce both customer charges and usage charges if the Commission approves a lower revenue requirement should be rejected. Cleveland-Cliffs submits the current customer charges for the Industrial class were established in the Company's previous rate case, and while fixed costs have risen since that case, PAWC has recommended maintaining the customer charges at their existing levels. Therefore, if the Commission approves a lower revenue requirement for the Industrial class in this case, it submits any reduction should be applied solely to usage charges, not customer charges.

Wastewater Customer Charges

Consistent with the discussion above, we are persuaded that the record evidence supports I&E's and OSBA's recommendation that the Commission reject PAWC-WD's fully allocated customer cost analysis and direct PAWC-WD to maintain its existing wastewater customer charges, except as detailed in our recommendations for wastewater rate design that are discussed below.

Wastewater Flat Rates, Volumetric Charges, and Special Rates

Regarding the various SSS rate changes proposed by OSBA, including increasing the rate for residential flat rate service, non-residential flat rate service, special rates for named customers including Victory Brewing and Cleveland-Cliffs Steel, we agree that these changes are in the public interest and should be adopted. We further

¹³¹⁹ Victory Brewing St. No. 1-R at 6.

agree with the changes to OSBA regarding CSS rates including Scranton, bulk rates, and BASA and EMBA rates. While we understand PAWC's concerns regarding its commitments not to propose rate increases above certain values for certain rate zones, we believe it is important to follow cost causation principles and to avoid PAWC's other customers bearing too much of the revenue shortfall from those rate zones.

4. Wastewater Deduct Adjustment

a. PAWC's Position

PAWC proposes to utilize a deduct adjustment to more closely align wastewater bills with cost causation.¹³²⁰ The OCA and CAUSE-PA oppose the Company's proposal; while I&E offered certain changes, it did not oppose the proposal.¹³²¹ PAWC submits the Company's deduct adjustment proposal is intended to benefit all customers by appropriately aligning the amount customers are billed with the actual costs they cause the Company to incur for wastewater service.¹³²²

b. I&E's Position

I&E explains the Company is proposing to change the way that it determines the volumetric component of bills for residential customers. Currently, wastewater usage is based upon actual water usage. A deduct adjustment, as the Company is proposing, is a method that would separate metered water usage that is likely to go through the wastewater system from water usage that is used for outdoor purposes in the summertime. I&E explains it is meant to mimic a deduct meter. The seasonal

¹³²⁰ PAWC St. 10-R, pp. 27-28.

¹³²¹ See OCA St. 3, pp. 40-41; OCA St. 4, pp. 106-111; CAUSE-PA St. 1, p. 18; I&E St. 4, pp. 8-11.

¹³²² PAWC St. 10-R, pp. 33-34.

wastewater bills (April to December)¹³²³ would be determined by the lesser of actual metered water usage for the summer month or the average water consumption for that customer in the winter months. I&E witness Cline expressed general concerns that the Company's proposal is too broad and may have unintended consequences of shifting cost recovery from higher-income customers to lower-income customers since it is intended to benefit customers who water lawns, wash cars, fill pools, etc.¹³²⁴ in the summer. I&E was also concerned about the months characterized as "summer months" and the usage rate for customers with no history and about customers with increased usage in the shoulder months of October, November, December, and April.¹³²⁵

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

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

¹³²³ Pennsylvania-American Notice of Proposed Wastewater Rate Changes, Rate Zones 1, 1a, 1b, 1c, 1d, 1e, 1f, and 2; Pennsylvania-American Supplement No. 61 to Tariff Wastewater PA P.U.C. No. 16, Second Revised Page 31.1, Canceling First Revised Page 31.1.

¹³²⁴ PAWC St. No. 10, p. 25.

¹³²⁵ I&E St. No. 4, p. 5.

I&E witness Cline also explains that the Company should consider the option of a deduct meter program when more data exists regarding the outcome of the current deduct adjustment proposal.¹³²⁶ As he notes, this would be a more simple, accurate and direct method to measure water that is being used for outdoor purposes. I&E submits, having a program that allows customers to install deduct meters, at their own expense and not spread across the rest of the customer base, would allow for the direct measurement of water used for outdoor purposes to be deducted from the overall usage for the wastewater bill. This option would provide far more accuracy in summer period wastewater bills than using the average of three winter months, particularly for those customers who only reside in their home during non-winter seasonal months.¹³²⁷

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

c. OCA's Position

OCA submits, under the Company's "deduct adjustment" or "winter averaging" where a customer's bill is based on average winter usage to estimate indoor consumption,¹³²⁸ PAWC will bill a customer for whichever is less: the actual metered water usage for that month or the average water consumption for that customer in the winter months.

OCA argues the Company overstates the benefits projected for its deduct adjustment proposal and that it should not be approved.¹³²⁹ OCA asserts the difference between the winter average period usage and usage during the remaining months of

¹³²⁶ I&E St. No. 4, p. 11.

¹³²⁷ I&E St. No. 4, p. 10.

¹³²⁸ PAWC St. 10 at 25.

¹³²⁹ *See* OCA St. 3 at 38-42.

PAWC's Residential customers is di minimis, ranging from 119 to 165 gallons per month during the past two years.¹³³⁰ Mr. Mierzwa testified that there are reasons why the difference is immaterial:

I would expect that during the summer months customers are likely to take more showers and wash clothes more often. The average shower uses 17.2 gallons of water. A standard washing machine uses 20 gallons of water per load. A few extra showers and clothes washing loads per month would totally account for the historic difference between Residential winter and summer water usage. Therefore, it does not necessarily follow that PAWC's Residential customer outdoor water usage during the summer is sufficiently significant to justify adopting a deduct adjustment and the resulting increase in volumetric rates and should be rejected.¹³³¹

Mr. Mierzwa stated that PAWC's current proposal is similar to PAWC's proposal in its 2023 rate proceeding. In that case, Mr. Mierzwa presented a similar analysis and the Commission agreed with the OCA's position.¹³³² Notably, the data Mr. Mierzwa used in that proceeding demonstrated a broader range of 100 gallons to 173 gallons per month, compared to this proceeding that demonstrated a range of 119 gallons to 165 gallons per month.¹³³³ In other words, there is less of a difference between the winter averaging months compared to the remaining months of the year in this proceeding than the last time PAWC proposed this measure. The Commission additionally found that PAWC's winter averaging proposal in its 2023 rate case may have

¹³³⁰ OCA St. 3 at 41.

¹³³¹ OCA St. 3 at 41 (internal citations omitted).

¹³³² *Pa. PUC v. Pa. American Water Co.*, R-2023-3043189, Order at 284 (July 11, 2024).

¹³³³ OCA St. 3 at 42.

a disproportionate adverse impact on low income customers.¹³³⁴ OCA submits it found similar issues in this rate proceeding as discussed in OCA witness Colton’s testimony.¹³³⁵

d. OSBA’s Position

OSBA has no comment.

e. CAUSE-PA’s Position

CAUSE-PA argues the Company’s wastewater deduct adjustment improperly shifts revenue burden from households that reside in larger properties, with greater levels of discretionary water usage in the non-winter months, to customers that reside in smaller homes and apartments without the same discretionary water use.

CAUSE-PA explains wastewater service is not metered, so in order to bill for the volume of wastewater used by a customer, wastewater providers rely on meter reading from water usage as a proxy for measuring and billing wastewater service.¹³³⁶ The Company is proposing to change the way that it measures wastewater usage for residential customers to account for discretionary, outdoor water usage to fill pools, water lawns, and wash cars.¹³³⁷ The proposal, according to CAUSE-PA, is based on the assumption that this type of discretionary usage does not flow through the wastewater system.¹³³⁸

¹³³⁴ *Pa. PUC v. Pa. American Water Co.*, R-2023-3043189, Order at 285 (July 11, 2024).

¹³³⁵ OCA St. 4 at 105-111; OCA St. 4SR at 12-15.

¹³³⁶ CAUSE-PA St. 1 at 16: 9-11.

¹³³⁷ *Id.* at 16: 13-16.

¹³³⁸ PAWC St. 10 at 25: 3-6.

Under PAWC’s proposed deduct adjustment method, a customer’s wastewater bill in the months of January, February, and March would be determined by actual metered water usage for the month.¹³³⁹ In all other months, a customer’s wastewater bill would be based on the lesser of actual metered water usage for the month or the average water consumption for that customer in the winter months.¹³⁴⁰ For new customers or those without winter billing history, PAWC proposes to bill based on actual consumption until sufficient average billing data is available.¹³⁴¹ PAWC further proposes that in cases where the customer has low winter usage which is non-representative of actual consumption included in the deduct adjustment calculation (for example, summer vacation homes), it will use 1,000 gallons in place of the month’s actual consumption.¹³⁴² In other words, summer vacation homes with low to no winter usage would be charged for just 1,000 gallons of wastewater usage from April through December, regardless of their usage.

CAUSE-PA is opposed to this deduct adjustment, as it is inequitable and contrary to the public interest. As explained by CAUSE-PA witness Geller, the proposal improperly favors customers that reside in larger properties and have greater levels of discretionary water usage in the non-winter months – to the detriment of customers that reside in smaller homes and apartments that do not have the same discretionary water use,¹³⁴³ favoring customers with summer vacation homes, which may have very low average usage in the winter months – but very high water and wastewater usage in the summer, when their vacation home is in use. PAWC acknowledges that the effect of this proposal is to increase the volumetric rate more than it otherwise would need to for the same revenue requirement request.¹³⁴⁴ This is because the revenue requirement would

¹³³⁹ *Id.* at 26: 11-13.

¹³⁴⁰ *Id.* at 25: 11-15.

¹³⁴¹ *Id.* at 27: 3-5.

¹³⁴² *Id.* at 27: 9-11.

¹³⁴³ CAUSE-PA St. 1 at 17: 19 - 18-2.

¹³⁴⁴ PAWC St. 10 at 28: 3-5.

have to be collected over a smaller number of wastewater gallons billed. CAUSE-PA submits the effect of this proposal is inequitable, unjust, and unreasonable for lower income customers who cannot afford to engage in discretionary water use in non-winter months, and customers residing in smaller homes and apartments where discretionary use is not possible or permitted.¹³⁴⁵ These customers will shoulder a higher revenue burden than their higher income counterparts, despite having fewer resources with which to pay.

CAUSE-PA asserts, in addition to its fundamental inequity, the assumptions built into PAWC's winter averaging methodology are flawed. PAWC's methodology assumes outdoor water usage does not impact wastewater system costs, without consideration of whether a given system is combined stormwater and wastewater.¹³⁴⁶ As noted by I&E witness Cline, "treatment plants in the CSS Wastewater Operations treat flows that originate from both sanitary sewer systems as well as storm sewer systems. Therefore, the outdoor activity flows likely still get treated at the wastewater treatment plant despite not entering through the sanitary sewer system. Therefore, deducting these volumes from a customer's bill does not follow cost causation principles."¹³⁴⁷ Mr. Cline noted that Aqua allows some of its customers to install deduct meters, so that they can submit readings to receive bill credits,¹³⁴⁸ he argued that this option, installed at the expense of the customer, would provide far more accuracy in summer period wastewater bills than using the average of three winter months, particularly for those customers who only reside in their home during non-winter seasonal months.¹³⁴⁹

¹³⁴⁵ CAUSE-PA St. 1 at 18:14-17.

¹³⁴⁶ I&E St. 4 at 9-10.

¹³⁴⁷ *Id.* at 9: 15-19.

¹³⁴⁸ *Id.* at 10: 15-18.

¹³⁴⁹ *Id.* at 10: 7-10.

According to CAUSE-PA, the Company’s methodology assumes that increased summer water usage is all attributable to outdoor water usage, without any individualized determination of whether a customer’s average winter usage is reflective of their average summer usage.¹³⁵⁰ This means that customers with a vacation home used primarily in the summer months, families with children returning from college for summer vacation, and other households with higher summer usage would be charged the lower winter rates throughout the year.

OCA expert witness Roger Colton analyzed seasonal usage among the Company’s residential customers and noted while there is monthly variation for both low-income customers and residential customers generally, that variation does not evidence the seasonal variation that PAWC identifies.¹³⁵¹ He further noted that the three-month average median bill (i.e., the average of the median bills for January through March) did not substantially differ from the average of the median bills for the remaining nine months. He found that while the non-winter median residential bills were higher than the median bills for the three winter months, the increase was minimal.¹³⁵² He concluded that, “the analysis which PAWC presents in support of its proposal is sufficiently flawed that it should not be used to adopt a proposal in this proceeding.”¹³⁵³

f. Victory Brewing’s Position

Victory Brewing takes no specific position on PAWC’s proposed water deduct adjustment.

¹³⁵⁰ CAUSE-PA St. 1 at 13.

¹³⁵¹ See OCA St. 4 at 106: 8-10; Figure 7.

¹³⁵² See OCA St. 4 at 108: 1-5; Table 22.

¹³⁵³ *Id.* at 110: 7-8.

g. Cleveland-Cliffs' Position

Cleveland-Cliffs takes no specific position on PAWC's water deduct adjustment.

h. ALJs' Recommendation

As wastewater service is typically not metered, in order to bill for the volume of wastewater used by a customer, wastewater providers may rely on meter readings from water usage as a proxy for measuring and billing wastewater service.¹³⁵⁴ The Company is proposing to change the way that it measures wastewater usage for residential customers to account for discretionary, outdoor water usage to fill pools, water lawns, and wash cars.

PAWC proposes to utilize a deduct adjustment to more closely align wastewater bills with cost causation.¹³⁵⁵ OCA and CAUSE-PA oppose the Company's proposal and I&E proposed certain changes.¹³⁵⁶ PAWC argues that OCA's and CAUSE-PA's opposition is unwarranted and that Mr. Mierzwa ignores PAWC's modeling that there are statistically significant changes in water consumption tied to changes in weather during the summer period.¹³⁵⁷ PAWC disagrees with the views of OCA witness Colton and CAUSE-PA witness Geller that the proposed deduct adjustment will negatively impact low-income customers while benefitting higher-income customers.¹³⁵⁸ PAWC argues the Company's deduct adjustment proposal is intended to benefit all customers by

¹³⁵⁴ CAUSE-PA St. 1 at 16: 9-11.

¹³⁵⁵ PAWC St. 10-R, pp. 27-28.

¹³⁵⁶ See OCA St. 3, pp. 40-41; OCA St. 4, pp. 106-111; CAUSE-PA St. 1, p. 18; I&E St. 4, pp. 8-11.

¹³⁵⁷ PAWC St. 10-R, p. 32.

¹³⁵⁸ OCA St. 4, pp. 108-109; CAUSE-PA St. 1, p. 18.

appropriately aligning the amount customers are billed with the actual costs they cause the Company to incur for wastewater service.¹³⁵⁹

I&E submits the Company is proposing to change the way that it determines the volumetric component of bills for residential customers. Currently, wastewater usage is based upon actual water usage. I&E submits a deduct adjustment, as the Company is proposing, is a method that would separate metered water usage that is likely to go through the wastewater system from water usage that is used for outdoor purposes in the summertime. I&E asserts it is meant to mimic a deduct meter, and the seasonal wastewater bills (April to December)¹³⁶⁰ would be determined by the lesser of actual metered water usage for the summer month or the average water consumption for that customer in the winter months. I&E witness Cline expressed general concerns that the Company's proposal is too broad and may have unintended consequences of shifting cost recovery from higher-income customers to lower-income customers since it is intended to benefit customers who water lawns, wash cars, fill pools, etc.,¹³⁶¹ in the summer.

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

1. that the winter average be calculated using the five billing months of December through April.

¹³⁵⁹ PAWC St. 10-R, pp. 33-34.

¹³⁶⁰ Pennsylvania-American Notice of Proposed Wastewater Rate Changes, Rate Zones 1, 1a, 1b, 1c, 1d, 1e, 1f, and 2; Pennsylvania-American Supplement No. 61 to Tariff Wastewater PA P.U.C. No. 16, Second Revised Page 31.1, Canceling First Revised Page 31.1.

¹³⁶¹ PAWC St. No. 10, p. 25.

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

I&E witness Cline explains that the Company should consider the option of a deduct meter program when more data exists regarding the outcome of the current deduct adjustment proposal.¹³⁶² As he notes, this would be a more simple, accurate and direct method to measure water that is being used for outdoor purposes. Having a program that allows customers to install deduct meters, at their own expense and not spread across the rest of the customer base, would allow for the direct measurement of water used for outdoor purposes to be deducted from the overall usage for the wastewater bill. I&E submits this option would provide far more accuracy in summer period wastewater bills than using the average of three winter months, particularly for those customers who only reside in their home during non-winter seasonal months.¹³⁶³

OCA argues PAWC overstates the benefits projected for its deduct adjustment proposal and therefore should not be approved.¹³⁶⁴ According to OCA, the difference between the winter average period usage and usage during the remaining months of PAWC's Residential customers is di minimis, ranging from 119 to 165 gallons per month during the past two years.¹³⁶⁵

¹³⁶² I&E St. No. 4, p. 11.

¹³⁶³ I&E St. No. 4, p. 10.

¹³⁶⁴ See OCA St. 3 at 38-42.

¹³⁶⁵ OCA St. 3 at 41.

Mr. Mierzwa stated that PAWC’s current proposal is similar to PAWC’s proposal in its 2023 rate proceeding. In that case, Mr. Mierzwa presented a similar analysis and the Commission agreed with the OCA’s position.¹³⁶⁶ The data Mr. Mierzwa used in that proceeding demonstrated a broader range of 100 gallons to 173 gallons per month, compared to this proceeding that demonstrated a range of 119 gallons to 165 gallons per month.¹³⁶⁷ In other words, OCA explains there is less of a difference between the winter averaging months compared to the remaining months of the year in this proceeding than the last time PAWC proposed this measure. OCA explains the Commission additionally found that PAWC’s winter averaging proposal in its 2023 rate case may have a disproportionate adverse impact on low income customers,¹³⁶⁸ and OCA identified similar issues in this rate proceeding as discussed in OCA witness Colton’s testimony.¹³⁶⁹

CAUSE-PA submits PAWC’s wastewater deduct adjustment improperly shifts revenue burden from households that reside in larger properties, with greater levels of discretionary water usage in the non-winter months, to customers that reside in smaller homes and apartments without the same discretionary water use. CAUSE-PA concludes the Commission should reject this proposal as unjust, unreasonable, and contrary to the public interest.

CAUSE-PA explains under PAWC’s proposed deduct adjustment method, a customer’s wastewater bill in the months of January, February, and March would be determined by actual metered water usage for the month.¹³⁷⁰ In all other months, a

¹³⁶⁶ *Pa. PUC v. Pennsylvania American Water Company*, R-2023-3043189, Order at 284 (July 11, 2024).

¹³⁶⁷ OCA St. 3 at 42.

¹³⁶⁸ *Pa. PUC v. Pennsylvania American Water Company*, R-2023-3043189, Order at 285 (July 11, 2024).

¹³⁶⁹ OCA St. 4 at 105-111; OCA St. 4SR at 12-15.

¹³⁷⁰ *Id.* at 26: 11-13.

customer's wastewater bill would be based on the lesser of actual metered water usage for the month or the average water consumption for that customer in the winter months.¹³⁷¹ For new customers or those without winter billing history, PAWC proposes to bill based on actual consumption until sufficient average billing data is available.¹³⁷² PAWC further proposes that in cases where the customer has low winter usage which is non-representative of actual consumption included in the deduct adjustment calculation (for example, summer vacation homes), it will use 1,000 gallons in place of the month's actual consumption.¹³⁷³ In other words, summer vacation homes with low to no winter usage would be charged for just 1,000 gallons of wastewater usage from April through December, regardless of their usage.

CAUSE-PA witness Geller testified the proposal improperly favors customers that reside in larger properties and have greater levels of discretionary water usage in the non-winter months, to the detriment of customers that reside in smaller homes and apartments that do not have the same discretionary water use.¹³⁷⁴ CAUSE-PA concludes the effect of this proposal is inequitable, unjust, and unreasonable for lower income customers who cannot afford to engage in discretionary water use in non-winter months, and customers residing in smaller homes and apartments where discretionary use is not possible or permitted.¹³⁷⁵ These customers, according to CAUSE-PA, will shoulder a higher revenue burden than their higher income counterparts, despite having fewer resources with which to pay.

CAUSE-PA further asserts the assumptions built into PAWC's winter averaging methodology are flawed. According to CAUSE-PA, PAWC's methodology

¹³⁷¹ *Id.* at 25: 11-15.

¹³⁷² *Id.* at 27: 3-5.

¹³⁷³ *Id.* at 27: 9-11.

¹³⁷⁴ CAUSE-PA St. 1 at 17: 19 - 18-2.

¹³⁷⁵ CAUSE-PA St. 1 at 18:14-17.

assumes outdoor water usage does not impact wastewater system costs, without consideration of whether a given system is combined stormwater and wastewater.¹³⁷⁶ As noted by I&E expert witness Ethan Cline, “treatment plants in the CSS Wastewater Operations treat flows that originate from both sanitary sewer systems as well as storm sewer systems. Therefore, the outdoor activity flows likely still get treated at the wastewater treatment plant despite not entering through the sanitary sewer system. Therefore, deducting these volumes from a customer’s bill does not follow cost causation principles.”¹³⁷⁷

According to CAUSE-PA, PAWC’s methodology assumes that increased summer water usage is all attributable to outdoor water usage, without any individualized determination of whether a customer’s average winter usage is reflective of their average summer usage.¹³⁷⁸ This means that customers with a vacation home used primarily in the summer months, families with children returning from college for summer vacation, and other households with higher summer usage would be charged the lower winter rates throughout the year.

OCA witness Colton analyzed seasonal usage among the Company’s residential customers and noted while there is monthly variation for both low-income customers and residential customers generally, that variation does not evidence the seasonal variation that PAWC identifies.¹³⁷⁹ He further explained that the three-month average median bill (i.e., the average of the median bills for January through March) did not substantially differ from the average of the median bills for the remaining nine months and found that while the non-winter median residential bills were higher than the

¹³⁷⁶ I&E St. 4 at 9-10.

¹³⁷⁷ *Id.* at 9: 15-19.

¹³⁷⁸ CAUSE-PA St. 1 at 13.

¹³⁷⁹ See OCA St. 4 at 106: 8-10; Figure 7.

median bills for the three winter months, the increase was minimal.¹³⁸⁰ He concluded that, “the analysis which PAWC presents in support of its proposal is sufficiently flawed that it should not be used to adopt a proposal in this proceeding.”¹³⁸¹

With regard to the Company’s Act 11 proposals to shift a significant proportion of wastewater costs to water customers, CAUSE-PA asserts this additional reallocation of wastewater costs from higher income households to lower income households is particularly concerning, arguing the cumulative effect of both Act 11 shifting and this proposed deduct adjustment is to significantly reduce the revenues collected from higher income wastewater customers at the expense of all other residential customers, the effects of which will be felt most significantly by low income water customers.¹³⁸²

In addition to its fundamental inequity, we agree with CAUSE-PA and I&E that the assumptions built into PAWC’s winter averaging methodology are flawed, and as I&E witness Cline explained, treatment plants in the CSS Wastewater Operations treat flows that originate from both sanitary sewer systems as well as storm sewer systems. Therefore, the outdoor activity flows likely still get treated at the wastewater treatment plant despite not entering through the sanitary sewer system. Therefore, deducting these volumes from a customer’s bill does not follow cost causation principles.¹³⁸³ Mr. Cline also noted that Aqua allows some of its customers to install deduct meters, so that they can submit readings to receive bill credits,¹³⁸⁴ he argued and we agree that this option, installed at the expense of the customer, would provide far more accuracy in summer

1380 See OCA St. 4 at 108: 1-5; Table 22.

1381 *Id.* at 110: 7-8.

1382 *Id.* at 18:5-9.

1383 *Id.* at 9: 15-19.

1384 *Id.* at 10: 15-18.

period wastewater bills than using the average of three winter months, particularly for those customers who only reside in their home during non-winter seasonal months.¹³⁸⁵

While we find that the modifications proposed by I&E would be an improvement over PAWC's proposal, we also agree with OCA that PAWC's proposed deduct adjustment is substantially similar to that which the Commission rejected in *PAWC 2024*. We further agree with CAUSE-PA that PAWC's proposed deduct adjustment assumes that all additional water usage in the summer months is due to outdoor use, and we find that PAWC did not adequately support that assumption. Therefore, we find that the Company failed to meet its burden of proof in establishing that its deduct adjustment proposal is fair, just and reasonable, and accordingly, we recommend that PAWC's proposed deduct adjustment be rejected.

5. Demand-Based Contact Rates

a. PAWC's Position

PAWC asserts it has special contract rates to attract and retain large customers that have competitive alternatives to water service from the Company. PAWC asserts it negotiates contracts at rates, with specified minimum and maximum levels, for these customers, as set forth in Rider DIS – Demand Based Industrial Service and Rider DRS – Demand Based Resale Service.¹³⁸⁶ The requirements for service specified by those riders include documentation, to the Company's satisfaction, of the existence of a competitive alternative.¹³⁸⁷ In approving Riders DIS and DRS, the Commission found that those riders create benefits for all of the Company's water customers by preserving

¹³⁸⁵ *Id.* at 10: 7-10.

¹³⁸⁶ PAWC St. 7-R, p. 18.

¹³⁸⁷ *Id.*

or attracting incremental sales that, because of competitive forces, could not otherwise be made.¹³⁸⁸

OSBA witness Cathcart claims that the cost of furnishing service to Rider DIS and DRS is subsidized by other water customers”¹³⁸⁹ and recommends that the Company re-evaluate the negotiated rates relative to competitive alternatives when Rider DIS and DRS contracts are up for renewal, and increase the contract rates to up to 90% of the cost of the competitive alternative.¹³⁹⁰

The Company argues Mr. Cathcart’s recommendation should not be adopted for PAWC’s demand-based riders for two principal reasons. First, PAWC asserts Rider DIS and DRS customers have competitive options to water service from PAWC, and the negotiated contract rate is necessary to maintain those customers.¹³⁹¹ The Company asserts other water customers benefit from the contribution that Rider DIS and DRS revenues provide to offset the fixed costs that otherwise would be borne entirely by those non-contract customers. PAWC witness Herbert testified that the variable cost to produce 100 gallons of water is \$0.1146, but the Rider DIS and DRS contracts impose commodity-based rates ranging from \$0.0720 to \$0.6321 per 100 gallons during FPFTY.¹³⁹² According to the Company, only two Rider DIS and DRS customers have negotiated commodity rates that are lower than the variable cost to produce 100 gallons of water, but those two contracts include demand charges of \$174,367.38 and \$9,881.94 per month, respectively, during the FPFTY.¹³⁹³ As such, PAWC asserts the combination of the demand charges and commodity charges would result in a contract rate that is greater than the cost to produce 100 gallons of water.

¹³⁸⁸ PAWC St. 12-R, p. 7.

¹³⁸⁹ OSBA St. 3-SR, p. 5.

¹³⁹⁰ OSBA St. 3, pp. 9-10.

¹³⁹¹ PAWC St. 7-R, pp. 18-19.

¹³⁹² PAWC St. 12-R, pp. 7-8.

¹³⁹³ PAWC St. 12-RJ, pp. 3-4.

The Company concludes that the revenues derived from Rider DIS and DRS contract customers cover the incremental or variable costs to produce 100 gallons of water and provide a meaningful contribution to the total fixed costs incurred by the Company to furnish water service.¹³⁹⁴

Second, the Company asserts Mr. Cathcart's recommendation only considers one variable – cost – in multifaceted service contract negotiations with a customer who has a competitive alternative to water service from PAWC. The Company argues, aside from price, reliability and quality of service standards, growth potential and contract term often play a key role in negotiating contract rates designed to retain or attract industrial and resale load.¹³⁹⁵ In addition, the Company argues generally that all Rider DIS and DRS contracts include a price escalation clause to ensure that high-load customers are not unreasonably sheltered from increases in PAWC's long-term marginal cost of serving these customers.¹³⁹⁶

b. I&E's Position

I&E did not specifically address this issue in testimony.

c. OCA's Position

OCA did not specifically address this issue in testimony.

¹³⁹⁴ PAWC St. 12-R, pp. 7-8.

¹³⁹⁵ PAWC St. 7-R, p. 19.

¹³⁹⁶ *Id.*

d. OSBA’s Position

OSBA has no comment.

e. CAUSE-PA’s Position

CAUSE-PA did not offer independent testimony with regard to PAWC’s demand based contract rates.

f. Victory Brewing’s Position

Victory Brewing takes no specific position on demand-based contract rates.

g. Cleveland-Cliffs’ Position

Cleveland-Cliffs did not specifically address this issue.

h. ALJs’ Recommendation

PAWC explains it has requirements for service specified by the riders that include documentation, to the Company’s satisfaction, of the existence of a competitive alternative.¹³⁹⁷

OSBA witness Cathcart submits that the cost of furnishing service to Rider DIS and DRS is subsidized by other water customers¹³⁹⁸ and recommends that the Company re-evaluate the negotiated rates relative to competitive alternatives when Rider

¹³⁹⁷ *Id.*

¹³⁹⁸ OSBA St. 3-SR, p. 5.

DIS and DRS contracts are up for renewal, and increase the contract rates to up to 90% of the cost of the competitive alternative.¹³⁹⁹

PAWC asserts only two Rider DIS and DRS customers have negotiated commodity rates that are lower than the variable cost to produce 100 gallons of water, but those two contracts include demand charges of \$174,367.38 and \$9,881.94 per month, respectively, during the FPFTY.¹⁴⁰⁰ As such, PAWC argues the combination of the demand charges and commodity charges would result in a contract rate that is greater than the cost to produce 100 gallons of water.¹⁴⁰¹

Based on the evidence presented, we have not identified any basis that would justify a change in the existing process employed by PAWC for demand based contract rates. We find that the existing process is reasonable, based upon the evidence presented in this proceeding. Accordingly, we recommend that PAWC be required to re-evaluate negotiated rates as they expire and to increase rates for those customers as required by its tariff and as otherwise directed by the Commission.

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

1. PAWC's Position

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

¹³⁹⁹ OSBA St. 3, pp. 9-10.

¹⁴⁰⁰ PAWC St. 12-RJ, pp. 3-4.

¹⁴⁰¹ PAWC St. 12-R, pp. 7-8.

operation reaches \$0.¹⁴⁰² In addition, as PAWC is proposing structural changes and new rate designs, the Company requests that proposed rates for water Rate Zone 4 (Farmington), wastewater Rate Zones 1, 1d BASA, and 1f (Farmington) be excluded from any scale-back.¹⁴⁰³

2. I&E's Position

a. Water Scale-Back of Rates

I&E witness Sakaya recommends that any scale-back would first determine the revenue requirements and scale-backs of the Wastewater Operations and that this would determine the amount of revenue requirement to allocate to Water Operations. Once the wastewater to water allocation is determined, a full Water Operations revenue requirement would be known, and at that point those rates can be scaled back accordingly. I&E witness Sakaya also recommended that any scale-back be netted against the subsidy the Commission determines for Wastewater Operations.¹⁴⁰⁴

I&E explains Cleveland-Cliffs witness Baudino agreed to the scale-back in principle, however he objected to a scale-back of Industrial class customer charges as those charges were not increased.¹⁴⁰⁵ The Company is proposing a consolidated customer charge of \$28.00 for Industrial customers in Rate Zones 1 through 6, with little to no increases in usage rates in the forementioned Industrial Rate Zones. Therefore, I&E also agrees with witness Baudino's recommendation that the Industrial customers in Zones 1

¹⁴⁰² PAWC St. 10-R, p. 19.

¹⁴⁰³ *Id.*, pp. 20-21.

¹⁴⁰⁴ I&E St. No. 3, p. 16.

¹⁴⁰⁵ Cleveland-Cliffs St. No. R-1, pp. 5-6.

through 6 not be included in the scale-back of any customer charge, and that only the usage rates for these customers be scaled back.¹⁴⁰⁶

I&E recommends that if the Commission grants an increase less than PAWC's total requested increase, the usage rates and customer charges be decreased to produce the revenue level approved by the Commission.¹⁴⁰⁷

b. Wastewater Scale Back of Rates

OSBA witness Kubas provided a targeted scale-back recommendation designed specifically around his rate recommendations.¹⁴⁰⁸ As a result, since I&E is supporting the rate recommendations of the OSBA, I&E submits it is reasonable to also support Mr. Kubas' scale-back methodology.¹⁴⁰⁹

3. OCA's Position

OCA asserts the cost of service studies (COSS), rate structures, and rate designs proposed by PAWC need to be modified to meet the just and reasonable standard. Specifically, as discussed below: 1) the system-wide maximum day and maximum hour demand factors used in PAWC's water COSS study are outdated; the OCA provided an updated and accurate COSS study; 2) the Commission should continue to Order PAWC to provide separate cost of service studies for its 1329 acquisitions for transparency; 3) the Commission should reject in-part and adopt in-part PAWC's Act 11 wastewater revenue requirement shift; 4) Customer charges for water and wastewater operations need to be changed to reflect accurate cost-based principles; 5) the

¹⁴⁰⁶ I&E St. No. 3-SR, p. 14.

¹⁴⁰⁷ I&E St. No. 3, p. 18.

¹⁴⁰⁸ OSBA St. No. 1-R, p. 8.

¹⁴⁰⁹ I&E St. No. 4-SR. p. 17.

Commission should allocate its approved revenue requirement according to the OCA's COSS; 6) any reductions to PAWC's requested revenue increase should be adjusted proportionately across water and wastewater operations and proportionately across customer classes not subject to contract sales; and 7) PAWC's proposed deduct adjustment should be rejected.

4. OSBA's Position

If revenue requirement is reduced, OSBA recommends that the class increases shown in OSBA Schedule Q4 (W) Column 2 (excluding Contract Sales), be scaled back proportionately based on each class's proportion of the total "OSBA Recommended Increase."¹⁴¹⁰

OSBA submits it described a reasonable scale-back of rates and revenue if the Commission grants less than the full wastewater revenue request.¹⁴¹¹

In direct testimony, OSBA provided a schedule showing the present rate revenue, wastewater revenue request, scale-back of revenue at various steps, the increase in revenue at each step and the percentage increase at each step.¹⁴¹² As a result of the Company's changes to present rate revenue and the OSBA change in the BASA revenue, OSBA provided a revised JK-20 as OSBA Exhibit JK-SR14.

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

¹⁴¹⁰ OSBA St. No. 3, Direct Testimony of Roger Cathcart, p. 4.

¹⁴¹¹ OSBA St. No. 1, Direct Testimony of Joe Kubas, pp. 47-52.

¹⁴¹² OSBA St. No. 1, Direct Testimony of Joe Kubas, Ex. JK-20.

rate, that rate should not be scaled back.¹⁴¹³ The Company generally agreed with these recommendations per PAWC Statement No. 10-R, pp. 14-15. OSBA asserts scale-back is a reasonable proposal that results in the SSS and CSS Operations receiving approximately the same percentage increase if the Commission grants an increase of 90% of the revised increase (a 10% scale-back).¹⁴¹⁴

For a larger decrease, OSBA asserts its scale-back proposal continues to be reasonable since the SSS and CSS operations will each receive the same percentage increase if the Commission grants an increase of 80% or less than 80% of the revised increase (a 20% or greater scale-back).¹⁴¹⁵

5. CAUSE-PA's Position

CAUSE-PA did not offer independent expert testimony with regard to the scaling back of rates, though it supports the positions advanced by the OCA.

6. Victory Brewing's Position

OSBA witness Kubas argues that if the Commission approves a revenue requirement that is less than the amount PAWC requested, the monthly charge for the special wastewater rate applicable to Victory Brewing and Cleveland-Cliffs Steel should be scaled back to match the percentage increase in the Zone 1 Non-Residential usage. However, he does not believe that the usage rate for Victory Brewing and Cleveland-Cliffs Steel should be scaled back at all.¹⁴¹⁶

¹⁴¹³ OSBA St. No. 1, Direct Testimony of Joe Kubas, Page 47.

¹⁴¹⁴ OSBA St. No. 1-SR, Ex. JK-14SR, line 7.

¹⁴¹⁵ OSBA St. No. 1-SR, Ex. JK-14SR, lines 14, 21 and 28.

¹⁴¹⁶ OSBA St. No. 1 at 51–52.

Victory Brewing submits that OSBA's scale-back proposal for the special wastewater rates should be rejected. To be clear, no increase to the wastewater special rate is appropriate or justified here. However, to the extent that any increase to the special rate is approved, both the monthly charge *and* the usage rate should be proportionately scaled back.¹⁴¹⁷

7. Cleveland-Cliffs' Position

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

8. ALJs' Recommendation

We note that we adopted the OCA's COSS consistent with the discussion above. Based upon the evidence, we are persuaded by the position advanced by OSBA and recommend that OSBA's proposal for the scaleback of rates be adopted. We find it is appropriate that rates and revenue in the BASA and EBMA Operations should not be scaled back since the proposed rates in these systems are so far below the corresponding rates in the SSS and CSS Operations respectively. As we are recommending less than 80% of the requested increase be granted, we further find that it is appropriate for general SSS and CSS to have the same rate increase percentage as proposed by OSBA.

¹⁴¹⁷ Victory Brewing St. No. 1-R at 7.

As noted in Table Act 11, the recommended lower revenue requirement results in a decreased Act 11 allocation. The Commission should adopt OSBA’s recommendation to direct PAWC to follow the OSBA’s targeted Act 11 wastewater class scaleback including any resulting Act 11 revenue allocation.

XIII. ALTERNATIVE RATEMAKING REQUESTS

A. Customer Assistance Program Rider

1. PAWC’s Position

Under Section 1330 of the Code, a public utility may propose alternative rates and rate mechanisms in a base rate proceeding. Under the policy declaration incorporated in Section 1330, such alternative rates and rate mechanisms “should encourage and sustain investment through appropriate cost-recovery mechanisms to enhance the safety, security, reliability or availability of utility infrastructure and be consistent with the efficient consumption of utility service.”¹⁴¹⁸ Under Section 1330, the Company is proposing an alternative rate mechanism: the CAP Rider.

PAWC argues the CAP Rider functions as a true-up mechanism that reconciles the difference between CAP costs included in base rates and the Company’s actual CAP costs.¹⁴¹⁹ PAWC posits that the CAP Rider is similar to universal service riders utilized by energy utilities, but narrower in scope since the Company will continue to recover the bulk of its CAP costs in base rates. In addition, PAWC claims the CAP Rider is fully symmetrical and would result in a credit to residential customers’ bills if

¹⁴¹⁸ 66 Pa. C.S § 1330(a)(2).

¹⁴¹⁹ PAWC St. 2, p. 31. CAP costs subject to the CAP Rider will include BDP discounts, AMP credits, and, if approved, RAPP stipends and associated administrative costs.

PAWC’s actual CAP costs are below the costs built into the Company’s base rates.¹⁴²⁰ The Company is not proposing any change in its allocation of CAP costs—they will continue to be allocated to residential customers.¹⁴²¹

The Company avers the CAP Rider is necessary due to the significant and ongoing volatility in the Company’s CAP enrollment and costs.¹⁴²² PAWC’s implementation of a documentation-based income verification process in the first quarter of 2025 resulted in a steep decline in BDP enrollment—from approximately 30,000 customers to approximately 14,000 customers. Extensive customer outreach activity by PAWC to enroll income-eligible customers in the BDP and AMP increased enrollment to approximately 21,500 customers by September 2025.¹⁴²³ As of March 1, 2026, BDP enrollment had increased to just under 25,000 customers.¹⁴²⁴

PAWC avers this variability will persist going forward due to the Company’s income recertification process, which will occur for all BDP and AMP customers on the following schedule: (a) every six months for zero-income customers; (b) every two years for variable-income customers; and (c) every three years for fixed-income customers.¹⁴²⁵ It may appear that BDP enrollment will continue to trend upwards, but PAWC claims it cannot predict the number of customers that may be removed from programs due to a failure to recertify their income.¹⁴²⁶ The Company remains concerned that there could be significant fluctuation.¹⁴²⁷ In addition, PAWC

¹⁴²⁰ PAWC St. 2, p. 31.

¹⁴²¹ *Id.*, p. 34.

¹⁴²² PAWC M.B., p. 88.

¹⁴²³ PAWC St. 2, pp. 32-33.

¹⁴²⁴ Tr. 1812-13.

¹⁴²⁵ *See Petition of Pennsylvania American Water Company for Approval of an Arrearage Management Plan (On Remand)*; Docket No. P-2021-3028195, Recommended Decision (Oct. 13, 2022) at 13.

¹⁴²⁶ Tr., pp. 1812-13.

¹⁴²⁷ *Id.*

notes it was directed by the Commission to adopt a BDP enrollment target in its 2023 rate case,¹⁴²⁸ and the Company set an annual enrollment target of 2.5% growth per year of its estimated low-income customer count.¹⁴²⁹ PAWC avers that if it were to successfully grow its BDP enrollment at that pace, without the CAP Rider, the Company would experience a \$10 million shortfall in revenues in the two years after new rates are in effect since the CAP amounts built into its proposed base rates are too low.¹⁴³⁰

The Company submits that unpredictability in CAP costs is compounded by the Company's recently implemented AMP and its proposed RAPP. AMP customers are also subject to documentation-based income recertification requirements, and arrearage levels differ extensively from customer to customer. The Company notes it cannot reliably predict which customers at which arrearage levels will enroll in the AMP. If AMP enrollment increases significantly, PAWC argues the AMP costs included in proposed base rates may be far below the Company's actual AMP costs.¹⁴³¹ Similarly, PAWC avers RAPP is a new program with uncertain participation and administrative costs and the Company did not include a projected cost level in base rates; instead, it is seeking to recover the costs of RAPP through the CAP Rider.¹⁴³²

In its Reply Brief, PAWC responds to OCA's concerns regarding double recovery.¹⁴³³ PAWC submits that OCA witness Colton's concerns regarding double recovery are unsupported.¹⁴³⁴ Rather, the CAP Rider will prevent over-recovery if low-income program enrollment decreases, which PAWC claims is a very real possibility.¹⁴³⁵

¹⁴²⁸ *Pa. P.U.C. v. Pa. American Water Co.*; Docket Nos. R-2023-3043189 and R-2023-3043190 (Opinion and Order dated July 22, 2024) (Ordering Paragraph 27).

¹⁴²⁹ Tr. 1816.

¹⁴³⁰ *Id.*

¹⁴³¹ PAWC St. 2, pp. 33-34.

¹⁴³² *Id.*, p. 34.

¹⁴³³ PAWC Reply Brief, p. 51.

¹⁴³⁴ *See* PAWC M.B., p. 90.

¹⁴³⁵ PAWC Reply Brief, p. 51.

PAWC also responds to the concerns of CAUSE-PA witness Harry Geller. The Company submits that his conclusion – 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.¹⁴³⁶ PAWC avers Mr. Geller 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 efforts.¹⁴³⁷

2. I&E’s Position

I&E did not present testimony on this topic.¹⁴³⁸

3. OCA’s Position

OCA explains that PAWC’s proposed CAP rider for actual costs of PAWC’s customer assistance programs would act as a true-up mechanism and include PAWC’s BDP discounts, AMP credits, RAPP stipends, and RAPP administrative costs.¹⁴³⁹ OCA witness Colton testified that PAWC’s proposed CAP rider should be denied, and that the costs should be recovered in base rates, because accepting PAWC’s proposal isolates one element out of a multitude of elements that affects PAWC customer rates.¹⁴⁴⁰ Mr. Colton testified:

¹⁴³⁶ See CAUSE-PA M.B., pp. 33-39.

¹⁴³⁷ Tr. 1856.

¹⁴³⁸ I&E M.B., p. 96.

¹⁴³⁹ PAWC St. 2 at 30.

¹⁴⁴⁰ OCA St. 4 at 92-93.

Without taking into consideration all other rate impacts of the changing level of BDP/AMP costs, it is not possible to determine the extent to which, if at all, PAWC's *total* cost of service had increased as a result of the increased BDP/AMP costs. It is thus not possible to determine what dollar amount of cost recovery would need to be reflected in any increase in rates through the proposed CAP Rider.¹⁴⁴¹

Mr. Colton added that any increase in BDP/AMP costs due to increased participation, for example, will be offset, in whole or in part, by decreases in expenses such as the working capital associated with carrying arrears; by decreases in expenses associated with decreased credit and collection expenses; by decreased expense associated with bad debt; or by the increased revenues associated with decreased disconnections or more frequent reconnections.¹⁴⁴²

Mr. Colton recommended that PAWC's proposal be rejected and that PAWC monitor and review the appropriate billing data for purposes of determining, in its next base rate proceeding, to what extent changes, if any, to the offset he recommended are reasonable to avoid double recovery.¹⁴⁴³

Mr. Colton cautioned against the double recovery of universal service costs. Mr. Colton demonstrated that it is the utilities' burden of proof to demonstrate that allowing for recovery of a claim for arrearage forgiveness will not give the utility double-recovery of these costs – a burden that PAWC has not satisfied in this case.¹⁴⁴⁴ The

¹⁴⁴¹ OCA St. 4 at 93.

¹⁴⁴² OCA St. 4 at 93-94.

¹⁴⁴³ OCA St. 4 at 94, adding that universal service costs for energy utilities are recoverable through a rider as per statute.

¹⁴⁴⁴ OCA St. 4 at 96-97, *citing, Customer Assistance Programs: Funding Levels and Cost Recovery Mechanism*, Final Investigatory Order, at 38 (Oct. 19, 2006).

Commission has recognized the potential of double recovery of costs without a universal service offset as support for why an offset is necessary.¹⁴⁴⁵ Mr. Colton concluded that PAWC’s proposal to establish a universal service offset of \$0 is unreasonable and should be rejected.¹⁴⁴⁶

OCA submits that PAWC failed to rebut Mr. Colton’s analysis that, without taking into consideration all other rate impacts of the changing level of BDP/AMP costs, it is impossible to determine the extent to which, if at all, PAWC’s total cost of service had increased as a result of the increased BDP/AMP costs.¹⁴⁴⁷ Mr. Colton testified: “changes in participation will affect both revenues and expenses. It would be inappropriate to provide a reconciliation for revenues without adjusting also for the overall impacts on total cost of service.”¹⁴⁴⁸

4. OSBA’s Position

OSBA has no comment.¹⁴⁴⁹

5. CAUSE-PA’s Position

CAUSE-PA argues it is premature to collect these costs through a reconcilable rider. As explained by Mr. Geller, nothing is compelling PAWC to make this switch at this time other than it seeks to guarantee revenue recovery through a rider rather than rates.¹⁴⁵⁰ CAUSE-PA explains that gas and electric universal service programs, mandated a quarter of a century ago and matured under Commission oversight

¹⁴⁴⁵ *Id.* at 97-99.

¹⁴⁴⁶ *Id.*

¹⁴⁴⁷ OCA St. 4SR at 34.

¹⁴⁴⁸ OCA St. 4SR at 35.

¹⁴⁴⁹ OSBA M.B., p. 47.

¹⁴⁵⁰ *Id.* at 19: 9-11.

since then, are collected through a rider because the Public Utility Code specifically requires this method of collection – subject to explicit statutory, regulatory, and policy mandates.¹⁴⁵¹ CAUSE-PA avers that PAWC’s low-income programs remain nascent and in development, and lack key elements of a comprehensive universal service program. Thus, CAUSE-PA submits it is appropriate to continue to collect the costs of these programs through base rates - without implementation of a separate rider.¹⁴⁵² CAUSE-PA maintains that PAWC has evidenced a rapid cadence of rate cases that creates more than sufficient opportunities to update its costs and expenses to fund these programs.¹⁴⁵³

CAUSE-PA notes that Company witness Dr. Chard testified that the Company is proposing its CAP Rider because it anticipates significant CAP participation fluctuation as a result of its recently imposed income documentation process.¹⁴⁵⁴ CAUSE-PA explains, however, Dr. Chard admitted on cross examination that the Company does not intend to impose additional changes to its income documentation process, raising substantial doubt about the Company’s claims that enrollment will continue to fluctuate over time.¹⁴⁵⁵

CAUSE-PA points to Mr. Geller who explained, given the relatively low percentage of eligible customers who are currently enrolled, the nascent nature of this recently overhauled program, and the fact that no other water or wastewater providers in Pennsylvania have rider recovery mechanisms, and argues PAWC should not be entitled to guaranteed recovery of its costs through a rider at this time.¹⁴⁵⁶

¹⁴⁵¹ See 66 Pa. C.S. §§ 2203(6) & 2802(17).

¹⁴⁵² CAUSE-PA St. 1 at 19: 15-16.

¹⁴⁵³ *Id.* at 19: 16-18.

¹⁴⁵⁴ *Id.* at 15: 3-5.

¹⁴⁵⁵ Evidentiary Hearing Tr. at 1856: 1-20.

¹⁴⁵⁶ CAUSE-PA St. at 1-SR at 11: 11-14.

CAUSE-PA submits that the Company, by seeking a non-bypassable rider, is attempting to gain the benefit of a fully developed universal services portfolio while rejecting the obligations of implementing fundamental universal service program components, undertaking efforts at robust enrollment, or submitting to third party evaluation, public reporting, and periodic due process review.¹⁴⁵⁷

CAUSE-PA avers the Company is prematurely attempting to avail itself of the benefits of guaranteed cost recovery through a rider without establishing each component of universal service and conservation programming, without incorporating critical cost-effectiveness measures, without developing a unified universal service and conservation plan subject to Commission review and oversight, and without taking on the other responsibilities incumbent upon Companies who are explicitly authorized by statute to collect universal service and conservation program costs through a non-bypassable rider.¹⁴⁵⁸

Further, CAUSE-PA strongly disagrees with PAWC's decision to continue collecting universal service costs only from residential ratepayers. It argues it is unreasonable for residential customers, many of whom are struggling themselves but have neither been selected or qualified for assistance, to solely bear the burden of these costs.¹⁴⁵⁹ Poverty, and the multifaceted issues that contribute to poverty, is the "cause" driving the need for these public purpose programs. CAUSE-PA maintains poverty is a societal problem, not an individual one.¹⁴⁶⁰ Addressing the methods to retain basic and essential service is a community wide problem - not created by residential customers,

¹⁴⁵⁷ CAUSE M.B., p. 36.

¹⁴⁵⁸ Id. at 36.

¹⁴⁵⁹ CAUSE-PA St. 1 at 19:19 – 20:2.

¹⁴⁶⁰ CAUSE-PA M.B., p. 40.

who, as workers and consumers, are subject to the level of the wages, costs of goods, essential services, and utility rates controlled by other aspects of society.¹⁴⁶¹

CAUSE-PA argues the General Assembly has recognized that universal service programs are public purpose costs in the context of both gas and electric service because they assist economically vulnerable Pennsylvania families maintain access to essential utility service.¹⁴⁶² By extension, CAUSE-PA believes those same principles are at play for water and wastewater service and are no less essential services than other utility costs.¹⁴⁶³ CAUSE-PA avers the fact that assistance programs for water and wastewater are not as well developed is a consequence of their relative nascence, not an indication that they are less important.¹⁴⁶⁴ As such, CAUSE-PA maintains it is not reasonable for residential customers, alone, to bear these costs.¹⁴⁶⁵

6. Victory Brewing's Position

Victory Brewing takes no specific position on PAWC's proposed CAP Rider.¹⁴⁶⁶

¹⁴⁶¹ *Id.* at 20: 8-12.

¹⁴⁶² 66 Pa. C.S. § 2802(17), "There are certain public purpose costs, including programs for low-income assistance, energy conservation and others, which have been implemented and supported by public utilities' bundled rates. The public purpose is to be promoted by continuing universal service and energy conservation policies, protections and services, and full recovery of such costs is to be permitted through a non-bypassable rate mechanism."

¹⁴⁶³ CAUSE-PA M.B., p. 40.

¹⁴⁶⁴ CAUSE-PA St. 1 at 20: 4-8.

¹⁴⁶⁵ CAUSE-PA M.B., p. 41.

¹⁴⁶⁶ Victory Brewing M.B., p. 14.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs does not address this issue in its Main Brief.

8. ALJs' Recommendation

PAWC bears the burden of demonstrating that its proposed CAP Rider is necessary, reasonable, and consistent with the public interest. We agree with OCA and CAUSE-PA that the record does not support such a finding and recommend the proposed CAP Rider be rejected.

As proposed, the rider would seek to isolate the costs associated with one set of expenses as unique without a full accounting for the total cost of service. As noted by OCA, “without taking into consideration all other rate impacts of the changing level of BDP/AMP costs, it is not possible to determine the extent to which, if at all, PAWC’s *total* cost of service had increased... .”¹⁴⁶⁷ Such a result is inconsistent with the Commission’s policy statement regarding CAP cost recovery policy and long-standing ratemaking principles in the Commonwealth. Additionally, there may be decreases in expenses such as cash working capital that may be realized through the CAP program and there may be a double recovery of costs without an appropriate offset.

The record demonstrates that these programs lack the foundational elements of an accessible, appropriately resourced, and cost-effective universal service program that the Commission has historically required before granting utilities guaranteed cost recovery through an alternative ratemaking mechanism. At best, it is premature for PAWC to have a CAP rider.

¹⁴⁶⁷ OCA M.B. at 89.

PAWC’s variability concerns are insufficient to support adopting the proposed CAP Rider since many costs of the Company are variable, but not all those costs warrant a Rider. Furthermore, the record shows the recent enrollment variability was the direct result of PAWC’s procedural change to the enrollment process – specifically, its implementation of document-based income verification requirements.¹⁴⁶⁸ Enrollment has since rebounded, and PAWC does not plan to make further changes to its income verification procedures.¹⁴⁶⁹

Although PAWC alleges that, absent a CAP Rider, increased BDP enrollment could produce a revenue shortfall on the order of \$10 million over a two-year period, this assertion is unsupported by the record – it was first mentioned in Dr. Chard’s Rejoinder and the Company’s Main Brief cites only to this reference.¹⁴⁷⁰ PAWC has not accounted for offsetting impacts, including reductions in uncollectible expenses, fewer collections actions, decreased termination activity, and improved payment coverage and frequency rates as enrollment increases. Without analyzing the total revenue and expense effects associated with higher enrollment, PAWC cannot demonstrate that a separate recovery mechanism is warranted.

The language of Section 1330 of the Public Utility Code, on which PAWC relies, is permissive and not mandatory. This is a situation where such an alternative ratemaking mechanism is not appropriate.¹⁴⁷¹ PAWC should recover its costs, but recovery should be done through the traditional rate base/rate of return ratemaking process and not a new Rider. Perhaps in the future, a CAP Rider may be appropriate.

¹⁴⁶⁸ PAWC M.B. at 88 (public).

¹⁴⁶⁹ CAUSE-PA M.B. at 35.

¹⁴⁷⁰ PAWC MB at 89 (public).

¹⁴⁷¹ 66 Pa. C.S. § 1330 (“the commission *may* approve an application by a utility in a base rate proceeding to establish alternative rates and rate mechanisms”) (emphasis added).

XIV. LOW-INCOME CUSTOMER ASSISTANCE

A. Affordability of Water and Wastewater Service

1. PAWC's Position

PAWC explained that it conducted a detailed analysis of the affordability of its water and wastewater services.¹⁴⁷² PAWC witness Ather prepared (for both water and wastewater services), an Enterprise-Level Analysis of affordability, which considered the affordability of service at a high level over a multi-year period, and a Community-Level Analysis, which presents a focused analysis for individual groups of customers using the most recent available household information on income, size, and ownership status from the U.S. Census Bureau and usage assumptions consistent with usage levels being used to set proposed rates in this case.¹⁴⁷³ Ms. Ather concluded that:

- The affordability of the Company's water and wastewater service from 2014 through the FPFTY indicates that the way the Company has invested in and managed its water and wastewater systems has indeed been for the long-term benefit of our customers.
- PAWC's water and wastewater service has been, is, and is expected to continue to be affordable for the majority of its residential customers, including under proposed rates.

¹⁴⁷² See Exs. DFA-1, DFA-2.

¹⁴⁷³ PAWC St. 9, pp. 3-4.

- There are, however, groups of customers for whom affordability of water and wastewater service may be challenging, which PAWC assists through its BDP, AMP, and Hardship Fund programs.¹⁴⁷⁴

PAWC notes that Ms. Ather determined that the Company’s proposed rates are affordable, not only because the Bill-to-Income (BTI) Ratio at median household income (MHI) falls below the 2% level, but because the Company’s proposed rate design in this case, which includes the BDP, gives virtually every residential customer the opportunity to obtain water and wastewater service at the “Basic Water Service” or “BWS” level¹⁴⁷⁵ that is affordable (for example, less than 2% of household income for one form of service and 4% of household income for both).¹⁴⁷⁶

While both OCA witness Colton and CAUSE-PA witness Geller were critical of PAWC’s BWS usage of 40 gallons per person per day as part of the Company’s affordability analyses, PAWC maintains that its affordability analysis necessarily relies on standardized, verifiable data such as household size, income distribution, ownership status, ZIP code level demographics, and system-level consumption, which are inputs capable of supporting a consistent, reliable, and reproducible affordability assessment.¹⁴⁷⁷ It avers that if it were to change its affordability analysis from BWS, which measures essential use, to a metric based on average consumption patterns of customer subgroups, such as confirmed low-income

¹⁴⁷⁴ *Id.*, p. 24. *See also* PAWC St. 9, pp. 9-13 (results of Water and Wastewater Enterprise-Level Analysis), 8-9 (results of Wastewater Enterprise-Level Analysis), 19-21 (results of Water and Wastewater Community-Level Analyses).

¹⁴⁷⁵ PAWC defines “Basic Water Service” or “BWS” as 40 gallons per person per day. *See* PAWC St. 9, pp. 17-18.

¹⁴⁷⁶ PAWC St. 9-R, p. 8.

¹⁴⁷⁷ *Id.*, pp. 4-5.

customers or BDP participants highlighted by Mr. Geller, the analysis would no longer assess affordability at a standardized level of basic water service.¹⁴⁷⁸

PAWC admits Mr. Geller and Mr. Colton were also critical of PAWC's stated affordability outcomes in light of the Company's use of MHI and because the Company assumed full participation in the BDP.¹⁴⁷⁹ Each presented affordability information (and in Mr. Geller's case, an affordability analysis) regarding outcomes in the absence of the BDP.¹⁴⁸⁰

PAWC notes that Ms. Ather explained that the Enterprise-Level Analysis, which uses MHI, provides a high level overview on affordability trends, while the Company's Community-Level Analysis, which does not rely on MHI, is used to address the depth and breadth of affordability issues for the Company's lower-income customers.¹⁴⁸¹ When building its affordability analyses, PAWC assumed full participation in the BDP to show maximum potential effectiveness of the program if eligible customers were to all enroll.¹⁴⁸² Finally, with regard to Mr. Geller's analysis, Ms. Ather explained that there was no information about how many PAWC customers might fall into the various income level and usage combinations presented. The Company submits that its affordability analyses, on the other hand, provide a much clearer and more comprehensive framework for evaluating the scope and depth of real-world affordability issues, including the potential mitigating effect of its assistance programs.¹⁴⁸³

¹⁴⁷⁸ *Id.*, pp. 10-11.

¹⁴⁷⁹ *See, e.g.*, CAUSE-PA St. 1-SR, pp. 3-8; OCA St. 4SR, pp. 8-11.

¹⁴⁸⁰ *See, e.g.*, OCA St. 4, pp. 20-25; CAUSE-PA Ex. 1.

¹⁴⁸¹ PAWC St. 9-R, pp. 7-8.

¹⁴⁸² *Id.*, p. 9.

¹⁴⁸³ *Id.*, pp. 12-13.

2. I&E's Position

I&E presented no testimony on this topic.¹⁴⁸⁴

3. OCA's Position

OCA argues it is of paramount importance that the Commission ensure that the rates that result from this proceeding are affordable.¹⁴⁸⁵ OCA avers the fundamental need for affordable water is recognized not only by laws relating to the protection of children, but also by laws relating to the habitability of homes.¹⁴⁸⁶ OCA noted its witness, Mr. Colton, concluded that water cannot be viewed as just another commodity with access denied when customers find the cost to be unaffordable but that PAWC “must remain mindful that public health is their core business and there is as much impact at stake in the manner in which they obtain revenue from low-income households as there is in treating the water to high standards.”¹⁴⁸⁷

Although PAWC contended its proposed rates were affordable, OCA disputes this assertion and claims that PAWC's analysis is flawed. OCA notes its witness, Mr. Colton, explained that PAWC's assumed consumption of 40 gallons per household member per day is too low and that there are “inherent fallacies” in its analysis.¹⁴⁸⁸ Mr. Colton analyzed data from the American Community Survey to get a more accurate picture of the households in PAWC's service territory, and determined that

¹⁴⁸⁴ I&E M.B., p. 96.

¹⁴⁸⁵ 66 Pa. C.S. § 1301.

¹⁴⁸⁶ OCA St. 4 at 9-10 (internal citations omitted).

¹⁴⁸⁷ OCA St. 4 at 11.

¹⁴⁸⁸ OCA St. 4 at 13-15 (noting the WRF estimate of 50.7 gallons per household member per day and the EPA's estimate of 82 gallons per household member per day).

“rather than accounting for those differences, PAWC’s witness, Ms. Ather, simply averages them all together and deems them all to have affordable bills ‘on average.’”¹⁴⁸⁹

Additionally, Mr. Colton criticized Ms. Ather’s failure to consider the seasonal nature of consumption.¹⁴⁹⁰

Importantly, OCA explains that PAWC’s rates have substantially increased since 2020 – rates have increased nearly 35% from 2020 through 2024, over the course of four general rate cases.¹⁴⁹¹ OCA avers that incomes in the PAWC service territory did not keep up.¹⁴⁹² As such, OCA avers PAWC’s rates at both the existing and proposed rates are unaffordable for customers with income between \$50,000 and \$60,000¹⁴⁹³ and the rates are unaffordable for many moderate-income customers.¹⁴⁹⁴ In conclusion, OCA argues PAWC’s proposed rate increase should be rejected because it will make its rates unaffordable.¹⁴⁹⁵

4. OSBA’s Position

OSBA argues water and wastewater service are essential, non-discretionary services, and affordability for Small Business customers must therefore be a central

¹⁴⁸⁹ OCA St. 4SR at 5, *citing*, American Community Survey (2023 5-year data), at Table B25010. Ms. Ather does not consider differences based on household size or that water consumption differs by age. OCA St. 4SR at 6.

¹⁴⁹⁰ OCA St. 4SR at 7-8.

¹⁴⁹¹ OCA St. 4 at 15-16.

¹⁴⁹² OCA St. 4 at 17. PAWC witness Ather did not dispute, nor seek to rebut, this finding in her rebuttal testimony. *See* OCA St. 4SR at 2-3.

¹⁴⁹³ OCA St. 4 at 20-22.

¹⁴⁹⁴ OCA St. 4 at 27.

¹⁴⁹⁵ OCA M.B., p. 91.

consideration in any ratemaking determination.¹⁴⁹⁶ OSBA posits that PAWC's proposed rate increase fails this standard.¹⁴⁹⁷

OSBA argues that Small Business customers operate on narrow margins and lack the ability to absorb substantial increases in fixed utility costs. Unlike larger commercial entities, Small Businesses cannot easily offset rising expenses without increasing prices, reducing staff, or curtailing operations¹⁴⁹⁸ As such, the proposed increase threatens not only individual Small Businesses but also the broader local economies they support.

OSBA explains that Small Business customer affordability concerns are further compounded by the cumulative impact of rising utility and non-utility costs, including inflationary pressures affecting labor, goods, and services. Water service, as a basic necessity, does not permit demand reduction in the same manner as discretionary expenses, and increased rates function as an unavoidable financial burden rather than a manageable cost.¹⁴⁹⁹

5. CAUSE-PA's Position

Like OCA, CAUSE-PA argues that PAWC's low-income customers are already struggling – even at present rates – to afford and stay connected to water/wastewater services.¹⁵⁰⁰ CAUSE-PA submits that PAWC's proposed rate increases would further exacerbate existing levels of unaffordability for PAWC's low-income customers and low-income customers will be subject to excessive combined

¹⁴⁹⁶ OSBA M.B., p. 47.

¹⁴⁹⁷ *Id.* at 48.

¹⁴⁹⁸ *Id.*

¹⁴⁹⁹ *Id.*

¹⁵⁰⁰ CAUSE-PA's M.B. at 49.

water/wastewater burdens.¹⁵⁰¹ For example, CAUSE-PA avers that at proposed rates, a family of two with a household income of \$10,820 would place them at 50% FPL, and using 3,000 gallons/month give them a combined water/wastewater burden of 22.58%. A family of four with a household income of \$16,520 would place them at 50% FPL, and using 6,000 gallons/per month would give them a combined water/wastewater burden of 26.7%. CAUSE-PA notes that PAWC’s confirmed low-income customers have an average income of just \$11,387.¹⁵⁰²

CAUSE-PA explains that multiple recent PAWC rate increases have further eroded the ability of low-income customers to afford existing rates.¹⁵⁰³ As noted above, since 2020, PAWC has been awarded more than \$300 million in rate increases and now seeks an additional \$169 million.¹⁵⁰⁴

CAUSE-PA notes its witness, Mr. Geller, expressed significant concerns about PAWC’s Affordability Analyses provided in its initial filings.¹⁵⁰⁵ He testified PAWC’s analysis is substantially flawed, obscures the substantial needs of PAWC’s low-income customer base – especially for larger families and those with the lowest income levels – and relies on false assumptions to come to broad conclusions regarding affordability.¹⁵⁰⁶ CAUSE-PA concludes that it is unjust and unreasonable that there are large swaths of PAWC’s customer base who will continue to be priced out of access to water, a natural resource necessary for all life on earth.¹⁵⁰⁷

¹⁵⁰¹ *Id.* at 57: 12-16.

¹⁵⁰² *Id.* at 12: 17.

¹⁵⁰³ CAUSE-PA M.B., p. 49.

¹⁵⁰⁴ *Id.* at 7: 17-18.

¹⁵⁰⁵ *Id.* at 31:17-20.

¹⁵⁰⁶ *Id.* at 32: 1-14.

¹⁵⁰⁷ CAUSE-PA’s M.B., p. 57.

6. Victory Brewing's Position

Victory Brewing takes no position on PAWC's low-income customer assistance program or proposals.¹⁵⁰⁸

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not address this issue.

8. ALJs' Recommendation

Affordability is a central issue in this case, and it affects many customers; low-income customers may simply feel a greater impact of unaffordable rates. As such, we will address broad affordability issues here, not just ones affecting low-income customers.

We share the concerns raised by OCA, OSBA, and CAUSE-PA, and find PAWC's proposed rates raise significant affordability concerns.

As OCA witness Roger Colton testified:

Water service in today's world is an essential human need. Water is not only for drinking, but also for cooking and sewer needs. A 2022 White Paper by the U.S. Water Alliance states that 'for every community in our country, the availability of safe drinking water and wastewater services is a precondition for public health and prosperity.' Water is vital to maintaining hygiene and health. The lack of water has a particularly negative impact on children, the

¹⁵⁰⁸ Victory Brewing M.B., p. 14.

elderly, women and persons suffering from an illness or chronic health concern.¹⁵⁰⁹

We agree with OCA that PAWC's assumed consumption of 40 gallons per household member per day is too low and PAWC's proposed rates are unaffordable.

Not only are the proposed rates unaffordable, but we also have serious concerns as to whether the *current* rates are affordable. While the record evidence in this matter supports rate increases, albeit not to the level initially requested by PAWC, we note the testimony provided by PAWC's customers at the public input hearings in this case, summarized above in Part IV, and discussed in detail in Appendix C, was a resounding chorus of customers who are struggling.

In all, 75 individuals and 15 public officials provided testimony at the public input hearings regarding the affordability of water and/or wastewater service provided by PAWC.¹⁵¹⁰ Under the Company's proposal, the total bill for a residential water customer purchasing 3,263 gallons of water per month would see increases ranging by Rate zone, between 9.8% to 41.1%.¹⁵¹¹ The average residential customer in Rate Zone 1 has seen a nearly 35% increase in water rates.¹⁵¹²

Increases are not exclusive to water service. As initially requested, the total bill for a residential wastewater customer purchasing 3,164 gallons of water per month would see increases, ranging by Rate Zone, between 8% to 54%.¹⁵¹³

¹⁵⁰⁹ OCA St. 4 at 8-9 (internal citations omitted).

¹⁵¹⁰ OCA St. 5 App. A at 1-9; OCA St. 5 App. A Supp. at 1-4.

¹⁵¹¹ OCA St. 5 at 4

¹⁵¹² OCA St. 5 at 3

¹⁵¹³ *Id.*

The continued increase in prices that PAWC customers must pay for the vital water and wastewater service create serious and impacts on customers' daily lives. A customer stated during the public input hearings that moving to an area where PAWC provides water service might have been a mistake.¹⁵¹⁴ Many customers over the course of the 12 different hearings stated that they were using various methods to reduce water usage, including, short showers, purchasing bottled water, not using in home washing machines and dishwashers, refraining from watering lawns and washing cars, some even testified to reducing the amount to times they flush toilets.¹⁵¹⁵ Consumers should not be forced to choose between paying their water bill and the amount of times they shower or flush the toilet.

As OCA witness Mr. Colton testified, "if a sizable portion of customers cannot afford to pay the rates charged by PAWC, the Commission can hardly be said to have approved just and reasonable rates."¹⁵¹⁶

As discussed more fully above, we find the proposed rates are unjust and unreasonable and are not supported by the record. Therefore, we recommend PAWC's proposed rate increases be rejected, and rates be established consistent with this Recommended Decision.

¹⁵¹⁴ OCA St. 5-Supp. App. A at 2; Tr. 1514-1516

¹⁵¹⁵ *See generally*, OCA St. 5 App. A; OCA St. 5-Supp. App. A.

¹⁵¹⁶ OCA St. 4 at 35.

B. Bill Discount Program

1. PAWC's Position

PAWC explains its proposed limited modifications to its BDP design, which are supported by OCA, and should be approved.¹⁵¹⁷ It notes that CAUSE-PA proposed alternative modifications, which PAWC submits should be rejected.

The proposed modifications consolidate the existing fixed charge and volumetric charge discounts into a single, total bill discount by tier. The proposed discounts—82%, 67%, 44%, and 22% for water customers across the four income tiers—closely approximate the overall level of assistance provided under the current structure while simplifying the program for customers and improving administrative efficiency.¹⁵¹⁸ The Company did not propose any changes to its wastewater discount structure.¹⁵¹⁹

PAWC argues the change will enhance transparency by allowing customers to more easily understand the level of assistance they will receive and will reduce operational complexity for the Company without undermining affordability.¹⁵²⁰

PAWC admits that the change may result in slight increases for some customers, but explains that the change is intended to refine the BDP, rather than materially reduce assistance to any customers.¹⁵²¹ PAWC explains that some BDP participants with low usage will have slightly higher bills, but the proposal will improve affordability for higher usage customers, such as BDP participants with larger

¹⁵¹⁷ PAWC M.B., p. 96.

¹⁵¹⁸ PAWC St. 10, p. 5; PAWC St. 10-R, p. 3.

¹⁵¹⁹ PAWC St. 10, p. 5.

¹⁵²⁰ *Id.*

¹⁵²¹ PAWC M.B., p. 97.

households.¹⁵²² Overall though, PAWC maintains that bill impacts associated with the proposed changes are expected to be minimal – for typical customers (e.g., a household of three using 4,000 gallons per month), total monthly bills will decrease across all income tiers under the proposed structure.¹⁵²³

CAUSE-PA opposes the Company’s proposal and recommends that the Company either replace its BDP with a percentage of income payment plan (“PIPP”),¹⁵²⁴ or, if it is not feasible for PAWC to move to a PIPP, to increase its discount levels, including providing a 100% discount on fixed charges for all income tiers.¹⁵²⁵

PAWC argues a PIPP is not necessary or appropriate, as PAWC has system constraints impacting the feasibility of a PIPP.¹⁵²⁶ PAWC avers it is not reasonable to require PAWC to incur the costs associated with upgrading its IT systems and overhauling its BDP to adopt a PIPP structure when the current BDP structure already offers four tiers of discounts tailored to customers based on their household income levels.¹⁵²⁷ Further, PAWC maintains CAUSE-PA’s alternate plan involves discount levels that are inconsistent with fundamental rate design principles and would produce inequitable outcomes.¹⁵²⁸ Under CAUSE-PA’s proposal, wastewater customers whose bills consist solely of fixed charges would have their entire bills offset and would pay nothing for service, and would not contribute anything towards the fixed costs necessary to maintain system availability for all customers that other BDP participants would continue to pay for.¹⁵²⁹ PAWC argues this result is unreasonable.¹⁵³⁰

¹⁵²² PAWC St. 10-R, p. 4.

¹⁵²³ *Id.*

¹⁵²⁴ *See* PAWC St. 2-R, regarding Mr. Geller’s PIP structure proposal.

¹⁵²⁵ CAUSE-PA St. 1, p. 38. *See also* CAUSE-PA St. 1-SR, pp. 13-14.

¹⁵²⁶ *Id.*, pp. 5-6.

¹⁵²⁷ *Id.*, p. 6.

¹⁵²⁸ PAWC M.B., p. 98.

¹⁵²⁹ PAWC St. 10-R, p. 7.

¹⁵³⁰ PAWC M.B., p. 98-99.

2. I&E's Position

I&E presented no testimony on this topic.¹⁵³¹

3. OCA's Position

OCA posits that PAWC's proposal to align its discounts is reasonable and should be approved.¹⁵³² As Mr. Colton testified: "I agree that aligning the discounts on the fixed and variable portions of the bills will 'improve clarity and operational efficiency.' Moreover, I find no conceptual reason why discounts should *not* be provided on a whole-bill basis."¹⁵³³

While agreeing with PAWC's proposed changes, OCA also proposes that PAWC be directed to take action to improve its performance of its low-income programs.¹⁵³⁴

4. OSBA's Position

OSBA has no comment.¹⁵³⁵

¹⁵³¹ I&E M.B., p. 97.

¹⁵³² OCA M.B., p.107.

¹⁵³³ OCA St. 4 at 87.

¹⁵³⁴ OCA M.B., p. 103.

¹⁵³⁵ OSBA M.B., p. 49.

5. CAUSE-PA’s Position

CAUSE-PA argues that that PAWC’s current BDP rates do not produce consistent levels of affordability and require structural improvements.¹⁵³⁶ CAUSE-PA admits that the BDP rates proposed by PAWC in this proceeding get closer to affordability but still fail to consistently produce affordable rates for participants.¹⁵³⁷

As such, CAUSE-PA recommends that PAWC make improvements to the structure and discount levels of the BDP as follows¹⁵³⁸:

CAUSE-PA Recommended BDP Discount Levels

	Water		Wastewater	
	Fixed Charge	Volumetric Charge	Fixed Charge	Volumetric Charge
Tier 1 (0-50% FPL)	100%	85%	100%	85%
Tier 2 (51-100% FPL)	100%	75%	100%	75%
Tier 3 (101-150% FPL)	100%	50%	100%	50%
Tier 4 (151-200% FPL)	100%	25%	100%	25%

CAUSE-PA notes PAWC objects to CAUSE-PA’s proposed BDP levels, stemming primarily from the belief that all customers should have to pay a portion of the fixed customer charge.¹⁵³⁹ CAUSE-PA disagrees, however, arguing that the purpose of designing a BDP is to ensure that income eligible customers can reasonably afford to pay their bill on an ongoing basis, which is fundamentally different than the goal of designing rates to recover a revenue requirement.¹⁵⁴⁰

¹⁵³⁶ CAUSE-PA’S M.B., p. 58.

¹⁵³⁷ CAUSE-PA M.B., p. 59.

¹⁵³⁸ See CAUSE-PA’S M.B., p. 60.

¹⁵³⁹ PAWC St. 10-R at 6-7.

¹⁵⁴⁰ CAUSE-PA St. 1 at 14: 18-20.

CAUSE-PA explains that in past rate proceedings, it and OCA have recommended PAWC implement a tiered percentage of income payment (PIP) structure which would ensure that those with the lowest levels of FPL and/or with larger families are not paying a disproportionate level of their incomes for water service.¹⁵⁴¹ In those prior rate cases, PAWC stated that it was unable to implement a PIP at that time because did not have a verification of income process in place.¹⁵⁴² The Company also noted at that time that its Arrearage Management Program (AMP) would be implemented by the end of the year,¹⁵⁴³ and that the Company would begin requiring income verification for AMP and BDP.¹⁵⁴⁴

Now that those conditions have been satisfied, CAUSE-PA submits that the Company's continuing refusal to institute a PIP suggests that the Company is simply reluctant to invest in the necessary IT upgrades.¹⁵⁴⁵ CAUSE-PA argues a PIP rate structure is more equitable than a tiered discount program and transitioning PAWC's BDP to a PIP would ensure that those at the lowest tiers of the FPL and/or with larger families are not paying a disproportionate level of their income for critical water and wastewater services.¹⁵⁴⁶

6. Victory Brewing's Position

Victory Brewing takes no position on PAWC's low-income customer assistance program or proposals.¹⁵⁴⁷

¹⁵⁴¹ *Id.* at 39: 8-9.

¹⁵⁴² CAUSE-PA St. 1-SR at 13: 17-19.

¹⁵⁴³ *Id.* at 13: 19 – 14: 1.

¹⁵⁴⁴ *Id.* at 14: 1-2.

¹⁵⁴⁵ CAUSE-PA's M.B., p. 62.

¹⁵⁴⁶ *Id.*

¹⁵⁴⁷ Victory Brewing's M.B., p.14.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not address this issue in its briefs.

8. ALJs' Recommendation

We are persuaded by OCA and find that PAWC's proposed modifications are reasonable and appropriate, as are the additional recommendations made by OCA that PAWC take action to improve its performance of its low-income programs.¹⁵⁴⁸ We recommend that CAUSE-PA's proposal be rejected.

CAUSE-PA's recommended rates include a 100% service charge discount for all water and wastewater customers.¹⁵⁴⁹ 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.¹⁵⁵⁰ We find this would be 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.

Regarding CAUSE-PA's recommendations that PAWC implement a PIP, we find this proposal is not feasible due to the Company's system constraints and unnecessary because the current BDP offers greater discounts for lower-income customers, the class of customers who are most vulnerable and who will benefit greatest.

¹⁵⁴⁸ OCA M.B., p. 103.

¹⁵⁴⁹ CAUSE-PA St. 1, p. 40.

¹⁵⁵⁰ PAWC St. 10-R, pp. 6-7.

In conclusion, we recommend PAWC's BDP modifications be approved, as should OCA's proposals regarding PAWC's improvement of its performance of its low-income programs. We recommend PAWC should: adopt an internal process to identify its low-income customers by initiating a screening process at the time of customer enrollment; expand its enrollment in CAP within its identified low-income customer population by directing customers to the program before they enter into a DPA or before they are disconnected for nonpayment; and adopt a procedure, developed in collaboration with its low-income advisory group under which it will offer the identified low-income customer the opportunity to apply for PAWC's BDP and AMP. These proposals are designed to improve the effectiveness of PAWC's low-income programs, which is in the interest of both the Company and its customers.

C. Arrearage Management Program

1. PAWC's Position

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

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

full, the customer receives a \$25 forgiveness credit.¹⁵⁵¹ PAWC submits that this design ensures that customers make consistent progress toward reducing outstanding balances while maintaining current service obligations.¹⁵⁵²

The Company avers that enrollment in the AMP is streamlined and accessible. Customers that enroll in the BDP who meet the \$150/60-day eligibility threshold will be automatically enrolled by the Company, and there is a streamlined AMP enrollment process for existing BDP participants that includes phone, email, and website enrollment options, without requiring additional income verification.¹⁵⁵³

In response to Mr. Colton's recommendation that customers earn credits for each complete payment made, regardless of timeliness,¹⁵⁵⁴ PAWC argues this should be rejected because the Company's AMP is intentionally designed to incentivize timely payment behavior, which is essential to promoting long-term payment discipline and reducing future arrearages.¹⁵⁵⁵ PAWC maintains that eliminating or weakening the timeliness requirement and providing credits for untimely payments would undermine the Company's objective of encouraging timely payments and weaken the program's effectiveness.¹⁵⁵⁶

Mr. Colton and Mr. Geller also recommend that PAWC expand its current \$25 credit. Mr. Colton recommends that PAWC either provide customers with pro rata forgiveness (i.e., customers would earn a forgiveness credit of 1/24th of their pre-existing arrears for each month for which they make a complete payment) or provide customers

¹⁵⁵¹ PAWC St. 2-R, p. 6.

¹⁵⁵² *Id.*, p. 7.

¹⁵⁵³ *Id.*, pp. 6, 9-10.

¹⁵⁵⁴ OCA St. 4, pp. 67-68; OCA St. 4-SR, pp. 28-30; CAUSE-PA St. 1, p. 46; CAUSE-PA St. 1-SR, p. 16.

¹⁵⁵⁵ PAWC St. 2-R, p. 7.

¹⁵⁵⁶ PAWC St. 2-R, p. 7.

with a \$40 credit.¹⁵⁵⁷ Mr. Geller recommends that PAWC either adopt a similar pro rata forgiveness structure or increase the forgiveness credit to \$45.¹⁵⁵⁸

In response, PAWC argues these recommendations should be rejected because the current \$25 monthly credit is reasonable and allows participants to make steady progress toward arrearage reduction.¹⁵⁵⁹ PAWC maintains that the average customer would achieve full forgiveness in three to four years, which is a fair outcome as each customer is treated equally, subject to the same terms, is entitled to the same monthly credit, and is able to make progress towards forgiveness with each timely monthly payment.¹⁵⁶⁰ Further, PAWC notes the \$25 monthly credit was approved by the Commission as part of a settlement at Docket No. P-2021-3028195 (the “AMP Settlement”), and both the OCA and CAUSE-PA were parties to the AMP Settlement.¹⁵⁶¹

2. I&E’s Position

I&E presented no evidence on this topic.¹⁵⁶²

3. OCA’s Position

OCA explains that the purpose of an arrearage forgiveness plan is to forgive arrears, but avers PAWC’s AMP is failing to achieve this goal. OCA noted its witness, Mr. Colton, testified that, pursuant to PAWC’s own report to the Commission,

¹⁵⁵⁷ OCA St. 4, p. 72; OCA St. 4-SR, pp. 30-31.

¹⁵⁵⁸ CAUSE-PA St. 1, pp. 47-48; CAUSE-PA St. No. 1-SR, pp. 16-17.

¹⁵⁵⁹ PAWC’s M.B., p. 101.

¹⁵⁶⁰ PAWC St. 2-R, p. 7.

¹⁵⁶¹ *Petition of Penn. Am. Water Co. for Approval of an Arrearage Management Plan*, Docket No. P-2021-3028195 (Order entered Dec. 7, 2023).

¹⁵⁶² I&E M.B., p. 97.

PAWC's program is not successful in retiring arrears, and made three recommendations in this proceeding.¹⁵⁶³

First, Mr. Colton recommended that PAWC's AMP should be modified to allow customers to earn a monthly arrearage forgiveness credit for each complete payment the customer makes, similar to the policy the Commission has adopted for Pennsylvania's energy utilities.¹⁵⁶⁴ The Commission's arrearage forgiveness policy for energy utilities is that forgiveness credits should be provided for full and timely payments and, in addition, retroactive credits should be provided once the household pays its in-program balance in full.¹⁵⁶⁵

Mr. Colton testified that the Company's restrictive policies on when, or whether, to grant AMP credits has resulted in the program being largely ineffective in delivering arrearage relief to low-income customers¹⁵⁶⁶ as it offers no incentive for customers to make partial payments in order to facilitate retiring their entire bill in a future month.¹⁵⁶⁷ Further, Mr. Colton posits that PAWC's restrictive policies on granting AMP credits is inequitable, noting that for the 14 months for which data is provided, despite AMP customers paying nearly half of their bills (48.3%), they received less than one quarter (24%) of the AMP credits that were potentially available.¹⁵⁶⁸

¹⁵⁶³ OCA St. 4 at 66, citing *Petition of Pennsylvania American Water Company for Approval of an Arrearage Management Plan*, Docket No. P-2021-3028195, Order at ordering para. 4 (Dec. 7, 2023) (noting that the average amount of participant arrearages forgiven was only \$24.93, and the average number of months in which participants earned forgiveness was only 0.268).

¹⁵⁶⁴ OCA St. 4 at 67 citing *2019 Amendments to Policy Statement on Customer Assistance Programs*, 52 Pa Code §§ 69.291-69.267, Docket No. M-2019-3012599, Final Policy Statement and Order at 5-6 (Sept. 19, 2019).

¹⁵⁶⁵ OCA St. 4 at 67-68.

¹⁵⁶⁶ OCA St. 4 at 68-69.

¹⁵⁶⁷ OCA St. 4 at 70.

¹⁵⁶⁸ OCA St. 4 at 71-72.

Second, Mr. Colton recommended that PAWC's AMP be modified to expand the monthly credit that is provided for a timely payment or for a cured missed or late payment to either: 1) give complete forgiveness in a pro rata fashion over a 24-month period or 2) provide a \$40 credit instead of a \$25 credit.¹⁵⁶⁹ This would allow low-income customers to retire their pre-program arrears in a reasonable, foreseeable time period.¹⁵⁷⁰ Mr. Colton noted that AMP participants had participated in the program for an average of 6.3 months and virtually no participant reduced pre-existing arrears to \$0.¹⁵⁷¹

4. OSBA's Position

OSBA has no comment.¹⁵⁷²

5. CAUSE-PA's Position

Mr. Geller also made recommendations regarding the AMP's structure. He recommended that any customer with a balance who enrolls in the BDP should have that balance set aside or frozen at enrollment, regardless of the size of the balance.¹⁵⁷³

He also recommended that PAWC should not be charging its AMP customers a co-pay. Even with a BDP discount, bills remain unaffordable for many low income customers and the addition of a co-pay serves to undermine any affordability improvements gained through the program.¹⁵⁷⁴ CAUSE-PA argues PAWC's \$5 co-pay

¹⁵⁶⁹ OCA St. 4 at 73.

¹⁵⁷⁰ OCA St. 4 at 73.

¹⁵⁷¹ OCA St. 4 at 75-76.

¹⁵⁷² OSBA's M.B., p. 49.

¹⁵⁷³ *Id.* at 44: 22 – 45: 3.

¹⁵⁷⁴ *Id.* at 45: 6-9.

is being charged to customers in need of rate assistance, with a demonstrated inability to pay.¹⁵⁷⁵

He further recommended that PAWC's requirement that payments be timely in order to receive forgiveness is punitive and does not account for the reality of low income consumers' lives.¹⁵⁷⁶ CAUSE-PA argues AMP is an alternative collections program which should be designed to incentivize low income households with insufficient resources to prioritize payment of PAWC bills.¹⁵⁷⁷ Providing earned forgiveness for all in-full payments, regardless of timeliness, will help incentivize in-full payments – thereby reducing collections costs and improving bill payment.¹⁵⁷⁸

Finally, CAUSE-PA explains that Mr. Geller recommended that PAWC be required to transition to a percentage of forgiveness structure over 24 months, so that with each payment, 1/24th of the customer's debt is forgiven.¹⁵⁷⁹ CAUSE-PA argues this would ensure that even those customers with the highest debt levels upon enrollment would still be able to receive full forgiveness within a reasonable time frame.¹⁵⁸⁰

If the Company is not able to institute that specific forgiveness structure at this time due to technological constraints, CAUSE-PA argues it should be required to, in the interim, increase the flat rate forgiveness to \$45 per month.¹⁵⁸¹ At that rate, while some customers may still take longer than 24 months to retire their full balances, the vast majority will be receiving forgiveness within a reasonable timeframe. Further, CAUSE-PA argues that if the Company intends to undergo any system upgrades, the Commission

¹⁵⁷⁵ CAUSE-PA's M.B., p. 68.

¹⁵⁷⁶ CAUSE-PA's M.B., p. 69.

¹⁵⁷⁷ *Id.*

¹⁵⁷⁸ *Id.*

¹⁵⁷⁹ *Id.* at 47: 15-16.– 48: 1.

¹⁵⁸⁰ *Id.* at 47: 17 – 48: 1.

¹⁵⁸¹ *Id.* at 48: 1-3.

should require that it be required to attain the capability to operate a percentage of forgiveness program through those upgrades.

6. Victory Brewing's Position

Victory Brewing takes no position on PAWC's service quality or customer service issues.¹⁵⁸²

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not address this issue.

8. ALJs' Recommendation

While the AMP is a relatively new program, it is clear to us that it is not working and, despite the agreements made in the AMP Settlement, it requires modification. As discussed through this Recommended Decision, we believe this case centers around affordability, and in order for PAWC's rates to be considered "just and reasonable," its low-income programs must be effective. The data in the record suggests the AMP is not.

PAWC had 19,966 customers enrolled in its BDP as of November 2025, but merely 3,739 of those customers were enrolled in the AMP component of its BDP – despite the fact that 18,539 BDP participants were in active arrears, 11,000 of which had balances older than 61 days.¹⁵⁸³ In fact, PAWC has issued over 20,000 payment arrangements to BDP participants since its AMP began.¹⁵⁸⁴ As Mr. Colton testified, "the

¹⁵⁸² Victory Brewing's M.B., p. 14.

¹⁵⁸³ *Id.* at 43: 9-10.

¹⁵⁸⁴ PAWC St. 2-R at 22: 8-20.

total number of newly-enrolled BDP participants with a pre-existing arrears exceeds the number of AMP participants by a substantial extent. If the \$0 - \$100 enrollees are excluded, the number of newly enrolled BDP participants with pre-existing arrears exceeds the number of AMP participants by 50% (6,304 vs. 3,970).”¹⁵⁸⁵

It is difficult to see the Company’s AMP implementation as a success when nearly 93% of BDP enrollees are carrying a balance, but less than 20% are also enrolled in a program that would suspend collections activities and allow the household to earn monthly forgiveness on their debt over time by paying their discounted BDP bill. While both programs are managed by PAWC’s third-party administrator Dollar Energy Fund, the BDP and AMP appear to be operating as two distinct offerings, rather than as a comprehensive assistance program.¹⁵⁸⁶

While PAWC maintains that current enrollment levels reflect the comparative newness of the AMP rather than a structural deficiency¹⁵⁸⁷, we disagree. PAWC’s low-income customers need these programs to work effectively *now*.

We agree with OCA that PAWC’s AMP should be modified to allow customers to earn a monthly arrearage forgiveness credit for each complete payment the customer makes, regardless of timeliness, and retroactive credits should be provided once the household pays its in-program balance in full. These changes encourage payments, even if untimely or for less than the full amount due, further the effectiveness of the AMP, and result in more reasonable outcomes.

We further agree with OCA and CAUSE-PA that the AMP should be modified to expand the monthly credit for a timely payment or for a cured missed or late

¹⁵⁸⁵ OCA St. 4 at 79; Table 19.

¹⁵⁸⁶ CAUSE-PA’s M.B., p. 66.

¹⁵⁸⁷ PAWC M.B., p. 103.

payment. The current amount of \$25 is insufficient to give low-income customers a meaningful opportunity to retire their pre-program arrears and give them a reasonable endpoint at which time they will have earned their complete balance forgiveness. The average arrearage level for a wastewater customer who enrolled in the BDP in 2025 is over \$1,000, which would take 41 months to fully retire under the current AMP structure, and many BDP applicants will have arrearage amounts exceeding these averages and thus face even longer periods before they can earn full forgiveness.¹⁵⁸⁸

We agree with OCA that PAWC's AMP be modified to expand the monthly credit provided for a timely payment or for a cured missed or late payment to give complete forgiveness in a pro rata fashion over a 24-month period. Two years of consistent payments is a reasonable period of time for low-income customers earn balance forgiveness and, hopefully, establish household budgets that prioritize payments to PAWC, which will set these customers up for on-time payments made for the full balance due after discharge from the AMP program, which is in the best interest of PAWC and all its customers.

In *PAWC 2024*, the Commission directed PAWC to implement changes to its Bill Discount Program and its Hardship Fund within one (1) year after the effective date of rates.¹⁵⁸⁹ However, having found that PAWC's current AMP program is not working, we recommend providing PAWC with ninety days from the effective date of rates to implement these recommended AMP modifications, consistent with the deadline for other BDP changes discussed below. We believe that this will provide PAWC with sufficient time to update its AMP policies, procedures, and customer education materials to inform customers of AMP changes and to begin enrolling customers in PAWC's improved AMP.

¹⁵⁸⁸ *Id.* at 47: 11-14; T. 16.

¹⁵⁸⁹ See *PAWC 2024*, Ordering Paragraphs 22 and 23.

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

1. PAWC's Position

PAWC claims it employs a robust, multi-pronged approach to inform customers about the benefits provided by the H2O Program, including statewide, in-person information sessions, texting and paid customer education media campaigns, and select door-to-door canvassing efforts.¹⁵⁹⁰ However, the Company recently experienced a substantial drop in BDP enrollment as direct consequence of the launch of a documentation-based income verification process in the first quarter of 2025 with a June 2025 enrollment level of 19,966 accounts.¹⁵⁹¹ PAWC explains that the Company's extensive outreach efforts in the remainder of 2025 and 2026 have built BDP enrollment back up to 24,839 as of March 1, 2026,¹⁵⁹² and it has already adopted certain BDP enrollment and outreach goals and holds quarterly meetings with its CAAG in an effort to continue to enhance low-income assistance programs and related outreach.¹⁵⁹³

Both OCA witness Colton and CAUSE-PA witness Geller believe that PAWC's low-income programs are under-subscribed.¹⁵⁹⁴ Mr. Colton and Mr. Geller raise concerns regarding the relationship of the AMP and the BDP and recommend enrollment and program changes.

In response, PAWC argues these recommendations are unnecessary as the Company's existing structure already closely integrates the BDP and AMP – eligible

¹⁵⁹⁰ PAWC St. 1, pp. 20-21; PAWC St. 2-R, p. 12.

¹⁵⁹¹ PAWC St. 2-R, p. 13; Tr. 1813.

¹⁵⁹² *Id.*

¹⁵⁹³ PAWC St. 2-R, p. 13.

¹⁵⁹⁴ *See, e.g.*, CAUSE-PA St. 1, p. 51; OCA St. 4, pp. 47-48.

customers are automatically enrolled in the AMP at the time of BDP enrollment.¹⁵⁹⁵

PAWC argues its current enrollment processes, which include automatic enrollment for customers enrolling in the BDP and streamlined options for existing BDP customers, ensures ease of access without imposing additional administrative burdens.¹⁵⁹⁶

Further, OCA's recommendation that the Company accept a customer's self-attestation as to eligibility is contrary to the Commission's directive to review a customer's income documentation.¹⁵⁹⁷

PAWC avers it has appropriate customer-facing materials and additional touchpoints where a customer facing termination is provided with information about assistance programs, including personal contact with confirmed low-income customers and specific information on termination notices and field service representative cards.¹⁵⁹⁸ The additional processes specific to educating low-income customers facing termination or considering a DPA are simply not necessary.¹⁵⁹⁹

While the Commission recently directed Columbia Gas to adopt income-screening procedures during move-in and other non-emergency calls¹⁶⁰⁰, PAWC argues Columbia Gas recovers its universal service program costs, including administration

¹⁵⁹⁵ PAWC M.B., pp. 102-103.

¹⁵⁹⁶ *Id.* at 103.

¹⁵⁹⁷ PAWC St. 15-R, p. 21; *see also* *Petition of Pennsylvania-American Water Company for Approval of an Arrearage Management Plan*, Docket No. P-2021-3028195 (Order entered Dec. 28, 2022), pp. 26-29 (finding AMP settlement must be modified to require income verification for customers seeking to enroll); *Petition of Pennsylvania-American Water Company for Approval of an Arrearage Management Plan*, Docket No. P-2021-3028195 (Order entered Dec. 7, 2023) (approving updated AMP settlement that included income verification).

¹⁵⁹⁸ PAWC St. 15-R, pp. 22-24.

¹⁵⁹⁹ PAWC M.B., p. 106.

¹⁶⁰⁰ *Columbia Gas 2025*, p. 351.

costs, through its Rider USP¹⁶⁰¹, and unlike PAWC, has full and timely recovery of the costs associated with these new income-screening procedures through its Rider USP.¹⁶⁰²

2. I&E's Position

I&E presented no testimony on this topic.¹⁶⁰³

3. OCA's Position

OCA makes various recommendations to improve the under-performing H2O Program. It notes the recent Commission decisions in the *Columbia Gas* base rate case and the *PGW* base rate case wherein the Commission stated that a narrow definition of “confirmed low-income” is inappropriate.¹⁶⁰⁴ OCA explained that in both cases, the Commission raised concerns that recognize the needs of low-income customers who are income-eligible but who, for whatever reason, are not participating in BDP or AMP programs.¹⁶⁰⁵

Specifically, OCA argues PAWC should: adopt an internal process to identify its low-income customer by initiating a screening process at the time of customer enrollment; expand its enrollment in CAP within its identified low-income customer population by directing customers to the program before they enter into a DPA or before they are disconnected for nonpayment; and adopt a procedure, developed in collaboration

¹⁶⁰¹ *Id.*, p. 165; *see also* PAWC St. 2, pp. 31-33; *Pa. P.U.C. v. Columbia Gas of Pa., Inc.*, Docket No. R-2025-3053499 (Recommended Decision entered Oct. 3, 2025), p. 529 (“All CAP external administration costs...are recovered through Rider USP.”).

¹⁶⁰² PAWC M.B., p. 107.

¹⁶⁰³ I&E M.B., p. 97.

¹⁶⁰⁴ OCA St. 4 at 48-49 *citing* *Pa. PUC v. Columbia Gas Co.*, Docket No. R-2025-3053499, Order at 350 (Dec. 4, 2025); *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-2023-3037933, Order at 226 (Nov. 9, 2023).

¹⁶⁰⁵ OCA M.B., p. 103.

with its low-income advisory group under which it will offer the identified low-income customer the opportunity to apply for PAWC's BDP and AMP.¹⁶⁰⁶

OCA Witness Mr. Colton recommends that PAWC broaden its policy for confirming low-income status to include, among other things, accepting a self-attestation of the receipt of public assistance.¹⁶⁰⁷ He also recommends additional touch points for BDP and AMP screening and awareness, including when a customer initiates service, before a customer enters into a deferred payment arrangement ("DPA") with the Company,¹⁶⁰⁸ and when a customer is facing disconnection.¹⁶⁰⁹

Mr. Colton performed a review of PAWC's outreach and other information provided by PAWC to customers regarding promotion of the BDP and AMP before entering into a DPA or when facing termination.¹⁶¹⁰ Mr. Colton noted that the outreach does not provide information to assist customers to not only know that the BDP exist, but information on how to access it.¹⁶¹¹ Therefore, Mr. Colton recommends that PAWC should provide a stand-alone written plain language notice informing those customers of their right, in the alternative to the DPA to enroll in the BDP.¹⁶¹² OCA argues this is consistent with the requirement of Section 1303 of the Public Utility Code that utilities

¹⁶⁰⁶ OCA M.B., 103-106.

¹⁶⁰⁷ OCA St. 4, pp. 48-55.

¹⁶⁰⁸ Specifically, Mr. Colton recommends that PAWC notify low-income customers about assistance programs before entering into a DPA and further develop a "Plain Language Notice" that would be used to obtain the customer's "informed consent" before they entered into a DPA. *See, e.g.*, OCA St. 4, pp. 55-60.

¹⁶⁰⁹ *Id.*, pp. 53, 55-62.

¹⁶¹⁰ OCA M.B., p. 106.

¹⁶¹¹ OCA St. 4 at 63.

¹⁶¹² OCA St. 4 at 55.

with rates applicable to service rendered to a patron being required to compute bills under the rate most advantageous to the patron.¹⁶¹³

Mr. Colton testified that PAWC should tie its enrollment of low-income customers into its AMP more closely to enrollment in BDP since a significant number of low-income customers are being enrolled into the BDP with a pre-existing arrears on their account at the time of enrollment who are not also enrolled in the AMP upon their enrollment in BDP.¹⁶¹⁴ OCA argues this failure impedes the effectiveness of the BDP in promoting the affordability of low-income bills.”¹⁶¹⁵

4. OSBA’s Position

The OSBA has no comment.¹⁶¹⁶

5. CAUSE-PA’s Position

CAUSE-PA avers PAWC’s universal service programs are not reasonably accessible to PAWC’s low income customers and argues PAWC must improve its screening, outreach, and enrollment procedures to ensure that its low income customers have a meaningful opportunity to enroll in its H2O program.¹⁶¹⁷

¹⁶¹³ OCA St. 4 at 56-57 *quoting* 66 Pa. C.S. § 1303 (“Any public utility, having more than one rate applicable to service rendered to a patron, shall, after notice of service conditions, compute bills under the rate most advantageous to the patron.”).

¹⁶¹⁴ OCA St. 4 at 78.

¹⁶¹⁵ OCA St. 4 at 79.

¹⁶¹⁶ OSBA M.B., p. 49.

¹⁶¹⁷ CAUSE-PA M.B., p. 73.

CAUSE-PA notes PAWC reported that BDP enrollment dropped by more than half following implementation of new documentation requirements – from approximately 30,000 customers to approximately 14,000 customers.¹⁶¹⁸

While the Company has made some progress towards regaining its enrollees, as of November 2025, only 19,966 customers were enrolled in the BDP, representing merely 13% of PAWC’s *estimated* low income customers – and just 30% of the Company’s *confirmed* low income customers, those it already knows are eligible for its programs.¹⁶¹⁹ PAWC’s low rate of enrollment in its BDP evidences a need for systemic solutions to ensure that eligible low-income customers are receiving more affordable bills.¹⁶²⁰

CAUSE-PA argues that BDP participants that have qualifying arrears and are not enrolled in the AMP should be enrolled within 90 days of the effective date of rates,¹⁶²¹ and all new BDP participants who have arrears should be automatically be enrolled in the AMP without an additional application and without additional steps.¹⁶²² In other words, CAUSE-PA argues the BDP and AMP should function as two components that are integrated as part of an overall customer assistance program, not as separate programs.

PAWC claims that it has adequate systems in place to offer to assess customers who self-initiate contact to express their inability to pay or request an installment plan; however, the Company has no requirement for customer service staff to reasonably ensure that customers are being timely matched to available rate assistance

¹⁶¹⁸ *Id.* at 53: 9-11.

¹⁶¹⁹ *Id.* at 41: Table 15.

¹⁶²⁰ CAUSE-PA M.B., p. 74.

¹⁶²¹ *Id.* at 44: 6-7.

¹⁶²² *Id.* at 44: 11-13.

through the BDP, and other H2O programming, *before* debt is accrued.¹⁶²³ Additionally, the Company's excessive issuance payment arrangements for those known to be eligible for debt forgiveness through its AMP indicates that its current referral procedures are ineffective and inadequate to prevent unnecessary accrual of debt.¹⁶²⁴

CAUSE-PA recommends that PAWC should be required to refer low-income customers to available assistance programs – including its BDP and Hardship Fund programs – prior to being placed on a payment arrangement.¹⁶²⁵ CAUSE-PA argues this requirement is not only sound public policy to prevent the accrual of unmanageable debt; it is also required by law.¹⁶²⁶

CAUSE-PA further avers PAWC should begin screening all new and moving customers for income level and eligibility for assistance at the time their service is established and on a periodic basis thereafter during non-emergency calls,¹⁶²⁷ update their call scripting and checklists for its Customer Service Representatives (CSRs) so that all applicants for new service are informed of the availability of low-income assistance programming and requested to voluntarily self-disclose any changes to income information¹⁶²⁸, and customers identified as low-income through this process should be provided a warm referral to PAWC's low-income assistance programs, and should not be required to provide duplicative information in order to enroll in these programs.¹⁶²⁹

Mr. Geller also set forth recommendations to assist PAWC in measuring and tracking its effectiveness in increasing universal service program enrollment.

¹⁶²³ *Id.* at 75.

¹⁶²⁴ CAUSE-PA, P. 75.

¹⁶²⁵ *Id.* at 56: 13-16.

¹⁶²⁶ 66 Pa. C.S. §§ 1303, 1410.1.

¹⁶²⁷ *Id.* at 52: 13-22.

¹⁶²⁸ *Id.* at 53: 1-6.

¹⁶²⁹ *Id.*

Specifically, Mr. Geller recommended that PAWC set target BDP enrollment benchmarks at 20% per year of PAWC's estimated low-income customer counts until the Company reaches at least 75% enrollment of this estimated group,¹⁶³⁰ and that PAWC establish other quantitative goals related to affirmative customer outreach.¹⁶³¹

Mr. Geller also recommended that PAWC be required to track and report relevant data regarding its progress to its CAAG. He explained that this would help PAWC to refine outreach efforts based on CAAG feedback – and should in turn expand membership of its CAAG to include a broader array of community voices who advocate for and assist households in need of assistance from all corners of PAWC's expansive service territory.¹⁶³² CAUSE-PA argues these reforms would help ensure PAWC's universal service program outreach and education activities are informed by partners with experience serving low income communities.¹⁶³³

He explained PAWC should allow all new BDP participants who have arrears to automatically be enrolled in the AMP without an additional application and without additional steps.¹⁶³⁴ In other words, the BDP and AMP should function as two components that are integrated as part of an overall customer assistance program, not as separate programs.

¹⁶³⁰ CAUSE-PA St. 1 at 42: 8-10.

¹⁶³¹ *Id.* at 42: 11-14.

¹⁶³² *Id.* at 42: 17-19.

¹⁶³³ *Id.* at 42: 14-17.

¹⁶³⁴ *Id.* at 44: 11-13.

6. Victory Brewing's Position

Victory Brewing takes no position on PAWC's low-income customer assistance program or proposals.¹⁶³⁵

7. Cleveland-Cliffs' Position

Cleveland-Cliffs does not address this topic.

8. ALJs' Recommendation

We share the concerns raised by OCA and CAUSE-PA. PAWC has issued over 68,000 payment arrangements to *confirmed* low-income households since November 2024, after the implementation of its AMP.¹⁶³⁶ Nearly 20,000 of those payment arrangements were issued to low-income customers actively participating in PAWC's BDP and, thus, were categorically eligible for PAWC's AMP. These figures present clear evidence that PAWC lacks appropriate customer service policies and practices to ensure compliance with Section 1301 to provide low-income households with the most advantageous rate available.

Section 1303 of the Public Utility Code requires that a public utility with more than one rate for service must compute bills under the rate most advantageous to the customer.¹⁶³⁷ This necessarily includes rates available to low-income customers through PAWC's BDP. Further, Section 56.97(3) of the Commission's regulations requires that, after the issuance of the initial termination notice and prior to the actual termination of service, the public utility must fully explain information about the public utility's

¹⁶³⁵ Victory Brewing, p. 14.

¹⁶³⁶ CAUSE-PA St. 1 at 49: 6-11.

¹⁶³⁷ 66 Pa. C.S. § 1303.

universal service programs, including the customer assistance program, and refer the customer or applicant to the universal service program of the public utility to determine eligibility for a program and to apply for enrollment in a program.

It is essential that low-income customers are directed first to low-income assistance programs, which are specifically designed as an alternative path to collections for low-income households in recognition of the limitations of payment arrangements.¹⁶³⁸

It is imperative to assess the extent to which PAWC has both: (1) identified its low-income population; and (2) enrolled its low-income customers into the BDP/AMP where possible and appropriate.”¹⁶³⁹

While we disagree with OCA’s recommendation that a customer’s self-attestation is sufficient for identification as low-income – verifying eligibility via income documentation ensures program participation is limited to those customers who are truly eligible – we do agree with other recommendations made by CAUSE-PA and OCA. We recommend that PAWC should enroll in the AMP all BDP participants that have qualifying arrears (and are not already enrolled in the AMP) within 90 days of the effective date of rates,¹⁶⁴⁰ and PAWC should automatically enroll in the AMP all new BDP participants who have arrears without an additional application and without additional steps. The AMP and BDP must function as a cohesive, comprehensive program if it is to work effectively.

Further, we agree with the various recommendations of OCA and CAUSE-PA that PAWC should adopt additional screening processes and tracking mechanisms and set quantitative goals related to affirmative customer outreach. PAWC should screen

¹⁶³⁸ CAUSE-PA St. 1 at 56: 11-12.

¹⁶³⁹ OCA St. 4 at 49-50.

¹⁶⁴⁰ *Id.* at 44: 6-7.

customers for eligibility at the time of enrollment, and on a periodic basis thereafter during non-emergency calls. Further, PAWC should adopt a procedure, developed in collaboration with its low-income advisory group to develop outreach and education efforts to improve low-income program participation.

E. Water Conservation and Line Repair and Replacement Assistance

1. PAWC's Position

CAUSE-PA witness Geller recommends that PAWC develop and implement a comprehensive conservation and line repair/replacement program for all customers below 250% of the FPL and characterizes PAWC as an “outlier” for not already having such program in place.¹⁶⁴¹ He further recommends the targeting of high-usage customers, annual reporting and coordination with other utility programs.¹⁶⁴²

PAWC argues that Mr. Geller is attempting to impose a LIURP construct on PAWC that was established for EDCs and NGDCs. It avers there are detailed LIURP regulations addressing many of the items recommended by Mr. Geller, including prioritizing high users, reporting, and utility coordination.¹⁶⁴³ LIURPs are required under Pennsylvania law for EDCs and NGDCs only, are part of their broad universal service plans, and the costs associated with such programs are recovered through their universal service plan riders.¹⁶⁴⁴

PAWC submits that to implement a LIURP-type program, it would have to hire additional staff and manage costs associated with repairing and replacing the leaking

¹⁶⁴¹ PAWC M.B., p. 107.

¹⁶⁴² CAUSE-PA St. 1, pp. 60-62; CAUSE-PA St. 1-SR, pp. 21-23.

¹⁶⁴³ 52 Pa. Code §§ 58.1 *et seq.*

¹⁶⁴⁴ PAWC St. 15-R, p. 25; *see also* Tr. 1817.

lines and infrastructure of low-income customers and none of the associated costs of such a program are built into PAWC's proposed base rates or its proposed CAP Rider.¹⁶⁴⁵

Finally, PAWC admits that while Mr. Geller is correct that other water utilities have line repair/conservation programs or pilots, it points out that such programs were derived through voluntary settlements and not Commission-imposed mandates.¹⁶⁴⁶ PAWC avers that to the extent the Commission believes this type of program should be extended to water and wastewater customers, the Commission should provide a legal basis and cost recovery framework similar to its LIURP regulations.¹⁶⁴⁷

2. I&E's Position

I&E presented no testimony on this topic.¹⁶⁴⁸

¹⁶⁴⁵ *Id.*

¹⁶⁴⁶ *See Petition of The Pittsburgh Water and Sewer Auth. for Approval of Pilot Private Service Line Leak Repair and Expanded Conservation Program for Eligible Low Income Customers and Authorization to Track Costs as a Regulatory Asset for Future Base Rate Recovery*, Docket No. P-2022-3030253 (Order entered Mar. 2, 2023); *Pa. P.U.C. v. Veolia Water Pa., Inc.*, Docket Nos. R-2024-3045192 and R-2024-3045193 (Order entered Oct. 10, 2024); *Joint Application of Aqua America, Inc., Aqua Pa., Inc., Aqua Pa. Wastewater, Inc., Peoples Natural Gas Co. LLC and Peoples Gas Co. LLC for All of the Authority and the Necessary Certificates of Pub. Convenience to Approve a Change in Control of Peoples Natural Gas Co. LLC and Peoples Gas Co. LLC by Way of the Purchase of All of LDC Funding, LLC's Membership Interests by Aqua America, Inc.*, Docket Nos. A-2018-3006061, A-2018-3006062 and A-2018-3006063 (Order entered Jan. 24, 2020).

¹⁶⁴⁷ PAWC M.B., p. 108.

¹⁶⁴⁸ I&E M.B., p. 97.

3. OCA's Position

OCA did not address this issue in its testimony.¹⁶⁴⁹

4. OSBA's Position

OSBA has no comment.¹⁶⁵⁰

5. CAUSE-PA's Position

PAWC's current conservation programming is woefully insufficient to address the need for a comprehensive low-income conservation and leak and line repair assistance in its service territory.

Currently, PAWC offers BDP participants, upon request, water conservation kits containing basic, self-installed water-saving devices (low-flow showerhead, sink aerator, and toilet fill cycle diverter), a leak detection kit, conservation tips and materials, and a water use calculator.¹⁶⁵¹ Aside from the education materials citing EPA estimates, CAUSE-PA submits that PAWC does not provide any measure of actual impact, leaving its current conservation efforts unverified and insufficient.¹⁶⁵²

CAUSE-PA avers the Company distributed about 5,000 of these conservation kits between January 2023 and December 2025, and has spent approximately \$59,000 to \$84,000 on this effort,¹⁶⁵³ but does not track whether customers

¹⁶⁴⁹ OCA M.B., p. 111.

¹⁶⁵⁰ OSBA M.B., p. 49.

¹⁶⁵¹ CAUSE-PA St. 1 at 57: 6-9.

¹⁶⁵² *Id.* at 58: 2-5.

¹⁶⁵³ *Id.* at 59: 12-15.

actually install the kits or if they reduce household water usage.¹⁶⁵⁴ Without tracking results, CAUSE-PA maintains it is unclear whether this program is reducing water usage or lowering bills, highlighting the need for a more accountable and results-focused conservation program.¹⁶⁵⁵

CAUSE-PA argues that, with existing unaffordability at current rates, the substantial rate increase that PAWC is proposing, and the comparatively high usage among its low-income customers, a comprehensive water efficiency and leak repair program is essential to mitigate the costs of unaffordability both at existing and proposed rates for its low-income customers.¹⁶⁵⁶ CAUSE-PA recommends PAWC be directed to work with its CAAG to develop a low-income comprehensive conservation and leak repair/replacement assistance program, including actual leak repair and line replacement, available to all customers under 250% FPL that will help to reduce wasteful and expensive usage and control H2O program costs.¹⁶⁵⁷

Finally, Mr. Geller recommended that PAWC should be required to coordinate its service delivery with other utilities in its service territories that operate energy efficiency and conservation programs, such as Low-Income Usage Reduction Programs (LIURP) and Act 129 programs, which can leverage other utility conservation programs, which can help streamline program delivery and reach and ensure that a greater number of PAWC customers can obtain comprehensive conservation measures to reduce their overall water and energy usage.¹⁶⁵⁸

¹⁶⁵⁴ *Id.* at 59: 10-12.

¹⁶⁵⁵ CAUSE-PA St. 1 at 59: 17-19.

¹⁶⁵⁶ CAUSE-PA M.B., p. 84.

¹⁶⁵⁷ CAUSE-PA St. 1 at 60.

¹⁶⁵⁸ CAUSE-PA M.B., p. 85; CAUSE-PA St. 1 at 61: 5-8.

6. Victory Brewing's Position

Victory Brewing takes no position on PAWC's low-income customer assistance program or proposals.¹⁶⁵⁹

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not address this issue.

8. ALJs' Recommendation

We note that CAUSE-PA advocated for a low-income leak repair program in PAWC's last rate case filed in 2023.¹⁶⁶⁰ The Administrative Law Judges in that case recommended that the Commission reject the proposal that PAWC be required to design and implement a comprehensive conservation and line repair and replacement plan.¹⁶⁶¹ While finding that "such a program would certainly be beneficial to PAWC's ratepayers," the ALJs agreed with PAWC that LIURPs (and similar programs) are currently only required under Pennsylvania law for EDCs and NGDCs.¹⁶⁶² Without statutory authority mandating LIURPs for water companies, the ALJs concluded that it "would be inappropriate to impose such a requirement **on PAWC alone.**" (emphasis added)¹⁶⁶³

¹⁶⁵⁹ Victory Brewing M.B., p. 14.

¹⁶⁶⁰ Pa. PUC v. Pa. American Water Co., Docket No. R-2023-3043189, Direct Testimony of Harry S. Geller, Esq. (filed Feb. 1, 2024) at 63:5-11.

¹⁶⁶¹ *Id.*, Recommended Decision at 334.

¹⁶⁶² *Id.*, see also 52 Pa. Code § 58.1.

¹⁶⁶³ *Id.*

While AQUA PA, Pittsburgh Water, and Veolia all administer low-income leak repair and conservation programs,¹⁶⁶⁴ we are reluctant to recommend PAWC be directed to establish one in this proceeding. Both PAWC and CAUSE-PA agree that these other utilities' programs were derived through voluntary settlements and not Commission-imposed mandates.¹⁶⁶⁵ PAWC is not mandated by law to establish a LIURP, and if PAWC were to implement a LIURP-type program, it would have to hire additional staff and manage costs, none of which are built into PAWC's proposed base rates. Therefore, we do not believe the record supports a recommendation that CAUSE-PA's proposal be adopted.

F. Hardship Fund

1. PAWC's Position

PAWC's Hardship Fund is a bill-paying assistance program funded by PAWC shareholders, donations from customers, and others who want to help customers in need.¹⁶⁶⁶ Customers who qualify may receive grants of up to \$500 annually toward

¹⁶⁶⁴ CAUSE-PA St. 1 at 60.

¹⁶⁶⁵ *See Petition of The Pittsburgh Water and Sewer Auth. for Approval of Pilot Private Service Line Leak Repair and Expanded Conservation Program for Eligible Low Income Customers and Authorization to Track Costs as a Regulatory Asset for Future Base Rate Recovery*, Docket No. P-2022-3030253 (Order entered Mar. 2, 2023); *Pa. P.U.C. v. Veolia Water Pa., Inc.*, Docket Nos. R-2024-3045192 and R-2024-3045193 (Order entered Oct. 10, 2024); *Joint Application of Aqua America, Inc., Aqua Pa., Inc., Aqua Pa. Wastewater, Inc., Peoples Natural Gas Co. LLC and Peoples Gas Co. LLC for All of the Authority and the Necessary Certificates of Pub. Convenience to Approve a Change in Control of Peoples Natural Gas Co. LLC and Peoples Gas Co. LLC by Way of the Purchase of All of LDC Funding, LLC's Membership Interests by Aqua America, Inc.*, Docket Nos. A-2018-3006061, A-2018-3006062 and A-2018-3006063 (Order entered Jan. 24, 2020).

¹⁶⁶⁶ PAWC M.B., p. 109.

their water bill and \$500 annually toward their wastewater bill. For the 2025 to 2026 program year, the Company is contributing \$1.45 million to the Hardship Fund.¹⁶⁶⁷

CAUSE-PA witness Geller recommends increasing the Hardship Fund annual cap per customer to \$750 for water and wastewater, respectively, highlighting that PAWC had a hardship fund balance of over \$1.25 million as of December 2025. Mr. Geller also recommends that PAWC be required to permit a customer to receive multiple Hardship Fund grants per year, up to the applicable maximum \$750 amount.¹⁶⁶⁸

PAWC witness Chard explained that the Company has already adopted the functionality to allow customers to apply for multiple hardship fund grants in the same program year. In addition, the current annual cap per customer of \$500 grants for water and wastewater, totaling \$1,000, achieves the Hardship Fund's intended purpose of providing emergency, short-term assistance to customers in need.¹⁶⁶⁹ She further testified that increasing the annual caps could strain program resources.¹⁶⁷⁰

Finally, the annual cycle of the Hardship Fund runs from October to September, meaning that new shareholder funds for a particular cycle are added to the fund balance in October. Therefore, it is not surprising that months closer to the beginning of the cycle, like December, would have a larger balance than later months. Months towards the end of a cycle can have a much lower balance (zero in September of 2024 and less than \$100,00 in September of 2025).¹⁶⁷¹

¹⁶⁶⁷ PAWC St. 2, p. 13. PAWC's donations to the Hardship Fund are at an increased level for a five-year period consistent with the settlement approved in the Company's application to acquire the BASA wastewater system, at Docket No. A-2022-3037047.

¹⁶⁶⁸ CAUSE-PA St. 1, pp. 50-51; CAUSE-PA St. 1-SR, pp. 18-19.

¹⁶⁶⁹ PAWC St. 2-R, p. 10.

¹⁶⁷⁰ *Id.* at 10: 15-17.

¹⁶⁷¹ Tr. 1818.

2. I&E's Position

I&E presented no testimony on this topic.¹⁶⁷²

3. OCA's Position

OCA did not address this issue in its testimony.¹⁶⁷³

4. OSBA's Position

OSBA has no comment.¹⁶⁷⁴

5. CAUSE-PA's Position

CAUSE-PA argues PAWC should be required to increase its maximum water and wastewater grant amounts – \$500 – to ensure the program is appropriately addressing the need in its service territory.¹⁶⁷⁵ CAUSE-PA notes that in November 2025, the average arrearages of BDP participants at the time of termination was \$1,552.24, for confirmed low-income customers, exclusive of BDP customers, that amount was \$3,332.15.¹⁶⁷⁶ While CAUSE-PA admits this high arrearage level may be an outlier, it submits that in October 2025, that amount was \$762.96, above the \$500 grant threshold.¹⁶⁷⁷ To attempt to better address the high levels of arrears carried by PAWC's

¹⁶⁷² I&E M.B., p. 97.

¹⁶⁷³ OCA M.B., p. 111.

¹⁶⁷⁴ OSBA M.B., p. 49.

¹⁶⁷⁵ CAUSE-PA M.B., p. 89.

¹⁶⁷⁶ *Id.* at 50: 17-19.

¹⁶⁷⁷ *Id.* at 50: 19-20.

low income customers, CAUSE-PA posits that PAWC should increase maximum Hardship Fund grant to \$750 for water and \$750 for wastewater.

CAUSE-PA argues that compared to relative need, very few customers have been awarded Hardship Fund grants in recent years – evidencing a clear lack of customer knowledge and information about the program.¹⁶⁷⁸ As stated by Mr. Geller, the following number of customers received a Hardship Fund grant, per year and across PAWC’s divisions: 1,631 in 2023; 1,754 in 2024; 4,862 in 2025 (through November).¹⁶⁷⁹ By comparison, from January through November 2025, 9,922 confirmed low-income customers were terminated for nonpayment – yet just 4,862 customers received a Hardship Fund grant.¹⁶⁸⁰ CAUSE-PA argues the low number of customers awarded PAWC’s Hardship Fund grants indicates a significant failure to address the much larger need for grant assistance among low income customers.¹⁶⁸¹

6. Victory Brewing’s Position

Victory Brewing takes no position on PAWC’s service quality or customer service issues¹⁶⁸².

7. Cleveland-Cliffs’ Position

Cleveland-Cliffs did not address this issue.

¹⁶⁷⁸ *Id.* at 49: 15 – 50: 5.

¹⁶⁷⁹ *Id.* at 48: 21 – 49:3.

¹⁶⁸⁰ *Id.* at 49, Table 17.

¹⁶⁸¹ *Id.* at 49: 2-3.

¹⁶⁸² Victory Brewing M.B., p. 14.

8. ALJs' Recommendation

In light of the fact we are rejecting the Company's CAP Rider, as well as its proposed rate increase, and recommending changes to the Company's BDP and AMP, we recommend that the Company's Hardship Fund grant limits remain at \$500. Over the last five completed funding cycles, the highest average grant amount per service was \$403.29 – in 2023 to 2024 – suggesting that the \$500 per service grant amount remains reasonable.¹⁶⁸³ While CAUSE-PA offers PAWC's hardship fund balance as of December 2025 – over \$1.25 million – as justification that there are ample resources to support a grant limit of \$750, PAWC explains that the annual cycle of the Hardship Fund runs from October to September, meaning that new shareholder funds for a particular cycle are added to the fund balance in October.¹⁶⁸⁴ Therefore, it is not surprising that months closer to the beginning of the cycle, like December, would have a larger balance than later months. As of March 19, 2026, the Hardship Fund balance was approximately \$750,000 – or about \$500,000 less than the December 2025 Hardship Fund balance.

Considering in totality our recommendations regarding PAWC's low-income programs, keeping the Hardship Fund grant limit at \$500 strikes a reasonable balance. Therefore, we recommend CAUSE-PA's proposal be rejected.

G. Renter Assistance Pilot Program

1. PAWC's Position

PAWC explains that low-income residents who live in master-metered buildings do not pay their utility directly for their utility service and therefore are not

¹⁶⁸³ Tr. 1819.

¹⁶⁸⁴ PAWC M.B., p. 109-110.

eligible for customer assistance programs such as the BDP or AMP. PAWC proposes to assist this population through a RAPP that would provide eligible residents with quarterly stipends that are approximately equivalent to what the resident would be receiving if they were enrolled in the BDP based on an average level of residential customer usage.¹⁶⁸⁵ The Company proposes to recover RAPP costs through PAWC's proposed CAP rider (with a \$1 million annual cap on RAPP stipends) and to administer RAPP for a minimum of two years in locations in different regions with high renter populations: Scranton and Butler.¹⁶⁸⁶

CAUSE-PA witness Geller recommended rejection of RAPP, citing concerns about non-residential customer benefits as well as an overall desire to maintain focus on existing Company customer assistance programs.¹⁶⁸⁷ OCA witness Colton recommended that PAWC be directed to present its conceptual proposal for RAPP to CAAG for further development prior to re-submitting the proposal, either in a separate proceeding or as part of its next rate case.¹⁶⁸⁸

In response, PAWC defends the RAPP as an innovative way to address utility affordability for eligible low-income households and will provide payments directly to the low-income participants.¹⁶⁸⁹ That said, the Company notes it is willing to work with CAAG to further develop the program framework prior to implementation and can review program results and findings with CAAG one year after implementation.¹⁶⁹⁰

¹⁶⁸⁵ PAWC St. 2, pp. 15-18; PAWC St. 2-R, pp. 10-12.

¹⁶⁸⁶ PAWC St. 2, pp. 16-18.

¹⁶⁸⁷ CAUSE-PA St. 1, pp. 62-64; CAUSE-PA St. 1-SR, pp. 19-20.

¹⁶⁸⁸ OCA St. 4, pp. 84-86; OCA St. 4SR, pp. 32-34.

¹⁶⁸⁹ PAWC M.B., p. 111.

¹⁶⁹⁰ PAWC St. 2-R, pp. 10-12.

2. I&E's Position

I&E presented no testimony on this topic.¹⁶⁹¹

3. OCA's Position

OCA argues that the RAPP represents a substantial change in regulatory policy in Pennsylvania and care should be taken in structuring any such program, even on a pilot basis. As Mr. Colton testified, “the proposed RAPP represents a substantial change in regulatory policy in that it proposes to use ratepayer money to provide assistance to non-ratepayers.”¹⁶⁹² Mr. Colton noted that this is contrary to the original rationale advanced by the Commission when it first considered the energy utilities' CAPs which arose out of the Commission's investigation to control uncollectible accounts.¹⁶⁹³

OCA argues that by providing assistance to non-customers, the issue of whether the program assists in improving payment patterns is removed. As such, Mr. Colton recommended that PAWC be directed to present its conceptual proposal for RAPP to its Low-Income Advisory Committee for further development of program details prior to re-submitting the proposal, either in a separate proceeding or as part of its next rate case.¹⁶⁹⁴

¹⁶⁹¹ I&E M.B., p. 97.

¹⁶⁹² OCA St. 4 at 82.

¹⁶⁹³ OCA St. 4 at 82, *citing, In the Matter of the Investigation into the Control of Uncollectible Accounts*, Docket No. I-9000002 (initiated Oct. 11, 1990).

¹⁶⁹⁴ OCA St. 4 at 84-85. Such details include how the program will determine whether a household is, in fact, being allocated some portion of a multi-family dwelling water bill; what objectives the RAPP is seeking to accomplish and how those objectives would be accomplished; and how multi-family dwellings are defined for purposes of RAPP.

4. OSBA's Position

The OSBA has no comment.¹⁶⁹⁵

5. CAUSE-PA's Position

PAWC's proposed Renter Assistance Pilot Program (RAPP) is an imprudent use of ratepayers funds and should be rejected.¹⁶⁹⁶

CAUSE-PA explains that the RAPP would provide quarterly stipends to tenants in master-metered buildings and other rental properties, meant to approximate the discounts they would be receiving if they were customers of PAWC and enrolled in the BDP.¹⁶⁹⁷ PAWC would apply its average level of residential water customer usage of 3,263 gallons per month, and using a household's income level, PAWC would calculate what their bill discount would be if they were enrolled in the BDP and using 3,263 gallons per month.¹⁶⁹⁸

While CAUSE-PA certainly recognizes the benefits of providing assistance to tenants who are not able to enroll in PAWC's programming and supports the theoretical concept of assisting renters with water and wastewater costs embedded in rent, this is an inappropriate use of rate payer funds at this time.¹⁶⁹⁹ CAUSE-PA argues there are a number of critical concerns regarding PAWC's proposed RAPP: (1) the Company proposes to remove RAPP participants if a check is returned as undeliverable but never

¹⁶⁹⁵ OSBA M.B., p. 49.

¹⁶⁹⁶ CAUSE-PA M.B., p. 93.

¹⁶⁹⁷ PAWC St. 2 at 15. CAUSE-PA notes that throughout the description of this proposed program, PAWC refers to these tenants as customers. However, the design of the program necessitates that these renters are not customers or ratepayers of PAWC.

¹⁶⁹⁸ CAUSE-PA M.B., p. 93-94.

¹⁶⁹⁹ CAUSE-PA M.B., p. 95.

considered the potential that a tenant may forward their mail when they move – allowing that tenant to continue to receive quarterly stipends even after they move to another residence¹⁷⁰⁰, and (2) PAWC’s proposal to serve just two areas, Scranton and Butler, to the exclusion of other areas across its broad service territory, lacks a compelling rationale and may constitute rate discrimination under the Public Utility Code.¹⁷⁰¹

6. Victory Brewing’s Position

Victory Brewing takes no position on PAWC’s service quality or customer service issues.¹⁷⁰²

7. Cleveland-Cliffs’ Position

Cleveland-Cliffs did not address this issue.

8. ALJs’ Recommendation

While we commend PAWC with its desire to find innovative ways to address the economic challenges faced by low-income households, we share the concerns raised by OCA and CAUSE-PA and cannot recommend that the RAPP be approved. Approval of the RAPP may constitute a discriminatory rate, violative of Section 1304. Additionally, it requires the Company to use ratepayer money to provide assistance to non-ratepayers, which represents a substantial change in regulatory policy, a change for which we cannot recommend approval on public policy grounds. Our recommendation

¹⁷⁰⁰ Evidentiary Hearings Transcript at 1866: 17 – 1867: 15.

¹⁷⁰¹ CAUSE-PA M.B., p. 96.

¹⁷⁰² Victory Brewing M.B., p. 14.

that the RAPP not be approved is consistent with our recommendation that the CAP Rider, which was intended to support recovery of the RAPP stipends, not be approved.

That said, we agree with OCA that PAWC should be directed to present its conceptual proposal for RAPP to its Low-Income Advisory Committee for further development of program details prior to re-submitting the proposal, either in a separate proceeding or as part of its next rate case.

H. Universal Service Plan

1. PAWC's Position

CAUSE-PA witness Geller recommends that PAWC develop a comprehensive universal service plan ("USP"), including a consumer education and outreach plan, for PUC review concurrent with the Company's next base rate proceeding.¹⁷⁰³ Mr. Geller asserts that a USP is necessary for Commission staff, consumers, and utility advocates to learn more about the Company's low-income programs rather than relying on the Company's tariff, website, and outreach materials.¹⁷⁰⁴

PAWC notes the Commission rejected similar proposals from CAUSE-PA and the OCA in the Company's prior base rate case, which, PAWC avers is consistent

¹⁷⁰³ CAUSE-PA St. 1, pp. 54-55.

¹⁷⁰⁴ *Id.*, p. 54.

with Pennsylvania law.¹⁷⁰⁵ The Company maintains that the Public Utility Code requires USPs for EDCs and NGDCs only,¹⁷⁰⁶ a fact acknowledged by Mr. Geller.¹⁷⁰⁷

PAWC avers, and Mr. Geller agrees, there are numerous avenues for customers and interested parties to learn more about the Company's low-income programs.¹⁷⁰⁸ A USP is not necessary as details regarding the Company's low-income programs are available in its tariff, on its website, and in various outreach materials. Because no legal authority for a water or wastewater USP exists, the Company will continue to provide detailed information related to its low-income programs as part of base rate proceedings.¹⁷⁰⁹ The Company maintains a USP is not necessary as details regarding the Company's low-income programs are available in its tariff, on its website, and in various outreach materials.¹⁷¹⁰

2. I&E's Position

I&E presented no testimony on this topic.¹⁷¹¹

3. OCA's Position

OCA did not address this issue in its testimony.¹⁷¹²

¹⁷⁰⁵ PAWC 2024, pp. 362-363.

¹⁷⁰⁶ PAWC St. 2-R, p. 16. *See also* Pa. Code § 54.74; 52 Pa. Code § 62.41; 66 Pa.C.S. § 2804(8) ("The commission shall establish for each electric utility an appropriate cost-recovery mechanism which is designed to fully recover the electric utility's universal service and energy conservation costs over the life of these programs.").

¹⁷⁰⁷ CAUSE-PA St. 1, p. 54; CAUSE PA St. 1-SR, p. 25.

¹⁷⁰⁸ PAWC M.B., p. 112.

¹⁷⁰⁹ PAWC St. 2-R, p. 16.

¹⁷¹⁰ PAWC M.B., p. 112.

¹⁷¹¹ I&E M.B., p. 97.

¹⁷¹² OCA M.B., p. 113.

4. OSBA's Position

OSBA has no comment.¹⁷¹³

5. CAUSE-PA's Position

CAUSE-PA argues that a comprehensive USP is necessary because the absence of a comprehensive plan engenders consumer confusion and hampers consumers' ability to learn about and ultimately enroll in assistance programs.¹⁷¹⁴

CAUSE-PA argues PAWC be required to develop and submit a comprehensive Universal Service Plan, including a detailed consumer education and outreach plan (CEOP), for Commission review and approval concurrent with the Company's next rate case.¹⁷¹⁵

6. Victory Brewing's Position

Victory Brewing takes no position on PAWC's low-income customer assistance program or proposals.¹⁷¹⁶

7. Cleveland-Cliffs' Position

Cleveland-Cliffs does not address this issue.

¹⁷¹³ OSBA M.B., p. 49.

¹⁷¹⁴ *Id.* at 54: 15-17.

¹⁷¹⁵ *Id.* at 54: 8-10.

¹⁷¹⁶ Victory Brewing, p. 14.

8. ALJs' Recommendation

CAUSE-PA admits PAWC is not explicitly required to develop a USP, but responds to PAWC's argument thusly: in the instant rate proposal, PAWC is proposing to develop new low-income programming (RAPP) and alternative ratemaking mechanisms (CAP Rider, deduct adjustment) that are *not* specifically required for water and wastewater utilities, and the Company claims that it is looking for innovative ways to address utility affordability.¹⁷¹⁷

In this Recommended Decision, we recommend the RAPP, CAP Rider, and deduct adjustment be rejected. While PAWC's customers may benefit from a USP, we cannot recommend CAUSE-PA's proposal be adopted as there is no legal requirement for it to do so. Further, there is insufficient evidence in the record to show that the details regarding PAWC's low-income programs are effectively unavailable in its tariff, on its website, and in various outreach materials. As such, we do not recommend that CAUSE-PA's request that the Commission direct PAWC to develop a USP be adopted.

XV. SERVICE QUALITY AND CUSTOMER SERVICE ISSUES

A. Customer Service Performance

1. Call Center Performance

a. PAWC's Position

As a threshold matter, PAWC maintains the Commission does not have the authority to impose performance-based rates on the Company in this proceeding. PAWC

¹⁷¹⁷ CAUSE-PA St. 1-SR at 25: 16-18.

further argues OCA mischaracterizes PAWC's customer service performance and Ms. Alexander's recommendations are without merit.

PAWC explains that the Customer Service Organization (CSO) supports the customer service needs of PAWC and the other American Water utility subsidiaries, including customer call handling¹⁷¹⁸ and the CSO's hiring and recruitment efforts over the past several years, have reduced wait times and the call abandonment rate for customers that do not utilize the courtesy call back (CCB) feature.¹⁷¹⁹

PAWC criticizes Ms. Alexander's evaluation because it relies on wait times and call abandonment rather than the overall customer experience and because she truncates the data set to include only collections calls, which is a small portion of overall call volume.¹⁷²⁰ PAWC argues that in 2025, overall CSO performance, including calls handled by third-party contractors, met or exceeded the performance goals recommended by Ms. Alexander.¹⁷²¹ PAWC maintains that if calls answered by the IVA and/or customers using the CCB feature were reflected in the CSO's performance data, service levels would far exceed the CSO's internal performance goals.¹⁷²²

It further claims Ms. Alexander's comparison to data reported to BCS by electric and gas utilities is misplaced because these utilities use different definitions and metrics for call center performance than PAWC.¹⁷²³

¹⁷¹⁸ PAWC St. 15-R, pp. 3-6. The CSO is operated by Service Company employees, which provide support for several functions of PAWC and other American Water utility subsidiaries.

¹⁷¹⁹ *Id.*, pp. 11-13.

¹⁷²⁰ *Id.*, pp. 10-13.

¹⁷²¹ PAWC St. 15-R, pp. 11-13.

¹⁷²² PAWC M.B., p. 115.

¹⁷²³ PAWC M.B., p. 115.

PAWC avers its performance levels are monitored daily and the CSO determines staffing levels of third-party call handling agencies based on the performance of individual agents against known performance indicators set forth in the service agreements with those contractors.¹⁷²⁴ Further, the CSO conducts extensive training of its agents in Pennsylvania rules and regulations before they are permitted to handle calls from PAWC customers.¹⁷²⁵ This training includes an 80-page training module and a knowledge test, and the CSO has a robust quality assurance process.¹⁷²⁶

b. I&E's Position

I&E presented no testimony on this topic.¹⁷²⁷

c. OCA's Position

OCA avers that PAWC's call center performance is inadequate and has been inadequate for some time, based on (1) high call-answer times, (2) high call abandonment rates, and (3) and customer complaints.¹⁷²⁸ OCA argues Section 1501 and Section 1505 of the Public Utility Code support its position that PAWC's inadequate call center performance supports its recommendation that PAWC's call center expenses should be disallowed in relation to the ROE.

OCA explains PAWC outsources its call center and customer service functions to its affiliate, the Service Company, and it does not provide appropriate managerial oversight thereof, resulting in call center performance failing to meet both the

¹⁷²⁴ *Id.*

¹⁷²⁵ PAWC St. 15-R, pp. 6-7.

¹⁷²⁶ PAWC Hearing Ex. No. 3, p. 2.

¹⁷²⁷ I&E M.B., p. 97.

¹⁷²⁸ OCA St. 5 at 5, 10-11, 16-17, 32-33; OCA Ex. BA-2; OCA St. 5, App. A

“reasonable service” standard mandated by Section 1501, call center standards the Commission requires of electric and natural gas distribution companies, and PAWC’s own stated customer service goals.¹⁷²⁹

The Commission requires electric and natural gas distribution companies to report call center performance for the percentage of calls answered within 30 seconds and the call abandonment rate.¹⁷³⁰ OCA notes the 2024 and 2025 annual average percentage of calls answered within 60 seconds is 47% and 44%, respectively, for one contractor, and 31% and 22%, respectively, for the other contractor.”¹⁷³¹ OCA avers the annual average abandonment rate reflects similarly poor and unacceptable performance: 19% for one contractor for both 2024 and 2025, and 20% in 2024 and 23% in 2025, for the other contractor.”¹⁷³²

OCA notes the Commission’s 2023 Management Audit found that PAWC had a decline in call handling, which led PAWC to state it would strive to achieve 80% of calls answered within 60 seconds by December 2024.¹⁷³³ Not only is this stated goal much lower than the typical performance goal reported by other utilities – to answer 80% of the calls within 30 seconds (not 60 seconds), PAWC failed to reach its own stated goal.¹⁷³⁴

¹⁷²⁹ OCA St. 5 at 8-10.

¹⁷³⁰ PA. PUC Bureau of Consumer Services, *2024 Customer Service Performance Report, Pennsylvania Electric & Natural Gas Distribution Companies*, 6-7 (Dec. 2025) (<https://www.puc.pa.gov/media/3762/2024-customer-service-performance-report-final.pdf>).

¹⁷³¹ *Id.* at 11

¹⁷³² *Id.*

¹⁷³³ Pa. PUC Bureau of Audits, *Pennsylvania American Water Co. Management and Operations Audit*, 80-84 (Oct. 2023) (<https://www.puc.pa.gov/pdocs/1810662.pdf>).

¹⁷³⁴ OCA M.B., p. 118.

Despite the fact PAWC has subpar call center performance, OCA explains PAWC has failed to conduct a proper root-cause analysis or any analysis to determine trends and failed to take corrective actions.¹⁷³⁵ OCA argues that conducting a root cause analysis would allow PAWC to audit the performance of the contractor from time-to-time, thus ensuring compliance with PAWC’s statutory and regulatory obligations, and allow PAWC to impose contractual remedies, including termination of the contract, should the contractor’s performance not be satisfactory.”¹⁷³⁶

As a result, OCA’s witness Alexander makes several recommendations¹⁷³⁷:

- as a condition of any rate increase in this proceeding, PAWC must require that its call centers and its call center performance overall conform, at a minimum, to its corporate call center performance objective of answering 80% or more of the calls within 60 seconds with an abandonment rate of 8% or less. These performance objectives should be imposed on call centers operated by its Parent Company and its third-party contractors.
- PAWC should be required to undertake an annual audit and investigation of customer call center compliance with Pennsylvania’s regulations by not only investigating customer complaints but affirmatively reviewing a valid sample of customer calls and subsequent transactions to find and respond to potential violations or improperly handled calls. Such audits with their findings and responses in the form of internal action undertaken should be available to stakeholders and submitted as evidence in PAWC’s next base rate case.
- PAWC should be required to conduct a proper root cause analysis of customer disputes and informal and formal complaints to identify complaint trends, underlying causes, and reforms or other steps undertaken to respond

¹⁷³⁵ OCA M.B., pp. 118-119.

¹⁷³⁶ *Id.* at 12.

¹⁷³⁷ OCA St. 5 at 16-17.

to these findings. PAWC should share its plan to conduct and methodology for a root cause analysis with stakeholders prior to undertaking such analysis. A root cause analysis should be undertaken within six months of the final order in this proceeding and the results shared with stakeholders and included in PAWC's next base rate case filing.

PAWC argues OCA's recommendations are erroneous because Ms. Alexander narrowly focuses on wait times and call abandonment rates, rather than the larger driving force of first contact resolution¹⁷³⁸ and fails to consider calls by its IVA or customers utilizing its courtesy call back feature. OCA responds that if the customer is not able to routinely access a trained and qualified customer service representative in a timely manner, many of the crucial rights and remedies that must be offered to customers are delayed or ignored¹⁷³⁹ and automated pick-ups do not always provide a customer with vital assistance.¹⁷⁴⁰

OCA further criticizes PAWC for its reliance on its QA review, which relies entirely on customer identification of their overall call status in a survey response¹⁷⁴¹ and does not proactively evaluate its customer calls to determine compliance with training materials.¹⁷⁴²

d. OSBA's Position

OSBA avers the Company has not provided sufficient evidence demonstrating that its call center operations are adequately staffed, trained, and capable

¹⁷³⁸ PAWC M.B. at 114.

¹⁷³⁹ *Id.* at 8.

¹⁷⁴⁰ *Id.*

¹⁷⁴¹ PAWC M.B. at 116.

¹⁷⁴² *Id.*

of handling customer Small Business inquiries in a timely and accurate manner. Extended wait times, inconsistent information, or inadequate issue resolutions, cause a disproportionate burden on Small Business customers, who often lack the time and resources to repeatedly engage with customer service channels.¹⁷⁴³ These deficiencies translate directly into operational inefficiencies and increased costs for such customers.

OSBA argues the Company should be required to meet defined service benchmarks for call center performance prior to or concurrent with any rate increase, ensuring that Small Business customers receive the level of service they are being asked to fund.¹⁷⁴⁴

e. CAUSE-PA's Position

CAUSE-PA did not offer independent expert testimony with regard to PAWC's claimed expenses, though it supports the positions advanced by the Office of Consumer Advocate.¹⁷⁴⁵

f. Victory Brewing's Position

Victory Brewing takes no position on PAWC's service quality or customer service issues.¹⁷⁴⁶

g. Cleveland-Cliffs' Position

Cleveland-Cliffs did not address this issue.

¹⁷⁴³ OSBA M.B., p. 51.

¹⁷⁴⁴ *Id.*

¹⁷⁴⁵ CAUSE-PA M.B., p. 201-102.

¹⁷⁴⁶ Victory Brewing M.B., p. 14.

h. ALJs' Recommendation

As an initial matter, PAWC's customer service performance must be viewed in context of with the magnitude and frequency of PAWC's rate cases. PAWC's customers have seen rate increases in 2021, 2022, 2023, resulting from a two-stage significant rate increase from its 2020 rate case and the increase that just took effect in January 2023 from the 2022 rate case, and a rate increase authorized in August 2024 as a result of the most recent base rate case filed in 2023. Since its 2020 rate case, the average residential customer in Rate Zone 1 has seen a nearly 35% increase in water rates.¹⁷⁴⁷ If customers are required to pay more and more for service, it is reasonable to expect PAWC to furnish quality customer service.

While PAWC claims OCA's evaluation of its performance is erroneous, we find there is sufficient evidence to show PAWC should be required to make improvements to its call center policies. Notably, multiple customers testified regarding call center issues at the public input hearing, with one consumer testifying that they called PAWC regarding poor water quality, and were placed on hold for over 20 minutes waiting to speak to a supervisor, and that no supervisor picked up the phone.¹⁷⁴⁸ PAWC provided no response to this testimony. We share OCA's and OSBA's concerns.

We acknowledge that the Commission lacks authority to impose performance-based rates on the Company in this proceeding, and therefore recommend that the Commission not mandate specific metrics as proposed by OCA. However, we do recommend the Commission adopt the other proposals set forth by OCA – that PAWC (1) undertake an annual audit and investigation of customer call center compliance with

¹⁷⁴⁷ OCA St. 5 at 3.

¹⁷⁴⁸ Tr. at 1418-1419; OCA St. 5 App. A at 13.

Pennsylvania's regulations and share its findings and responses to stakeholders and submit them as evidence in PAWC's next base rate case, and (2) within six months of a final order in this case, conduct a root cause analysis of customer disputes and informal and formal complaints to identify complaint trends, underlying causes, and reforms or other steps undertaken to respond to these findings, sharing its plan with stakeholders prior to undertaking such analysis, and sharing its results with stakeholders and included in PAWC's next base rate case filing.

We understand that PAWC conducts a root-cause analysis for every customer complaint it receives, logs a root cause for each such complaint, where a contributing factor is identified, and generates reports reflecting customer complaint root causes, analyzes root- cause trend, and regularly discusses root-cause trends with the appropriate business units within the CSO.¹⁷⁴⁹ That said, PAWC should be directed to perform a broader, more comprehensive analysis, by an independent third-party, identifying trends and systematic corrections undertaken, if any.

2. Customer Complaints

a. PAWC's Position

PAWC received formal complaints in this proceeding addressing, among other things, water quality and field service-related issues. Mr. Runzer described the individual Company outreach to these customers¹⁷⁵⁰ and addressed the testimony of several witnesses at the public input hearings in Exeter Township about abnormally high water and wastewater bills, explaining that those customers' bills are far lower than their testimony alleges.¹⁷⁵¹ Finally, Company witness Anthony M. Nokovich described

¹⁷⁴⁹ PAWC Hearing Ex. 3, p. 3.

¹⁷⁵⁰ PAWC St. 3-R, pp. 28-43.

¹⁷⁵¹ *Id.*, pp. 25-28.

PAWC's rigorous planning process to evaluate service requests from data centers to address concerns about the service impacts on existing customers raised at the public input hearings.¹⁷⁵²

PAWC reiterates its position that the professionally conducted root-cause analysis is unnecessary because PAWC already conducts its own analysis, generating logs and reports.¹⁷⁵³

b. I&E's Position

I&E presented no testimony on this topic.¹⁷⁵⁴

c. OCA's Position

OCA explains that over the course of these proceedings, the parties participated in ten in-person public input hearings in Washington, Scranton, Harrisburg, Reading, and Chester, as well as two telephonic public input hearings.¹⁷⁵⁵ Areas of public concern include, *inter alia*, affordability of service, frequency of rate increases, impact from data centers, customer service, water quality, and service disruptions. In addition to the testimony received at the public input hearings, at the time of Ms. Alexander's testimony, 147 formal complaints and 364 informal complaints were filed with the Commission.¹⁷⁵⁶ As of March 25, 2026, a total of 159 formal and 572 informal complaints have been lodged against PAWC.¹⁷⁵⁷

¹⁷⁵² PAWC St. 4-R, pp. 1-3.

¹⁷⁵³ PAWC Hearing Ex. 3, p. 3.

¹⁷⁵⁴ I&E M.B., p. 97.

¹⁷⁵⁵ OCA St. 5 at App. A.

¹⁷⁵⁶ OCA St. 5 at 5.

¹⁷⁵⁷ OCA M.B., p. 119.

OCA notes that 75 individuals and 15 public officials provided testimony at the public input hearings regarding the affordability of water and/or wastewater service provided by PAWC.¹⁷⁵⁸ We address affordability issues above.

Customers also raised concerns regarding poor customer service they received from interactions with PAWC as well as to the poor quality of water and service disruptions. OCA notes at the public input hearings, 24 consumers and 3 public officials provided testimony regarding these issues.¹⁷⁵⁹ Additionally, several consumers testified to purchasing bottled water or reverse osmosis filters, water that has black specks, white specks, or is brown, and chemical, chlorine, and rotten egg smells.¹⁷⁶⁰

d. OSBA's Position

OSBA avers the Company should be required to provide detailed data regarding Small Business customer complaint frequency, categories, and resolution timelines, as well as evidence of corrective actions taken to address systemic issues. Without such transparency and improvement, it would be inappropriate to shift additional financial burden onto Small Business ratepayers.¹⁷⁶¹

e. CAUSE-PA's Position

CAUSE-PA did not offer independent testimony with regard to PAWC's claimed expenses, though it supports the positions advanced by the Office of Consumer Advocate.

¹⁷⁵⁸ OCA St. 5 App. A at 1-9; OCA St. 5 App. A Supp. at 1-4.

¹⁷⁵⁹ *Id.*

¹⁷⁶⁰ Tr. 402-405; 548-549; 917; 930-931; 978-979; 1033; 1033; 1116; 1145 1362;1418-1422; *See also* OCA St. 5 App. A; and OCA St. No. 5 Supp. App. A.

¹⁷⁶¹ OSBA M.B., p. 51.

f. Victory Brewing's Position

Victory Brewing takes no position on PAWC's service quality or customer service issues.¹⁷⁶²

g. Cleveland-Cliffs' Position

Cleveland-Cliffs did not address this issue.

h. ALJs' Recommendation

As discussed above, we find PAWC's proposed rates are unjust and unreasonable and should be rejected. Further, we recommend above that the Commission adopt proposals set forth by OCA – that PAWC (1) undertake an annual audit and investigation of customer call center compliance with Pennsylvania's regulations and share its findings and responses to stakeholders and submit them as evidence in PAWC's next base rate case, and (2) within six months of a final order in this case, conduct a root cause analysis of customer disputes and informal and formal complaints to identify complaint trends, underlying causes, and reforms or other steps undertaken to respond to these findings, sharing its plan to with stakeholders prior to undertaking such analysis, and sharing its results with stakeholders and included in PAWC's next base rate case filing.

¹⁷⁶² Victory Brewing, p. 14.

B. Billing Arrangement with American Water

1. PAWC's Position

PAWC explains that for over two decades, American Water Resources (AWR) has offered optional products and services, such as water line and sewer line protection plans, to PAWC customers. After enrolling with AWR, customers are charged a monthly fee so that if their water or sewer line breaks, AWR will deploy a contractor to fix the water or sewer line under the warranty program at minimal up-front cost to the customer.¹⁷⁶³ PAWC customers can choose the convenience of including these charges on their PAWC bill or be billed directly by AWR.¹⁷⁶⁴

PAWC claims it is standard industry practice for utilities both inside and outside of the Commonwealth to partner with providers of these types of warranty services¹⁷⁶⁵ and the Commission's regulations recognize utilities' long-standing practice to bill "charges for other than basic service," which include, among other things, "line repair programs and appliance warranty programs."¹⁷⁶⁶ PAWC clarifies that these services are entirely optional to customers, i.e., customer payments are applied to PAWC's charges first and a customer's choice not to pay for AWR's services does not result in any service termination efforts by PAWC.¹⁷⁶⁷

Although American Water sold its interest in AWR in December 2021, which ended the affiliate relationship between AWR and PAWC, the day-to-day

¹⁷⁶³ PAWC St. 15-R, pp. 15-16.

¹⁷⁶⁴ *Id.*, p. 16. At any time after enrollment, PAWC customers can choose to be billed directly by contacting AWR by phone or making a request in the customer's online account with AWR. PAWC Hearing Ex. No. 3, p. 3.

¹⁷⁶⁵ *Id.*, p. 17.

¹⁷⁶⁶ 52 Pa. Code § 56.13.

¹⁷⁶⁷ 52 Pa. Code §§ 56.23, 56.83(3).

relationship between PAWC and AWR remains essentially the same by virtue of a Utility Agreement executed by PAWC and AWR at the time of the sale.¹⁷⁶⁸

OCA raises several concerns regarding PAWC's relationship with AWR: (1) PAWC's exclusive on-bill relationship with AWR is unreasonably discriminatory, (2) AWR's use of PAWC's name and logo for marketing purposes creates a false impression that customers are purchasing warranty plans from a trusted brand¹⁷⁶⁹, and PAWC's customer bill does not clearly differentiate AWR charges for non-basic service from PAWC's regulated charges.¹⁷⁷⁰

In response, PAWC argues the relationship is not discriminatory since no other person or corporation has sought to include its non-basic products and services on PAWC's bills since the Company's last rate case.¹⁷⁷¹ It notes the Utility Agreement states that PAWC is not precluded from offering similar on-bill services to another entity.¹⁷⁷² Therefore, as the Commission found in *PAWC 2024* (p. 385), PAWC argues its exclusive billing relationship with AWR under the Utility Agreement is not discriminatory.¹⁷⁷³

PAWC avers AWR has historically used PAWC's trademark and logo for marketing purposes, which is standard industry practice when a utility partners with another entity to offer warranty products and services¹⁷⁷⁴ and clear disclosures are

¹⁷⁶⁸ PAWC M.B., p. 120.

¹⁷⁶⁹ OCA St. 5, pp. 24-25; OCA St. 5SR, pp. 16-17.

¹⁷⁷⁰ See OCA St. 5, p. 25; OCA St. 5SR, pp. 17-18.

¹⁷⁷¹ PAWC St. 15-R, p. 19.

¹⁷⁷² *Id.*

¹⁷⁷³ PAWC M.B., p. 122.

¹⁷⁷⁴ PAWC M.B., p. 123.

included on all marketing materials explaining that AWR is not affiliated with PAWC, its products and services are optional, and AWR’s prices are not determined by PAWC.¹⁷⁷⁵

Finally, PAWC explains it the charges provided by AWR on its bills as a separate line item, and no customers’ service is terminated for non-payment of AWR charges.¹⁷⁷⁶ As shown on the sample bill provided in OCA Ex. BA-3, the “Account Summary” that appears directly below the total amount due on the first page of PAWC’s customer bill itemizes the balance for “Service Related Charges” and “Protection Programs.”¹⁷⁷⁷ Therefore, as the Commission concluded in *PAWC 2024* (p. 385), PAWC is following the Commission’s regulations related to billing of non-basic charges.

2. I&E’s Position

I&E presented no testimony on this topic.¹⁷⁷⁸

3. OCA’s Position

OCA claims that PAWC is engaging in deceptive and discriminatory billing and marketing practices for nonutility services provided by PAWC’s ex-affiliate, American Water Resources (AWR), to the detriment of consumer interests¹⁷⁷⁹, and this constitutes inadequate and unreasonable utility service under Section 1501.¹⁷⁸⁰

OCA witness Ms. Alexander testified the relationship between PAWC and AWR is problematic for three reasons: (1) the use of the shared name and logo by

¹⁷⁷⁵ PAWC St. 15-R, p. 18.

¹⁷⁷⁶ *Id.*, pp. 19-20.

¹⁷⁷⁷ PAWC Hearing Ex. 3, pp. 3-4.

¹⁷⁷⁸ I&E M.B., p. 97.

¹⁷⁷⁹ OCA St. 5 at 21-22; 24-25.

¹⁷⁸⁰ 66 Pa. C.S. § 1501

American Water Resources can mislead PAWC customers into believing AWR is legally affiliated with PAWC under common ownership or management; (2) AWR's exclusive marketing and billing arrangement with PAWC is discriminatory against other companies, leading customers to pay more for service; and (3) the charges are presented on customer's bills in a manner that does not clearly differentiate these unregulated and non-basic services from PAWC's regulated charges."¹⁷⁸¹

As such, Ms. Alexander first recommends that marketing and billing for these services be identified as optional services provided by Oncourse Home Services.¹⁷⁸² She testified that the use of the PAWC logo and the fictitious name of American Water Resources (an entity that operates as a "brand" for Oncourse Home Solutions and is adopted specifically to market its products to American Water utility customers) should be prohibited as a basic consumer protection matter.¹⁷⁸³

She further recommends that PAWC's customer bill should not include any non-basic charges in the same section and calculation of the regulated service charges – Non-basic charges should be separately identified and disclosed with a separate total with a statement that the customer has the option to include this charge on the monthly PAWC bill or receive a separate bill for these optional services from Oncourse Home Services.¹⁷⁸⁴

She also recommends that PAWC should be required to document that it has offered the use of its customer bills for non-basic services to any third-party provider that markets home protection services, which will create a more competitive process and

¹⁷⁸¹ OCA St. 5 at 25.

¹⁷⁸² OCA St. 5 at 27.

¹⁷⁸³ *Id.*

¹⁷⁸⁴ OCA St. 5 at 26.

lower costs to customers, or alternatively, terminate this program.¹⁷⁸⁵ Finally, she recommends that the revenues PAWC receives for these non-basic services should continue to be used to offset revenue requirement recovered from PAWC's ratepayers.¹⁷⁸⁶

4. OSBA's Position

OSBA did not address this issue.

5. CAUSE-PA's Position

CAUSE-PA did not offer independent expert testimony with regard to PAWC's claimed expenses, though it supports the positions advanced by the Office of Consumer Advocate.¹⁷⁸⁷

6. Victory Brewing's Position

Victory Brewing did not address this issue.

7. Cleveland-Cliffs' Position

Cleveland-Cliffs did not address this issue.

8. ALJs' Recommendation

We share some, but not all of Ms. Alexander's concerns.

¹⁷⁸⁵ OCA St. 5 at 26-27.

¹⁷⁸⁶ OCA St. 5 at 26-27.

¹⁷⁸⁷ CAUSE-PA

Regarding the exclusive nature of the relationship between AWR and PAWC, we do not believe the record supports a finding that this is a prohibited discriminatory practice or represents a violation of the Code. This is a standard industry practice and PAWC clarifies to customers that this service is optional and does not affect a customer's water service. Plus, the Commission has previously found that the exclusive billing relationship is not discriminatory.¹⁷⁸⁸

Nor do we agree with Ms. Alexander that the way in which charges are presented on customer bills is inconsistent with the Code. These non-basic services are listed as a separate line item, with itemized line items for "Service Related Charges" and "Protection Programs."

We do agree, however, that the use of the shared name and logo by American Water Resources can be misleading to PAWC customers, because the fact that PAWC is unaffiliated with AWR is not sufficiently communicated to customers *on their bills*. While PAWC may in fact include disclosures on all marketing materials explaining that AWR is not affiliated with PAWC¹⁷⁸⁹, the customer bills do not sufficiently make this distinction. On customer bills, the first page lists a line item for "Protection Programs," and the second page, in small print reads, in pertinent part,

Protection programs for water, sewer and in-home plumbing are offered by American Water Resources. Charges for these services are not regulated by the Pennsylvania Public Utility Commission. Regulated services will not be discontinued as a result of non-payment of protection program charges. Customers with protection program charges will not be assessed a late payment charge for late or unpaid protection plan charges. For inquiries

¹⁷⁸⁸ PAWC M.B., p. 122.

¹⁷⁸⁹ PAWC St. 15-R, p. 18.

about protection programs, please contact American Water Resources.”¹⁷⁹⁰

Nothing on the bill itself indicated that “American Water Resources,” is unaffiliated with PAWC, or its parent company, American Water. We believe this could be confusing to customers, especially if there is a household of more than one adult looking at or responsible for bills. One adult may have seen the disclaimer in marketing materials, while another adult is reviewing or paying the bills. In order to avoid confusion, we recommend that PAWC be directed to include language in its bills that AWR is unaffiliated with PAWC. This could be achieved simply by adding a few words to the language cited above – “Protection programs for water, sewer and in-home plumbing are offered by American Water Resources, *which is unaffiliated with Pennsylvania American Water....*” – or some other language that sufficiently communicates to customers that AWR and PAWC are completely separate entities.

XVI. CONCLUSION

Based upon the record evidence presented in this proceeding, we recommend that the Commission deny PAWC’s general rate increase request as PAWC has not met its burden of proof in demonstrating that its requested overall revenue increase produces rates that are just and reasonable, equitable among customer groups, or in the public interest.¹⁷⁹¹ Accordingly, we recommend that the Commission reject PAWC’s requested rate increase as presented and keep in place the rates, charges and provisions previously approved. However, in the alternative, should the Commission choose not to approve this recommendation, we provide the parties position on each major category argued by the parties, followed by the undersigned ALJs’ alternate

¹⁷⁹⁰ OCA Ex. BA-3.

¹⁷⁹¹ OCA M.B. at 8-9; 66 Pa. C.S. § 315(e); *Pa. PUC v. PAWC*, 2004 Pa. PUC LEXIS 29 at *16-18 (Order Jan. 29, 2004); *Burleson v. Pa. PUC*, 461 A.2d 1234, 1236 (Pa. 1983); *Lansberry v. Pa. PUC*, 578 A.2d 600, 602 (Pa. Cmwlt. 1990).

recommendations at the end of each category. In addition, as part of our alternate recommendation, we adopt the calculations, rates, terms and provisions calculated in their entirety, as set forth in Appendix E, to the Recommended Decision.

In addition, we recommend denial of the Company's proposals for a new wastewater rate design to base summer bills on winter consumption referred to as a deduct adjustment; regulatory asset/liability treatment for its Pension and Other Post Employee Benefits (OPEB) claims; and a deduct adjustment to separate metered water usage that is likely to go through the wastewater system from water that is used for outdoor activities in the summertime such as filling pools and watering lawns, all be denied.

PAWC's customers, who ultimately pay the revenue requirement to PAWC, must pay enough, but no more than is necessary, to ensure that service remains adequate, reliable, and safe while allowing the utility to have the opportunity to recover its costs and earn a fair rate of return on its investments.¹⁷⁹² The evidence established that rates proposed by PAWC are not affordable to Pennsylvania American water and wastewater customers who have resorted to extreme measures to reduce their water and wastewater bills. Customers simply cannot do anything more to conserve water and reduce their excessive bills. An issue that has a major impact on PAWC's revenue requirement increase is PAWC's desire to increase its ROE from 9.45% to 10.95%, representing approximately \$113.95 million.¹⁷⁹³ PAWC's desire to increase its return on equity needs to be balanced with just and reasonable rates for its ratepayers, who are facing increasingly burdensome affordability concerns.¹⁷⁹⁴

¹⁷⁹² 66 Pa. C.S. § 1301, 1501; *Bluefield Water Works and Improvement Co. v. Public Serv. Comm'n of W.Va.*, 262 U.S. 679, 692-93 (1923); *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944); *Permian Basin Area Rate Cases*, 390 U.S. 747, 794-95 (1968) (*Permian Basin*).

¹⁷⁹³ OCA St. 1SR at 2; OCA M.B. at Appendix A, Tables.

¹⁷⁹⁴ See Affordability Discussion *infra* Section XIII.B.2.a.

The evidence established that the rates proposed by Pennsylvania American are unsustainable, unfair and not in the public interest. We conclude, based upon the record evidence, that the recommendation to deny the proposals from PAWC and the alternative recommendation outlined herein are just and reasonable and will provide more affordable rates for PAWC customers and enable the Company to proceed with reasonable and necessary infrastructure improvements while attracting regulated public utility investors through a reasonable return on equity and other attractive financial incentives.

Further, we recommend the CAP Rider and RAPP be rejected due to PAWC failing to meet its burden; the proposed BDP modifications be approved, as should OCA's proposals regarding PAWC's improvement of its performance of its low-income programs; the AMP be modified to allow greater opportunity for customer relief; low-income program enrollment processes be modified to increase participation; PAWC's call center policies be improved to ensure reasonable customer service; PAWC be required to perform a third-party conduct a root-cause-analysis of customer complaints to ensure a thorough, unbiased evaluation; and PAWC's bills be modified to adequately clarify the relationship between PAWC and AWR.

In summary, the Recommended Decision recommends that the Commission deny the request of PAWC to increase the base rate, as requested, because it is contrary to the public interest and will create unreasonable, unfair and unjust rates. We conclude that PAWC has failed to meet its burden of proof in the present proceeding to show that its filing, including the proposed rate increase, rate design, and alternate rate mechanisms, as set forth below, are in the public interest and will result in just and reasonable rates consistent with the Public Utility Code. In addition, an alternate recommendation is provided in the event the Commission concludes that an adjustment to rates and terms is appropriate

XVII. CONCLUSIONS OF LAW

1. Pennsylvania American Water Company is a public utility as defined in Section 102 of the Public Utility Code.¹⁷⁹⁵

2. The Commission has jurisdiction over the subject matter and the parties to this proceeding.¹⁷⁹⁶

3. The Company carries the burden of proof to show its rate proposal is just and reasonable.¹⁷⁹⁷

4. Pennsylvania-American must satisfy its burden of proof by presenting a preponderance of evidence.¹⁷⁹⁸

5. A preponderance of the evidence is evidence that is more convincing, by even the smallest amount, than that presented by another party.¹⁷⁹⁹

6. In base rate cases, the Commission has affirmed the utility's burden to establish the justness and reasonableness of every component of its rate request.¹⁸⁰⁰

¹⁷⁹⁵ 66 Pa.C.S. § 102.

¹⁷⁹⁶ 66 Pa.C.S. §§ 501, *et seq.*; 66 Pa.C.S. § 1308(d).

¹⁷⁹⁷ 66 Pa.C.S. § 315(a); *Irwin A. Popowsky v. Pa. P.U.C.*, 674 A.2d 1149 (Pa. Cmwlth. 1996).

¹⁷⁹⁸ *Samuel J. Lansberry, Inc. v. Pennsylvania Public Utility Commission*, 578 A.2d 600 (Pa. Cmwlth. 1990).

¹⁷⁹⁹ *Se-Ling Hosiery v. Margulies*, 70 A.2d 854 (Pa. 1950).

¹⁸⁰⁰ *Pa. P.U.C. v. PPL Electric Utilities Corporation*, 2012 WL 6758304 (Pa. P.U.C. 2012); *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, 2004 WL 2314523 (Pa. P.U.C. 2004).

7. The burden of proof does not shift to parties challenging a requested rate increase.¹⁸⁰¹

8. The Company must produce substantial evidence to satisfy its burden of proof.¹⁸⁰²

9. Substantial evidence is “such relevant and competent evidence having a rational probative force which a reasonable mind might accept as adequate to support a conclusion.”¹⁸⁰³

10. Every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable, and in conformity with regulations or orders of the commission.¹⁸⁰⁴

11. No public utility shall ... make or grant any unreasonable preference to any person, corporation ... No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service.¹⁸⁰⁵

¹⁸⁰¹ *Pa. P.U.C. v. PPL Elec. Util. Corp.*, 2012 WL 6758304 (Pa. P.U.C. 2012); *Pa. P.U.C. v. Aqua Pa., Inc.*, 2004 WL 2314523 (Pa. P.U.C. 2004).

¹⁸⁰² *Brockaway Glass v. Pa. P.U.C.*, 437 A.2d 1067 (Pa. Cmwlth. 1981); *Lower Frederick Twp. v. Pa. P.U.C.*, 409 A.2d 505 (Pa. Cmwlth. 1980).

¹⁸⁰³ *Dutchland Tours, Inc. v. Pa. P.U.C.*, 337 A.2d 922, 925 (Pa. Cmwlth. 1975).

¹⁸⁰⁴ 66 Pa. C.S. § 1301.

¹⁸⁰⁵ 66 Pa. C.S. § 1304.

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

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

RR: Revenue Requirement

E: Operating Expense

D: Depreciation Expense

T: Taxes

RB: Rate Base

ROR: Overall Rate of Return

to provide service to customers.¹⁸⁰⁶

13. The public utility requesting a rate increase and seeking to recover expenses has the burden of showing that the rate requested, including all claimed expenses, is just and reasonable.¹⁸⁰⁷

14. To the extent that expenses are not reasonably incurred, imprudently incurred, or abnormally overstated during the test year, they should be disallowed and found not recoverable through rates.¹⁸⁰⁸

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

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

¹⁸⁰⁸ *Cup v. Pa. P.U.C.*, 556 A.2d 470 (Pa. Cmwlth. 1989).

Fair Rate of Return

15. A utility is entitled to a return similar to that being earned by other enterprises with corresponding risks and uncertainties, but not as high as those earned by highly profitable or speculative ventures.¹⁸⁰⁹

16. A utility is entitled to a return level reasonably sufficient to assure financial soundness.¹⁸¹⁰

17. A utility is entitled to a return sufficient to maintain and support its credit and raise necessary capital.¹⁸¹¹

18. A fair return can change (increase or decrease) along with economic conditions and capital markets.¹⁸¹²

¹⁸⁰⁹ *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*, 292 U.S. 679 (1923); *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *Pennsylvania Gas & Water Co. v. Pa. P.U.C.*, 341 A.2d 239, 249-252 (Pa. Cmwlth. 1975).

¹⁸¹⁰ *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*, 292 U.S. 679 (1923); *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *Pennsylvania Gas & Water Co. v. Pa. P.U.C.*, 341 A.2d 239, 249-252 (Pa. Cmwlth. 1975).

¹⁸¹¹ *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*, 292 U.S. 679 (1923); *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *Pennsylvania Gas & Water Co. v. Pa. P.U.C.*, 341 A.2d 239, 249-252 (Pa. Cmwlth. 1975).

¹⁸¹² *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*, 292 U.S. 679 (1923); *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *Pennsylvania Gas & Water Co. v. Pa. P.U.C.*, 341 A.2d 239, 249-252 (Pa. Cmwlth. 1975).

19. The PUC historically uses the DCF as the primary methodology to determine a utility's cost of equity.¹⁸¹³

20. The PUC recognizes the 10-year Treasury Note as the superior measure for the risk-free rate.¹⁸¹⁴

Customer Rate Structure

21. A utility's rate structure cannot either advantage or disadvantage a class, or contain an unreasonable difference in rates.¹⁸¹⁵

22. If there is a reasonable basis for a difference, a utility may charge different rates for different classes of customers.¹⁸¹⁶

23. Establishment of a rate structure is an administrative function peculiarly within the expertise of the Commission. *Emporium Water Co. v. Pa. Pub. Util. Comm'n.*, 955 A.2d 456, 461 (Pa. Cmwlth. 2008); *City of Lancaster v. Pa. Pub. Util. Comm'n.*, 769 A.2d 567, 571-72 (Pa. Cmwlth. 2001). The question of

¹⁸¹³ *Pa. P.U.C. v. UGI Utilities, Inc. – Electric Division*, Docket No. R-2017-2640058 (Order entered October 25, 2018), pp. 104-106, 121; *Pa. P.U.C. v. City of DuBois – Bureau of Water*; Docket No. R-2016-2554150 (Order Entered Mar. 28, 2017), pp. 96-98; *Pa. P.U.C. v. PECO Energy Co.*, 87 Pa. PUC 184, 212 (Pa. P.U.C. 1997); *Pa. P.U.C. v. Philadelphia Suburban Water Co.*, 71 Pa. PUC 593, 623-32 (Pa. P.U.C. 1989); *Pa. P.U.C. v. Western Pennsylvania Water Co.*, 67 Pa. PUC 529, 559-70 (Pa. P.U.C. 1988); *Pa. P.U.C. v. Consumers Pennsylvania Water Company – Roaring Creek Division*, 87 Pa. PUC 826 (Pa. P.U.C. 1997). *Pa. P.U.C. v. City of Bethlehem*, 84 Pa. PUC 275, 304-05 (Pa. P.U.C. 1995); *Pa. P.U.C. v. Media Borough*, 77 Pa. PUC 446, 481 (Pa. P.U.C. 1992).

¹⁸¹⁴ *Pa. P.U.C. v. UGI Util., Inc. – Electric Div.*, Docket No. R-2017-2640058 (Order Entered Oct. 25, 2018), p. 99.

¹⁸¹⁵ 66 Pa.C.S. §1304.

¹⁸¹⁶ *Peoples Natural Gas Company v. Pa. P.U.C.*, 409 A.2d 446 (Pa. Cmwlth 1979).

reasonableness of rates and the difference between rates in their respective classes is an administrative question for the Commission to decide.¹⁸¹⁷

24. The basic factor in allocating revenue is to have the rates reflect the cost of service.¹⁸¹⁸

25. A utility must show any difference in rates can be justified by the difference in costs to deliver service to each class.¹⁸¹⁹

26. Section 1311(c) of the Public Utility Code, more commonly referred to as Act 11, permits utilities that provide both water and wastewater service to combine the revenue requirements by allocating a portion of the wastewater revenue requirement to the water customer base if doing so is in the “public interest.”¹⁸²⁰

27. Section 1311(c) of the Public Utility Code does not specify how the Commission should determine rates, nor does it dictate the percent or amount of revenue that should be allocated or shifted, leaving the Commission wide latitude in applying Act 11.¹⁸²¹

¹⁸¹⁷ *Pennsylvania Power & Light Co. v. Pa. Pub. Util. Comm.*, 516 A.2d 426 (Pa. Cmwlth. 1986); *Park Towne v. Pa. Pub. Util. Comm’n.*, 43 A.2d 610 (Pa. 1981).

¹⁸¹⁸ *Lloyd v. Pa. Pub. Util. Comm.*, 904 A.2d 1010, 1020 (Pa. Cmwlth. 2006).

¹⁸¹⁹ *Philadelphia Suburban Water Co. v. Pa. P.U.C.*, 808 A.2d 1044, 1060 (Pa. Cmwlth. 2002).

¹⁸²⁰ 66 Pa. C.S. § 1311.

¹⁸²¹ 66 Pa. C.S. § 1311(c).

Low-income Customer Assistance

28. It is the utilities' burden of proof to demonstrate that allowing for recovery of a claim for arrearage forgiveness will not give the utility double-recovery of these costs.¹⁸²²

29. Affordable bills will maximize revenues for the Company and will enable ratepayers to continue to receive an essential service.¹⁸²³

30. It is a fundamental precept of utility law that every rate made, demanded or received by any public utility be just and reasonable.¹⁸²⁴

31. In deciding on an appropriate return on equity and the reasonable mix of debt and equity securities, the obligation of the Commission is to balance consumer and investor interests.¹⁸²⁵

32. A narrow definition of "confirmed low-income" is inappropriate.¹⁸²⁶

Service Quality and Customer Service Issues

33. "The commission shall consider, in addition to all other relevant evidence of record, the efficiency, effectiveness and adequacy of service of each utility

¹⁸²² *Customer Assistance Programs: Funding Levels and Cost Recovery Mechanism*, Final Investigatory Order, at 38 (Oct. 19, 2006).

¹⁸²³ *Pa. PUC v. Roaring Creek Water Co.*, 73 Pa. PUC 373, 400 (1990).

¹⁸²⁴ 66 Pa.C.S. § 1301.

¹⁸²⁵ *FPC v. Natural Gas Pipeline Co.*, 315 U.S. 577, 606-608.

¹⁸²⁶ *Pa PUC v. Columbia Gas Co.*, Docket No. R-2025-3053499, Order at 350 (Dec. 4, 2025); *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-2023-3037933, Order at 226 (Nov. 9, 2023).

when determining just and reasonable rates under this title. On the basis of the commission's consideration of such evidence, it shall give effect to this section by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate. Any adjustment made under this section shall be made on the basis of specific findings upon evidence of record, which findings shall be set forth explicitly, together with their underlying rationale, in the final order of the commission."¹⁸²⁷

34. "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."¹⁸²⁸

XVII. ORDER

THEREFORE,

IT IS RECOMMENDED:

1. The rate increase and other proposals set forth in Supplement No. 58 to Tariff Water PA. P.U.C. No. 5, and in proposed Supplement No. 61 to Tariff Wastewater PA P.U.C. No. 16, as filed, are denied for failure of Pennsylvania-American Water Company, to meet its burden of proof in this proceeding and are found to be unjust, unreasonable and therefore unlawful.

¹⁸²⁷ 66 Pa. C.S. § 523.

¹⁸²⁸ 66 Pa. C.S. § 1501.

2. In the event the Commission determines that Pennsylvania-American Water Company has met its burden of proof regarding any particular proposals, rates, rules, and regulations, in the alternative, the rate increase and other proposals, set forth in Supplement No. 58 to Tariff Water PA. P.U.C. No. 5, and in proposed Supplement No. 61 to Tariff Wastewater PA P.U.C. No. 16, are approved as set forth in this Recommended Decision.

3. That Pennsylvania-American Water Company not be permitted to place into effect the rates contained in proposed Supplement No. 58 to Tariff Water-PA. P.U.C. No. 5, which have been found to be unjust and unreasonable and, therefore, unlawful.

4. That Pennsylvania-American Water Company – Wastewater Division not be permitted to place into effect the rates contained in proposed Supplement No. 61 to Tariff Wastewater PA P.U.C. No. 16, which have been found to be unjust and unreasonable and, therefore, unlawful.

5. That Pennsylvania-American Water Company be permitted to file tariffs, tariff supplements or tariff revisions, on at least one day's notice, and pursuant to the provisions of 52 Pa. Code §§ 53.1, *et seq.*, and 53.101, containing proposed rates, rules, and regulations designed to produce annual operating revenues of approximately \$1,004,589,075 for water service, representing an annual revenue increase of approximately \$51,490,686, to become effective for service rendered on and after August 13, 2026.

6. That Pennsylvania-American Water Company – Wastewater Division be permitted to file tariffs, tariff supplements or tariff revisions, on at least one day's notice, and pursuant to the provisions of 52 Pa. Code §§ 53.1, *et seq.*, and 53.101,

containing proposed rates, rules, and regulations, designed to produce annual operating revenues of approximately \$240,215,328 for wastewater service, representing an annual revenue increase of approximately \$31,177,848, to become effective for service rendered on and after August 13, 2026.

7. That Pennsylvania-American Water Company shall file detailed calculations with its tariff filings, which shall demonstrate to the Commission's satisfaction that the filed tariff adjustments comply in all respects with the provisions of this Recommended Decision and these Ordering Paragraphs.

8. That Pennsylvania-American Water Company be required to allocate the authorized increase in water operating revenues and wastewater operating revenues to each service, operation, customer class and rate schedule within each class, in the manner set forth in this Recommended Decision and these Ordering Paragraphs.

9. That Pennsylvania-American Water Company shall file with the Commission's Secretary's Bureau at these dockets and provide the Commission's Bureau of Technical Utility Services, Bureau of Investigation and Enforcement, and Office of Consumer Advocate with updates to PAWC Exhibit 3-A, pp. 27, 95, 146, 193, and 238 no later than December 1, 2027, which should include actual plant additions and retirements for the twelve months ending June 30, 2026, and for the twelve months ending June 30, 2027, and as set forth in Section VI.A of this Recommended Decision.

10. That Pennsylvania-American Water Company shall implement the Bill Discount Program and the Arrearage Management Program modifications in this Recommended Decision within ninety days of the effective date of rates. By this date, the Company shall file an associated report with the Commission's Bureau of Consumer Services.

11. That Pennsylvania-American Water Company's proposed new wastewater rate design to base wastewater bills for the summer on winter consumption referred to as a deduct adjustment and its proposed regulatory asset/liability treatment for its Pension and Other Post Employee Benefits (OPEB) claims are denied.

12. That Pennsylvania-American Water Company shall provide calculations for rate impacts with its supporting calculations filed with the Commission pursuant to 52 Pa. Code § 5.592(a), consistent with the Commission's Opinion and Order.

13. That, upon acceptance and approval by the Commission of the compliance tariff supplements filed by Pennsylvania-American Water Company, the investigation at Docket Nos. R-2025-3057983 and R-2025-3058051, and the above-captioned complaint dockets be marked closed.

14. That Pennsylvania-American Water Company be required to comply with all directives, conclusions and recommendations in this Recommended Decision that are not the subject of individual ordering paragraphs as if they were the subject of specific ordering paragraphs.

15. That a copy of the Commission's Opinion and Order be served on the Commission's Bureau of Consumer Services, Policy Division; the Bureau of Investigation and Enforcement; the Bureau of Audits; and the Bureau of Technical Utility Services, Finance Section for monitoring and compliance.

16. That all of the complaint cases filed against the rate cases docketed at R-2025-3057983 and R-2025-3058051 and captioned above be dismissed and marked

closed as if each case was dismissed and marked closed in its own individual ordering paragraph.

17. That upon acceptance and approval by the Commission of the tariff supplements filed by Pennsylvania-American Water Company and compliance with all of the terms and provisions set forth in the Commission's Final Order, the investigations at Docket Nos. R-2025-3057983 and R-2025-3058051 be marked closed.

Date: May 15, 2026

_____/s/
Emily I. DeVoe
Administrative Law Judge

_____/s/
Jeffrey A. Watson
Administrative Law Judge

APPENDIX A

**Pennsylvania-American Water Company (Water and Wastewater)
2025 Base Rate Case
Docket Nos. R-2025-3057983, R-2025-3058051, et al.**

List of Formal Complaints - Water

<u>Complainant's Name</u>	<u>Date Complaint Filed</u>	<u>Docket Number</u>
Rik Bhattacharyya	November 18, 2025	C-2025-3058701
Curran Mitchell	November 18, 2025	C-2025-3058705
Kevin Clinebell	November 18, 2025	C-2025-3059159
Karen W Harris	November 20, 2025	C-2025-3059042
Michael Leone	November 20, 2025	C-2025-3058733
Christopher Cappuccitti	November 20, 2025	C-2025-3059093
Zachary Bugay	November 21, 2025	C-2025-3058769
Mary Naydan	November 21, 2025	C-2025-3058792
James C Davies	November 21, 2025	C-2025-3059113
William Balint	November 21, 2025	C-2025-3058984
Brian Dugas	November 24, 2025	C-2025-3058818
Patricia A Finely	November 24, 2025	C-2025-3058864
David R Hurlbrink	November 25, 2025	C-2025-3058843
Carolann Hunt	November 25, 2025	C-2025-3059080
Conne Horhut	November 26, 2025	C-2025-3058873
Ralf Neckien	December 1, 2025	C-2025-3059089
Jay S Croft	December 2, 2025	C-2025-3059030
Brooke Birckbichler	December 2, 2025	C-2025-3059057
Deanna Pilkerton	December 2, 2025	C-2025-3059154
Neil Allen Brown	December 5, 2025	C-2025-3059169
David and Lynn Griffith	December 8, 2025	C-2025-3059164
Marc Wills and Angelia Koser	December 8, 2025	C-2025-3059143
Paul Heiken	December 8, 2025	C-2025-3059211
Amy Stalnecker	December 8, 2025	C-2025-3059188
Jeffrey Reichart	December 9, 2025	C-2025-3059136
Keith Sauer	December 9, 2025	C-2025-3059144
John Arty	December 10, 2025	C-2025-3059254
Angela McCloy	December 11, 2025	C-2025-3059209
Amanda Johnsen	December 11, 2025	C-2025-3059381
Paul Walaski	December 12, 2025	C-2025-3059341
Mary Tancalian	December 15, 2025	C-2025-3059342

Scott Repalla	December 15, 2025	C-2025-3059302
Kathleen Schwartz	December 17, 2025	C-2025-3059350
Larry and Irene Mistick	December 18, 2025	C-2025-3059421
Tacy Rutherford	December 18, 2025	C-2025-3059426
Violet B Kern	December 18, 2025	C-2025-3059446
Wayne W Hedrik	December 19, 2025	C-2025-3059501
Felipe Ortiz	December 22, 2025	C-2025-3059452
Grace Nucciarone	December 23, 2025	C-2025-3059484
Thomas Ziman	December 24, 2025	C-2025-3059499
Michelle Kazar	December 26, 2025	C-2025-3059697
Jayne Fitzpatrick	December 27, 2025	C-2025-3059490
Mark Schlosser	December 28, 2025	C-2025-3059494
John Erbiecella	December 29, 2025	C-2025-3059507
John Messina	December 30, 2025	C-2025-3059527
Dazhe Wang	December 31, 2025	C-2025-3059556
John P Dolekary	January 1, 2026	C-2026-3059574
Robert and Patricia Boni	January 2, 2026	C-2026-3059592
Robert Peiffer	January 3, 2026	C-2026-3059824
James B Dworchak	January 4, 2026	C-2026-3059603
Shawn Cieniewicz	January 6, 2026	C-2026-3059361
Adam Thomas	January 6, 2026	C-2026-3059694
Diane Martellacci	January 6, 2026	C-2026-3060020
Naomi Conte	January 7, 2026	C-2026-3059647
Jedidiah Chappell	January 7, 2026	C-2026-3059766
Dana Ullmann	January 8, 2026	C-2026-3059695
Carla Seidel	January 9, 2026	C-2026-3059689
Steve Comuso	January 9, 2026	C-2026-3059709
Michael Vallino	January 11, 2026	C-2026-3059710
Alicia W Shusett	January 11, 2026	C-2026-3059712
Heather Zeh	January 11, 2026	C-2026-3059716
Shaun Keperling	January 11, 2026	C-2026-3059707
Paedrick Holohan	January 11, 2026	C-2026-3059743
Jennifer Breton	January 12, 2026	C-2026-3059732
Scott Bogust	January 12, 2026	C-2026-3059735
Sherri and Scott High	January 12, 2026	C-2026-3059742
Theodore Gardella	January 12, 2026	C-2026-3059731
Sergio Castaneda	January 12, 2026	C-2026-3059734
Stephanie Mostellar	January 12, 2026	C-2026-3059737
Richard Matijasich	January 12, 2026	C-2026-3059812
Kendra Robinson	January 12, 2026	C-2026-3059801
David Barnett	January 12, 2026	C-2026-3059818
Kathleen Townsend	January 12, 2026	C-2026-3059845
Rebecca Carsto	January 13, 2026	C-2026-3059746

Anna Smallwood	January 13, 2026	C-2026-3059742
Ahn Weisner	January 13, 2026	C-2026-3059755
Lauren Hoover	January 13, 2026	C-2026-3059758
Jeffrey Belzer	January 13, 2026	C-2026-3059762
Patricia Istenes	January 13, 2026	C-2026-3059761
Patricia May Phillips	January 13, 2026	C-2026-3059779
Joshua and Bryn Hoyt	January 13, 2026	C-2026-3059778
Christopher Nicholson	January 13, 2026	C-2026-3059819
William Dobron	January 13, 2026	C-2026-3059821
Kathy Levanga	January 13, 2026	C-2026-3059739
Paul Brown	January 14, 2026	C-2026-3060187
Donald and Roberta Baker	January 28, 2026	C-2026-3060105
Edward C Padgelek	February 3, 2026	C-2026-3060463
Frank Shaffer	February 20, 2026	C-2026-3060734
James Docherty	February 27, 2026	C-2026-3060880
Judy Wojanis	February 27, 2026	C-2026-3060881
Ramkrishna Sen	March 25, 2026	C-2026-3061359

APPENDIX B

**Pennsylvania-American Water Company (Water and Wastewater)
2025 Base Rate Case
Docket Nos. R-2025-3057983, R-2025-3058051, et al.**

List of Formal Complaints - Wastewater

<u>Complainant's Name</u>	<u>Date Complaint Filed</u>	<u>Docket Number</u>
Curran Mitchell	November 18, 2025	C-2025-3058707
Karen Harris	November 20, 2025	C-2025-3059148
Christopher Cappuccitti	November 20, 2025	C-2025-3059094
Elaine Bowman	November 22, 2025	C-2025-3058815
Joel Jackson	November 24, 2025	C-2025-3059064
Patricia A Finley	November 24, 2025	C-2025-3058826
Carolann Hunt	November 25, 2025	C-2025-3059087
David Hurlbrink	November 25, 2025	C-2025-3058845
Ralf Neckien	December 1, 2025	C-2025-3059117
Jay S Croft	December 2, 2025	C-2025-3059031
Brooke Birckbichler	December 2, 2025	C-2025-3059053
Deanna Pilkington	December 2, 2025	C-2025-3059172
Linda Allison	December 4, 2025	C-2025-3059122
Neil Allen Brown	December 5, 2025	C-2025-3059170
Marc Wills and Angelia Koser	December 8, 2025	C-2025-3059147
David and Lynn Griffith	December 8, 2025	C-2025-3059165
Paul Heiken	December 8, 2025	C-2025-3059212
Amy Stalnecker	December 8, 2025	C-2025-3059189
Jeffrey Reichart	December 9, 2025	C-2025-3059137
Keith Sauer	December 9, 2025	C-2025-3059146
John Arty	December 10, 2025	C-2025-3059250
Thersa McGee	December 11, 2025	C-2025-3059334
Amanda Johnsen	December 11, 2025	C-2025-3059377
Mary Tanealian	December 15, 2025	C-2025-3059295
Kathleen Schwartz	December 17, 2025	C-2025-3059353
James Lyle	December 17, 2025	C-2025-3059442
Tacy Rutherford	December 18, 2025	C-2025-3059427
Larry and Irene Mistick	December 18, 2025	C-2025-3059447
Wayne W Hedrick	December 19, 2025	C-2025-3059502
Mark Schlosser	December 28, 2025	C-2025-3059492

John Erbicella	December 29, 2025	C-2025-3059508
John Messina	December 30, 2025	C-2025-3059528
Robert and Patricia Boni	January 2, 2026	C-2026-3059593
Stephen M Citrullo	January 5, 2026	C-2026-3059602
Denise E Prowse	January 6, 2026	C-2026-3059816
Diane Martellacci	January 6, 2026	C-2026-3060028
Karen Bates	January 6, 2026	C-2026-3059699
Adam Thomas	January 6, 2026	C-2026-3059693
Joey and Lisa Inmon	January 7, 2026	C-2026-3059682
Naomi Conte	January 7, 2026	C-2026-3059650
Jedidiah Chappell	January 7, 2026	C-2026-3060017
Dana Ullmann	January 8, 2026	C-2026-3059692
Carla Seidel	January 9, 2026	C-2026-3059703
Colleen Vallonio	January 11, 2026	C-2026-3059711
Alicia W Shusett	January 11, 2026	C-2026-3059714
Heather Zeh	January 11, 2026	C-2026-3059715
Paedrick Holohan	January 11, 2026	C-2026-3059751
Laurel Miller	January 12, 2026	C-2026-3059733
Scott Bogust	January 12, 2026	C-2026-3059738
Stephanie Lamison	January 12, 2026	C-2026-3059745
Sherrie Greene	January 12, 2026	C-2026-3059764
Douglas Berguson	January 12, 2026	C-2026-3059767
Richard Matijasich	January 12, 2026	C-2026-3059811
Kendra Robinson	January 12, 2026	C-2026-3059815
Anna Smallwood	January 13, 2026	C-2026-3059744
Lauren Hoover	January 13, 2026	C-2026-3059759
Anh Weisner	January 13, 2026	C-2026-3059757
Patricia Istenes	January 13, 2026	C-2026-3059756
Jeffrey Bezeler	January 13, 2026	C-2026-3059763
Amber Dinnella	January 13, 2026	C-2026-3059768
John Phio	January 13, 2026	C-2026-3059773
Sujata Shakya	January 13, 2026	C-2026-3059817
Christopher Nicholson	January 13, 2026	C-2026-3059822
Patricia May Phillips	January 13, 2026	C-2026-3059797
Kathleen Townsend	January 13, 2026	C-2026-3059844
Paul Brown	January 14, 2026	C-2026-3060188
Floyd Gault Jr.	January 15, 2026	C-2026-3060025
Frank Shaffer	February 20, 2026	C-2026-3060717

APPENDIX C

**Pennsylvania-American Water Company (Water and Wastewater)
2025 Base Rate Case
Docket Nos. R-2025-3057983, R-2025-3058051, et al.**

Comprehensive Discussion of Public Input Hearing Testimony

Washington, PA - January 13, 2026 (1:00 p.m.) In Person Public Input Hearing

A public input hearing was held on January 13, 2026, starting at 1:00 p.m. at the Crossroads Center in Washington, PA.¹⁸²⁹ All witnesses at this session testified under oath.

- Jeff Nobers, Executive Director of Pittsburgh Works and the Builders Guild, testified as a residential water customer. He spoke in support of the rate increase, emphasizing that the infrastructure investments PAWC makes are essential for providing efficient and reliable water and wastewater services. He noted that these infrastructure projects also create thousands of jobs for local skilled labor, benefiting the regional economy¹⁸³⁰.
- Joe Casilli, owner of a union construction business and a residential water customer for 35 years, testified on behalf of PAWC. He described how his company gets directly involved in upgrading systems that PAWC acquires, such as those in McKeesport and Dunker¹⁸³¹. He highlighted the economic impact of these projects,

1829 Tr. 113-266.

1830 Tr. 136.

1831 Tr.140.

stating his company supported 200 local families. He concluded that such critical infrastructure work would not be possible without rate adjustments¹⁸³².

- Christopher M. Eckenrode, the acting engineering manager, a consulting engineer for PAWC who performed numerous water treatment plant upgrade projects for the company and a water customer, testified about the necessity of upgrading aging water treatment plants, some of which are over a century old. He testified he has seen the condition of existing facilities and has been involved in numerous upgrade projects, including those for lead service line replacement and their upgrades. He stated these projects are vital for ensuring water quality and safety¹⁸³³.
- Art Rust, a union worker for Casper Colosimo and a residential customer, testified on behalf of the Company in support of the rate increase. He testified he has 31 years of experience in infrastructure development and asserted that the proposed increase is a necessary reinvestment in the local economy and community safety, as it funds projects that provide family-sustaining jobs¹⁸³⁴.
- Harry Gerhart, a self-employed business owner, is both a water customer and a vendor who has supplied materials to PAWC for over 40 years. He noted that the costs for manufacturers are rising and that he has had no issues with the company's service¹⁸³⁵.
- David Hufnagel, co-owner of Hufnagel Excavating and a water customer, supported the proposed rate adjustment. Having worked with PAWC for three decades on line replacements and main break repairs, he supported the proposed infrastructure

1832 Tr.142.

1833 Tr.143.

1834 Tr.146

1835 Tr. 148

upgrades. He also testified that the company's commitment to infrastructure improvements supports local jobs¹⁸³⁶.

- Bob Bielich, a business owner who provides the company with clean up services after water line breaks and a business and residential customer, supported the rate increase. His company has a 35-year partnership with PAWC. He commended PAWC for its prompt handling of claims and for having higher safety standards than municipal operations¹⁸³⁷.
- David Mathews testified as both a residential and business water customer. He supported PAWC's efforts to upgrade aging infrastructure, remove lead service lines, and improve water quality. He noted that his company partners with PAWC to send customer notifications, and he sees the investments as beneficial for creating jobs and supporting small businesses¹⁸³⁸.
- Jeff Kotula, President of the Washington County Chamber of Commerce and a residential and business water customer, expressed support for the rate increase. He highlighted PAWC's role as a corporate citizen, its investment in Washington County since 2018, and its assistance programs like H2O Help to Others. He testified that these investments are important for community growth and ensuring safe, reliable water service¹⁸³⁹.
- William Thomeier, Director of Economic and Tourism Development for the Washington County Chamber of Commerce, is a residential water customer. He supported the rate increase, emphasizing that reliable water and wastewater services

¹⁸³⁶ Tr. 150

¹⁸³⁷ Tr. 155

¹⁸³⁸ Tr.159

¹⁸³⁹ Tr. 161

are essential for economic growth. He testified that PAWC is a good corporate citizen that has invested in the county over the last decade, and states that nearly 60 cents of every ratepayer dollar is reinvested into the system¹⁸⁴⁰.

- David Rhome, Mayor and Assistant Fire Chief of Canonsburg and a PAWC customer, supported the rate increase. He detailed his long-term working relationship between the fire department and PAWC, noting their responsiveness and support for community programs. He also commended their efforts to assist customers who have difficulty paying their bills¹⁸⁴¹.
- John Rago testified as a water customer. Having been a ratepayer for 14 years, he stated he has witnessed PAWC's upgrades to aging infrastructure and its community investments. He supported the rate adjustment for these reasons ¹⁸⁴².
- Jody Robertson, an employee of the Dollar Energy Fund and a residential water customer, testified in support of the rate increase. She described the successful partnership between her organization and PAWC in administering the H2O Help to Others program, which provides assistance to low-income households for water and wastewater bills, with eligibility expanded to include those up to 250% of the federal poverty level¹⁸⁴³.
- Ty Boff, who is retired from American Water and now works for a contractor, and a water customer, stated the rate increase is justified to support essential programs like lead service line replacement and system modernization. He testified that these

1840 Tr. 166

1841 Tr. 171

1842 Tr. 175

1843 Tr. 178

investments prevent larger, more costly reactive repairs and address public health risks from aging infrastructure¹⁸⁴⁴.

- Sandy Mansman, a board member of the Pine Ridge Community Development Corporation and a water customer, testified in support of the rate increase. She thanked PAWC for assisting in providing a water line and a grant for their community garden, which serves low-income residents and resolved issues with water access¹⁸⁴⁵.
- Susan Ward, a community garden manager for the Highland Ridge Community and a customer, also testified in support. She explained that PAWC provided funds for a plumber and installed a new water line for their community garden, which was a great help to them¹⁸⁴⁶.
- Steve Strange, Executive Director of the Easton United Community Center and a water customer, testified in support of the company proposal. He highlighted PAWC's community partnership, noting their employees' volunteer hours and financial contributions to the center's food pantry and community garden, which included a \$10,000 grant for an un underground for a new water system¹⁸⁴⁷.
- Lisa Brown, Executive Director of Watersheds of South Pittsburgh and a residential water customer, supported the rate increase. She testified regarding PAWC's commitment to improving source water quality through partnerships with watershed associations, including financial support and volunteerism for restoration projects¹⁸⁴⁸.

1844 Tr. 184
1845 Tr. 187
1846 Tr. 192
1847 Tr. 194
1848 Tr. 198

- Jordan Grady, from the Butler County Chamber of Commerce, testified as a business customer. He stated that PAWC has been a great partner in supporting new developments and investments in the county, emphasizing that reliable infrastructure is critical for economic growth¹⁸⁴⁹.
- Jeff Double, a small business owner and board member of the Butler County Chamber of Commerce, testified in support of rate adjustment. He explained that his business relies on quality water and that he sees firsthand the necessity of infrastructure improvements. He compared the rate increase to rising costs in his own business, which are passed on to customers¹⁸⁵⁰.
- Catherine Qureshi, President and CEO of the Pittsburgh Parks Conservancy, testified she supported "thoughtful rate increases". She described the conservancy's partnership with PAWC, which has provided resources and grants for ecological health initiatives in Pittsburgh's parks. She views such increases as necessary to sustain infrastructure and community partnerships¹⁸⁵¹.
- Daniel Kovach, Director of Operations for the Butler County Chamber of Commerce, testified he supports operating and maintaining water and wastewater infrastructure. With a background in environmental management, he stressed the importance of these systems for public health¹⁸⁵².
- Andy Cardosi, a manager for The Lindy Group, testified in support of the company proposal. He stated that his company is a contractor for PAWC, and the infrastructure

1849 Tr. 202

1850 Tr. 205

1851 Tr. 210

1852 Tr. 213

projects funded by rate adjustments provide stable, good-paying union jobs for his employees¹⁸⁵³.

- Deborah Lee, a retired residential water customer, strongly opposed the rate increase. She cited the financial burden on seniors and fixed-income families, noting this is the fourth double-digit increase since 2019. She contrasted the rate hikes with the high compensation of American Water's executives and questioned why ratepayers should fund corporate profits and infrastructure for new industrial users¹⁸⁵⁴.
- Donna Nedelk, a water-only customer employed by ARC Randolph and Associates, expressed concern over the rate increase, noting it was the fourth in five years. She questioned why a \$40 billion merger with Essential Utilities, which promised no change in rates, was being followed by another increase. She also pointed to high executive pay and questioned who would bear the costs of new infrastructure for data centers¹⁸⁵⁵. She sponsored Exhibits 1 and 2 which were admitted into evidence ¹⁸⁵⁶
- Brian Petrakis, Vice President of a contracting company, testified in support of the infrastructure investment. His family-owned business works on PAWC projects, and he emphasized that these projects support local jobs, suppliers, and small businesses in the community¹⁸⁵⁷.

1853 Tr. 216
1854 Tr. 218
1855 Tr. 221
1856 Tr. 230
1857 Tr. 231

- Robert Jurosko, president of a small business that contracts for PAWC, supported the rate increase. He stated he knows what it takes for a small business to grow and that investment is necessary¹⁸⁵⁸.
- Barāta Bey, President of the African American Chamber of Western Pennsylvania, testified in support of the company proposal. He highlighted that PAWC has been a consistent corporate partner since 2021, providing sponsorships and engagement that help minority-owned and small businesses scale and grow.¹⁸⁵⁹
- Judy Wojanis, a retired residential water customer, opposed the dramatic rate increase. She expressed concern for her neighbors, especially given the current economic climate and high executive salaries. She also questioned the allocation of water resources to industrial projects like the hydrogen hub and data centers, feeling it was unfair for regular customers to "flip the bill".¹⁸⁶⁰
- Tom Murray, a retired water customer, opposed the rate increase request. He cited gross mismanagement by PAWC, pointing to a specific instance of poor project coordination that led to repeated road repairs. He also questioned the company's profitability, noting its parent company's billion-dollar profit in 2024, and argued that the PUC should establish guard rails for infrastructure maintenance funding¹⁸⁶¹.
- Ed Padgelek, a retired water customer, opposed the rate increase. He testified that the Public Utility Commission should prevent excessive charges and profits, noting that PAWC's rates are significantly higher than those of other local providers. He also

1858 Tr. 233

1859 Tr. 236

1860 Tr. 240

1861 Tr. 243

pointed out that those who testified in favor of the rate increase appeared to have a financial interest in the company ¹⁸⁶².

- Anthony Cappetta, a retired 40-year employee of PAWC and current water customer, testified in support of the Company proposal. He explained that from his long experience in water distribution maintenance, the system requires continuous upgrades, and the requested funds are necessary for these improvements¹⁸⁶³.
- Caleb McGill, a project manager an excavating and utility construction company, testified in support of the company’s proposal. He stated that his company is a union contractor for PAWC and that the infrastructure work provides jobs and improves communities¹⁸⁶⁴.
- Suzanne Dupilka, a water-only customer, opposed the rate increase. She noted that most who supported the increase seemed to have a financial connection to PAWC. While not against system upgrades, she believes they shouldn't burden taxpayers and the community, expressing concern over constant increases and the lack of direct benefit to all ratepayers¹⁸⁶⁵.

Washington, PA - January 13, 2026 (6:00 p.m.) In Person Public Input Hearing

This public input hearing took place on Tuesday, January 13, 2026, commencing at 6:00 p.m. at the Crossroads Building, Meeting Room G-16, 95 West Beau Street, Washington, PA.

1862 Tr. 251
1863 Tr. 254
1864 Tr. 257
1865 Tr. 260

- Chris Heck, President and CEO of the Pittsburgh Airport Area Chamber of Commerce, testified under oath. He is a residential water customer of Pennsylvania American Water Company. He supported the proposed rate increase, stating that PAWC's investment of over \$500 million in infrastructure is crucial for attracting new businesses and supporting economic development. He also supported its community involvement, including supporting over 300 organizations and offering customer assistance programs¹⁸⁶⁶.
- Gail Matus, the zoning and code enforcement officer for Robinson Township in Washington County, testified under oath. She is a residential water customer of PAWC. Matus supported the rate increase, emphasizing that the infrastructure provided by PAWC is essential for the development of her small township and for residents who currently lack reliable water, especially when wells run dry. She stated that without this infrastructure, the township cannot grow its tax base ¹⁸⁶⁷.
- Jason Davidek, Executive Director of the Allegheny League of Municipalities and a township supervisor, testified under oath. His community is a water customer of PAWC. His testimony supported the rate increase and highlighted PAWC's partnership with the League, which has enhanced services, facilitated engagement with local governments and provided education on regulations. He also discussed a successful collaboration on a hydrant maintenance program in his township¹⁸⁶⁸.
- Ben Bush, Vice President of Public Affairs for the Allegheny Conference on Community Development and a board member of the Lawrence County Redevelopment Authority, testified under oath. He is a residential water customer and supported the rate increase, testifying that investments in water and wastewater

1866 Tr. 283

1867 Tr. 289

1868 Tr. 294

infrastructure are critical for economic growth and public health. He stressed that proactively replacing aging infrastructure is more cost-effective than deferring investments and facing costly emergencies¹⁸⁶⁹.

- Robert Johnson, who is self-employed and works with the Mon Yough Chamber of Commerce, testified under oath. He has worked with PAWC in different roles and is a water customer of PAWC. He supported the rate increase by viewing PAWC as a good partner in the economic redevelopment of the Mon Valley and highlighting their extensive work installing new lines and systems in communities like Avella, Washington County¹⁸⁷⁰.
- Jamie Colecchi, Chief Executive Officer of the Mon Valley Alliance, testified under oath. He is a residential customer of PAWC who has worked with PAWC in various roles in Mon Valley. Colecchi supported the rate increase by encouraging its consideration, stating that planned infrastructure improvements are necessary for safe and reliable service, which is vital for local economies and long-term development¹⁸⁷¹.
- Sarah Shea, Executive Director of the Pennsylvania Resources Council, testified under oath. She is not a customer of PAWC. Her testimony supported the rate increase by highlighting PAWC's decade-long partnership and financial support for her environmental nonprofit. This support has enabled programs such as household hazardous waste collection and the distribution of rain barrels, which have saved over 800,000 gallons of water annually¹⁸⁷².

1869 Tr. 293

1870 Tr. 304

1871 Tr. 308

1872 Tr. 310

Scranton, PA – January 15, 2026 (1:00 p.m.) In-Person Public Input Hearing

- Jim Haddock, a Pennsylvania State Representative, testified under oath. He stated he has 65,000 resident constituents and is a PAWC rate payer. He testified PAWC is proposing a 13 to 17 percent increase per rate paying bill, in addition to the prior increases approved by the Commission including the one that became effective in 2024. He said that the Company did not provide sufficient information for details concerning the proposal and that residents and small businesses will experience double digit rate increases way too high and out of line¹⁸⁷³.
- Kyle Donahue, a State Senator, testified under oath that the proposal is the fourth request for a rate increase by PAWC since 2020 and that these prior increases have nearly doubled the typical residential water bill when customers face persistent inflation, rising housing costs, health care costs and growing financial insecurity. He explained water and sewer services are essential and customers have no alternative provider. He also suggested that the Commission examine the quality and effectiveness of the infrastructure investments and cited examples of insufficient infrastructure upgrades and the failure to properly restore property and roadways after the completion of upgrades. He suggested the proposed increase is not just and reasonable¹⁸⁷⁴
- Bridget Kosierowski, a State Senator, testified under oath that customers made up an aging population facing rising health care costs and cost of living within limited fixed incomes¹⁸⁷⁵

1873 Tr. 340

1874 Tr. 346

1875 Tr. 355

- Bill Gaughan, a Lackawanna County Commissioner, testified under oath. He explained that customers cannot afford to pay rate increases along with rising grocery, rent, insurance and prescription drug costs. He also expressed concerns about proposed Data Centers and accountability by the Utility¹⁸⁷⁶.
- Paige Cognetti, the manager of the City of Scranton, testified under oath and explained the rising costs experienced by the residents, business customers are unaffordable and pleaded that the Commission deny the proposed rate increase¹⁸⁷⁷.
- Max Conway, Mayor of the Borough of Dunmore, testified under oath that his 14,000 rate payers are still drowning in the massive increases from the last wastewater increase. He states that customers are reaching the breaking point and that their water and wastewater bills are outrageous, especially as compounded with bills from other water and wastewater utilities. He opposed the proposed rate increase¹⁸⁷⁸.
- Thom Welby, a Lackawanna County Commissioner and PAWC customer, testified that many improvements made, particularly in Scranton, collapsed soon after completion and raised concerns about repairs related to important projects. He also expressed concerns about PAWC profits and stated some customers pay more for wastewater than water, and asked for action on issues raised at the prior hearings that have yet to be resolved¹⁸⁷⁹.

1876 Tr. 358

1877 Tr. 365

1878 Tr. 369

1879 Tr. 372

- Michael Lombardo, the Mayor of the City of Pittston, testified under oath about the antiquated sanitary collection system in Pittston and his work with the Company on the acquisition of the system. He stated the relationship is a productive one ¹⁸⁸⁰.
- Harry Jadick, a retired CFO in the banking and food industry testified under oath, suggesting that the Commission should review the completion of the projects that require rate increases. He testified that the projects include roads being torn apart for significant periods of time. He also testified the company is able to afford its infrastructure without increasing rates of the customers¹⁸⁸¹.
- Ellen Ferretti, Executive Director of a nonprofit organization testified under oath that PAWC has been a good community partner, and its staff has volunteered at the organization’s tree planting events¹⁸⁸².
- Darren Snyder, a licensed real estate broker, testified under oath. He testified that he did not want to see any decrease in customer service caused when rates are kept down. He expressed he is happy with the level of service he receives¹⁸⁸³.
- James Murphy, a construction manager who has worked with PAWC for over ten years, testified under oath. He stated the company does a great job in improving their infrastructure to provide quality water and uninterrupted service¹⁸⁸⁴.
- Doris Koloski testified under oath that the rates are high and work by PAWC is shoddy. She said she uses filters in her home because she would never drink the

1880 Tr. 379
 1881 Tr. 386
 1882 Tr. 392
 1883 Tr. 395
 1884 Tr. 399

water otherwise, at an expense to her household. She said her two person household is charged approximately \$130 monthly. She complained about the constant rate increases and believes the Company should absorb some of the costs for the planned projects¹⁸⁸⁵.

- Leonard Dulsky, who performs instrumentation and calibration at wastewater and water plants, is not a PAWC customer. He testified under oath that PAWC is an industry leader and partner¹⁸⁸⁶.
- Seth Stafursky is a partner in a paving company that works with PAWC. Mr. Stafursky testified under oath. He stated that the improvements by PAWC are necessary to protect water quality, prevent service interruptions and provide dependable water service¹⁸⁸⁷.
- A.J. Kochanski, a contractor who works with PAWC projects and customer, testified under oath. He testified that working with PAWC has enabled his company to employ over 60 full time employees that work strictly for American Water. He testified that PAWC provides the best water quality possible¹⁸⁸⁸.
- Richard Jenkins, a materials engineer for a construction company but not a PAWC customer, testified under oath that his company has grown substantially through its relationship with PAWC. Mr. Jenkins states that PAWC has made a commitment to building and maintaining infrastructure and contributes to numerous nonprofit and community institutions¹⁸⁸⁹.

1885 Tr. 401
1886 Tr. 409
1887 Tr. 412
1888 Tr. 415
1889 Tr. 418

- Rocco Valvano is an attorney and business owner who testified under oath. He stated that PAWC is committed to its customers and to its infrastructure¹⁸⁹⁰.
- David Fusco owns a mechanical service company that has worked with PAWC for over thirty years and testified under oath. He testified PAWC has maintained a long-term commitment to maintaining and upgrading its facilities¹⁸⁹¹.
- Brian Worobey is an owner of a drinking water hauler, a contractor of American Water and customer testified under oath. He states that PAWC is a committed partner to the community and provides quality water to its customers¹⁸⁹².
- A.J. Cimahosky is a business development manager with the Greater Scranton Chamber of Commerce who testified under oath that PAWC has been a key and trusted partner and has developed miles of public water infrastructure in Lackawanna County¹⁸⁹³.
- Susan Magnotta, the President of Junior Achievement of Northeastern Pennsylvania, testified under oath that PAWC is a valued partner to her organization, community and in the general economic landscape. PAWC invested personally and financially into her organization¹⁸⁹⁴.
- Douglas Muller, a contractor who testified under oath that his company specializes in the improvement and construction of water and wastewater treatment plants and

1890 Tr. 423
 1891 Tr. 427
 1892 Tr.430
 1893 Tr. 434
 1894 Tr. 438

pumping stations, is working numerous projects with PAWC. He stated that the projects by the Company are necessary to ensure the safety of the public¹⁸⁹⁵.

- Matt Dewees is President of a business and customer of PAWC that processes and packages anthracite coal for drinking water filtration plants used in many Pennsylvania American facilities. He testified that his water bill is one of the least expensive things they consume in order to make their project¹⁸⁹⁶.
- Gina Suydam testified under oath on behalf of the Pennsylvania Chamber of Business and Industry. She testifies PAWC consistently demonstrates both reliability and leadership and is a consistent community partner serving on the Board of the Pennsylvania Chamber¹⁸⁹⁷.
- Barbara Andricks is a manager for the Greater Wyoming Valley Chambers of Commerce and testified under oath. She stated through community giving, donations, partnerships, and volunteering, PAWC demonstrates a commitment to programs that address community specific needs¹⁸⁹⁸.
- David Machiesky is an owner of a construction company that performs projects for American Water and a customer. He testified the increase needs to be a fair increase.¹⁸⁹⁹

1895 Tr. 443
1896 Tr. 448
1897 Tr. 450
1898 Tr. 452
1899 Tr. 459

Scranton, PA - January 15, 2026 (6:00 p.m.) In-Person Public Input Hearing

A public input hearing was held on Thursday, January 15, 2026, at 6:00 p.m. at Scranton University, Brennan Hall.¹⁹⁰⁰

- Patrick Flynn, a Scranton City Councilman and co-founder of External Affairs and Manifesto Health, testified under oath. As a water and wastewater customer, he spoke to oppose the rate increase. He testified that the increase would be a serious burden on working families and seniors on fixed incomes, and that ratepayers should not subsidize corporate expansion costs, such as PAWC's merger with Aqua America. He urged the Commission to scrutinize the request and minimize any approved increase¹⁹⁰¹.
- Patrick Sgarlat, a case manager and a PA American Water customer, testified under oath. He expressed satisfaction with his water service and supported the company's plan to upgrade infrastructure, but he also testified that he hoped rates would be kept as low as possible¹⁹⁰².
- Christopher Miller, founder of the nonprofit Lehman Sanctuary, testified under oath but is not a PAWC customer. He spoke on behalf of his organization, detailing a collaborative relationship with PAWC. He mentioned that PAWC grants have funded educational tools and programs, such as a water-themed summer camp and a borehole awareness campaign. His testimony described the positive community and environmental work supported by PAWC¹⁹⁰³.

¹⁹⁰⁰ Tr. 470
¹⁹⁰¹ Tr. 488
¹⁹⁰² Tr. 492
¹⁹⁰³ Tr. 494

- Nathan Eachus, a concerned citizen and self-employed at Pure Green Bio AG, testified under oath. He stated his opposition to the 17% rate increase, particularly due to the massive water consumption of data centers. He criticized PAWC for a lack of transparency regarding water allocation for these industrial uses, the environmental impact of discharging warm water, and for not fulfilling its obligation to provide clean water to Dimock, PA. He argued that ratepayers should not subsidize private data centers¹⁹⁰⁴.
- Robert Hughes, Executive Director of the Eastern Pennsylvania Coalition for Abandoned Mining Reclamation (EPCAMR), testified under oath on behalf of his organization. He described a nearly 20-year partnership with PAWC, which has supported EPCAMR's mission to reclaim abandoned mine lands and improve water quality. He described how grants from PAWC have funded watershed assessments and educational programs, described the company as a community partner ¹⁹⁰⁵.
- Gary Duncan, a retired grandfather and former chair of the Pennsylvania Council on Aging, testified under oath as a water and wastewater customer. Representing senior citizens, he opposed the rate increase, explaining how rising utility costs force seniors on fixed incomes to make difficult choices, like reducing water usage to the point of creating health issues. He also raised concerns about water consumption for AI centers and the cumulative impact of repeated rate hikes¹⁹⁰⁶. He testified that PAWC customers decrease the times they flush their toilet in order to save money on their water and wastewater bills. He uses an egg timer to limit his water consumption in the shower as well¹⁹⁰⁷.

1904 Tr. 500
 1905 Tr. 510
 1906 Tr. 522
 1907 Tr. 530

- Chad Urso, an engineer and a PAWC water customer for over 20 years, testified under oath. He testified concerning his professional experience working on PAWC projects, noting the significant improvements made to dilapidated water and wastewater systems over the years. While acknowledging that no one wants a rate increase, he stated he sees the value in the necessary infrastructure work to prevent future problems¹⁹⁰⁸.
- Thomas Coyne, a retired resident and a customer of both water and wastewater, testified under oath. He opposed the rate increase, arguing that the improvements primarily benefit PAWC's ability to operate and make a profit. He raised concerns about the impact of data centers on water resources, questioned why customers should pay for repairs on systems PAWC acquired "as is," and criticized the company for providing water that requires additional filtering at the tap. He also suggested the proposed increase was a negotiation tactic¹⁹⁰⁹.
- William J. Rinaldi made a brief, unsworn, and off-the-record statement.¹⁹¹⁰
- James Zerra, a self-employed engineer, testified under oath as a water customer. He supported PAWC, describing how infrastructure upgrades in Yatesville and Pittston led to community growth and an increased tax base. He also mentioned PAWC's partnerships in community events and with organizations like Habitat for Humanity¹⁹¹¹.

1908 Tr. 540
 1909 Tr. 545
 1910 Tr. 555
 1911 Tr. 556

- Michael Young provided an unsworn, off-the-record statement. No details of his testimony were transcribed ¹⁹¹².
- Stephen Maakestad, Vice President of Civil Engineering for a Construction Company, testified under oath on behalf of his company. He is not a personal customer. He voiced support for PAWC, citing his positive experiences working with their staff on numerous projects. He noted the challenges of maintaining aging infrastructure and supported the company's efforts, looking forward to future projects with them¹⁹¹³.
- Marion Wildermann, a social worker and PAWC customer, testified under oath in opposition to the rate increase. She highlighted that Scranton's water rates are already among the highest in the country, citing her research comparing costs per gallon with other cities. She noted her personal monthly bill is around \$200, and for families, it can be \$300-\$400, questioning why PAWC's rates are so high¹⁹¹⁴.

Harrisburg, PA - January 16, 2026 (1:00 p.m.) In Person Public Input Hearing

A public input hearing was held on Friday, January 16, 2026, starting at 1:00 p.m. at the Commonwealth Keystone Building, Hearing Room #1, 400 North Street, Harrisburg, PA¹⁹¹⁵.

- David Beinhower, a CFO and a customer for both water and wastewater, testified under oath in support of the rate increase. He stated that he sees PAWC reinvesting in infrastructure, which has improved service reliability and quality. He also

¹⁹¹² Tr. 562

¹⁹¹³ Tr. 563

¹⁹¹⁴ Tr. 567

¹⁹¹⁵ Tr. 577

commented on their commitment to lead service line elimination, viewing them as good stewards of the funds they collect from customers¹⁹¹⁶.

- David Beiler, a project developer and contractor who is not a PAWC customer, testified under oath. He noted the widespread issue of aging water infrastructure in Pennsylvania and commended PAWC's planned \$1.2 billion investment to address these needs. While not taking a position on the specific rate request, his testimony emphasized that continued and timely investment in infrastructure is essential for public health and environmental protection¹⁹¹⁷.
- Kathy Anderson-Martin, a volunteer for Midwest Food Bank Pennsylvania and a PAWC water customer, testified under oath. She praised PAWC's responsiveness in sharing information about customer assistance programs with their partner organizations. She also highlighted that PAWC supports her organization with grants and sponsorships, indicating implicit support for the company's community-focused initiatives¹⁹¹⁸.
- Sarah Brennan, the Executive Director of Midwest Food Bank, testified under oath but is not a PAWC customer. She echoed Ms. Anderson-Martin's sentiments, emphasizing the importance of support from partner organizations like PAWC to help those in need in the Community.¹⁹¹⁹
- William Friedah, a general manager for Utility Services Group, testified under oath in support of the rate increase. He stressed the importance of safe, reliable drinking water and noted PAWC's commitment to investing in and operating systems

¹⁹¹⁶ Tr. 598

¹⁹¹⁷ Tr. 601

¹⁹¹⁸ Tr. 607

¹⁹¹⁹ Tr. 611

efficiently. Citing Pennsylvania's poor infrastructure grades, he stated that continued investment is necessary to avoid future failures and higher costs¹⁹²⁰.

- John Brutz, a general manager for 540 Technology who is not a PAWC customer, testified under oath. With 37 years in the industry, he contrasted PAWC's investment and operational efficiency with municipal systems that often neglect infrastructure. He noted PAWC's proactive water loss reduction programs and stated that he believes the rate increase is justified¹⁹²¹.
- Wesley Hollinger, an operations manager for Utility Services Group and not a PAWC customer, testified under oath in support of the proposal. He highlighted the critical need for infrastructure investment, stating that America's infrastructure is failing. He stated that rates reflect the true cost of service and that PAWC often acquires dilapidated systems, making reinvestment necessary and more cost-effective than emergency repairs¹⁹²².
- Glen Sponaugle, semi-retired from a family-owned contracting business and a customer for both water and wastewater, testified under oath. He described his company's long-standing working relationship with PAWC, which supports local jobs. As a customer, he has received uninterrupted quality service. He stated he would not be opposed to a rate increase that supports this level of service¹⁹²³.
- Caylynn Beinhower, a data analyst for an underground utility contractor and not a customer, testified under oath. She discussed PAWC's commitment to high safety standards and technological investment, which create safer work environments and

¹⁹²⁰ Tr. 613

¹⁹²¹ Tr. 617

¹⁹²² Tr. 622

¹⁹²³ Tr. 628

improves community infrastructure. She concluded that the company should be supported and trusted with its proposed rate increase¹⁹²⁴ .

- Ken Beinhower, Director of Operations for EK Services, Inc. and not a customer, testified under oath. He stated that PAWC's infrastructure investments help his company support 100 employees and that replacing aging infrastructure is much needed across the state ¹⁹²⁵.
- Joel Kostelac, a professional engineer and business group leader testified under oath on behalf of his company but is not a customer. He described PAWC as cautious and cost-sensitive in its projects, utilizing various funding methods like PENNVEST to reduce costs and ratepayer impact. His testimony supported the need for funding such projects.¹⁹²⁶
- John Eby, a retired board member of the Yellow Breeches Watershed Association and a water-only customer, testified under oath in support of the rate increase. He stressed that adequate ratepayer funding is necessary to repair aging infrastructure and prevent environmental harm. He also stated PAWC is an active and reliable community partner that provides significant financial support to his organization¹⁹²⁷ .
- Douglas Berguson, a retired individual from the Office of General Counsel and a PAWC customer, was present but chose to make an unsworn, off-the-record statement¹⁹²⁸.

¹⁹²⁴ Tr. 630
¹⁹²⁵ Tr. 633
¹⁹²⁶ Tr. 635
¹⁹²⁷ Tr. 637
¹⁹²⁸ Tr. 643

- Jamie Keener, a certified planner, licensed real estate agent, and PAWC customer, testified under oath. He supported the rate increase, acknowledging that while any increase is serious, this one is tied to long-term investments and argued that this proactive approach is a responsible alternative to higher, more chaotic future costs¹⁹²⁹
- Michael McHaffey, a Vice President for a consulting firm that works with Pennsylvania American Water and a PAWC customer, testified under oath in support. He commended PAWC's careful and cost-effective planning for infrastructure projects, which he believes ensures that investments are made responsibly¹⁹³⁰ .
- Stephen Miller, a vice president for a mechanical contractor that provides infrastructure water and wastewater upgrades, and not a PAWC customer, testified under oath. He stated that his company performs infrastructure upgrades for the water and wastewater industry and that PAWC's projects are well-planned and designed, which allows for more competitive bidding. He expressed his understanding that rate increases are necessary to assist with these upgrades¹⁹³¹.

Harrisburg, PA - January 16, 2026 (6:00 p.m.) In Person Public Input Hearing

An in-person public input hearing held on Friday, January 16, 2026, commencing at 6:00 p.m. at the Commonwealth Keystone Building in Harrisburg¹⁹³².

- Lauren Kohl, a preschool teacher and customer of both Pennsylvania American Water and wastewater services, testified under oath in support of the company. She acknowledged that all bills are rising but stated that she believes "you get what you

1929 Tr. 648
 1930 Tr. 654
 1931 Tr. 657
 1932 Tr. 671

pay for." She stated the rate increase is necessary to fund the company's \$1.2 billion investment in the system, noting she has seen these improvements in her own neighborhood with replaced pipes and repaved roads¹⁹³³.

- Stephen Vedder, an emergency response and environmental cleanup professional, testified under oath. He is not a customer of Pennsylvania American Water. Based on his 15 years of professional experience working on their facilities, he spoke in support of the company. He noted the significant increase in costs for environmental stewardship and stated the company is committed to safety and environmental protection¹⁹³⁴.
- Jake Helmick, a contractor who works with PAWC, testified under oath that the company does an exceptional job in promoting the ecosystem¹⁹³⁵.
- George Tzanakakis, a contractor that has performed work for PAWC and non-customer, testified under oath. He stated that water storage infrastructure requires continuous and proactive investment which he believes ultimately benefits customers and the broader community¹⁹³⁶.
- Robert Kalbach, who works with an engineering construction company that does business with PAWC, and water customer, testified under oath that there is a problem in the Commonwealth and country with underinvestment into underground infrastructure. He testified letting the free market dictate what is most efficient to deliver critical services at a critical price point is important¹⁹³⁷.

¹⁹³³ Tr. 687
¹⁹³⁴ Tr. 690
¹⁹³⁵ Tr. 694
¹⁹³⁶ Tr. 697
¹⁹³⁷ Tr. 701

In-Person Public Input Hearing Reading, PA January 20, 2026 (1:00 p.m.)

The following individuals provided testimony at the PAWC public input hearing on January 20, at the 1:00pm session¹⁹³⁸.

- Senator Judy Schwank, testified under oath that many customers cannot afford the significant rate increases, which she believes are unjust, unreasonable and excessive. She provided an example where a family of five with an average water and waste bill of \$500 would pay an additional 16.8 percent – an additional \$1,000 per year. She compared the water rates of Mount Penn Borough Authority, who has maintained quarterly water rates of \$50.69. She also expressed concerns regarding the Customer Assistance Program Rider prepared by the Company¹⁹³⁹.
- LeRoy Reinert, a retired resident on a fixed income testified under oath he uses more water in the summertime to wash his car and do other things, and the water does not go into the septic system which should be separately metered so his is not charged for a service he does not receive. He also testified the Company is a monopoly and he should have a choice to obtain lower costs¹⁹⁴⁰.
- Clayton Bubeck, a non-customer, serves as the engineer for numerous water and wastewater authorities across the Commonwealth and PAWC. He testified under oath about his professional experience in the water and wastewater industry. He testified that the infrastructure has not been taken care of and maintaining the systems is necessary to have clean water and wastewater. He stated we have neglected our

1938 Tr. 713

1939 Tr. 735

1940 Tr. 748

systems for decades and some water lines in Pennsylvania are hundreds of years old¹⁹⁴¹.

- Karen Bates, a structural steel detailer and wastewater customer, testified under oath. She stated from 2014 to 2018 when Exeter Township owned the sewer plant in 2019, and from March of 2020 to July 2020 with one additional household member, the charges increased to \$652 for the year. In 2021 her well usage allowance was taken away. In July of 2021 two people moved out of the residence and the sewer charge increased to \$867 for the year and to \$1,154 in 2023. She was charged \$1,795 in 2025 for two residents¹⁹⁴².
- Keith Brubacher, a non-customer and site contractor who provides work for PAWC, testified under oath. He testified that delaying investment in infrastructure increases the likelihood of more costly emergency repairs and expressed his support for the rate increase¹⁹⁴³.
- John Piho, a resident of Exeter Township and a PAWC wastewater customer, testified under oath. He stated that he filed a formal complaint and heard families complain about \$500 or more water bills, and that the rates are not sustainable. He stated the water increases are unwarranted and is concerned that the wastewater increase is not going for actual sewer improvements from the PA American site but is going to help others. Piho Ex. 1, 2 & 3 were admitted into evidence¹⁹⁴⁴.

1941 Tr. 757

1942 Tr. 757

1943 Tr. 762

1944 Tr. 768

- Lucky Yerkes, a noncustomer and a general contractor who provides water and wastewater services testified under oath that he made several repairs to the treatment plant at Exeter township after PAWC acquired the plant.¹⁹⁴⁵
- Joel Jackson testified under oath, and has been a landlord since 2008. He discussed the sale of York City’s wastewater division in 2022 and stated there was a three-year rate freeze until May 2025. He testified that the sewage is charged at a metered rate, not a flat rate, and that he has a tenant whose wastewater bill went from \$135 a month to \$304 a month. He said mainly the tenants in York City are low-income residents who are burdened by the increases. He also stated that the rate increase requests are made frequently but these increases did not occur when the city owned the plant. Jackson Ex. 1,2,3 and 4 were admitted into evidence¹⁹⁴⁶.
- David Hurlbrink, a retired wastewater customer, testified under oath and objected to the proposed rate increase. He testified that PAWC has been operating the Exeter Township system under a PAWC Department of Environmental Protection consent order related to sewage overflows for over 6 years, and concludes that the service does not meet basic Commission standards and constitutes inefficient management. He also stated the permit status is in the technical review pending stage and there is no guarantee the work will begin or end on schedule. He further testified the system is unsafe and vulnerable to sewage overflowing into the Schuylkill River¹⁹⁴⁷.
- Carla Seidel, a water and wastewater customer who filed a Formal Complaint, testified under oath that since PAWC purchased their treatment plant in 2019, her bills for a household of 2 have increased from an average of \$30 a month to \$210 a month. She stated people should not be subject to a financial burden to have a necessity of

¹⁹⁴⁵ Tr. 779

¹⁹⁴⁶ Tr. 785

¹⁹⁴⁷ Tr. 806

life like water. She stated she and her husband are close to retirement age and are concerned they cannot afford to continue to live in Exeter Township. She also testified there should be reasonable and affordable caps on rate increases. She concluded customers should have choices but are stuck with who they have¹⁹⁴⁸.

- John Arty, a retired water and wastewater customer, testified under oath. He stated that he filed a formal complaint and receives water bills of approximately \$200 a month. He states that he and his wife have limited their water use and many homeowners are moving out of Exeter because of the high-water bills. He also testified that residents in Exeter pay significantly higher water bills compared residents in other municipalities across the state, and that the average monthly bill in Exeter is \$160-\$215. Households consisting of 4 or 5 people are spending \$400 - \$500. He concluded that the rate increase request should be rejected. Arty Ex. 1 was entered into evidence¹⁹⁴⁹.
- Keith Sauer, an IT network manager and water and wastewater customer, testified under oath, opposing the proposed rate increase proposal and asking the Commission not to split the difference. He objects to the frequent rate increases and stated his average bills increased from \$143 for 5,500 gallons in 2020 to \$309 for 5,600 gallons in 2025. He stated he pays more to PAWC each month than he pays for his electric and gas combined. Regarding improvements he explained he already pays a DSIC fee and that PAWC should not be permitted to purchase systems it cannot afford without exploiting captive ratepayers. He concluded the Commission needs to stop the bleeding and help the customers with this crisis¹⁹⁵⁰.

¹⁹⁴⁸ Tr. 818

¹⁹⁴⁹ Tr. 823

¹⁹⁵⁰ Tr. 834

- Amanda Johnsen, a township supervisor and water and wastewater customer who filed a formal complaint, testified under oath that these rate increases are not sustainable and requested that the Commission reject the rate increase request. Ms. Johnsen testified that her next-door neighbor paid \$700 per month for water and wastewater, and that they are part of a low-income group in the Township¹⁹⁵¹.
- Alice Venton provided an unsworn statement¹⁹⁵².
- David Shirley, a retired water and wastewater customer, testified under oath regarding his concerns about the proposed rate increase and the sewage put out into the Schuylkill River. He testified that the rate increases are exorbitant and that they pay for sewage on water that is not put through the system. He stated the rates are unsustainable, and believes it is unfair for the Company to buy a failing system and have customers pay for the repairs¹⁹⁵³.
- Robert Reily, a retired water and wastewater customer and formal complainant, testified under oath. He stated PAWC purchased his area’s system six years ago and since then, they have experienced extremely high rates –approximately six times the amount paid by friends and families in other areas. He stated instead of an increase, the community needs the Commission to significantly reduce the bills. He testified that the household consisting of Mr. Reily and his wife in 2025 ranged from \$210 to \$382 and averaged \$292. He stated they really need necessities like showers, washing dishes and flushing toilets which may create health hazards.

1951 Tr. 840
 1952 Tr. 847
 1953 Tr. 854

- Diane Michalowski, a retired water and wastewater customer, testified under oath that she supported the testimony of Frank Schwank and Amanda Johnsen¹⁹⁵⁴.

In-Person Public Input Hearing January 20, 2026 (6:00p.m.) Reading, PA

The following individuals provided testimony at the PAWC public hearing on January 20, 2026¹⁹⁵⁵.

- Representative Mark Gillen testified under oath that constituent limit the times they flush toilets as a direct consequence of the rate increases, and another stated he was going to be forced to move. He also expressed concerns regarding property values decreasing because of the water rates. He stated customers refer to the bills as outrageous, crushing and unaffordable¹⁹⁵⁶.
- Representative Jacklyn Rusnock testified under oath regarding her strong opposition to the proposed rate increase, which she stated places an undue and unfair burden on the residents of Exeter Township and surrounding communities, who already face rising costs for essential goods and services. She also stated that ratepayers should not be required to shoulder escalating bills driven by a system that too often rewards reckless and unchecked spending¹⁹⁵⁷.
- Sherrie Greene, an 81year old wastewater customer, testified under oath opposing the proposed rate increase. She said in 2019 her *quarterly* bill was \$68.60 and after PAWC bought the sewer system they increased to \$64 a *month* – almost a 300 percent

¹⁹⁵⁴ Tr. 862

¹⁹⁵⁵ Tr. 866

¹⁹⁵⁶ Tr. 887

¹⁹⁵⁷ Tr. 897

increase. She is now paying between \$75- \$85 a month. She concluded that the rates present a hardship to customers¹⁹⁵⁸.

- Andrew Wagner, a teacher, coach and non-customer, testified under oath and asked the Commission to reject this latest increase proposal. He explained the water utility has no competition and the monopoly comes with a moral obligation not to exploit its customers. He stated PAWC already received tens of millions in public findings for infrastructure improvements and the customers should not be required to pay again through higher bills. He requested that the rate increase request be rejected¹⁹⁵⁹.
- Kathleen Schwartz, a water and wastewater customer, testified under oath. She testified that since the Exeter plant was sold to PAWC, her sewer rates have increased between 170-200 percent, and include various other charges, service charges and taxes. In 2021 her usage was 42,700 gallons with a bill of \$1,497.02, and in 2025 for 30,000 gallons her bill was \$1,926.48. She testified that she has limited her water usage and has to buy bottled water because of the poor water quality. She is concerned about her property value because of the unreasonable rates¹⁹⁶⁰.
- Mark Schlosser, a computer programmer and water and sewer customer who filed a formal complaint, testified under oath. He testified his water and sewage bill is between \$200 and \$300 and is very careful with his usage, limiting toilet flushing and shower use. He also expressed concerns about the water quality. He asked that the rate increase request be rejected so families can continue to live in Exeter Township¹⁹⁶¹.

1958 Tr. 907

1959 Tr. 910

1960 Tr. 914

1961 Tr. 920

- Theodore Gardella, a water and wastewater customer who filed a formal complaint, testified under oath objecting to the proposed rate increases. He testified American Water’s net income in 2025 was \$1.112 billion up 13.12 percent and for 2024 was up 11.3 percent and increased 15.12 percent in 2023. He also stated the CEO’s compensation in 2020 was \$5.68 million, was \$8.58 in 2024 and the current chief executive’s compensation is \$4.88 million. The Company has long-term earnings per share growth of seven to nine percent and long-term base rate growth of eight to nine percent including acquisitions¹⁹⁶².
- Dorothy Reilly, a retired water and wastewater customer, testified under oath that she and her husband are on social security and believes granting the rate increase requested is outrageous. She also complained about the water quality and limits her water use including limited toilet flushing. She testified that she has heard that some people are peeing in their back yards¹⁹⁶³.
- Jullian Croft, a speech pathologist and water and wastewater customer, testified under oath. She said her family of four mostly showers outside of their home, lost the ability to garden, and limits other uses of water in the home because of the outrageous rates. She testified most residents are outraged about the proposed rate increases. She questioned when the rates will be lowered¹⁹⁶⁴.
- Eli Stup, a claims adjustor and water and wastewater customer, testified under oath characterizing himself as a victim of PAWC. He stated PAWC is charging four times the rate of the next closet municipality. He testified infrastructure repairs should have been part of the company’s budget process when it purchased municipal systems and

1962 Tr. 925

1963 Tr. 929

1964 Tr. 932

that PAWC mismanagement should not be the problem of the customers. He also expressed concerns about the water quality¹⁹⁶⁵.

- Philip Marcaronis, a realtor and water and wastewater customer, testified under oath that he has clients who will not move into Exeter Township because of the water and wastewater rates. He testified he has friends paying \$500-to \$800 a month for water and that the rates are having a negative impact on property values. He also testified regarding his concerns of poor water pressure. He testified that people cannot stop using water and are stuck, relying on the Commission because residents do not have a choice as people on fixed incomes and cannot pay the increasing rates. He also asks that the Commission refuse increases next year and the year after as well as characterizing the utility rates as insane.
- Kathy Levanga, a water and sewage customer, testified under oath. She filed a formal complaint and stated Exeter Township bills are significantly higher than billing for other Townships. She testified they are doing everything they can to conserve water and expressed concerns about leaving the community because of the exorbitant water bills. She testified her husband is considering delaying his retirement because of the excessive PAWC bills and they are concerned the situation is only going to get worse¹⁹⁶⁶.
- George Bell, an investment adviser and water and wastewater customer and Exeter Township Supervisor, testified under oath that the proposed rate increase is the fourth hike since 2020, a 75 percent cumulative increase¹⁹⁶⁷.

1965 Tr. 938

1966 Tr. 954

1967 Tr. 959

- Jim Quinlan, a retired water and wastewater customer, testified under oath that families are going to the local gym, paying a \$10 membership fee to save on water and sewage. He testified that as a senior on a fixed income, he is negatively affected by the rate increases which he characterizes as a shame and a disgrace. He also said residents move out of the Township because of the PAWC bills¹⁹⁶⁸.
- Patricia Istenis, a water and wastewater customer who filed a formal complaint, testified under oath. She states she conserves water, yet since 2022 the costs have increased by 24 percent while her consumption decreased by 16 percent. She and her husband utilize the health club for showers, or they limit the frequency of showers and perform strategic flushing. They collect and reuse rainwater and purchase five-gallon jugs of water to save on costs and because of the water quality. She concluded the rates and rate increases are unsustainable¹⁹⁶⁹.
- Steve Comuso, a water and wastewater customer who filed a formal complaint, testified under oath. He stated he showers outside of the house 3 days a week so his stepson and wife can shower at home. He stated the water quality is terrible – they use five-gallon jugs for water use, don’t flush toilets consistently, and his wife does not shower daily. They do laundry at the laundromat and use paper plates to conserve water. He concluded it is not the responsibility of the customers to fiscally manage money that PAWC needs to budget and PAWC should have known what they were getting into and what repairs were needed¹⁹⁷⁰.

1968 Tr. 966
 1969 Tr. 972
 1970 Tr. 972

- John Erbicella, a video and camera operator and water and wastewater customer, testified under oath that his PAWC bills are out of control. He skips showers and showers maybe every three days and conserves water and reuses rainwater¹⁹⁷¹.
- Tori Schiegel, a customer of water and wastewater testified under oath. She stated she manages social security and that she pays \$130 a month for herself. She said she conserves water and collects shower water until it gets hot and uses it for the washing machine¹⁹⁷².
- Frederick Aleander Alkons, a water and wastewater customer and a certified professional and hazardous material manager, testified under oath. He stated that his household of four receives a monthly PAWC bill between \$350 and \$425 a month and expressed concerns about the water quality and customer service. He asked that the Commission require the Company to provide a fair product for a fair price¹⁹⁷³.

Telephonic Public Input Hearing January 21, 2026 (1:00 p.m.) ¹⁹⁷⁴

- Amy Stalnecker, a PAWC water and wastewater customer, testified under oath referring to the proposed rate increases as price gouging. She states she would like to relocate from Exeter after moving there in 2024, because of horrors of the water and sewage costs. She said she would not want to invite a guest to her home for fear of the increase to her water and sewer bill and stated there are particles in the bad water PAWC provides¹⁹⁷⁵.

1971 Tr. 977
 1972 Tr. 985
 1973 Tr. 987
 1974 Tr. 1011
 1975 Tr. 1029

- John Maday, retired water customer, testified under oath that he understands the opposition to a rate increase and has always been satisfied with the water quality and service. He also stated PAWC has been a good partner with the Riverfront Parks Committee on various community projects¹⁹⁷⁶.
- Brian Dugas, a retired PAWC water customer, testified under oath that he is surviving on a limited income and opposes rate increases to repair aging infrastructure that should have been maintained over the years¹⁹⁷⁷.
- Bill Balint, a semi- retired water customer, testified under oath and stated the Information of the and Notice of the Company proposal was insufficient and lacked transparency. He asked where the proposed expenditure of \$168.7 million is going and to be provided details regarding the proposed \$1.2 billion investment. He discusses the impact of a 14 percent increase on water charges on retired customers¹⁹⁷⁸.
- Chris Frye, a water customer and New Castle City Administrator, testified under oath that the Company contributes to the local government and communities. He states investments are necessary¹⁹⁷⁹.
- Justin Bruce, a water and wastewater customer and electrical contractor that performs projects for PAWC, testified under oath. He testified that he supports the Company's efforts to maintain and upgrade its infrastructure to provide safe, efficient and reliable water systems. He also stated PAWC is involved in local committees and is very

1976 Tr. 1037
 1977 Tr. 1041
 1978 Tr. 1063
 1979 Tr. 1052

generous with local charities and expressed his support for the rate increase request¹⁹⁸⁰.

- James Decker with the Warren County Chamber of Business and Industry and water and wastewater customer, testified under oath. He stated PAWC was an engaged partner with the Chamber and that PAWC delivers high quality uninterrupted service and supports the proposed infrastructure maintenance and repairs¹⁹⁸¹.
- Becky Withthrow, a non-customer, testified under oath and supported PAWC and its longstanding commitment to the communities, including their volunteer leadership in the community¹⁹⁸².
- Tim Fenchel, Deputy Director of the Schuylkill River Greenways National Heritage Area, testified under oath regarding the support his organization receives from PAWC, partnering on several projects in the region¹⁹⁸³.
- Jason Wilson, a non-customer and excavating manager that performs pipeline replacement work for PAWC, testified under oath. He states that they employ approximately 50 skilled employees that are dedicated to this work on a daily basis and that they play an essential role in providing a safe and reliable water and wastewater system¹⁹⁸⁴.
- Jonathan Wilson, a non-customer and utility contractor that provides work for PAWC testified under oath. He stated that PAWC is a key client for his company and PAWC

1980 Tr. 1063
1981 Tr. 1069
1982 Tr. 1076
1983 Tr. 1082
1984 Tr. 1069

directly supports their ability to keep experienced workers employed locally. He stated that the replacement projects create more reliable infrastructure¹⁹⁸⁵.

- Jeremy Rafferty, a water customer, testified under oath that PAWC provides a quality, reliable public water source and he would be ok with an increase necessary to continue providing quality water¹⁹⁸⁶.
- Mark Glenn, a non-customer and president of an engineering firm that works with PAWC designing water and wastewater systems and public infrastructure facilities, testified under oath. He testified in support of PAWC¹⁹⁸⁷.
- Daniel Skvarla, a retired water customer, testified under oath that PAWC's parent company, American Water is worth \$26.2 billion, with gross profits for the quarter ending September 30, 2025, of \$1.45 billion and a net profit margin for that period of 21- 21.93 percent. He testified American Water works operating income for ending September 25, 2025, was \$1.87 billion, an increase of 15.89 percent¹⁹⁸⁸.
- John McDermott, a water and wastewater customer, testified under oath that his household is made up of two seniors and his average bill is \$299, a 125 percent increase over 6 years. He stated his water and sewer bill exceeds his gas and electricity bills used at his home. He concludes that seniors on fixed incomes cannot pay these rates charged by the PAWC¹⁹⁸⁹.

1985 Tr. 1093
1986 Tr. 1099
1987 Tr. 1103
1988 Tr. 1108
1989 Tr. 1124

- James Docherty, a water customer, testified under oath that there is nothing unique about having to make repairs and improvements to water and sewer infrastructure. He said the issue is what customers are paying for water. He stated customers outside the PAWC service areas do not pay anywhere near what he pays and he asked the Commission to do the right thing regarding the requested rate increase¹⁹⁹⁰.
- David Walker, a leader of a nonprofit after school organization, testified under oath. He testified his organization has developed a relationship with the Company and appreciates their support of his organization¹⁹⁹¹.
- Erin Threet, vice president of a consulting engineering firm and non-customer, testified under oath that her company has partnered with PAWC for nearly 20 years. She stated that the company is responsible for utility investment that directly benefits the communities they serve¹⁹⁹².
- Fawn Walker-Montgomery, a water customer and a part of a nonprofit advocacy group, testified under oath. She questioned why the system improvements must be paid for by the customers. She stated she has never been able to drink the water, which smells, has a yellow color and contains lead. She also questioned the Company effectiveness in making the public aware of its hardship programs and opposes any rate increase¹⁹⁹³.

1990 Tr. 1128
 1991 Tr. 1132
 1992 Tr. 1136
 1993 Tr. 1142

- Dianna Godshall, a wastewater customer and a wastewater vendor for American Water, testified under oath that American Water’s top priority is the environment and the community¹⁹⁹⁴.
- Leslie Bucci, a water customer and secretary-treasurer of Neshannock Township, testified under oath that over the past 10 years, she has seen significant improvements to the water treatment in Neshannock Township to make drinking water clean and safe¹⁹⁹⁵.
- Suzanne Yenchko, a retired PAWC employee and water customer, testified under oath that the Company does a pretty good job handling water main breaks and replacements. She also testified that the requested rate increase is too high and needs to be more in line with the cost of living increases. She also stated her concerns that Data Centers may escalate the water costs to residential customers¹⁹⁹⁶.
- Joseph Durkin, a water customer and professional engineer who works with PAWC, testified under oath that the Company, through its infrastructure improvements, is committed to water quality and safety¹⁹⁹⁷.
- Albert Burick, a water customer, CEO of the Shenango Township Economic Development Corporation, and manager for Shenango Township, testified under oath. He testified PAWC has served as a critical partner in delivering water service to the Township, which positively impacts economic development¹⁹⁹⁸.

1994 Tr. 1150
 1995 Tr. 1154
 1996 Tr. 1160
 1997 Tr. 1168
 1998 Tr, 1175

- Justin Data, a water customer, Assistant Fire Chief for Shenango Area Fire District, and emergency coordinator for Shenango Township testified under oath. He states he supports the proposed rate increase because public safety depends on reliable funding and strong infrastructure¹⁹⁹⁹.
- John Papalia, non-customer and employee of Warren Forest Higher Education Council, testified under oath in support of PAWC as a key community partner. He stated he increased rates that help support infrastructure improvements to the system²⁰⁰⁰.
- Annette Miraglia, a disabled senior and water customer, testified under oath that the proposed rate increase is out of line with the standard of living increase, and noted the profit margin of the water company is 21.93 percent. She stated she uses a filter system, and her home water is clean and she does her best to conserve by limiting water while bathing, washing clothes and flushing the toilet. PAWC just received a rate increase²⁰⁰¹.
- Jennifer Yanni, a non-customer, testified under oath that she is not opposed to a reasonable rate increase if the infrastructure improvement projects are going to actually happen, increase efficiency and prevent further rate increases. She stated the proposed increase is drastic, especially as the Company just received an 11 percent increase less than 2 years ago. She also expressed concerns of the possible effect of Data Centers on rates. In addition, Yanni Ex. 1 was admitted into evidence²⁰⁰².

1999 Tr. 1180
 2000 Tr. 1185
 2001 Tr. 1188
 2002 Tr. 1200

- Patrick Armstrong, a noncustomer and solicitor for Coolbaugh Township, testified under oath that the Township supports the proposed tariff amendment at Section 12.1(g) which would allow PAWC to terminate or shut off water service to one of its customers if the customers on lot sanitary sewer system is malfunctioning²⁰⁰³.
- Shirley Sallmen, a wastewater customer, testified under oath that she has significant problems with her water quality which presents problems with drinking water, washing clothes and using the toilet. She stated she buys bottled water for drinking water because she can't drink the water²⁰⁰⁴.
- Angela Fleegeer, a water customer and Connoquenessing Township Supervisor testified under oath that rate increases may be necessary to system upgrades and long-term system reliability issues²⁰⁰⁵.

Telephone Public Input Hearing- January 21, 2026 (6:00 p.m.)²⁰⁰⁶

- William Kukuria, a non-customer and contractor who has worked with PAWC for 30 years, testified under oath. He stated that private money in the form of rate increases is critical to the safety of the public environment, and the surrounding infrastructure²⁰⁰⁷.
- Brook Lenker, a water customer and Director of the Keystone Trails Association, testified under oath that PAWC is an important partner to the Association and sponsors Association events²⁰⁰⁸.

2003 Tr. 1210
 2004 Tr. 1217
 2005 Tr. 1228
 2006 Tr. 1240
 2007 Tr. 1258
 2008 Tr. 1264

- Shawn Keperling, a water and wastewater customer, testified under oath expressing his complete dissatisfaction with the water and wastewater rates that Exeter Township residents are forced to pay. He testified that since June of 2020, wastewater costs per gallon have increased from one cent per gallon to 3.4 cents per gallon, and water costs have increased to 2.4 cents per gallon. He testified his family has had to take extreme measures to reduce his bill such as not watering plants or grass, saving and using collected water from dehumidifiers and rain barrels, taking showers at local fitness centers, limiting showers to one or two a week and limited in time to a few minutes, using cold water and not waiting for it to become warm, limiting use of the clothes washer and dishwasher, and limited toilet flushing and using water from the showers to flush the toilet²⁰⁰⁹.
- Ethan Story testified under oath on behalf of the Center for Coalfield Justice, expressing concern that PAWC is shifting the cost of infrastructure investments and shareholder returns onto rate payers – particularly low- and fixed-income households in Southwestern Pennsylvania. He stated the proposed increase would force vulnerable customers to choose between maintaining essential water service and meeting other necessities. He also said that the Commission must consider the cumulative effects of repeat rate increases, concluding that the costs must be balanced against the customers’ ability, especially low-income customers, to maintain access to safe and reliable water services²⁰¹⁰.
- John Augustine, president and CEO of Penn’s Northeast, a regional economic development agency, testified under oath. He stated the proposed increase will ensure

²⁰⁰⁹ Tr. 1268

²⁰¹⁰ Tr. 1271

continued maintenance of aging pipes, improve system reliability and protect the water quality for residents and businesses²⁰¹¹.

- Dani Kreider, employed by Little A. Town Arena, a nonprofit corporation to help revitalize the community, testified under oath that PAWC is one of their biggest corporate sponsors. He said the company is an important community partner²⁰¹².
- Ricardo Rivera Jr., a water customer, testified under oath that he opposed the proposed rate increase, citing its high rates. He also asked that the Commission verify that the proposed rate increase be used for infrastructure improvement and not converted to other uses, and that the rates are fair as between the water zones ²⁰¹³.
- Benjamin John Chiszar, a disabled veteran and water and wastewater customer, testified under oath and opposed the proposed rate increase, which he stated would place an undue financial burden on families, threatening small businesses and undermining efforts to promote equitable access to clean water²⁰¹⁴.
- Morgan Hill, a water customer, testified under oath on behalf of the Shenango Area Fire District in support of the rate increase. He stated that funding water infrastructure improvements should be viewed as a preventable public safety investment rather than a simple increase in utility costs²⁰¹⁵.
- David Foley, a non-customer and Robinson Township Supervisor, testified under oath about the importance of reliable water infrastructure. He stated that deferred

2011 Tr. 1279
2012 Tr. 1286
2013 Tr. 1290
2014 Tr. 1295
2015 Tr. 1305

maintenance only shifts costs to residents later in the form of emergency repairs water quality failures and loss of service²⁰¹⁶.

- John Zilich, a retired water customer, testified under oath on behalf of the Robinson Township Board of Supervisors supporting efforts to expand access to clean reliable public water services currently dependent on failing or unreliable private wells. He urged consideration of waterline extensions in underserved areas as part of the rate case process²⁰¹⁷.
- Mary Donaldson, a noncustomer and Robinson Township Supervisor, testified under oath that reasonable rate increases would give Townships a better chance to expand water lines to those who desperately need it. She testified that the extension of public water service represents a critical investment in essential infrastructure supporting future growth²⁰¹⁸.
- Frank Augustine, a water customer and Shenango Township Supervisor, testified under oath regarding the importance of safe and reliable drinking water and public safety, and ongoing investment in infrastructure²⁰¹⁹.
- James Coleman, a water customer, testified under oath about a water main break last year and the positive experience he had with PAWC regarding the repairs to the line, roadway and his property²⁰²⁰.
- Arthur Auchenbach, engineer and current vendor for PAWC and past customer, testified under oath. He stated there are countless unfunded mandates imposed by

2016 Tr. 1311
2017 Tr. 1316
2018 Tr. 1320
2019 Tr. 1325
2020 Tr. 1330

politicians on the industry players who face tremendous problems and pressures on the players and in the industry. He stated he is amazed that an average person has no issue paying \$3 for a bottle of water or \$100-\$200 a month of a mobile phone bill or cable bill, but does not appreciate the reasons when their water or sewer bills might be a similar cost. He stated one can be without phones and cable but not without water²⁰²¹.

- Kelsey Charlier testified under oath on behalf of her mother, Dawn Swayne, who is disabled. Ms. Charlier read a statement written by Ms. Swayne. She did not have access to public water and utilized well water, which presents various challenges, and the water is not safe to drink. She stressed the importance of having access to public water²⁰²².
- Kevin DiGuissepe, a noncustomer, testified under oath on behalf of the Harrisburg Regional Chamber and Capital Region Economic Development Corporation, which has been associated with PAWC for over 35 years. He testified PAWC voluntarily sponsors several Chamber events each year and spoke to the dedication of PAWC to the Community²⁰²³. 2
- Jessica Brubaker, a nonresidential customer, testified under oath on behalf of Keystone Kidspace, a PAWC customer. She stated PAWC has been a valued partner to Kidspace, providing funding support for outreach and access programs and other assistance programs²⁰²⁴.

2021 Tr. 1335
2022 Tr. 1341
2023 Tr. 1349
2024 Tr. 1353

- Daniel Suchy, a water customer, testified under oath that his base charge was \$17.34 and spiked to \$35 when PAWC took ownership, and now will increase to close to \$50. He stated the proposed rate increase is excessive and requests that it be denied. He also stated there are water quality issues, with color and particulated, and issues requiring him to install a whole-house water filtration system, at a cost to him²⁰²⁵.
- Mary Nesby, a water and wastewater customer and Mayor of Homestead Borough and the Mon Valley advocacy manager for Upstream Pittsburgh and the environmental Justice Table, testified under oath. Mayor Nesby strongly opposed the proposed rate increase and noted many seniors on fixed income and single mothers and marginalized communities face a choice between water sources and food, medication, rent or childcare and other economic harm. She suggested that the Commission decisions make the difference between families living with dignity or being forced into further crisis and proposed the creation of a community advisory council to act as a liaison between the Company and the Community²⁰²⁶.
- Alexander Snyder, a student and water customer, testified under oath that investing in our water systems and infrastructure is important today and the future and will benefit the environment and our communities²⁰²⁷.
- Chief Chakman-Yajalaji, a non-customer, testified under oath on behalf of herself and as the advocacy consultant with the Upstream Pittsburgh Environmental Justice Table. She testified that the company already received approval for approximately \$99.3 million in additional revenue in 2024 during a period of high inflation and economic hardship for many people. She also stated its parent company American Water Works, reported over \$5 billion in annual revenue yet PAWC is seeking yet

²⁰²⁵ Tr. 1358

²⁰²⁶ Tr. 1365

²⁰²⁷ Tr. 1374

another increase shifting financial risk from shareholders onto households least able to pay. She testified that the increase is regressive, failing most heavily on seniors on fixed incomes, people with disabilities, lineages and families already at risk of arrearage or shutoff²⁰²⁸.

- Lissa Ludininch, a sewage customer, testified under oath that PAWC’s growth through acquisitions have flatlined and usage across the state has decreased, yet revenue has doubled due to the rate increases. She noted deficiencies with sinkholes, road repairs and replacement projects, and the failure of the company to timely address her concerns. She also described the number of steel plates that continue to exist in the streets where work is performed, and states her water bill through another provider is approximately \$50-60 a month yet her monthly PAWC sewage bill is always \$ 150-\$180. She objects to the company passing unfair costs on to the customers for repairs and replacements that the company knew it would incur when it acquired the systems and purchased the structures, concluding it is time for the parent company which has billions of dollars to reinvest in the business and not pass the costs on the customers²⁰²⁹.
- Rita Daniels, a water customer, testified under oath that she is 75 years old and struggles with rising costs including food costs and extremely exorbitant water rate increases that people cannot afford. She also expressed concerns about sinkholes related to infrastructure repairs and agreed with the testimony of Mayor Nesby²⁰³⁰.
- Barbara Liuzzo, a retired water customer, testified under oath that the proposed rate increase will create stress on homeowners regardless of how they will be able to keep

2028 Tr. 1379

2029 Tr. 1387

2030 Tr. 1395

their homes and pay increased rates, as well as taxes, food and other expenses that continue to increase²⁰³¹.

- Ajaajiv-Chanal-K'in, with Upstream Pittsburgh and the Environmental Justice Table, a non-customer, testified under oath that the water is not safe and that raising rates on communities while failing to guarantee safe uncontaminated water places an unjust burden on local community members²⁰³².
- Kendra Robinson, a water and wastewater customer, testified under oath that people are struggling to pay their bills, feed their children, and pay for water which is of poor quality. She stated she purchases filters at her own cost to try to be able to use the water, and that the pressure is inconsistent. She also described a situation where the customer service was inadequate²⁰³³.

Coatsville, PA – January 29, 2026 (1:00 p.m.) In Person Public Input Hearing

This public input hearing was held on Thursday, January 29, 2026 at 1:00 pm at Coatesville City Hall, Judge Eranda Vero presiding.²⁰³⁴

- Senator Caroline Comitta, who is not a PAWC customer, but who represents thousands of PAWC customers, testified under oath. She stated that water and wastewater services are some of the highest monthly expenses that her constituents face and noted that public utilities separate hundreds of millions of dollars in revenues. Senator Comitta stated she opposes the rate increase and asked that the

2031 Tr. 1398

2032 Tr. 1403

2033 Tr. 1416

2034 Tr. 1456

Commission consider the public testimony and the negative impact it would have on residents²⁰³⁵.

- Representative Christina Sappey testified under oath that she represents the 150th legislature that includes PAWC water customers in East Fallowfield Township. She stated PAWC recently received a rate increase in August 2024 by the Commission that resulted in her constituents paying \$17 or more per month for water and wastewater services, and the current request could result in an increase of up to \$27 or more per month. Representative Sappey testified that low- and middle-wage workers are trying to survive in the highest cost-of-living region in the state, and the proposed rate hike would be crushing to the customers and devastating to local economy. She asked that the Commission deny the rate increase proposal²⁰³⁶.
- Senator Katie J. Muth, a State Senator and a PAWC water customer, testified under oath. She explained that the PAWC rate increases are taking a financial toll on her constituents trying to make ends meet, especially people on fixed incomes. She also testified that there are water lines being built for hypo-scale data centers in areas not served by public water that are now going to have access and use. She said the rate requests raise serious concerns about reasonableness and affordability, and questioned certain customers' charges in the rate base that may not be just and reasonable and may violate applicable law²⁰³⁷.
- Senator Dan Williams testified under oath that many of his constituents live paycheck to paycheck and struggle to keep up with rising costs. He stated drinking water is a necessity, not a luxury and can be a matter of life and death for seniors, children, and households with medical needs. He asked the Commission consider a fair solution

²⁰³⁵ Tr. 1456

²⁰³⁶ Tr. 1462

²⁰³⁷ Tr. 1465

that protects residents and not overburden the community, which is least able to absorb the costs²⁰³⁸.

- Leonard Wilson, a subcontractor for PAWC and customer, testified under oath. He stated that rate increases are necessary in this kind of economy and environment²⁰³⁹.
- Charles Craven, a water customer, testified under oath and opposed the rate increase request. He stated PAWC is a subsidiary of American Water and that American Water is the largest corporate stockholder owned water company in the county, with assets of \$34.7 billion as of September of 2025. He testified American Water paid its President \$8.5 million in 2024, up from \$7.7 million in 2023 and \$6.7 million in 2022. He concluded there are other sources for funding improvements other than customer pockets²⁰⁴⁰.
- Mike Hapersberger, a utility contractor and a PAWC customer, testified under oath. He stated that because American Water is constantly upgrading, it gives him the opportunity to hire people²⁰⁴¹.
- Michael Montagna, a field technician with Kentrel Corporation who works with American Water every day, testified under oath. He stated that a lot of time and resources are needed to treat the water and to upgrade the infrastructure²⁰⁴².
- Susan Pullen, a retired water and wastewater customer testified under oath that the CEO compensation is over \$8.5 million, and that the company makes a lot of

2038 Tr. 1471
2039 Tr. 1476
2040 Tr. 1480
2041 Tr. 1490
2042 Tr. 1500

contributions that she believes are basically paid by the customers. She also testified that her last water bill was \$272.75 for her and her husband, even though they substantially limit their household use²⁰⁴³.

- Amanda Hess works for a civil engineering consulting firm who has worked on many projects with PAWC, and testified under oath. She said she believes PAWC does a good job of trying to identify problems before they become more a costly emergency.²⁰⁴⁴
- Heather Knapp, a water and wastewater customer, testified under oath and agreed with the testimony of Senators Comitta and Muth and Representatives Williams and Sappey, as well as Mr. Craven, Mr. Binder and Mrs. Pullen. She became a PAWC customer in 2020 after living in a borough that provided water and wastewater services, and her first bill was over \$400. She testified upon receiving her first bill she was in tears and believed she made a huge mistake buying a home in the PAWC service area. She believes the astronomical bills from PAWC will have a negative impact on the City of Coatesville and its growth and revitalization. She testified that her family of three collects excess water in buckets from the shower to use for other purposes like watering plants and uses the laundromat to save money. Her family also limits the number of times they flush their toilets and concluded the cost of water from PAWC is unjust and unfair. Her average water bills are now between \$160 to \$210 a month. Her waste bill this past month was \$230, even with their conservation efforts in place²⁰⁴⁵.

2043 Tr. 1502

2044 Tr. 1501

2045 Tr. 1512

- Matthew Richter, a water and wastewater customer, works with PAWC on various projects. He stated he appreciates the water quality and safety that is provided by PAWC²⁰⁴⁶.
- Tom Jacoby, a customer who has performed work for PAWC and a non-customer, testified under oath that the cost to replace equipment is rising significantly every day and stated that PAWC is committed to providing safe and quality drinking water²⁰⁴⁷.
- David Caddick, a contractor for PAWC and non-customer, testified under oath that rent, electric, cable and phone bills go up every year, just like construction costs increase. He stated he primarily provides maintenance and emerging work²⁰⁴⁸.
- Steve Keech, a contractor who works with PAWC and a non-customer, testified under oath that the infrastructure work is important to provide clean water. He also sponsored Keech Ex. 1, a photo of pipes, under which was admitted into evidence²⁰⁴⁹.
- Terry Maenza, a retired water and wastewater customer, testified under oath approving the proposed rate increase and the frequency of rate increase requests. He worked for PAWC for 15 years, 11 of which as director of communications and external affairs. He testified that PAWC's parent Company, American Water, promised Wall Street and a high annual growth rate, and a vast majority of the corporation's revenues come from only two states, New Jersey and Pennsylvania. He explained, for the parent company to achieve its financial targets, PAWC needs to continually deliver strong year-over-year growth, and that PAWC plans to file a rate case in Pennsylvania every two years. He testified the Commission needs to take a

²⁰⁴⁶ Tr. 1518

²⁰⁴⁷ Tr. 1521

²⁰⁴⁸ Tr. 1525

²⁰⁴⁹ Tr. 1529

stand for customers and finally break this cycle noting 5 rate increase requests in preceding years. He stated the Commission needs to demand a stay out provision until 2030 or even later. He also suggested that any increase be phased in over several years, including an iron-clad stay out provision²⁰⁵⁰.

- Brian Winslow, representing Brandywine Red Clay watershed, a watershed organization that works with PAWC and a non-customer, testified under oath. He stated PAWC has been a community partner supporting water quality improvements and that PAWC annually sponsors the Brandywine Creek water shed clean up, helping to pay for signage, t-shirts, gloves, safety vests, garbage bags and dumpsters²⁰⁵¹.
- Mary France McGarrity, a non-customer employed by the Chester County Economic Development Council, testified under oath. Her organization supports large and small businesses so that they can serve customers and hire employees. She stated American Water is a good corporate citizen and provided professional engineers to assist a local business²⁰⁵².
- William Hoffling, a non-customer and equipment manufacturer who partners with American Water, testified under oath. His company provides PAWC with aeration circulation equipment to stay compliant with Environmental Protection Agency (EPA) regulations and to ensure that all potable water is safe for human consumption²⁰⁵³.

2050 Tr. 1539
2051 Tr. 1546
2052 Tr. 1552
2053 Tr. 1557

- Ashley Missavage, a noncustomer employed by the Philadelphia Chamber of Commerce, testified under oath in support of American Water’s rate request. She testified the investments by the Company support business continuity and growth and believes the water provided to a typical resident customer is an outstanding value²⁰⁵⁴.
- John Burkholder, a contractor for American Water and non-customer, testified under oath that although the higher rates are not ideal, it is even less ideal to have bad water or no water because of water interruptions²⁰⁵⁵.
- Dan Dando, a water customer and contractor that does work for American Water, testified under oath that he supports the upgrades by the Company ²⁰⁵⁶.
- Brent Weston, a water and wastewater customer, testified under oath based upon his research that was assisted by Microsoft AI Copilot. He stated his water would cost approximately \$87.26 a quarter from Chester Water Authority compared to PAWC’s quarterly charge of approximately \$423.24. He states PAWC might be more expensive because it is a for profit investor while the Chester Water Authority is public nonprofit and does not charge for a profit. He also testified PAWC typically has higher monthly quarterly base charges before any water is used, which makes bills higher even at a relatively low usage. He stated he pays approximately 5 times more for the same amount of water than the township approximately 5-10 miles to the west of his house. He also testified he was a Chester Water Authority customer for almost 5 years, and the water never went off and was always clean. However, the water has gone off a few times with PAWC and has been cloudy on two occasions. He also sponsored Weston Ex. 1 which was admitted into the record²⁰⁵⁷.

2054 Tr. 1561
 2055 Tr. 1565
 2056 Tr. 1568
 2057 Tr. 1570

- John Reilly, a retired water and wastewater customer, testified under oath that his water bill is his most expensive utility, and he is opposed to a rate increase²⁰⁵⁸.
- David Soto, a contractor who works for the Company and is a non-customer, testified under oath that the infrastructure is dire and in need of widespread improvements, mostly in Coatesville and the Clarksburg area²⁰⁵⁹.
- John Bush, a retired water and wastewater customer, testified under oath. He stated when he was an Aqua customer in 2016, his water bills ranged from \$35 to \$55 a month. He was shocked when he moved – his water bill was \$87-\$88 a month, and when Valley Township turned its water over to PAWC his bills increased between 28-30 percent on average. This year the increase would be approximately 40 to 55 percent. He testified that his average water bill in 2025 was \$125 but now is \$140-\$150. He stated the PAWC rates are ridiculous and excessive²⁰⁶⁰.
- Holly Hulsebrand, a PAWC water and waste customer, testified under oath that she agrees with the testimony of Mr. Craven, Mr. Binder, Mr. Reilly and Mr. Weston. She noted American Water makes a very large profit and are able to pay their leadership very well and that the proposed increase is not affordable for its customers, where the cost of living and unemployment rates have increased. She said she may have to cash in her stocks and retirement plans at penalty to pay her bills, including a proposed additional \$700 per year for water – and there are many people in the same situation. She asked that the Commission consider the gross profits of American

2058 Tr. 1567

2059 Tr. 1591

2060 Tr. 1584

Water and their return on investment versus the negative impact another rate increase would have on its customers ²⁰⁶¹.

- John Hashern, a water and wastewater customer, business owner, landlord and utility consultant, testified under oath that the residents of Valley Township have experienced a 3X multiplier on their cost for water service since PAWC has taken over. On average, bills have increased from approximately \$70 to \$220. He suggested they need to divest their outlying properties which may be causing a burden on their system. He also noted that many of the witnesses are contractors and others who receive an economic benefit from PAWC. He testified that one of his tenant's monthly water bills was an average of \$80 ten years ago, and now between \$300 and \$400 for a family of four. He testified the company seeks a seven-to-ten percent profit each year while charging residents a cost for water that is crippling and affects the growth and revitalization of the City of Coatesville. He also suggested the Company already charges a distribution improvement charge, that increases and is charged for infrastructure improvements²⁰⁶².
- Stacia James, an employee of the City of Coatesville, investor, and customer, testified under oath that she spoke with residents on a daily basis who express concerns that their PAWC bills are increasing significantly, and the customers cannot afford these bills that impose a disproportionate burden on households already struggling with rising costs²⁰⁶³.
- Eric Shane Cloyd, a PAWC water and wastewater customer, testified under oath expressing concerns about the higher profits being realized by the Company and that it seems disingenuous for the Company to seek a rate increase for customers to pay

²⁰⁶¹ Tr. 1597

²⁰⁶² Tr. 1603

²⁰⁶³ Tr. 1612

for the infrastructure that the Company decided to take over. He stated the Company knew what it was getting into when it took over municipal water systems. He stated he believes there should be a cap on the profits the company can make²⁰⁶⁴.

- Jeffrey William McClintock, a noncustomer engineer, worked with the Company for almost 35 years and testified under oath. He did not support or oppose the rate increase. He stated he has had a positive working relationship with the Company.²⁰⁶⁵
- Jeanie Nelson, a water and wastewater customer, made an off the record statement²⁰⁶⁶.

Coatesville, PA - January 29, 2026 (6:00 p.m.) In Person Public Input Hearing

This public input hearing was held on Thursday, January 29, 2026, at 6:01 p.m. at Coatesville City Hall, with Judge Martha Guhl presiding²⁰⁶⁷.

- Jason Marie, an employee of Carollo Engineers, testified under oath though he is not a customer. Drawing on nearly 40 years of interaction with the company, he spoke of its reliable service and dedication to upgrading systems to meet modern standards, supporting the rate case²⁰⁶⁸.
- Derek Harzinski, also an employee of Carollo Engineers and a customer for both water and wastewater, testified under oath. While acknowledging that rate increases are unwelcome, he expressed confidence in PAWC's investments in public health,

2064 Tr. 1615
2065 Tr. 1625
2066 Tr. 1634
2067 Tr. 1641
2068 Tr. 1643

such as improving water pressure and quality in Parkesburg and proactively addressing contamination ahead of regulations²⁰⁶⁹.

- Danielle Farrell Brodecki, an employee of Mott MacDonald who is not a customer, testified under oath. She described her work on a major wastewater treatment plant upgrade in Exeter, which is part of a consent order with the DEP to protect waterways, supporting the company's infrastructure efforts²⁰⁷⁰.
- Jeanie Nelson, a retired customer of both water and sewer services, testified under oath in opposition to the rate increase. She questioned the company's for-profit status, high executive salaries, and lack of transparency regarding how rate increase funds are allocated between infrastructure and profits. She requested more accountability and a potential rate rollback once improvements are complete²⁰⁷¹.
- Khadijah Al-Amin, a Coatesville City Council representative and a water and wastewater customer, testified under oath against the rate increase. She argued that infrastructure improvements were not adequately addressing local needs, such as wastewater capacity during floods. She described the bills as astronomical and criticized the practice of billing for wastewater on outdoor water usage, highlighting the financial strain on residents²⁰⁷².
- Tonya James, a self-employed customer for both water and wastewater, testified under oath. She expressed concern that testimony from those with financial ties to PAWC would be given more weight than that of captive customers. She argued it

²⁰⁶⁹ Tr. 1668

²⁰⁷⁰ Tr. 1673

²⁰⁷¹ Tr. 1676

²⁰⁷² Tr. 1684

was unfair for consumers who have no alternative provider to bear the brunt of rate increases²⁰⁷³.

- Patrice Proctor, Chair of the Board of Supervisors for Valley Township and a property owner with both water and wastewater service, testified under oath against the rate increase. She asserted that PAWC overbuilt a plant, leading to outrageous rates. She questioned the company's strategy of acquiring failing systems and then repeatedly raising rates to fund their repair, suggesting they should stop such acquisitions²⁰⁷⁴.
- Charles Ricky Campbell, an employee of Campbell East and a customer for both services, testified under oath to strongly oppose the rate hike. He emphasized that water is a necessity and that rising rates hurt working families and seniors. He contrasted high executive pay with the struggles of customers and called for a cap on the frequency of rate increases and more transparency on how funds are used. He also noted that assistance programs are not sufficient for many families ²⁰⁷⁵.
- Sirpa Cossaboon, an employee of the Department of Educational Services and a customer for both services, testified under oath to oppose the rate increase. She stated that her bill has increased from about \$30 to over \$400 a month in 23 years, despite extreme conservation efforts²⁰⁷⁶.
- Wendy Whitaker, a retired customer for both water and wastewater, testified under oath with several complaints. She raised issues with water quality causing corrosion, a persistent sewer smell near her home, and the quality of road repairs after water line

²⁰⁷³ Tr. 1691

²⁰⁷⁴ Tr. 1695

²⁰⁷⁵ Tr. 1702

²⁰⁷⁶ Tr. 1710

work is completed. Her testimony implied opposition by highlighting service quality issues²⁰⁷⁷.

- Christopher Nicholson, an employee of Villanova University Law School and a customer for both services, testified under oath in opposition to the rate increase. He urged an investigation into PAWC's billing practices, presenting data from a personal water monitor allegedly showing his household was overcharged by 1,245 gallons over ten months, with no leaks detected in his home²⁰⁷⁸.
- Susan Springsteen, CEO of H2O Connected and a water-only customer, testified under oath against the rate increase. She argued that the company's use of a 2.6-person household to calculate average usage is misleading for a community like Coatesville. She also pointed out that PAWC's rates are three times the national average and suggested the company's parent corporation could use its profits to cover costs instead of raising rates²⁰⁷⁹.
- Claudia Muntean, a self-employed owner of a janitorial service that contracts with PAWC, testified under oath in support of the rate increase. Though not currently a customer, she praised PAWC for supporting local and minority-owned businesses and for their employees' hard work. She stated that since all costs are rising, she believes PAWC deserves a rate increase²⁰⁸⁰.
- Olivia Maurer, an employee of CubeSmart and a customer for both services, testified under oath to oppose the rate increase. She felt the presence of company-affiliated speakers at the public input hearings was influential and unfair. Citing statistics, she

²⁰⁷⁷ Tr. 1713

²⁰⁷⁸ Tr. 1717

²⁰⁷⁹ Tr. 1726

²⁰⁸⁰ Tr. 1730

noted that the majority of the proposed revenue increase would fall on households, not industrial users, and described it as corporate greed. She shared that her own bill had doubled in two years despite consistent usage ²⁰⁸¹

- Jonathan Kasitz gave an off-the-record statement²⁰⁸².
- Allison Mellen gave an off-the-record statement²⁰⁸³.

2081 Tr. 1733
2082 Tr. 1700
2083 Tr. 1737

APPENDIX D

**Pennsylvania-American Water Company (Water and Wastewater)
2025 Base Rate Case
Docket Nos. R-2025-3057983, R-2025-3058051, et al.**

List of Exhibits and Testimony Admitted at the Evidentiary Hearing

(ALJ Exhibit 1)²⁰⁸⁴

<u>Party</u>	
PAWC	PAWC Statement No. 1, Direct Testimony of Justin L. Ladner
	PAWC Statement No. 2 Direct Testimony of Dr. Christina E. Chard, with PAWC Exhibit 3-A, Schedule CEC-1, Schedule CEC-2, Schedule CEC-3
	PAWC Statement No. 2-R Rebuttal Testimony of Dr. Christina E. Chard, with PAWC Exhibit 3-A Revised (Updated)
	PAWC Statement No. 2-RJ, Rejoinder Testimony of Dr. Christina E. Chard
	PAWC Statement No. 3 Direct Testimony of Jim Runzer
	PAWC Statement No. 3-R (Public and CONFIDENTIAL Versions), Rebuttal Testimony of Jim Runzer – Corrected, with PAWC Exhibit JR-1R, PAWC Exhibit JR-2R, PAWC Exhibit JR-3R
	PAWC Statement No. 4, Direct Testimony of Anthony M. Nokovich, with Schedule AMM-1 and PAWC Exhibit 3-C
	PAWC Statement No. 4-R Rebuttal Testimony of Anthony M. Nokovich
	PAWC Statement No. 5 Direct Testimony of Jared Deason
	PAWC Statement No. 5-R Rebuttal Testimony of Jared Deason, with PAWC Exhibit JD-1R and PAWC Exhibit JD-2R
	PAWC Statement No. 5-RJ, Rejoinder Testimony of Jared Deason
	PAWC Statement No. 6 Direct Testimony of Lori N. O’Malley, with Schedule LNO-1R and PAWC Exhibit 3-B
	PAWC Statement No. 6-R Rebuttal Testimony of Lori N. O’Malley, with PAWC Exhibit LNO-1R, PAWC Exhibit LNO-2R, PAWC

²⁰⁸⁴ This list only includes exhibits admitted at the evidentiary hearing and does not include exhibits admitted at the public input hearings.

	Exhibit LNO-3R, PAWC Exhibit LNO-4R, PAWC Exhibit LNO-5R, PAWC Exhibit LNO-6R, PAWC Exhibit LNO-7R, PAWC Exhibit LNO-8R
	PAWC Statement No. 6-RJ, Rejoinder Testimony of Lori N. O'Malley
	PAWC Statement No. 7 Direct Testimony of Don Wieczenski
	PAWC Statement No. 7-R Rebuttal Testimony of Don Wieczenski, with PAWC Exhibit DW-1R, PAWC Exhibit DW-2R, PAWC Exhibit DW-3R, PAWC Exhibit DW-4R
	PAWC Statement No. 8 Direct Testimony of Linda Schlessman
	PAWC Statement No. 8 Supplemental Supplemental Testimony of Linda Schlessman
	PAWC Statement No. 9 Direct Testimony of Deba F. Ather, with PAWC Exhibit DFA-1 and PAWC Exhibit DFA-2
	PAWC Statement No. 9-R Rebuttal Testimony of Deba F. Ather
	PAWC Statement No. 10 Direct Testimony of Max W. McClellan, with PAWC Exhibit MWM-1, PAWC Exhibit MWM-2, PAWC Exhibit MWM-3, PAWC Exhibit MWM-4, PAWC Exhibit MWM-5, PAWC Exhibit 10-A, PAWC Exhibit 10-B, PAWC Exhibit 10-C, PAWC Exhibit 10-D, and PAWC Exhibit 10-E
	PAWC Statement No. 10-R Rebuttal Testimony of Max W. McClellan, with PAWC Exhibit MWM-1R
	PAWC Statement No. 11 Direct Testimony of John J. Spanos, with PAWC Exhibit 11-A, PAWC Exhibit 11-B, PAWC Exhibit 11-C, PAWC Exhibit 11-D, PAWC Exhibit 11-E, PAWC Exhibit 11-F, PAWC Exhibit 11-G, PAWC Exhibit 11-H, PAWC Exhibit 11-I, PAWC Exhibit 11-J, PAWC Exhibit 11-K, PAWC Exhibit 11-L, PAWC Exhibit 11-M, and PAWC Exhibit 11-N
	PAWC Statement No. 11-R Rebuttal Testimony of John J. Spanos, with PAWC Exhibit JJS-1R, PAWC Exhibit JJS-2R, PAWC Exhibit JJS-3R, PAWC Exhibit JJS-4R, PAWC Exhibit JJS-5R, PAWC Exhibit JJS-7R, PAWC Exhibit JJS-7R
	PAWC Statement No. 11-RJ, Rejoinder Testimony of John R. Spanos
	PAWC Statement No. 12 Direct Testimony of Gregory R. Herbert, with PAWC Exhibit 12-A, PAWC Exhibit 12-B, PAWC Exhibit 12-C, PAWC Exhibit 12-D, PAWC Exhibit 12-E
	PAWC Statement No. 12-R Rebuttal Testimony of Gregory R. Herbert, with PAWC Exhibit GRH-1R and PAWC Exhibit GRH-2R
	PAWC Statement No. 12-RJ, Rejoinder Testimony of Gregory R. Herbert

	PAWC Statement No. 13 Direct Testimony of Ann E. Bulkley, with PAWC Exhibit 13-A
	PAWC Statement No. 13-R, Rebuttal Testimony of Ann E. Bulkley, with PAWC Exhibit No. 13-R
	PAWC Statement No. 13-RJ, Rejoinder Testimony of Ann E. Bulkley, with PAWC Exhibit No. 13-RJ
	PAWC Statement No. 14 Direct Testimony of John Popiolek
	PAWC Statement No. 15-R (Public and CONFIDENTIAL Versions), Rebuttal Testimony of Matthew Prine, with CONFIDENTIAL PAWC Exhibit MWP-1
	PAWC Statement No. 15-RJ, Rejoinder Testimony of Matthew Prine
	PAWC Statement No. 16-R, Rebuttal Testimony of Robert V. Mustich, with CONFIDENTIAL PAWC Exhibit RVM-1
	PAWC Statement No. 16-RJ, Rejoinder Testimony of Robert V. Mustich
I&E	I&E Statement No. 1 – Direct Testimony of Vanessa Okum (in both PROPRIETARY and Non-Proprietary format)
	I&E Exhibit No. 1
	I&E Statement No. 1-SR – Surrebuttal Testimony of Vanessa Okum
	I&E Exhibit No. 1-SR
	I&E Statement No. 2 – Direct Testimony of D.C. Patel (in both PROPRIETARY and Non-Proprietary format)
	I&E Exhibit No. 2
	I&E Statement No 2-SR – Surrebuttal Testimony of D.C. Patel
	I&E Exhibit No. 2-SR
	I&E Statement No. 3 – Direct Testimony of Esyan Sakaya
	I&E Exhibit No. 3
	I&E Statement No. 3-SR – Surrebuttal Testimony of Esyan Sakaya
	I&E Statement No. 4 – Direct Testimony of Ethan Cline
	I&E Exhibit No. 4
	I&E Statement No. 4-SR – Surrebuttal Testimony of Ethan Cline
	I&E Exhibit No. 4-SR
OCA	OCA Statement No. 1, Direct Testimony of Lafayette K. Morgan consisting of written testimony with signed verification of Lafayette K. Morgan, Public Utilities Consultant, Exeter Associates, Inc., and the following: Exhibit LKM-1 through Exhibit LKM-5E
	OCA Statement No. 2, Direct Testimony of David J. Garrett consisting of written testimony with signed verification of David

	J. Garrett, Managing Member, Resolve Utility Consulting PLLC, and the following: Appendix A through Appendix E and Exhibits DJG-1 through Exhibit DJG-23
	OCA Statement No. 3, Direct Testimony of Jerome D. Mierzwa consisting of written testimony with signed verification of Jerome D. Mierzwa, Principal and President, Exeter Associates, Inc., and the following: Schedule JDM-1 through Schedule JDM-3
	OCA Statement No. 4, Direct Testimony of Roger Colton consisting of written testimony with signed verification of Roger Colton, Owner, Fisher Sheehan & Colton, and the following: Exhibit RDC-1 through RDC-5
	OCA Statement No. 5, Direct Testimony of Barbara R. Alexander consisting of written testimony with signed verification of Barbara Alexander, Sole Member, Barbara Alexander Consulting, LLC, and the following: Appendix A and Exhibit BA-1 through Exhibit BA-5
	CONFIDENTIAL OCA Statement No. 5, CONFIDENTIAL Direct Testimony of Barbara R. Alexander consisting of written testimony with signed verification of Barbara Alexander, Sole Member, Barbara Alexander Consulting, LLC, and the following: Appendix A and Exhibit BA-1 through Exhibit BA-5
	CORRECTED OCA Statement No. 1, CORRECTED Direct Testimony of Lafayette K. Morgan consisting of written testimony with errata sheet, signed verification of Lafayette K. Morgan, Public Utilities Consultant, Exeter Associates, Inc., and the following: Exhibits LKM-1 through LKM-5E and Appendix A
	CORRECTED OCA Statement No. 2, CORRECTED Direct Testimony of David J. Garrett consisting of written testimony with errata sheet, signed verification of David J. Garrett, Managing Member, Resolve Utility Consulting PLLC, and the following: Appendix A through Appendix E and Exhibits DJG-1 through DJG-23
	OCA Statement No. 5-Supp, Supplemental Direct Testimony of Barbara R. Alexander consisting of written testimony with signed verification of Barbara Alexander, Sole Member, Barbara Alexander Consulting, LLC, and the following: Appendix A (Supplemental)
	OCA Statement No. 2R, Rebuttal Testimony of David J. Garrett consisting of written testimony along with a signed verification of David J. Garrett, Managing Member, Resolve Utility Consulting PLLC

	OCA Statement No. 3R, Rebuttal Testimony of Jerome D. Mierzwa consisting of written testimony with signed verification of Jerome D. Mierzwa, Principal and President, Exeter Associates, Inc.
	OCA Statement No. 1SR, Surrebuttal Testimony of Lafayette K. Morgan consisting of written testimony with signed verification of Lafayette K. Morgan, Public Utilities Consultant, Exeter Associates, Inc., and the following: Exhibits LKM-1 Summary-SR through LKM-6E-SR
	OCA Statement No. 2SR, Surrebuttal Testimony of David J. Garrett consisting of written testimony with signed verification of David J. Garrett, Managing Member, Resolve Utility Consulting PLLC
	OCA Statement No. 3SR, Surrebuttal Testimony of Jerome D. Mierzwa consisting of written testimony with signed verification of Jerome D. Mierzwa, Principal and President, Exeter Associates, Inc.
	OCA Statement No. 4SR, Surrebuttal Testimony of Roger Colton consisting of written testimony with signed verification of Roger Colton, Owner, Fisher Sheehan & Colton
	OCA Statement No. 5SR, Surrebuttal Testimony of Barbara R. Alexander consisting of written testimony with signed verification of Barbara Alexander, Sole Member, Barbara Alexander Consulting, LLC, and the following: Exhibit BA-6
	CONFIDENTIAL OCA Statement No. 5SR, CONFIDENTIAL Surrebuttal Testimony of Barbara R. Alexander consisting of written testimony with signed verification of Barbara Alexander, Sole Member, Barbara Alexander Consulting, LLC, and the following: Exhibit BA-6
	OCA Hearing Exhibit 2
	OCA Hearing Exhibit 3
OSBA	OSBA Statement No. 1, Direct Testimony and Exhibits of Joseph Kubas, with associated exhibits OSBA Exhibit JK-1, OSBA Exhibit JK-2, OSBA Exhibit JK-3, OSBA Exhibit JK-4, OSBA Exhibit JK-5, OSBA Exhibit JK-6, OSBA Exhibit JK-7, OSBA Exhibit JK-8, OSBA Exhibit JK-9, OSBA Exhibit JK-10, OSBA Exhibit JK-11, OSBA Exhibit JK-12, OSBA Exhibit JK-13, OSBA Exhibit JK-14, OSBA Exhibit JK-15, OSBA Exhibit JK-16, OSBA Exhibit JK-17, OSBA Exhibit JK-18, OSBA Exhibit JK-19, OSBA Exhibit JK-20, and OSBA Exhibit JK-21, with signed Verification of Joseph Kubas.

	OSBA Statement No. 2, Direct Testimony and Exhibits of Jason Hails, and associated Exhibit JH-1, and Exhibit JH-2, with signed Verification of Jason Hails
	OSBA Statement No. 3, Direct Testimony & Exhibits of Roger Cathcart, with associated Exhibit A, and Exhibit Q W, with signed Verification of Roger Cathcart
	OSBA Statement No. 1-R, Rebuttal Testimony and Exhibits of Joseph Kubas, with associated exhibits OSBA Rebuttal Exhibit JK-1R, and OSBA Exhibit JK-2R
	OSBA Statement No. 1-SR, Surrebuttal Testimony and Exhibits of Joseph Kubas, with associated exhibits OSBA Exhibit JK-1, OSBA Exhibit JK-2, OSBA Exhibit JK-3, OSBA Exhibit JK-4, OSBA Exhibit JK-5, OSBA Exhibit JK-6, OSBA Exhibit JK-7, OSBA Exhibit JK-8, OSBA Exhibit JK-9, OSBA Exhibit JK-10, OSBA Exhibit JK-11, OSBA Exhibit JK-12, OSBA Exhibit JK-13, and OSBA Exhibit JK-14, with signed Verification of Joseph Kubas.
	OSBA Statement No. 2-SR, Surrebuttal Testimony of Jason Hails, with signed Verification of Jason Hails.
	OSBA Statement No. 3-SR, Surrebuttal Testimony of Roger Cathcart, with signed Verification of Roger Cathcart.
CAUSE-PA	CAUSE-PA Statement 1, Direct Testimony of Harry S. Geller, with Exhibit 1, Exhibit 2, Appendix A, and Appendix B
	CAUSE-PA Errata to the Direct Testimony of Harry S. Geller
	CAUSE-PA Statement 1-SR, Surrebuttal Testimony of Harry S. Geller, with Appendix A-SR
	Verification of Harry S. Geller
Victory Brewing	Victory Brewing St. No. 1-R – Direct Testimony of Scott Shirley
Cleveland-Cliffs	Cleveland-Cliffs Statement 1-R, Rebuttal Testimony and Exhibits of Rick Baudino
ALJs	ALJ Exhibit 1

APPENDIX E

**Pennsylvania-American Water Company (Water and Wastewater)
2025 Base Rate Case
Docket Nos. R-2025-3057983, R-2025-3058051, et al.**

Rate Tables based on ALJs' Recommended Decision TABLE ACT 11 PENNSYLVANIA-AMERICAN WATER COMPANY

WATER AND WASTEWATER REVENUE REQUIREMENT SUMMARY
R-2025-3057983, R-2025-3058051

Description	Total Company \$	Water Operations \$	General SSS Wastewater Operations \$	BASA Wastewater Operations \$	CSS Wastewater Operations \$	Elizabeth CSS Wastewater Operations \$
Present Rate Revenue	1,162,135,869	953,098,389	108,665,761	12,761,096	85,843,356	1,767,267
Additional Revenue Requirement	82,668,534	29,146,096	11,988,553	33,025,610	5,254,166	3,254,109
OSBA Scaleback (1)	0	0	2,706,426	2,338,895	(5,278,126)	232,805
Act 11 - Wastewater Allocation (1)	0	22,344,590	0	(31,308,183)	11,632,644	(2,669,051)
Proposed Revenues	<u>1,244,804,403</u>	<u>1,004,589,075</u>	<u>123,360,740</u>	<u>16,817,418</u>	<u>97,452,040</u>	<u>2,585,130</u>
Rate Increase/(Decrease) \$	82,668,534	51,490,686	14,694,979	4,056,322	11,608,684	817,863
Rate Increase/(Decrease) %	7.11%	5.40%	13.52%	31.79%	13.52%	46.28%
Rate Increase/(Decrease) \$ - Total Wastewater Operations			31,177,848			
Rate Increase/(Decrease) % - Total Wastewater Operations			14.91%			

Notes:

(1) OSBA Ex. JK-14SR.

TABLE I WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
INCOME SUMMARY
R-2025-3057983, R-2025-3058051

	Pro Forma Present Rates (1)	Company Adjustments (2)	Pro Forma Present Rates (Revised) (3)	ALJ Adjustments	ALJ Pro Forma Present Rates	ALJ Revenue Increase	Total Allowable Revenues
	\$	\$	\$	\$	\$	\$	\$
Operating Revenue	<u>947,784,779</u>	<u>5,313,610</u>	<u>953,098,389</u>	<u>0</u>	<u>953,098,389</u>	<u>29,146,096</u>	<u>982,244,485</u>
Expenses:							
O & M Expense	282,731,634	(816,503)	281,915,131	(4,674,802)	277,240,329	341,301	277,581,630
Depreciation	228,579,069	91,580	228,670,649	(118,513)	228,552,136	0	228,552,136
Taxes, Other	17,198,781	(24,711)	17,174,070	0	17,174,070	214,724	17,388,794
Income Taxes:							
State	19,475,137	457,984	19,933,121	123,164	20,056,285	1,998,446	22,054,731
Federal	45,620,054	1,266,922	46,886,976	344,157	47,231,133	5,584,241	52,815,374
Total Expenses	<u>593,604,675</u>	<u>975,272</u>	<u>594,579,947</u>	<u>(4,325,994)</u>	<u>590,253,953</u>	<u>8,138,712</u>	<u>598,392,665</u>
Net Inc. Available for Return	<u>354,180,104</u>	<u>4,338,338</u>	<u>358,518,442</u>	<u>4,325,994</u>	<u>362,844,436</u>	<u>21,007,384</u>	<u>383,851,820</u>
Rate Base	<u>5,174,383,172</u>	<u>(26,617,719)</u>	<u>5,147,765,453</u>	<u>(2,298,701)</u>	<u>5,145,466,752</u>		<u>5,145,466,752</u>
Rate of Return	6.84%		6.96%		7.05%		7.46000000%

Notes:

(1) PAWC Ex. 3-A Initial.

(2) Difference between PAWC Ex. 3-A Initial and Ex. 3-A Revised.

(3) PAWC Ex. 3-A Revised.

TABLE I(A) WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
RATE OF RETURN
R-2025-3057983, R-2025-3058051

	<u>Structure</u>	<u>Cost</u>	<u>After-Tax Weighted Cost</u>	<u>Effective Tax Rate Complement</u>	<u>Pre-Tax Weighted Cost Rate</u>
Total Cost of Debt			2.12000000%		
Long-term Debt	44.99%	4.71%	2.12000000%		2.12%
Short-term Debt	0.00%	0.00%	0.00000000%		0.00%
Preferred Stock	0.01%	9.71%	0.00000000%	0.734779	0.00%
Common Equity	<u>55.00%</u>	9.70%	<u>5.34000000%</u>	0.734779	<u>7.27%</u>
Totals	<u>100.00%</u>		<u>7.46000000%</u>		<u>9.39%</u>
Pre-Tax Interest Coverage	4.43				
After-Tax Interest Coverage	3.52				

Notes:

(1) I&E St. No. 2-SR, pg. 39.

TABLE I(B) WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
REVENUE FACTOR
R-2025-3057983, R-2025-3058051

100%	<u>1.00000000</u>
Less:	
Uncollectible Accounts Factor (1)	0.01171000
PUC, OCA, OSBA, DPC Assessment Factors (1)	0.00736715
Gross Receipts Tax	0.00000000
Other Tax Factors	<u>0.00000000</u>
	0.98092285
 State Income Tax Rate (1)	 <u>0.06990000</u>
 Effective State Income Tax Rate	 <u>0.06856651</u>
 Factor After Local and State Taxes	 0.91235634
 Federal Income Tax Rate (1)	 <u>0.21000000</u>
 Effective Federal Income Tax Rate	 <u>0.19159483</u>
 Revenue Factor (100% - Effective Tax Rates)	 <u><u>0.72076151</u></u>

Notes:

(1) PAWC Main Brief

TABLE II WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
SUMMARY OF ADJUSTMENTS
R-2025-3057983, R-2025-3058051

<u>Adjustments</u>	<u>Rate Base</u> \$	<u>Revenues</u> \$	<u>Expenses</u> \$	<u>Depreciation</u> \$	<u>Taxes-Other</u> \$	<u>State Income Tax</u> \$	<u>Federal Income Tax</u> \$
RATE BASE:							
CWC:							
Int. & Div. (Table IV)	(387,428)						
Taxes (Table V)	(281,750)						
O & M (Table VI)	(283,153)						
Transportation (3)	(172,012)		(230,191)			16,090	44,961
REVENUES:							
EXPENSES:							
Waste Disposal (1)			(1,122,977)			78,496	219,341
Performance Compensation (4)			(2,885,719)			201,712	563,641
Group Insurance (5)			(435,915)			30,470	85,143
DEPRECIATION:							
Farmington AA (2)	(123,028)			(12,416)		868	2,425
Manwalamink AA (2)	(1,051,330)			(106,097)		7,416	20,723
TAXES:							
Interest Synchronization (Table III)						(211,888)	(592,077)
TOTALS	<u>(2,298,701)</u>	<u>0</u>	<u>(4,674,802)</u>	<u>(118,513)</u>	<u>0</u>	<u>123,164</u>	<u>344,157</u>

Notes:

- (1) See I&E MB, pg. 46
- (2) See OCA MB App. A, pg. 2, PAWC Ex. 3-A, pg. 37R
- (3) See I&E MB, pg. 50, PAWC Ex. 3-B, pg. 301
- (4) See Performance Compensation Adjustment Working Papers. Expenses include Payroll Taxes.
- (5) See OCA MB App. A, pg. 2, OCA St. No. 1-SR, Ex. LKM-6W-SR, PAWC Ex. 3-A, pg. 49R

TABLE III WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
INTEREST SYNCHRONIZATION
R-2025-3057983, R-2025-3058051

	Amount \$
Company Rate Base Claim	5,147,765,453
ALJ Rate Base Adjustments	<u>(2,298,701)</u>
ALJ Rate Base	5,145,466,752
Weighted Cost of Debt	<u>2.12000000%</u>
ALJ Interest Expense	109,083,895
Company Claim (1)	<u>106,052,591</u>
Total ALJ Adjustment	(3,031,304)
Company Adjustment	<u>0</u>
Net ALJ Interest Adjustment	(3,031,304)
State Income Tax Rate	<u>6.99%</u>
State Income Tax Adjustment	<u>(211,888)</u>
Net ALJ Interest Adjustment	(3,031,304)
State Income Tax Adjustment	<u>(211,888)</u>
Net ALJ Adjustment for F.I.T.	(2,819,416)
Federal Income Tax Rate	<u>21.00%</u>
Federal Income Tax Adjustment	<u><u>(592,077)</u></u>

Notes:

(1) PAWC Main Brief

TABLE IV WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - INTEREST AND DIVIDENDS
R-2025-3057983, R-2025-3058051

Accrued Interest			Preferred Stock Dividends	
	Long-Term Debt	Short-Term Debt		
Company Rate Base Claim	\$5,147,765,453	\$5,147,765,453	Company Rate Base Claim	\$5,147,765,453
ALJ Rate Base Adjustments	<u>(\$2,298,701)</u>	<u>(\$2,298,701)</u>	ALJ Rate Base Adjustments	<u>(\$2,298,701)</u>
ALJ Rate Base	\$5,145,466,752	\$5,145,466,752	ALJ Rate Base	\$5,145,466,752
Weighted Cost of Debt	<u>2.12000000%</u>	<u>0.00000000%</u>	Weighted Cost Pref. Stock	<u>0.00000000%</u>
ALJ Annual Interest Exp.	<u>\$109,083,895</u>	<u>\$0</u>	ALJ Preferred Dividends	<u>\$0</u>
Average Revenue Lag Days	45.1	45.1	Average Revenue Lag Days	45.1
Average Expense Lag Days	<u>91.8</u>	<u>15.1</u>	Average Expense Lag Days	<u>46.1</u>
Net Lag Days	<u><u>-46.7</u></u>	<u><u>30.0</u></u>	Net Lag Days	<u><u>-1.0</u></u>
Working Capital Adjustment				
ALJ Daily Interest Exp.	\$298,860	\$0	ALJ Daily Dividends	\$0
Net Lag Days	<u>-46.7</u>	<u>30.0</u>	Net Lag Days	<u>-1.0</u>
ALJ Working Capital	(\$13,941,819)	\$0		\$0
Company Claim (1)	<u>(\$13,554,391)</u>	<u>\$0</u>	Company Claim (1)	<u>\$0</u>
ALJ Adjustment	<u><u>(\$387,428)</u></u>	<u><u>\$0</u></u>		<u><u>\$0</u></u>
Total Interest & Dividend Adj.	<u><u>(\$387,428)</u></u>			

Notes:

(1) PAWC Main Brief

TABLE V WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - TAXES
R-2025-3057983, R-2025-3058051

Description	Company Pro forma Tax Expense Present <u>Rates (2)</u>	ALJ Adjustments	ALJ Pro forma Tax Expense Present <u>Rates</u>	ALJ Allowance	ALJ Adjusted Taxes at Present <u>Rates</u>	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
Assessments	\$6,899,536	\$0	\$6,899,536	\$214,724	\$7,114,260	\$19,491.12	177.60	\$3,461,623
Public Utility Realty	\$2,161,310	\$0	\$2,161,310		\$2,161,310	\$5,921.40	90.14	\$533,774
Local Property Tax	\$3,030,888	\$0	\$3,030,888		\$3,030,888	\$8,303.80	118.15	\$981,122
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
State Income Tax	\$19,933,121	\$123,164	\$20,056,285	\$1,998,446	\$22,054,731	\$60,423.92	7.23	\$436,563
Federal Income Tax	<u>\$47,120,568</u>	<u>\$344,157</u>	<u>\$47,464,725</u>	<u>\$5,584,241</u>	<u>\$53,048,966</u>	<u>\$145,339.63</u>	<u>-0.52</u>	<u>(\$76,303)</u>
Totals	<u>\$79,145,423</u>	<u>\$467,321</u>	<u>\$79,612,744</u>	<u>\$7,797,411</u>	<u>\$87,410,155</u>	<u>\$239,480</u>	<u>22.28</u>	<u>\$5,336,779</u>
						ALJ Allowance		5,336,779
						Company Claim (1)		<u>5,618,529</u>
						ALJ Adjustment		<u>(281,750)</u>

Notes:

(1) PAWC Main Brief

(2) PAWC Ex. 3-A Revised

(3) TABLE VI WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - O&M EXPENSE
R-2025-3057983, R-2025-3058051

Description	Company Pro forma Expense	ALJ	ALJ Pro forma Expense	Lag Days	Lag Dollars
Service Company	\$74,272,977	\$0	\$74,272,977	12.05	\$894,989,368
Chemicals	\$22,744,910	\$0	\$22,744,910	44.75	\$1,017,922,758
Group Insurance (5)	\$11,977,661	(\$435,915)	\$11,541,746	11.00	\$126,959,206
Insurance, Other	\$18,773,193	\$0	\$18,773,193	-86.09	(\$1,616,138,283)
Labor (4)	\$69,814,144	(\$2,885,719)	\$66,928,425	12.05	\$806,487,526
Leased Equip./Rent	\$180,238	\$0	\$180,238	52.71	\$9,499,730
Leased Vehicles (3)	\$3,095,090	(\$230,191)	\$2,864,899	32.34	\$92,654,571
Miscellaneous	\$43,696,406	\$0	\$43,696,406	23.44	\$1,024,139,076
Natural Gas	\$1,139,917	\$0	\$1,139,917	50.28	\$57,313,277
Power	\$21,106,340	\$0	\$21,106,340	31.06	\$655,562,910
Purchased Water	\$2,795,784	\$0	\$2,795,784	31.29	\$87,470,990
Telephone	\$3,365,806	\$0	\$3,365,806	34.55	\$116,281,363
Waste Disposal (2)	\$4,216,691	(\$1,122,977)	\$3,093,714	47.04	\$145,528,315
Post Retirement Benefits	(\$5,885,345)	\$0	(\$5,885,345)	65.00	(\$382,547,399)
Pensions	(\$324,092)	\$0	(\$324,092)	-5.50	\$1,782,503
Totals	<u>\$270,969,720</u>	<u>(\$4,674,802)</u>	<u>\$266,294,919</u>	<u>11.40</u>	<u>\$3,037,905,911</u>
ALJ Average Revenue Lag	45.1				
Less: ALJ Avg. Expense Lag	<u>11.4</u>				
Net Difference	33.7	Days			
ALJ Pro forma O & M Expense per Day	<u>\$729,575</u>				
ALJ CWC for O & M	\$24,586,678				
Less: Company Claim (1)	<u>\$24,869,831</u>				
ALJ Adjustment	<u>(\$283,153)</u>				

Notes:

- (1) PAWC Ex. 3-A Revised
- (2) See Table II, Note 1
- (3) See Table II, Note 3
- (4) See Table II, Note 4, and PAWC Ex. JD-1R, p. 2 (Labor and Payroll Taxes = 12.05 Lag Days)
- (5) See Table II, Note 5

TABLE I GENERAL SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
INCOME SUMMARY
R-2025-3057983, R-2025-3058051

	Pro Forma Present Rates (1)	Company Adjustments (2)	Pro Forma Present Rates (Revised) (3)	ALJ Adjustments	ALJ Pro Forma Present Rates	ALJ Revenue Increase	Total Allowable Revenues
	\$	\$	\$	\$	\$	\$	\$
Operating Revenue	108,561,975	103,786	108,665,761	0	108,665,761	11,988,553	120,654,314
Expenses:							
O & M Expense	29,374,837	(4,387)	29,370,450	(1,543,266)	27,827,184	140,386	27,967,570
Depreciation	28,593,810	1,703	28,595,513	(157,527)	28,437,986	0	28,437,986
Taxes, Other	2,496,491	(5,101)	2,491,390	0	2,491,390	88,321	2,579,711
Income Taxes:							
State	3,134,563	10,319	3,144,882	121,386	3,266,268	822,013	4,088,281
Federal	8,176,053	28,832	8,204,885	339,191	8,544,076	2,296,945	10,841,021
Total Expenses	71,775,754	31,366	71,807,120	(1,240,216)	70,566,904	3,347,665	73,914,569
Net Inc. Available for Return	36,786,221	72,420	36,858,641	1,240,216	38,098,857	8,640,888	46,739,745
Rate Base	661,099,974	(2,115,050)	658,984,924	(1,604,541)	657,380,383		657,380,383
Rate of Return	5.56%		5.59%		5.80%		7.11000000%

Notes:

- (1) PAWC Ex. 3-A Initial.
- (2) Difference between PAWC Ex. 3-A Initial and Ex. 3-A Revised.
- (3) PAWC Ex. 3-A Revised.

TABLE I(A) GENERAL SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
RATE OF RETURN
R-2025-3057983, R-2025-3058051

	<u>Structure</u>	<u>Cost</u>	<u>After-Tax Weighted Cost</u>	<u>Effective Tax Rate Complement</u>	<u>Pre-Tax Weighted Cost Rate</u>
Total Cost of Debt			2.11000000%		
Long-term Debt	41.59%	4.71%	1.96000000%		1.96%
Wastewater Specific Long-term Debt	6.88%	2.20%	0.15000000%		0.15%
Preferred Stock	0.01%	9.71%	0.00000000%	0.734779	0.00%
Common Equity	<u>51.52%</u>	9.70%	<u>5.00000000%</u>	0.734779	<u>6.80%</u>
Totals	<u>100.00%</u>		<u>7.11000000%</u>		<u>8.91%</u>
Pre-Tax Interest Coverage	4.55				
After-Tax Interest Coverage	3.63				

Notes:

(1) I&E St. No. 2-SR, pg. 40.

TABLE I(B) GENERAL SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
REVENUE FACTOR
R-2025-3057983, R-2025-3058051

100%	<u>1.00000000</u>
Less:	
Uncollectible Accounts Factor (1)	0.01171000
PUC, OCA, OSBA, DPC Assessment Factors (1)	0.00736715
Gross Receipts Tax	0.00000000
Other Tax Factors	<u>0.00000000</u>
	0.98092285
 State Income Tax Rate (1)	 <u>0.06990000</u>
 Effective State Income Tax Rate	 <u>0.06856651</u>
 Factor After Local and State Taxes	 0.91235634
 Federal Income Tax Rate (1)	 <u>0.21000000</u>
 Effective Federal Income Tax Rate	 <u>0.19159483</u>
 Revenue Factor (100% - Effective Tax Rates)	 <u><u>0.72076151</u></u>

Notes:

(1) PAWC Main Brief

TABLE II GENERAL SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
SUMMARY OF ADJUSTMENTS
R-2025-3057983, R-2025-3058051

<u>Adjustments</u>	<u>Rate Base</u> \$	<u>Revenues</u> \$	<u>Expenses</u> \$	<u>Depreciation</u> \$	<u>Taxes-Other</u> \$	<u>State Income Tax</u> \$	<u>Federal Income Tax</u> \$
RATE BASE:							
CWC:							
Int. & Div. (Table IV)	4,570						
Taxes (Table V)	(33,829)						
O & M (Table VI)	(11,580)						
Transportation (4)	(2,756)		(11,136)			778	2,175
REVENUES:							
EXPENSES:							
Waste Disposal (1)			(1,268,029)			88,635	247,673
Performance Compensation (5)			(217,440)			15,199	42,471
Group Insurance (6)			(46,661)			3,262	9,114
DEPRECIATION:							
Towamencin Transaction Costs (2)	(599,626)			(60,513)		4,230	11,819
Manwalamink AA (2)	(961,320)			(97,014)		6,781	18,949
						0	0
TAXES:							
Interest Synchronization (Table III)						2,501	6,990
TOTALS	<u>(1,604,541)</u>	<u>0</u>	<u>(1,543,266)</u>	<u>(157,527)</u>	<u>0</u>	<u>121,386</u>	<u>339,191</u>

Notes:

- (1) See I&E MB, pg. 46. However, Row "Wastewater SSS Operations" included data for CSS Operations, and Row "Wastewater CSS Operations" included data for General SSS Operations. See I&E Ex. 1, Schedule 5 and PAWC Ex. 3-A, pgs. 116 (General SSS) and 213 (CSS).
- (2) See OCA MB App. A, pg. 4, PAWC Ex. 3-A, pg. 104R
- (3) See PAWC Ex. 3-A, pg. 104R
- (4) See I&E MB, pg. 50, PAWC Ex. 3-B, pg. 302
- (5) See Performance Compensation Adjustment Working Papers. Expenses include Payroll Taxes.
- (6) See OCA MB App. A, pg. 4, OCA St. No. 1-SR, Ex. LKM-6W-SR, PAWC Ex. 3-A, pg. 111R.

TABLE III GENERAL SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
INTEREST SYNCHRONIZATION
R-2025-3057983, R-2025-3058051

	(1)	Amount \$
Company Rate Base Claim		658,984,924
ALJ Rate Base Adjustments		<u>(1,604,541)</u>
ALJ Rate Base		657,380,383
Weighted Cost of Debt		<u>2.11000000%</u>
ALJ Interest Expense		13,870,726
Company Claim (1)		<u>13,906,512</u>
Total ALJ Adjustment		35,786
Company Adjustment		<u>0</u>
Net ALJ Interest Adjustment		35,786
State Income Tax Rate		<u>6.99%</u>
State Income Tax Adjustment		<u>2,501</u>
Net ALJ Interest Adjustment		35,786
State Income Tax Adjustment		<u>2,501</u>
Net ALJ Adjustment for F.I.T.		33,285
Federal Income Tax Rate		<u>21.00%</u>
Federal Income Tax Adjustment		<u><u>6,990</u></u>

Notes:

(1) PAWC Main Brief

TABLE IV GENERAL SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - INTEREST AND DIVIDENDS
R-2025-3057983, R-2025-3058051

Accrued Interest	Wastewater Specific		Preferred Stock Dividends	
	Long-Term Debt	Long-Term Debt		
Company Rate Base Claim	\$658,984,924	\$658,984,924	Company Rate Base Claim	\$658,984,924
ALJ Rate Base Adjustments	<u>(\$1,604,541)</u>	<u>(\$1,604,541)</u>	ALJ Rate Base Adjustments	<u>(\$1,604,541)</u>
ALJ Rate Base	\$657,380,383	\$657,380,383	ALJ Rate Base	\$657,380,383
Weighted Cost of Debt	<u>1.96000000%</u>	<u>0.15000000%</u>	Weighted Cost Pref. Stock	<u>0.00000000%</u>
ALJ Annual Interest Exp.	<u>\$12,884,656</u>	<u>\$986,071</u>	ALJ Preferred Dividends	<u>\$0</u>
Average Revenue Lag Days	45.1	45.1	Average Revenue Lag Days	45.1
Average Expense Lag Days	<u>91.8</u>	<u>91.8</u>	Average Expense Lag Days	<u>46.1</u>
Net Lag Days	<u>-46.7</u>	<u>-46.7</u>	Net Lag Days	<u>-1.0</u>
Working Capital Adjustment				
ALJ Daily Interest Exp.	\$35,300	\$2,702	ALJ Daily Dividends	\$0
Net Lag Days	<u>-46.7</u>	<u>-46.7</u>	Net Lag Days	<u>-1.0</u>
ALJ Working Capital	(\$1,646,745)	(\$126,028)		\$0
Company Claim (1)	<u>(\$1,650,990)</u>	<u>(\$126,353)</u>	Company Claim (1)	<u>\$0</u>
ALJ Adjustment	<u>\$4,245</u>	<u>\$325</u>		<u>\$0</u>
Total Interest & Dividend Adj.	<u>\$4,570</u>			

Notes:

(1) PAWC Main Brief

TABLE V GENERAL SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - TAXES
R-2025-3057983, R-2025-3058051

Description	Company Pro forma Tax Expense Present Rates (2)	ALJ Adjustments	ALJ Pro forma Tax Expense Present Rates	ALJ Allowance	ALJ Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
Assessments	\$776,678	\$0	\$776,678	\$88,321	\$864,999	\$2,369.86	177.60	\$420,887
Public Utility Realty	\$0	\$0	\$0		\$0	\$0.00	90.14	\$0
Local Property Tax	\$1,251,643	\$0	\$1,251,643		\$1,251,643	\$3,429.16	118.15	\$405,167
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
State Income Tax	\$3,144,882	\$121,386	\$3,266,268	\$822,013	\$4,088,281	\$11,200.77	7.23	\$80,926
Federal Income Tax	<u>\$8,204,885</u>	<u>\$339,191</u>	<u>\$8,544,076</u>	<u>\$2,296,945</u>	<u>\$10,841,021</u>	<u>\$29,701.43</u>	<u>-0.52</u>	<u>(\$15,593)</u>
Totals	<u>\$13,378,088</u>	<u>\$460,577</u>	<u>\$13,838,665</u>	<u>\$3,207,279</u>	<u>\$17,045,944</u>	<u>\$46,701</u>	<u>19.09</u>	<u>\$891,387</u>
						ALJ Allowance		891,387
						Company Claim (1)		<u>925,216</u>
						ALJ Adjustment		<u>(33,829)</u>

Notes:

(1) PAWC Main Brief

(2) PAWC Ex. 3-A Revised

TABLE VI GENERAL SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - O&M EXPENSE
R-2025-3057983, R-2025-3058051

Description	Company Pro forma Expense	ALJ	ALJ Pro forma Expense	Lag Days	Lag Dollars
Service Company	\$2,298,654	\$0	\$2,298,654	12.05	\$27,698,781
Chemicals	\$1,601,088	\$0	\$1,601,088	44.75	\$71,654,890
Group Insurance (5)	\$1,285,100	(\$46,661)	\$1,238,439	11.00	\$13,622,833
Insurance, Other	\$2,367,624	\$0	\$2,367,624	-86.09	(\$203,822,931)
Labor (4)	\$6,303,291	(\$217,440)	\$6,085,851	12.05	\$73,334,505
Leased Equip./Rent	\$58,950	\$0	\$58,950	52.71	\$3,107,059
Leased Vehicles (3)	\$157,572	(\$11,136)	\$146,436	32.34	\$4,735,921
Miscellaneous	\$6,247,774	\$0	\$6,247,774	23.44	\$146,432,850
Natural Gas	\$67,674	\$0	\$67,674	50.28	\$3,402,526
Power	\$3,773,519	\$0	\$3,773,519	31.06	\$117,205,501
Purchased Water	\$0	\$0	\$0	31.29	\$0
Telephone	\$239,983	\$0	\$239,983	34.55	\$8,290,897
Waste Disposal (2)	\$4,008,056	(\$1,268,029)	\$2,740,027	47.04	\$128,890,877
Post Retirement Benefits	\$28,498	\$0	\$28,498	65.00	\$1,852,367
Pensions	\$123,260	\$0	\$123,260	-5.50	(\$677,931)
Totals	<u>\$28,561,043</u>	<u>(\$1,543,266)</u>	<u>\$27,017,777</u>	<u>14.60</u>	<u>\$395,728,145</u>
ALJ Average Revenue Lag	45.1				
Less: ALJ Avg. Expense Lag	<u>14.6</u>				
Net Difference	30.5	Days			
ALJ Pro forma O & M Expense per Day	<u>\$74,021</u>				
ALJ CWC for O & M	\$2,257,641				
Less: Company Claim (1)	<u>\$2,269,221</u>				
ALJ Adjustment	<u>(\$11,580)</u>				

Notes:

- (1) PAWC Main Brief
- (2) See Table II, Note 1.
- (3) See Table II, Note 4.
- (4) See Table II, Note 5, and PAWC Ex. JD-1R, p. 2 (Labor and Payroll Taxes = 12.05 Lag Days)
- (5) See Table II, Note 6.

TABLE I BASA
PENNSYLVANIA-AMERICAN WATER COMPANY
INCOME SUMMARY
R-2025-3057983, R-2025-3058051

	Pro Forma Present Rates (1)	Company Adjustments (2)	Pro Forma Present Rates (Revised) (3)	ALJ Adjustments	ALJ Pro Forma Present Rates	ALJ Revenue Increase	Total Allowable Revenues
	\$	\$	\$	\$	\$	\$	\$
Operating Revenue	12,748,475	12,621	12,761,096	0	12,761,096	33,025,610	45,786,706
Expenses:							
O & M Expense	7,536,236	(31,323)	7,504,913	(126,010)	7,378,903	386,730	7,765,633
Depreciation	11,489,433	1,221	11,490,654	0	11,490,654	0	11,490,654
Taxes, Other	687,313	(2,221)	685,092	0	685,092	243,305	928,397
Income Taxes:							
State	(116,049)	3,350	(112,699)	9,076	(103,623)	2,264,451	2,160,828
Federal	(357,233)	9,362	(347,871)	25,361	(322,510)	6,327,536	6,005,026
Total Expenses	<u>19,239,700</u>	<u>(19,611)</u>	<u>19,220,089</u>	<u>(91,573)</u>	<u>19,128,516</u>	<u>9,222,022</u>	<u>28,350,538</u>
Net Inc. Available for Return	<u>(6,491,225)</u>	<u>32,232</u>	<u>(6,458,993)</u>	<u>91,573</u>	<u>(6,367,420)</u>	<u>23,803,589</u>	<u>17,436,168</u>
Rate Base	<u>245,363,647</u>	<u>(111,335)</u>	<u>245,252,312</u>	<u>(17,877)</u>	<u>245,234,435</u>		<u>245,234,435</u>
Rate of Return	-2.65%		-2.63%		-2.60%		7.11000000%

Notes:

(1) PAWC Ex. 3-A Initial.

(2) Difference between PAWC Ex. 3-A Initial and Ex. 3-A Revised.

(3) PAWC Ex. 3-A Revised.

TABLE I(A) BASA
PENNSYLVANIA-AMERICAN WATER COMPANY
RATE OF RETURN
R-2025-3057983, R-2025-3058051

	<u>Structure</u>	<u>Cost</u>	<u>After-Tax Weighted Cost</u>	<u>Effective Tax Rate Complement</u>	<u>Pre-Tax Weighted Cost Rate</u>
Total Cost of Debt			2.11000000%		
Long-term Debt	41.59%	4.71%	1.96000000%		1.96%
Wastewater Specific Long-term Debt	6.88%	2.20%	0.15000000%		0.15%
Preferred Stock	0.01%	9.71%	0.00000000%	0.734779	0.00%
Common Equity	<u>51.52%</u>	9.70%	<u>5.00000000%</u>	0.734779	<u>6.80%</u>
Totals	<u>100.00%</u>		<u>7.11000000%</u>		<u>8.91%</u>
Pre-Tax Interest Coverage	4.55				
After-Tax Interest Coverage	3.63				

Notes:

(1) I&E St. No. 2-SR, pg. 40.

TABLE I(B) BASA
PENNSYLVANIA-AMERICAN WATER COMPANY
REVENUE FACTOR
R-2025-3057983, R-2025-3058051

100%	<u>1.00000000</u>
Less:	
Uncollectible Accounts Factor (1)	0.01171000
PUC, OCA, OSBA, DPC Assessment Factors (1)	0.00736715
Gross Receipts Tax	0.00000000
Other Tax Factors	<u>0.00000000</u>
	0.98092285
 State Income Tax Rate (1)	 <u>0.06990000</u>
 Effective State Income Tax Rate	 <u>0.06856651</u>
 Factor After Local and State Taxes	 0.91235634
 Federal Income Tax Rate (1)	 <u>0.21000000</u>
 Effective Federal Income Tax Rate	 <u>0.19159483</u>
 Revenue Factor (100% - Effective Tax Rates)	 <u><u>0.72076151</u></u>

Notes:
(1) PAWC Main Brief

TABLE II BASA
PENNSYLVANIA-AMERICAN WATER COMPANY
SUMMARY OF ADJUSTMENTS
R-2025-3057983, R-2025-3058051

<u>Adjustments</u>	<u>Rate Base</u> \$	<u>Revenues</u> \$	<u>Expenses</u> \$	<u>Depreciation</u> \$	<u>Taxes-Other</u> \$	<u>State Income Tax</u> \$	<u>Federal Income Tax</u> \$
RATE BASE:							
CWC:							
Int. & Div. (Table IV)	501						
Taxes (Table V)	(10,032)						
O & M (Table VI)	(7,545)						
Transportation (2)	(801)		(3,233)			226	631
REVENUES:							
EXPENSES:							
Waste Disposal (1)			(41,043)			2,869	8,017
Performance Compensation (3)			(63,964)			4,471	12,493
Group Insurance (4)			(17,770)			1,242	3,471
DEPRECIATION:							
TAXES:							
Interest Synchronization (Table III)						268	749
TOTALS	<u>(17,877)</u>	<u>0</u>	<u>(126,010)</u>	<u>0</u>	<u>0</u>	<u>9,076</u>	<u>25,361</u>

Notes:

- (1) See I&E MB, pg. 46.
- (2) See I&E MB, pg. 50, PAWC Ex. 3-B, pg. 303
- (3) See Performance Compensation Adjustment Working Papers. Expenses include Payroll Taxes.
- (4) See OCA MB App. A, pg. 6, OCA St. No. 1-SR at Ex. LKM-6W-SR, PAWC Ex. 3-A, pg. 159R

TABLE III BASA
PENNSYLVANIA-AMERICAN WATER COMPANY
INTEREST SYNCHRONIZATION
R-2025-3057983, R-2025-3058051

	(2)	Amount \$
Company Rate Base Claim		245,252,312
ALJ Rate Base Adjustments		<u>(17,877)</u>
ALJ Rate Base		245,234,435
Weighted Cost of Debt		<u>2.11000000%</u>
ALJ Interest Expense		5,174,447
Company Claim (1)		<u>5,178,280</u>
Total ALJ Adjustment		3,833
Company Adjustment		<u>0</u>
Net ALJ Interest Adjustment		3,833
State Income Tax Rate		<u>6.99%</u>
State Income Tax Adjustment		<u>268</u>
Net ALJ Interest Adjustment		3,833
State Income Tax Adjustment		<u>268</u>
Net ALJ Adjustment for F.I.T.		3,565
Federal Income Tax Rate		<u>21.00%</u>
Federal Income Tax Adjustment		<u><u>749</u></u>

Notes:

(1) PAWC Main Brief

TABLE IV BASA
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - INTEREST AND DIVIDENDS
R-2025-3057983, R-2025-3058051

Accrued Interest	Wastewater Specific		Preferred Stock Dividends	
	Long-Term Debt	Long-Term Debt		
Company Rate Base Claim	\$245,252,312	\$245,252,312	Company Rate Base Claim	\$245,252,312
ALJ Rate Base Adjustments	<u>(\$17,877)</u>	<u>(\$17,877)</u>	ALJ Rate Base Adjustments	<u>(\$17,877)</u>
ALJ Rate Base	\$245,234,435	\$245,234,435	ALJ Rate Base	\$245,234,435
Weighted Cost of Debt	<u>1.96000000%</u>	<u>0.15000000%</u>	Weighted Cost Pref. Stock	<u>0.00000000%</u>
ALJ Annual Interest Exp.	<u>\$4,806,595</u>	<u>\$367,852</u>	ALJ Preferred Dividends	<u>\$0</u>
Average Revenue Lag Days	45.1	45.1	Average Revenue Lag Days	45.1
Average Expense Lag Days	<u>91.8</u>	<u>91.8</u>	Average Expense Lag Days	<u>46.1</u>
Net Lag Days	<u><u>-46.7</u></u>	<u><u>-46.7</u></u>	Net Lag Days	<u><u>-1.0</u></u>
Working Capital Adjustment				
ALJ Daily Interest Exp.	\$13,169	\$1,008	ALJ Daily Dividends	\$0
Net Lag Days	<u>-46.7</u>	<u>-46.7</u>	Net Lag Days	<u>-1.0</u>
ALJ Working Capital	(\$614,334)	(\$47,014)		\$0
Company Claim (1)	<u>(\$614,800)</u>	<u>(\$47,049)</u>	Company Claim (1)	<u>\$0</u>
ALJ Adjustment	<u>\$466</u>	<u>\$35</u>		<u>\$0</u>
Total Interest & Dividend Adj.	<u><u>\$501</u></u>			

Notes:

(1) PAWC Main Brief

TABLE V BASA
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - TAXES
R-2025-3057983, R-2025-3058051

Description	Company Pro forma Tax Expense Present Rates (2)	ALJ Adjustments	ALJ Pro forma Tax Expense Present Rates	ALJ Allowance	ALJ Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
Assessments	\$93,525	\$0	\$93,525	\$243,305	\$336,830	\$922.82	177.60	\$163,893
Public Utility Realty	\$0	\$0	\$0		\$0	\$0.00	90.14	\$0
Local Property Tax	\$408,917	\$0	\$408,917		\$408,917	\$1,120.32	118.15	\$132,370
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
State Income Tax	(\$112,699)	\$9,076	(\$103,623)	\$2,264,451	\$2,160,828	\$5,920.08	7.23	\$42,773
Federal Income Tax	(\$347,871)	\$25,361	(\$322,510)	\$6,327,536	\$6,005,026	\$16,452.13	-0.52	(\$8,637)
Totals	<u>\$41,872</u>	<u>\$34,437</u>	<u>\$76,309</u>	<u>\$8,835,292</u>	<u>\$8,911,601</u>	<u>\$24,415</u>	<u>13.53</u>	<u>\$330,399</u>
						ALJ Allowance		330,399
						Company Claim (1)		<u>340,431</u>
						ALJ Adjustment		<u>(10,032)</u>

Notes:

(1) PAWC Main Brief

(2) PAWC Ex. 3-A Revised

TABLE VI BASA
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - O&M EXPENSE
R-2025-3057983, R-2025-3058051

Description	Company Pro forma Expense	ALJ	ALJ Pro forma Expense	Lag Days	Lag Dollars
Service Company	\$120,323	\$0	\$120,323	12.05	\$1,449,892
Chemicals	\$148,715	\$0	\$148,715	44.75	\$6,655,572
Group Insurance (5)	\$484,550	(\$17,770)	\$466,780	11.00	\$5,134,581
Insurance, Other	\$1,869,468	\$0	\$1,869,468	-86.09	(\$160,937,949)
Labor (4)	\$2,492,063	(\$63,964)	\$2,428,099	12.05	\$29,258,596
Leased Equip./Rent	\$0	\$0	\$0	52.71	\$0
Leased Vehicles (3)	\$57,569	(\$3,233)	\$54,336	32.34	\$1,757,297
Miscellaneous	\$1,379,369	\$0	\$1,379,369	23.44	\$32,329,110
Natural Gas	\$54,734	\$0	\$54,734	50.28	\$2,751,944
Power	\$533,237	\$0	\$533,237	31.06	\$16,562,348
Purchased Water	\$0	\$0	\$0	31.29	\$0
Telephone	\$8,991	\$0	\$8,991	34.55	\$310,608
Waste Disposal (2)	\$339,322	(\$41,043)	\$298,279	47.04	\$14,031,038
Post Retirement Benefits	\$13,365	\$0	\$13,365	65.00	\$868,756
Pensions	<u>\$36,424</u>	<u>\$0</u>	<u>\$36,424</u>	<u>-5.50</u>	<u>(\$200,334)</u>
Totals	<u>\$7,538,131</u>	<u>(\$126,010)</u>	<u>\$7,412,121</u>	<u>-6.70</u>	<u>(\$50,028,541)</u>
ALJ Average Revenue Lag	45.1				
Less: ALJ Avg. Expense Lag	<u>-6.7</u>				
Net Difference	51.8	Days			
ALJ Pro forma O & M Expense per Day	<u>\$20,307</u>				
ALJ CWC for O & M	\$1,051,903				
Less: Company Claim (1)	<u>\$1,059,448</u>				
ALJ Adjustment	<u>(\$7,545)</u>				

Notes:

- (1) PAWC Main Brief
- (2) See Table II, Note 1.
- (3) See Table II, Note 2.
- (4) See Table II, Note 3.
- (5) See Table II, Note 4, and PAWC Ex. JD-1R, p. 2 (Labor and Payroll Taxes = 12.05 Lag Days)

TABLE I CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
INCOME SUMMARY
R-2025-3057983, R-2025-3058051

	Pro Forma Present Rates (1)	Company Adjustments (2)	Pro Forma Present Rates (Revised) (3)	ALJ Adjustments	ALJ Pro Forma Present Rates	ALJ Revenue Increase	Total Allowable Revenues
	\$	\$	\$	\$	\$	\$	\$
Operating Revenue	<u>85,758,589</u>	<u>84,767</u>	<u>85,843,356</u>	<u>0</u>	<u>85,843,356</u>	<u>5,254,166</u>	<u>91,097,522</u>
Expenses:							
O & M Expense	19,952,953	(72,192)	19,880,761	(671,975)	19,208,786	61,526	19,270,312
Depreciation	21,678,456	67,779	21,746,235	0	21,746,235	0	21,746,235
Taxes, Other	2,260,278	(6,724)	2,253,554	0	2,253,554	38,708	2,292,262
Income Taxes:							
State	2,526,024	7,026	2,533,050	47,118	2,580,168	360,260	2,940,428
Federal	6,523,450	19,633	6,543,083	131,661	6,674,744	1,006,671	7,681,415
Total Expenses	<u>52,941,161</u>	<u>15,522</u>	<u>52,956,683</u>	<u>(493,196)</u>	<u>52,463,487</u>	<u>1,467,165</u>	<u>53,930,652</u>
Net Inc. Available for Return	<u>32,817,428</u>	<u>69,245</u>	<u>32,886,673</u>	<u>493,196</u>	<u>33,379,869</u>	<u>3,787,001</u>	<u>37,166,870</u>
Rate Base	<u>520,244,881</u>	<u>2,546,268</u>	<u>522,791,149</u>	<u>(50,365)</u>	<u>522,740,784</u>		<u>522,740,784</u>
Rate of Return	6.31%		6.29%		6.39%		7.11000000%

Notes:

(1) PAWC Ex. 3-A Initial.

(2) Difference between PAWC Ex. 3-A Initial and Ex. 3-A Revised.

(3) PAWC Ex. 3-A Revised.

TABLE I(A) CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
RATE OF RETURN
R-2025-3057983, R-2025-3058051

	<u>Structure</u>	<u>Cost</u>	<u>After-Tax Weighted Cost</u>	<u>Effective Tax Rate Complement</u>	<u>Pre-Tax Weighted Cost Rate</u>
Total Cost of Debt			2.11000000%		
Long-term Debt	41.59%	4.71%	1.96000000%		1.96%
Wastewater Specific Long-term Debt	6.88%	2.20%	0.15000000%		0.15%
Preferred Stock	0.01%	9.71%	0.00000000%	0.734779	0.00%
Common Equity	<u>51.52%</u>	9.70%	<u>5.00000000%</u>	0.734779	<u>6.80%</u>
Totals	<u>100.00%</u>		<u>7.11000000%</u>		<u>8.91%</u>
Pre-Tax Interest Coverage	4.55				
After-Tax Interest Coverage	3.63				

Notes:

(1) I&E St. No. 2-SR, pg. 40.

TABLE I(B) CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
REVENUE FACTOR
R-2025-3057983, R-2025-3058051

100%	1.00000000
Less:	
Uncollectible Accounts Factor (1)	0.01171000
PUC, OCA, OSBA, DPC Assessment Factors (1)	0.00736715
Gross Receipts Tax	0.00000000
Other Tax Factors	0.00000000
	0.98092285
 State Income Tax Rate (1)	 0.06990000
 Effective State Income Tax Rate	 0.06856651
 Factor After Local and State Taxes	 0.91235634
 Federal Income Tax Rate (1)	 0.21000000
 Effective Federal Income Tax Rate	 0.19159483
 Revenue Factor (100% - Effective Tax Rates)	 0.72076151

Notes:
(1) PAWC Main Brief

TABLE II CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
SUMMARY OF ADJUSTMENTS
R-2025-3057983, R-2025-3058051

<u>Adjustments</u>	<u>Rate Base</u> \$	<u>Revenues</u> \$	<u>Expenses</u> \$	<u>Depreciation</u> \$	<u>Taxes-Other</u> \$	<u>State Income Tax</u> \$	<u>Federal Income Tax</u> \$
RATE BASE:							
CWC:							
Int. & Div. (Table IV)	298						
Taxes (Table V)	(23,959)						
O & M (Table VI)	(20,854)						
Transportation (2)	(5,850)		(23,617)			1,651	4,613
REVENUES:							
EXPENSES:							
Waste Disposal (1)			(418,844)			29,277	81,809
Performance Compensation (3)			(173,631)			12,137	33,914
Group Insurance (4)			(55,883)			3,906	10,915
DEPRECIATION:							
TAXES:							
Interest Synchronization (Table III)						147	410
TOTALS	<u>(50,365)</u>	<u>0</u>	<u>(671,975)</u>	<u>0</u>	<u>0</u>	<u>47,118</u>	<u>131,661</u>

Notes:

- (1) See I&E MB, pg. 46. However, Row "Wastewater SSS Operations" included data for CSS Operations, and Row "Wastewater CSS Operations" included data for General SSS Operations. See I&E Ex. 1, Schedule 5 and PAWC Ex. 3-A, pgs. 116 (General SSS) and 213 (CSS).
- (2) See I&E MB, pg. 50, PAWC Ex. 3-B, pg. 304.
- (3) See Performance Compensation Adjustment Working Papers. Expenses include Payroll Taxes.
- (4) See OCA MB App. A, pg. 8, OCA St. No. 1-SR at Ex. LKM-6W-SR, PAWC Ex. 3-A, pg. 208R.

TABLE III CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
INTEREST SYNCHRONIZATION
R-2025-3057983, R-2025-3058051

	(3)	Amount \$
Company Rate Base Claim		522,791,149
ALJ Rate Base Adjustments		<u>(50,365)</u>
ALJ Rate Base		522,740,784
Weighted Cost of Debt		<u>2.11000000%</u>
ALJ Interest Expense		11,029,831
Company Claim (1)		<u>11,031,928</u>
Total ALJ Adjustment		2,097
Company Adjustment		<u>0</u>
Net ALJ Interest Adjustment		2,097
State Income Tax Rate		<u>6.99%</u>
State Income Tax Adjustment		<u>147</u>
Net ALJ Interest Adjustment		2,097
State Income Tax Adjustment		<u>147</u>
Net ALJ Adjustment for F.I.T.		1,950
Federal Income Tax Rate		<u>21.00%</u>
Federal Income Tax Adjustment		<u><u>410</u></u>

Notes:

(1) PAWC Main Brief

TABLE IV CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - INTEREST AND DIVIDENDS
R-2025-3057983, R-2025-3058051

Accrued Interest	Wastewater Specific		Preferred Stock Dividends	
	Long-Term Debt	Long-Term Debt		
Company Rate Base Claim	\$522,791,149	\$522,791,149	Company Rate Base Claim	\$522,791,149
ALJ Rate Base Adjustments	<u>(\$50,365)</u>	<u>(\$50,365)</u>	ALJ Rate Base Adjustments	<u>(\$50,365)</u>
ALJ Rate Base	\$522,740,784	\$522,740,784	ALJ Rate Base	\$522,740,784
Weighted Cost of Debt	<u>1.96000000%</u>	<u>0.15000000%</u>	Weighted Cost Pref. Stock	<u>0.00000000%</u>
ALJ Annual Interest Exp.	<u>\$10,245,719</u>	<u>\$784,111</u>	ALJ Preferred Dividends	<u>\$0</u>
Average Revenue Lag Days	45.1	45.1	Average Revenue Lag Days	45.1
Average Expense Lag Days	<u>91.8</u>	<u>91.8</u>	Average Expense Lag Days	<u>46.1</u>
Net Lag Days	<u><u>-46.7</u></u>	<u><u>-46.7</u></u>	Net Lag Days	<u><u>-1.0</u></u>
Working Capital Adjustment				
ALJ Daily Interest Exp.	\$28,070	\$2,148	ALJ Daily Dividends	\$0
Net Lag Days	<u>-46.7</u>	<u>-46.7</u>	Net Lag Days	<u>-1.0</u>
ALJ Working Capital	(\$1,309,466)	(\$100,216)		\$0
Company Claim (1)	<u>(\$1,309,745)</u>	<u>(\$100,235)</u>	Company Claim (1)	<u>\$0</u>
ALJ Adjustment	<u>\$279</u>	<u>\$19</u>		<u>\$0</u>
Total Interest & Dividend Adj.	<u><u>\$298</u></u>			

Notes:

(1) PAWC Main Brief

TABLE V CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - TAXES
R-2025-3057983, R-2025-3058051

Description	Company Pro forma Tax Expense Present Rates (2)	ALJ Adjustments	ALJ Pro forma Tax Expense Present Rates	ALJ Allowance	ALJ Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
Assessments	\$627,474	\$0	\$627,474	\$38,708	\$666,182	\$1,825.16	177.60	\$324,148
Public Utility Realty	\$0	\$0	\$0		\$0	\$0.00	90.14	\$0
Local Property Tax	\$1,025,725	\$0	\$1,025,725		\$1,025,725	\$2,810.21	118.15	\$332,036
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
State Income Tax	\$2,533,050	\$47,118	\$2,580,168	\$360,260	\$2,940,428	\$8,055.97	7.23	\$58,204
Federal Income Tax	<u>\$6,543,083</u>	<u>\$131,661</u>	<u>\$6,674,744</u>	<u>\$1,006,671</u>	<u>\$7,681,415</u>	<u>\$21,044.97</u>	<u>-0.52</u>	<u>(\$11,049)</u>
Totals	<u>\$10,729,332</u>	<u>\$178,779</u>	<u>\$10,908,111</u>	<u>\$1,405,639</u>	<u>\$12,313,750</u>	<u>\$33,736</u>	<u>20.85</u>	<u>\$703,339</u>
						ALJ Allowance		703,339
						Company Claim (1)		<u>727,298</u>
						ALJ Adjustment		<u>(23,959)</u>

Notes:

(1) PAWC Main Brief

(2) PAWC Ex. 3-A Revised

TABLE VI CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - O&M EXPENSE
R-2025-3057983, R-2025-3058051

Description	Company Pro forma Expense	ALJ	ALJ Pro forma Expense	Lag Days	Lag Dollars
Service Company	\$1,244,195	\$0	\$1,244,195	12.05	\$14,992,550
Chemicals	\$1,030,161	\$0	\$1,030,161	44.75	\$46,103,707
Group Insurance (5)	\$1,545,025	(\$55,883)	\$1,489,142	11.00	\$16,380,566
Insurance, Other	\$748,668	\$0	\$748,668	-86.09	(\$64,451,030)
Labor (4)	\$7,899,762	(\$173,631)	\$7,726,131	12.05	\$93,099,877
Leased Equip./Rent	\$11,450	\$0	\$11,450	52.71	\$603,490
Leased Vehicles (3)	\$412,698	(\$23,617)	\$389,081	32.34	\$12,583,379
Miscellaneous	\$3,005,379	\$0	\$3,005,379	23.44	\$70,438,895
Natural Gas	\$151,899	\$0	\$151,899	50.28	\$7,637,269
Power	\$1,412,874	\$0	\$1,412,874	31.06	\$43,883,857
Purchased Water	\$0	\$0	\$0	31.29	\$0
Telephone	\$124,772	\$0	\$124,772	34.55	\$4,310,621
Waste Disposal (2)	\$1,673,584	(\$418,844)	\$1,254,740	47.04	\$59,022,970
Post Retirement Benefits	\$57,235	\$0	\$57,235	65.00	\$3,720,258
Pensions	\$138,136	\$0	\$138,136	-5.50	(\$759,746)
Totals	<u>\$19,455,839</u>	<u>(\$671,975)</u>	<u>\$18,783,864</u>	<u>16.40</u>	<u>\$307,566,663</u>
ALJ Average Revenue Lag	45.1				
Less: ALJ Avg. Expense Lag	<u>16.4</u>				
Net Difference	28.7	Days			
ALJ Pro forma O & M Expense per Day	<u>\$51,463</u>				
ALJ CWC for O & M	\$1,476,988				
Less: Company Claim (1)	<u>\$1,497,842</u>				
ALJ Adjustment	<u>(\$20,854)</u>				

Notes:

- (4) PAWC Main Brief
- (5) See Table II, Note 1.
- (6) See Table II, Note 2.
- (7) See Table II, Note 3, and PAWC Ex. JD-1R, p. 2 (Labor and Payroll Taxes = 12.05 Lag Days)
- (8) See Table II, Note 4.

TABLE I ELIZABETH CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
INCOME SUMMARY
R-2025-3057983, R-2025-3058051

	Pro Forma Present Rates (1)	Company Adjustments (2)	Pro Forma Present Rates (Revised) (3)	ALJ Adjustments	ALJ Pro Forma Present Rates	ALJ Revenue Increase	Total Allowable Revenues
	\$	\$	\$	\$	\$	\$	\$
Operating Revenue	1,767,267	0	1,767,267	0	1,767,267	3,254,109	5,021,376
Expenses:							
O & M Expense	867,000	1,308	868,308	0	868,308	38,106	906,414
Depreciation	1,090,337	9,128	1,099,465	0	1,099,465	0	1,099,465
Taxes, Other	29,882	0	29,882	0	29,882	23,974	53,856
Income Taxes:							
State	25,137	(225)	24,912	26	24,938	223,123	248,061
Federal	73,075	(629)	72,446	72	72,518	623,470	695,988
Total Expenses	<u>2,085,431</u>	<u>9,582</u>	<u>2,095,013</u>	<u>98</u>	<u>2,095,111</u>	<u>908,673</u>	<u>3,003,784</u>
Net Inc. Available for Return	<u>(318,164)</u>	<u>(9,582)</u>	<u>(327,746)</u>	<u>(98)</u>	<u>(327,844)</u>	<u>2,345,436</u>	<u>2,017,592</u>
Rate Base	<u>28,334,170</u>	<u>93,022</u>	<u>28,427,192</u>	<u>(50,365)</u>	<u>28,376,827</u>		<u>28,376,827</u>
Rate of Return	-1.12%		-1.15%		-1.16%		7.11000000%

Notes:

- (1) PAWC Ex. 3-A Initial.
- (2) Difference between PAWC Ex. 3-A Initial and Ex. 3-A Revised.
- (3) PAWC Ex. 3-A Revised.

TABLE I(A) ELIZABETH CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
RATE OF RETURN
R-2025-3057983, R-2025-3058051

	<u>Structure</u>	<u>Cost</u>	<u>After-Tax Weighted Cost</u>	<u>Effective Tax Rate Complement</u>	<u>Pre-Tax Weighted Cost Rate</u>
Total Cost of Debt			2.11000000%		
Long-term Debt	41.59%	4.71%	1.96000000%		1.96%
Wastewater Specific Long-term Debt	6.88%	2.20%	0.15000000%		0.15%
Preferred Stock	0.01%	9.71%	0.00000000%	0.734779	0.00%
Common Equity	<u>51.52%</u>	9.70%	<u>5.00000000%</u>	0.734779	<u>6.80%</u>
Totals	<u>100.00%</u>		<u>7.11000000%</u>		<u>8.91%</u>
Pre-Tax Interest Coverage	4.55				
After-Tax Interest Coverage	3.63				

Notes:

(1) I&E St. No. 2-SR, pg. 40.

TABLE I(B) ELIZABETH CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
REVENUE FACTOR
R-2025-3057983, R-2025-3058051

100%	<u>1.00000000</u>
Less:	
Uncollectible Accounts Factor (1)	0.01171000
PUC, OCA, OSBA, DPC Assessment Factors (1)	0.00736715
Gross Receipts Tax	0.00000000
Other Tax Factors	<u>0.00000000</u>
	0.98092285
 State Income Tax Rate (1)	 <u>0.06990000</u>
 Effective State Income Tax Rate	 <u>0.06856651</u>
 Factor After Local and State Taxes	 0.91235634
 Federal Income Tax Rate (1)	 <u>0.21000000</u>
 Effective Federal Income Tax Rate	 <u>0.19159483</u>
 Revenue Factor (100% - Effective Tax Rates)	 <u><u>0.72076151</u></u>

Notes:
(1) PAWC Main Brief

TABLE II ELIZABETH CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
SUMMARY OF ADJUSTMENTS
R-2025-3057983, R-2025-3058051

<u>Adjustments</u>	<u>Rate Base</u> \$	<u>Revenues</u> \$	<u>Expenses</u> \$	<u>Depreciation</u> \$	<u>Taxes-Other</u> \$	<u>State Income Tax</u> \$	<u>Federal Income Tax</u> \$
RATE BASE:							
CWC:							
Int. & Div. (Table IV)	50						
Taxes (Table V)	(1,141)						
O & M (Table VI)	0						
	0						
REVENUES:		0				0	0
EXPENSES:							
DEPRECIATION:			0			0	0
				0		0	0
TAXES:							
Interest Synchronization (Table III)						26	72
TOTALS	<u>(1,091)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>26</u>	<u>72</u>

Notes:

TABLE III ELIZABETH CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
INTEREST SYNCHRONIZATION
R-2025-3057983, R-2025-3058051

	(9)	Amount \$
Company Rate Base Claim		28,427,192
ALJ Rate Base Adjustments		<u>(1,091)</u>
ALJ Rate Base		28,426,101
Weighted Cost of Debt		<u>2.11000000%</u>
ALJ Interest Expense		599,791
Company Claim (1)		<u>600,158</u>
Total ALJ Adjustment		367
Company Adjustment		<u>0</u>
Net ALJ Interest Adjustment		367
State Income Tax Rate		<u>6.99%</u>
State Income Tax Adjustment		<u>26</u>
Net ALJ Interest Adjustment		367
State Income Tax Adjustment		<u>26</u>
Net ALJ Adjustment for F.I.T.		341
Federal Income Tax Rate		<u>21.00%</u>
Federal Income Tax Adjustment		<u><u>72</u></u>

Notes:

(1) PAWC Main Brief

TABLE IV ELIZABETH CSS PENNSYLVANIA-
AMERICAN WATER COMPANY
CASH WORKING CAPITAL - INTEREST AND DIVIDENDS
R-2025-3057983, R-2025-3058051

Accrued Interest	Wastewater Specific		Preferred Stock Dividends	
	Long-Term Debt	Long-Term Debt		
Company Rate Base Claim	\$28,427,192	\$28,427,192	Company Rate Base Claim	\$28,427,192
ALJ Rate Base Adjustments	<u>(\$1,091)</u>	<u>(\$1,091)</u>	ALJ Rate Base Adjustments	<u>(\$1,091)</u>
ALJ Rate Base	\$28,426,101	\$28,426,101	ALJ Rate Base	\$28,426,101
Weighted Cost of Debt	<u>1.96000000%</u>	<u>0.15000000%</u>	Weighted Cost Pref. Stock	<u>0.00000000%</u>
ALJ Annual Interest Exp.	<u>\$557,152</u>	<u>\$42,639</u>	ALJ Preferred Dividends	<u>\$0</u>
Average Revenue Lag Days	45.1	45.1	Average Revenue Lag Days	45.1
Average Expense Lag Days	<u>91.8</u>	<u>91.8</u>	Average Expense Lag Days	<u>46.1</u>
Net Lag Days	<u><u>-46.7</u></u>	<u><u>-46.7</u></u>	Net Lag Days	<u><u>-1.0</u></u>
Working Capital Adjustment				
ALJ Daily Interest Exp.	\$1,526	\$117	ALJ Daily Dividends	\$0
Net Lag Days	<u>-46.7</u>	<u>-46.7</u>	Net Lag Days	<u>-1.0</u>
ALJ Working Capital	(\$71,188)	(\$5,450)		\$0
Company Claim (1)	<u>(\$71,235)</u>	<u>(\$5,453)</u>	Company Claim (1)	<u>\$0</u>
ALJ Adjustment	<u>\$47</u>	<u>\$3</u>		<u>\$0</u>
Total Interest & Dividend Adj.	<u><u>\$50</u></u>			

Notes:

(1) PAWC Main Brief

TABLE V ELIZABETH CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - TAXES
R-2025-3057983, R-2025-3058051

Description	Company Pro forma Tax Expense Present Rates (2)	ALJ Adjustments	ALJ Pro forma Tax Expense Present Rates	ALJ Allowance	ALJ Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
Assessments	\$12,952	\$0	\$12,952	\$23,974	\$36,926	\$101.17	177.60	\$17,968
Public Utility Realty	\$0	\$0	\$0		\$0	\$0.00	90.14	\$0
Local Property Tax	\$0	\$0	\$0		\$0	\$0.00	118.15	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
State Income Tax	\$24,912	\$26	\$24,938	\$223,123	\$248,061	\$679.62	7.23	\$4,910
Federal Income Tax	<u>\$72,446</u>	<u>\$72</u>	<u>\$72,518</u>	<u>\$623,470</u>	<u>\$695,988</u>	<u>\$1,906.82</u>	<u>-0.52</u>	<u>(\$1,001)</u>
Totals	<u>\$110,310</u>	<u>\$98</u>	<u>\$110,408</u>	<u>\$870,567</u>	<u>\$980,975</u>	<u>\$2,688</u>	<u>8.14</u>	<u>\$21,877</u>
						ALJ Allowance		21,877
						Company Claim (1)		<u>23,018</u>
						ALJ Adjustment		<u>(1,141)</u>

Notes:

(1) PAWC Main Brief

(2) PAWC Ex. 3-A Revised

TABLE VI ELIZABETH CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - O&M EXPENSE
R-2025-3057983, R-2025-3058051

Description	Company Pro forma Expense	ALJ	ALJ Pro forma Expense	Lag Days	Lag Dollars
Service Company	\$0	\$0	\$0	12.05	\$0
Chemicals	\$0	\$0	\$0	44.75	\$0
Group Insurance	\$0	\$0	\$0	11.00	\$0
Insurance, Other	\$0	\$0	\$0	-86.09	\$0
Labor	\$16,930	\$0	\$16,930	12.05	\$204,007
Leased Equip./Rent	\$0	\$0	\$0	52.71	\$0
Leased Vehicles	\$0	\$0	\$0	32.34	\$0
Miscellaneous	\$847,613	\$0	\$847,613	23.44	\$19,866,022
Natural Gas	\$0	\$0	\$0	50.28	\$0
Power	\$0	\$0	\$0	31.06	\$0
Purchased Water	\$0	\$0	\$0	31.29	\$0
Telephone	\$0	\$0	\$0	34.55	\$0
Waste Disposal	\$0	\$0	\$0	47.04	\$0
Post Retirement Benefits	\$0	\$0	\$0	65.00	\$0
Pensions	\$0	\$0	\$0	-5.50	\$0
Totals	<u>\$864,543</u>	<u>\$0</u>	<u>\$864,543</u>	<u>23.20</u>	<u>\$20,070,029</u>
ALJ Average Revenue Lag	45.1				
Less: ALJ Avg. Expense Lag	<u>23.2</u>				
Net Difference	21.9	Days			
ALJ Pro forma O & M Expense per Day	<u>\$2,369</u>				
ALJ CWC for O & M	\$51,881				
Less: Company Claim (1)	<u>\$51,881</u>				
ALJ Adjustment	<u>\$0</u>				

Notes:
(1) PAWC Main Brief

TABLE WP
PENNSYLVANIA-AMERICAN WATER
COMPANY WORKING PAPERS
R-2025-3057983, R-2025-3058051

Performance Compensation Adjustment Working Papers - Table WP-1

Line No.	Operation	PAWC Total Exp. 2027 (1) \$ (a)	PAWC O&M Cap. % (1) (b)	PAWC O&M 2027 \$ (c)=(a)x(b)	ALJ O&M Adj. Rate (2) (d)	ALJ O&M Adjust \$ (e)=(c)x(d)	ALJ Payroll Tax Rate (3) (f)	ALJ Payroll Tax Adjust \$ (g)=(e)x(f)	ALJ Total Adjust (h)=(e)+(g)
1	Water	8,994,901	57.19%	5,144,184	52.11%	2,680,649	7.65%	205,070	2,885,719
2	General SSS	503,586	80.22%	403,977	50.00%	201,988	7.65%	15,452	217,440
3	BASA	148,138	80.22%	118,836	50.00%	59,418	7.65%	4,545	63,964
4	CSS	<u>402,125</u>	80.22%	<u>322,585</u>	50.00%	<u>161,292</u>	7.65%	<u>12,339</u>	<u>173,631</u>
5									
6	Total	<u>10,048,750</u>		<u>5,989,582</u>		<u>3,103,348</u>		<u>237,406</u>	<u>3,340,754</u>

Notes:

- (1) See PAWC Ex. 3-A, pgs. 48R (Water), 110R (General SSS), 158R (BASA), and 207R (CSS), and I&E St. No. 1-SR, pgs. 21 and 25.
- (2) See I&E St. No. 1, p. 21, and I&E St. No. 1-SR, p. 25. Remove 50% of APP and 70% of LTPP.
- (3) See OCA St. No. 1-SR, Exh. LKM-5W-SR, Line Nos. 6, 12, 18, and 24.