



COMMONWEALTH OF PENNSYLVANIA  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
COMMONWEALTH KEYSTONE BUILDING  
400 NORTH STREET, HARRISBURG, PA 17120

BUREAU OF  
INVESTIGATION  
&  
ENFORCEMENT

May 26, 2026

**Via Electronic Filing**

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

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

**I&E Exceptions**

Dear Secretary Homsher:

Enclosed for electronic filing please find the Exceptions of the Bureau of Investigation and Enforcement in the above-captioned proceeding.

Copies are being served on parties per the attached Certificate of Service. Should you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads 'Carrie B. Wright' with a stylized flourish at the end.

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CBW/ac  
Enclosures

cc: Administrative Law Judge Jeffrey A. Watson (via email - [jeffwatson@pa.gov](mailto:jeffwatson@pa.gov))  
Administrative Law Judge Emily I. DeVoe (via email - [edevoe@pa.gov](mailto:edevoe@pa.gov))  
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Per Certificate of Service

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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**EXCEPTIONS OF  
THE BUREAU OF INVESTIGATION & ENFORCEMENT**

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Carrie B. Wright  
Deputy Chief Prosecutor  
PA Attorney ID No. 208185

Pennsylvania Public Utility Commission  
Bureau of Investigation & Enforcement  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120

Dated: May 26, 2026

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## **I. INTRODUCTION**

Pursuant to 66 Pa. C.S. § 332(h) of the Public Utility Code and 52 Pa. Code § 5.533 of the Public Utility Commission regulations, the Bureau of Investigation and Enforcement (I&E) of the Pennsylvania Public Utility Commission (PUC or Commission) respectfully submits these Exceptions to the Recommended Decision (RD) of Administrative Law Judges Jeffrey A. Watson and Emily I. DeVoe (the ALJs) issued on May 15, 2026.

## **II. EXCEPTIONS**

### **A. I&E Exception No. 1: The ALJ erred in rejecting I&E's Salaries and Wages adjustment. R.D. at 127-130.**

In the RD, ALJs Watson and DeVoe state that they agree with PAWC that the I&E adjustment is incorrect because the capitalized portion of PAWC's salaries and wages claim is not included in PAWC's salaries and wages expense claim.<sup>1</sup> The ALJs have ignored the fact that I&E is not claiming PAWC included a capitalized labor in its operation and maintenance (O&M) expense.

To be clear I&E has accepted the testimony of 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. I&E accepts that although that is generally the traditional way this claim would be developed, PAWC has developed its claim differently. Instead, to develop the estimated cost of plant additions, the Company included estimates of labor costs based on actual work hours that will be required to construct those additions

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<sup>1</sup> RD, p. 130.

because the Company employs a bottom-up rather than a top-down estimation process.<sup>2</sup>

Since these 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 and the claim for capitalized labor is based on estimated required work hours it (meaning the capitalized portion of the claim), therefore, should not be affected by the vacancy adjustment. As a result, the entire vacancy adjustment should be reflected in O&M expense. To be clear I&E accepts that any vacancies in the Company will not affect the capitalized labor claim. However, without reducing a capitalized portion of the expense, only a portion of the vacancy adjustment is reflected instead of the full amount of the vacancy adjustment. To reflect the entire amount, the O&M portion of the claim must be further reduced by the amount of the adjustment originally allocated to rate base. To be clear, I&E is not adjusting the capitalized labor portion of the claim, it is simply reflecting the entire amount of the adjustment in the O&M portion of the claim, rather than splitting it between O&M and capitalized labor. It is not possible to reflect I&E's vacancy adjustment in total without including what would have been the capitalized portion of the adjustment in the total O&M adjustment. This is the only way to capture the entire I&E vacancy adjustment.

As a result, I&E asks the Commission to adopt its salaries and wages expense adjustment as appropriate.

Additionally, the ALJs incorrectly state in footnote 483:

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

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<sup>2</sup> I&E St. No. 1-SR, p. 17.

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.<sup>3</sup>

The \$104,270,558 already includes the vacancy adjustment of 1.25. So, by adjusting the I&E calculations as suggested in the RD, the vacancy rate would essentially be double counted. Therefore, to the extent the I&E recommendations for salaries and wages, defined contribution plan expense, 401K expense, and payroll tax expense are adopted, the recalculation suggested above would be inappropriate.

**B. I&E Exception No. 2: The ALJ erred in rejecting I&E's 401K expense adjustment. R.D. at 130-131.**

In the Recommended Decision, the ALJs state:

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.<sup>4</sup>

For largely the same reasons set forth above in I&E's salaries and wages recommendation, I&E also excepts to this recommendation and asks the Commission to adopt its 401K expense adjustment. The impact of the adjustment is lessened when you apply the capitalization rate and because there is no direct rate base claim related to that, the total adjustment gets lost. In order to prevent this, the O&M portion must be reduced by the

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<sup>3</sup> RD, p. 130, fn. 483.

<sup>4</sup> RD, p. 131.

full amount. I&E not proposing to remove amounts not reflected in the O&M proposed rate allowance.

**C. I&E Exception No. 3: The ALJ erred in rejecting I&E’s defined contribution plan (DCP) expense adjustment. R.D. at 132-133.**

In the Recommended Decision, the ALJs state:

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.<sup>5</sup>

For the reasons set forth in I&E’s salaries and wages exception, I&E excepts to this recommendation and asks the Commission to adopt its DCP adjustment. The impact of the adjustment is lessened when you apply the capitalization rate and because there is no direct rate base claim related to that, the total adjustment gets lost. In order to prevent this, the O&M portion must be reduced by the full amount. I&E not proposing to remove amounts not reflected in the O&M proposed rate allowance.

**D. I&E Exception No. 4: The ALJ erred in rejecting I&E’s payroll tax expense adjustment. R.D. at 133-136.**

In the Recommended Decision, the ALJs state:

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.<sup>6</sup>

For the reasons set forth in I&E salaries and wages exception, I&E excepts to this recommendation and asks the Commission to adopt its Payroll Tax Expense adjustment. The

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<sup>5</sup> RD, p. 133.

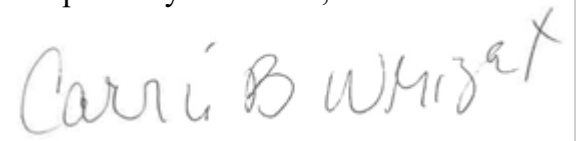
<sup>6</sup> RD, p. 135-136.

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

### III. CONCLUSION

Wherefore, for all the foregoing reasons, the Bureau of Investigation and Enforcement respectfully requests that the Recommended Decision of Administrative Law Judges Jeffrey A. Watson and Emily I. DeVoe, issued on May 15, 2026, be modified as recommended above in the Exceptions proposed by the Bureau of Investigation and Enforcement.

Respectfully submitted,

A handwritten signature in cursive script that reads "Carrie B. Wright". The signature is enclosed in a thin black rectangular border.

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Dated: May 26, 2026

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PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**CERTIFICATE OF SERVICE**

I hereby certify that I am serving the foregoing **Exceptions** dated May 26, 2026, in the manner and upon the persons listed below.

**Served via Electronic Mail Only**

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